

Public Sector Management

COURSE CODE: M23PA04DE

Postgraduate Programme in Public Administration

Discipline Specific Elective Course

Self Learning Material



SREENARAYANAGURU
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The State University for Education, Training and Research in Blended Format, Kerala

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Pathway

Access and Quality define Equity.

Public Sector Management
Course Code: M23PA04DE
Semester - III

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Self Learning Material
(With Model Question Paper Sets)



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PUBLIC SECTOR MANAGEMENT

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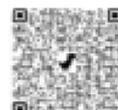
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MESSAGE FROM VICE CHANCELLOR

Dear learner,

I extend my heartfelt greetings and profound enthusiasm as I warmly welcome you to Sreenarayanaguru Open University. Established in September 2020 as a state-led endeavour to promote higher education through open and distance learning modes, our institution was shaped by the guiding principle that access and quality are the cornerstones of equity. We have firmly resolved to uphold the highest standards of education, setting the benchmark and charting the course.

The courses offered by the Sreenarayanaguru Open University aim to strike a quality balance, ensuring students are equipped for both personal growth and professional excellence. The University embraces the widely acclaimed "blended format," a practical framework that harmoniously integrates Self-Learning Materials, Classroom Counseling, and Virtual modes, fostering a dynamic and enriching experience for both learners and instructors.

The University aims to offer you an engaging and thought-provoking educational journey. The MA programme in Public Administration provides an in-depth understanding of modern governance challenges and solutions. It integrates cutting-edge theory with real-world applications, emphasizing innovative approaches to public service delivery. The curriculum spans strategic planning, policy analysis, public sector economics, and governance-related spheres. Through these, learners cultivate advanced problem-solving and decision-making skills. This programme also equips future leaders to drive positive change in public institutions, NGOs, and international bodies. The Self-Learning Material has been meticulously crafted, incorporating relevant examples to facilitate better comprehension.

Rest assured, the university's student support services will be at your disposal throughout your academic journey, readily available to address any concerns or grievances you may encounter. We encourage you to reach out to us freely regarding any matter about your academic programme. It is our sincere wish that you achieve the utmost success.



Regards,
Dr. Jagathy Raj V.P.

01-08-2025

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BLOCK 1
**Fundamentals of Public Sector
Management**

UNIT 1

Introduction to Public Sector Management

Learning Outcomes

Upon the completion of the unit, the learner will be able to:

- ▶ understand the concept, nature, and scope of public sector management
- ▶ identify the differences between public and private sector management
- ▶ analyse the political and legal context in which public managers operate
- ▶ explain the strategic and ethical challenges in managing public institutions
- ▶ assess the relevance of different research approaches in addressing public administration problems

Background

The public sector plays a fundamental role in the governance and development of societies. Unlike private enterprises, which are driven by profit motives, public sector institutions operate within a framework of constitutional mandates, democratic accountability, and social responsibility. Their purpose is to deliver services, regulate markets, and uphold the rule of law in ways that ensure fairness, justice, and national well-being. This makes the management of public institutions both a technical and ethical endeavour. Effective public sector management is essential for maintaining the legitimacy of the state, promoting inclusive development, and ensuring that public resources are used efficiently and equitably.

Public administration, being inherently political and legal in nature, demands a fine balance between responsiveness to public needs and adherence to rules and procedures. Public managers must navigate complex relationships between citizens, political actors, and bureaucratic systems while making decisions that affect large populations. The evolving nature of governance, increasing citizen expectations, and technological advancements require constant innovation in how the public sector is structured and managed. As the boundaries between the public and private sectors blur through partnerships and shared responsibilities, the principles of accountability, transparency, and service orientation remain central to the success of public management.

Keywords

Public Management, Governance, Three Es (Economy, Efficiency, Effectiveness), Bureaucracy, Equity, Public-Private Differences, Political Accountability

Discussion

1.1.1 The Power of Public Coordination

In 1987, Japan's Shinkansen bullet train shattered expectations by consistently operating with delays measured in seconds—an organisational feat achieved not only by technology but through precise, collective effort by public sector managers. Behind this marvel was a complex system of planning, maintenance, and service delivery meticulously coordinated by state-run institutions. What it demonstrated is that effective public management can directly impact societal efficiency, public trust, and economic momentum. Just as a missed train can unravel a commuter's day, poorly managed public services can derail development outcomes for an entire population.

► Effective public management

This simple yet powerful fact frames our exploration into Public Sector Management (PSM). At its core, public sector management refers to the structured coordination and oversight of public institutions, policies, and personnel tasked with delivering services that reflect collective goals. Unlike private enterprises that chase profit through competitive efficiency, public sector management aligns with principles of equity, accessibility, and governance.

► Public sector management aligns with principles of equity, accessibility, and governance.

As noted in the foundational work of Dr. J.O. Esiana (2017), management in the public sector is about designing and maintaining an environment where services are delivered not to maximise profit, but to achieve outcomes such as protection, care, justice, and equity. It focuses on effectiveness, efficiency, and economy—known as the “Three Es.” This includes planning, organising, coordinating, and reporting within governmental structures to ensure that citizens' needs are met fairly and responsibly.

► Three Es

Public management integrates political values, legal mandates, and social expectations, thus requiring an understanding of multiple disciplines—law, administration, sociology, and economics. According to Anca Jarmila Guță,

► Integrates political values, legal mandates, and social expectations



public management operates within a framework defined by law, hierarchy, policy goals, and public accountability. It is inherently political and involves negotiation with various interest groups, reflecting broader national values and developmental priorities.

1.1.2 Nature and Scope of Public Sector Management

Imagine a painter standing before a vast canvas, with thousands of observers, each representing different interests, values, and expectations. Each brushstroke affects not only the final picture but also the legitimacy of the artist in the eyes of the audience. This analogy captures the nature of public sector management, which, unlike its private counterpart, operates within a highly visible and politically sensitive landscape.

► Operates within a highly visible and politically sensitive landscape

The scope of public sector management spans a wide range of activities—policy implementation, regulation, service delivery, financial planning, and oversight of state institutions. As highlighted in the writings of Guță (2012), these tasks take place through defined processes and relations between various organs of state administration, aiming to translate laws and public interest into real-world services.

► Spans a wide range of activities

Unlike private sector managers who typically answer to shareholders, public managers answer to a complex web of political leaders, legal frameworks, citizens, and media scrutiny. Their work is governed by multiple principles—legality, accountability, adaptability, and equity—which set the parameters for how decisions are made and implemented.

► Legality, accountability, adaptability, and equity

One defining feature of public sector management is its political character. Every managerial decision is embedded within a broader political environment—where policies, electoral pressures, and governance ideologies all influence administrative practice. The administrative process is rarely neutral, and public managers must remain sensitive to the shifting goals of elected leadership and the evolving needs of citizens.

► Political character

Moreover, public management's integrated and complex character is marked by its reach across different domains: from health and education to infrastructure and public security. Each domain presents unique managerial challenges, requiring cross-sectoral coordination, legal clarity, and cultural sensitivity. This diversity demands both technical proficiency and a strong grasp of social responsibility.

► Integrated and complex character

► Tight oversight mechanisms

As discussed by Sebastian Tocar (2020), public managers must also deal with bureaucratic rigidity, budget constraints, and high stakeholder expectations, which makes strategic planning more complex than in the private sector. They operate under tight oversight mechanisms—laws, audits, parliamentary scrutiny—that limit managerial discretion but ensure accountability.

1.1.3 The Significance of Public Sector Management

► 2018 Kerala Flood

In September 2018, Kerala faced its most devastating floods in nearly a century. Roads vanished, electricity grids failed, and over 400 lives were lost. But amid the chaos, the state's coordinated emergency response—led by public agencies and supported by the police, civil supplies departments, health workers, and local panchayats—became a case study in public management's importance. Relief camps were set up within hours, resource mapping was done digitally, and public health protocols were enforced rapidly, preventing major post-disaster disease outbreaks.

► Not only to deliver routine services

This event underscored why public sector management is not only a technical function but a societal necessity. It acts as the backbone of national resilience, ensuring that governments are equipped not only to deliver routine services but also to respond in times of uncertainty and emergency.

► Maintaining the socio-economic stability of a nation

As Esiana (2017) rightly argues, public sector management plays a decisive role in maintaining the socio-economic stability of a nation. It regulates market failures, ensures equity in service delivery, and promotes national integration by bridging rural-urban divides, gender disparities, and income gaps. Its relevance intensifies in developing nations where public institutions are the primary—often the only—providers of health, education, and infrastructure.

► Nation-building

The significance of public sector management is also revealed in its impact on nation-building. Through public enterprises, government departments, and welfare agencies, it translates policy into tangible outcomes. In Uganda, for instance, decentralised service delivery brought government closer to the people, as documented in Esiana's study on local government structures. Similarly, in India, flagship programmes like the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) or the Public Distribution System (PDS) operate through vast public administrative



networks that ensure social protection and food security.

► Integrally linked to the values of democracy, legality, and fairness

Moreover, as Guță (2012) emphasises, public management is integrally linked to the values of democracy, legality, and fairness. It is accountable to the people and operates within a constitutional framework that sets limits and expectations. These features distinguish public management from corporate governance, making it more than just administration—it becomes a mechanism of collective governance.

► Goals of public sector management

The goals of public sector management, therefore, extend beyond profit and efficiency. They involve:

- Ensuring equitable access to services
- Promoting inclusive development
- Managing national resources responsibly
- Regulating complex policy environments

► Trust in public institutions

In an era where globalisation, pandemics, and climate change test the capacity of governments, robust public sector management determines whether a society merely survives or meaningfully thrives. It turns policy vision into grounded impact, instils trust in public institutions, and sustains the democratic process through service legitimacy.

► Public-private coordination

1.1.4 Public and Private Sector Management

In preparation for the 2010 FIFA World Cup, South Africa launched mega-infrastructure projects—stadiums, transport hubs, and energy facilities. Though state-led, these projects depended heavily on public-private coordination. The state outlined goals, approved budgets, and oversaw execution, while the private sector provided technical expertise and operational agility. This blend revealed both the contrasts and synergies between public and private sector management.

Public and private management share common tools—planning, budgeting, human resource management—but differ fundamentally in orientation, objectives, and governance structures. As noted in the study by Tocar (2020), while private firms pursue profitability, public organisations prioritise accountability, equity, and legality.

Dr. Esiana (2017) outlines some of the core differences between the two:

- Financing: The public sector relies on taxes and budgetary allocations, while the private sector draws

from consumer payments and investment returns.

► Core differences

- Motivation: Public management is driven by social welfare goals, whereas private management is profit-oriented.
- Performance measurement: Public entities often lack concrete profit-based benchmarks and rely on compliance, output efficiency, and citizen satisfaction.
- Quality and equity: Private services often focus on customer satisfaction for competitive advantage, while public services must ensure universal access, even to unprofitable demographics.

The study by Marcus Dlamini reinforces these points with empirical data: In South Africa, 70% of public projects went over budget, compared to only 6% in the private sector. Bureaucracy and red tape delayed public sector schedules more frequently, and decision-making lagged due to political consultation needs. Yet, it was also noted that the private sector often ignored political sensitivity or equity considerations, which are vital in public delivery contexts.

► Borrowing tools from the private sector

Despite differences, convergence is increasing. Public managers today are borrowing tools from the private sector—strategic planning, performance audits, benchmarking. As observed by Boyne (2002), modern public management seeks a balance: retaining its public values while embracing private-sector efficiency where appropriate.

► Kudumbashree mission

Kerala’s “Kudumbashree” mission, an acclaimed poverty eradication and women empowerment programme, is a clear example. While funded and governed by the state, it integrates entrepreneurial principles, decentralised planning, and performance tracking drawn from corporate management practices. This hybrid model exemplifies how both sectors can learn from each other without losing their foundational logics.

► Redefining Public Sector Management

In 1968, the British government published the Fulton Report, a bureaucratic self-reflection that diagnosed the UK civil service as rigid, hierarchical, and unfit for modern administrative demands. Its central proposition—that public management needed to become more dynamic, decentralised, and performance-oriented—ignited waves of reform that would

The Evolution and Strategic Imperatives of Public Sector Management



later culminate in the global spread of New Public Management (NPM). This historical moment not only redefined the trajectory of public sector management but also placed governments under increasing pressure to think like businesses—without becoming them.

► Weberian
bureaucratic model

Public sector management has, historically, oscillated between two poles: control and responsiveness. Initially, it was dominated by the Weberian bureaucratic model, rooted in rules, hierarchy, and impersonality. As Guță (2012) notes, this model functioned well during the early nation-building phase where stability, uniformity, and legal authority were prioritised. However, as societal needs evolved and expectations of service quality rose, the rigidity of this approach became a limitation rather than an asset.

► Citizen-centric
governance

This shift is particularly evident in India's post-liberalisation context. During the early 1990s, the Indian public sector began integrating strategic planning, delegation of authority, and performance measurement, especially within public enterprises. This was mirrored by administrative reforms such as the Second Administrative Reforms Commission (2005), which advocated citizen-centric governance and transparency. These developments illustrate that public management has moved beyond mere compliance to focus on outcomes, stakeholder engagement, and organisational learning.

► Public-private
distinctions

In the theoretical literature, as summarised in Tocar's review (2020), three views dominate the debate on public-private distinctions:

- One school sees no essential difference, noting that both sectors engage in similar processes (planning, organising, budgeting).
- A second emphasises substantial differences, particularly in accountability, value orientation, and legal context.
- A third, more nuanced view, holds that convergence and divergence depend on institutional context, political culture, and governance design.

In operational terms, the modern public manager must balance:

- Efficiency (doing things right),
- Effectiveness (doing the right things),
- Equity (doing things fairly), and

- Responsiveness (doing things timely).

This is what makes public sector management uniquely multidimensional, as it must deliver both results and uphold democratic legitimacy.

The integration of Total Quality Management (TQM), a management approach that focuses on continuous improvement of products and services to enhance customer satisfaction, reflects this balancing act. As described by Esiana (2017), TQM in public organisations demands that processes be “done right the first time,” with an emphasis on customer satisfaction, team coordination, and continuous improvement. This transition is not simply technical—it is cultural. It calls for public institutions to evolve into learning organisations, open to feedback, adaptation, and innovation.

► Total Quality Management

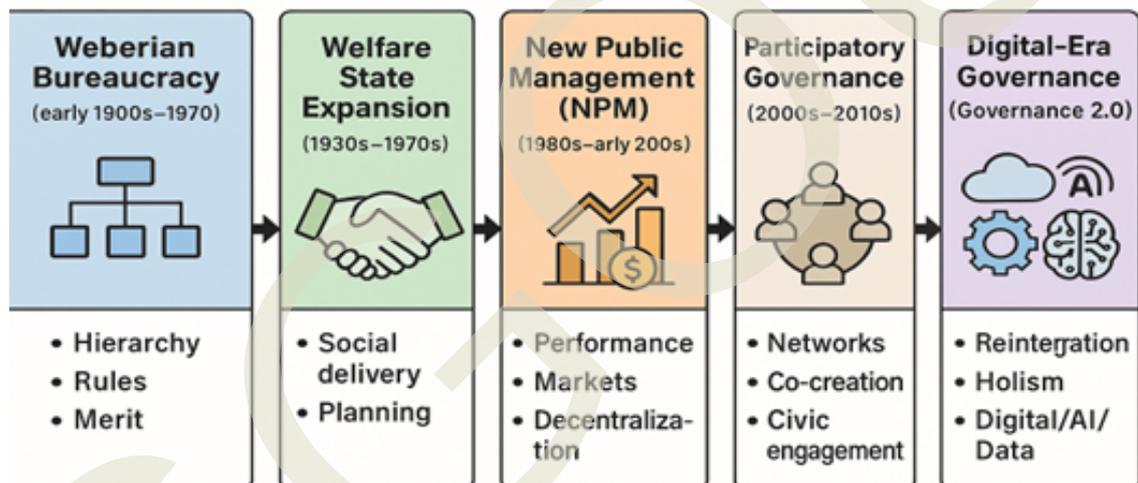


Fig.1.1.1 An illustration of the Evolution of Public Sector Management

The strategic implications of this transformation are profound. Public sector organisations must now:

- Design services around citizens, not institutions,
- Digitise administrative functions without compromising equity,
- Benchmark performance against both national standards and global best practices, and
- Build inter-sectoral and inter-governmental coordination mechanisms.

One emblematic example is Kerala’s e-Governance drive, where public services such as land records, licensing, and welfare schemes are now digitised under the “E-District”

► Kerala's e-Governance drive

model. This not only improves transparency and speed but also empowers citizens with direct access to the state. Yet, such initiatives only succeed when public managers are trained, systems are interoperable, and accountability mechanisms are intact

► Governance as a Network

It is here that the modern theory of Governance as a Network comes into play. No longer is the public sector seen as a monolith issuing commands from the top; instead, it is conceptualised as an arena of partnerships, involving NGOs, private firms, and citizen groups. These networked arrangements redefine the public manager's role: from controller to coordinator, from rule-enforcer to facilitator.

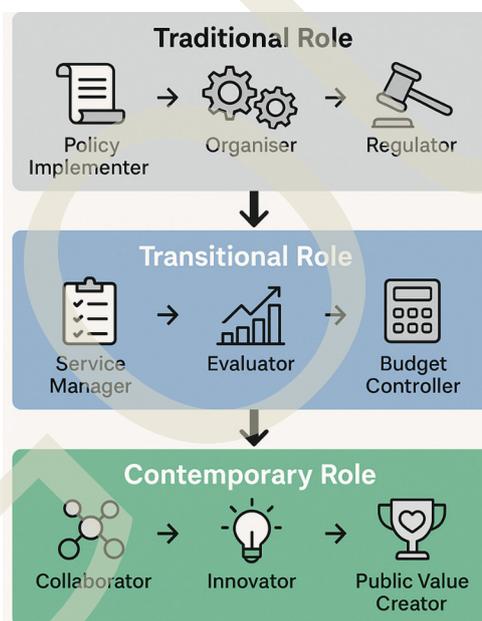


Fig.1.1.2: Illustration of strategic roles of the contemporary public manager

Institutional Dynamics and Structural Realities

► Institutional dynamics

When you walk into a government-run school in India or a rural health clinic in Kerala, you are not just encountering a building or a service; you are interacting with a structure of the public sector designed to represent the state's commitment to social equity and justice. But these structures do not manage themselves. Behind every functioning (or dysfunctional) government service lies a set of institutional dynamics—the internal organisation of ministries, agencies, civil servants, rules, and relationships that determine how services are delivered.

As Dr. J.O. Esiana outlines, the public sector is composed of a variety of state institutions: central ministries, local governments, executive agencies, and quasi-non-governmental

► State institutions

organisations (QUANGOs). Each of these has distinct authority levels, mandates, and governance models. For example, civil servants in ministries implement national policy under political oversight, while Quangos operate at arm’s length from ministers, carrying out delegated tasks such as education board management or regulatory functions in energy or the environment.

These institutional arrangements are crucial to understanding public sector management because they define:

- Lines of accountability (to ministers, citizens, or boards),
- Decision-making autonomy, and
- Performance expectations.

► Statutory bodies and autonomous public institutions

In India, a parallel can be drawn with statutory bodies and autonomous public institutions, such as the University Grants Commission (UGC) or the Indian Council of Medical Research (ICMR), which operate under state funding but with operational independence. This model allows flexibility in technical matters while keeping public control intact—a recurring principle in public administration worldwide.

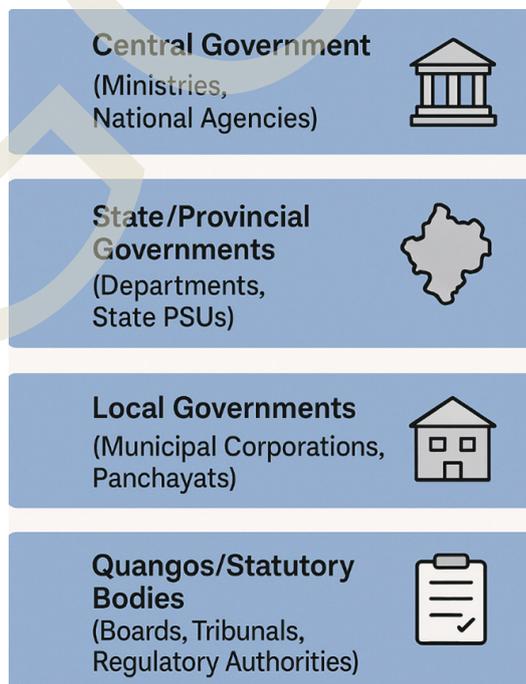


Fig.1.1.3: Structure of the public sector – vertical and horizontal institutions

As Guță (2012) further explains, the principles of public management—such as hierarchy, legality, adaptability, and restructuring—are not merely theoretical concepts. They are embedded in how public administration evolves in response to

changing socio-political contexts. For instance:

- The principle of legality ensures that all administrative actions follow constitutional procedures.
- The principle of adaptability ensures that public institutions evolve based on emerging citizen needs.
- The principle of restructuring enables reform in oversized or underperforming bureaucracies.

► Kerala's People's Plan Campaign

Kerala's People's Plan Campaign (1996), where substantial planning authority was devolved to local governments, serves as a case in point. The campaign reflected institutional restructuring in action—realigning the state apparatus to make it more people-driven and responsive.

In these settings, public managers must navigate a complex field of institutional ambiguity, where:

- Laws may be clear, but interpretations vary;
- Stakeholder demands conflict;
- Political interference coexists with managerial autonomy.

As highlighted in Tocar's review (2020), the strategic manager in the public sector is no longer just an executor but a mediator of institutional complexity. This role requires balancing legal duties with policy innovation and bureaucratic norms with network governance, a collaborative approach where various public and private organisations work together to achieve shared goals.

Public Sector Bureaucracy

When Max Weber first described bureaucracy as the most rational and efficient form of organisation, he envisioned a structure governed by hierarchy, merit, and rule-bound behaviour. However, in practice, bureaucracy has come to be associated with delays, inefficiency, and procedural excess. This contradiction lies at the heart of the public management challenge.

As Guță explains, public offices (bureaus) differ from market-based organisations because they do not sell services directly nor operate under consumer pressure. Their outputs are evaluated not through profits but through budgetary approvals and public accountability mechanisms. This model results in two major outcomes:

► Defining Bureaucracy

- The evaluation of performance is imperfect and often political.
- The potential for strategic behaviour by bureaucrats increases, especially under information asymmetry.

This problem was also observed in Dlamini’s research comparing public and private project management in South Africa. The findings showed that:

- 70% of public projects overshot budgets, compared to just 6% in the private sector.
- Bureaucratic delays and red tape caused multi-month project execution delays.
- Decision-making was significantly slower in the public sector, with 84% of respondents confirming faster execution in private projects.



Fig.1.1.4: Flowchart of bureaucratic decision-making in public sector projects

Yet, as Boyne (2002) argues, this picture is incomplete. Bureaucracies are not monoliths of mismanagement but operate under constraints imposed by law, politics, and public scrutiny. The same procedures that cause delays also uphold fairness, transparency, and the rule of law. In democratic societies, bureaucratic delay is often the cost of due process. The goal, therefore, is not to abandon bureaucracy but to reform it through performance culture, digital tools, and ethical training. Concepts such as New Public Management (NPM) and Total Quality Management (TQM) serve precisely this purpose—revitalising the bureaucracy without abandoning its foundational values.

► Revitalising the bureaucracy

Summarized Overview

This unit explores the foundational ideas and functions of public sector management, with attention to its nature, principles, and significance. Using real-world examples, it highlights how management in public institutions shapes development outcomes, ensures equity, and builds public trust. It addresses the Three Es framework—efficiency, effectiveness, and economy—as the guiding metrics of performance.

The unit further contrasts public and private management in terms of goals, performance criteria, and financing models. Public managers work in politically embedded environments where service delivery is guided by law and collective interests. The evolution of public management theories, including the adoption of Total Quality Management and network governance, is also covered. These concepts are linked to the strategic roles played by contemporary public managers in facilitating citizen-centric governance, cross-sectoral coordination, and innovation in service delivery.

Self-Assessment

1. What is meant by public sector management?
2. Name the Three Es in public management.
3. How is public management different from private management?
4. Give one example of public-private sector collaboration.
5. What is the role of Total Quality Management (TQM) in the public sector?
6. Who are public managers accountable to?
7. What are the key challenges of public sector bureaucracy?

Assignments

1. Explain the nature and scope of public sector management.
2. Compare the goals and governance of public and private management.
3. Discuss the significance of strategic roles in public management.
4. Evaluate the importance of transparency and accountability in public services.
5. How has the concept of network governance transformed public administration?

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Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.

SGOU

UNIT 2

Public Sector in India

Learning Outcomes

Upon the completion of this unit, learners will be able to:

- ▶ trace the historical development of India's public sector
- ▶ explain the Nehruvian vision behind PSUs and their socio-economic roles
- ▶ identify classification systems like Maharatna, Navratna, and Miniratna
- ▶ evaluate the governance and performance mechanisms of Indian PSUs

Background

In any nation, the public sector represents the state's capacity to provide for its people, especially in areas where markets may fail or where equity must override profitability. In developing countries, public sector institutions are not only service providers but also agents of nation-building, regional balance, and social justice. Historically, the public sector has been central to post-independence development strategies across the world, often reflecting the political and ideological choices made by governments. These institutions are shaped by the legacy of colonialism, the goals of economic self-reliance, and the aspiration to build modern, welfare-oriented states.

The management and structure of the public sector must reflect the changing dynamics of society, the economy, and global influence. In democratic settings, these institutions must balance performance with accountability to citizens. As governments take on diverse roles—from direct service providers to facilitators of private and civil initiatives—the design, operation, and reform of public sector institutions remain vital areas of concern. Whether in infrastructure, education, or health, the public sector's ability to adapt to new challenges while staying rooted in constitutional and ethical principles will determine its relevance and effectiveness in achieving developmental goals.

Keywords

Nehruvian Vision, Economic Planning, Maharatna, Navratna, Disinvestment, Department of Public Enterprises, Accountability Mechanisms

Discussion

1.2.1 Historical Foundations of the Public Sector in India

India's public sector emerged as a central pillar of national development after independence in 1947. Influenced deeply by Jawaharlal Nehru's vision of a modern, self-reliant India, the public sector was positioned as the engine for economic transformation and industrialisation. Nehru believed that the state must take the lead in economic development, especially in heavy industries, infrastructure, and social services—areas considered unattractive or risky for private investment. This belief was rooted in a broader ideological context: post-colonial India was determined to achieve economic freedom through planned development and public ownership of core industries.

► Post independent India

The Industrial Policy Resolution of 1948 laid the groundwork for India's mixed economy model, reserving certain industries for the public sector. Building on this foundation, the Industrial Policy Resolution of 1956 marked a significant turning point, explicitly endorsing the expansion of the public sector and its primacy in national planning. Inspired by the Soviet model of centralised planning, India adopted a mixed economy approach. The government launched Five-Year Plans, allocating significant investment to Public Sector Undertakings (PSUs) that would manufacture steel, build dams, develop power infrastructure, and deliver basic services. As Bhattacharjee points out, this public sector-led development model aimed to accelerate growth, create employment, reduce poverty, and achieve regional balance by spreading industries across the country. In the early decades, PSUs were seen not just as commercial entities but as instruments of nation-building and social justice (Bhattacharjee, 2020).

► The Industrial Policy Resolution

Nehruvian Vision and Its Ideological Underpinnings

Nehru's commitment to the public sector was not merely economic—it was ideological. As Bhattacharjee explains, Nehru was influenced by Fabian socialism, which argued for

► Public sector as a means to ensure inclusive growth and social welfare

a democratic form of socialism that maintained individual liberties while expanding state control over key resources and industries. This ideology held that the state must intervene in the economy to correct the inequalities created by capitalism. Nehru believed that industrialisation was essential for India's progress and that the government had a moral obligation to guide and direct this process. He saw the public sector as a means to ensure inclusive growth and social welfare, rather than mere profit generation. PSUs were not only to generate employment and promote regional development but also to ensure access to essential goods and services at affordable prices. Nehru's emphasis on planning reflected his belief that free markets alone could not guarantee balanced or equitable development. This led to the creation of massive industrial projects—steel plants, railways, power generation units—all state-owned and centrally planned. Bhattacharjee observes that this model was rooted in the belief that only a strong public sector could protect national interests and prevent foreign exploitation, given India's colonial past. The legacy of this vision still shapes debates on the public sector today.



Fig. 1.2.1 Nehru's vision for India's public sector

Economic Planning and the Role of PSUs

The adoption of centralised economic planning under the Five-Year Plans played a foundational role in the growth of the public sector. The Planning Commission, established in 1950, was tasked with preparing developmental blueprints that would steer India's economic direction. In this framework, PSUs became vital instruments for executing planned priorities. During the Second Five-Year Plan (1956–61), significant

► Five-Year Plans

capital was invested in building basic and heavy industries under government control. Bhattacharjee notes that India's leaders viewed PSUs not only as production units but also as instruments of structural change. The state channelled resources to develop critical sectors like steel (Bhilai, Rourkela, Durgapur), power (NHPC, NTPC), mining (Coal India), and transport (Indian Railways, Shipping Corporation). Many PSUs also acted as agents for import substitution, producing goods that were previously imported to conserve foreign exchange. The state provided them protection through licences, tariffs, and subsidies. By the end of the 1980s, the number of PSUs had grown rapidly, covering a wide array of sectors including aviation, telecommunications, defence manufacturing, banking, and insurance. However, as Bhattacharjee highlights, this rapid expansion was not always matched by operational efficiency or financial discipline, sowing seeds for future challenges.

► Build a self-sufficient economy

The rapid expansion of public sector undertakings (PSUs) in India from the 1950s onwards reflected not only the ideological commitment of the state but also its ambition to build a self-sufficient economy. By the end of the Fourth Five-Year Plan, the number of central PSUs had increased significantly, and state-level PSUs also emerged across various sectors. As Bhattacharjee points out, the central PSUs were expected to operate as commercial entities, but their mandates were often driven by political considerations, social obligations, and strategic priorities rather than profitability. They were also used to promote regional development and to reduce disparities among states. However, this rapid growth led to administrative complexity, duplication of efforts, and, in many cases, financial inefficiencies. Many PSUs were established in backward regions without adequate supporting infrastructure, which affected their viability.

► Expanding portfolio of PSUs

The concept of the “commanding heights” of the economy, where key sectors like steel, power, and transportation were entirely state-controlled, defined the policy landscape. Over time, the expanding portfolio of PSUs placed a considerable burden on the public exchequer, especially when enterprises began incurring consistent losses. By the late 1980s, while some PSUs had grown into large and technically competent organisations, a majority were underperforming, loss-making, and heavily dependent on government support for survival.

The financial performance of PSUs became a matter of concern as the Indian economy encountered internal challenges

► Internal challenges

in the 1980s. Although many enterprises had been set up with the vision of supporting national development and achieving social justice, their operations often suffered due to political interference, lack of autonomy, and bureaucratic inefficiency. As Bhattacharjee elaborates, decision-making was frequently delayed due to multiple layers of approvals, and managerial discretion was constrained by rigid government rules. Moreover, PSUs were regularly tasked with non-commercial responsibilities such as price controls, subsidies, or surplus labour absorption. The autonomy promised to them remained largely nominal, with ministries closely overseeing operations. Overstaffing, poor financial controls, and weak accountability mechanisms further contributed to declining productivity and profitability. The situation worsened when the global economy began opening up, and India faced mounting fiscal deficits, leading to a balance of payments crisis in 1991. This economic crisis exposed the structural weaknesses in the public sector and forced a reconsideration of the model that had dominated Indian development for nearly four decades. The emergence of the liberalisation era marked a significant turning point, as disinvestment and public sector reforms were introduced to rationalise the role of the state in economic production and service delivery.

► Policy framework post-liberalisation

As part of the evolving policy framework post-liberalisation, the government initiated a classification system for Central Public Sector Enterprises (CPSEs) based on their financial performance, strategic importance, and size. This classification into Maharatna, Navratna, and Miniratna categories was aimed at granting well-performing enterprises greater autonomy and operational flexibility. Bhattacharjee notes that this move was part of the broader effort to improve corporate governance, enhance accountability, and reduce bureaucratic control. Maharatna status was given to the largest and most profitable Central Public Sector Enterprises (CPSEs), allowing them significant financial and operational independence, including the ability to invest up to ₹5,000 crore or 15% of their net worth in a single project without prior government approval, whichever is lower.

Navratna companies were high-performing entities that met specific financial criteria, including net profit, net worth, and turnover thresholds, and were granted moderate autonomy. Miniratnas, divided into Categories I and II, comprised smaller but consistently profitable CPSEs with limited autonomy in investment decisions. This categorisation introduced a

► Encouraging healthy competition among PSUs

performance-linked incentive structure, recognising excellence while encouraging competition among PSUs. It also marked a shift in the government's attitude—from being merely a controlling authority to acting as a facilitator of enterprise efficiency. However, as Bhattacharjee cautions, despite these classifications, the autonomy remained vulnerable to political and bureaucratic interference, and many enterprises struggled to fully utilise the delegated powers due to continued oversight by administrative ministries and public accountability institutions.

1.2.2 PSU Categorisation: Real-World Examples and Criteria

► Maharatna, Navratna, and Miniratna

The classification of CPSEs into Maharatna, Navratna, and Miniratna has provided a framework for recognising and rewarding consistent performance. According to Bhattacharjee, Maharatna companies represent the crown jewels of India's public sector—organisations with large market capitalisation, a strong global presence, and impressive financial indicators. Examples include Indian Oil Corporation (IOC), Oil and Natural Gas Corporation (ONGC), Bharat Petroleum Corporation Ltd (BPCL), NTPC Ltd, and Steel Authority of India Ltd (SAIL). These enterprises typically record turnovers of over ₹25,000 crore and are allowed greater investment autonomy and flexibility in joint ventures, acquisitions, and international operations. Navratnas like Bharat Electronics Ltd (BEL), Hindustan Aeronautics Ltd (HAL), and National Aluminium Company (NALCO) are similarly robust but operate under slightly reduced thresholds and powers. The Miniratna category encompasses companies that have shown consistent profitability for three consecutive years. For instance, companies such as Airports Authority of India (AAI), RITES Ltd, and RailTel fall under this category. These entities are allowed to make capital investments up to a certain limit without seeking prior government approval. Bhattacharjee highlights that this model is not just a ranking mechanism but a governance reform tool that encourages autonomy, competition, and accountability. However, he cautions that the exercise must go beyond classification and be embedded in a genuine effort to empower enterprises functionally.

1.2.3 Department of Public Enterprises: Role and Institutional Framework

The Department of Public Enterprises (DPE), functioning under the Ministry of Finance, is the nodal agency responsible

► CPSE governance and oversight

for the formulation and execution of policies concerning CPSEs. Bhattacharjee underlines its pivotal role in coordinating between various ministries, establishing performance benchmarks, and promoting corporate governance among public sector undertakings. Historically, the DPE has evolved from being a record-keeping unit into a key policy-making and oversight institution. It oversees the issue of annual Public Enterprises Surveys, which provide detailed information on the financial and operational performance of CPSEs. Furthermore, the DPE plays a central role in framing guidelines for disinvestment, management restructuring, wage policy, and financial approvals. The department also facilitates the Memorandum of Understanding (MoU) system—a contractual framework through which performance targets are set and monitored. One of the DPE’s most significant contributions, as discussed by Bhattacharjee, has been its efforts to promote transparency and introduce performance-linked incentives across PSUs. It also coordinates with the Cabinet Committee on Economic Affairs (CCEA) and the NITI Aayog in matters related to strategic disinvestment and policy reforms. However, the DPE’s functioning is still affected by overlapping roles with parent ministries and the challenges of reconciling commercial autonomy with public accountability.

1.2.4 Contemporary Challenges in PSU Governance

► Challenges in PSU autonomy

Despite the classification reforms and institutional support from bodies like the DPE, Indian PSUs continue to face a multitude of challenges. Bhattacharjee notes that one of the most critical issues is the conflict of interest inherent in the government’s multiple roles—as owner, policymaker, and regulator. This overlap often results in contradictory mandates and undermines the autonomy of enterprises. Political interference in appointments, procurement decisions, and pricing strategies is widespread. Many PSUs are compelled to undertake projects that are commercially unviable but politically expedient. Moreover, while autonomy has been theoretically extended through categorisation, in practice, the freedom to make decisions on investment, recruitment, and pricing is often curtailed by procedural delays and bureaucratic overreach. Bhattacharjee illustrates that the government’s tendency to treat cash-rich PSUs as sources of budgetary support has weakened their financial base. For example, ONGC was nudged into acquiring HPCL and Gujarat State Petroleum Corporation’s assets—moves that diluted its reserves without

strategic benefit. These forced acquisitions not only burdened the acquiring firms but also created inefficiencies. In many cases, the operational performance of the PSU suffers due to a lack of innovation, slow decision-making, and the inability to attract and retain managerial talent. The challenge, therefore, lies not only in structural reform but in reshaping the state's approach to ownership and enterprise governance.

Accountability Mechanisms and Performance Oversight

Ensuring accountability in PSUs has long been a complex issue due to the overlapping responsibilities of different state organs. Bhattacharjee highlights that although public enterprises operate under the purview of several oversight bodies, such as the Comptroller and Auditor General (CAG), Parliamentary Committees, the Central Vigilance Commission (CVC), and administrative ministries, their performance is still often evaluated inconsistently. The multiplicity of authorities sometimes leads to confusion, duplication, or even a chilling effect on managerial discretion. The lack of clarity regarding the autonomy of PSU boards and the excessive control of ministries often dilutes corporate accountability. In practice, ministers and bureaucrats interfere in strategic decisions while holding PSU management accountable for outcomes over which they have limited control.

► Overlapping responsibilities

Bhattacharjee underscores that while legal and financial scrutiny is necessary, excessive micromanagement compromises efficiency. Moreover, accountability should ideally be built around measurable outcomes and not merely procedural compliance. Mechanisms like internal audits, third-party evaluations, and board-level independence have been sporadically implemented. However, their effectiveness is limited without strong political will and cultural reform. Thus, a paradox emerges: PSUs are expected to function like competitive business entities but are denied the freedoms essential to do so. This contradictory structure hampers not only performance but also undermines managerial morale and innovation.

► Excessive micromanagement compromises efficiency

The MoU System: Promise and Pitfalls

One of the key governance innovations introduced to bridge the performance-autonomy gap was the Memorandum of Understanding (MoU) system. Developed in the late 1980s and institutionalised in the 1990s, MoUs are formal agreements

► Memorandum of Understanding

signed between the administrative ministry and the PSU management. These documents lay out performance targets, operational goals, and financial expectations for the enterprise within a given year. As Bhattacharjee explains, the MoU system was meant to replicate a quasi-contractual framework to ensure managerial accountability while offering functional autonomy. PSUs were graded based on their ability to meet or exceed the agreed parameters, and financial or promotional incentives were linked to this grading. In theory, the system aimed to balance autonomy and accountability in a structured and transparent manner.

