Mandatory 30% Dividend Payout to Government of India by Central Public Sector Units: is it Justified?

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Abstract

Dividends are an important financial measure for signalling the prevailing health of a company to shareholders, investors, lenders and for the market to gauge the conservatism/ aggression and soundness of a company with respect to future growth. The dilemma that decision-makers are perennially confronted with is the quantum of dividend disbursement and the 'Now or Later' question, which stems from the classic trade-off between maintaining status quo and growth. From the viewpoint of financial prudence, dividend declaration should be in conformity with the free cash flow (FCF) strength of the company. In recent years, some of the leading central Public Sector Units in India (CPSUs) have been declaring high dividends in response to a directive from the Ministry of Finance mandating profit making companies to declare dividends at minimum 30% of after-tax profits or 30% of original equity capital, whichever is higher. The authors critically examine the prudence of the dividend policy of the Government of India for CPSUs from the organizational perspective using Agency theory, Signalling theory and Outcome based control mechanisms.

JEL Classification: G30, G32, G35, G38.

Keywords: *Central Public Sector Units, Dividends, Signalling, Agency Theory, Outcome based Control*

Section 1-Introduction

Until the mid-1980s, Central Public Sector Units (CPSUs) were a drag on the economy and the average return on invested capital was less than 2%. Times have changed and today, 27 years after the liberalization process started in 1991, the financial performance of CPSUs has improved considerably; they are competing with the best of private sector giants and rewarding shareholders consistently with dividends. The Government of India (GoI) being the promoter/sponsor of CPSUs and consequently, the principal shareholder, gets bulk of the share of dividends. This has become a reliable source of revenue for GoI and contributes to bridging the fiscal deficit. During 2016-17, the dividend payout by CPSUs was Rs.78,133 crore, which is 14.6% of the fiscal deficit of Rs.535,000 crore. Buoyancy in dividend revenues led to GoI raising the minimum dividend from 20% (notified in 2004) to 30% (in January 2016) on the original equity capital or on Profit after Tax (PAT), whichever is higher. This has put considerable pressure on profit-making CPSUs to meet the mandate. In August 2018, Steel Authority of India (SAIL) is quoted to have refused to adhere to the government mandate of 30% dividend citing inadequacy of cash flows and need for market borrowings to bridge the shortfall. This implicitly questions the wisdom of the government's dividend mandate on CPSUs. Other CPSUs like National Mineral Development Corporation (NMDC), Minerals and Metals Trading Corporation (MMTC) are also believed to be under pressure and the fear is that adhering to the government mandate will not only severely impair their current financial performance, but also their expansion and modernization plans and future outlook. In this paper, we attempt to critically assess the merit of the mandated 30% dividend payout policy for CPSUs from considerations of the signals that high or low dividend send out, and the inter alia conflicts between principals (owners) and agents (managers) from the perspective of the Agency theory. The research questions germane to the paper are:

1. To examine the dividend policy mandate of minimum 30% dividend given by the government of India to central public sector units in the context of the Signalling theory and Agency theory;
2. To evaluate the dividend policy mandate from an organizational control perspective using Eisenhardt's testable propositions for Agency theory.

Following this introduction, in Section 2, we critically assess Agency theory in the context of the Signalling theory. Section 3 discusses Eisenhardt's work on Agency Theory and her testable propositions for empirical validation. Section 4 maps

Eisenhardt's testable propositions with Dividend payout record of PSUs in India with reference to behavioural and outcome-based contracts. Section 5 presents the Discussion and Findings and Section 6, the Conclusions. Finally, Section 7 touches on the merit of the CPSU dividend payout model from an Indian context and its applicability and generalizability to emerging economies.

