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India's State-Owned Enterprises**Prepared by Ruchir Agarwal, Elif Arbatli-Saxegaard, Lesley Fisher, Xuehui Han***Authorized for distribution by Nada Choueiri, Manal Fouad and Paulo A. Medas
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ABSTRACT: India's recently announced privatization strategy can facilitate a change in the composition of the public sector balance sheet toward high-return public sector investments in infrastructure and human capital where there is a clear role for government, leaving commercially viable companies for the private sector. Against this background, this paper provides a description of the SOE sector in India, considers different criteria which can inform the scope and rationale for privatization. It also highlights takeaways from international experience with privatization, highlights the importance of improved governance and oversight of SOEs and showcases analytical tools that can help analyze risks from SOEs. While this paper focuses on India, the framework for SOEs developed in this paper can be used to evaluate SOEs policy options in other countries.

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Author's E-Mail Address:	RAgarwal@imf.org ; EArbatli@imf.org ; LFisher@imf.org ; XHan@imf.org

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Executive Summary

India's recently announced privatization strategy can facilitate a change in the composition of the public sector balance sheet toward high-return public sector investments in infrastructure and human capital where there is a clear role for government, leaving commercially viable companies for the private sector. Against this background, this paper provides a description of the SOE sector in India, considers different criteria which can inform the scope and rationale for privatization. International experience highlights several prerequisites for reaping the benefits of privatization and may be relevant for India: a medium-term privatization plan, a solid regulatory framework for good governance and transparency during privatization, competitive markets, and ensuring an equitable distribution of privatization rents, for example by compensating affected workers. Because privatization often takes time, governments should also invest in governance and oversight of SOEs, which can increase efficiency, reduce cost to governments, and facilitate future privatization. While this paper focuses on India, the framework for SOEs developed in this paper can be used to evaluate SOEs policy options in other countries.