► Implementation of the MoU framework

However, the implementation of the MoU framework has not been uniform across sectors or time periods. Many targets are either set unrealistically or negotiated without adequate regard for market dynamics. Ministries often fail to respect the functional autonomy promised under the MoU. Additionally, performance appraisal under the MoU lacks credibility when key evaluation metrics are not aligned with actual commercial realities. Bhattacharjee argues that unless MoUs are backed by a robust performance management system and enforced without bureaucratic manipulation, they remain a procedural formality rather than a transformative tool.

► Government disinvestment practices

Disinvestment: Strategic Goals or Fiscal Compulsion?

Disinvestment is the process by which a government or a corporation sells or liquidates an asset or subsidiary. The discourse surrounding the disinvestment of public enterprises has gained prominence since the 1991 liberalisation reforms. Bhattacharjee critically examines the motivations and processes of disinvestment, asserting that much of it has been guided by short-term fiscal compulsions rather than long-term strategic goals. (Fiscal compulsion refers to the pressure on a government to take certain actions, often in response to a crisis or an economic downturn.) Governments, especially during fiscal crises, have viewed PSUs as monetisable assets to bridge budgetary gaps. This has led to a series of ad hoc disinvestment decisions, often lacking a coherent strategic framework. The proceeds from disinvestment have largely been used to fund revenue expenditures rather than recapitalise PSUs or strengthen their competitiveness.

Notably, cases like the forced acquisitions by ONGC or NTPC's purchase of Tehri Hydro illustrate how disinvestment sometimes takes the form of financial engineering, where one PSU bails out another. Bhattacharjee critiques this approach,

► Disinvestment policy challenges

pointing out that it not only weakens the financial health of stronger PSUs but also erodes public trust. Moreover, strategic sales—where the government relinquishes majority control—have been pursued selectively and often halted mid-course due to political resistance or administrative delays. The lack of transparency and consistency in disinvestment policy has created uncertainty among investors and stakeholders. Bhattacharjee argues for a more principled approach, where disinvestment is based on clearly articulated criteria, and proceeds are reinvested to enhance productive capacity or fund social infrastructure, not merely to balance fiscal books.

► Governance challenges in CPSEs

The Need for Governance Reform

One of the most pressing challenges India's public sector facing is, the outdated and often contradictory governance structure that constrains decision-making, reduces efficiency, and creates accountability vacuums. As Bhattacharjee notes, CPSEs have traditionally been caught between the conflicting roles of the government—as owner, regulator, financier, and policymaker. This overlap has led to bureaucratic delays, political interference, and an inability to compete with private enterprises. For instance, in several cases, government ministries have directed CPSEs to undertake loss-making projects or acquire failing companies—such as the forced acquisition of Visvesvaraya Iron and Steel Plant by SAIL in 1988—despite no commercial justification. The internal governance of many CPSEs is plagued by excessive government control, weak board structures, and a lack of performance incentives.

► Autonomy, professionalism, governance gaps

The government-appointed panel in India, the Roongta Committee, rightly pointed out that without genuine autonomy, professionalisation, and clarity of roles, PSUs cannot function as commercially viable entities. Moreover, Bhattacharjee observes that appointments to top positions often remain vacant or are filled with political appointees, reducing credibility and strategic continuity. Stronger internal control mechanisms, transparent audit systems, and performance-linked assessments are vital for reform. Without these, even well-capitalised PSUs may continue to underperform despite their economic potential.

► Operational independence

Separation of Ownership and Regulatory Roles

A significant recommendation emerging from both Indian and international reform experiences is the need to separate the state's ownership and regulatory roles. Bhattacharjee emphasises that in India's current decentralised model, PSUs

► International Perspectives on Institutional Reform

report to multiple ministries that often act both as owner and regulator, leading to conflicting directives and a loss of operational independence. The Roongta Committee and the OECD have all underscored this problem, recommending a clear institutional divide.

In contrast, countries like Singapore and Sweden have created centralised holding agencies, like Temasek, that own and manage public enterprises without interfering in their daily operations. These agencies function with professional boards, clear mandates, and market-linked benchmarks. The logic is simple: while the government retains ultimate ownership, it must act through structured, accountable institutions that do not distort market behaviour. In India, too, a central holding agency would enable a single line of command, professional oversight, and better investment decisions. Bhattacharjee argues that this separation is essential not just for improving efficiency but also for restoring credibility to public enterprise governance. The dual or decentralised models, where ministries regulate their own PSUs, have repeatedly failed to deliver results due to the inherent conflict of interest. Thus, institutional reform is not optional—it is foundational to PSU transformation.

Table 1.2.1: International Models of PSU Ownership Structure

Model Type	Countries Using It	Key Features	India's Status
Centralised	Singapore (Temasek), Sweden	Ownership functions through a single entity; promotes autonomy and strategic focus	<i>Recommended but not implemented</i>
Decentralised	India, Germany	Ministries own and regulate PSUs within their sectors; prone to conflict and inefficiency	<i>Current practice in India</i>
Dual	New Zealand, Switzerland	Joint ownership by line ministries and a central authority; requires careful coordination	<i>Not adopted in India</i>

This table reveals the comparative benefits of alternative ownership models. A shift towards a centralised structure could insulate CPSEs from political interference and improve

commercial performance by bringing clarity and accountability to the ownership function.

A Reform Roadmap for the Future

Bhattacharjee outlines a clear and pragmatic roadmap for reforming India's public sector, drawing lessons not only from India's own experiences but also from successful international models. At the core of his recommendations is the depoliticisation of enterprise governance—ensuring that the state withdraws from micro-managing PSUs and instead focuses on building robust, rule-based institutions. He emphasises the need for clearly defined ownership frameworks where CPSEs are treated as autonomous business entities, not as extensions of government departments. Strengthening corporate governance is crucial: this includes professionalising boards, enforcing transparency in procurement and recruitment, and mandating public disclosure of performance metrics. He also advocates that disinvestment policies be rooted in long-term strategic thinking, where proceeds are reinvested in infrastructure, education, and innovation rather than meeting revenue shortfalls.

► Clearly defined ownership frameworks

Further, Bhattacharjee proposes greater integration of performance-linked incentives through the MoU system and accountability reforms that are not punitive but capacity-building. The ultimate objective is not wholesale privatisation, but selective restructuring based on commercial logic and public interest. The success of such a reform programme will depend on strong political commitment, administrative will, and sustained dialogue with stakeholders including trade unions, investors, and civil society. Only then can PSUs transition from being instruments of state control to engines of national competitiveness.

► Selective restructuring based on commercial logic and public interest

Summarized Overview

This unit examines the evolution and structure of India's public sector, tracing its roots in post-colonial development. It explains the ideological foundations of Nehruvian socialism and the role of PSUs in achieving industrial and regional balance. It explores the planning framework and the early successes of state-led investment in critical sectors.

The unit also analyses governance challenges such as bureaucratic interference, performance limitations, and political control. It presents mechanisms like the Maharatna-Navratna classification, the role of the Department of Public Enterprises (DPE), and Memoranda of Understanding (MoUs) as accountability tools. Key issues include ownership conflicts, misuse of PSU surpluses, and the blurred line between policymaking and regulation. The unit sets the context for understanding the need for reform.

Self-Assessment

1. Who was the key architect of India's public sector vision?
2. What does PSU stand for?
3. What policy guided industrialisation in the 1950s?
4. Name two Maharatna companies in India.
5. What is the role of the Department of Public Enterprises?
6. Define disinvestment.
7. What was the purpose of the MoU system?

Assignments

1. Discuss the ideological foundations of India's public sector.
2. Examine the challenges in PSU governance and performance.
3. Evaluate the role of classification in PSU reform.
4. Analyse the functions of the Department of Public Enterprises.
5. Should PSUs continue in non-strategic sectors? Justify.

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Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.

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UNIT 3

Public Sector Reforms in India

Learning Outcomes

Upon the completion of the unit, the learner will be able to:

- ▶ understand the drivers behind public sector reforms in India
- ▶ explain the 1991 economic reforms and their effects on PSUs
- ▶ identify institutional reforms such as MoU systems and ARC recommendations
- ▶ evaluate the future trajectory of PSU reform in India

Background

Reform is a natural and necessary response to inefficiencies, changing social needs, and evolving economic environments. In the public sector, reform becomes crucial when institutions fail to deliver expected outcomes or when they fall out of step with modern governance standards. The demand for reform arises from multiple pressures: fiscal limitations, public dissatisfaction, technological change, and global competitiveness. These reforms aim not only at improving efficiency but also at enhancing transparency, responsiveness, and accountability in the use of public resources.

Across the world, public sector reforms have taken various forms—privatisation, decentralisation, performance-based management, and digital governance, among others. These efforts are often guided by the goal of making government institutions more citizen-centric and outcome-driven. However, reform is not merely a technical exercise; it is also political, requiring careful negotiation between stakeholders, interests, and ideologies. Successful public sector reform hinges on strong institutions, leadership commitment, legal frameworks, and public trust. As governments grapple with complex issues like inequality, climate change, and technological disruption, the need for agile, accountable, and inclusive public sector systems becomes more urgent

Keywords

Economic Reforms, Liberalisation, Disinvestment, MoU System, PSU Governance, ARC Recommendations, Strategic Sectors

Discussion

1.3.1 The Context for Reform

► Overcoming the saturation point

By the late 1980s, the Indian public sector had reached a saturation point where its continued expansion no longer corresponded with productivity or innovation. Though CPSEs accounted for nearly 50% of investment in manufacturing, they contributed only about 15% to value-added output. Bhattacharjee explains that inefficiencies, overstaffing, bureaucratic inertia, and political interference plagued the sector. The public sector, once seen as the “commanding heights” of the economy, was increasingly criticised for poor returns on investment and growing losses. Mounting fiscal deficits and balance of payment crises forced policymakers to reconsider the public sector’s role in a modern economy.

► Reform as a necessity

Reform was no longer a choice but a necessity. The discourse shifted from state-led industrialisation to liberalisation, privatisation, and greater market orientation. A shift in policy direction was also shaped by global trends, with over 100 countries pursuing privatisation across various sectors, particularly during the 1980s and 1990s. This period saw a widespread wave of privatisation of state-owned assets in both developed and developing economies. However, as Bhattacharjee argues, Indian reforms have often been shaped more by fiscal compulsions than by coherent long-term strategies. This unit traces the key phases in the evolution of public sector reforms, focusing on the 1991 economic reforms, the role of the Administrative Reforms Commission (2005), and the various institutional, policy, and regulatory changes that followed.

► Political economy and ideological shifts post-Independence

The evolution of public sector reforms in India is closely tied to the broader political economy and ideological shifts post-Independence. Initially, the public sector was designed as the primary vehicle of industrialisation, rooted in socialist and nationalist ideologies. As Bhattacharjee notes, this phase emphasised central planning, state ownership, and self-



reliance. However, by the 1970s and 1980s, concerns began surfacing about inefficiencies, corruption, and overregulation. The Industrial Policy Statement of 1977 attempted to support small-scale industries and emphasised the public sector's role in developing both strategic and consumer goods.

However, the policy was reversed in 1980, and the focus shifted again to improving operational management. Real structural reform, however, did not emerge until the crisis of 1991. The July 1991 Budget and Industrial Policy Statement marked a watershed moment by explicitly acknowledging the failure of the protectionist model and initiating sweeping reforms. These included the abolition of the licence-permit raj, de-reservation (a process of removing certain products or sectors from a list of items exclusively reserved for production by small-scale industries) of most industries, and the opening of sectors to private investment. Thus began the process of liberalisation, where the private sector was allowed into previously state-controlled sectors without necessarily denationalising the PSUs themselves. Bhattacharjee explains that this model arose not from ideology, but from practical, often crisis-driven, administrative decisions.

► Liberalisation

1.3.3 Economic Reforms of 1991: Policy Realignment

The landmark economic reforms of 1991 drastically reshaped the Indian economy and redefined the role of the public sector. As Bhattacharjee documents, the New Industrial Policy introduced in July 1991 was aimed at breaking free from the restrictive controls of the Licence-Permit-Quota Raj. The key provisions included: (a) removal of industrial licensing for all but a few sectors; (b) de-reservation of industries for the public sector, limiting exclusive access to atomic energy, mining of atomic minerals, and railway transport; (c) introduction of disinvestment in select public sector undertakings; and (d) a liberalised foreign direct investment (FDI) policy.

► Redefining the role of the public sector

► Transforming PSUs from absorbers of national savings to engines of economic growth

Finance Minister Dr Manmohan Singh, in his Budget Speech, acknowledged the inefficiency of PSUs and highlighted the need to transform them from absorbers of national savings to engines of economic growth. He emphasised that only strategic industries requiring high technology or having national security implications should remain under state control. This shift was grounded in realism—an understanding that PSUs needed to function on commercial lines in a competitive, open economy. The reforms also allowed for the listing of profitable

PSUs on stock exchanges, promoting public accountability through market mechanisms. However, Bhattacharjee stresses that while liberalisation was embraced, privatisation remained politically sensitive and was often pursued cautiously.

On July 24, 1991, Manmohan Singh, then the Finance Minister of India, presented a budget, ushering in a new era for the Indian economy.

“I do not minimise the difficulties that lie ahead on the long and arduous journey on which we have embarked. But as Victor Hugo once said, “No power on earth can stop an idea whose time has come”. I suggest to this august House that the emergence of India as a major economic power in the world happens to be one such idea. Let the whole world hear it loud and clear. India is now wide awake. We shall prevail. We shall overcome” —

Budget speech, July 24, 1991.

(Source: EconomicTimes.indiatimes.com)

Impact of 1991 Reforms on the Public Sector

The 1991 reforms redefined not only policy orientation but also institutional expectations from CPSEs. Bhattacharjee explains that the policy of parallelisation—allowing private players into sectors previously reserved for public enterprises—created an uneven playing field. PSUs, accustomed to monopoly conditions, now had to compete with private entities that operated with greater managerial freedom and less bureaucratic burden. The reform process was particularly disruptive for companies in telecommunications, civil aviation, and consumer goods, where private players quickly captured market share. However, some public enterprises—such as Bharat Heavy Electricals Limited (BHEL), Oil and Natural Gas Corporation (ONGC), and Indian Oil Corporation (IOC), adapted to competition and maintained profitability.

Bhattacharjee notes that the impact of reforms was uneven across sectors and enterprises: while stronger PSUs thrived under the new regime, weaker ones struggled due to legacy inefficiencies and lack of modernisation. Additionally, reforms exposed several governance deficits, such as weak financial accountability, overstaffing, and political interference. Despite these challenges, the shift marked a strategic transformation—PSUs could no longer rely solely on state protection and were

► PSUs face market competition

► Uneven reform impacts



expected to operate with market discipline. Still, the government refrained from adopting a clear policy on privatisation, choosing instead a cautious, piecemeal approach to disinvestment and operational autonomy.

Resistance to Privatisation and Political Realities

One of the most significant roadblocks in the path of public sector reforms has been political resistance to privatisation. Bhattacharjee highlights that while economic logic often favoured strategic disinvestment, political considerations made it difficult to implement reforms consistently. Trade unions, opposition parties, and even sections within the ruling establishment frequently opposed large-scale privatisation on ideological, employment-related, or nationalist grounds. The idea of selling off government assets, especially profit-making PSUs, was equated with surrendering national wealth. This led to a stop-start pattern of disinvestment, where policy announcements were often not followed by implementation.

► Political resistance to privatisation

In some instances, privatisation decisions were reversed due to public protests or judicial intervention. A telling example Bhattacharjee presents is the disinvestment of BALCO and VSNL, which faced criticism over valuation and transparency, generating mistrust and regulatory pushback. As a result, governments have preferred selling minority stakes, often to institutional investors or other PSUs, rather than relinquishing management control. This cautious approach diluted the potential gains of privatisation, such as improved governance and resource allocation. Bhattacharjee contends that without depoliticising the process and building public consensus on the need for reform, meaningful privatisation remains a distant goal. Hence, the focus gradually shifted towards improving internal efficiency and governance instead of outright ownership transfer.

► Cautious, contested privatisation process

Institutional Responses and Reform Mechanisms

In response to the challenges of liberalisation, the government introduced several mechanisms to enhance PSU performance without fully resorting to privatisation. One of the first initiatives was the introduction of Memorandums of Understanding (MoUs) between CPSEs and their administrative ministries. As detailed in Unit 2, MoUs were designed to formalise performance targets and grant operational flexibility in exchange for accountability. Bhattacharjee notes that this model was innovative in theory but unevenly implemented in practice. Another key reform was the classification of PSUs into

► Performance-driven PSU reforms

Maharatna, Navratna, and Miniratna categories—each offering different levels of autonomy based on performance. These steps were part of a broader governance reform agenda aimed at incentivising efficiency while maintaining public ownership.

► Fragmented institutional reforms impact

Additionally, the establishment of the Department of Public Enterprises (DPE) as a nodal agency helped consolidate policy, promote best practices, and coordinate between ministries. However, Bhattacharjee points out that these reforms were often reactive and fragmented, lacking a comprehensive strategic vision. While some PSUs benefited from operational freedom and improved competitiveness, others remained plagued by inefficiencies due to half-hearted implementation. Thus, while institutional mechanisms were introduced to navigate the post-1991 landscape, their impact was often blunted by political constraints and administrative inertia.

Second-Generation Reforms: From Efficiency to Governance

► Enhancing operational efficiency, improving accountability, and depoliticising enterprise management

While the 1991 reforms marked a turning point in India's public sector policy, the subsequent phase—commonly referred to as second-generation reforms—sought to address deeper governance issues. These reforms focused on enhancing operational efficiency, improving accountability, and depoliticising enterprise management. Bhattacharjee outlines a comprehensive agenda for this phase: separation of policy and executive roles, withdrawal from non-strategic sectors, creation of competitive frameworks, and building institutional checks and balances. These reforms also included the adoption of new evaluation tools like Balanced Scorecards and the expansion of the MoU system to include both tangible and intangible performance indicators. Importantly, reforms now acknowledged that autonomy without accountability would be ineffective, and vice versa.

► Structural improvements

Countries like South Korea, Sweden, and Malaysia have demonstrated that state-owned enterprises could be efficient if provided managerial freedom and were insulated from political interference. Drawing on these lessons, India began emphasising structural improvements such as board-level committees, recruitment flexibility, and audit reforms. The Department of Public Enterprises played a critical role in institutionalising these measures. Yet, Bhattacharjee cautions that many of these reforms remained half-implemented due to bureaucratic resistance and lack of political will. Still, this shift represented a move from rule-based systems to result-based frameworks—an essential condition for sustainable enterprise reform.



Key Principles of Successful Public Sector Reform (from Bhattacharjee)

- Separate policy and implementation responsibilities
- Promote competition and allow market-based pricing
- Grant PSUs financial and managerial autonomy
- Strengthen accountability via performance contracts (MoUs)
- Develop regulatory bodies for each sector
- Depoliticise board appointments
- Use disinvestment as a strategic, not fiscal, tool
- Adopt e-governance and knowledge-sharing systems
- Benchmark PSU performance against private counterparts

1.3.4 The Administrative Reforms Commission (2005) and PSU Governance

The Second Administrative Reforms Commission (ARC), established in 2005, significantly contributed to rethinking public sector governance in India. Its recommendations— heavily referenced by Bhattacharjee—emphasised transforming the public sector from process-driven to results-oriented institutions. The ARC proposed that CPSEs be granted full managerial autonomy, free from day-to-day government control, and subjected to market competition. It also stressed the importance of delineating the government’s dual roles of ownership and regulation.

One of the most relevant aspects of the ARC’s input was its backing for reforms proposed by the Panel of Experts headed by S.K. Roongta. This included recommendations for creating internal board committees, such as audit, HR, and strategy, and setting a minimum tenure of three years for top management. Furthermore, the ARC endorsed the idea of expanding MoUs beyond performance contracts to become instruments of strategic guidance, diversification, and innovation. It also supported measures like performance-linked compensation, professional recruitment policies, and listing of CPSEs on stock exchanges to improve transparency. However, Bhattacharjee laments that while these ideas were welcomed in policy documents, their implementation has been slow and uneven. The ARC thus acted more as a visionary guide than a fully

► Rethinking public sector governance

► MoUs as strategic instruments

realised reform driver, though its influence remains embedded in ongoing governance conversations.

Table 1.2.1: Highlights of ARC 2005 and Roongta Committee Recommendations

Reform Area	Recommendation
Management Autonomy	Minimum 3-year tenure for CMDs; depoliticised appointments
Governance Structure	Mandatory board-level committees (Audit, HR, Strategy, etc.)
MoU Reform	Use MoUs for long-term planning, not just performance evaluation
Disinvestment Strategy	Strategic, not merely fiscal; based on sectoral analysis
Recruitment	CPSEs allowed to frame own HR and pay policies for non-board posts
Board Composition	More independent directors; fewer government nominees

Memorandum of Understanding (MoU): From Contract to Reform Tool

One of the most significant innovations in public sector reform in India has been the development and institutionalisation of the Memorandum of Understanding (MoU) system. Introduced in the late 1980s and expanded significantly post-1991, the MoU is essentially a performance agreement between a public sector enterprise and its administrative ministry. As Bhattacharjee explains, the MoU system was originally intended to function as a contract that granted CPSEs greater operational freedom in exchange for measurable outcomes. Over time, it evolved into a key tool for governance reform.

► MoU-driven governance reform

► MoU framework implementation issues

Under this system, enterprises commit to meeting specific financial, operational, and sometimes even environmental or social objectives over a fixed period. The ministry, in turn, agrees not to interfere in day-to-day operations if targets are met. Bhattacharjee highlights that MoUs became especially important after the 1991 reforms, as they allowed the government to manage enterprises from a distance while still holding them accountable. However, their success depended heavily on the quality of targets set, the willingness of ministries to uphold autonomy, and the credibility of the evaluation process. While some enterprises, like NTPC and ONGC, used the MoU framework effectively, many others saw it reduced to a paperwork exercise, with inflated targets or vague outcomes.



The promise of the MoU system, therefore, remains linked to broader institutional reform and political commitment.

Disinvestment: From Emergency Response to Strategic Policy

India's disinvestment policy has undergone several changes since the early 1990s, reflecting shifting political and economic priorities. Initially, disinvestment was seen as an emergency measure—a way to generate revenue during fiscal crises. As Bhattacharjee explains, the government began by selling minority stakes in select PSUs through public offers or to financial institutions. However, by the late 1990s and early 2000s, a more strategic approach emerged. The government introduced policies that allowed for majority stake sales and the transfer of management control in companies such as BALCO, VSNL, and Hindustan Zinc.

► Shifting political and economic priorities

These strategic sales aimed to bring in private capital and professional management. Yet, the process was met with strong opposition—both political and public. Questions about valuation, transparency, and job losses often led to legal battles or policy reversals. Bhattacharjee notes that such resistance made governments cautious, leading to a shift back to minority disinvestment models, such as ETFs (Exchange Traded Funds), buybacks, or IPOs. The introduction of the CPSE ETF in 2014, for instance, allowed the government to raise funds from the market while retaining ownership. However, this diluted the original intent of disinvestment as a means of reforming public enterprise governance. Unless accompanied by clear strategies for post-disinvestment performance and accountability, such measures may offer short-term relief but little long-term reform.

► Facing opposition

Disinvestment Is:

- ✓ A tool to unlock public value and improve enterprise efficiency
- ✓ A way to introduce market discipline into public sector enterprises
- ✓ A fiscal tool to reduce government borrowing, if used judiciously

Disinvestment Is Not:

- ✗ A permanent solution for loss-making enterprises without structural reform
- ✗ A substitute for better governance or management reform
- ✗ Just a revenue-maximisation strategy—it must serve policy goals

1.3.5 International Lessons and Reform Adaptations

► Inspiration from international experiences

Reforms in India’s public sector have often drawn inspiration from international experiences. Countries like Singapore, Sweden, New Zealand, and the UK have successfully restructured their state-owned enterprises without wholesale privatisation. Bhattacharjee highlights how these countries adopted institutional innovations that preserved public ownership while drastically improving efficiency. For instance, Singapore’s Temasek Holdings acts as a centralised holding company that manages the government’s stakes in public enterprises, giving them complete operational autonomy while expecting strict performance accountability. Similarly, New Zealand converted its SOEs (State-Owned Enterprises) into limited liability companies with independent boards and market-based pricing. These examples show that it is possible to combine public ownership with private-sector efficiency—provided there are strong institutions and depoliticised governance frameworks in place.

► Building transparent, performance-based governance that balances autonomy with accountability

Bhattacharjee argues that India’s reforms have been partial because while many tools—like the MoU system, disinvestment, and classification models—have been adopted, the supporting institutional framework remains weak. Unlike Temasek or the UK’s Shareholder Executive, India lacks a professionally managed central agency to oversee and strategise PSU ownership. Ministries still act as both owners and regulators, often issuing conflicting directives. Learning from global models, India can adapt—not copy—these systems by building transparent, performance-based governance that balances autonomy with accountability.

Table 1.2.2: International Models vs. Indian Practice in PSU Reform

Country	Model Adopted	Key Features	India’s Position
Singapore	Temasek Holding Company	Centralised ownership, professional management	Recommended but not implemented
New Zealand	Corporate SOEs	Full financial autonomy, performance-based contracts	Partial autonomy, limited contract integrity
United Kingdom	Shareholder Executive (in Cabinet)	Separation of policy, regulation, and ownership roles	Ministries still play overlapping roles
Sweden	Ministry of Enterprise & Innovation	Transparent listing, empowered boards	Board empowerment incomplete

(Source: Adapted from Bhattacharjee’s comparison of PSU reform models)



Strategic Sectors and Selective Retention

► Defining strategic public ownership

A core question in public sector reform has been: which enterprises should the government continue to own? Bhattacharjee addresses this by discussing the idea of *strategic sectors*, where public ownership serves critical national interests—such as defence, atomic energy, railways, and select natural resources. These sectors require long-term investment, security considerations, or infrastructure development that may not attract private capital. Outside these sectors, Bhattacharjee argues, the logic for continued government ownership weakens unless the enterprise serves a public welfare function or addresses market failure. For example, public ownership may still be justified in utilities like water supply or rural electrification, where profit incentives could conflict with equity goals. The government's 2021 policy on strategic disinvestment echoed this thinking by listing core strategic areas and stating that all others would be privatised.

► Need for objective retention

However, Bhattacharjee critiques the lack of consistency in execution. Several PSUs operating in non-strategic areas continue to exist despite chronic losses or redundancy. Worse, well-performing PSUs in competitive sectors are often used as fiscal tools rather than being supported for innovation or expansion. A selective retention policy—guided by objective criteria, not political convenience—is essential for reform success. This requires periodic reviews, stakeholder consultations, and a clear articulation of public purpose.

Restructuring Approaches and Revival Models

A major strand of public sector reform in India has focused on restructuring underperforming enterprises—especially those incurring continuous losses. Bhattacharjee details three main strategies that have been used:

- Financial restructuring, which involves capital infusion or debt write-offs;
- Managerial restructuring, which replaces leadership or alters the organisational hierarchy; and
- Ownership restructuring, including disinvestment or closure.

However, these approaches have had mixed success. Financial packages often failed when structural inefficiencies remained unaddressed. Managerial reforms, such as appointing professionals from the private sector or extending tenures,

were limited by bureaucratic control. Ownership reforms faced political resistance and public backlash. One prominent initiative was the Board for Reconstruction of Public Sector Enterprises (BRPSE), established in 2004 to recommend the revival or closure of sick units. While the BRPSE reviewed over 100 cases, Bhattacharjee notes that very few resulted in lasting revival, as its recommendations were not binding.

Furthermore, restructuring efforts rarely included a complete assessment of market competitiveness, technology obsolescence, or demand feasibility. For example, some textile and engineering PSUs were repeatedly revived only to fail again. A sustainable restructuring model, Bhattacharjee argues, must include strategic business planning, external audits, and employee re-skilling. Without this, even revived enterprises risk sliding back into decline.

► Challenges in PSU revival

1.3.6 Human Resource Challenges in Reforming PSUs

People management is another critical area that has received less attention in reform discussions, despite being central to performance. Bhattacharjee points out that PSUs suffer from rigid recruitment norms, outdated promotion systems, and poor talent retention strategies. In many cases, there is a mismatch between skill requirements and available staff, especially in areas like digital operations, international marketing, and R&D. Performance incentives are weak or absent, and non-performers are rarely held accountable. Moreover, politically influenced appointments at top levels undermine professionalism and demotivate capable middle management.

► Mismatch between skill requirements and available staff

Bhattacharjee observes that while private firms use flexible hiring, performance-linked pay, and regular training, CPSEs are still bound by uniform civil service-style rules. Even lateral recruitment, a potential way to bring in specialised talent, is seldom used due to administrative resistance. To address these issues, the Roongta Committee recommended allowing CPSEs to frame their own HR policies for non-board positions and link incentives to results. However, implementation has been slow. Another overlooked area is succession planning. Several top PSU posts remain vacant or are filled temporarily, leading to strategic drift. Reforming the HR ecosystem requires decentralising authority, depoliticising appointments, investing in capacity building, and benchmarking practices against competitive industry standards.

► HR reform challenges



Digital Governance and Transparency Initiatives

► Digital technologies have opened up new pathways for reforming governance in public sector enterprises

In recent years, digital technologies have opened up new pathways for reforming governance in public sector enterprises. Bhattacharjee recognises the potential of digital tools to enhance transparency, speed up processes, and improve public accountability. E-governance initiatives—such as online procurement systems, enterprise resource planning (ERP) platforms, and automated compliance reporting—have already been adopted by many Maharatna and Navratna CPSEs. These tools reduce manual errors, prevent corruption, and allow real-time performance tracking. For instance, the e-Procurement system mandated by the government for CPSEs has significantly improved procurement efficiency while ensuring audit trails.

► Effective technology-driven governance

Similarly, online dashboards maintained by the Department of Public Enterprises offer the public access to key performance indicators. However, Bhattacharjee warns that digitalisation must not be superficial. Many enterprises lack the internal capacity to use data analytics, integrate information across departments, or provide cyber-security. Moreover, reforms must go beyond technology adoption to include digital training, organisational restructuring, and process re-engineering. Unless these reforms are institutionally embedded, digital tools may remain underused. The future of CPSE governance lies in leveraging technology for smarter, more agile decision-making—where data drives policy, and accountability becomes automatic rather than externally imposed.

Real-World Impact: The Case of BSNL

In the early 2000s, Bharat Sanchar Nigam Limited (BSNL) was India's largest telecom provider, with unmatched reach and public trust. However, in less than two decades, it lost ground dramatically to private operators like Airtel, Vodafone, and later Jio. Why did this happen? As Bhattacharjee explains, BSNL failed to adapt to a rapidly liberalising and technology-driven environment. Despite having one of the largest infrastructure footprints, its bureaucratic decision-making, rigid procurement rules, and lack of autonomy prevented timely upgrades.

A report by the Comptroller and Auditor General (CAG) revealed that BSNL failed to bill Jio for services between 2014 and 2024, incurring losses of over ₹1,700 crore. This specific incident illustrates how BSNL's rigid bureaucratic processes and lack of commercial responsiveness led to significant financial losses in a competitive market.



BSNL was a classic example of how public sector undertakings, when denied flexibility and encumbered by outdated systems, can falter in the face of private competition—even when they begin with massive advantages. Its story underscores the central themes of public sector reform in India: the need for operational freedom, professional governance, and timely adaptation. Bhattacharjee uses such examples to stress that reforms are not just theoretical concepts—they are about saving national institutions from irrelevance and ensuring public resources deliver public value. Without decisive reform, even the best-resourced PSUs risk obsolescence.

The Way Forward

The trajectory of public sector reforms in India can be viewed as a three-phase process. The first phase, from Independence until the 1980s, was characterised by expansion and state ownership rooted in the Nehruvian model of planned development. The second phase, ushered in by the 1991 economic crisis, marked the beginning of liberalisation and the shift from state producer to regulator. The third phase, from the late 1990s onwards, has focused on governance reform, performance benchmarking, and strategic disinvestment. Bhattacharjee explains that each of these stages reflects shifts in political economy, global trends, and domestic compulsions.

Importantly, reforms have moved from being sector-specific (e.g., power, telecom) to more systemic, covering finance, HR, procurement, and digital governance. Despite this evolution, implementation remains a weak link. Many policy documents advocate autonomy and professionalism, but ministries continue to micromanage, and enterprise boards lack independence. The Roongta Committee, the Second ARC, and

► Three-phase process



► Systemic public sector reforms

the Planning Commission have all provided strong blueprints, but political consensus and administrative follow-through have often fallen short. Reforming the public sector is not just about fixing inefficiencies; it is about redefining the role of the state in a market economy—something India is still negotiating.

► Re-envisioning public sector

As India aspires to become a \$5 trillion economy, the role of public sector enterprises must be re-envisioned. Bhattacharjee's analysis makes it clear that while PSUs once helped lay the foundation of industrial India, their future depends on bold, institutional reforms. The key is not mass privatisation, but strategic clarity: retain ownership where national interest demands it and divest where market forces can deliver better outcomes. To do this, the government must act more as an owner-investor than a day-to-day controller. Future reforms must centre around five pillars: (1) clear ownership policy, (2) empowered boards, (3) performance-linked incentives, (4) adoption of digital tools, and (5) transparent disinvestment. Lessons from ARC 2005, the Roongta Committee, and global practice must be institutionalised, not just referenced in policy speeches.

Most importantly, reforms must be communicated as tools for better service delivery and public value—not as fiscal austerity or anti-worker agendas. Public sector enterprises can still play a critical role in inclusive growth, but only if they are modernised in structure, freed from politics, and judged by performance. Without this shift, the gap between vision and reality will continue to widen.

Summarized Overview

This unit provides a comprehensive look at the phases of India's public sector reform journey. It begins with the 1991 crisis that sparked liberalisation, ending monopoly control of PSUs. It explains how reforms shifted from emergency responses to strategic policies aimed at improving performance, accountability, and governance.

The unit assesses institutional innovations like performance-based MoUs, PSU classifications, and oversight frameworks. It critiques political resistance to privatisation, highlighting the slow and uneven implementation of reforms. The role of the Second Administrative Reforms Commission and lessons from countries like Singapore and New Zealand are explored. Finally, it offers a roadmap for future reform—emphasising digitalisation, professionalisation, and strategic clarity in PSU operations.

Self-Assessment

1. What event triggered the 1991 economic reforms?
2. Name the commission that guided PSU governance in 2005.
3. What is the MoU system?
4. What does disinvestment mean in the PSU context?
5. Give one international model used for PSU governance.
6. What is a strategic sector?
7. Who presented the 1991 budget speech?

Assignments

1. What were the goals and impacts of the 1991 public sector reforms?
2. Evaluate the role of the MoU system in performance management.
3. Discuss the obstacles to privatisation in India.
4. How have international models shaped Indian PSU reforms?
5. Suggest a reform strategy for improving PSU governance today.

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Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.

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BLOCK 2

New Economic Policies and the Public Sector

UNIT 1

Liberalisation, Privatisation and Globalisation (LPG)

Learning Outcomes

Upon the completion of this unit, the learner will be able to:

- ▶ understand the historical context and reasons behind the 1991 economic reforms in India
- ▶ identify the key components and phases of Liberalisation, Privatisation, and Globalisation (LPG)
- ▶ assess the impact of LPG on the structure, autonomy, and functioning of PSUs
- ▶ evaluate case studies such as BALCO, Air India, and ONGC to analyse the varied outcomes of reform

Background

Economic systems globally have evolved through waves of state intervention and market liberalisation. Post-independence, India adopted a mixed economy approach, emphasising public sector-led development. The model was driven by ideals of self-reliance, equity, and social justice, resulting in the establishment of a wide array of Public Sector Undertakings (PSUs). While this framework contributed to industrialisation and infrastructure building, over time, inefficiencies emerged in the form of bureaucratic delays, resource misallocations, and a lack of competitiveness.

By the late 1980s, mounting fiscal deficits, low productivity, and external debt pressures highlighted the limitations of state-controlled economics. Meanwhile, global trends of deregulation and market integration were reshaping international trade and investment patterns. Nations began reorienting their roles—shifting from direct providers to facilitators of development. In India, this shift came as a crisis-induced necessity in 1991. The resulting reforms marked a fundamental redefinition of public-private boundaries, inviting competition, technology, and foreign capital into previously state-dominated sectors. These reforms did not just alter macroeconomic policies—they challenged the traditional role of government and public enterprises in the Indian economy.



Keywords

Disinvestment, Strategic Sale, PSU Autonomy, Fiscal Crisis

Discussion

2.1.1 How LPG Transformed India's Economic Landscape

In 1991, India stood on the brink of a deep financial crisis, with foreign exchange reserves barely sufficient to cover three weeks of imports. Inflation was soaring, the fiscal deficit had ballooned, and investor confidence was at an all-time low. This crisis turned out to be a watershed moment. The government initiated sweeping economic reforms, marking the beginning of what is commonly referred to as the LPG era: Liberalisation, Privatisation, and Globalisation. This paradigm shift dismantled the 'Licence-Permit-Quota Raj' and replaced it with an open-market economy.

► LPG era

As Bhattacharjee explains, the state was now seen not as the main driver of production and distribution, but as a facilitator for private enterprise. With the announcement of the New Industrial Policy in July 1991, several changes followed: industrial licensing was abolished for most sectors, foreign investment was liberalised, and the public sector's dominance began to erode. The policy marked a shift in the role of the public sector: from being the 'commanding heights' of the economy to operating alongside a rapidly emerging private sector. While the reforms were initiated under economic duress, they have had lasting implications for India's public sector enterprises, both in terms of their relevance and performance.

► Public sector role shift

LPG Policies and Their Phased Implementation

The LPG reforms were not a single event but a series of strategic measures rolled out over the 1990s and early 2000s. Liberalisation included the removal of industrial licensing, simplification of taxation, deregulation of interest rates, and freedom for businesses to decide on investment and pricing. Privatisation, as Bhattacharjee notes, was initially avoided as a term, with policymakers preferring "disinvestment" to soften political resistance. The government started selling minority shares of public enterprises to raise revenue and reduce fiscal burden, all while retaining control.

► LPG reforms and disinvestment

► Globalisation reshapes PSU landscape

Meanwhile, globalisation aimed to integrate India into the world economy, involving trade liberalisation, currency convertibility, and encouragement of foreign direct investment (FDI). One of the major early steps was limiting public sector exclusivity to just three sectors—atomic energy, mining of atomic minerals, and railways. All other industries were made open to private participation, both domestic and foreign. Bhattacharjee underscores how this move upended the monopolistic landscape that many Central Public Sector Enterprises (CPSEs) had enjoyed. Over time, these changes necessitated a complete rethinking of the objectives, structure, and accountability of PSUs, prompting further waves of reform in governance, HR, and financial management.