Section 2 - Agency Theory in the Context of Signalling Theory

The Agency theory was propounded by Jensen and Meckling (1976) in their treatise on the theory of firms. Its underlying premise is the perceived existence of conflict of interests between the Principal and Agent, who is delegated work by the Principal, but whose actions are not always congruent to organisational goals. The perception is that agents, such as the top/senior management of firms, act more in their self-interest thus compromising the overall goals of the Principal and the organisation. This may or may not be always true. In either case, we need indicators or signals to show that this is not happening or even if it is happening, there is a mechanism that minimises the incidence of damage to the interests of the Principal. The prime driver for the lack of congruency between a Principal and Agent is that they are in possession of different kinds of information; in other words, the information in their hands is asymmetric. Eisenhardt (1989) says that information is a commodity and can be purchased. This leads us to the important role of information systems such as the budgeting system. If information asymmetry can be minimised, their perceptions and actions would be more congruent. This is the backdrop to the Signalling theory (ST) first put forward by Spence (1973) which explains the behaviour of two parties possessing different information and whose underlying objective is to minimise Information Asymmetry (IaS).

For over a century, economic models were built on the assumption of perfect information although it was widely accepted that information was not perfect. The seminal work of Stiglitz (2000) brought about a paradigm change in the outlook. He classified information based on: Quality and Intent and said the quality of information was relevant because each party was not aware of the characteristics of the other party. Both were also not aware of the intent/behaviour of the other party while sending or receiving the said information. For example, with regard to selection for a job from a pool of candidates, quality characteristics of the recruiter may include the seriousness of filling the vacancy or the new position, the preference for internal or external candidates, the desired job attributes, etc. On the other hand, quality characteristics of an applicant may include the seriousness - whether he/she is looking for durability or a stopgap parking slot, the relevant/unique experience, etc. If a candidate knows what a recruiter is looking for, he/she would customise the CV appropriately thereby bridging the IaS. Connelly et. al (2011) explain 'quality' as the unobservable ability of the signaller to fulfil the needs or demands of the receiver of the signal. Considerable literature on ST revolves around how IaS on latent and unobservable quality characteristics are bridged. Taking the foregoing example further, higher education qualifications supposedly communicate the unobservable characteristics of quest for learning and ability for doing hard work. Similarly, corporate spend on societal projects reported in annual reports communicate the concern for society and the corporate citizenship role that a firm is playing.

The key concepts in ST relate to the Signaller, Signal, Receiver, Fit and Feedback/Environment. Signallers are insiders in an organisation who may deliberately send out positive or negative information as signals, although in most cases, it is positive information. Observability is a necessary but not sufficient condition for the signals to be effective and there is also a question of signal cost. A Receiver is an outsider who lacks information and would therefore like to receive the information. The manner in which the Receiver interprets the information contributes to the signal's effectiveness. Both the Signaller and Receiver have partially conflicting interests, and the Signaller often aims to deceive the Receiver to benefit at his cost. Therefore, signal honesty and reliability are of paramount importance. Fit explains the degree of correlation with the unobservable quality characteristics. Thus, in the context of the Agency theory, ideally, the agent should provide information that is realistic and fair that helps to provide clarity and visibility to the unobservable quality. Secondly, both principal and agent should be fair and not exploit each other.

2.1 Dividends and Signalling

While the stock price is influenced by a number of internal variables such as earnings news and dividend announcements, and external macroeconomic variables, there is a great deal of uncertainty that impacts the behaviour of investors. Mathur and Rastogi (2017) examined the inter-temporal variations in stock price response to quarterly earnings surprises and concluded that the evidence supports rational models of investors' learning behaviour under uncertainty. Considering the importance of minimising information asymmetry amongst key organisational stakeholders, the implications of dividend as a signalling mechanism and their impact on firm value and investor reactions merit examination. Miller and Modigliani (1977) were clear that in a perfectly competitive market, firm value is agnostic to dividends. Studies of Lang and Litzenberger (1989), Benartzi, Michaely and Thaler (1997) for the US market; Eades and Harris (2000) for the market in Japan; and Abeyratna and Power (2002) who studied the UK market do not reveal any significant relationship between dividends and returns on stocks or firm value.