Table 2.1.1: Key Policy Milestones of the LPG Era (1991–2005)

Year	Policy/Action	Impact on PSUs
1991	New Industrial Policy (NIP)	Opened all but 3 sectors to private industry
1992	Start of disinvestment (minority shares)	Reduced fiscal pressure; introduced market valuation
1996	Disinvestment Commission setup	Created oversight for privatisation planning
1999	Strategic sale approach introduced	Began transfer of ownership and control
1999 2001	Department of Disinvestment was created in 1999, and the Separate Ministry of Disinvestment was formed in 2001.	Increased policy focus and institutional capacity
2005	National Investment Fund established	Used proceeds for social sectors and CPSE investment

Source: Adapted from Bhattacharjee’s analysis of policy transitions

2.1.2 Role of Government in a Liberalised Economy

One of the most profound effects of the LPG reforms was the changing role of the state in economic activity. Before 1991, the Indian state controlled the major levers of production through its PSUs—be it in energy, banking, telecommunications, or heavy industry. Bhattacharjee notes that the shift post-1991 was not simply about reducing state ownership, but about reimagining the government’s purpose—from being a direct producer of goods and services to acting

► State shifts to facilitator



as a regulator and facilitator. This meant that ministries which previously supervised the day-to-day operations of enterprises had to transition to policymaking and sectoral oversight.

However, this transition was far from smooth. In many cases, bureaucratic control remained entrenched, with ministries reluctant to relinquish power. Boards of PSUs continued to be dominated by government nominees, and top-level appointments were often influenced more by politics than merit. The contradiction between policy rhetoric and ground reality slowed down reforms. Bhattacharjee warns that unless ownership and regulation are clearly separated—as in countries like Singapore or Sweden—true autonomy will remain elusive. The government must decide whether it wants to be a manager or a policymaker; doing both leads to inefficiency, as has been repeatedly evident in India’s PSU experience.

► Bureaucratic control hinders autonomy

Impact of Liberalisation on Public Sector Performance

Liberalisation exposed many PSUs to competition for the first time. With the dismantling of licensing, tariff protection, and government procurement preferences, public enterprises had to compete in open markets. This exposed structural inefficiencies in many units—overstaffing, obsolete technology, poor marketing capacity, and bureaucratic decision-making. Bhattacharjee explains that while some Maharatna and Navratna companies like ONGC, NTPC, and BHEL adapted successfully, a large number of medium and small PSUs began incurring losses. Liberalisation also intensified pressure for performance, pushing enterprises to innovate, cut costs, and diversify product lines.

► PSUs face market competition

However, the support systems, such as access to capital markets, flexible HR rules, and investment in R&D, were not equally available to all PSUs. Bhattacharjee highlights how many enterprises were caught in a double bind: expected to behave like private companies but without the autonomy or agility to do so. As a result, while the sector as a whole survived the reforms, it became increasingly bifurcated, with profit-making giants on one side and struggling or irrelevant units on the other. The policy shift thus forced a reckoning: public sector enterprises could no longer rely on state protection and had to redefine their business models or risk extinction.

► Unequal PSU reform outcomes

Key Effects of Liberalisation on CPSEs

- ☑ Greater market discipline and exposure to competition
- ☑ Reduced financial support from the government
- ☑ Freedom to access capital markets through IPOs
- ✗ Continued interference in appointments and pricing
- ✗ Inadequate autonomy in HR and procurement
- ✗ Slow adaptation to technological change

This box highlights the “push-and-pull” dynamic faced by PSUs post-1991. They were given responsibilities without commensurate freedoms.

The BALCO Case: An Early Experiment in Strategic Disinvestment

In 2001, the government sold a 51% stake in Bharat Aluminium Company (BALCO) to Sterlite Industries, marking one of India’s earliest and most high-profile strategic disinvestment cases. This move triggered widespread political opposition and trade union protests. Critics argued that the valuation was too low and that a profit-making public asset had been handed over to a private entity. However, as Bhattacharjee points out, the government was grappling with a growing fiscal deficit, and BALCO, despite being profitable, needed fresh investment and technology upgrades to survive global competition. The sale underscored the government’s shift from minority stake sales to full transfer of management control in selected PSUs. Strategic disinvestment was now seen not merely as a revenue tool but as a mechanism to bring in private capital, improve governance, and unlock value.

► BALCO strategic disinvestment

The BALCO episode revealed both the possibilities and pitfalls of privatisation—it demonstrated how privatisation could rejuvenate a PSU but also highlighted the importance of transparency, valuation, and social safeguards. According to Bhattacharjee, the BALCO case set the tone for future strategic sales such as VSNL and Hindustan Zinc, even though political resistance continued to constrain the scope and pace of disinvestment.

Strategic Disinvestment: From Caution to Boldness

Following BALCO, the government attempted more strategic disinvestments in the early 2000s, including Maruti



► Strategic disinvestment challenges persist

Udyog Ltd and VSNL. Each case reflected growing ambition but also deeper complexity. Bhattacharjee notes that strategic disinvestment involves not just the sale of shares but also the transfer of management control—a politically sensitive and operationally complex decision. Initially, the Disinvestment Commission guided these decisions, but its advisory role had limited impact. By 1999, the government formed a full-fledged Ministry of Disinvestment to institutionalise the process. In practice, however, disinvestment remained ad hoc. While some transactions improved efficiency and market competitiveness, others were mired in controversy. For example, the sale of VSNL to the Tata Group was followed by disputes over surplus land and unpaid dues, revealing weaknesses in contract design and regulatory oversight. Bhattacharjee stresses that the absence of a clear long-term disinvestment policy, lack of credible valuation methods, and insufficient stakeholder engagement often reduced privatisation to a tactical, revenue-generating measure rather than a genuine reform. Despite these hurdles, strategic sales did demonstrate potential for turning around PSUs, especially when combined with managerial freedom and capital infusion. The challenge remained in balancing financial goals with social and political concerns, especially regarding employment.

Table 2.1.2: Selected Strategic Disinvestment Cases in India

PSU	Year	Buyer	Govt Stake Sold	Key Outcomes
BALCO	2001	Sterlite Industries	51%	Protests followed; improved productivity post-sale
Hindustan Zinc	2002	Sterlite Industries	26% + mgmt control	Became a market leader under private ownership
VSNL	2002	Tata Group	25% + mgmt control	Legal disputes over land; telecom competitiveness rose
Maruti Udyog	2003	Suzuki Motors	25% (incrementally)	Seamless transition; technology upgrade successful

Source: Bhattacharjee

These cases reflect the complexity of strategic sales—each offers lessons in valuation, communication, and stakeholder handling.

ONGC and the Push for Global Integration

In the 2000s, Oil and Natural Gas Corporation (ONGC) became one of the few Indian PSUs to establish a global footprint, acquiring oil assets in Vietnam, Sudan, and Russia. This marked a significant shift from its earlier domestic-focused operations. Bhattacharjee cites ONGC as a prime example of how some public sector enterprises successfully adapted to the demands of globalisation. The company responded to increased competition and energy insecurity by expanding overseas, forming joint ventures, and listing on domestic stock exchanges. This transformation illustrates how globalisation opened new opportunities for public enterprises but also required a shift in strategy, culture, and governance.

► ONGC global expansion success



ONGC's experience showed that with professional leadership and operational autonomy, Indian PSUs could compete globally. However, Bhattacharjee also warns that many other CPSEs failed to adapt similarly—largely due to inflexible structures, risk-averse mindsets, and bureaucratic control. The era of globalisation demanded more than financial reforms; it required enterprises to think like global corporations, build cross-border partnerships, and invest in R&D and skill development—areas where public enterprises, constrained by rigid systems, lagged significantly.

► Globalisation demands PSU adaptability

2.1.3 The Role of Public Sector in a Liberalised Economy

Post-1991, the role of public sector undertakings (PSUs) in India underwent a major transformation. While earlier they were instruments of state-led development and regional

► PSUs shift to commercial

equity, the new expectation was that they would function as self-sustaining commercial entities. Bhattacharjee argues that this shift was not just philosophical but practical—PSUs could no longer rely on budgetary support, monopolistic advantages, or guaranteed markets.

In this context, the role of PSUs evolved in three directions: first, in strategic sectors such as defence and energy where state presence remained essential; second, in sectors with large infrastructure needs and long gestation periods, such as power and railways; and third, in providing basic services like food distribution, where market failures existed. Yet, for PSUs to operate effectively in this new environment, they had to become leaner, more customer-centric, and innovation-driven. Bhattacharjee stresses that without changes in governance—such as professionalised boards, performance-linked incentives, and flexible procurement—the public sector would find it difficult to survive. The public sector was no longer judged by its social outreach alone but by its ability to create value, respond to market signals, and deliver quality services.

Table 2.1.3: The Changing Mandate of Indian PSUs Post-LPG

Then (Pre-1991)	Now (Post-1991)
<ul style="list-style-type: none"> • Protected markets 	<ul style="list-style-type: none"> • Market competition
<ul style="list-style-type: none"> • Price control and subsidies 	<ul style="list-style-type: none"> • Cost recovery and efficiency
<ul style="list-style-type: none"> • Employment generation 	<ul style="list-style-type: none"> • Technological innovation
<ul style="list-style-type: none"> • Regional balance and industrialisation 	<ul style="list-style-type: none"> • Capital market participation

This comparison underscores how PSUs had to undergo a paradigm shift—not just in operations, but in identity and purpose.

Air India: A Case of Strategic Drift and Delayed Reform

Among the most cited examples of PSU failure under LPG reforms is Air India. Once a prestigious state-owned carrier, it steadily lost market share to private airlines post-liberalisation. Bhattacharjee details how liberalisation in the civil aviation sector allowed private entrants like Jet Airways and Indigo to operate with greater pricing and operational flexibility. In contrast, Air India remained shackled by bureaucratic control, overstaffing, outdated fleet acquisition policies, and political

► Air India operational inefficiencies

interference. Its 2007 merger with Indian Airlines, intended to streamline operations, only worsened financial stress due to poor integration planning.

Meanwhile, the airline's debt ballooned, and operating losses mounted year after year. Bhattacharjee notes that despite repeated financial bailouts, the core structural issues remained unaddressed. The final decision to privatise Air India in 2021, after decades of losses, marked the end of one of India's longest-standing public sector experiments. It also highlighted a key lesson of the LPG era: delays in reforming underperforming PSUs often make recovery costlier and harder. Unlike BALCO or Hindustan Zinc, which were privatised early and managed to improve, Air India became a textbook case of reform failure due to political hesitation and systemic inertia.



Fig: A snapshot of Air India's financials
(Source: homeschoolofbusiness.substack.com)

BHEL: A Story of Adaptation and Gradual Decline

On the other end of the spectrum lies Bharat Heavy Electricals Limited (BHEL), once hailed as a model PSU for engineering excellence. In the initial years of liberalisation, BHEL adapted well—it maintained technological partnerships, invested in R&D, and continued to lead in power sector equipment manufacturing. Bhattacharjee recognises BHEL as one of the few PSUs that successfully competed with private and foreign firms in the power sector for several years.

► BHEL's need for reinvention

However, this success did not last. As the power sector diversified and global supply chains became more competitive, BHEL struggled with delayed project execution, declining order books, and rigid pricing models. Moreover, its heavy reliance on thermal power made it vulnerable to the clean energy transition, a trend it failed to anticipate. According to Bhattacharjee, BHEL's gradual decline illustrates that even well-run PSUs need constant reinvention to stay relevant. The company faced challenges in governance, agility, and market intelligence—areas where private firms had an edge. The lesson from BHEL is nuanced: success in a liberalised economy is not just about surviving competition but continuously evolving business models, investing in future technologies, and diversifying risk.

► Tiered PSU autonomy system

PSU Categorisation

One institutional response to the diverse performance levels of CPSEs in the LPG era was the introduction of a classification system: Maharatna, Navratna, and Miniratna. This system, as Bhattacharjee explains, was developed to grant differential levels of autonomy to PSUs based on their financial performance and strategic importance. Maharatnas like ONGC and NTPC received the highest autonomy, including investment freedom up to ₹5,000 crore, enabling them to operate more like corporate entities. Navratnas were mid-level performers granted moderate autonomy, while Miniratnas were profitable but smaller enterprises allowed limited freedom. This tiered approach recognised the need for customised reform instead of one-size-fits-all strategies.

► Autonomy constrained by government

Bhattacharjee emphasises that while this system encouraged competitive spirit and allowed room for growth, autonomy remained constrained by overlapping government control. For instance, despite their classification, many PSUs still required approvals for joint ventures, foreign collaborations, or senior appointments. Nevertheless, the classification scheme was a meaningful step toward reform, aligning the expectations from each enterprise with its capability and market orientation. It also introduced a performance-linked identity to the public sector, an essential shift in the post-LPG landscape.

Politics of Privatisation

Privatisation, despite its potential benefits, has remained one of the most politically contested aspects of the LPG reforms. Bhattacharjee notes that opposition parties, trade

► Privatisation faces political resistance

unions, and civil society groups have often equated privatisation with surrendering national assets, job losses, and favouritism towards industrialists. The emotional attachment to iconic PSUs—such as Air India, MTNL, and Hindustan Machine Tools (HMT)—added further resistance. Even within the ruling establishments, consensus on strategic disinvestment has been difficult to build. For instance, several strategic sale proposals cleared by one government were stalled or reversed by its successor. This inconsistency undermined investor confidence and weakened the credibility of the disinvestment programme.

► Cautious and contested privatisation

Bhattacharjee also highlights the lack of transparency and stakeholder engagement in many cases, leading to suspicions of undervaluation or cronyism. As a result, privatisation in India has remained cautious and piecemeal, rarely part of a broader sectoral reform plan. The state has been reluctant to give up control, often preferring to transfer ownership from one PSU to another, which defeats the purpose of introducing private sector efficiency. The political economy of privatisation, Bhattacharjee argues, is as important as its economic logic, and unless the process is seen as fair, inclusive, and strategic, it will continue to face backlash.

Employment and Labour Concerns in a Reforming Public Sector

One of the most frequently cited concerns about privatisation is the impact on employment and labour rights. Bhattacharjee notes that PSUs have historically been significant sources of formal employment, particularly for historically marginalised groups, through policies like reservation and regional quotas. The fear of job cuts, loss of benefits, and erosion of trade union protections has made PSU employees—and their unions—resistant to reform. In some cases, disinvestment proposals have led to large-scale protests and strikes, especially when there was ambiguity about compensation, redeployment, or voluntary retirement schemes (VRS).

However, Bhattacharjee also points out that many PSUs, even before privatisation, were facing redundancies due to technology upgrades, automation, or declining relevance. For example, textile and engineering PSUs had surplus workers with outdated skills and limited redeployment options. In fact, in 1990-91, out of 236 operating PSUs, almost half were not generating a profit. The real challenge, he argues, is not just protecting jobs, but planning for transitions through reskilling, social security, and industry partnerships. Some

privatisations—such as Maruti Udyog and Hindustan Zinc—managed to preserve or even expand employment under new management. But others, especially sick units, resulted in significant job losses.

The push for disinvestment was largely driven by the need to manage fiscal deficits. For example, India’s fiscal deficit, which had reached 6.6% of GDP in 1990-91, was a major concern. Disinvestment was seen as a way to generate much-needed revenue. However, the proceeds from disinvestment were often modest compared to the targets. From 1991-92 to 2000-01, the government raised a total of only ₹20,078.62 crore, falling significantly short of the aggregate target of ₹54,300 crore.

► Disinvestment and social safeguards

Bhattacharjee recommends a social compact for future reforms, where labour concerns are addressed upfront through transparent negotiation and legal safeguards. A social compact is an agreement between the government and workers’ representatives to address the social impacts of reforms, such as job security and retraining, through a structured and transparent process.

Autonomy Without Accountability

A recurring dilemma in India’s post-LPG public sector reform is the paradox of “autonomy without accountability.” Bhattacharjee explains that while many PSUs were granted operational freedom—especially the Maharatnas and Navratnas—there was insufficient investment in monitoring and performance evaluation. Boards often lacked professionally qualified independent directors, and many did not function as true decision-making bodies. Ministries continued to interfere in strategic decisions, defeating the purpose of autonomy. At the same time, systems for assessing output, innovation, or customer satisfaction remained underdeveloped.

► Autonomy lacks accountability

► Need for governance norms

In some cases, freedom led to risk aversion rather than innovation, as management teams were unclear about their accountability frameworks. This created a dysfunctional space where enterprises were neither fully controlled nor genuinely independent. Bhattacharjee argues that this middle ground is unsustainable. He calls for strong corporate governance norms, board-level transparency, and external evaluations to ensure that autonomy translates into performance, not complacency. Global best practices—such as listing on stock exchanges, regular audit disclosures, and public performance

dashboards—should be institutionalised across CPSEs. Without this, reforms may empower PSU leadership but fail to deliver better outcomes for the public.

Future of Public Enterprises in the LPG Era

In recent years, the Indian government has reiterated its commitment to privatising non-strategic PSUs while retaining a limited presence in key sectors such as defence, atomic energy, and space. Bhattacharjee notes that this shift represents a more focused, policy-driven approach to disinvestment—one that is both economic and ideological. The 2021 Union Budget explicitly stated that “the government has no business to be in business,” echoing a global consensus that public ownership should be limited to areas where markets fail or national interest is paramount. Yet, for this vision to succeed, the process must be transparent, evidence-based, and politically sustainable. This involves setting up an independent holding company (as recommended by the Roongta Committee), professionalising PSU boards, and separating ownership from regulation. Equally important is the creation of a robust social framework in which displaced employees are reskilled and social assets are preserved. Bhattacharjee asserts that the public sector still has a vital role in nation-building, but only if it is allowed to evolve. PSUs must become centres of innovation, not instruments of patronage; drivers of inclusive growth, not relics of past policies.

► Focused, transparent disinvestment strategy

Table 2.1.4 : The LPG Effect on India’s Public Sector

Reform Domain	Pre-LPG Reality	Post-LPG Transition
Ownership	Near-total state control	Gradual privatisation and strategic disinvestment
Market Orientation	Monopoly status	Exposure to competition and price liberalisation
Role of Government	Direct producer	Facilitator and regulator
Accountability	Internal, bureaucratic oversight	Performance contracts, board evaluation, and listing on markets
Labour Policies	Permanent employment, low mobility	VRS, retraining, outsourcing, and contract work
Investment Priorities	Welfare and equity focus	Commercial viability and global expansion

Public Value in a Market Economy

The liberalisation, privatisation, and globalisation (LPG) reforms of 1991 fundamentally reshaped India's public sector landscape. What began as a response to economic crisis evolved into a structural transformation of state-market relations. Bhattacharjee's work underscores that these reforms challenged public enterprises to compete, innovate, and deliver like never before. While some PSUs adapted and thrived, others failed to keep pace—dragged down by outdated practices, regulatory bottlenecks, and political inertia.

► Reimagining public sector

The future of India's public sector will depend on how well it can align itself with national development goals without losing its efficiency edge. Reforms must be bold yet humane, strategic yet inclusive. The task is not to dismantle the public sector but to reimagine it, making it smarter, leaner, and more responsive to the changing needs of society. As Bhattacharjee concludes, the public sector in India can still play a crucial role, not as the sole driver of growth, but as a partner in a dynamic, mixed economy.

Summarized Overview

This unit explores the transformative phase of India's economic history initiated in 1991 through Liberalisation, Privatisation/Disinvestment, and Globalisation (LPG). It discusses how economic distress pushed the government to dismantle the control regime of licensing and regulation, replacing it with market-friendly policies. Liberalisation measures included reducing trade barriers and deregulating industries, while privatisation introduced mechanisms for disinvestment and encouraged private sector participation. Globalisation integrated the Indian economy into global trade and capital flows.

The unit also focuses on how these policies affected Public Sector Undertakings (PSUs), shifting their role from state instruments to market players. It evaluates the dual outcomes of reform: success stories like ONGC and challenges faced by entities like Air India. Case studies, including BALCO's disinvestment and the PSU categorisation system, are presented to illustrate key points. Issues such as autonomy without accountability, political resistance, and lack of structural reform are critically analysed, offering a balanced view of the complex transition.

Self-Assessment

1. What led to the introduction of the LPG reforms in India?
2. Define liberalisation and its key components in the Indian context.
3. What does privatisation mean, and how was it implemented initially?
4. How did globalisation affect Indian PSUs?
5. Name three PSUs that responded successfully to LPG reforms.
6. What were the major limitations faced by PSUs post-liberalisation?
7. Briefly explain the BALCO disinvestment case.

Assignments

1. Explain the economic context and significance of the 1991 LPG reforms.
2. Critically assess the impact of LPG on the autonomy and performance of PSUs.
3. Discuss the challenges in transitioning from state-controlled to market-driven PSUs.
4. Examine the role of strategic disinvestment using relevant case examples.
5. What lessons does the Air India case offer about delayed reform in PSUs?

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Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.

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UNIT 2

Public Enterprises and Disinvestment

Learning Outcomes

Upon the completion of this unit, learners will be able to:

- ▶ explain the evolution and objectives of disinvestment policies in India
- ▶ distinguish between types of disinvestments such as minority sales and strategic sales
- ▶ analyse the post-disinvestment performance of key PSUs using case studies
- ▶ identify the challenges and opportunities involved in disinvestment execution

Background

Public enterprises in India have historically played a vital role in achieving economic self-sufficiency, regional balance, and employment generation. With limited private capital post-independence, the government assumed the role of entrepreneur to drive industrialisation and infrastructure development. This model functioned well in the early decades but began to show signs of inefficiency and stagnation in later years, with many PSUs becoming cost-ineffective, technologically outdated, or financially unsustainable.

In the changing global and domestic economic landscape of the 1990s, a growing consensus emerged that government ownership was no longer essential—or even viable—in many commercial sectors. Disinvestment emerged as a strategy not just to raise resources and redefine the state's role in economic production, but also due to global pressures (such as conditions from the IMF and World Bank during the 1991 economic crisis) and domestic political debates. However, the process has always been complex, involving multiple stakeholders, regulatory frameworks, and political considerations. In democratic societies like India, disinvestment often intersects with questions of social justice, transparency, and labour security, making it as much a governance challenge as an economic one.

Keywords

Strategic Sale, Valuation, Fiscal Consolidation, National Investment Fund, Stakeholder Engagement

Discussion

► Strategic disinvestment drives turnaround

In 2002, Hindustan Zinc—a loss-making public enterprise—was partially privatised through a strategic disinvestment. Sterlite Industries acquired a 26% stake and management control. Within a few years, Hindustan Zinc transformed from a sluggish PSU into one of the world’s most profitable zinc producers. Its production increased tenfold, employee productivity skyrocketed, and its stock price surged. Bhattacharjee uses this transformation to demonstrate how disinvestment, when executed strategically and professionally, can unlock value and rejuvenate public assets. However, such successes are not automatic. They require clear policies, transparency, and a well-managed transition process.

2.2.1 Evolution of Disinvestment Policies in India

► Disinvestment as a policy tool

Disinvestment as a policy tool emerged in India in the early 1990s as part of the broader liberalisation agenda. Initially, the government approached it cautiously, selling small stakes in select PSUs to mutual funds and financial institutions. This allowed the state to raise funds without relinquishing control. Bhattacharjee notes that this first phase was driven primarily by fiscal needs—not by a coherent vision of public sector reform. It wasn’t until 1996, with the formation of the Disinvestment Commission, that India took more structured steps. The Commission provided guidance on which PSUs could be considered for partial or full disinvestment, suggesting options like strategic sales, joint ventures, and public offers.

► Strategic disinvestment institutionalised, contested

A major shift occurred under the NDA government in 1999, which introduced the concept of strategic disinvestment—where majority stakes and management control were transferred to private buyers. This marked a transition from passive fund-raising to active reform. In 2001, the government also established the Ministry of Disinvestment to institutionalise this process, though it was later merged with the Ministry of Finance. Over time, policies were refined to include modes like Exchange Traded Funds (ETFs), Initial Public Offerings



(IPOs), and buybacks. Despite these innovations, disinvestment remained politically contentious and was often driven more by revenue targets than strategic planning.

Table 2.2.1: Phases of Disinvestment Policy in India

Phase	Time Period	Key Features
Fiscal-Oriented Phase	1991–1996	Minority stake sales to financial institutions; no control loss
Institutionalisation Phase	1996–2000	Disinvestment Commission formed; policy framing begins
Strategic Shift Phase	1999–2004	Majority sales, management transfer (e.g., BALCO, VSNL)
Political Recoil Phase	2004–2013	Process slowed due to political resistance and legal hurdles
Financial Innovation Phase	2014–present	Use of ETFs, buybacks, and IPOs; push for asset monetisation

(Source: Bhattacharjee, *Public Sector Enterprises in India*)

Strategic Disinvestment: Intent, Execution, and Political Complexity

The strategic disinvestment policy introduced in 1999 represented a turning point. For the first time, the government was willing to cede management control along with equity. Bhattacharjee explains that this bold shift was necessitated by a growing realisation: minority stake sales had limited impact on PSU performance and governance. Strategic disinvestment was meant to bring private sector efficiency, capital investment, and innovation into ageing public enterprises. Initial examples like BALCO, Hindustan Zinc, and VSNL reflected the government’s willingness to modernise the public sector through partnership rather than sole ownership. Yet, the execution of these sales was far from smooth.

Questions were raised about valuation, transparency, and social consequences. In the BALCO case, protests and legal action followed the sale. In the VSNL transaction, post-sale disputes over land assets led to prolonged uncertainty. According to Bhattacharjee, these challenges eroded public trust in the process and forced policymakers to adopt a more cautious approach. Strategic disinvestment soon lost momentum and was replaced by safer, revenue-centric models like ETFs. Bhattacharjee argues that the lack of political consensus and administrative continuity has prevented strategic disinvestment from becoming a transformative tool, reducing it instead to a fiscal tactic

► Strategic disinvestment for efficiency

► Disinvestment marred by controversy

2.2.2 Post-Disinvestment Performance: A Mixed Record

How do PSUs perform after disinvestment? Bhattacharjee presents a nuanced picture. Some enterprises—particularly those that underwent strategic sales—registered significant improvements in financial and operational performance. Hindustan Zinc is a notable example. After its sale in 2002 to Sterlite, production rose from 0.2 million tonnes to over 1 million tonnes, profit margins increased, and the company became globally competitive. Similarly, Maruti Udyog thrived under Suzuki’s control, introducing modern production systems and capturing market leadership. However, not all stories were successful.

► Disinvestment needs strategic intent

In several cases, disinvestment did not lead to autonomy or efficiency because the core issues—obsolete technology, poor leadership, or distorted markets—remained unresolved. For example, enterprises like HMT Watches and Scooters India Limited (SIL) struggled even after being put up for sale. They failed to adapt to changing market demands and update their outdated technology, which ultimately led to their decline. Moreover, minority stake sales without governance reform achieved little. Bhattacharjee emphasises that performance gains depend on the nature of disinvestment. Where management control and investment commitment were ensured, outcomes were positive. Where only partial stakes were sold without operational freedom, gains were negligible. This distinction underscores the need for well-structured transactions, with clear accountability, post-sale monitoring, and long-term performance benchmarks. Disinvestment is not a silver bullet; it must be backed by strategic intent and institutional support.

Key Factors Influencing Post-Disinvestment Outcomes

- Transparent valuation and competitive bidding
- Transfer of management control
- Binding investment and employment commitments
- Post-sale governance oversight
- Retention of bureaucratic interference
- Inadequate stakeholder communication
- Politicisation of selection and valuation

This box captures what makes disinvestment succeed or fail. Bhattacharjee warns that without these enabling condi-

tions, even well-meaning reforms can falter.

Political Resistance and Public Perception

One of the most persistent challenges facing disinvestment policy in India is political resistance. Bhattacharjee notes that public enterprises have long been associated with national pride, employment security, and state-led development. This legacy has created a deep emotional and political attachment to PSUs. When the government proposes disinvestment—especially of well-known or profitable enterprises—it often faces backlash from opposition parties, trade unions, and civil society groups. The sale of BALCO and Air India, for instance, provoked widespread protests despite the enterprises’ financial and operational difficulties. This resistance is rooted in fears of job loss, undervaluation, and the rise of monopolistic corporate control.

► Political resistance to disinvestment

Bhattacharjee argues that successive governments have often failed to communicate the strategic rationale behind disinvestment, allowing misinformation and political opportunism to dominate the discourse. As a result, even well-planned transactions are viewed with suspicion, and public support remains weak. Furthermore, frequent policy reversals—for example, re-merging the Ministry of Disinvestment with the Finance Ministry—have signalled inconsistency. Bhattacharjee emphasises that political will, consensus-building, and credible communication are essential for making disinvestment a sustainable policy instrument rather than a stopgap fiscal measure.

► Lack of strategic communication

Valuation Dilemmas and Procedural Weaknesses

Another significant obstacle in the disinvestment process is the valuation of public enterprises. Bhattacharjee explains that accurate valuation is both technically complex and politically sensitive. Underestimating the value can lead to accusations of cronyism and public loss, while overestimation can deter buyers and stall transactions. Methods such as discounted cash flow, asset-based valuation, and market comparables each have limitations, especially when enterprises have non-performing assets, social obligations, or uncertain income flows. In the case of VSNL, disputes over real estate valuation delayed the post-sale integration process. Moreover, delays in finalising consultants, clearing legal disputes, and obtaining regulatory approvals often result in missed opportunities.

► Challenges in enterprise valuation

Bhattacharjee points out that many disinvestments have

► Institutional weaknesses hinder disinvestment

been timed poorly, either during market downturns or fiscal emergencies, leading to suboptimal pricing. Additionally, the lack of dedicated institutional capacity within ministries leads to ad hoc decision-making. While bodies like the Department of Investment and Public Asset Management (DIPAM) exist, they have evolved from a focus on simply raising funds to a more comprehensive role in managing public assets. However, challenges related to their limited autonomy and overlapping mandates with sectoral ministries persist, which can dilute the efficiency of the disinvestment process. The department's role is now increasingly seen as that of a strategic asset manager, but its effectiveness continues to depend on the support and cooperation of other government bodies. Without professional valuation processes and streamlined institutional coordination, disinvestment will continue to face credibility issues and operational delays.

Who Really Owns the Reform?

A recurring concern in Bhattacharjee's critique is the fragmented ownership of the disinvestment agenda. Although disinvestment is a national economic policy, there is no single institution with undisputed authority over the process. The Department of Public Enterprises (DPE), DIPAM, NITI Aayog, and administrative ministries all play roles—often with overlapping jurisdictions and conflicting priorities. For instance, while DIPAM manages transaction execution, it relies on line ministries for approval, information, and support. These ministries, however, often have little incentive to cede control or speed up the process. This results in a lack of coordination, delayed approvals, and unclear accountability. Bhattacharjee compares this situation to steering a ship with multiple captains—no one has full authority, and everyone can delay movement. He advocates for the creation of a professionally managed holding company on the lines of Singapore's Temasek Holdings. Such a body could consolidate government shareholdings, act independently, and pursue disinvestment with clear mandates and accountability. Until such institutional reforms are implemented, the disinvestment programme will continue to operate in a fragmented, reactive manner—driven more by short-term fiscal needs than long-term strategic vision.

Asset Monetisation

One of the most promising opportunities that disinvestment offers is the potential for asset monetisation. Over decades,



► Asset monetisation strategy

many PSUs have accumulated vast land holdings, buildings, and other physical assets, many of which lie underutilised or entirely idle. Bhattacharjee argues that unlocking the value of these non-core assets can provide significant financial resources for infrastructure, health, education, and social development. This shift in focus, from simply selling equity to monetising assets, represents a strategic evolution in public asset management. A key example of this is the National Monetisation Pipeline (NMP), announced in 2021 by the Government of India. The NMP's objective is to lease or transfer operational rights of government-owned infrastructure to private players while the government retains ownership, which allows the government to generate revenue and bring in private sector efficiency without losing control of the assets. This approach highlights a move toward sustainable financing and value creation for public infrastructure, enabling the state to generate upfront capital without permanently losing control.

► Transparent asset monetisation

Bhattacharjee notes, however, that success in asset monetisation requires accurate valuation, legal clarity, and transparent bidding mechanisms. Otherwise, the process can be seen as a “fire sale,” leading to political resistance and judicial scrutiny. Still, when done professionally, asset monetisation not only generates fiscal resources but also ensures a more productive use of public capital, aligning with the broader goals of economic efficiency and responsible governance.

Fiscal Space and Budgetary Flexibility

A direct benefit of disinvestment is its contribution to government revenues, especially during periods of fiscal stress. Bhattacharjee highlights that disinvestment receipts have helped bridge budget deficits, finance public sector banks, and fund social sector schemes. For instance, in FY 2017–18, disinvestment proceeds crossed ₹1 lakh crore for the first time, supporting key government programmes without increasing borrowing. The total amount realised was ₹1,00,056.91 crore, which helped fund key government programmes. This was significantly higher than the previous year's achievement of around ₹46,250 crore. This fiscal space is particularly valuable when tax revenues are low or public spending needs are high, such as during economic downturns or crises like the COVID-19 pandemic.

However, Bhattacharjee also cautions against viewing disinvestment purely as a revenue-generating exercise. When PSUs are sold only to meet short-term fiscal targets, long-term

reform goals are compromised. The danger lies in prioritising immediate cash flows over strategic outcomes like improved governance, competitive markets, or social inclusion. He advocates that disinvestment proceeds be earmarked for specific national priorities—such as capital formation, green energy, or technological innovation—rather than routine expenditure. By doing so, disinvestment can serve both fiscal and developmental purposes, making it a win-win proposition. Fiscal prudence and structural reform, when aligned, can create a more resilient and future-ready public sector.

Key Opportunities in Disinvestment

- Generate fiscal resources without increasing debt
- Bring private investment and managerial expertise
- Revive sick units and enhance productivity
- Free government from running commercial enterprises
- Optimise the use of public assets (land, infrastructure, etc.)
- Improve PSU competitiveness and global integration.

However, as Bhattacharjee notes, capitalising on these opportunities requires professionalism, transparency, and sustained political will.

Air India's Sale

When the Indian government finally succeeded in selling Air India to the Tata Group in 2021, the reaction was mixed. While many hailed it as a long-overdue reform, others criticised the valuation, process, and timing. Bhattacharjee notes that much of the controversy stemmed from a lack of transparent communication and public engagement. Despite multiple failed attempts in previous years, the final transaction, though technically sound, was not well explained to the public. Concerns about asset undervaluation and employee welfare lingered.

Bhattacharjee argues that reforms, no matter how economically justified, can lose legitimacy without strategic communication. This incident highlights why strengthening governance, transparency, and public dialogue must be central to any future disinvestment programme. It is not enough to have good intentions; reform must be backed by robust institutions and public trust. In this section, we explore key reforms Bhattacharjee proposes to make disinvestment more efficient, credible, and future-ready—ranging from board autonomy and external audits to stakeholder engagement and

► Transparent disinvestment communication



long-term evaluation metrics.

Strengthening Governance and Oversight Mechanisms

Governance is the backbone of a successful disinvestment strategy. Bhattacharjee stresses that without a strong oversight system, disinvestment can easily be captured by vested interests or become ineffective. One of the primary issues has been the absence of independent, professionally run boards in many PSUs, especially those targeted for sale. While companies like ONGC and NTPC have reasonably autonomous boards, many smaller or loss-making PSUs continue to be governed by ministry appointees, undermining the credibility of their financials and operations.

► Independent governance structures

Bhattacharjee recommends mandatory board-level committees—including audit, strategy, and remuneration committees—with independent directors forming a majority. He also supports regular third-party evaluations of PSU performance, preferably by reputable institutions. These measures would help establish a fair valuation base and build investor confidence. Furthermore, disinvestment transactions should be audited ex-ante and ex-post—not just by the CAG but also by independent review panels. This would reduce controversies, ensure accountability, and create a transparent track record that future governments can build upon. Strengthening governance is not only about reducing corruption risks—it is about signalling professionalism and consistency, essential qualities for attracting credible investment.

► Board oversight reforms

2.2.3 Institutionalising Performance Evaluation and Public Accountability

In many countries, disinvestment is accompanied by rigorous performance tracking of both the enterprise and the transaction itself. Bhattacharjee argues that India lacks a robust mechanism for post-disinvestment evaluation. Once a PSU is sold, there is little follow-up to assess whether promised investments were made, employee commitments honoured, or performance targets met. This gap weakens public trust and creates space for political backlash. Bhattacharjee suggests establishing a Disinvestment Evaluation Authority, independent of the implementing ministry, to monitor and report outcomes over 3–5 years. This body could publish annual scorecards and recommend corrective action if needed. Such institutional memory would also improve future policymaking.

► Post-disinvestment
accountability

On the public accountability side, Bhattacharjee calls for proactive disclosure of transaction details—including bidding documents, asset valuations, and shareholder agreements. While some of this information is currently available through DIPAM portals, the accessibility and completeness of information vary widely. Strengthening these systems would help reposition disinvestment from a backroom fiscal tool to a legitimate public reform instrument. In a democratic society, transparency is not optional; it is foundational.

The VSNL Land Controversy

After the strategic disinvestment of VSNL to the Tata Group in 2002, a long-standing dispute erupted over the control of surplus land assets. Although the company had been sold along with management control, the issue of 774 acres of prime real estate was not clearly resolved in the sale agreement. Bhattacharjee highlights this incident as a textbook example of poor stakeholder engagement and inadequate due diligence. The ambiguity not only delayed the operational integration of the company but also triggered legal proceedings and reputational risks for all parties involved. For policymakers, the takeaway was clear: disinvestment is not merely a financial transaction—it involves complex social, legal, and political dimensions.

► Stakeholder
engagement essential

Bhattacharjee stresses that stakeholder engagement must begin early, include detailed consultation with employee unions, legal advisors, and local governments, and be institutionalised through statutory frameworks. Ignoring stakeholder concerns doesn't make them disappear; it makes them disruptive later. Social acceptance of disinvestment depends as much on fairness and clarity as on price and process. This calls for a shift in approach: from transaction-oriented disinvestment to outcome-oriented transformation.

Social Safeguards and Employee Protection Measures

Labour concerns remain one of the most sensitive issues in the disinvestment process. Many PSUs provide not just employment but housing, healthcare, and education to workers—especially in remote regions. Bhattacharjee points out that strategic sales often create anxiety about job security, working conditions, and pension entitlements. In the case of BALCO and Air India, employees feared mass layoffs and erosion of rights. While the government has used tools like Voluntary Retirement Schemes (VRS) and protective clauses

► Labour concerns remain one of the most sensitive issues in the disinvestment process

in share purchase agreements, Bhattacharjee argues that these measures are often insufficient or inconsistently applied. He recommends a formal “social compact” for every strategic sale, involving minimum employment guarantees for a fixed term, continuation of social services, and access to retraining and placement support.

Moreover, these provisions must be enforceable and monitored by independent bodies. A clear, compassionate policy on labour transition would not only reduce resistance but also improve the quality of disinvestment outcomes. Reform is more likely to succeed when it is not seen as a threat but as a managed process of change with human dignity at its core.

Planning for the Long Term

India’s disinvestment programme has often been criticised for lacking a coherent long-term strategy. Bhattacharjee observes that most disinvestment decisions are driven by fiscal pressures or annual budget targets, rather than enterprise-level analysis or sectoral reform goals. This reactive approach leads to inconsistent outcomes, policy reversals, and undervaluation of assets. For example, the sale of oil-sector PSUs to other government-owned entities like ONGC has created accounting gains but failed to introduce market competition.