However, Ross (1977) stated that dividends are an important signal and impact the stock prices; an increase in dividend signals bright prospects to the investor leading to an increase in the stock price, and vice versa. Bhattacharya (1979), John and Williams (1985) and Miller and Rock (1985) developed signalling theory model and concluded that in a world of asymmetric information, better informed insiders use dividends to signal to the outside world and investors in particular; higher the dividend, higher was the value of the firm.

Section 3 - Eisenhardt's Work on Agency Theory

Eisenhardt (1989) reviewed the Agency Theory (AT) and described agency problems as those emanating from (a) conflict between the desires or goals of the Principal and Agent or (b) difficulty and high cost incidence for the Principal to verify what an Agent is doing. She elaborated that a Principal cannot verify whether an Agent has behaved appropriately in a given situation and their attitudes towards risk sharing differ. Implicit in agency problems are people's self-interest, bounded rationality, risk aversion, goal conflict and information asymmetry. AT explains relationships that reflect the basic organisation structure including Principal and Agent working harmoniously and with different goals and attitudes to risk. Secondly, Eisenhardt (1989) addressed the impact of AT to organisational thinking and concluded that AT has definitely been useful and the concepts of Risk sharing, Outcome uncertainty, Incentives and Information systems are the noteworthy contributions. Thirdly, Eisenhardt (1989) verified whether AT was empirically valid and found that it was supporting of theory. Most importantly, Eisenhardt (1989) emphasised that the unit of analysis of agency relationships is the 'contract' between the Principal and Agent. A Contract between an agent and principal can be behaviour-oriented, that is, revolve around adherence to rules, procedures and processes that can be monitored but which constrain the working style of the agent. Alternatively, they can focus on adherence to outcomes such as construction or product specifications, quality, cost and financial parameters, that give freedom to the agent, but make him accountable to the outcomes. Eisenhardt (1989) put forward ten testable propositions, enumerated below:

Proposition I - "*When a contract is outcome based, the agent is more likely to behave in the interests of the principal*".
Proposition II - "*When the principal has information to verify the agent's behaviour, the agent is more likely to behave in the interests of the principal*".
Proposition III - "*Information systems are positively related to behaviour based contracts and negatively related to outcome based contracts".*
Proposition IV- "*Outcome uncertainty is positively related to behaviour based contracts and negatively related to outcome based contracts*".
Proposition V- "*The risk aversion of the agent is positively related to behaviour based contracts and negatively related to outcome based contracts".*
Proposition VI -"*The risk aversion of a principal is negatively related to behaviour based contracts and positively to outcome based contracts".*
Proposition VII – "*The goal conflict between principal and agent is negatively related to behaviour based contracts and positively to outcome based contracts*".
Proposition VIII – *"Task programmability is positively related to behaviour based contracts and negatively to outcome based contracts"*.
Proposition IX - *"Outcome measurability is negatively related to behavioural contracts and positively related to outcome based contracts".*
Proposition X - *"The length of the agency relationship is positively related to behavioural contracts and negatively to outcome based contracts".*

Section 4 - Mapping of Eisenhardt's testable propositions with Dividend policy scenario of PSUs in India

Until the early 90s, PSU managements had little autonomy and major decisions were taken by the Secretary heading the concerned ministry to which the PSU belonged. The multiple functions discharged by Secretaries inhibited their ability to periodically monitor the behaviour and performance of PSU managements, and governance was a casualty. The inability to effectively monitor performance emanated from the focus of the civil services in India on process-regulation, oriented towards input usage – quantum of resources, staff and facilities that are deployed in schemes/programs/projects and whether such deployment is in accordance with rules and regulations. The main performance measure for project success revolved around inputs - money spent and rule adherence rather than measurement of impacts or outcomes, and led to adverse performance of CPSUs.