► Coherent long-term strategy

Bhattacharjee calls for a comprehensive National Disinvestment Strategy that classifies PSUs into four categories: (1) Core Strategic, to be retained and strengthened; (2) Non-Core but Profitable, to be disinvested partially; (3) Non-Core and Loss-Making, to be privatised or closed; and (4) Sick Units with Social Obligations, to be restructured with safeguards. This would bring transparency, predictability, and alignment with national priorities. He also suggests a rolling five-year disinvestment plan, publicly disclosed and regularly updated. A stable, institutionalised approach would reduce political friction, attract long-term investors, and give ministries the time and resources to prepare enterprises for transition. Disinvestment must graduate from a policy instrument to a strategic vision.

National Investment Fund: A Missed Opportunity?

In 2005, the Government of India created the National Investment Fund (NIF) to channel disinvestment proceeds into social and infrastructure development. This initiative aimed to ensure that money raised from public assets would be

► Disinvestment for development

reinvested for long-term public benefit rather than used to plug revenue gaps. Initially, 75% of the proceeds were earmarked for health, education, and employment generation, while the remaining 25% was reserved for capital infusion in profitable PSUs. Bhattacharjee notes that this was a visionary policy but short-lived. By 2009, the guidelines were temporarily altered with a one-time exemption to allow disinvestment receipts to be used for general expenditure, especially during fiscal stress. A more permanent change was implemented in 2013 when the fund was restructured to allow disinvestment proceeds to be credited to the Public Account for wider use. The shift diluted the transformative potential of the NIF and returned disinvestment to a short-term fiscal tool.

Bhattacharjee argues that the idea behind the NIF must be revived and strengthened. Linking disinvestment to long-term investment—whether in infrastructure, green energy, or public health—would restore public trust and create durable economic capacity. It would also send a clear message: disinvestment is not just about selling assets, but about recycling public wealth for the nation’s future.

Table 2.2.2: Summary of Disinvestment - Policy, Performance, and Prospects

Dimension	Highlights from Bhattacharjee’s Analysis
Policy Evolution	From minority sales to strategic disinvestment and asset monetisation
Performance Post-Sale	Successes in Hindustan Zinc, Maruti; struggles in VSNL, Air India
Major Challenges	Political resistance, valuation disputes, weak stakeholder engagement
Opportunities	Fiscal space, improved efficiency, asset reuse, private investment
Reform Measures Needed	Board autonomy, performance evaluation, institutional clarity, social compacts
Long-Term Strategy	Categorisation of PSUs, rolling disinvestment roadmap, revival of NIF

Summarized Overview

This unit presents a comprehensive discussion of disinvestment in India, tracing its evolution from cautious minority stake sales in the early 1990s to bold strategic disinvestments in the 2000s. It evaluates policy phases and institutional frameworks, such as the creation of the Disinvestment Commission and the later Ministry of Disinvestment. Strategic sales of enterprises like BALCO, Hindustan Zinc, and Air India are examined to illustrate both the successes and controversies that have shaped public opinion and political debate on the issue.

The unit also scrutinises the major challenges in disinvestment—political opposition, weak valuation methods, lack of transparency, and institutional fragmentation. It explores asset monetisation, labour concerns, and the absence of a long-term strategic framework. Further, it highlights missed opportunities such as the diluted use of the National Investment Fund. Ultimately, the unit underscores the need for structural reforms, better governance, and performance tracking to make disinvestment a tool of transformation rather than a mere fiscal balancing act.

Self-Assessment

1. What is disinvestment, and how does it differ from privatisation?
2. Mention two PSUs that improved after strategic disinvestment.
3. What is the role of the National Investment Fund?
4. Why is stakeholder engagement important in disinvestment?
5. What were the key outcomes of Hindustan Zinc's disinvestment?
6. What are some valuation challenges in disinvestment?
7. Name any two policy phases in the evolution of India's disinvestment approach.

Assignments

1. Trace the evolution of disinvestment policy in India.
2. Analyse the strategic disinvestment of Hindustan Zinc as a success story.
3. Discuss the political and institutional barriers to effective disinvestment.
4. Explain the importance of transparency and stakeholder engagement in the disinvestment process.
5. Evaluate the role of disinvestment in creating fiscal space and improving PSU efficiency.

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Suggested Reading

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Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.



SGOU

UNIT 3

Public-Private Partnerships (PPP)

Learning Outcomes

Upon completion of this unit, learners will be able to

- ▶ define Public-Private Partnerships and distinguish them from privatisation
- ▶ identify various PPP models and their applications in different sectors
- ▶ analyse the strengths and risks involved in implementing PPP projects
- ▶ evaluate case studies of successful and challenging PPP initiatives in India

Background

Governments worldwide face the dual challenge of expanding public infrastructure and services while managing fiscal constraints. In this context, Public-Private Partnerships (PPPs) have emerged as innovative solutions to bridge the investment and efficiency gaps. By blending the strengths of both sectors—public oversight and private efficiency—PPPs promise better project execution, risk sharing, and service delivery. Unlike outright privatisation, PPPs retain public ownership or accountability while inviting private participation in the design, finance, construction, and operation of assets.

The rise of PPPs is rooted in the broader shift towards market-based governance. In India, where public investment alone has not sufficed to meet infrastructure demand, PPPs have increasingly been adopted in transport, power, healthcare, and urban services. However, this model is not without complexity. It requires detailed contract structuring, institutional capacity, and long-term regulatory stability. PPPs operate in politically and socially sensitive sectors, necessitating transparency, risk mitigation, and public acceptance. Thus, PPPs are not just financial mechanisms—they are governance experiments requiring coherence across multiple actors and objectives.

Keywords

BOT Model, Viability Gap Funding, Infrastructure Financing, Risk Allocation, Institutional Framework, CIAL



2.3.1 PPPs in Healthcare – The Andhra Pradesh Experiment

One of the earliest illustrations of PPPs in Indian social infrastructure emerged in Andhra Pradesh in the 1990s when the state government partnered with private medical operators to run diagnostic centres in public hospitals. Bhattacharjee cites this as a critical early use of PPPs to address gaps in service delivery—particularly where the government lacked technology and manpower. Though limited in scale, the programme demonstrated the utility of PPPs in health—a sector traditionally seen as unsuitable for private involvement. This example set the tone for broader PPP adoption in India, from education to roads and urban transport. The concept found strong resonance in the economic reforms era, where public investment constraints and rising infrastructure needs converged. As Bhattacharjee notes, PPPs became an instrument to leverage private capital, reduce fiscal burdens, and improve delivery outcomes—while also introducing challenges like contract enforcement, regulatory clarity, and political economy risks.

► Early PPP adoption

2.3.2 Understanding PPP

Public-Private Partnerships (PPPs) represent a hybrid governance model wherein the private sector and the state share risks and rewards in delivering public assets or services. Unlike privatisation—which transfers ownership—PPPs retain public control while allowing private participation in financing, designing, executing, and maintaining a project. Bhattacharjee explains that PPPs are structured as long-term contracts where performance metrics, risk allocation, and revenue models are pre-defined. This contractual framework is designed to ensure cost efficiency, timely completion, and sustained service quality while also protecting public interest. India adopted multiple PPP models, including Build-Operate-Transfer (BOT), Design-Build-Finance-Operate (DBFO), Hybrid Annuity Models (HAM), and management contracts. Each model varies by the degree of risk the private partner assumes and the payment mechanism—user fee-based or annuity-based. Bhattacharjee notes that successful PPPs require detailed due diligence, robust regulatory backing, and continuous public monitoring. In the absence of these, PPPs can become liabilities or result in cost

► Hybrid governance model

overruns, delayed delivery, and public dissatisfaction. Thus, PPPs are not merely a financial innovation but a governance challenge—demanding capacity, coordination, and credibility on both sides of the partnership.

Table 2.3.1: Key Distinctions – PPP vs. Privatisation

Aspect	PPP Model	Privatisation
Ownership	Remains with government	Fully or majority transferred to private
Risk Sharing	Shared between public and private	Mostly borne by private sector
Duration	Fixed contractual period (10–30 years)	Permanent change of control
Revenue Mechanism	Annuity, user charges, or hybrid	Market-driven revenues
Accountability	Government responsible for delivery outcome	Firm responsible to shareholders

(Source: Bhattacharjee)

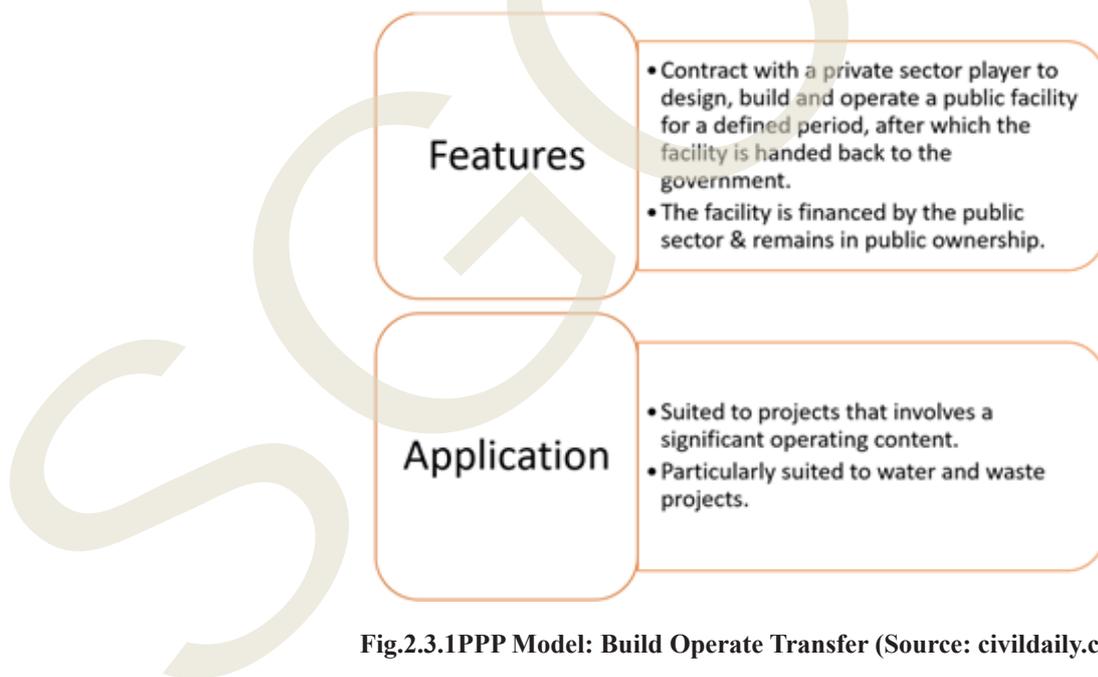


Fig.2.3.1 PPP Model: Build Operate Transfer (Source: civildaily.com)

Evolution of PPP Policy in India

The development of PPPs in India has been gradual, evolving through experimentation, learning, and institutional consolidation. Bhattacharjee explains that although informal partnerships between the public and private sectors have existed for decades, a structured PPP policy only began

► Evolving through experimentation, learning, and institutional consolidation

to take shape in the late 1990s and early 2000s. The major push came during the Tenth and Eleventh Five Year Plans, which identified PPPs as critical instruments for overcoming infrastructure bottlenecks. These policy frameworks led to the creation of enabling institutions such as the PPP Cell in the Ministry of Finance, the Viability Gap Funding (VGF) Scheme, and sector-specific nodal agencies. The launch of the India Infrastructure Finance Company Limited (IIFCL) in 2006 further institutionalised long-term financing support for PPP projects. The Planning Commission, and later the NITI Aayog, provided guidelines and templates to standardise contracts and risk-sharing mechanisms. According to Bhattacharjee, despite these advances, the uptake of PPPs remained skewed across sectors, with roads, ports, and power attracting higher private interest, while sectors like water supply, health, and education lagged behind due to lower financial returns and higher risk perceptions.

PPPs in Infrastructure: Sectoral Spread and Experience

► PPP implementation challenges

The most visible expansion of PPPs in India has occurred in the infrastructure sector. Roads, highways, airports, ports, and power generation have accounted for the majority of PPP projects. Bhattacharjee notes that between 2006 and 2012, over 900 projects were awarded under PPP mode, with roads contributing more than 60% of the total investment value. National Highway Development Programme (NHDP) projects were implemented using BOT and DBFO models, where private players assumed significant construction and traffic risks. Major airport projects in Delhi, Mumbai, Hyderabad, and Bengaluru were also developed under joint ventures with private operators. In the ports sector, the use of landlord port models allowed private firms to develop and operate specific terminals while the Port Trust retained overall control. Power sector PPPs were largely confined to generation and transmission, especially under the Ultra Mega Power Project (UMPP) framework. However, Bhattacharjee also highlights significant implementation challenges: poor project preparation, land acquisition delays, regulatory ambiguity, and inadequate dispute resolution mechanisms. These issues caused cost and time overruns in many projects and led to the renegotiation of contracts, weakening investor confidence.

Table 2.3.2: Sector-Wise PPP Distribution (1990–2022)

Sector	Share of Total Projects	Share of Total Investment	Remarks
Roads	60% (Most active)	33%	The sector with the highest number of projects.
Energy	24%	53% (Highest share)	The sector with the largest share of total investment.
Ports	12%	10%	Continues to be a key sector for PPPs.
Airports	3%	5%	Includes major airport modernisation projects.
Railways	<2%	<2%	Participation is growing with new models and projects.
ICT	<2%	<2%	Projects are increasing in this sector.
Water and Wastewater	<2%	<2%	Still an area with limited but increasing PPPs.

Source: Asian Development Bank. (2022)

Financing PPPs

Financing remains one of the most critical challenges in implementing PPPs, especially in large-scale infrastructure projects with long gestation periods. Bhattacharjee explains that while PPPs are intended to mobilise private capital, most private players are unable or unwilling to bear full project costs without assurance of returns. This is particularly true in sectors where revenue generation is uncertain or public resistance to user charges is high, such as water supply, sanitation, and urban housing. Indian banks have traditionally been reluctant to lend for infrastructure due to asset-liability mismatches and the long-term horizon of returns. Many PPPs have thus suffered from financing delays, project stoppages, or abandonment. To overcome these obstacles, the government created special-purpose institutions and schemes aimed at supporting the financial backbone of PPPs. These include the Viability Gap Funding (VGF) scheme, the India Infrastructure Finance Company Ltd. (IIFCL), and Infrastructure Debt Funds (IDFs). Bhattacharjee points out that while these interventions helped increase PPP flow in the past, sustained financial innovation

► PPP financing constraints

and risk mitigation measures are necessary to make PPPs viable and scalable.

Viability Gap Funding

► Viability Gap Funding

The Viability Gap Funding (VGF) scheme is one of India's most significant policy tools to support PPPs in sectors that are socially necessary but economically unviable. Introduced in 2005 by the Ministry of Finance, the scheme provides a capital subsidy of up to 40% of the total project cost, split equally between the Central Government and the sponsoring authority. Bhattacharjee highlights that the VGF mechanism has been instrumental in pushing PPPs in roads, ports, and urban infrastructure, where tariff-based recovery is limited. VGF allows a project that would otherwise not attract private investment to become financially feasible. For instance, several highway projects under the National Highway Development Programme (NHDP) were successfully executed with VGF assistance. However, Bhattacharjee also points out that misuse or overuse of VGF can lead to distorted incentives. Developers may understate revenues or inflate costs to qualify for subsidies. Therefore, he recommends that VGF be used judiciously, with rigorous appraisal, competitive bidding, and post-award monitoring to ensure that the gap filled is genuine and not opportunistic. Proper application of VGF can make PPPs inclusive without compromising on efficiency.

Viability Gap Funding – Key Features

- Targeted at infrastructure projects under PPP mode
- Up to 20% support from the Centre + up to 20% from state/local agencies
- Disbursed during the construction phase
- Applicable to transport, energy, water, solid waste, and urban infrastructure
- Requires project approval through the Public Private Partnership Appraisal Committee (PPPAC)

India Infrastructure Finance Company Ltd. (IIFCL)

The establishment of the India Infrastructure Finance Company Ltd. (IIFCL) in 2006 marked a significant policy step to address India's infrastructure financing gap. Bhattacharjee highlights that one of the major constraints for PPPs in India has been the scarcity of long-term finance, as commercial banks were reluctant to fund large-scale, high-risk projects with long payback periods. IIFCL was created to provide long-term loans for infrastructure projects, especially those executed under PPP formats. It extends financial assistance both directly

► Long-term infrastructure financing

to private project developers and indirectly by refinancing banks and financial institutions. Importantly, IIFCL's role is not merely funding but also enhancing bankability by enabling better credit flow to sectors like roads, airports, and ports. Bhattacharjee also notes that the company plays a critical role in mitigating financing-related risks by extending support during the construction phase, a period usually marked by high uncertainty. While IIFCL has improved access to funds, its success still depends on broader institutional reforms in project appraisal, monitoring, and regulatory coordination. Financing, Bhattacharjee asserts, is not just about capital—it is about creating a supportive ecosystem that inspires confidence.

Risk Mitigation and Government's Role

PPPs involve substantial risks—financial, technical, legal, and operational—which private players are often reluctant to bear alone, especially in sectors with low or uncertain returns. Bhattacharjee emphasises that the state has a critical role to play as a risk mitigator and enabler in such cases. He argues that if the government expects the private sector to undertake long-term investments in infrastructure or services, it must offer guarantees or institutional mechanisms to reduce risk perception. These may include sovereign guarantees, back-end support for land acquisition, dispute resolution frameworks, and shared financing responsibility. Although Bhattacharjee does not use the term “Viability Gap Funding”, he refers to arrangements where the state provides capital support for essential projects that are socially justified but not commercially viable on their own. Such arrangements are essential for attracting credible investors to sectors like urban infrastructure, water supply, and sanitation, where user charges may not fully cover costs. Therefore, the government's role in PPPs goes beyond policy; it involves financial facilitation, legal structuring, and reputation building to ensure project success.

► Government risk facilitation

► Institutional capacity essential

Institutional Frameworks and Multilevel Coordination

Another core insight from Bhattacharjee's analysis is that PPPs cannot thrive without a strong institutional framework. While policies and funding are essential, execution depends on the capacity of public institutions to plan, negotiate, and monitor contracts effectively. Bhattacharjee points to the role of various bodies like the Ministry of Finance's PPP Cell, sectoral regulators, and state-level agencies in this regard. However,



he also highlights persistent weaknesses in coordination across different levels of government, especially between central ministries and state implementing agencies. Many PPP projects have failed or stalled due to unclear responsibilities, regulatory duplication, or lack of timely approvals. To overcome this, Bhattacharjee calls for capacity-building within government institutions, including legal, technical, and financial training for officials who handle PPP contracts. He also stresses the importance of transparent project appraisal, proper stakeholder consultation, and standardised contract templates to reduce ambiguity and litigation. In essence, successful PPPs require more than private investment—they require public institutions that are competent, credible, and committed to long-term service delivery goals.

2.3.3 Legal and Regulatory Framework for PPP in India

India's legal and regulatory framework for Public-Private Partnerships (PPPs) has evolved gradually in response to the growing need for structured private participation in infrastructure. While the country does not yet have a single, unified PPP law, a network of policies, guidelines, and institutional mechanisms provides regulatory support for PPPs. At the central level, the Ministry of Finance's Department of Economic Affairs (DEA) plays a pivotal role through its Infrastructure Policy and Finance Division, which oversees project appraisals, model documents, and the functioning of the Public-Private Partnership Appraisal Committee (PPPAC). The Model Concession Agreements (MCAs) developed by the government provide standard legal templates for various sectors—ensuring consistency in risk-sharing, dispute resolution, and service standards. These frameworks are supplemented by sector-specific regulators (e.g., NHAI for roads, AERA for airports) and state-level PPP cells. Bhattacharjee observes that the lack of a formal legislative framework has created ambiguity and inconsistent enforcement across states and sectors, leading to delays and litigation. In response, institutions like NITI Aayog have recommended the introduction of a comprehensive PPP Law, along with capacity-building initiatives within the government to improve legal expertise. Recent reforms also include the promotion of transparent bidding platforms, contract renegotiation guidelines, and performance-linked contracts. Going forward, strengthening the legal backbone of PPPs is essential to ensure predictability, investor confidence, and equitable public service delivery.

► Regulatory framework evolving

2.3.4 Case studies of Successful PPP Projects

Case Study 1: National Highways and the PPP Revolution

The National Highways sector has witnessed the most ambitious and sustained application of PPP models in India. The National Highway Development Programme (NHDP) marked a transformative shift in infrastructure delivery, with private investment mobilised through various PPP structures such as Build-Operate-Transfer (BOT-Toll) and BOT (Annuity). These arrangements allowed private players to finance, construct, and operate road stretches while earning returns either through toll collection or government annuity payments over fixed concession periods. Thousands of kilometres of highway, including parts of the Golden Quadrilateral and North-South-East-West corridors, were developed under PPPs. This experience demonstrated the potential of private participation in high-capital, long-gestation projects, especially when supported by well-defined contracts and revenue models. However, the programme also revealed critical risks: unrealistic traffic projections, delays in land acquisition, and regulatory inconsistencies led to significant project distress in several cases. Learning from these experiences, the government introduced revised frameworks such as the Hybrid Annuity Model (HAM) to rebalance risk-sharing. The NHDP experience remains a landmark in India's infrastructure journey, offering both a blueprint and cautionary lessons for scaling PPPs in other sectors.

Table 2.3.3: Proposed Funding Plan for NHDP and Road Development Projects (Way Ahead)

S. No	Project	Likely Cost (Crore)	Budgetary Support (Excl. Cess & EAP) (Crore)	EAP (Crore)	Market Borrowings (Crore)	Total (Crore)	Private Sector Participation (Crore)
1.	NHDP Phase-I & II (For the balance 9,000 km)	42,000		10,000	28,000	38,000	4,000
2.	NHDP Phase-III (10,000 km)	55,000	10,000	10,000		20,000	35,000

S. No	Project	Likely Cost (Crore)	Budgetary Support (Excl. Cess & EAP) (Crore)	EAP (Crore)	Market Borrowings (Crore)	Total (Crore)	Private Sector Participation (Crore)
3.	Accelerated Road Development in North-East Region	2,500	2,500			2,500	
4.	NHDP Phase-IV (20,000 km in first 7 years)	25,000	13,000	10,000	2,000	25,000	
5.	NHDP Phase-V (6-laning of 5,000 km)	17,500	1,500			1,500	
6.	NHDP Phase-VI (Expressway of 1,000 km)	15,000	2,000			2,000	13,000
7.	Others	15,000	6,000			8,000	7,000
8.	Total	1,72,000	37,000	30,000	30,000	97,000	75,000

Cess (For 7 years @ 4% growth)	24,000
External Assistance	30,000
Budgetary Support (Other than Cess & EA)	37,000
TOTAL	91,000

Total Requirement (Per Year)	24,571
Met by Private Sector (Per Year)	10,714
By Government Support (Per Year)	13,857

(Source: Ministry of Road Transport and Highways <https://morth.nic.in/hi/node/255>)

Case Study 2: Cochin International Airport Ltd. (CIAL)

Cochin International Airport Ltd. (CIAL) is one of India's most celebrated examples of a successful public-private partnership in the aviation sector. Commissioned in 1999, it was the first airport in the country built under a public-private partnership model, where equity was contributed by Non-Resident Indians (NRIs), private individuals, and the Government of Kerala. The innovative structure enabled effective capital

mobilisation while ensuring operational autonomy. CIAL's success is reflected in its consistent profitability, high service standards, and capacity for expansion. A unique aspect of this PPP is its community-led investment model, which created a sense of public ownership and stakeholder accountability. In 2015, CIAL became the world's first fully solar-powered airport, winning global recognition for sustainable infrastructure practices. The project's efficient governance, revenue sustainability, and inclusive financing structure make it a model worth emulating. It showcases how PPPs, when designed with stakeholder alignment and a long-term vision, can deliver not just financial returns but also social and environmental value. CIAL is now often cited as a replicable model for regional airports and other critical infrastructure sectors.



Cochin International Airport is the first Greenfield airport established under the public-private partnership (PPP) model in the civil aviation infrastructure sector in India, as a joint venture with the Government of Kerala (13%), the Central Government (13%), and Non-Resident Indians (NRIs) as major shareholders (74%). The airport pioneered the concept of private investment in the airport sector after being incorporated as a public limited company, receiving investments from nearly 10,000 NRIs from 30 countries. Remarkably, it is the world's first fully solar-powered airport.

(Source: apaointia.com)

Summarized Overview

This unit provides a structured overview of public-private partnerships (PPPs) as a hybrid governance model. It outlines how PPPs differ from privatisation and discusses various contractual formats such as BOT, DBFO, and hybrid annuity models. The discussion explores how PPPs have evolved through policy reforms, supported by initiatives like the Viability Gap Funding (VGF) scheme and the India Infrastructure Finance Company Ltd. (IIFCL). It highlights the importance of risk-sharing, legal clarity, and institutional coordination in successful PPP execution.

Sectoral experiences are analysed—particularly in the roads, airports, ports, and power sectors—where PPP uptake has been relatively successful. The unit features landmark case studies like the National Highway Development Programme (NHDP) and Cochin International Airport Ltd. (CIAL), illustrating both the potential and pitfalls of PPPs. Issues like financing delays, land acquisition, weak project design, and the need for capacity building are addressed. The unit concludes by calling for a robust legal framework and long-term commitment to ensure PPPs serve the public interest sustainably.

Self-Assessment

1. What is a public-private partnership (PPP)?
2. How does a PPP differ from privatisation?
3. Name any two common models used in PPP projects.
4. What is the purpose of the Viability Gap Funding scheme?
5. Which sectors have seen the most PPP projects in India?
6. What are the key risks involved in implementing PPPs?
7. Mention one successful PPP case study from India.

Assignments

1. Define PPP and explain its relevance in India's infrastructure development.
2. Evaluate the sectoral performance of PPPs in India with suitable examples.
3. Discuss the role of government in enabling and regulating PPPs.
4. Analyse the financing challenges and solutions for PPP projects.
5. Examine the CIAL airport project as a model PPP initiative.

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Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.

SGOU



BLOCK 3
Public Sector Ethics

UNIT 1

Foundations of Public Sector Ethics

Learning Outcomes

Upon the completion of the unit, the learner will be able to:

- ▶ identify the core values that guide ethical conduct in public service
- ▶ distinguish between ethical expectations in the public and private sectors
- ▶ evaluate real-life cases involving ethical dilemmas in governance
- ▶ apply ethical reasoning frameworks to administrative decisions

Background

In modern democratic systems, the functioning of government institutions hinges not only on legality but also on morality. Ethics in public administration concerns the values and principles that guide civil servants and political leaders in making decisions that impact society. These principles shape the legitimacy and trustworthiness of public institutions, forming the invisible foundation upon which governance rests. A society's governance structure cannot thrive merely through laws and policies; it requires a moral compass that aligns authority with accountability and power with purpose.

Throughout history, governance systems have sought to define the acceptable boundaries of state authority and official conduct. Ancient codes, religious doctrines, and philosophical traditions have all tried to instil a sense of virtue and restraint in rulers and public agents. In modern governance, ethics takes shape as a critical lens to evaluate how decisions are made, how discretion is exercised, and how resources are distributed. It asks who benefits from policies, who bears their costs, and what values are being upheld in public choices.

With rapid technological change, globalisation, and complex societal needs, public servants now face multifaceted challenges where laws alone provide insufficient guidance. Ethical dilemmas often emerge where rules are ambiguous or competing interests intersect. Whether in budgetary allocation, emergency responses, or

administrative discretion, ethical reasoning becomes a tool for maintaining fairness and legitimacy. Moreover, ethics plays a preventive role—shielding public systems from corruption, inefficiency, and erosion of public confidence.

As governance increasingly demands transparency, inclusiveness, and citizen participation, the ethical expectations of public officials have also intensified. Citizens no longer judge governments solely by outputs but by the fairness and integrity of the processes. In this climate, ethical leadership, institutional mechanisms, and a culture of moral responsibility form the backbone of resilient public administration. Promoting ethics is not merely about compliance—it is about building systems where doing the right thing is both expected and enabled. Such a culture requires education, leadership by example, and infrastructure that supports accountability and integrity.

Keywords

Public Service, Integrity, Administrative Discretion, Ethical Dilemma, Accountability, Transparency, Moral Agency

Discussion

3.1.1 The Relevance of Ethics in Public Service

In 2014, a whistle-blower in a South Indian revenue department uncovered how a clerical-level official had been systematically fast-tracking land allocation files for bribes. What was striking was not just the illegal act but the fact that no written order existed—only discretion exercised unethically. This single case exemplifies the importance of ethics in the public sector. Ethics in public service refers to a set of moral principles and values that guide officials in performing duties with fairness, honesty, integrity, and transparency. Unlike the private sector, where profit often dictates decision-making, the public sector is anchored in the public interest, requiring every act to be justifiable not just legally but morally. Ethical behaviour is foundational to building trust in government institutions, and a lack of it leads to public disillusionment, poor service delivery, and even systemic corruption. Therefore, ethical principles aren't supplementary—they are core to efficient and fair public administration.

► Ethics, Relevance



Understanding Public Sector Ethics

Public sector ethics deals with the moral foundation of how public servants ought to behave in their professional roles. It involves the application of ethical reasoning to the decisions and actions taken by government employees, politicians, and administrators. The distinction between right and wrong becomes especially complex when administrative discretion is involved. As Amundsen notes, public administrators today are not mere policy implementers but decision-makers whose choices can profoundly affect people's lives. Ethics thus becomes a compass in navigating discretionary authority. Public servants often face situations where regulations offer no clear answers, such as whether to approve a contract that meets legal criteria but may harm the environment. In such cases, ethical reasoning helps reconcile conflicting values like legality, public interest, and equity. Moreover, ethics enhances legitimacy—when citizens believe public decisions are morally grounded, their willingness to cooperate and comply improves, strengthening governance.

▶ Administrative discretion

Core Ethical Principles in the Public Sector

Ethical conduct in public administration is underpinned by core values such as integrity, transparency, accountability, impartiality, and respect for the rule of law. Integrity ensures that decisions are made free from bias or personal gain. Transparency demands openness in processes so that the public can scrutinise decisions. Accountability ties actions to consequences—holding officials answerable for outcomes. Impartiality ensures services are delivered without favouritism, while adherence to the rule of law grounds actions within a constitutional and legal framework. These principles are not just aspirational; they are essential in maintaining the legitimacy of democratic institutions. For instance, the Kerala Transparency in Public Procurement Act, 2017, institutionalises fairness in decision-making to curb corruption in tendering processes. When public officers act according to these values, they reinforce citizens' trust and promote efficient, equitable governance. These values also form the foundation of public sector codes of conduct globally, such as the UN's International Code of Conduct for Public Officials.

▶ Core Values

Public Sector versus Private Sector Ethics

While both sectors require ethical behaviour, the context and expectations in the public domain are markedly different.

► Public vs. Private

The private sector operates primarily to maximise shareholder wealth, whereas the public sector exists to serve the common good. For example, a private company may lay off workers to improve profit margins, but a public organisation is expected to balance efficiency with social responsibility. In the public sphere, decisions often have long-term societal impacts, involving conflicting stakeholder interests. Moreover, public servants are subject to stricter scrutiny, governed not only by organisational goals but also by constitutional mandates, public accountability, and citizen expectations. According to Guță (2012), public management involves a complex web of political values, administrative rules, and social mandates. This amplifies the need for ethical guidance, especially where transparency and public interest are paramount. Thus, public ethics is not merely about compliance but about navigating moral complexities within a governance framework.

► Philosophical frameworks

Ethical Frameworks and Traditions

Ethical decisions in public service are informed by various philosophical frameworks. Deontological ethics, rooted in duty, urges public servants to follow rules irrespective of consequences. For example, denying a permit for environmental violation may be ethically correct even if it delays development. Consequentialist or utilitarian ethics, on the other hand, weighs actions based on their outcomes. Virtue ethics emphasises moral character and promotes attributes like honesty and courage. In practice, public administrators must often balance these traditions, making decisions that are legally sound, morally defensible, and administratively practical. For instance, a welfare officer allocating limited housing units may have to weigh legal eligibility, moral urgency, and community impact. Understanding these theories helps officials apply ethical reasoning in real-life governance. As highlighted in the UCAN-CMI compendium, ethics is not only about choosing between right and wrong but about navigating “shades of grey” in morally complex environments.

3.1.2 Real-World Case: The NPA Crisis in India

One of the most serious ethical challenges in the Indian public sector emerged through the Non-Performing Assets (NPA) crisis in public sector banks. NPAs are loans that are not repaid, posing serious risks to financial stability. Between 2011 and 2018, public sector banks witnessed a steep rise in NPAs, peaking at 11.5%. Poor credit assessment, political



► Non-Performing Assets (NPA) crisis

interference, and opaque lending decisions contributed to this crisis. As noted in Mittal's analysis (2025), a key ethical lapse was the compromise on due diligence under external pressure, coupled with weak internal governance structures. This demonstrates how ethical failures can jeopardise not just organisational performance but the economy at large. The RBI and government responded with reforms like the Insolvency and Bankruptcy Code (IBC), aimed at improving accountability and transparency. The NPA crisis underlines that ethical conduct in public organisations is not a moral luxury but an economic necessity.

Ethical Dilemmas in Public Sector Decision-Making

Public sector officials regularly face ethical dilemmas, where choices may conflict with one another, and there is no clear 'right' answer. For instance, an officer might have to choose between adhering to rigid budgetary protocols and ensuring urgent life-saving aid during a disaster. This complexity is best illustrated through the idea of the "Sophie's Choice" dilemma, discussed by Silvia Puiu in her article "Ethical Dilemmas", where any option leads to an undesirable outcome. In public institutions, such dilemmas can involve decisions like granting a contract to a firm with technical capability but a poor track record in labour practices. In such instances, the official must evaluate competing ethical obligations: legal compliance, public interest, and social justice. The 'right' action in such scenarios is often guided by ethical reasoning supported by public codes, personal integrity, and contextual judgement. These situations reinforce the need for value-based training and ethical frameworks to support discretion and avoid paralysis or arbitrary action.

► Conflicting choices

► Internalised values

The Role of Integrity and Character in Ethics

While rules, laws, and codes offer guidance, integrity remains the heart of ethical conduct in the public service. Integrity is the quality of being honest and having strong moral principles, even when no one is watching. It is what keeps officials from misusing discretionary power. According to a critical review by Ridzuan Ahmad and colleagues (2024), ethical behaviour in the public sector is not solely the result of external monitoring but stems from the internalised values of officials. Their study highlighted that when employees internalise ethical standards, they become more committed to public service values and are less prone to misconduct. For example, many civil servants in

India have refused bribes or reported pressure from political actors, even at the cost of personal loss. Such instances reveal that ethical behaviour cannot be mandated alone—it must be cultivated through a culture of integrity, mentorship, and ethical leadership.

Institutionalising Ethics through Codes and Systems

One effective way to institutionalise ethical behaviour is through the formal adoption of codes of ethics and conduct. These codes serve as guidelines for acceptable behaviour and decision-making. The United Nations’ International Code of Conduct for Public Officials and India’s Central Civil Services Conduct Rules are notable examples. According to the UCAN-CMI compendium, codes are only effective when embedded within a larger ethical infrastructure that includes training, complaint mechanisms, whistleblower protections, and role models in leadership. For instance, ethics training in public service commissions in Australia and Singapore includes scenario-based workshops, peer review systems, and performance-linked ethical indicators. In India, efforts such as the “Integrity Pact” introduced by Transparency International in collaboration with various ministries aim to promote fair procurement practices. These tools help reduce ambiguity, offer a reference during difficult decisions, and reinforce shared values across the organisation.

► Central Civil Services Conduct Rules

3.1.3 Challenges to Ethical Conduct in Public Service

Despite the frameworks and intentions, maintaining ethical conduct in public organisations is fraught with challenges. One significant challenge is political interference, where decision-making is influenced by personal or partisan interests rather than the public good. For example, transfers and postings are often manipulated for political purposes, compromising administrative neutrality. Another concern is regulatory overload—where public officials face conflicting or excessive procedural demands, leading to delays, frustration, or even incentives for shortcuts. The APO’s study on ethics management in Asia found that the absence of clear and simplified procedures increases the likelihood of ethical breaches due to procedural fatigue and ambiguity. Additionally, low wages, lack of career progression, peer behaviour, and organisational culture can undermine integrity. For instance, a young officer observing seniors engaging in unethical practices without consequences may be demotivated to uphold values.

► Political interference

Addressing these structural and systemic challenges requires continuous reform, adequate incentives for ethical conduct, and institutional safeguards.

Impact of Ethics on Organisational Performance

Ethics is not only a matter of principle but a determinant of performance. Organisations with a strong ethical foundation tend to have better decision-making, stronger employee morale, and greater public trust. According to a global study cited in the APO report (2023), institutions with sound ethics management systems showed higher productivity, innovation, and citizen satisfaction. In contrast, ethical lapses lead to inefficiencies, resource leakage, litigation, and loss of credibility. For example, the Commonwealth Games scandal in India tarnished the image of public agencies due to allegations of financial mismanagement and poor procurement processes. Rebuilding this trust required years of structural reform and reputational management. Conversely, ethical leadership in Kerala's health department during the Nipah virus outbreak in 2018 showcased how transparent communication, evidence-based protocols, and responsiveness won public confidence. Thus, ethics is integral not just to compliance but to institutional resilience, long-term success, and nation-building.

► Determinant of performance

Leadership and Ethics in Public Service

Ethical leadership is perhaps the most crucial element in sustaining ethical behaviour within public organisations. Leaders set the tone for what is acceptable and what is not. When senior officials model transparency, accountability, and fairness, their teams are more likely to emulate those standards. Jin-Wook Choi, in the APO's P-Insights volume, emphasises that ethical leadership must be visible, consistent, and grounded in daily practice, not rhetoric. In the Indian context, civil servants like E. Sreedharan (Metro Man of India) are remembered not only for their professional success but for their ethical leadership, resisting political interference and insisting on integrity in project execution. Ethical leadership also includes creating safe spaces for employees to report wrongdoings, admitting mistakes, and maintaining impartiality in promotions and rewards. Without such leadership, even the most detailed ethics policies remain ineffective, often reduced to mere formalities.

► Ethical leadership

Mechanisms for Managing Ethical Risks

Public organisations can manage ethical risks through a

► Grievance redressal mechanisms

variety of tools and systems. These include integrity audits, risk assessment frameworks, grievance redressal mechanisms, and ethics committees. The APO publication outlines several methods for integrating ethical management into organisational systems—such as conducting regular ethics audits and encouraging anonymous reporting of unethical practices. In India, Lokayuktas at the state level and the Central Vigilance Commission (CVC) at the national level serve as watchdogs for misconduct. However, effectiveness varies across states due to differences in autonomy, legal empowerment, and political will. Digital tools like RTI (Right to Information) have also become crucial in enabling public accountability. Furthermore, transparency in budgeting, procurement, and service delivery—especially through portals and dashboards—can prevent unethical manipulation. To be truly effective, these mechanisms must not only exist on paper but be backed by trained staff, follow-through on complaints, and protection for whistleblowers.