4.1 Contextual appreciation of the origin of dividend stipulations for CPSUs

The economic liberalization initiated in 1991 led to dismantling of the License Raj, but during the initial years, this had no impact on the performance of CPSUs. Performance Contracts were introduced to obviate this shortcoming for which a Memorandum of Understanding (MoU) was signed between the concerned ministry and individual PSUs. It met with some success in the 90s as the number of loss making CPSUs declined, but over 33% of the CPSUs were heavily in the red. Post 2004, the government formulated better performance contracts and introduced the Ratna classification leading to the number of MOUs increasing over the years (4 in 1988-89; 100+ in 1994-95; 197 in 2001-10; 219 in 2015-16). Concurrently, they stipulated a minimum dividend payout of 20% on the equity capital or net profits, whichever is higher; this resulted in substantial improvement in the financial performance of CPSUs.

The primary goal of the MoU was to specify outcomes in consultation with the CPSU and create an environment for achievement through enhanced autonomy, greater goal clarity and objective performance evaluation of management that included an incentives system. It was a path breaking initiative and a departure from the erstwhile traditional administrator model practiced till 1986. The KPIs introduced included sales, growth in sales, return on capital employed (ROCE), earning per share (EPS), and dividend payout. Gunasekar & Sarkar (2014) concluded that much of the improvement was because of these performance covenants and not attributable to privatization.

4.2 Track Record of Dividend Payouts by CPSUs

Till 1979-80, the entire group of CPSUs taken together were consistently recording losses. It was only from 1980-81 that on an aggregate basis, CPSUs recorded positive PAT (see Table 1).

Table 1: Track record of Dividend Payout by CPSUs

Year	Dividend Amount (Rs in crores)	Year	Dividend Amount (Rs in crores)	Year	Dividend Amount (Rs in crores)	Year	Dividend Amount (Rs in crores)
1980-81	83	1990-91	564	2000-01	8260	2010-11	35700
1981-82	109	1991-92	708	2001-02	8068	2011-12	42627
1982-83	115	1992-93	993	2002-03	13769	2012-13	49703
1983-84	133	1993-94	948	2003-04	15288	2013-14	65115
1984-85	176	1994-95	1221	2004-05	20718	2014-15	56527
1985-86	191	1995-96	2205	2005-06	22886	2015-16	68583
1986-87	292	1996-97	2836	2006-07	26805	2016-17	78133
1987-88	371	1997-98	3609	2007-08	28123		
1988-89	524	1998-99	4932	2008-09	25501		
1989-90	681	1999-2000	5455	2009-10	33223		

From the foregoing analysis, it is clear that on an aggregate basis, the efficiency of CPSUs has shown quantum improvement post 1986-87 thereby justifying outcome contracts as being not only desirable but meaningful and successful from the viewpoint of reducing agency costs and achieving business goals. From the perspective of GoI, dividend payouts are perhaps the most important KPI as their finances and budgetary performance are closely linked with dividend inflows. Since 2004-05 when the minimum dividend stipulation of 20% was notified by GoI, the average dividend payouts have consistently exceeded 30% and during 2015-16/2016-17, have exceeded 60%. The performance of CPSUs testifies to the GoI having succeeded in reducing agency costs and meeting their objective of reducing fiscal deficit.

4.3 Critique of Agency contracts of CPSUs vis-à-vis Dividend Payouts

Eisenhardt's Proposition I states that "*when a contract is outcome based, the agent is more likely to behave in the interests of the principal*". This is particularly relevant in the case of CPSUs with their inherent inefficiencies stemming from job security and price preferences for government contracts and the impracticability of the principal, namely, the central government to monitor them. This is corroborated by the actual performance of CPSUs – in absolute terms, sales have grown 2800% and profits after tax (PAT) by 7200% in 37 years at compounded annual growth rates (CAGR) of 12.09% and 16.52% respectively. The dividends that directly accrue to GoI amount to Rs.78,133 crore which represents a sizeable inflow to the exchequer and vindicates that CPSUs are acting in the interests of GoI.

In the case of CPSUs, the administrative ministry based in Delhi cannot have day-to-day information on the working of the CPSU management and neither is it desirable that they interfere in the day-to-day working; hence, it is difficult for them to align the behaviour of CPSUs with their objectives. Consequently, prior to 1986 and specifically till 1979-80 when the government did not have any information to verify the behaviour of CPSUs, their managements were not acting in the best interests of GoI leading to overall losses and negative return on capital corroborating Proposition II "*when the principal has information to verify the agent's behaviour, the agent is more likely to behave in the interests of the principal*".