► Disconnect between declared ethical values and actual practice

Ethical Infrastructure and Organisational Practice

In many public sector organisations, especially in developing countries, one of the persistent hurdles is the disconnect between declared ethical values and actual practice. This issue often arises when there is inadequate institutional infrastructure to uphold ethics. For example, if an organisation lacks a functioning grievance mechanism or whistleblower protection, employees are unlikely to report unethical behaviour for fear of reprisal. As Inge Amundsen argues, ethics in the public sector is not merely an individual concern but must be built into the structural and procedural fabric of administration (UCAN-CMI Compendium, 2009). Policies alone are insufficient unless they are supported by implementation capacity, accountability mechanisms, and a culture that encourages transparency. When systems favour opacity or when leadership tolerates minor violations, it creates an ethical vacuum that slowly erodes the integrity of the organisation. Hence, infrastructure—both technical and cultural—is necessary for ethical governance.

Ethics Training and Capacity Building

A significant aspect of embedding ethics in public organisations is the adoption of regular ethics training and capacity building. Employees often face situations that test their judgement, and without proper orientation, they may unknowingly engage in practices that violate ethical norms. The Asian Productivity Organization (APO) recommends scenario-

► Scenario-based training

based training and case study discussions as effective methods for ethics education (Choi, 2023). By engaging staff with real-life dilemmas, such as pressure to favour a contractor due to political links, training helps them develop moral clarity and decision-making skills. Ethics education should be mandatory, continuous, and adapted to different levels of authority—from clerks to department heads. In India, administrative academies like LBSNAA and state training institutes have increasingly included ethics modules in their curricula. However, these initiatives often lack follow-up assessments or real-time application tracking, which limits their long-term impact.

► Moral autonomy

Moral Agency and Individual Accountability

The concept of moral agency in public administration underscores that individuals, even within large bureaucracies, remain morally responsible for their decisions. This challenges the notion that rules or superiors absolve public servants of responsibility. Hannah Arendt's famous observations during the Eichmann trial stressed the dangers of bureaucratic obedience when divorced from moral accountability. Public servants must therefore develop moral autonomy—the ability to question orders or laws that conflict with ethical reasoning. The Nuremberg Principles, though developed in a different context, uphold that following orders is not a defence for unethical acts. In modern democratic administrations, this idea is embedded in service rules that empower officers to report irregularities or refuse instructions that contradict the public interest. However, in practice, institutional hierarchies and fear of victimisation often suppress moral agency, highlighting the need for protections and support for ethical dissent.

► Ethical climate and culture

An aligned concept is the idea of ethical climate and culture within public organisations. Ethical climate refers to shared perceptions of what is ethically correct behaviour and how ethical issues should be handled. Culture, meanwhile, reflects deeper values, traditions, and norms. A positive ethical climate encourages openness, fair treatment, and ethical discussions, while a negative climate fosters fear, manipulation, and silence. Studies such as those by Ridzuan Ahmad et al. (2024) show that when leadership demonstrates ethical behaviour, employees are more likely to internalise ethical standards. Conversely, when unethical practices are overlooked, even diligent workers may become disillusioned and disengaged. Creating an ethical culture requires consistent reinforcement through leadership modelling, transparent procedures, and reward systems that recognise ethical conduct. Even symbolic actions,

such as celebrating employees who report wrongdoings or openly acknowledging ethical challenges, can signal that the organisation values integrity.

Stakeholder Conflicts and Ethical Dilemmas

Another challenge in ensuring ethical conduct lies in navigating the conflicting interests and expectations of multiple stakeholders. Unlike the private sector, where a single goal such as profit drives decisions, the public sector serves diverse and sometimes opposing interests—citizens, politicians, civil society, courts, and the media. For example, while citizens may demand speedy decisions, legal frameworks may require detailed due process. An officer must weigh fairness against efficiency, legality against urgency, and political instructions against public interest. These trade-offs require ethical balancing rather than strict rule-following. The literature from the Catholic University of Angola compendium highlights how such situations often lead to ethical tensions and moral distress if officials feel compelled to act against their conscience (Amundsen, 2009). Hence, ethics in the public sector is not simply about ‘doing what is right’ but about reconciling multiple values within a complex and often contested space.

► Ethical balancing

Ethics and Good Governance

Public sector ethics also has a vital connection with good governance. Good governance encompasses transparency, participation, accountability, efficiency, and responsiveness—all of which are underpinned by ethical behaviour. For instance, participatory budgeting initiatives in Kerala show how transparency and ethical commitment can result in better resource allocation and citizen trust. Ethics adds substance to governance structures by ensuring that processes are not merely followed for appearances but are guided by fairness and justice. The ethical quality of governance is often the factor that distinguishes tokenism from transformation. Codes of ethics, grievance redressal systems, social audits, and ombudsman institutions are governance tools with ethical foundations. However, their credibility depends on consistent application and public accessibility. Without ethics, governance risks becoming a mechanical exercise devoid of moral responsibility.

► Ombudsman institutions

Ethical Challenges in Financial Management

The financial management systems of public organisations are particularly vulnerable to ethical breaches. Procurement,



► Insolvency and Bankruptcy Code (IBC)

budgeting, and accounting processes, if not closely monitored, can become sites of corruption, manipulation, and resource leakage. One example is the NPA crisis that affected public sector banks in India, where poor governance, weak internal controls, and ethical lapses in loan sanctioning led to the accumulation of massive bad debts. According to Nishchal Mittal (2025), political pressure, collusion between banks and borrowers, and opaque management practices were key ethical failures that contributed to this crisis. While legal reforms like the Insolvency and Bankruptcy Code (IBC) were introduced, the underlying issue remains one of weak ethical management. Thus, reforms must not only focus on technical solutions but also on rebuilding ethical capacities—ensuring that officers have both the moral clarity and institutional backing to resist unethical pressures.

Ethics in the Age of Technology

► Digitisation

Modern technological developments have also introduced new ethical questions for public administrators. The digitisation of services, automation of processes, and use of algorithms in governance bring transparency and efficiency but also create challenges related to data privacy, surveillance, and digital exclusion. For example, the Aadhaar-based welfare delivery system in India has raised ethical debates about consent, data protection, and exclusion errors. Public officials now must weigh technological advantages against ethical implications for citizens' rights. Ethics in the digital era thus extends beyond traditional notions of honesty and fairness—it includes protecting civil liberties, ensuring inclusiveness, and being transparent about algorithmic decision-making. This expanded ethical responsibility requires new capacities and institutional frameworks for ethical technology governance.

► Cultural and contextual factors

Moreover, ethics in the public sector must be viewed in the context of cultural and contextual factors. What is considered ethical may vary across societies, depending on traditions, religious values, historical experiences, and social norms. For example, while gift-giving may be part of cultural hospitality in some regions, in public administration it can be seen as an attempt to influence decisions. This creates ethical ambiguity that public servants must navigate carefully. The APO (2023) stresses that while universal ethical principles are important, they must be interpreted sensitively within local cultures. Ethics management systems must therefore be designed to reflect cultural diversity without compromising core values like fairness, impartiality, and public interest. Local ethics

committees, regional codes, and stakeholder consultations can bridge the gap between global standards and local realities.

Political and Structural Reforms for Ethical Governance

Ethical behaviour in public organisations cannot thrive in isolation from political and administrative reforms. Excessive politicisation, lack of meritocracy, and concentration of power are systemic issues that weaken ethical governance. When appointments, transfers, and promotions are politically driven rather than performance-based, it fosters a culture of opportunism and fear. Similarly, when legal institutions are weak or inaccessible, unethical actors operate with impunity. As Govind Bhattacharjee (2020) points out in his analysis of public enterprises, the lack of separation between the state's roles as regulator, owner, and policymaker has created ethical conflicts of interest that hamper efficiency and governance. Thus, promoting ethics requires aligning institutional structures with ethical principles—decentralisation, judicial independence, and administrative autonomy are critical to enabling ethical behaviour.

► Excessive politicisation

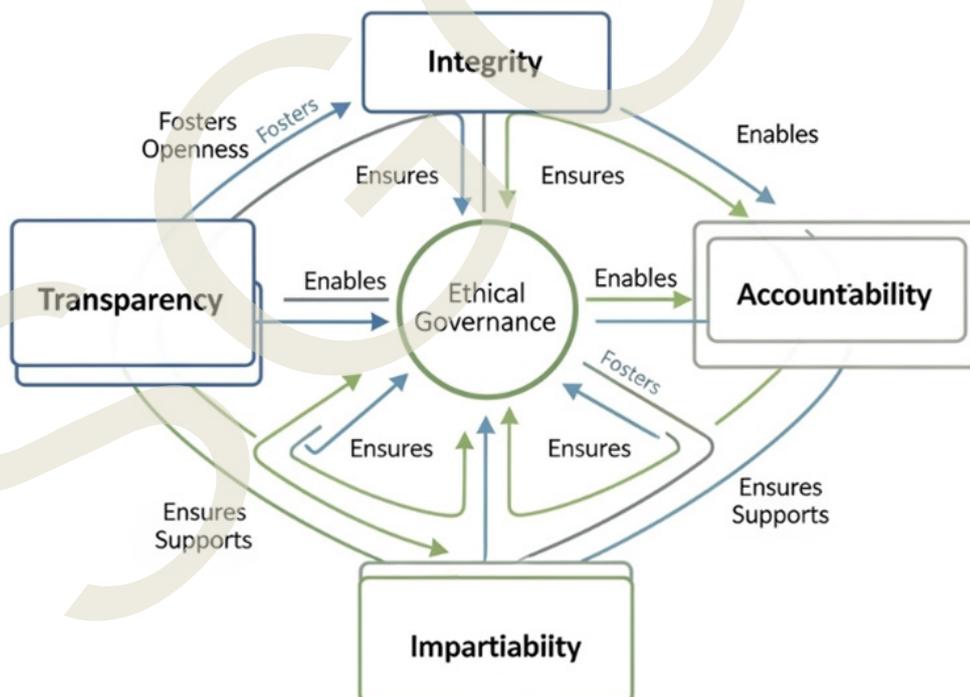


Diagram 3.1.1: Relationship between key ethical principles in public administration.

Ethics in Crisis Management and Emergency Governance

► Decentralised governance

Crisis situations such as natural disasters, public health emergencies, or conflict zones put ethical values under intense stress. The urgency to act, resource scarcity, and life-threatening circumstances often require public officials to make swift decisions that may compromise procedural norms. However, it is precisely during these moments that ethics must remain central. The Kerala floods of 2018 and 2019, for instance, showcased ethical crisis governance through coordinated rescue operations, transparent communication, and inclusive relief management. Government officials, police, fire forces, local panchayats, and volunteers worked collectively without discrimination based on caste, religion, or political affiliation. Relief distribution, camp management, and medical services adhered to fairness and accountability. This ethical responsiveness not only saved lives but also deepened citizen trust. The ethical behaviour demonstrated during the crisis was not accidental; it was rooted in a culture of preparedness, decentralised governance, and ethical leadership fostered over time.

In contrast, the 2021 oxygen shortage crisis during the second wave of COVID-19 in some Indian states revealed the absence of ethical preparedness. Misallocation of resources, opaque procurement contracts, and prioritisation of political interests over citizen needs led to tragic outcomes. These contrasting scenarios demonstrate how ethical governance can either mitigate or amplify the impact of emergencies. When ethics are embedded in systems before a crisis, responses become more equitable and humane. Training public officials in ethical decision-making during emergencies, maintaining transparency in relief fund usage, and building accountability into disaster management plans are essential steps toward strengthening public ethics under pressure.

Institutional Mechanisms for Upholding Ethics

Table 1 below summarises key institutional mechanisms available to public organisations to promote and manage ethical conduct.

Table 3.1.1: Institutional Mechanisms for Public Sector Ethics in India

Mechanism	Purpose	Indian Example(s)
Lokpal and Lokayukta	An ombudsman body to inquire into allegations of corruption against public functionaries.	Lokpal and Lokayuktas Act, 2013
Whistleblower Protection	Provides a legal framework to protect individuals who report corruption or misuse of power.	Whistle Blowers Protection Act, 2014
Central Vigilance Commission	The apex vigilance institution that investigates and advises on corruption within the central government.	Central Vigilance Commission Act, 2003
Right to Information (RTI)	Empowers citizens to demand information from public authorities to promote transparency.	Right to Information Act, 2005
Prevention of Corruption Act	The key legal mechanism to criminalise and penalise corruption by public servants.	Prevention of Corruption Act, 1988

These mechanisms function effectively only when empowered with legal backing, institutional autonomy, and operational resources. In states where Lokayuktas are politically constrained or underfunded, public confidence in accountability weakens. Therefore, ethical governance also depends on the vibrancy and independence of these institutions.

Ethical Evaluation of Administrative Discretion

Administrative discretion refers to the authority granted to public officials to make judgments within the boundaries of law. While discretion is necessary due to the complexity of governance, it also creates opportunities for abuse if unchecked. Ethical evaluation of discretion involves assessing whether the decision aligns with

the public interest, maintains fairness, and avoids bias or favouritism. Consider a case where a District Collector must distribute limited housing units under a central scheme. If the selection list is influenced by political pressure or social bias, it compromises equity. If, however, the Collector uses transparent criteria, publishes lists, invites objections, and allocates based on needs, discretion is exercised ethically.

► Silvia Puiu's framework

Silvia Puiu's framework on dilemmas in public administration (2021) is useful here. She proposes that administrators ask key ethical questions: "What are my obligations?", "Who is affected?", and "What is the most just action under the circumstances?" This approach transforms discretion from a potential risk to an ethical opportunity. The consistent application of such reflective processes can significantly improve public service delivery and reduce perceptions of arbitrariness.

3.1.4 Case Studies of Ethical Dilemmas in Public Organisations - NPA Crisis

The Indian banking sector offers a crucial case study in understanding how ethical lapses can lead to systemic failures. The crisis of Non-Performing Assets (NPAs) in public sector banks, especially from 2011 to 2018, represents an ethical breakdown in financial governance. As highlighted by Nishchal Mittal (2025), the core issues included politically motivated lending, delayed recognition of bad loans, and lack of due diligence. In many instances, loans were extended to corporates without adequate risk assessment due to personal or political influence. These actions were not illegal per se but violated ethical banking norms.

► Ethical rehabilitation

One illustrative case was the high-profile collapse of IL&FS, which had received loans from multiple public sector banks despite a history of risky financial practices. Internal audits later revealed that credit appraisals were weak and that red flags were ignored. The ethical failure here involved complicity, silence, and institutional neglect. The government and RBI responded with frameworks such as Prompt Corrective Action (PCA), the Insolvency and Bankruptcy Code (IBC), and restructuring of bank boards. However, ethical rehabilitation requires more than policy—it needs a professional culture that values integrity, transparent reporting, and personal responsibility among senior management.

In contrast, the resolution of NPAs through the IBC process has restored a measure of accountability, as firms like Bhushan

Steel were taken through insolvency proceedings and acquired by more responsible players. While still evolving, this shift toward ethical accountability in financial decision-making is promising. It demonstrates how ethics, law, and governance must work together to prevent crises.

Building an Ethical Public Sector for the Future

► Continuous process

Promoting public sector ethics is not a one-time event but a continuous process that requires institutional reform, leadership, and education. Future efforts must focus on creating enabling environments where ethical behaviour is easier and more rewarding than unethical alternatives. This involves simplifying procedures to reduce ambiguity, digitising workflows to minimise discretion-based corruption, and encouraging community monitoring.

► Ethical impact assessments

At the policy level, ethical impact assessments—akin to environmental or financial impact reviews—can be introduced for major public projects. These assessments would evaluate fairness, potential harm, and social acceptability of policies before they are implemented. Public consultations, citizen juries, and participatory planning are other tools that promote ethical inclusiveness. Training modules must be practical, localised, problem-based, and linked with performance appraisal systems.

The youth entering public services must be taught not just to follow rules but to lead with conscience. Ethics must be integrated across the recruitment, induction, and promotion processes in public administration. As seen in countries like Singapore and New Zealand, ethical governance pays dividends in citizen trust, economic performance, and national reputation. India, too, has strong foundational values enshrined in its Constitution—the challenge is translating those values into everyday administrative conduct.



Summarized Overview

This unit explores the conceptual and practical significance of ethics in the public sector. It introduces the ethical principles that underpin fair governance, such as integrity, transparency, accountability, and impartiality. These values help public administrators make decisions that go beyond legal compliance to include moral justification. A comparative discussion of public and private sector ethics highlights the unique expectations placed on public officials, particularly regarding the public interest.

The unit examines ethical reasoning frameworks—deontological, consequentialist, and virtue ethics—used to navigate complex decision-making scenarios. Real-world dilemmas, such as those faced during crisis management or politically sensitive decisions, are discussed, showing how ethical conduct is essential for trust-building and effective governance. Case studies like the NPA crisis offer insights into the consequences of ethical failure. Finally, the role of integrity, codes of conduct, and leadership in institutionalising ethics is examined, making clear that ethics in governance is a systemic as well as personal responsibility.

Self-Assessment

1. What is meant by ethics in public administration?
2. Name two differences between public and private sector ethics.
3. List any three core ethical principles in governance.
4. What is the relevance of ethical reasoning in decision-making?
5. What does the NPA crisis illustrate about public sector ethics?
6. Why is integrity important in public leadership?
7. What is administrative discretion?

Assignments

1. Discuss the importance of ethics in public service.
2. Explain the differences between ethical conduct in the public and private sectors.
3. Evaluate the ethical frameworks used in public sector decision-making.
4. Illustrate with examples how ethical failures impact governance.
5. Suggest strategies to promote integrity in public institutions.

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UNIT 2

Mechanisms for Ensuring Ethics and Accountability

Learning Outcomes

Upon completion of the unit, the learner will be able to:

- ▶ identify key institutional mechanisms that promote ethics in public administration
- ▶ explain the roles of CVC, CAG, and RTI in ensuring accountability
- ▶ analyse the effectiveness of ombudsman institutions like Lokpal and Lokayuktas
- ▶ evaluate how technology enhances transparency and grievance redressal in governance

Background

Accountability and ethics form the cornerstone of democratic governance. In public systems, where authority is derived from the people, maintaining answerability for decisions and actions becomes essential to preserving public trust. Accountability ensures that officials are not just efficient but also responsible stewards of power. Ethics complements this by providing a moral compass that helps officials navigate complex and often competing demands.

Globally, public administration has evolved from opaque bureaucratic traditions to models that emphasise transparency, participation, and responsibility. Citizens today demand not only effective service delivery but also openness in how decisions are made and how funds are utilised. This shift has led to the institutionalisation of oversight mechanisms designed to prevent abuse, detect wrongdoing, and offer channels for redress. As such, institutions like auditors, ombudsmen, and vigilance bodies have become integral to governance.

India's administrative history reflects both the challenges and progress in embedding these mechanisms. While several statutory and constitutional bodies exist to ensure integrity, their effectiveness hinges on independence, legal empowerment, and procedural

clarity. Technology, too, has emerged as a game-changer—automating services, reducing discretion, and enabling real-time monitoring. Yet, despite this growing infrastructure, issues like political interference, delays, and a lack of public awareness continue to hamper outcomes.

In recent years, the role of citizens in demanding ethical governance has expanded. Tools like the Right to Information (RTI), social audits, and digital feedback platforms have enabled direct public engagement with governance processes. This participatory accountability broadens the meaning of ethics—it is no longer confined to officials but shared between the state and society. Mechanisms for redress, transparency, and vigilance thus reflect not just administrative necessity but democratic values.

However, institutional safeguards are only as strong as their implementation. Ensuring accountability requires not only the presence of rules but also an ethical culture that supports rule-following, accepts scrutiny, and values public service. Strengthening this ecosystem calls for better coordination, public education, and ongoing reforms to make institutions more responsive and transparent. In this environment, ethical governance is not just about checking corruption—it's about delivering governance that is worthy of public trust.

Keywords

Central Vigilance Commission (CVC), Comptroller and Auditor General (CAG), Lokpal and Lokayuktas, RTI Act, Grievance Redressal, Social Accountability, E-Governance

Discussion

► Ethics and accountability

3.2.1 Introduction

Ethics and accountability are central to ensuring that the public sector functions transparently, fairly, and in accordance with the democratic values enshrined in the Constitution. These two principles are closely intertwined: while ethics refers to the values and moral duties that guide public officials, accountability ensures that these officials are answerable for their actions to the public and appropriate institutions. In the context of governance, they serve as safeguards against arbitrariness, inefficiency, and corruption. As Mohanty (2015) notes, ensuring public sector integrity requires more than individual honesty; it demands well-functioning institutional



mechanisms that prevent, detect, and penalise unethical conduct. Over the years, India has built an elaborate framework comprising both constitutional and statutory institutions, such as the Central Vigilance Commission (CVC), the Comptroller and Auditor General (CAG), the Lokpal, and various grievance redressal systems, to maintain ethical governance.

3.2.2 Institutional Frameworks for Promoting Ethics

Promoting ethics in the public sector depends heavily on robust institutional frameworks that set standards of conduct, detect misconduct, and enforce accountability. According to Mohanty (2015), India's post-independence administrative evolution was guided by the twin objectives of administrative efficiency and integrity. Constitutional values such as equality, justice, and the rule of law act as ethical foundations, and institutions operationalise these through vigilance mechanisms, audits, and transparency laws.

► Administrative efficiency and integrity

Several institutions play key roles. The Central Vigilance Commission, established in 1964 and given statutory status in 2003, oversees vigilance operations across central government departments. The Comptroller and Auditor General of India ensures financial accountability. The Lokpal and Lokayuktas Act (2013) introduced a statutory ombudsman mechanism to tackle corruption among high-ranking public functionaries. The Central Information Commission, established under the Right to Information Act (2005), allows citizens to seek transparency. Additionally, administrative training academies, such as the LBS National Academy of Administration (LBSNAA), integrate ethics modules into their induction and mid-career programmes, thus promoting an ethical culture in civil services (Chakraborty & Bhattacharya, 2023).

► Major institutions

International frameworks have also influenced India's ethical institutions. As Biju (2019) observes, global norms such as the UN Convention against Corruption have shaped India's anti-corruption architecture. However, despite these mechanisms, challenges such as institutional overlap, political interference, and procedural delays weaken enforcement. Thus, an ethics-driven administrative structure must be dynamic, independent, and adequately empowered.

► International frameworks

3.2.3 Role of the Central Vigilance Commission (CVC)

The Central Vigilance Commission (CVC) is one of the most significant statutory bodies for promoting integrity in public administration. It was created in 1964 following

► Promoting integrity

the recommendations of the Santhanam Committee on the Prevention of Corruption and was later granted statutory status under the CVC Act of 2003. As per the Act, the Commission is responsible for monitoring vigilance activities, investigating corruption cases, and advising central government departments on vigilance-related matters (Chakraborty & Bhattacharya, 2023).

► Functions of CVC

The CVC functions as an apex vigilance institution, coordinating with Chief Vigilance Officers (CVOs) in various ministries and public sector undertakings. Its advisory role includes recommending disciplinary action, developing preventive vigilance frameworks, and issuing suggestions for systemic improvements. The Commission prepares an annual report that is presented to Parliament, enhancing its accountability. Moreover, it works closely with the Central Bureau of Investigation (CBI) on high-profile corruption cases, although the CBI's autonomy remains a contested issue.



Diagram 3.2.1: Key functions of CVC (Source: pwonlyias.com)

Preventive vigilance is a key focus area. The CVC promotes practices by encouraging transparency in public procurement, rotating sensitive posts, and conducting surprise inspections. Additionally, it suggests systemic improvements to address

► Preventive vigilance

loopholes that lead to corruption. It also observes Vigilance Awareness Week annually, engaging with schools, colleges, and public institutions to spread the message of ethics and anti-corruption. Nonetheless, critics argue that the CVC lacks prosecutorial powers and is often constrained by its dependency on departmental cooperation. Still, it remains an essential pillar in India's ethics enforcement framework.

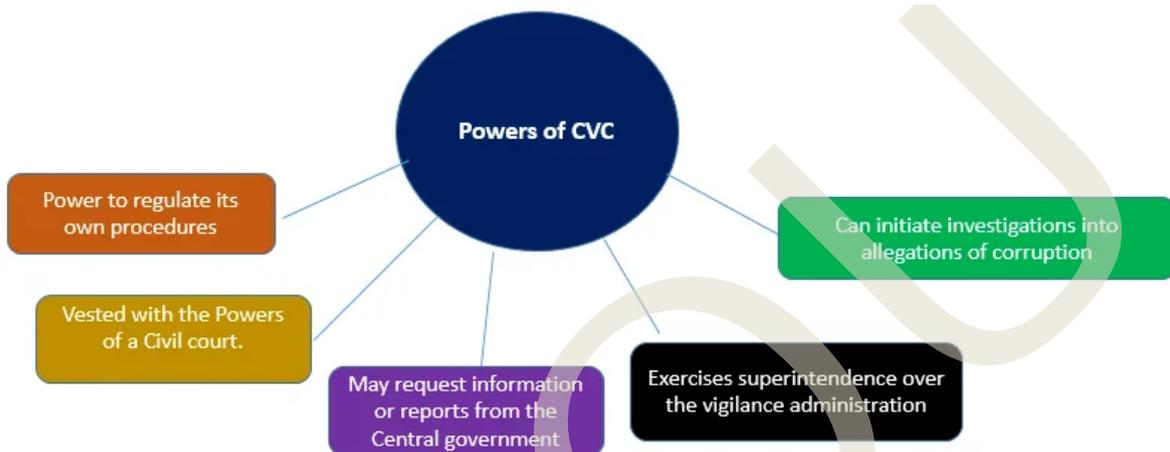


Diagram 3.2.2 : Key powers of CVC (Source: pwnonlyias.com)

3.2.4 Role of the Comptroller and Auditor General (CAG)

► Article 148

The Comptroller and Auditor General (CAG) of India is a constitutional authority responsible for auditing all receipts and expenditures of the Union and State governments. Article 148 of the Constitution establishes the CAG's office, while Articles 149 to 151 define its functions. The CAG plays a pivotal role in ensuring financial accountability and the ethical use of public resources. As Biju (2019) argues, the CAG does not merely examine financial compliance but also questions whether public funds are spent efficiently, economically, and effectively.

“The CAG will be the most significant officer under the Indian Constitution.”

Dr. B.R. Ambedkar

CAG audits include financial audits, compliance audits, and performance audits. While financial audits verify accuracy in accounts, compliance audits ensure adherence to rules. Performance audits, however, examine whether government programmes are delivering intended outcomes. A notable example is the 2010 audit of the allocation of 2G telecom

spectrum, which highlighted major procedural irregularities and estimated a massive revenue loss due to non-transparent processes. Although this report led to wide public and political scrutiny, a special court later acquitted all accused, ruling there was no evidence of loss. The episode, therefore, demonstrates the CAG's ethical influence in prompting accountability and scrutiny, irrespective of the final judicial outcome.

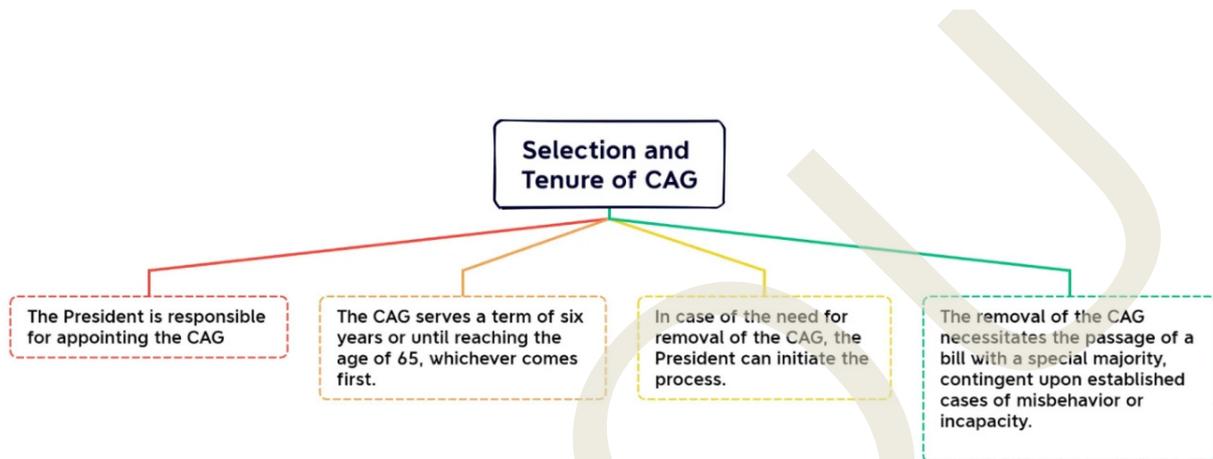


Fig 3.2.1. Selection and Tenure of CAG

The CAG submits its reports to the President or Governors, who table them in Parliament or state legislatures. These are then reviewed by the Public Accounts Committee (PAC), which calls upon officials to respond to audit observations. Though the CAG cannot directly penalise offenders, its findings carry enormous moral and political weight. It thereby fosters accountability, compels departments to improve financial discipline, and raises awareness about ethical administration. According to Chakraborty & Bhattacharya (2003), strengthening the CAG's institutional independence further would make public auditing a more effective ethical tool.

Table 3.2.1 : Constitutional Provisions Concerning Duties and Functions of CAG

Article of the Constitution	Duties and Functions
Article 148	<ul style="list-style-type: none"> • Appointment and Removal: The Comptroller and Auditor General of India is appointed by the President and can only be removed under the same conditions as a Supreme Court Judge. • Oath of Office: Before assuming office, the appointee must take an oath or affirmation as specified in the Third Schedule before the President or a designated representative.

<p>Article 148</p>	<ul style="list-style-type: none"> • Salary and Service Conditions: The salary and service conditions are determined by Parliament, outlined in the Second Schedule. The Comptroller and Auditor General's salary, leave rights, pension, and retirement age cannot be altered to their disadvantage post-appointment. • Post-Tenure Restrictions: Upon leaving office, the Comptroller and Auditor General cannot hold further positions under the Government of India or any State. • Service Conditions and Administrative Powers: The conditions of service for individuals in the Indian Audit and Accounts Department and the administrative powers of the Comptroller and Auditor General are set by rules made by the President, following consultation with the Comptroller and Auditor General, and subject to constitutional and parliamentary laws. • Administrative Expenses: The administrative expenses of the Comptroller and Auditor General's office, including salaries, allowances, and pensions, are charged to the Consolidated Fund of India.
<p>Article 149</p>	<ul style="list-style-type: none"> • Audit of Government Expenditures: The Comptroller and Auditor General of India is responsible for auditing all expenditures for the Centre and states related to the consolidated fund of India, contingency fund, public account, and consolidated fund of union territories with the Legislative Assembly. • Audit of Departmental Accounts: He is also responsible for auditing accounts of departments related to trading, manufacturing, profit & loss, and balance sheets for both center and state. • Audit of Receipts and Expenditures: He audits the accounts for receipts and expenditures of both the center and States. • Audit of Substantially Financed Bodies: He audits receipts and expenditures of all bodies and authorities, substantially financed Government companies, other corporations, and bodies when and so required by related laws. • Audit of Financial Transactions: He audits all transactions related to debt and deposits along with advances, sinking fund suspense accounts, and remittance businesses. • Audit at Request: He also audits accounts of other bodies at the request of the President and Governor.
<p>Article 150</p>	<ul style="list-style-type: none"> • Advisory Role on Account Formats: Advises the President on the form in which accounts of the Center and State need to be kept.

Article 151	<ul style="list-style-type: none"> • Submission of Audit Report to the President: Responsible for the submission of an audit report to the President related to the centre. • Submission of Audit Report to the Governor: The report related to the State is submitted to the Governor.
Article 279	<ul style="list-style-type: none"> • Certification of Tax Proceeds: He is responsible for ascertaining and certifying the net proceeds of any tax or duty.

3.2.5 Mechanisms for Ensuring Accountability and Transparency

Accountability in public administration refers to the obligation of government officials to be answerable for their actions and decisions, especially regarding how they use public power and resources. Transparency complements this by ensuring that information about government functioning is available and accessible to the public. Together, they create a governance environment rooted in openness, fairness, and integrity. According to Kumar, Singh, and Vyas (2025), strengthening accountability mechanisms is one of the most effective ways to combat corruption, inefficiency, and unethical behaviour in governance. India employs multiple mechanisms—legal, institutional, technological, and civic—to uphold these principles.

► Multiple mechanisms

One of the foundational mechanisms is the Right to Information (RTI) Act, 2005, which enables citizens to seek information from public authorities, thereby promoting openness in governance. As outlined by Kumar et al. (2025), the RTI Act empowers individuals to hold officials accountable by demanding explanations and justifications for public decisions. Information Commissions, set up at central and state levels, serve as appellate bodies and are empowered to penalise non-compliance. Despite delays and bureaucratic resistance, the RTI regime has led to increased disclosure of government functioning, enhanced responsiveness of departments, and the exposure of unethical practices across various sectors.

► Right to Information (RTI) Act, 2005

However, challenges persist. Many public authorities are either uncooperative or delay responses, undermining the purpose of the Act. Additionally, Information Commissions are often understaffed, and public awareness about RTI rights remains limited. As suggested by Kumar et al., reforms are

needed to improve the responsiveness of authorities, develop user-friendly digital RTI portals, and protect applicants from harassment or intimidation. Importantly, periodic training for public officials on RTI compliance is vital to making transparency an administrative norm.

The Role of Lokpal and Lokayuktas

To address high-level corruption, India enacted the Lokpal and Lokayuktas Act, 2013, following public demand for an independent anti-corruption ombudsman. The Lokpal functions at the central level, while Lokayuktas operate at the state level. The Lokpal has jurisdiction over complaints against the Prime Minister, Ministers, Members of Parliament, and other senior public officials. According to Mohanty (2015), the institution of Lokpal represents a significant shift from internal vigilance mechanisms to citizen-led accountability. It combines investigative powers with prosecutorial oversight and has the authority to direct the CBI to investigate any complaint it deems fit.

► Lokpal and Lokayuktas Act, 2013

Though hailed as a landmark reform, the implementation of Lokpal has been sluggish. Delays in appointments, procedural ambiguities, and lack of prosecutorial independence have weakened its efficacy. Nevertheless, its potential as a deterrent remains intact. States like Karnataka and Maharashtra have more active Lokayuktas, which have unearthed several high-profile corruption cases involving ministers and senior bureaucrats. The institution serves as a reminder that ethics enforcement is not only about internal discipline but also about external scrutiny.

Public awareness about the role of Lokpal and Lokayuktas is limited, and their functioning needs more transparency. As Chakraborty and Bhattacharya (2003) emphasise, empowering these institutions with functional independence, operational resources, and protection from political interference is crucial for them to serve their intended purpose in promoting ethics and accountability.

► Issue of public awareness

Digital Governance and E-Governance Tools

Technology has emerged as a powerful enabler of ethical and accountable governance. The introduction of e-governance platforms, including online portals for service delivery, procurement, financial tracking, and grievance redressal, has reduced opportunities for discretion-based corruption.

► e-governance platforms

According to Kumar, Singh, and Vyas (2025), digital platforms such as the Government e-Marketplace (GeM), Public Financial Management System (PFMS), and Direct Benefit Transfer (DBT) portals exemplify the role of technology in promoting clean governance.

► E-tendering

E-tendering systems ensure transparent procurement processes by eliminating manual intervention and enabling competitive bidding. The PFMS tracks the flow of funds from the treasury to the end-user, helping prevent fund diversion. DBT has significantly reduced leakage in welfare programmes by depositing subsidies directly into beneficiaries' bank accounts, thereby bypassing intermediaries. As per estimates reported in Kumar et al. (2025), DBT has saved the exchequer nearly ₹2 lakh crore since its inception through reduced fraud and better targeting.

► Mobile governance

Moreover, mobile governance (m-Gov) and platforms like MyGov encourage citizen participation, feedback, and monitoring. Grievance redressal portals like CPGRAMS (Centralised Public Grievance Redress and Monitoring System) allow citizens to file complaints, which are tracked and resolved with time-bound accountability. These initiatives not only ensure transparency but also promote responsiveness and public trust.

However, the digital divide poses a significant challenge. Citizens from remote or marginalised communities often lack access to the internet, digital literacy, or infrastructure. Thus, digital ethics in governance must ensure that technological advancements do not exclude vulnerable groups. User-centric design, regional language interfaces, and offline integration are essential for inclusive accountability systems.

Grievance Redressal and Social Accountability Mechanisms

► Institutional channels

Grievance redressal is a crucial element of administrative ethics, enabling citizens to voice dissatisfaction and demand corrective action. Formal mechanisms like Public Grievance Cells, administrative tribunals, and consumer forums offer institutional channels for addressing complaints. According to Chakraborty and Bhattacharya (2003), the presence of efficient grievance mechanisms fosters ethical behaviour among officials, as it enhances the risk of exposure and consequences.

In addition to formal systems, social accountability tools such as social audits, public hearings (*jan sunwais*), and citizen

► Social accountability tools

report cards have emerged as effective mechanisms. These involve direct engagement of citizens in evaluating service delivery. Social audits, for instance, have been used extensively in schemes like MGNREGS, revealing ghost workers, inflated bills, and irregular payments. Public hearings allow affected communities to question local officials in open forums, creating pressure for redress and ethical conduct.

While these mechanisms empower citizens, their success depends on enabling environments. Protection for whistleblowers, community mobilisation, civil society partnerships, and political will are essential. As Kumar et al. (2025) note, social accountability adds a participatory dimension to ethics enforcement, shifting the focus from top-down regulation to bottom-up empowerment. Together with legal and institutional measures, it forms a comprehensive accountability framework.

Summarized Overview

Ensuring ethics and accountability in governance requires strong institutional frameworks and mechanisms that uphold integrity, transparency, and responsibility in public service. Institutions like ethics committees, ombudsman offices, and codes of conduct play a pivotal role in guiding the behavior of public officials, preventing misconduct, and promoting values such as fairness, honesty, and impartiality. These frameworks are designed not just to check corruption but also to instill a culture of ethical decision-making, thereby enhancing public trust in governance.

In India, bodies such as the Central Vigilance Commission (CVC) and the Comptroller and Auditor General (CAG) are critical in this regard. The CVC functions as an apex vigilance body to curb corruption in government organizations, while the CAG ensures financial accountability through independent audits of government revenues and expenditures. Alongside these, mechanisms like the Right to Information (RTI) Act, social audits, e-governance initiatives, and citizen charters strengthen accountability and transparency. Together, these tools and institutions act as safeguards against abuse of power and ensure that governance remains citizen-centric and ethically grounded.

Self-Assessment

1. What is the primary purpose of institutional frameworks for promoting ethics?
2. Name two values promoted through ethical governance.
3. What is the role of the Central Vigilance Commission (CVC)?
4. How does the Comptroller and Auditor General (CAG) ensure accountability?
5. Mention mechanisms that enhances transparency in governance.
6. Define accountability in the context of public administration.
7. Why is transparency important in governance?
8. Give an example of how e-governance promotes accountability.

Assignments

1. Critically examine the role of institutional frameworks in promoting ethics in public administration.
2. Analyze the functions of the Central Vigilance Commission and its effectiveness in curbing corruption.
3. Discuss the constitutional status, powers, and limitations of the Comptroller and Auditor General in ensuring financial accountability.
4. Evaluate the role of mechanisms such as RTI, citizen charters, and social audits in strengthening accountability and transparency.
5. Suggest reforms to improve the effectiveness of existing institutions and mechanisms for ensuring ethics in governance.

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UNIT 3

Corruption and Anti-Corruption Strategies

Learning Outcomes

Upon completion of the unit, the learner will be able to:

- ▶ identify different types, causes, and consequences of corruption in India
- ▶ explain the key provisions of major anti-corruption laws and policies in India
- ▶ analyze case studies to assess the effectiveness of anti-corruption measures
- ▶ evaluate the role of laws, policies, and institutions in combating corruption

Background

Corruption, a deeply entrenched issue in various societies globally, has been a persistent challenge in India since time immemorial, manifesting in diverse forms. This pervasive problem touches nearly every facet of public life and governance, posing a significant obstacle to a nation's progress. It systematically undermines institutions, erodes public trust, and severely hinders socio-economic development. Despite significant strides made in combating this issue since gaining independence, India's standing in global indices, such as the Corruption Perceptions Index 2022, where it ranked 85th among 180 countries, indicates that a considerable journey remains towards becoming a corruption-free nation. The global concern over corruption is growing, with a consensus that it is universal, existing in both developed and developing countries, across public and private sectors, and even in non-profit organisations. The effects of corruption are wide-ranging, impacting economic growth, business operations, employment, and investments, while also reducing tax revenue and the effectiveness of financial assistance programmes. This unit aims to provide a comprehensive understanding of corruption, its various types, underlying causes, and far-reaching consequences, alongside an exploration of anti-corruption strategies, laws, and policies specifically within the Indian context. We will also examine case studies to illustrate the practical application and challenges of anti-corruption measures.

Keywords

Grand Corruption, Petty Corruption, Inequality, Poverty, Lokpal, Lokayuktas, e-procurement

Discussion

3.3.1 Understanding Corruption: Types, Causes, and Consequences

Definition and Nature of Corruption

The term 'corruption' describes a consistent phenomenon across all civilisations, yet its serious exploration as a subject of study has primarily occurred over the last two decades. Fundamentally, corruption refers to the abuse of entrusted power for private gain. This abuse can take numerous shapes and forms, making it a multifaceted challenge to define and combat comprehensively. In India, corruption is an endemic problem affecting various areas within both the public and private sectors. Key institutions, such as the police and judiciary, are often implicated, and it permeates all levels of governance. Alarmingly, the vast majority of human rights abuses within the country are enabled by a corrupt environment, highlighting its profound societal impact. This widespread nature means that it is not merely an isolated act but a systemic issue that compromises the integrity and effectiveness of governmental functions and public service delivery. The lack of transparency, accountability, and consistency, coupled with institutional weaknesses in legislative and judicial systems, creates a fertile ground for the growth of rent-seeking activities, particularly in developing countries with significant regulation and central direction.

► Meaning of corruption

The pervasive nature of corruption extends beyond mere financial misconduct, encompassing a range of behaviours that distort public service, undermine legal frameworks, and erode trust between citizens and the state. As highlighted in various analyses, the fight against corruption has been declared a high priority by successive governments in India, yet it remains widespread. This indicates the deep-seated structural issues that allow corruption to persist, despite stated political will. The consequences are far-reaching, leading to the rise

of an underground economy and imposing high social costs, adversely affecting income distribution, consumption patterns, investment, and government budgets. Furthermore, it can significantly impede economic reforms, making it difficult for a country to achieve its development objectives. Recognising these profound implications, there is a global consensus on the universality of corruption and the urgent need for concerted efforts to bring it under control and minimise its adverse effects, thereby enabling countries to progress towards becoming modern, developed nations.

<p>Grand Corruption</p> <p>Grand or Political corruption occurs at highest levels of government in a way that requires significant subversion of political, legal, and economic systems.</p> <p>Commonly found in countries without adequate policing of corruption or with authoritarian or dictatorial governments.</p> 	<p>Petty Corruption</p> <p>Petty, Bureaucratic, or Administrative corruption takes place at the implementation end of politics, where the public meets public officials.</p> <p>For example, registration offices, police stations, etc.</p>  <p>Systematic corruption</p> <p>Systematic or Endemic Corruption occurs primarily due to the weaknesses of an organization or process.</p> <p>It can be contrasted with individual officials or agents who act corruptly within the system.</p> 
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Fig 3.3.1: Different Forms of Corruption

Types of Corruption

Corruption manifests in various forms, often categorised to better understand its complexities and devise targeted anti-corruption strategies. One broad categorisation distinguishes between 'grand corruption' and 'petty corruption'. Grand corruption typically involves high-level officials and large sums of money, often impacting national policies or major public projects. This type of corruption distorts policy formulation, undermines the rule of law at its highest levels, and can lead to significant misallocation of resources. Examples include large-scale embezzlement of public funds, fraudulent procurement practices in major infrastructure projects, or undue political influence over regulatory decisions. Such acts can cripple national development efforts by diverting funds meant for public welfare into private hands. The involvement of high-ranking officials in major corruption scandals has been a recurring theme in India, illustrating the presence and impact of grand corruption.

► 'Grand corruption' and 'petty corruption'.

Conversely, petty corruption involves smaller sums of money and occurs at lower levels of public administration, often in daily interactions between citizens and public officials. This includes instances like bribing police officers for minor infractions, paying speed money to expedite administrative

processes, or making illicit payments for public services such as obtaining permits or accessing utilities. While individually small, the cumulative effect of petty corruption is substantial, as it disproportionately affects ordinary citizens, especially the poor, who rely heavily on public services. It erodes public trust in government institutions and creates a culture of impunity, making everyday life challenging and unfair for the general populace. The sectors most frequently affected by such corruption include public procurement, tax and customs administration, infrastructure, public utilities, and law enforcement agencies like the police, which have been identified as among the most corrupt institutions by various surveys. This distinction highlights that anti-corruption efforts must address both large-scale systemic issues and everyday corrupt practices to be truly effective.

► Classification based on the nature

Beyond scale, corruption can also be classified by the nature of the act. Bribery, a direct exchange of money or favours for preferential treatment or a specific outcome, is perhaps the most recognised form. Embezzlement involves the misappropriation of funds or assets entrusted to one's care. Nepotism and cronyism refer to the favouring of family members or friends, respectively, in appointments or contracts, regardless of merit. Extortion involves demanding money or favours through coercion or threats. Fraud encompasses deceitful practices to gain an unfair advantage, often involving misrepresentation or concealment of facts. Patronage, while sometimes legitimate, can become corrupt when used to distribute public resources or positions for political gain rather than the public good. Each of these types has distinct implications for governance and public trust. For instance, in the context of public sector enterprises in India, the government's roles as owner, regulator, and policymaker often overlap, creating multiple conflicts of interest that can lead to inefficiency and rent-seeking behaviour by unscrupulous politicians and bureaucrats, who may use these entities to distribute patronage and buy loyalty.

“Where do the evils like corruption arise from? It comes from the never-ending greed. The fight for a corruption-free ethical society will have to be fought against this greed and replace it with ‘what can I give’ spirit.” –

Dr. A.P.J. Abdul Kalam

The concept of 'state capture' represents a severe form of systemic corruption where private interests influence the formation of laws, policies, and regulations to their own



► Concept of 'state capture'

advantage, essentially 'capturing' the state's decision-making processes. This goes beyond individual acts of bribery and indicates a fundamental breakdown in governance, where public policy serves private rather than public interests. Conversely, 'administrative corruption' or 'bureaucratic corruption' refers to corruption within the implementation of laws and policies by public officials. While state capture affects the 'rules of the game,' administrative corruption affects the 'playing of the game.' Both forms severely impact a country's development by undermining the integrity of institutions and distorting market mechanisms. In India, for example, the government has been observed to cripple critical law enforcement and accountability institutions by amending anti-corruption laws to curb their effectiveness and functional autonomy, and by politicising appointments to various commissions and agencies. This indicates a blend of state capture influencing the legislative framework and administrative corruption affecting the operational efficiency of anti-corruption bodies.

Causes of Corruption

► Political interference

The causes of corruption are multifaceted, stemming from a complex interplay of political, economic, social, and institutional factors. Politically, weak governance structures, lack of transparency in decision-making processes, and insufficient accountability mechanisms provide fertile ground for corruption to thrive. Political instability, frequent changes in government, and the absence of strong, independent oversight bodies can further exacerbate the problem. When political leaders lack the will to implement robust anti-corruption measures or are themselves implicated in corrupt practices, it sends a clear signal that such behaviour will be tolerated, thereby normalising it within the system. The politicisation of appointments to anti-corruption agencies, as observed in India, can severely undermine their effectiveness and functional autonomy, rendering them less capable of independently investigating and prosecuting corrupt officials. This political interference can transform these agencies into 'loyal lapdogs' of the institutions they are supposed to monitor, rather than independent watchdogs, thus perpetuating the cycle of corruption.

Economically, low public sector wages, coupled with opportunities for illicit enrichment, can incentivise public officials to engage in corrupt activities. When salaries are insufficient to meet basic needs or provide a reasonable standard

► Insufficient salaries

of living, individuals may turn to corruption as a supplementary income source. Moreover, excessive regulation and complex bureaucratic procedures create opportunities for rent-seeking, where officials can demand bribes to expedite processes or grant approvals. Monopolies in certain sectors, particularly those controlled by the state, can also foster corruption due to a lack of competition and oversight. For instance, the traditional public sector model in India, especially at the state level, has often been susceptible to rent-seeking behaviour by politicians and bureaucrats, who exploit these entities to distribute patronage. The absence of robust market mechanisms and the presence of significant discretionary power without adequate checks and balances contribute significantly to the economic drivers of corruption.

► Cultural norms and traditions

Societal factors, including cultural norms and traditions, can also contribute to the persistence of corruption. In some contexts, practices like giving 'gifts' or 'facilitation payments' may be deeply ingrained and not perceived as corrupt, making it challenging to enforce anti-corruption laws. A lack of public awareness about the adverse effects of corruption, or a general apathy towards it, can further allow it to flourish. When citizens are unwilling or unable to report corrupt acts due to fear of retaliation or a belief that nothing will change, it creates an environment where corruption can operate with impunity. Furthermore, weak professional ethics and morality, along with prevailing habits and customs, play a significant role in shaping individual reasoning for corruption. Demographic factors, such as rapid urbanisation and population growth, can also strain public services, increasing opportunities for corruption as demand outstrips supply and officials exploit scarcity.

► Enforcement agencies

Institutionally, a weak rule of law, an inefficient judiciary, and ineffective law enforcement agencies are major enablers of corruption. When legal frameworks are ambiguous, enforcement is lax, or judicial processes are slow and prone to influence, corrupt individuals face little risk of being held accountable. This creates a perception of low risk and high reward, encouraging further corrupt behaviour. In India, for example, even when anti-corruption agencies are run professionally and efficiently, they may not be able to curb corruption significantly, partly due to challenges in investigating and prosecuting cases. The lack of coordination among various anti-corruption bodies, coupled with inadequate resources and political interference in their functioning, can further cripple their ability to combat corruption effectively. The absence of strong, independent audit



institutions and effective whistleblower protection laws also limits the detection and reporting of corrupt acts, allowing them to remain hidden and proliferate.

Consequences of Corruption

The consequences of widespread corruption are devastating, affecting virtually every aspect of a nation's development and the well-being of its citizens. Economically, corruption inhibits economic growth by distorting markets, discouraging foreign investment, and increasing the cost of doing business. It creates an unpredictable business environment, where success often depends on illicit payments rather than genuine merit or innovation. This leads to a misallocation of resources, as investments are diverted from productive sectors to those offering greater opportunities for rent-seeking. Corruption also reduces tax revenues, as individuals and businesses engage in illicit activities to evade taxes, thereby diminishing the government's capacity to fund essential public services like education, healthcare, and infrastructure. The rise of an underground economy, a direct consequence of corruption, further complicates economic planning and regulation, leading to a loss of official economic data and control.

► Rise of an underground economy,

Socially, corruption exacerbates inequality and poverty. When public resources meant for social welfare programmes are embezzled or diverted, it is often the most vulnerable segments of society that suffer the most. It can limit access to essential services, as individuals may be required to pay bribes to access healthcare, education, or justice, effectively creating a two-tiered system where the poor are excluded. This erosion of equitable access to public services undermines social cohesion and fuels public resentment. Corruption also erodes public trust in government and democratic institutions, leading to cynicism and political apathy. When citizens perceive their leaders and public officials as corrupt, their faith in the system diminishes, which can manifest in reduced civic participation and even social unrest. The vast majority of human rights abuses in India, for instance, are enabled by a corrupt environment, highlighting the severe social impact.

► Inequality and poverty

Politically, corruption undermines democracy and good governance. It can lead to a weakening of democratic institutions, as decisions are made based on personal gain rather than the public interest. This includes the subversion of electoral processes, where votes may be bought, or political campaigns funded by illicit money. It also weakens the rule of law, as legal

► Weakening of democracy

frameworks are manipulated or selectively enforced to protect corrupt individuals. The government's actions, such as amending anti-corruption laws to curb their effectiveness and politicising appointments to accountability institutions, exemplify how corruption can compromise democratic principles and institutional integrity. Such actions create a façade of combating corruption while subverting genuine efforts, enabling the state to partner with the corrupt in looting public funds. This deeply ingrained problem creates "structures of irresolution," where sporadic complaints overwhelm anti-corruption agencies, which the state then uses as a safety valve to appease public or media concerns without enacting fundamental change.

► Stifling innovation and competition

The impact of corruption on India's development and progress is profound, leading to a cycle where the very mechanisms meant to foster growth are instead exploited for private gain. It stifles innovation and competition, as fair market practices are undermined by preferential treatment for corrupt actors. This deters both domestic and foreign investment, as investors seek more transparent and predictable environments. Furthermore, corruption can lead to the deterioration of public services and infrastructure, as funds allocated for these purposes are siphoned off or spent on substandard projects. The adverse effects on income distribution and consumption patterns further highlight how corruption creates an uneven playing field, benefiting a few at the expense of the many. Ultimately, corruption poses a significant impediment to India's aspirations for comprehensive development, necessitating robust and sustained anti-corruption measures to restore trust, strengthen institutions, and ensure equitable progress for all citizens.

3.3.2 Anti-Corruption Laws and Policies in India

Legal Framework against Corruption

India has a comprehensive legal and institutional framework designed to prevent and combat corruption, which has evolved significantly over the years. The primary legislation in this regard is the Prevention of Corruption Act, 1988 (POCA), which consolidates and amends the law relating to the prevention of corruption. This Act broadly defines what constitutes a 'public servant' and outlines various offences related to corruption, including taking bribes, criminal misconduct, and abetment of such acts. A significant amendment to POCA in 2018 aimed to strengthen its provisions by, among other things, expanding the definition of 'undue advantage' and introducing provisions for corporate liability. Crucially, the POCA Amendment Act 2018



► Prevention of
Corruption Act, 1988
(POCA)

also addressed the issue of bribe-giving, removing the previous clear immunity given to the bribe-giver, although instances of prosecuting bribe-givers had been limited before this amendment. This amendment reflects an effort to make both the giver and the taker of a bribe accountable, thereby addressing a critical aspect of corrupt transactions.

► Prevention of Money
Laundering Act,
2002 (PMLA)

Beyond POCA, several other laws indirectly or directly contribute to the anti-corruption framework. The Indian Penal Code, 1860, contains provisions for offences like cheating, criminal breach of trust, and fraud, which are often associated with corrupt practices. The Prevention of Money Laundering Act, 2002 (PMLA), is another crucial piece of legislation aimed at preventing money laundering and confiscating property derived from or involved in money laundering. This Act targets the proceeds of crime, including those generated through corruption, and plays a vital role in curbing illicit financial flows. The Lokpal and Lokayuktas Act, 2013, established the institution of Lokpal at the Centre and Lokayuktas in the states, intended as independent bodies to inquire into allegations of corruption against public functionaries, including the Prime Minister and Chief Ministers. These institutions are designed to provide a mechanism for independent investigation and prosecution, thereby enhancing accountability and transparency within the government machinery.

► Role of the Right to
Information Act

Furthermore, the Right to Information Act, 2005 (RTI Act), has been instrumental in promoting transparency and accountability in governance, indirectly acting as a powerful anti-corruption tool. By empowering citizens to demand information from public authorities, the RTI Act reduces the scope for discretionary actions and opaque decision-making, which are often breeding grounds for corruption. The Companies Act, 2013, includes provisions related to corporate social responsibility (CSR) and mandates certain standards of corporate governance, aiming to foster ethical conduct in the private sector and prevent corporate fraud. Other relevant laws include the Central Vigilance Commission Act, 2003, which gives statutory status to the Central Vigilance Commission (CVC) for inquiring into offences under POCA and overseeing vigilance administration. Despite this extensive legal framework, challenges persist in its effective implementation, including issues related to the functional autonomy of agencies, politicisation of appointments, and the slow pace of judicial processes, which can hinder the successful prosecution of corruption cases.

Anti-Corruption Institutions and their Functions

► CBI and CVC

India's anti-corruption efforts are supported by a network of institutions, each with specific roles and responsibilities. The Central Bureau of Investigation (CBI) is the premier investigating agency of India, dealing with corruption cases, economic offences, and other serious crimes. It derives its powers from the Delhi Special Police Establishment Act, 1946. While it has played a significant role in investigating high-profile corruption cases, its autonomy has been a subject of debate, with concerns often raised about political interference, famously described as a "caged parrot" by the Supreme Court. This highlights a persistent challenge in ensuring the independence of key investigative bodies from executive influence. The Central Vigilance Commission (CVC), established in 1964 and later given statutory status in 2003, acts as an apex vigilance institution, free of control from any executive authority, monitoring all vigilance activities under the Central Government. It advises various authorities in Central Government organisations on planning, executing, reviewing, and reforming their vigilance work.

► Lokpal and Lokayuktas

The Lokpal and Lokayuktas, established under the 2013 Act, are independent statutory bodies designed to investigate allegations of corruption against public servants. The Lokpal is responsible for the Union, while Lokayuktas operate at the state level. These institutions are intended to provide an independent and efficient mechanism for the investigation and prosecution of corruption cases, bringing transparency and accountability to high offices. The Comptroller and Auditor General of India (CAG) is an independent constitutional authority responsible for auditing all receipts and expenditure of the Government of India and state governments. CAG's audit reports play a crucial role in bringing to light financial irregularities and instances of corruption within public spending, thus acting as a vital oversight mechanism. These audit findings often form the basis for further investigations by other anti-corruption agencies.

Furthermore, State Anti-Corruption Bureaus (ACBs) operate at the state level, primarily dealing with corruption cases involving state government employees. These bureaus often work under the direct control of the respective state governments, which can sometimes raise questions about their independence and effectiveness. The Economic Offences Wing (EOW) in various states, such as Madhya Pradesh, focuses on economic crimes, including those linked to corruption, money laundering, and financial fraud. While empowered with

progressive legislation and resources, the efficacy of such units in curbing corruption to a significant extent can be limited, as evidenced by empirical studies. This underscores the broader challenge that even professionally run anti-corruption agencies face when confronted with systemic issues and the complex nature of the investigation and prosecution of corruption cases, often finding themselves overwhelmed by the sheer volume of complaints.

Major Policies and Initiatives

India's approach to combating corruption extends beyond legislation and institutions to include various policies and administrative initiatives. One significant focus has been on leveraging technology as a tool to enhance anti-corruption efforts. The promotion of e-governance, digitisation of public services, and online platforms for citizen grievances are designed to reduce human interface, thereby minimising opportunities for discretion and corruption. Initiatives like online tax filing, digital land records, and electronic procurement systems aim to increase transparency and efficiency in government transactions. For example, the use of Aadhaar, India's unique identification system, has been explored to plug leakages in welfare schemes and ensure that benefits reach the intended beneficiaries directly, thereby reducing corruption in distribution.

► Role of e-governance

Policy reforms have also targeted specific sectors known to be vulnerable to corruption. The power sector, for instance, has undergone significant reforms, including the unbundling of erstwhile state electricity boards into separate generation, transmission, and distribution companies, and their conversion into holding companies. These reforms aimed to address the chronic financial unviability and inefficiencies that made these entities susceptible to corruption, often leading to substantial outstanding dues and financial burdens on state governments. The introduction of policies like the Ujwal Discom Assurance Yojana (UDAY) further aimed to improve the financial health of power distribution companies. Such sectoral reforms are crucial as corruption often concentrates in areas with high public expenditure, extensive regulation, or significant government monopolies.

► Sectors vulnerable to corruption

The government has also introduced various administrative measures to enhance integrity and accountability within the public service. This includes mandatory asset declarations for public servants, stricter codes of conduct, and vigilance clearances for promotions and foreign assignments.

► Administrative measures

Whistleblower protection policies, although still evolving, are intended to encourage individuals to report corrupt practices without fear of reprisal. Furthermore, international cooperation forms a key part of India's anti-corruption strategy, as corruption often has cross-border dimensions. India is a signatory to international conventions like the United Nations Convention Against Corruption (UNCAC) and actively participates in global forums to combat corruption, including efforts to counter international money laundering, which is a significant enabler of global corruption. Despite these efforts, challenges remain in effective implementation, monitoring, and ensuring the continued independence and empowerment of anti-corruption agencies to truly curb the menace of corruption.

3.3.3. Case Studies of Corruption and Anti-Corruption Measures in India

Major Corruption Scandals and Their Impact

► 2G Spectrum Allocation Scam

India has witnessed numerous high-profile corruption scandals that have not only exposed systemic failures but also significantly impacted public trust and national development. These incidents often involve large sums of public money and implicate high-ranking officials, leading to widespread public outrage and calls for stronger anti-corruption measures. One notable example is the 2G Spectrum Allocation Scam, which came to light in 2010. This scandal involved irregularities in the allocation of 2G mobile network licences and spectrum by the government, leading to significant revenue losses for the exchequer due to undervalued allocations. The Comptroller and Auditor General (CAG) of India estimated a presumptive loss of approximately ₹1.76 lakh crore (approximately US\$39 billion at the time), triggering extensive public debate and legal proceedings. The case highlighted issues of discretionary power in resource allocation, lack of transparent bidding processes, and the nexus between politicians and corporations.

Another significant case was the Coal Allocation Scam (Coalgate), which surfaced around 2012. This involved alleged irregularities in the allocation of coal blocks between 1993 and 2010, where blocks were allocated to private companies without a transparent bidding process, leading to accusations of favouritism and massive financial losses. Similar to the 2G scam, the CAG pointed out that the allocation of coal blocks without auction caused a significant financial loss to the government. These scandals underscored the vulnerability

► Coal Allocation Scam (Coalgate)

of natural resource allocation to corrupt practices, the need for transparent auction mechanisms, and the critical role of independent oversight bodies like the CAG in exposing such malpractices. The political and economic repercussions of these scandals were immense, contributing to a decline in foreign investment and a widespread perception of governance deficits.

► The Commonwealth Games Scam

The Commonwealth Games Scam in 2010 also brought to light allegations of widespread corruption, including embezzlement of funds, financial irregularities, and mismanagement in the preparations and conduct of the Commonwealth Games in Delhi. The scale of the alleged corruption, involving various government agencies and contractors, drew international attention and tarnished India's image on the global stage. Investigations revealed inflated costs, substandard construction, and fraudulent contracts, highlighting the challenges in managing large-scale public projects with inadequate oversight. These cases collectively demonstrate the multifaceted nature of corruption in India, ranging from policy-level decisions to project implementation, and their severe implications for public finance, economic development, and international reputation. Such scandals often trigger public movements and political reforms, serving as catalysts for reviewing existing anti-corruption laws and strengthening enforcement mechanisms, albeit with varying degrees of success.

Case Studies of Anti-Corruption Measures

While corruption scandals highlight the challenges, India has also implemented various anti-corruption measures, some of which serve as important case studies in the ongoing battle. The Jan Lokpal Movement of 2011, led by Anna Hazare, was a significant public uprising demanding the establishment of a strong, independent anti-corruption ombudsman (Lokpal). This movement garnered widespread public support and put immense pressure on the government to enact the Lokpal and Lokayuktas Act, 2013. Although the implementation of the Lokpal has faced delays and criticisms regarding its effectiveness, the movement itself demonstrated the power of civil society and public demand in advocating for anti-corruption reforms. It underscored the importance of citizen participation and vigilance in holding public servants accountable, even if the legislative outcomes may not fully meet initial expectations.

► Jan Lokpal Movement of 2011

Another important case study involves the Economic Offences Wing (EOW) in states like Madhya Pradesh. This unit is specifically tasked with investigating and prosecuting economic

crimes, including corruption. The Madhya Pradesh government has taken innovative steps over decades to strengthen its EOW, empowering it with progressive legislation, administrative measures, and resources. Empirical studies and specific case studies within the EOW's operations illustrate both its successes and limitations. For instance, the detailed examination of unique official data collected over 13 years (2000-2012) provides an in-depth understanding of the challenges in the investigation and prosecution of corruption cases, suggesting that even a professionally and efficiently run agency may not curb corruption to a significant extent. This highlights that while strengthening individual agencies is crucial, systemic issues like the burden of proof and overwhelming caseloads require broader, integrated reforms.

Furthermore, the implementation of e-governance initiatives across various public services serves as a case study in using technology to combat corruption. For example, the computerisation of land records, online submission of tenders, and digital payment systems have aimed to reduce discretionary power and enhance transparency. The Cochin International Airport Limited (CIAL), a Greenfield airport in Kerala, offers a unique model of Public-Private Partnership (PPP) with a community-led investment model, incorporating significant investment from Non-Resident Indians (NRIs). This model is often cited for its efficient governance and revenue sustainability, which inherently reduces opportunities for corruption through diversified ownership and enhanced public ownership, fostering accountability. While not a direct anti-corruption agency, its transparent and community-driven financing and operational structure serves as an important example of how good governance models can inherently reduce avenues for corrupt practices.

► Computerisation of land records

► e-procurement platforms

The ongoing efforts to streamline public procurement processes also represent a critical anti-corruption measure. Governments have been moving towards electronic procurement platforms (e-procurement) to increase transparency, promote competition, and reduce discretion in the awarding of contracts. This involves online tender publishing, electronic bid submission, and transparent bid evaluation processes. The aim is to minimise direct human contact and create an audit trail for all transactions, thereby making it harder for corruption to occur. While these initiatives have shown promise in reducing some forms of corruption, challenges remain in ensuring complete transparency and preventing collusion among bidders or



manipulation of online systems. These case studies underscore that combating corruption requires a multi-pronged approach involving strong legal frameworks, independent institutions, technological adoption, and significant public and political will to address both grand and petty corruption.

3.3.4 Challenges in Combating Corruption

Despite the comprehensive legal framework and institutional mechanisms, India faces significant challenges in effectively combating corruption. One major hurdle is the politicisation of anti-corruption agencies. As noted, bodies like the CBI have been criticised for being susceptible to political influence, undermining their autonomy and effectiveness. This political interference can manifest in selective investigations, slow prosecution of cases involving influential individuals, or even the deliberate crippling of agencies through legislative amendments that curb their functional autonomy. Such actions create a perception that anti-corruption efforts are not truly independent but are used as tools for political vendettas or to shield favoured individuals. This erodes public trust in the very institutions designed to fight corruption, creating a cycle of cynicism and reducing the incentive for citizens to report corrupt practices.

► Politicisation of anti-corruption agencies

Another significant challenge is the slow pace of the judicial process and the low conviction rates in corruption cases. India's judicial system is often overburdened, leading to lengthy trials that can span years, or even decades. This delay not only postpones justice but also allows corrupt individuals to continue their activities, often with impunity. The complexity of corruption cases, which frequently involve intricate financial transactions and require detailed forensic analysis, further contributes to these delays. Moreover, the burden of proof in corruption cases can be challenging, particularly when proving *quid pro quo*. Even when agencies like the Economic Offences Wing (EOW) are professionally run, they can be overwhelmed by the volume of cases, and the legal framework, despite progressive legislation, might not always translate into significant curbs on corruption. This operational burden, combined with potential loopholes in laws or legal technicalities, can lead to acquittals, further discouraging genuine efforts.

► Slow pace of the judicial process

Institutional weaknesses and a lack of coordination among various anti-corruption bodies also hinder effective combat. While India has multiple agencies, their roles can sometimes

► Institutional weaknesses

overlap, leading to turf wars, duplication of efforts, or, conversely, gaps in jurisdiction. A lack of seamless information sharing and coordinated action can allow corrupt individuals to evade detection or exploit systemic loopholes. Furthermore, many of these agencies suffer from a shortage of skilled personnel, adequate training, and modern investigative tools. The existing stock of enforcement officers, often drawn from the same bureaucracy they are meant to oversee, may not be immune to the very issues of influence and lack of independence, sometimes appearing eager to be 'his master's voice' or 'the caged parrot,' as eloquently put by the Supreme Court. This internal vulnerability necessitates a focus on strengthening internal integrity mechanisms within these agencies themselves, alongside external oversight.

► Supply side of bribery

Finally, the supply side of bribery and its international dimensions present a significant challenge. Corruption is not merely a domestic issue; it often involves transnational bribery, money laundering, and illicit financial flows across borders. This necessitates international cooperation, which can be complex due to varying legal systems, extradition treaties, and political considerations. Countering international money laundering is particularly crucial as it acts as a "handmaiden of global corruption," facilitating the movement and concealment of ill-gotten gains. The lack of effective whistleblower protection mechanisms in many contexts also discourages individuals from coming forward with information about corrupt practices, especially when these involve powerful entities. Despite the growing global concern and consensus on the universality of corruption, translating this understanding into effective, coordinated international action remains a complex undertaking that India, like many other nations, must navigate.

Summarized Overview

This unit examines the institutional and legal mechanisms designed to uphold ethics and accountability in public administration. It explores the role of statutory bodies like the Central Vigilance Commission (CVC), which monitors vigilance activities, and the Comptroller and Auditor General (CAG), which audits public expenditure to ensure responsible financial management. These institutions help maintain ethical governance through preventive, investigative, and corrective mechanisms.

The unit also focuses on citizen-centric tools such as the Right to Information (RTI) Act and grievance redressal mechanisms, which have empowered the public to hold officials accountable. It highlights the evolution of the Lokpal and Lokayuktas as independent ombudsman bodies intended to address high-level corruption. Furthermore, it explores how digital platforms and e-governance tools—like CPGRAMS and DBT—have transformed transparency and accountability by reducing human discretion and enabling real-time oversight.

Challenges such as political interference, limited autonomy, and digital divides are discussed to critically assess the effectiveness of these systems. The unit argues that ethical governance depends not only on institutions but on the will to implement reforms and foster an administrative culture rooted in responsibility, inclusiveness, and fairness.

Self-Assessment

1. What is the function of the Central Vigilance Commission?
2. Name any two constitutional duties of the CAG.
3. What is the purpose of the RTI Act?
4. Who appoints the Lokpal?
5. Mention two benefits of e-governance for accountability.
6. What is meant by grievance redressal?
7. How do social audits support ethical governance?

Assignments

1. Explain the role of institutional mechanisms in promoting public ethics.
2. Discuss the importance of the CAG in ensuring financial accountability.
3. Evaluate the challenges faced by Lokpal and Lokayuktas in India.
4. Analyse how RTI empowers citizens to demand transparency.
5. Discuss how digital governance improves ethics and accountability.

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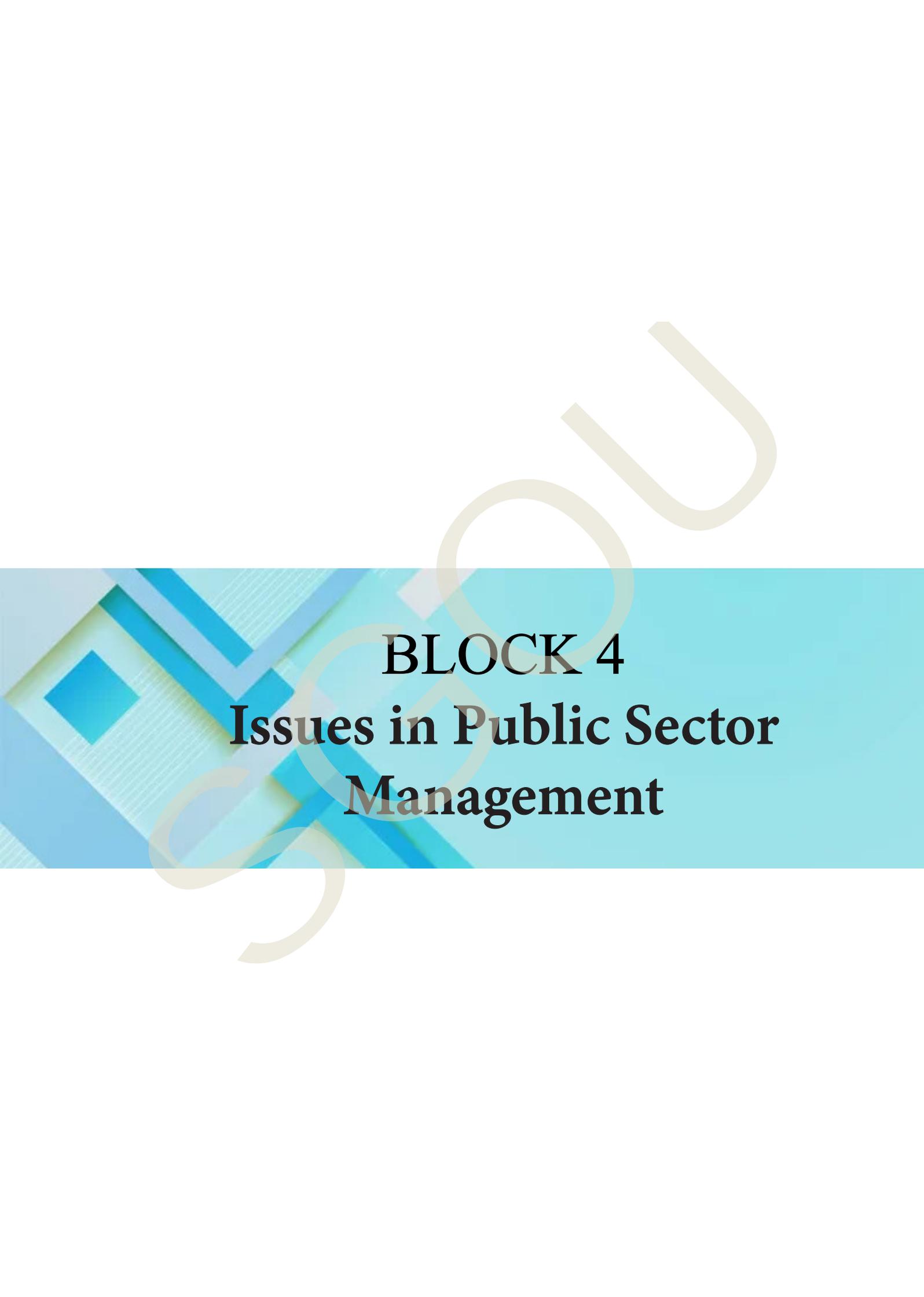
Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.

SGOU

SGOU





BLOCK 4
Issues in Public Sector
Management

UNIT 1

E-Governance and Digital Transformation

Learning Outcomes

Upon completion of the unit, the learner will be able to:

- ▶ understand the concept and significance of e-governance in public administration
- ▶ identify how digital technologies transform government-citizen interactions
- ▶ evaluate the impact of e-governance on transparency, efficiency, and accountability
- ▶ analyse the challenges and future strategies of digital transformation in governance

Background

In the heart of Estonia lies one of the most digitally advanced societies in the world. After gaining independence from the Soviet Union in the 1990s, the nation embarked on a radical journey—transforming governance through technology. With limited resources and a small population, Estonia invested in internet infrastructure, digitised its public services, and introduced e-Residency and e-Citizenship. Today, Estonian citizens can vote, access health records, pay taxes, and start businesses online, all within minutes. This transformation was not solely driven by technology but by a national vision that prioritised efficiency, transparency, and citizen engagement.

Similar revolutions are occurring worldwide, where governments are increasingly turning to Information and Communication Technology (ICT) to address longstanding administrative inefficiencies and enhance public service delivery. From Kenya's Huduma centres that integrate services under one roof to Brazil's transparency portals that reveal every government expenditure, digital governance is redefining how states function.

In India, the digital movement has been particularly transformative due to its scale and diversity. With over 1.4 billion people, India has launched several landmark initiatives such as Digital India, Aadhaar, and the Unified Payments Interface (UPI), which have significantly altered the relationship between the government and its citizens. Yet, these developments have also spotlighted digital divides, bureaucratic inertia, and ethical questions about data governance and inclusion.

E-governance is no longer a futuristic aspiration—it is a current necessity. Whether in ensuring subsidy delivery to a rural woman via Direct Benefit Transfer (DBT) or streamlining tax payments for urban entrepreneurs, digital platforms are rapidly replacing paper trails and manual bureaucracy. What makes this transformation remarkable is its ability to decentralise power and place the citizen at the centre of governance. The story of digital transformation is one of innovation, but also of adaptation, infrastructure development, and persistent capacity-building.

This unit examines this transformative journey and the Indian experience of harnessing digital tools to improve governance. It also challenges us to think critically about the limitations, ethical considerations, and strategic interventions needed to build a truly inclusive, efficient, and transparent digital public administration.

Keywords

E-Governance, Digital Transformation, Public Service Delivery, Bureaucratic Efficiency, ICT (Information and Communication Technology), Citizen-Centric Governance, Digital Inclusion

Discussion

4.1.1 Introduction

The landscape of public administration has undergone a profound and irreversible transformation with the advent and pervasive integration of information and communication technology (ICT). For much of the 20th century, traditional governmental approaches, often characterised by manual record-keeping, multi-layered bureaucratic hierarchies, and fragmented service delivery mechanisms, frequently struggled to adapt effectively to evolving societal demands and the rapid changes in the socio-economic and technological environment. These conventional methods were inherently limited by cumbersome bureaucratic processes, a general lack of real-time

► Citizen-responsive governance models

data for informed decision-making, and significant resource constraints, collectively resulting in notable inefficiencies, delays, and a diminished capacity to meet the diverse and escalating needs of citizens. This growing inadequacy highlighted a pressing and urgent need for more agile, efficient, and profoundly citizen-responsive governance models.

Consequently, e-governance, a term often used interchangeably with digital governance, has emerged as a revolutionary and transformative paradigm, fundamentally altering the interactions between citizens, businesses, civil society organisations, and government agencies across various tiers of administration, from local to national. This monumental shift is not merely about adopting new technologies in isolation; rather, it represents a comprehensive and strategic roadmap encompassing simultaneous and interdependent changes in people (their skills and attitudes), processes (their re-engineering and simplification), organisational behaviour (fostering a culture of digital adoption), and the underlying technological infrastructure (robust and secure platforms), all meticulously designed and integrated to achieve successful governmental transformation and enhance overall public value. India, as a rapidly developing nation with an immense and diverse population, has proactively and enthusiastically engaged in this global digital revolution, systematically implementing a series of citizen-centric measures aimed at streamlining public services, dramatically improving administrative efficacy, and bolstering public trust through enhanced transparency and accountability. The overarching goal is to foster a more accessible, efficient, transparent, and accountable system of governance, aligning seamlessly with the rising expectations of citizens globally for high-quality, expedient, and ethical public services that are accessible to all. This unit will delve deeply into the conceptual essence of e-governance and digital transformation, meticulously exploring their multifaceted significance, profound impact on public sector efficiency, and the inherent, yet surmountable, challenges that must be systematically addressed for their successful, equitable, and sustainable implementation within the complex and dynamic Indian administrative context.