Proposition III states that *"information systems are positively related to behaviour based contracts".* The converse of this is that absence of information system is negatively related to behavioural contracts. Prior to 1986, the secretaries of respective ministries of the GoI based out of Delhi had meagre information available to monitor the behaviour of CPSUs. Since the information system lacked teeth, behavioural monitoring was ineffective, corroborating the converse proposition. On the other hand, post 1986, Basu (1990) states that with the introduction of performance-based contracts, the demand for information from the principal ministry has reduced, the extent of monitoring is less, but the quality of monitoring is better. The post-1986 performance of CPSUs is positive despite a weak information system because of outcome-based contracts thereby corroborating the converse relationship between information and outcome-based contracts.

Eisenhardt's Proposition IV states "*outcome uncertainty is positively related to behavioural contracts and negatively related to outcome contracts*". Hence, the probability of a behavioural approach leading to favourable outcomes is low as evidenced from the performance of CPSUs till 1979-80 when the overall profits and return on capital were negative. For the GoI, outcome certainty signifies timely receipt of expected dividend inflows. The steady increase of dividends post 1986-87 to Rs.78,000+ crore amplifies the negative relationship of outcome contracts with uncertainty. Therefore, keeping in view the government's need to have steady cash flow from CPSUs to the exchequer, the dividend outcome mandate is desirable and appropriate.

Eisenhardt's Proposition V states that "*the risk aversion of the agent is positively related to behaviour based contracts and negatively related to outcome based contracts"* implying a lower degree of risk aversion by the agent in outcome contracts. The risk aversion phenomenon is endorsed by Easterbrook (1984) who cites in his two-agency cost explanation of dividends that the cost of risk aversion is a primary agency cost since managers' wealth is tied to risk and hence, the propensity for risk aversion. This holds good for private sector companies; however, in CPSUs, managers are generally prone to risk aversion as there are no incentive plans such as stock options for taking risks. Risk aversion on the part of CPSUs implies not pursuing projects for expansion/modernization, or investing only in low risk projects. Because of specified outcomes on growth in sales and profits, ROCE and dividend payouts, they have had to necessarily take up investment projects and during the past 30 years, capital employed increased by 4100% at a CAGR of 13.76%. Basu (1990, pp.148) states that the performance contracts unleashed unprecedented managerial enthusiasm within CPSUs who took several initiatives in improving the system of action plans, streamlining MIS, developing functional areas, particularly Marketing, which was hitherto a weakness, and formulating modernization and diversification plans. Consequently, outcome contracts have resulted in CPSUs being more aggressive in executing growth plans. Hence, by mandating the 30% dividend and motivating PSUs to borrow from the market to meet their growth plans, the government may be deemed to be indirectly controlling risk aversion.

Eisenhardt's Proposition VI states that "*the risk aversion of a principal is negatively related to behaviour based contracts and positively to outcome based contracts".* This is amply illustrated by the results from inception of CPSUs till 1986-87 when the Principal, that is Ministry/GoI took up all the risks by continuously bailing out the CPSUs by pumping in additional capital to meet cash losses through budgetary provisions. Thereafter, with outcome based contracts, the onus was on the CPSUs to meet project costs through internal accruals and market borrowings. Interestingly, one of the outcomes of the performance contract system was the culture of risk sharing between officers of the administrative ministry with the Chairman & Managing Director and functional directors of the CPSU. Thus, although the agent CPSUs are bearing the brunt of the risk, the inclination of the principal ministry in sharing the risk has had a salutary impact.

Proposition VII states that "*the goal conflict between principal and agent is negatively related to behaviour based contracts and positively to outcome based contracts*". This implies that goal conflicts are less with behaviour-based monitoring mechanisms and more with outcome-based contracts. This is illustrated by the recent conflict wherein SAIL and a couple of other CPSUs have refused to pay dividends.