► Transformative paradigm

4.1.2 Meaning of Digital Governance

Digital governance, extensively referred to as e-governance, is fundamentally defined as the strategic, systematic, and comprehensive application of information and communication technology (ICT) to enhance the efficiency, effectiveness,



► Broad and integrated spectrum of activities

transparency, and accountability of government operations across all its functions and interactions. The 'e' in e-governance unequivocally signifies 'electronic,' underscoring a pivotal and irreversible shift from traditional, often opaque, paper-based, and manual administrative processes to digitally enabled platforms for delivering government services directly to citizens and businesses. This transformative concept encompasses a broad and integrated spectrum of activities, including the seamless and secure exchange of critical information between disparate government departments, between government and citizens (G2C), government and businesses (G2B), and even between different levels of government (G2G). It also involves the execution of secure online transactions, facilitating various services from licence applications to tax payments, and the comprehensive integration of previously fragmented services and information portals into a unified, interoperable digital ecosystem. The ambit of e-governance extends far beyond mere automation of existing, often inefficient, processes; it necessitates a profound and deliberate re-engineering of the public sector's internal workings and a redefinition of its external relationships with citizens and other stakeholders through internet-enabled operations and digital platforms.



Fig 4.1.1: E-Government Stakeholders

According to the United Nations, a foundational prerequisite for bolstering democracy, promoting sustainable development, and ensuring good governance is the existence of trustworthy, efficient, and responsive state institutions that are demonstrably capable of providing high-quality public services universally accessible to all citizens, irrespective of

their socio-economic status or geographical location. In this critical regard, e-governance serves as an indispensable and powerful mechanism to achieve these fundamental objectives by actively promoting a truly citizen-centric administration. Here, the needs, convenience, and proactive feedback of the public are explicitly prioritised in the design, development, and delivery of public services. It actively seeks to mitigate bureaucratic hurdles, significantly improve response times for citizen inquiries, and enhance the overall reliability, accuracy, and accessibility of public services, thereby fostering greater public satisfaction and rebuilding trust in public institutions. Through the judicious and strategic application of ICT, valuable knowledge is collaboratively created and disseminated, information is shared more effectively and instantaneously, service delivery processes are meticulously streamlined, and administrative costs can be substantially reduced, ultimately leading to a more agile, responsive, and truly paperless government environment. This transition also encourages greater civic participation by making government processes more transparent and accessible. The core essence of digital governance thus lies in its profound potential to leverage advanced technology not just for administrative convenience, but to construct a more interconnected, efficient, ethical, and participative government that is demonstrably better equipped to serve its diverse citizenry effectively and equitably in the 21st century.

► Participative government

4.1.3 Importance of E-Governance

The importance of e-governance in modern public administration cannot be overstated, particularly within the intricate, multi-layered, and expansive administrative framework of a large and diverse nation like India. E-governance serves as an indispensable and transformative instrument for achieving the broader, overarching objectives of good governance, which, as authoritatively articulated by the International Monetary Fund (IMF), comprehensively covers every facet of a country's administration. This includes its fiscal and economic strategies, robust regulatory structures, and unwavering commitment to upholding the rule of law and ensuring justice. Effective governance, in its most fundamental essence, is crucial for promoting social justice, empowering marginalised citizens, fostering sustainable employment opportunities, ensuring unwavering transparency in public dealings, and facilitating the proficient, timely, and equitable delivery of essential services to all segments of the population.

► Promotion of social justice



E-governance directly addresses and significantly mitigates the inherent limitations of conventional governance methods, which are frequently hampered by cumbersome bureaucratic complexities, protracted approval processes, information asymmetry, and inherent resource constraints, invariably leading to significant inefficiencies, delays, and often opportunities for corruption in service delivery. By strategically adopting and integrating advanced information technologies, governments can effectively meet the escalating and often very high expectations of citizens for timely, accurate, and high-quality services, thereby substantially enhancing citizen satisfaction and rebuilding trust in public institutions. The application of ICT enables a government to be "well-prepared to anticipate the current and future impact of enduring trends and steer their machinery accordingly at the right speed," as noted in studies by organisations like the United Nations Development Programme (UNDP), underscoring the proactive stance vital for maintaining relevance and effectiveness in a rapidly changing global landscape.

Furthermore, e-governance plays a profoundly pivotal role in significantly reducing avenues for corruption and fostering genuinely inclusive growth, thereby contributing directly to poverty alleviation and social equity. A compelling and widely cited example from India is the revolutionary Direct Benefit Transfer (DBT) system, meticulously implemented through various schemes. Under DBT, the Prime Minister highlighted a remarkable achievement: 100% of the sanctioned amount now consistently reaches the intended beneficiary, a drastic improvement from a lamentable past where only '15 paise of every rupee sanctioned by the government reached the poor,' a critique famously articulated by former Prime Minister Mr. Rajiv Gandhi. This profound digital transformation, meticulously facilitated by widespread mobile connectivity, seamless bank account linkages, and the foundational Aadhaar unique identification system, has been instrumental in ensuring that financial aid, social welfare benefits, and essential goods are delivered directly and transparently to individuals. This direct transfer mechanism effectively bypasses numerous intermediaries, thereby drastically reducing leakages, minimising opportunities for illicit enrichment, and enhancing the overall integrity of public expenditure and service delivery. Such initiatives not only bolster accountability and transparency but also rebuild and solidify trust between citizens and government agencies, which is crucial for fostering a robust and participatory democracy.

► Inclusive growth

► Public-Private Partnerships (PPPs)

The broader principle of leveraging private capital, reducing fiscal burdens on the state, and improving delivery outcomes, often exemplified in the success of Public-Private Partnerships (PPPs) across various infrastructure and service sectors, aligns perfectly with the overarching objectives of e-governance in strategically utilising digital tools for superior public service delivery and achieving significant socio-economic impacts. For instance, the successful implementation of the Cochin International Airport on a PPP model demonstrates how private investment and efficient management can yield high service standards and profitability, thereby setting a precedent for other public projects. In essence, e-governance is not merely an administrative tool but an indispensable foundational element for constructing a responsive, responsible, accountable, and genuinely citizen-centric administrative framework that is fit for purpose in the 21st century.

4.1.4 Impact of Technology on Public Sector Efficiency

► Streamlining of service delivery

The pervasive integration of technology has had a profoundly transformative and overwhelmingly positive impact on public sector efficiency in India, fundamentally revolutionising how government services are delivered and how the government interacts with its vast and diverse citizenry. A paramount area of impact is the remarkable streamlining of service delivery mechanisms, ushering in an era of predominantly paperless operations and significantly curtailing traditional bureaucratic red tape. Illustrative initiatives like the modernised income tax e-filing portal, the seamless portability of various licences and certificates across different states, and the robust online public distribution systems vividly exemplify this monumental shift towards digital convenience. These advancements have collectively empowered citizens, enabling them to access a wide array of essential services with unprecedented ease, speed, and convenience, irrespective of their physical location or socio-economic background.

The resounding success of flagship programmes such as Aadhaar, the Unified Payments Interface (UPI), and DigiLocker has garnered widespread universal acclaim, unequivocally demonstrating the immense potential of resilient digital infrastructure to not only enhance efficiency but also dramatically improve accessibility, foster greater financial inclusion, and reduce opportunities for corruption. For instance, Aadhaar provides a unique, verifiable digital identity, which has been pivotal in ensuring the efficient and accurate delivery

► Flagship programmes

of targeted government subsidies and services to deserving beneficiaries, thereby reducing duplication and fraud, and ensuring that benefits reach the right people. The UPI has single-handedly revolutionised digital payments in India, facilitating instantaneous and seamless inter-bank financial transactions that contribute significantly to a broader, more inclusive financial ecosystem, enabling even small vendors to accept digital payments. Similarly, the establishment of Passport Seva Kendras, by comprehensively digitising the passport application and issuance process, has drastically reduced processing times, enhanced transparency, and significantly improved citizen convenience, moving away from erstwhile cumbersome and time-consuming procedures. These impactful initiatives are integral components of a more expansive and ambitious national vision, articulated under the 'Digital India' programme, aimed at establishing digital infrastructure as a fundamental utility accessible to every citizen, ultimately striving to deliver governance and services on demand, marking a pivotal shift towards proactive, anticipatory, and citizen-friendly governance.



Fig 4.1.2: Key Components of India's Digital Public Infrastructure

Beyond these foundational digital identities and payment systems, technology's impact extends to improving internal government operations, fostering better decision-making, and enhancing inter-agency coordination. The transition to a "paperless office" environment, a key aspiration of many

e-governance initiatives, aims to reduce administrative costs, improve data management, and expedite internal processes, leading to quicker approvals and more efficient workflow management. The adoption of robust data analytics tools, enabled by digitised records, allows for evidence-based policy formulation, enabling governments to identify trends, predict future needs, and tailor interventions more effectively. Furthermore, the burgeoning field of artificial intelligence (AI) is increasingly being rigorously explored and strategically deployed for its profound potential to further enhance public service delivery efficiency. Preliminary studies and empirical evidence indicate that the judicious adoption of AI applications can lead to significant and measurable improvements in citizen-centric services, for example, through intelligent chatbots providing instant information and the optimisation of municipal administrative processes, such as waste management or traffic flow optimisation. While its immediate impact on more human-centric aspects of governance, such as nuanced policy dialogues, is currently found to be moderate, AI offers considerable and transformative promise for optimising resource utilisation, substantially reducing the cost per transaction for common services, and dramatically improving the overall accessibility and responsiveness of public services.

► Inter-agency coordination

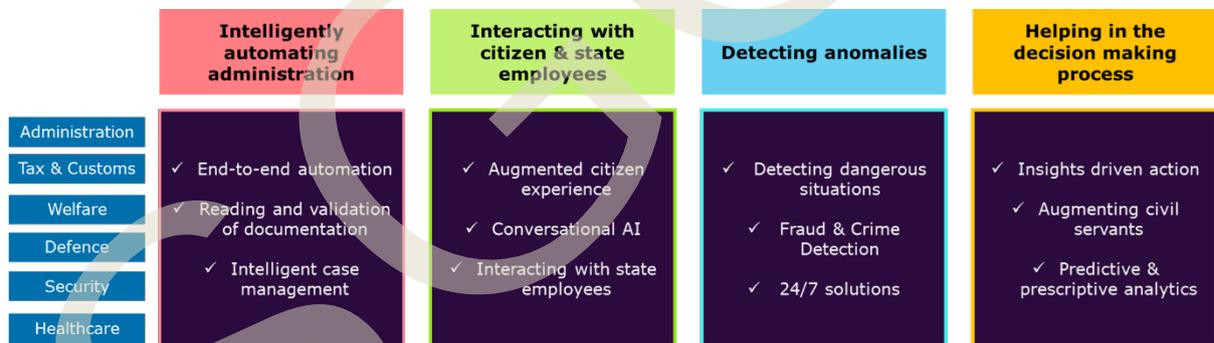


Fig 4.1.3: The four main fields of the public sector that AI will empower (Source: capgemini.com)

► Ethical application of AI

The strategic and ethical application of AI, therefore, holds the profound potential to further eliminate inherent corruption risks by automating decision-making based on predefined rules, enhancing predictive capabilities for more effective policy formulation, and significantly boosting overall efficiency, transparency, and accountability within the intricate public service delivery mechanisms. This continuous technological integration and innovation empower the public sector to become exceptionally more responsive, remarkably cost-effective, and ultimately more accountable, aligning seamlessly with escalating global expectations for high-quality,

efficient, and equitable public services. The ongoing and rapid evolution of advanced digital tools and sophisticated platforms unequivocally underscores their critical and indispensable role in shaping a more effective, transparent, and profoundly citizen-friendly public administration for the future.

4.1.5 Challenges in Implementing E-Governance

Despite the undeniable benefits and considerable progress observed in India's digital transformation journey, the implementation of e-governance initiatives and broader digital programmes faces a multitude of persistent and complex challenges that demand strategic and sustained attention. A primary and deeply entrenched concern is the pervasive bureaucratic inefficiency that continues to plague significant segments of the public sector. While digital tools are meticulously designed to streamline processes, reduce manual interventions, and promote faster decision-making, underlying systemic issues such as rigid hierarchical structures, an inherent resistance to change among certain sections of civil servants, and outdated work cultures can severely impede their full and effective utilisation. This resistance often stems from a fear of losing traditional power bases, a lack of digital literacy among older employees, or simply an aversion to adopting new methods that require relearning. Closely intertwined with this is the persistent issue of corruption and political interference, which, despite technology's inherent potential to enhance transparency and accountability, can still undermine the integrity and equitable delivery of digital services if not actively countered through robust oversight mechanisms, stringent ethical frameworks, and vigilant public participation. These deep-seated issues can significantly erode public trust in digital initiatives and dilute their intended positive impact.

► Bureaucratic inefficiency

Furthermore, inadequate technological facilities and underdeveloped infrastructure pose a substantial hurdle, particularly in a country as vast and geographically diverse as India. The successful implementation and sustained operation of advanced digital transformation initiatives hinge critically on the ubiquitous availability of reliable, high-speed internet connectivity, robust and secure data centres, and up-to-date hardware and software systems across all government departments and citizen access points. A study specifically on AI adoption in public service delivery starkly highlighted that only 25% of organisations surveyed possessed advanced technological infrastructure, with a significant proportion still

► Underdeveloped infrastructure

in the early stages of development or having only rudimentary setups. This indicates a significant gap in readiness that needs urgent attention. Issues such as intermittent power supply in remote areas, challenges in maintaining complex IT systems, and the high initial investment required for sophisticated digital infrastructure further complicate matters. Moreover, the e-governance landscape in India often exhibits a fragmented and project-specific nature. This means that initiatives are not always uniform nationwide and can vary considerably in their scope, implementation standards, and effectiveness from state to state or even district to district. This fragmentation can lead to inconsistencies in service quality, disparities in accessibility, and a lack of interoperability between different government systems, hindering the vision of seamless, integrated governance. The challenge of ensuring the quality of service delivery remains a real concern, as even highly successful projects like the Right to Information Act and electronic voting machines have, at times, faced negative feedback and exposed operational shortcomings or public grievances, necessitating continuous refinement and improvement.

► Digital divide

Another significant barrier is the pervasive digital divide, which refers to the unequal access to, use of, or impact of information and communication technologies among different population groups. This divide can manifest due to socio-economic factors (affordability of devices and internet), geographical location (lack of infrastructure in rural or remote areas), education levels (digital literacy), age (elderly populations struggling with new technologies), and language barriers, as many online services are predominantly in English or major regional languages, excluding a large segment of the population. Bridging this gap requires not only infrastructural development but also comprehensive digital literacy programmes and the development of multilingual interfaces for digital services. Related to this are the challenges associated with human resources. There is often a critical shortage of digitally skilled personnel within government departments who can effectively manage, maintain, and innovate e-governance systems. This includes IT professionals, data analysts, and cybersecurity experts, as well as administrative staff who are proficient in using digital tools. Without adequate training and capacity building, the full potential of e-governance technologies cannot be realised. Furthermore, legal and regulatory frameworks often lag behind technological advancements, creating ambiguities regarding data privacy, cybersecurity, digital signatures, and electronic transactions, which can deter both government

agencies and citizens from fully embracing digital platforms. Addressing these complex and interconnected challenges requires a holistic, well-coordinated, and multi-pronged strategy that encompasses continuous reforms in governance structures, substantial and targeted investments in digital infrastructure, comprehensive human resource development and training, and adaptive legal frameworks that foster rather than impede digital innovation.

4.1.6 Future Governmental Strategies in Digital Governance

To effectively navigate the inherent complexities and systematically overcome the multifaceted challenges in e-governance, future governmental strategies in India must adopt a comprehensive, integrated, and forward-looking approach. It is unequivocally crucial to recognise that digital transformation extends far beyond mere technological adoption; it necessitates a fundamental and profound shift in people (their capabilities, mindsets, and roles), processes (their re-engineering for digital efficiency), and organisational behaviour (fostering a culture of innovation, collaboration, and responsiveness) across the entire governmental machinery. Therefore, a holistic strategy that includes robust and continuous reforms in governance structures, substantial and sustained investment in cutting-edge digital infrastructure, and pervasive, ongoing human resource development is absolutely paramount. This means strengthening existing regulatory frameworks to ensure unparalleled clarity and enforceability of digital contracts, fostering unwavering political will and leadership to champion digital initiatives from the highest levels, and actively combating corruption through impeccably transparent digital systems that are designed with inherent accountability mechanisms. Furthermore, a consistent and concerted effort to standardise and integrate various disparate e-governance projects across different states and central ministries will be vital to move beyond fragmented, project-specific implementations towards a truly unified, interoperable, and national digital ecosystem. This integration will ensure equitable access, consistent service quality, and enhanced data-sharing capabilities for all citizens and government entities nationwide.

► Shift in organisational behaviour

Addressing the pervasive digital divide must be a central and unwavering pillar of future strategies, ensuring truly universal access to mobile connectivity and robust broadband highways, much like essential public utilities such as electricity and water. This inclusive approach is absolutely essential

► Universal access to mobile connectivity

for the comprehensive digital empowerment of all citizens, ensuring that no segment of society is marginalised or left behind in the rapid digital revolution, especially those in rural or socio-economically disadvantaged areas. Such initiatives would involve expanding digital literacy programmes to reach vulnerable populations, providing access to affordable digital devices, and developing user-friendly interfaces in multiple regional languages. Moreover, continuously evaluating, monitoring, and enhancing the quality of service delivery for all digital platforms is critical, learning proactively from past shortcomings and adapting strategies dynamically to meet evolving citizen expectations and technological advancements. Embracing and strategically leveraging emerging technologies, such as advanced artificial intelligence, blockchain for secure transactions, and the Internet of Things (IoT) for real-time data collection, while simultaneously developing the necessary robust infrastructure and human capacity for their successful and ethical deployment, will also be key to maintaining India's leadership in digital governance. This includes investing in cybersecurity measures to protect sensitive citizen data and ensuring data privacy through robust legal frameworks.

► "Digital by Design" principles

Another crucial aspect of future strategies involves fostering stronger Public-Private Partnerships (PPPs). As evidenced by the success of projects like Cochin International Airport, PPPs can bring in private sector efficiency, innovation, and capital, reducing the financial burden on the government while improving service standards. These partnerships must be governed by clear contractual terms, transparent processes, and robust regulatory oversight to mitigate risks and ensure public interest remains paramount. Additionally, a focus on "Digital by Design" principles, where services are conceived and developed with digital delivery as the primary mode from the outset, rather than simply digitising existing manual processes, will lead to more efficient and user-centric outcomes. This approach encourages simplification, standardisation, and integration of services. Finally, fostering an ecosystem of continuous innovation within the public sector, encouraging experimentation with new technologies and methodologies, and creating platforms for citizen feedback and co-creation of digital services will ensure that e-governance initiatives remain dynamic, responsive, and truly citizen-centric. By implementing these strategic approaches in a coordinated and sustained manner, India can further solidify its position as a global leader in digital governance, creating a responsive, efficient, transparent, and inclusive administrative framework that genuinely serves the aspirations of its diverse population.

Summarized Overview

This unit introduces the concept and scope of e-governance as a foundational shift in public sector management, specifically within the Indian administrative context. It explores the strategic deployment of ICT to enhance public service delivery, reduce corruption, and promote participatory governance. Beginning with a detailed understanding of what constitutes digital governance, the unit discusses the transformative potential of integrating technology into all levels of government interactions—Government-to-Citizen (G2C), Government-to-Business (G2B), and Government-to-Government (G2G). It highlights how platforms like Aadhaar, DigiLocker, and UPI exemplify efficient and transparent service delivery, helping reduce leakages, ensure accountability, and boost public trust in state institutions.

However, technological adoption alone is insufficient. The unit critically examines the challenges in implementation, such as infrastructural deficits, bureaucratic resistance, political interference, digital illiteracy, and a fragmented policy landscape. It also explores the emerging role of Artificial Intelligence (AI), data analytics, and blockchain in reshaping governance. To move forward, governments must adopt holistic, inclusive, and future-ready strategies—standardising systems, building capacity, closing the digital divide, and ensuring robust data protection and privacy frameworks. The unit concludes by offering practical recommendations for India to consolidate its position as a global leader in e-governance, focusing on sustainability, ethical governance, and truly citizen-first digital transformation.

Self-Assessment

1. What does the 'e' in e-governance stand for?
2. Name one key initiative under the Digital India programme.
3. What does G2C represent in the context of e-governance?
4. Which system enables direct transfer of subsidies to beneficiaries in India?
5. Mention one challenge faced in implementing e-governance in rural areas.
6. Which digital identity system has become foundational in India's governance?
7. What is the primary aim of a performance management system in digital governance?

Assignments

1. Discuss the role of ICT in transforming public service delivery.
2. Explain the major challenges in implementing e-governance in India.
3. Evaluate the impact of e-governance on transparency and accountability.
4. Suggest strategies to bridge the digital divide in India.
5. How can emerging technologies like AI and blockchain improve public sector efficiency?

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Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.

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UNIT 2

Human Resource Management in the Public Sector

Learning Outcomes

Upon completion of the unit, the learner will be able to:

- ▶ understand the unique features of HRM in public sector organisations
- ▶ explain recruitment, selection, training, and development practices in public administration
- ▶ evaluate the challenges of performance management in government settings
- ▶ analyse the role of diversity and inclusion in strengthening public sector workforce effectiveness

Background

A large hospital during a natural disaster requires seamless collaboration among doctors, nurses, administrative staff, and support workers to deliver essential services under pressure. Now imagine that half of the team was hired without proper screening, some were not trained for emergencies, and others had no clarity about their responsibilities. The system would collapse. Similarly, governments—especially in large democracies like India—rely on an efficient and motivated workforce to deliver vital services such as healthcare, education, sanitation, and law enforcement. At the heart of this workforce lies Human Resource Management (HRM), a discipline that, while often behind the scenes, is critical to the machinery of public service.

The public sector differs significantly from the private sector in its HRM practices. Public employees are accountable not just to managers but also to laws, regulations, and the larger public interest. Hiring must be fair, transparent, and often based on merit through examinations and quotas to ensure social representation. Training must focus not only on technical skills but also on ethical standards, policy understanding, and constitutional values. Performance evaluation, too, must be balanced—not only focused on output but also on fairness, equity, and long-term social outcomes. Unlike private corporations, government cannot fire at will or incentivise using market-based salaries.

In India, managing human resources in the public sector is particularly complex. With over 20 million public employees at central, state, and local levels, the diversity in roles, functions, and competencies is immense. According to a 2024 report by the *Times of India*, citing data from the International Labour Organization (ILO), there are around 14 million government jobs at the central and state levels. The broader public sector, which includes local governments and public sector enterprises, likely pushes the total figure well above that number. Many challenges persist: bureaucratic rigidity, political interference in hiring, outdated training methods, and resistance to performance-based systems. However, India has also made notable progress through reforms such as lateral hiring in key policy roles, competency-based training programmes, and digitalisation of HR functions. Institutions like the Lal Bahadur Shastri National Academy of Administration (LBSNAA) continue to modernise civil service training, while PSU recruitment through GATE reflects a push towards scientific and merit-based selection.

Thus, HRM in the public sector is more than just personnel management—it is about building an ethical, efficient, and people-oriented workforce. This unit dives into the frameworks, practices, and reforms shaping HRM in the Indian public sector and reflects on how we can nurture a civil service that is both capable and compassionate in serving the nation.

Keywords

Recruitment, Training, Development, Performance Management, Public Sector, Civil Service, Meritocracy, Diversity and Inclusion

Discussion

4.2.1 Introduction

Human Resource Management (HRM) in the public sector plays a pivotal role in the effective functioning of government bodies and public service delivery. Unlike the private sector, public sector HRM often operates within a unique framework shaped by bureaucratic norms, public accountability, and civil service regulations. This unit delves into the distinct aspects of HRM within the public sector, specifically focusing on recruitment and selection, training and development, and performance management systems. We will explore how these core HR functions are adapted and implemented to meet the specific demands and challenges faced by public organisations,



especially within the Indian context, drawing upon various contemporary research and case studies. Understanding these nuances is essential for postgraduate students of Public Administration, providing insights into the strategic management of human capital for enhanced public service.

This unit aims to provide a comprehensive understanding of how human resources are managed within the public sector, recognising the critical balance between efficiency, fairness, and public interest. It will highlight key processes, challenges, and opportunities, fostering a learner-friendly environment through simple language and practical examples. The material is designed to be accessible for distance learners, ensuring that complex concepts are broken down into digestible parts, supported by clear explanations and relevant illustrations. By the end of this unit, learners will be equipped with a robust knowledge base to critically evaluate and contribute to the evolution of HRM practices in public administration.

4.2.2 Recruitment and Selection Processes in the Public Sector

Recruitment and selection constitute the foundational staffing function within any organisation, including those in the public sector. This critical process involves identifying and attracting potential applicants, followed by a systematic procedure to choose the most suitable candidates for current and future vacancies. In the public sector, this function is particularly significant as it directly impacts the quality of public services and the public's trust in government institutions. Traditionally, the selection of managers and other employees was sometimes approached casually, but contemporary practices increasingly favour a scientific and rational methodology. This shift ensures that the right individuals are placed in the right roles, which is vital for building a team of efficient, capable, and loyal public servants, aligning individual employee interests with the long-term objectives of the organisation.

► Foundational staffing function

The public sector's recruitment and selection processes are often characterised by their emphasis on transparency, fairness, and meritocracy, aiming to mitigate issues such as political influence or favouritism. These processes typically involve a structured approach that prioritises objective criteria over subjective judgements, ensuring equal opportunities for all applicants. This contrasts with some private sector models that might allow for greater flexibility in hiring but potentially less stringent adherence to standardised procedures. The

► Objective criteria

formalisation of these processes in the public domain reflects a commitment to public accountability, where every hiring decision must be justifiable and withstand public scrutiny. Consequently, public sector organisations often adhere to strict guidelines and regulations, which can sometimes lead to longer recruitment cycles compared to their private counterparts.

Objectives of Recruitment and Selection

The fundamental objective of recruitment in the public sector is to create a diverse pool of qualified candidates from which the most suitable individuals can be selected. This goes beyond merely filling vacancies; it involves proactively seeking out individuals who possess the necessary skills, knowledge, and abilities to contribute effectively to public service goals. A well-executed recruitment strategy aims to attract not only those who are highly qualified but also those who are committed to public service values, such as integrity, impartiality, and dedication to the common good. Moreover, it seeks to ensure that the workforce reflects the diversity of the population it serves, promoting inclusivity and equitable representation across all levels of public administration. This proactive approach helps to build a robust and resilient public workforce.

► Pool of qualified candidates

Selection, on the other hand, is about identifying the best fit from the recruited pool. This involves a series of assessments designed to evaluate candidates against predetermined job requirements and organisational competencies. The goal is to predict future job performance and ensure that selected candidates will be productive and contribute positively to the organisational culture. In the public sector, selection processes often incorporate elements like written examinations, interviews, psychometric tests, and background checks, all aimed at objectively assessing a candidate's suitability. The rigorous nature of these processes helps to uphold the principles of merit and fairness, crucial for maintaining public confidence in the civil service. The emphasis is on long-term commitment and growth within the public service framework.

► Principles of merit and fairness

Challenges in Public Sector Recruitment and Selection

Despite the robust frameworks, public sector recruitment and selection face several unique challenges. One significant hurdle is the often lengthy and bureaucratic nature of the hiring process. This can deter highly skilled candidates, particularly



► Lengthy and bureaucratic nature

those accustomed to faster hiring cycles in the private sector, leading to a potential loss of top talent. Additionally, public sector roles may sometimes be perceived as less dynamic or innovative compared to private sector opportunities, which can further limit the applicant pool. The emphasis on standardised procedures, while ensuring fairness, can also reduce flexibility, making it challenging to adapt quickly to evolving skill requirements or urgent staffing needs in various government departments.

► Balance merit with representation

Another challenge stems from the need to balance merit with representation. While merit is paramount, public sector organisations often strive to achieve workforce diversity that reflects the demographic composition of the country. This can lead to complexities in recruitment strategies, as they must ensure fair access for all groups without compromising the quality of candidates. Furthermore, the public sector sometimes struggles to offer competitive remuneration packages compared to the private sector, making it difficult to attract and retain specialists in high-demand fields such as technology or finance. The strict pay scales and limited incentives can pose a significant barrier, requiring innovative approaches to attract and motivate public servants.

► Mismatch between the available and required skills

Example: Recruitment Challenges in Indian Public Sector Undertakings (PSUs)

The Indian public sector, a significant employer, has historically faced challenges in its recruitment processes. Public Sector Undertakings (PSUs) often operate under a complex web of government regulations, which can lead to extended hiring timelines and a perceived lack of autonomy in talent acquisition. This can result in a mismatch between the skills available in the market and those required for specific roles within PSUs. Moreover, the sheer volume of applicants for government jobs often overwhelms the existing infrastructure, making it difficult to conduct efficient and timely selection processes. The reliance on broad-based examinations, while ensuring fairness, may not always capture the nuanced skills required for specialised modern public administration roles.

The challenges extend to attracting top-tier talent in an increasingly competitive global market. While public sector employment offers stability and benefits, the compensation structures often lag behind those in the private sector. This disparity is particularly evident in specialised fields where private companies offer lucrative packages. PSUs also

PSU Recruitment through GATE

PSUs offer jobs based on GATE scores. To be eligible, candidates must have qualified in GATE with the required cutoff marks. However, each PSU may specify its own qualifying score criteria. While some PSUs accept GATE scores from previous years, others consider only the scores from the current examination cycle.

The recruitment processes for Public Sector Undertakings (PSUs) are not uniform. While some organisations, such as Haryana Power Utilities (HPU), use a valid GATE score as a primary shortlisting criterion for positions like Assistant Engineer, the final selection often includes additional stages, such as an evaluation of Socio-Economic Criteria and Experience. In contrast, the DRDO RAC recruitment process for Scientist 'B' is more comprehensive, involving multiple evaluation components. After initial shortlisting based on a valid GATE score, candidates must undergo further stages, which can include a written test and a personal interview, with the final merit list determined by a weighted score from these combined components.

Some of the most well-known PSUs in India include:

- National Thermal Power Corporation (NTPC)
- Oil and Natural Gas Corporation (ONGC)
- Steel Authority of India Limited (SAIL)
- Bharat Heavy Electricals Ltd. (BHEL)
- Indian Oil Corporation Limited (IOCL)
- Coal India Limited (CIL)
- Gas Authority of India Limited (GAIL)

► Compensation structures

sometimes face public scrutiny and political interference in their hiring decisions, which can further complicate the recruitment landscape. Addressing these challenges requires a strategic shift towards more agile, skill-based, and technologically driven recruitment methods while still upholding the principles of fairness and transparency inherent to public service.

4.2.3 Training and Development Programs

Training and development programmes are vital for fostering a competent, adaptable, and motivated public sector workforce. In India, these concepts hold significant weight in both public and commercial sectors, being essential for the growth of both the organisation and its employees. These programmes are crucial in preventing managerial obsolescence,



► Culture of continuous learning

ensuring that public servants remain equipped with the latest knowledge, skills, and competencies to address evolving public needs and administrative complexities. They directly contribute to improving individual and organisational performance by enhancing capabilities and fostering a culture of continuous learning. Effective training enables employees to perform their current roles more proficiently and prepares them for future responsibilities, supporting career progression within the public service.

► Imparting job-related skills

The primary objective of training is to impart specific job-related skills and knowledge, enabling employees to perform their immediate tasks more effectively. Development, conversely, focuses on broader personal and professional growth, preparing individuals for future leadership roles and greater responsibilities within the public administration framework. For example, a training programme might focus on new software for data management, while a development initiative could involve leadership workshops aimed at enhancing strategic thinking and decision-making capabilities. Both are interdependent and essential for creating a dynamic public workforce capable of adapting to policy changes, technological advancements, and shifting public expectations. The continuous investment in human capital through these programmes is a hallmark of progressive public sector organisations.

► On-the-job training

Public sector organisations utilise various types of training and development programmes to meet diverse needs. On-the-job training (OJT) is a common approach where employees learn practical skills directly at their workstations, often guided by experienced colleagues or supervisors. This method is highly effective for immediate skill acquisition and practical application. Off-the-job training involves learning away from the immediate work environment, such as in workshops, seminars, or formal courses. This can include specialised technical training, management development programmes, or executive education. The advantage of off-the-job training is that it allows for focused learning without the distractions of daily work, often incorporating advanced methodologies and expert facilitators.

E-learning and blended learning approaches are becoming increasingly prevalent, especially in large public sector organisations with geographically dispersed workforces.

► E-learning and blended learning

E-learning provides flexibility and accessibility, allowing employees to learn at their own pace and convenience, while blended learning combines online modules with traditional classroom instruction for a more comprehensive experience. Leadership development programmes are particularly crucial in the public sector to cultivate future leaders who can navigate complex policy environments and drive institutional change. These programmes often include mentoring, coaching, and rotational assignments to provide diverse experiences. Additionally, public sector training often incorporates modules on ethics, public policy, and constitutional values to reinforce the unique responsibilities of civil servants.

Importance of Training and Development in the Public Sector

► Assessing performance

Training and development are paramount for public sector employee sustenance and organisational effectiveness. In India, these policies assist management in assessing employees' work performance and making crucial decisions regarding their careers. Continuous learning helps public servants stay updated with evolving government policies, administrative reforms, and technological innovations, ensuring they remain relevant and efficient in their roles. For instance, as e-governance initiatives expand, training in digital literacy and cyber security becomes indispensable for public sector employees to handle sensitive data and interact effectively with citizens online. Without ongoing training, the public sector risks falling behind in service delivery and efficiency, impacting its ability to meet citizen expectations.

► Employee morale and retention

Furthermore, robust training and development programmes contribute significantly to employee morale and retention. When employees feel invested in, they are more likely to be motivated, engaged, and committed to their work. This is particularly important in the public sector, where intrinsic motivation and a sense of public service are strong drivers. Development opportunities provide pathways for career progression, reducing attrition rates and fostering a stable and experienced workforce. By enhancing skills and promoting professional growth, these programmes enable public sector organisations to build a resilient and high-performing cadre of employees capable of addressing complex societal challenges and delivering on public mandates effectively.

4.2.4 Performance Management Systems

Performance Management Systems (PMS) in the public sector are structured approaches designed to enhance organisational effectiveness by improving individual and team performance. This involves setting clear objectives, monitoring progress, providing regular feedback, and aligning individual efforts with the broader strategic goals of the organisation. While traditionally, performance appraisal focused on a one-way feedback mechanism, modern PMS emphasise continuous management of performance rather than just periodic appraisals. This shift allows companies, and in this context, public sector entities, to improve employee and corporate performance more effectively, saving managers considerable time and trouble by focusing on ongoing development rather than just retrospective evaluation. The core idea is to foster a proactive and continuous dialogue about performance.

► Team performance

► Cyclical process

The detailed description of performance management systems often involves a cyclical process. This cycle typically begins with performance planning, where objectives and key performance indicators (KPIs) are collaboratively set between managers and employees. Following this, performance is continuously monitored and supported, with ongoing feedback and coaching provided to employees. Regular review meetings are held to discuss progress, address challenges, and adjust goals

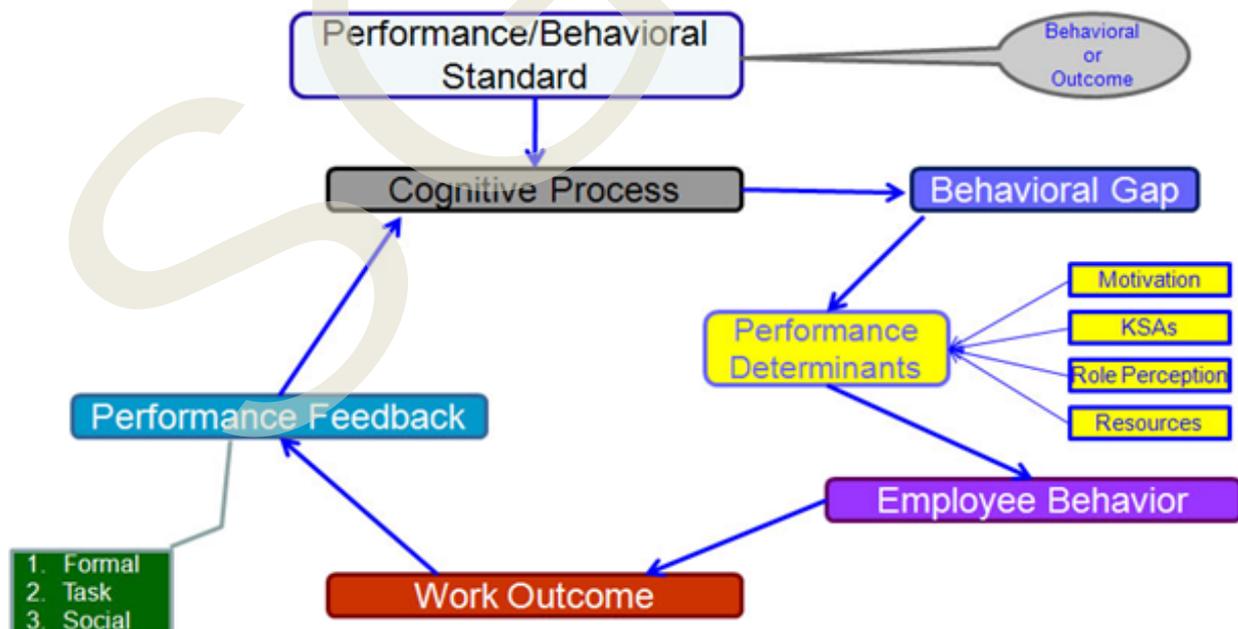


Fig.4.2.1: Key Stages of the Human Resource Management Cycle (Source: vskills.in)

if necessary. The cycle culminates in performance appraisal, which assesses overall achievement against set objectives, often linking it to rewards, recognition, and development plans. This systematic approach ensures that performance is not just evaluated but actively managed and improved throughout the year, fostering a culture of accountability and continuous improvement.

4.2.5 Challenges and Opportunities in Public Sector PMS

Implementing Performance Management Systems (PMS) in the public sector presents a unique set of challenges. One significant hurdle is the often bureaucratic and hierarchical nature of public organisations, which can make it difficult to implement flexible and dynamic PMS. Resistance to change from both managers and employees, who may be accustomed to traditional appraisal methods, can also impede successful adoption. Furthermore, the diverse nature of public services, ranging from administrative tasks to frontline service delivery, makes it challenging to establish universal and quantifiable performance metrics that are applicable across all roles and departments. This complexity often leads to generic objectives that may not truly reflect individual contributions.