Proposition IX states that "*outcome measurability is negatively related to behavioural contracts and positively related to outcome based contracts*". By its very definition, the measurability of outcomes is eminently feasible in outcome contracts but not in behavioural contracts; for example, PAT, ROCE, Dividends entail target setting and measurement, and have ushered in a new managerial culture of getting on with the job of overcoming constraints, obtaining results and moving forward in CPSUs, which was absent earlier.

There is no available data from CPSUs that throws light on Proposition IX and X relating to task programmability and length of agency relationship showing them to be positively related with behavioural contracts and negatively with outcome-based contracts. This is because task programmability has never been seriously attempted and length of agency relationship has purely been a function of political expediency. All contracts are only outcome based and only 13 CPSUs have been privatized since 1991 denoting that even loss-making CPSUs continue under the same mandate.

Section 5 – Discussion of Findings

From the Corporate Finance perspective, decisions on Financing, Investment and Dividends are of paramount importance. The Dividend decision entails overcoming the dilemma of retention or distribution of earned profits and has a direct impact on the financing and investment decisions apart from the impact on cash flows of the firm. On the one hand, the traditional view espoused by scholars such as Fama and French (2001), Grullon, Michaely, and Swaminathan (2002) is that high profitability/low growth firms tend to pay dividends as they have sufficient cash surplus from profits, but do not see adequate growth opportunities. On the other hand, low profitability firms do not have adequate cash surplus for dividends. However, high profitability/high growth firms prefer to conserve their cash surplus for recurring capital investments. A critique of dividend policy would therefore revolve around the perspectives of (a) rewarding shareholders through dividends and (b) as a tool for control. The Agency theory offers a sound basis for critical assessment of dividend policy of CPSUs.

Large cash surpluses under managers' control is a cause for concern for owners/shareholders as they tend to be frittered in enhancement of employee compensation/perquisites or invested unwisely in low yield projects/capital assets leading to reduction in shareholder wealth. Dividends are seen as an antidote to mitigating the risk to shareholders' wealth. Jensen (1976) adds that managers who work in the best interests of shareholders avoid unprofitable projects and distribute any excess cash as dividends, but the probability of all managers working likewise is questionable necessitating the intervention of the owner. Monitoring the disbursements of surplus cash is thus an inevitable activity while entrusting the responsibilities to the agent managers and comprises the cost of measuring, observing and controlling agents' behaviour such as cost of audit, cost of executive compensation schemes and cost of managerial separation. Manos (2002) states that while shareholders can monitor managers, collective action of a large number of shareholders results in too little monitoring and hence, an external monitoring mechanism may be useful. Easterbrook (1984) says that the other solution is to increase the dividend payout ratio as has been done by the Ministry of Finance with the 30% dividend mandate on CPSUs. Interestingly, Real Estate Investment Trusts (REITS) in USA are mandated to declare 90% of their taxable income as dividends and 75% of their investments in real estate assets; this leaves very little scope for wastage, necessitates reliance on external debt financing for growth (Ghosh and Le Sun, 2013) and thereby reduces agency costs substantially.

Against this backdrop and considering the quantum improvement in financial performance of CPSUs post 1986 and backed by the theoretical framework of Agency theory and Outcome based contract, the minimum payout of 30% appears reasonable and logical. This is endorsed by the findings of Lloyd et al (1985) who stated that dividend could be used to help alleviate the agency problem where traditionally, monitoring has been difficult. They also argued that firms who have dispersed and/or concentrated ownerships are likely to have high payout ratios, which supports the MoF decision to increase the payout ratio as bulk of the shares are held by the GoI. MoF's decision is also in line with the findings of Easterbrook (1984) who propounded that market borrowings help to reduce risk aversion on the part of managers by increasing the debt-equity ratio, which forces them to be less slothful and/or consume less perquisites and align their interests with the principal. Hardin and Hill (2008) and Chou et. al (2013) have offered compelling evidence that excess dividends reduce agency costs and enhance firm value. The improved financial performance over the past 30 years as a result of outcome based performance contracts has given a fillip to GoI to raise the dividend bar and their expectations are well supported by the work of scholars on the salutary impact of high dividend payouts. Consequently, MoF's decision to raise the minimum dividend bar appears well thought out.

Section 6 - Summary and conclusions

The relationship of CPSUs with the administrative ministry/MoF is a classic case of the agent-principal relationship, which is the fulcrum of the agency theory. The MoF has employed dividends as one of the KPIs along with a host of indicators relevant to each CPSU. In a CPSU, shares are concentrated in the hands of the GoI and mandating high dividend payout is an effective control mechanism to minimize agency costs. The performance contract based MOUs have been found to be successful as evidenced by the consistent growth in sales, ROCE, dividends and dividend payouts over the three decades since their introduction. While the system has put considerable pressure on both the agent CPSU and the principal administrative ministry, it has unleashed managerial enthusiasm, inculcated a culture of risk sharing, reduced goal conflicts and enhanced goal congruence to uplift productivity and profitability, and contributed to consistent inflows to the national exchequer enabling the central government to minimize the fiscal deficit. It has facilitated value enhancing behaviour (even if not value maximizing) by CPSUs. The argument that CPSUs like SAIL do not have the free cash flow to pay 30% dividends should be attributed to the vicissitudes of business environment and should not be a reason for relaxation. Thus, if the MoF were to relax the 30% dividend mandate, it would go against their interests as Principal vis-à-vis their CPSU Agents and release the outcome adherence pressure built during the past few decades. This could be counter-productive in their efforts to steadily reduce the fiscal deficit.

Section 7 - Applicability and Generalizability

In a democratic system, no political party can expect to win elections unless it takes care of all sections of society, and in particular, the economically weaker sections (EWS). In India, the top 10% of the population accounts for 77% of the national wealth while 60% of the population categorised as poor account for only 4.7% of the national wealth. To correct this deep systemic fault, social spending by the government to uplift the EWS has been enormous of the order of Rs. 3.50 lakh crore (Table 2) which is nearly 50% of the estimated fiscal deficit of Rs. 7 lakh crore for 2019-20 (Economic Times).

Table 2: Social spending by Government of India between 2018-19 and 2019-20

Sector	FY18-19 - Rs. crore	FY19-20* - Rs. crore
Education	83,626	93,848
Health	55,949	63,538
Rural Development	135,109	138,962
Social Welfare	46,492	49,337
Total	**321,176**	**345,685**

Source: Business Standard, July 17, 2019

Thus, there is a huge pressure on GoI to raise resources for social spending and concurrently minimise the fiscal deficit especially considering the large population of extremely poor people. Mahdazharud (2018) states that while there is no generally accepted definition of poverty, consumption and income data have been commonly used as a measure; for example, the World Bank defines the income of “extreme poor” at less than $1.9 per day (Rs. 133/ day) and 'poor' at less than $2 a day (Rs. 140/day)[3]. Below the poverty line (BPL) population of India is a whopping 22%, (Reserve Bank of India, 2019) that is about 27 million, which is equivalent to the population of Indonesia (Internet World Stat, 2019).

India adopted the socialist system immediately after independence, and for nearly 40 years, continued the model with limited success. The catchwords of the first Prime Minister, Pandit Jawaharlal Nehru were “attaining the commanding heights of economy through building temples of modern India” in the form of top class universities, large dams for hydroelectric power and irrigation, public sector plants in steel, fertilizer, research establishments in atomic energy and space. This approach helped India to make technological progress with concomitant capabilities to manufacture anything from a pin to an atom bomb; however, the inherent dichotomies of public good and social welfare, and the protective mindset that sheltered the public sector prevented the country from achieving efficiency comparable to global standards. It was only post 1991, with the dawn of the liberalization era and exposure to global competition that Indian industry seriously looked at technology as a source of competitive advantage and improved its cost competitiveness. Notwithstanding the sustained efforts that Indian industry has