► Hierarchical nature

Despite these challenges, there are significant opportunities for PMS to enhance public sector efficiency and accountability. A well-designed PMS can foster a performance-oriented culture, promoting greater transparency in goal setting and evaluation. By clearly linking individual performance to organisational objectives, PMS can motivate employees and improve service delivery outcomes. The integration of technology in PMS can streamline processes, reduce administrative burden, and provide real-time data for informed decision-making. Moreover, focusing on continuous feedback and development within PMS offers an opportunity to build a more agile and responsive public workforce, capable of adapting to changing policy landscapes and citizen demands.

► Performance-oriented culture

Example: Performance Management in the Indian Public Sector

A study on performance management systems in the Indian service and industry sectors highlights the importance of detailed descriptions of the systems used, comparing them across sectors and organisation sizes. In the Indian public sector, PMS has traditionally been linked to annual performance appraisals, often seen as a compliance exercise rather than a developmental tool. This has led to concerns about objectivity,

► Annual performance appraisals

fairness, and the effectiveness of feedback mechanisms. The focus has often been on fault-finding rather than fostering growth, which can demotivate employees and hinder genuine performance improvement. The challenge lies in transitioning from a purely appraisal-centric approach to a more holistic performance management system that supports continuous development and engagement.

► Leveraging technology

Opportunities in the Indian public sector PMS include leveraging technology for more efficient data collection and feedback, and introducing 360-degree feedback mechanisms to provide a more comprehensive view of an employee's performance. There is also a growing recognition of the need to align individual performance goals more closely with national development objectives and public service outcomes. By adopting a more participative and developmental approach, public sector organisations in India can transform PMS into a powerful tool for improving public service delivery, enhancing employee motivation, and fostering a culture of accountability and excellence. This requires a strong commitment from leadership to embrace cultural change and invest in training for both managers and employees on new PMS methodologies.

► Targeted recruitment drives

Specific Recruitment Methods in the Public Sector

Public sector organisations employ a range of methods to attract a diverse and qualified applicant pool. Beyond general advertisements, these often include formal civil service examinations, which are a hallmark of public sector recruitment, designed to assess general aptitude, specific knowledge, and sometimes writing skills. These examinations ensure a broad reach and a transparent, merit-based initial screening process, which is essential for public trust and equitable opportunity. Additionally, public sector bodies frequently engage in targeted recruitment drives at universities and professional forums to attract fresh talent and specialists in critical areas such as engineering, healthcare, and information technology. The aim is not just to fill vacancies but to proactively build a talent pipeline aligned with future governmental needs and strategic objectives, ensuring the public sector remains competitive.

The rise of digital platforms has significantly transformed public sector recruitment. Online job portals, government recruitment websites, and professional networking sites are now indispensable tools for disseminating job advertisements

► Rise of digital platforms

and receiving applications. This digital shift enhances accessibility, allowing a wider demographic, including those in remote areas, to apply for government positions. Furthermore, many public sector organisations are adopting sophisticated applicant tracking systems (ATS) to manage the high volume of applications efficiently and to ensure compliance with recruitment policies. While these technologies streamline the administrative aspects of recruitment, the human element of assessment, particularly through structured interviews, remains crucial to evaluate soft skills, cultural fit, and commitment to the public service ethos, thereby blending efficiency with essential human judgement.

Selection Techniques and Their Fairness Implications

The selection phase in the public sector is characterised by the application of rigorous and standardised techniques designed to ensure fairness and objectivity. Structured interviews, where all candidates are asked the same set of predetermined questions, are commonly used to minimise bias and allow for consistent evaluation. These interviews often include behavioural questions, probing how candidates have handled specific situations in the past, providing insights into their competencies and problem-solving abilities. Assessment centres are also increasingly utilised, especially for managerial and leadership roles. These involve a series of exercises such as group discussions, presentations, and in-tray exercises, designed to simulate real-world job scenarios, offering a more comprehensive evaluation of a candidate's practical skills and interpersonal effectiveness.

► Structured interviews

► Anti-discrimination laws

The emphasis on fairness extends to the legal and ethical implications of selection. Public sector bodies must adhere strictly to anti-discrimination laws and policies, ensuring that selection decisions are based solely on merit and job-related criteria, without prejudice based on gender, religion, caste, or other protected characteristics. This commitment to equitable employment practices is paramount in a democratic society, where public institutions are expected to serve all citizens fairly. Therefore, training for interviewers and assessors on unconscious bias and fair evaluation techniques is a critical component of public sector selection. This helps maintain the integrity of the process and ensures that the public workforce is representative and possesses diverse perspectives, which ultimately strengthens public service delivery.

The Role of Diversity and Inclusion in Public Sector Recruitment

► Constitutional mandates

Diversity and inclusion are increasingly recognised as strategic imperatives in public sector recruitment, going beyond mere compliance. A public workforce that mirrors the diversity of its population – in terms of gender, ethnicity, disability, and socioeconomic background – is better positioned to understand and respond to the varied needs of the citizens it serves. This commitment to diversity is often enshrined in public service regulations and constitutional mandates, particularly in countries like India, where policies aim to ensure representation from different social groups. Inclusive recruitment practices involve actively reaching out to underrepresented groups, removing barriers in the application process, and ensuring that selection criteria do not inadvertently disadvantage certain demographics.

► Wider range of perspectives

Beyond ethical considerations, a diverse public sector workforce brings a wider range of perspectives, experiences, and problem-solving approaches, leading to more innovative policy solutions and improved service delivery. For instance, diverse teams are often better equipped to understand complex societal issues and develop solutions that are culturally sensitive and broadly applicable. Inclusion strategies also focus on creating a welcoming and supportive work environment where all employees feel valued and empowered to contribute their best. This not only enhances employee morale and retention but also strengthens the public sector's ability to tackle multifaceted challenges effectively, making it a more robust and representative institution for the benefit of all citizens.

Pedagogical Approaches and Design in Public Sector Training

► Andragogy

The design of training and development programmes in the public sector is increasingly influenced by modern pedagogical approaches, moving beyond traditional lecture-based methods. Adult learning principles, or andragogy, are often applied, recognising that adult learners are self-directed, experience-rich, and goal-oriented. This means training is designed to be highly participatory, practical, and directly relevant to the learners' work roles and professional aspirations. Case studies, simulations, role-playing, and group exercises are commonly integrated to facilitate active learning and the application of theoretical concepts to real-world public administration

scenarios. For example, a module on crisis management might involve a simulated emergency response exercise, allowing participants to practise decision-making under pressure.

Furthermore, the design of public sector training programmes often incorporates a blended learning model, combining face-to-face instruction with online modules, webinars, and digital resources. This approach offers flexibility and caters to diverse learning styles, making training accessible to a wider audience, including those in remote locations or with demanding work schedules. The content is tailored to address specific public sector competencies, such as policy analysis, regulatory compliance, public financial management, and ethical conduct. Moreover, continuous professional development (CPD) is a growing focus, encouraging public servants to engage in lifelong learning, adapt to new technologies, and remain updated on best practices in public service delivery, ensuring a consistently high standard of administrative competence.

► Blended learning

Evaluating Training Effectiveness and Impact

Evaluating the effectiveness of training and development programmes in the public sector is crucial to ensure that resources are well spent and that desired learning and performance outcomes are achieved. This evaluation typically occurs at multiple levels. Reaction-level evaluation assesses participants' immediate satisfaction with the training, including the content, trainers, and facilities. While important for immediate feedback, it does not measure actual learning or behavioural change. Learning-level evaluation measures the extent to which participants acquired the knowledge, skills, or attitudes intended by the training through tests, quizzes, or skill demonstrations. This provides a more robust indicator of whether the learning objectives were met.

► Reaction-level evaluation

The more critical levels of evaluation in the public sector are behaviour-level and results-level. Behaviour-level evaluation assesses whether participants apply their newly acquired knowledge and skills on the job, leading to observable changes in their performance. This often involves peer feedback, supervisor observations, or performance reviews. Finally, results-level evaluation examines the impact of training on organisational outcomes, such as improved service delivery, increased efficiency, reduced costs, or enhanced public trust. For example, a training programme on citizen grievance redressal might be evaluated by tracking the reduction in complaint resolution time or an increase in citizen satisfaction. Such

► Behaviour-level and results-level



comprehensive evaluation ensures that training programmes contribute tangibly to public sector goals and justify their investment.

Continuous Professional Development (CPD) in Public Service

Continuous Professional Development (CPD) is a fundamental concept in modern public service, acknowledging that learning is an ongoing journey, not a one-time event. In an environment characterised by rapid policy changes, technological advancements, and evolving citizen expectations, public servants must continuously update their skills and knowledge to remain effective. CPD encompasses a wide range of learning activities, including formal training courses, workshops, seminars, conferences, online learning modules, mentoring, coaching, and even self-directed learning through professional readings and research. The emphasis is on proactive learning and skill enhancement that directly contributes to individual career growth and organisational capacity building.

► Proactive learning

Public sector organisations are increasingly integrating CPD into their talent management strategies, fostering a culture of lifelong learning. This involves creating personal development plans for employees, linking learning opportunities to career pathways, and providing access to relevant resources and platforms. For instance, a civil servant might undertake a CPD programme on data analytics to better inform policy-making, or a public health official might engage in training on emerging infectious diseases. The goal is to ensure that the public sector workforce remains agile, adaptable, and innovative, capable of responding effectively to future challenges and seizing new opportunities to improve public service delivery and governance. Investment in CPD is an investment in the future resilience and effectiveness of the public sector.

► Personal development plans

Key Components of a Comprehensive Performance Management System

A truly comprehensive Performance Management System (PMS) in the public sector moves beyond simple annual appraisals to encompass several interconnected components, ensuring a holistic and continuous approach to performance improvement. Firstly, performance planning and objective setting are crucial. This involves the collaborative establishment of clear, measurable, achievable, relevant, and time-bound (SMART) objectives for each employee, aligned with departmental and organisational strategic goals.

► Performance planning

These objectives should encompass not only task-based responsibilities but also behavioural competencies essential for public service. Secondly, continuous performance monitoring and coaching involve regular check-ins and ongoing dialogue between managers and employees, providing real-time feedback and support to address challenges and reinforce positive behaviours. This shifts the focus from fault-finding to developmental guidance.

► Feedback mechanisms

Thirdly, feedback mechanisms are vital for effective PMS. This includes not just downward feedback from supervisors but also upward feedback from subordinates, peer feedback, and 360-degree feedback, which provides a comprehensive view of an individual's performance and impact. The feedback should be constructive, specific, and delivered regularly to facilitate learning and adjustment. Fourthly, performance appraisal and review is the formal culmination of the cycle, where overall performance against objectives is assessed, strengths are recognised, and areas for development are identified. Finally, linking performance to rewards and development ensures that high performance is acknowledged, and development plans are put in place to address skill gaps and support career progression. This holistic framework ensures that PMS acts as a strategic tool for enhancing both individual and organisational effectiveness in the public sector.

Summarized Overview

This unit provides a detailed analysis of Human Resource Management (HRM) within public sector institutions, focusing on India's administrative and governance framework. The unit begins by exploring recruitment and selection, which in the public sector must align with principles of fairness, transparency, and constitutional mandates such as reservations for underrepresented groups. Key hiring institutions like UPSC, SSC, and Public Service Commissions are discussed, alongside PSU recruitment through GATE. The importance of structured, merit-based, and corruption-free hiring is underscored as a foundation for building effective governance. The challenges in these processes, such as bureaucratic delays and talent drain to the private sector, are analysed with real examples like ONGC and DRDO recruitment practices.

The second half of the unit focuses on the lifecycle of an employee post-recruitment: training, development, and performance management. Effective public administration requires continuous learning and skill development, especially given the rapid digitalisation



of governance and citizen expectations. The unit explores training formats (on-the-job, off-the-job, blended learning), pedagogical innovations, and Continuous Professional Development (CPD) practices. It also analyses how performance management systems (PMS), often misused or underutilised, can be transformed into developmental tools. Emphasis is placed on setting clear performance indicators, regular feedback, and outcome-linked assessments. The unit concludes by addressing inclusion, diversity, and the urgent need for ethical HR practices to build a more responsive and representative public workforce.

Self-Assessment

1. What does CPD stand for in the context of public service training?
2. Which national-level institution trains IAS officers in India?
3. What exam score is used for PSU recruitment in India?
4. Define PMS in one sentence.
5. What is the goal of merit-based recruitment in the public sector?
6. Name one benefit of on-the-job training.
7. What type of feedback includes inputs from subordinates, peers, and supervisors?

Assignments

1. Describe the challenges in recruitment and selection in the Indian public sector.
2. Explain the significance of training and development in improving public service delivery.
3. Analyse how performance management systems can enhance accountability in governance.
4. Discuss the importance of diversity and inclusion in public sector HR practices.
5. Suggest reforms needed in HRM to modernise India's public administration.

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Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.

SGOU

UNIT 3

Challenges in Operations

Learning Outcomes

Upon completion of the unit, the learner will be able to:

- ▶ identify key operational challenges in the Indian public sector, such as red tape, political interference, and financial constraints
- ▶ analyse how bureaucratic structures affect decision-making and service delivery
- ▶ evaluate the implications of political influence on the autonomy and performance of public enterprises
- ▶ examine the role of financial planning in improving efficiency and sustainability in public institutions

Background

In 1956, India set forth its Industrial Policy Resolution, placing the public sector at the heart of nation-building. The goal was clear: to build infrastructure, reduce inequalities, and achieve economic self-reliance. Over the decades, massive public investments gave rise to steel plants, power grids, banks, and transport systems—all intended to serve citizens equitably and inclusively. These organisations symbolised the State's promise to act as the provider, regulator, and guardian of public welfare. However, as time passed, cracks began to show. Despite vast networks and resources, many public sector units became known more for inefficiencies, delays, and bloated bureaucracies than for their contributions.

A visit to a government office still conjures images of long queues, outdated file cabinets, and procedures that move at a glacial pace. Behind these visible frustrations lies a more systemic issue: red tape. Red tape refers to excessive procedures and regulations that delay or prevent efficient action. It's not always intentional—it's often the result of outdated laws, multiple overlapping jurisdictions, and fear of accountability in decision-making. In some cases, this creates fertile ground for corruption or rent-

seeking behaviours, where navigating the system becomes more important than the service itself.

Add to this the problem of political interference. Public Sector Enterprises (PSEs) and state-run organisations often suffer from shifting political priorities. Governments pressure them to undertake loss-making acquisitions, over-hire, or delay reform to please voter bases. ONGC's forced acquisitions or the drain of cash reserves in NTPC highlight how economic logic is frequently overridden by political strategy. Financial constraints compound the challenge, as governments—already burdened with welfare and defence spending—struggle to maintain loss-making public units, fund their modernisation, or reform their structures.

The challenges are not just operational but moral. When services stall due to bureaucratic delays or political manipulation, citizens lose trust. More importantly, the poor—who rely most on public systems—are often the hardest hit. Addressing these challenges is not just about making systems faster or more cost-effective; it is about restoring public faith, protecting public interest, and creating institutions that serve every citizen fairly. As India pushes forward with reforms and digitalisation, overcoming these legacy challenges becomes not only a managerial task but also an ethical imperative.

Keywords

Bureaucracy, Red Tapism, Political Interference, Public Sector Enterprises (PSEs), Financial Constraints, Governance Reform, Operational Efficiency

Discussion

4.3.1 Introduction

The evolution of India's public sector is deeply rooted in the nation's post-independence developmental strategy, aiming to address critical societal issues such as poverty, unemployment, and the lack of basic services like food, sanitation, health, and education. With severe constraints on capital, skilled labour, foreign exchange, and access to technology, a robust development strategy was imperative. The colonial experience, marked by exploitation through natural resource export and finished product import, instilled a suspicion towards exports,

► Evolution of the public sector

shifting focus towards import substitution. Furthermore, the nascent industrial base at independence, with only a few industries managed by large business houses, necessitated significant state intervention to build essential infrastructure such as roads, power, and irrigation. This foundational context explains the expansive role envisioned for the public sector, which subsequently led to its significant presence across various economic spheres, making the challenges it faces critical to the nation's overall progress.

4.3.2 Bureaucracy and Red Tape

Bureaucratic red tape is a pervasive issue in the public sector, often defined by an excess of formal rules, convoluted procedures, and administrative delays that hinder efficient decision-making and add little meaningful value. It is not merely an operational challenge but also presents a profound ethical dilemma, eroding public trust and undermining the acceptability of governance. In India, these inefficiencies are exacerbated by a bureaucratic structure and legislation inherited from the colonial era, which were originally designed more for control and caution than for facilitating service delivery. This adherence to rigid processes results in significant delays, such as those observed in schemes like the Pradhan Mantri Awas Yojana (PMAY), causing frustration among beneficiaries and diminishing their faith in government systems. The complexities of red tape are deeply embedded, stemming from psychological, organisational, and social foundations, creating a thorough picture of its intricacy.

► Excess of formal rules

The problem of red tape is further compounded by its ability to foster corruption, particularly in rural areas where administrative processes are often opaque and cumbersome. For instance, reports from the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) scheme have highlighted instances where officials demand bribes to ensure timely payments, illustrating how red tape can directly encourage unethical practices. This leads to inequity in governance, as marginalised groups, such as Scheduled Tribes, frequently encounter significant barriers and delays due to these inefficiencies. Such prolonged delays and the necessity of navigating overly bureaucratic rules create an environment where public sector employees may even experience procrastination, as revealed by studies linking perceived red tape with employee procrastination behaviour, partially mediated by role overload. The overarching effect is a system where the

► Fostering corruption



burden of compliance often outweighs the functional objective of the rules themselves, leading to unnecessary administrative costs and burdens.

Kerala Secretariat drowns in over 3.18 lakh pending files!

In June 2025, media reports highlighted a severe backlog of over three lakh pending files in the Kerala Secretariat, despite the Chief Minister's repeated directive that "every file represents a life."

- The Kerala Secretariat is dealing with a massive 3,18,441 pending files!
- Top departments with backlogs: Local Self-Government (44,360), General Education (30,591), and Revenue (22,239).
- A notable 33,325 files are even older than the current government's second term.
- Even this year, 46,038 new files are already stuck in pending.
- While they did clear about 55% of files in a past drive, things are still slow, with less than 30% of new files getting resolved within the same month.

(Source: *onmanorama.com* - June 28, 2025)

► Bozeman's definition

Bozeman's (1993) definition of organisational red tape, which includes "rules, regulations, and procedures that remain in force and entail a compliance burden for the organisation but have no efficacy for the rules' functional object," is widely applied in empirical work. This definition helps distinguish between necessary regulations and those that are truly cumbersome and unnecessary government burdens. Bozeman also identified "stakeholder red tape," referring to rules that "serve no object valued by a given stakeholder group." Furthermore, his work established distinctions in the origin of red tape (internal vs. external production) and various categories based on the rules' origin and target, such as ordinary red tape, pass-through red tape, inter-organisational red tape, and external control red tape. These theoretical concepts provide a framework for understanding the multifaceted nature of red tape and its various potential causes, highlighting that it is not a monolithic problem but rather a complex phenomenon with diverse origins and impacts on public administration.

Indian firms, both public and private, continue to grapple with a myriad of challenges stemming from endless compliances, complicated laws, and overlapping regulations. Although India has made considerable progress since the era of the 'licence raj,' starting and operating a business remains arduous. Businesses

► Bureaucratic hurdles

frequently encounter daunting series of challenges, from acquiring land and adhering to labour and licence laws to the constant threat of harassment from inspectors and officials. These issues often result in inordinate delays and significant cost overruns, leading to disillusionment among entrepreneurs, with many seeking more business-friendly environments abroad. On average, there are approximately 27,000 labour-related compliances alone, alongside 61 acts governing environment, health, and safety. This intricate web of regulations, which include legal requirements such as tax payments, collectively forms a significant barrier to the ease of doing business in India, underscoring the deep-seated nature of bureaucratic hurdles.

► Streamlining processes

Addressing bureaucracy and red tape necessitates systemic reforms focused on streamlining processes and enhancing accountability. Efforts to incentivise ethical behaviour and train leadership within the bureaucracy to prioritise public service and integrity are crucial. A shift towards citizen-centric governance, exemplified by initiatives like *Swachh Bharat* and *Digital India*, can help rebuild public trust by focusing on the needs of citizens. Strengthening and effectively implementing ombudsman institutions, such as the *Lokpal*, can provide citizens with avenues for recourse against corruption and inefficiency at all levels of government. Ultimately, bureaucratic inefficiency and red tape are not just operational challenges but ethical failures that undermine public trust and impede effective governance. Therefore, a holistic approach that combines structural reforms with a focus on ethical leadership and citizen-centric policies is essential to transform red tape into a more enabling environment for governance.

► Overlapping roles

4.3.3 Political Interference

Political interference is a significant challenge in the operations of India's public sector, deeply affecting its autonomy, efficiency, and growth. This issue arises from the overlapping roles of the government as the owner, regulator, and policymaker of Public Sector Enterprises (PSEs), creating multiple conflicts of interest. Despite a semblance of autonomy, especially for Central PSEs, the government frequently intervenes in their functioning, often at the expense of their profitability. This consistent encroachment by bureaucratic and political control stifles growth and undermines the very purpose of granting autonomy. At the state level, the situation is even more precarious, with PSEs often remaining "hostage to the rent-seeking behaviour of unscrupulous politicians and bureaucrats." This behaviour allows governments, regardless of



their political alignment, to use PSEs as tools for distributing patronage and securing loyalty, rather than as instruments for economic development or public service improvement.

► Sub-optimal performance

The consequences of such interference are profound, leading to sub-optimal performance and financial distress for PSEs. A stark example is the case of ONGC, a Maharatna Public Sector Enterprise, which saw its cash reserves dwindle significantly after being pressured to acquire stakes in other entities that did not contribute to its core business or efficiency. In 2017–2018, ONGC was nudged to acquire an 80% stake in the KG basin gas block of the Gujarat State Petroleum Corporation, a state PSE. This was followed by the acquisition of refining major HPCL in 2018–2019, which caused ONGC's cash reserves to plummet from ₹13,100 crore in March 2017 to just ₹500 crore in March 2019. Similarly, NTPC, another Maharatna PSE, was reportedly forced to acquire a smaller PSE, THDCIL, which, while putting cash in the government's hands, did not add value or efficiency to NTPC or the broader economy. Such instances illustrate how political directives can override commercial logic, draining resources and compromising the financial health of otherwise profitable enterprises.

► Impact on strategic decision-making

Another critical aspect of political interference is its impact on strategic decision-making and long-term planning within PSEs. Decisions regarding investment, expansion, and even basic operational matters are frequently influenced by political considerations rather than economic viability or market demands. This often leads to PSEs being blamed for mismanagement and inefficiency, even when the underlying cause is governmental interference. Continuous interference from the government, bureaucracy, and parliament has led to the downfall of several prominent PSEs, such as Air India, BSNL, and MTNL. These entities, once symbols of India's economic prowess, have succumbed to the adverse effects of crony capitalism and government overreach. The primary objective of any meaningful reform in the public sector must, therefore, be to protect these enterprises from such unwarranted interference, allowing them the autonomy to operate on commercial principles and contribute effectively to the economy.

The issue of political interference is particularly acute at the state level, where many of the approximately 1,600 central and state PSEs are dysfunctional. These entities often become avenues for political patronage, with appointments and decisions being made based on political affiliations rather than merit or business acumen. The absence of clear

► Lack of administrative structures

administrative and governance structures, along with a lack of institutional mechanisms to separate the government's multiple roles, perpetuates this cycle of interference. While experiences globally demonstrate that public sectors can be made vibrant and efficient with appropriate structures, India has often failed to learn from these lessons, even when government-appointed committees have recommended reforms. The problem is compounded by the fact that the proceeds from disinvestment, often driven by the government's need to bridge fiscal deficits, are rarely used to strengthen the entities themselves or enhance their productivity and profitability, further highlighting the systemic nature of politically motivated decisions.

► Learning from international models

Addressing political interference requires a concerted effort to establish clear boundaries between government oversight and the operational autonomy of PSEs. Implementing robust corporate governance standards can help mitigate the risks associated with weak governance and crony capitalism. This involves creating institutional mechanisms that ensure transparency, accountability, and a clear separation of roles between the government as an owner and as a regulator. Learning from international experiences, where countries have successfully improved PSE performance through reforms such as Memorandum of Understanding (MOU) mechanisms, could be beneficial. For instance, South Korea utilised MOUs to enhance the value of its enterprises before divestment. Ultimately, shielding PSEs from undue political and bureaucratic influence is paramount to allowing them to operate efficiently, objectively, and profitably, thereby fulfilling their intended role in national development without being undermined by conflicting interests.

► Absence of structural reforms

4.3.4 Financial Constraints

Financial constraints represent a significant impediment to the effective operation of public sector management in India, impacting everything from investment to service delivery. The current economic climate, characterised by a severe slowdown, has exacerbated these challenges, with core sectors and exports experiencing a steep downward spiral. A major driver of the Indian economy, consumption, has substantially slowed, leading to a hit on both credit and investment. While global headwinds and cyclical factors contribute to this slowdown, structural issues and inefficiencies within the factor market are equally significant contributors, requiring urgent attention to revive growth. A critical part of these structural problems stems from the sub-optimal performance of Public Sector Enterprises (PSEs), largely due to the absence of crucial structural reforms.



This makes the subject of financial constraints more pertinent than ever, as the government faces mounting pressure to address budgetary gaps.

The government's renewed focus on privatisation and disinvestment, driven primarily by the urgent need to raise substantial funds to contain the fiscal deficit, underscores the severity of financial constraints. For example, during the fiscal year 2019–2020, the government aimed to raise ₹1.05 lakh crore from disinvestments of PSEs to keep the fiscal deficit at the budgeted 3.3 per cent of GDP. With economic growth plummeting below 5 per cent and revenue collections, particularly from the Goods and Services Tax (GST), falling short of expectations, the monetisation of government assets has become an unavoidable strategy to bridge the budgetary shortfall. This approach, however, has often been a reaction to immediate fiscal pressures rather than a coherent or consistent policy on disinvestment or privatisation. The historical dithering in the disinvestment programme, launched in the 1990s post-liberalisation, highlights the intermittent nature of these efforts, which have been primarily driven by the need to finance burgeoning social sector welfare expenditure rather than strategic reform or enhancement of PSEs.

► Deteriorating performance of state-level PSUs

The impact of financial constraints is evident in the deteriorating performance of state-level Public Sector Undertakings (PSUs), particularly State Electricity Boards (SEBs). Returns on investment and assets employed by SEBs have remained dismal, primarily due to escalating commercial losses. In 2001–2002, to achieve a break-even point and a mandated 3 per cent rate of return (ROR) as per the Indian Electricity Supply Act (1948), SEBs needed to increase the average tariff by ₹1.10 and ₹1.17 per unit respectively, a measure state governments were unwilling to permit. This reluctance led to a progressive deterioration of the ROR, reaching an abysmal -44.1 per cent. As noted by the Planning Commission, the unsatisfactory financial health of SEBs has severely restricted their ability to add new capacity, improve transmission and distribution systems, or undertake essential renovation and modernisation programmes. This financial weakness also poses a significant obstacle to attracting private sector participation, further compounding the challenges faced by these critical public utilities.

The problem of financial constraints is also linked to the administrative challenges within the public sector, which

► Administrative challenges

include inefficient human resource management, such as overstaffing at clerical and unskilled levels, and the extensive employment of casual labour. These issues contribute to higher operational costs without necessarily enhancing productivity. Furthermore, high inventory levels lead to substantial financial burdens, often due to a lack of scientific methods for inventory control. Delays in material delivery and inadequate storage and handling facilities also add to inefficiencies and increased costs. Procedural delays in processing orders for material purchases further exacerbate these problems, creating a cascading effect of financial strain. The absence of a uniform pricing policy across public sector enterprises, with variations from one entity to another, also plays a role in their financial viability. While some enterprises adopt promotion-oriented pricing (low prices for external benefits), others focus on surplus generation or regulation-oriented pricing (lower prices for mass consumption goods), but the lack of a cohesive strategy can lead to inconsistent financial performance and sustained deficits.

► Multi-pronged approach

Addressing financial constraints requires a multi-pronged approach beyond mere disinvestment. Instead of primarily using disinvestment proceeds to bridge fiscal deficits, these funds should be strategically reinvested into strengthening the PSEs themselves, enhancing their productivity, and improving their profitability. This calls for a clear separation of the government's roles as owner, regulator, and policymaker, ensuring that PSEs can operate with greater commercial autonomy and accountability. Implementing effective administrative and governance structures, potentially drawing lessons from global experiences where public sectors have achieved vibrancy and efficiency, is crucial. For example, strengthening corporate governance standards can prevent situations where PSEs are forced into unprofitable acquisitions. Ultimately, a long-term vision that focuses on structural reforms, operational efficiency, and judicious financial management, rather than short-term fiscal fixes, is essential for transforming the financial landscape of India's public sector.

Summarized Overview

This unit investigates the operational challenges that public sector organisations in India routinely face, focusing on three major areas: bureaucratic red tape, political interference, and financial constraints. It begins by examining the problem of bureaucracy—highlighting how rigid procedures, outdated regulations, and excessive formalities create inefficiencies and demoralise both employees and the public. Drawing on Bozeman’s theory of organisational red tape, the unit explains how rules may remain in force without serving their original functional purpose, leading to compliance burdens and delayed services. Real-life issues such as the file backlog in the Kerala Secretariat and complications in the implementation of welfare schemes like MGNREGA are explored to illustrate these systemic delays.

In the second part, the unit analyses the role of political interference in weakening the autonomy and performance of Public Sector Enterprises (PSEs). From Air India to ONGC, public enterprises have faced pressures to undertake non-viable decisions for short-term political gains, often at the cost of long-term sustainability. Financial constraints are also critically evaluated, highlighting how underfunding, high operational costs, poor returns, and regulatory burdens restrict the efficiency of institutions like State Electricity Boards (SEBs). The unit concludes by discussing potential solutions: reforming bureaucratic systems, ensuring financial autonomy, strengthening governance, and enforcing institutional safeguards against political manipulation. Through these discussions, students are encouraged to think critically about how operations can be improved while remaining rooted in public service ethics.

Self-Assessment

1. What does the term ‘red tape’ generally refer to?
2. Which Maharatna PSE was compelled to acquire HPCL, causing a drop in its cash reserves?
3. Name one sector where State Electricity Boards face major financial challenges.
4. What term is used to describe political pressure that affects operational decisions?
5. What percentage return on investment was mandated for SEBs by the Electricity Supply Act?
6. Which law governs the Right to Information in India?
7. What is the primary purpose of reducing bureaucratic red tape?

Assignments

1. Explain the concept of red tape and its impact on public administration.
2. Discuss the effects of political interference on the performance of public sector enterprises.
3. Analyse the reasons behind financial constraints in India's public sector.
4. Suggest reforms to improve operational efficiency in government departments.
5. Evaluate the ethical implications of bureaucratic inefficiencies in citizen service delivery.

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2. Dr. Kriti Mehrotra & Lavanaya Dutta. (2023). The Influence of Bureaucratic Red Tape on Public Service Delivery. *CINEFORUM*, 63(3), 18–23. Retrieved from <https://revistadecineforum.com/index.php/cf/article/view/36>
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6. Team, C. (2025, January 16). *Red Tapism: Ethical Implications & Way Ahead*. PMF IAS. <https://www.pmfias.com/red-tapism/>

Suggested Reading

- a. Jha, S. N. (2018). *Public Sector Enterprises in India: Issues and Challenges*. SAGE Publications.
- b. Roy, S., & Das, S. K. (2023). Public sector performance in India and the ongoing contestation between efficiency and equity. *ISID Working Paper Series, 264*.
- c. Gupta, V. (2012). *Governing by discretion: The politics of bureaucracy in India*. Oxford University Press.
- d. Jain, A., Gupta, P., & Yadav, V. (2014). Leadership and management of public sector undertakings in an emerging economy. *IIM Ahmedabad Research and Publications, W.P. No. 2018-01-04*.

Space for Learner Engagement for Objective Questions

Learners are encouraged to develop objective questions based on the content in the paragraph as a sign of their comprehension of the content. The Learners may reflect on the recap bullets and relate their understanding with the narrative in order to frame objective questions from the given text. The University expects that 1 - 2 questions are developed for each paragraph. The space given below can be used for listing the questions.

MODEL QUESTION PAPER SETS





MODEL QUESTION PAPER- SET- A

SREENARAYANAGURU OPEN UNIVERSITY

QP CODE:

Reg. No :

Name :

SREENARAYANAGURU OPEN UNIVERSITY

M.A PUBLIC ADMINISTRATION

Semester III - Discipline Specific Elective

M23PA04DE - Public Sector Management

Time: 3 Hours

Max Marks: 70

SECTION A

Answer any ten questions in a word or a sentence. Each question carries one mark.

(10X1 = 10 Marks)

1. Name the three guiding principles of public management.
2. What term describes excessive rules and delays in bureaucracy?
3. Who was the chief architect of India's public sector vision?
4. Which Industrial Policy guided industrialization in the 1950s?
5. Who was the Finance Minister during the 1991 reforms?
6. Which sector has the highest number of PPP projects in India?
7. What does DIPAM stand for?
8. Name one PSU that showed remarkable improvement post-disinvestment.
9. Which airport is the world's first fully solar-powered PPP project?
10. Give one example of a PSU that adapted successfully after LPG reforms.
11. Which department is the nodal agency for PSU governance in India?
12. What percentage of net profit must companies spend on CSR?
13. Which PSU's disinvestment in 2002 became a global success story in zinc production?



14. Which policy initiated PSU disinvestment in India?
15. Which department is the nodal agency for CPSEs?

SECTION B

Answer any five questions in two or three sentences. Each question carries two marks.

(5X2 =10 Marks)

16. What is the meaning of public sector management?
17. What does LPG stand for in the context of economic reforms?
18. What is the main purpose of Navratna status?
19. Mention two major challenges in the disinvestment process
20. What is the meaning of 'sick PSU'?
21. What are the key objectives of corporate governance in public enterprises?
22. What is the role of Memorandum of Understanding (MoU) in PSU governance?
23. Define a Public-Private Partnership (PPP) in simple terms
24. Mention two major challenges faced by PSUs in the era of globalization.
25. Mention two ways in which globalization has affected Indian PSUs.

SECTION C

Answer any five questions in one paragraph. Each question carries four marks.

(5X4 = 20 Marks)

26. Discuss the significance of public sector management in ensuring balanced economic growth.
27. Describe the objectives and achievements of Maharatna, Navaratna, and Miniratna categorisation.
28. Briefly explain the impact of the 1991 reforms on the role of the public sector in India.
29. What are the major risks and challenges in implementing PPP projects?
30. Explain the significance of corporate governance practices in enhancing the efficiency of PSUs.
31. Analyse the problem of sick PSUs and the measures adopted for their revival.
32. Write a short note on the challenges faced by PSUs in the context of liberalisation and globalisation.



33. Analyse the contribution of Indian PSUs towards the achievement of Sustainable Development Goals (SDGs).

SECTION D

Answer any three questions in two pages. Each question carries ten marks.

(3X10 =30 Marks)

34. Discuss the differences between public and private sector management, and evaluate why the public sector remains relevant in India's development strategy.
35. Critically examine the role of economic reforms of 1991 in reshaping the public sector in India. What were the positive and negative impacts?
36. Examine the challenges and opportunities of PPP projects in India with reference to specific case studies.
37. Critically analyse the impact of Liberalisation, Privatisation, and Globalisation (LPG) reforms on Indian PSUs, highlighting both success stories and failures.
38. Critically examine the evolution of public sector management in India with special reference to governance, accountability, and autonomy.
39. Evaluate the challenges and opportunities for PSUs in promoting sustainable development in the 21st century.



MODEL QUESTION PAPER- SET- B

SREENARAYANAGURU OPEN UNIVERSITY

QP CODE:

Reg. No :

Name :

SREENARAYANAGURU OPEN UNIVERSITY

M.A PUBLIC ADMINISTRATION

Semester III - Discipline Specific Elective

M23PA04DE - Public Sector Management

Time: 3 Hours

Max Marks: 70

SECTION A

Answer any ten questions in a word or a sentence. Each question carries one mark.

(10X1 = 10 Marks)

1. Which management approach emphasizes “doing it right the first time”?
2. What does PSU stand for?
3. Name one Maharatna company in India.
4. What is the process of the government reducing its stake in PSUs?
5. What economic crisis triggered the 1991 reforms in India?
6. What is meant by strategic disinvestment?
7. What was the role of the National Investment Fund (NIF)?
8. Which legislation makes CSR mandatory for certain companies in India?
9. Name one international body whose norms influence PSU restructuring.
10. Name two common PPP models used in India.
11. What is the purpose of the Viability Gap Funding (VGF) scheme?
12. Give one successful example of a PPP project in India.
13. What does ICT stand for?



14. Which Indian sector opened up most to foreign direct investment (FDI)?
15. Which Indian policy framework initiated globalisation reforms in 1991?

SECTION B

Answer any five questions in two or three sentences. Each question carries two marks.

(5X2 =10 Marks)

16. Name the three categories of PSUs in India.
17. What is public sector management, and how is it different from general management?
18. Give two examples of CSR activities taken up by Indian PSUs.
19. What is red tapism.
20. Why is Hindustan Zinc's disinvestment seen as a success?
21. Why is Cochin International Airport considered a model PPP project?
22. What is the role of WTO in shaping public sector policies?
23. Mention the benefits of ICT adoption in public enterprises.
24. What is the role of digitalization in improving public service delivery?
25. How does the WTO influence PSU restructuring?

SECTION C

Answer any five questions in one paragraph. Each question carries four marks.

(5X4 = 20 Marks)

26. Explain the historical evolution of public sector undertakings (PSUs) in India since independence.
27. Analyze the role of the Administrative Reforms Commission of 2005 in strengthening the public sector.
28. Describe the key phases in the evolution of disinvestment policy in India.
29. Write a short note on the Cochin International Airport Limited (CIAL) PPP model.
30. Discuss the role of CSR in strengthening the social legitimacy of PSUs in India.
31. Briefly explain the impact of globalization on the autonomy and functioning of Indian PSUs.
32. Discuss the role of ICT and e-Governance in enhancing transparency and accountability in the public sector.
33. Write a short note on the importance of renewable energy adoption by PSUs in India.

SECTION D

Answer any three questions in two pages. Each question carries ten marks.

(3X10 =30 Marks)

34. Analyze the evolution of public sector management in India, from the Nehruvian model to contemporary reforms, highlighting the challenges and the future prospects.
35. Evaluate the evolution and effectiveness of disinvestment and PPPs in India as instruments of public sector reform.
36. Evaluate the contemporary challenges of PSUs in India and suggest reforms to make them globally competitive.
37. Critically examine how globalisation and technological changes have redefined the role of the public sector in India.
38. Assess the role of Corporate Social Responsibility (CSR) initiatives by PSUs in promoting inclusive development.
39. Discuss the contribution of e-Governance and ICT initiatives in enhancing efficiency and transparency in PSUs.



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വിശ്വപൗരരായി മാറണം
ശ്രദ്ധപ്രസാദമായ് വിളങ്ങണം
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