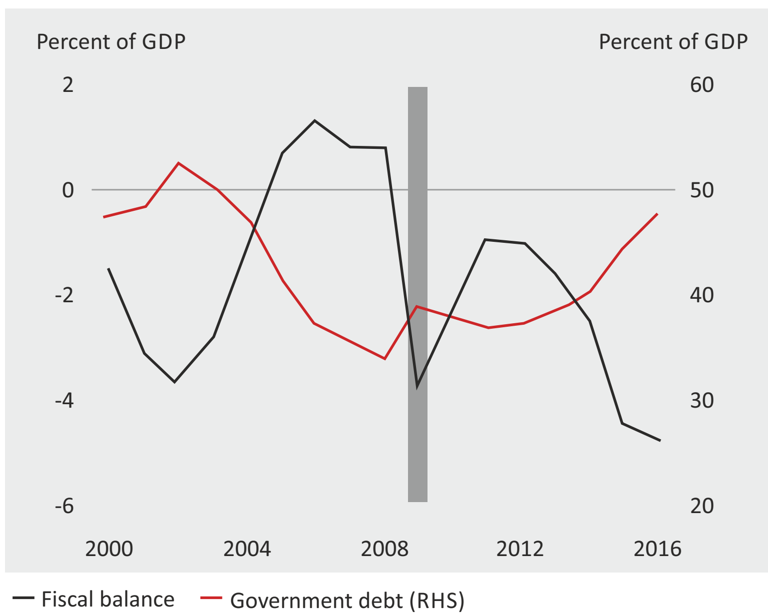
3 *Assumed 1 USD = 70 INR*

made, overall manufacturing efficiencies, in particular that of CPSUs, are unsatisfactory. Hence, the savings and surpluses generated in the economy are not adequate to meet the ballooning social welfare needs. While, during the first thirty years, the CPSUs were yielding negative returns, as discussed in Section 4, post 1986, their overall performance improved and their annual contributions to GoI's exchequer have been of the order of Rs.78,000+ crore in the form of dividends.

Any owner is justified in seeking reasonable returns or rent in excess of the cost of production. Accordingly, GoI as the owner of the CPSUs, is justified in seeking rents. The question is whether GoI is seeking excessive rent with its 30% stipulation. Mandated dividend payouts are supported by the Agency theory. Besides, having protected the CPSUs for nearly 40 years, if GoI is now seeking significantly higher dividend payouts with the avowed objective of increasing social spending and minimising the fiscal deficit, it should be considered as eminently justified and an honourable objective. It will also help them to discover the efficient CPSU agents with this predatory outcome based control mechanism. Those CPSUs that are unable to meet the dividend obligation will have to shape up or be privatised leading to improvement of efficiency.

Most emerging economies have a significant fiscal deficit and huge public debt (see Figure 1).

Figure 1: Overall Fiscal Balance and Government Gross Debt in Emerging Markets and Developing Economies (EMDEs)



Source: International Monetary Fund, World Bank.
Note: GDP - weighted averages. The year of global recession is shaded in gray.

Choudhury R (2019) argued that while globalization has helped to reduce the world's poverty, a lot more needs to be done to bridge the growing disparity between the rich and the poor. He adds that in the interest of social coherence, countries like India and China could set examples for other emerging economies, by having appropriate public policies that have a social welfare orientation. Appiah et al (2019) suggest that efforts of Governments in emerging economies should revolve around human development initiatives such as improved public policies for health care. Yadav (2016) says that public policy for making important decisions requires a menu of multiple options and substantial information to make an appropriate choice. Dividend policy of Public sector units provides an appropriate vehicle for governments to signal their intentions of maximising efficiency of capital usage and channelizing the returns towards social welfare spending and reducing the fiscal deficit. Every emerging economy has its share of public sector units. If these countries can emulate the Indian model of appropriate rent seeking from the CPSUs, it will enable them to not only improve the efficiency of their public sector units but also in due course, generate surpluses to meet their social and welfare needs.

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