

PUBLIC SECTOR DISINVESTMENT - INDIA

Preliminary Phases of Implementation 1991-2001

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ABSTRACT

The basic objective of this article is to review and assess the impact of Disinvestment Policy of PSUs during the period of 1991 to 2001.

Through the disinvestment policy, a substantial change was expected be brought about in the working and performance of PSUs for positive economic growth at a much faster rate to be at par with global organizations with enhanced efficiency of resource management available at their disposal.

Keywords: Disinvestment, Public Sector Undertaking (PSU), Department of Disinvestment (DOD), Public Sector Enterprises (PSEs), Annual Budgets, Economic Surveys, CPSEs

1. INTRODUCTION

The public sector has been given top priority ever since India became independent with a view to bring about rapid development to accelerate the tempo of economic development with social justice.

The public sector embarked on those areas which are very critical for economic growth. These areas needed huge investments with long gestation period & marginal returns. This has also generated huge employment potential.

The main target of the policy of disinvestment is to usher in people's ownership of Central Public Sector Enterprises through disinvestment. through stock sale through listings.

2. REVIEW PROCESS

The primary criteria for this review covers the following sections in reference to PSUs in India including basics before the actual study of after effects post 1991 till 2001.:

1. The phenomenon and basics of Disinvestment
2. Performance of Public Sector Enterprises during review period.
3. Apprehensions
4. Conclusions
5. References

This review process covers an important tenure of decision and implementation of PSU disinvestment policy in 1991 to 2001, and also the returns on the funds allocated and spent on PSUs. through various means similar to private sector.

The inputs for this were gathered from secondary sources like governmental agencies and other media.

The opinions expressed by various subject experts on this were also studied to assess the after effects of this policy and resultant benefits to the sector.

2.1 THE PHENOMENON AND BASICS OF DISINVESTMENT

In order to restructure public sector investment and make it more rational, it was thought to be necessary to improve profitability, efficiency and accountability of this sector. Privatisation of public sector was adopted as the process that would ensure this objective.

In order to discuss the policy of disinvestment, it is necessary to understand certain issues related to the process of privatization.

With less interference of State and better management methods are the basics of higher efficiency and growth are the hallmarks of privatization.

Since the beginning of 1980s, privatisation has been suggested as a measure to cure problems related to the public sector. There has been a rising interest in privatization of public sector in many developing countries in early eighties.

Almost all developing countries have adopted this process in some form or the other..

There is a general belief that privatisation would bring in:

- Efficient organization
- Skill manpower
- Better returns
- High competition necessitates improved working .

In India, the concept of privatization has been there in all the governments over certain period due to the following factors.

- Low returns on investment
- Low manpower in efficiency
- Less transparency in execution and communication
- Under utilization of capacity
- Customer retention

Dept of Disinvestment(DOD) was subsequently elevated to a full fledged Ministry of Disinvestment in September 2001.

The policy of disinvestment specifically aims at:

- * Modernization and up gradation of PSUs
- * Creation of new assets
- * Generation of employment
- * Retiring of public debt.

2.2 THE PROCESS OF DISINVESTMENT

1991-1992 to 2003-2004

In 1991,as precursor for disinvestment,31 PSUs were selected for Rs 3038 crores.

Mr. G V Ramakrishna was appointed as Chairman of newly constituted Disinvestment Commission to advice, supervise, monitor and publicize gradual disinvestment of Indian PSUs and recommended privatisation of 57 PSUs. An independent Department of Disinvestment is set up to give a fresh impetus to the privatisation program.

This was later renamed as Ministry of Disinvestment from September,2001 which was later became DOD under Ministry of Finance in 2004.

The Rangarajan Committee recommended the necessity of major share for disinvestment. The committee suggested a disinvested level upto to 49% for those units reserved for the public sector.

It also emphasized and suggested that in specific cases the ownership level could be kept at 26%, i.e. disinvestment could take place to the extent of 74%.

In other cases, it recommended 100% disinvestment of Government stake.

Holding of 51% or more equity by the Government was recommended only for 6 Scheduled industries, namely: Coal and Lignite; Mineral oils; Arms, Ammunition and Defence equipment; Atomic Energy, Radioactive minerals & Railway transport.

The Government did not proceed ahead on the recommendations of the Rangarajan Committee.

Dr. R. H. Patil took over the chairmanship of the commission in 2001 and the commission was dissolved in 2004.

The new industrial policy 1991 has been adopted under which far-reaching structural reforms have been initiated to lift excess direct controls and regulations on industries and to ensure a free-market oriented economic system.

Thus the new policy indicates the Government's intention to invite a greater degree of participation by the private sector in important areas of the economy.

According to the new policy, the resources in the public sector are to be utilised for the development of strategic, high-technology industries and essential infrastructure areas and for social sectors such as education, public health and poverty alleviation programmes.

The major thrust for Disinvestment Policy in India came through the Industrial Policy Statement 1991. The policy stated that the government would disinvest part of their equities in selected PSEs. However it did not stake any cap or limit on the extent of disinvestment. It also did not restrict disinvestment to any class of investors.

2.3 Disinvestment from 1991-2001

As per the data from the Department of Disinvestment, against an aggregate target of Rs 54,300 crore from 1991-92 to 2000-01, only managed to raise Rs 20,261 crore (less than half) by divesting 16% equity in 42 PSUs).

The government was able to exceed the target only 3 (out of 12) years and in the remaining nine years the target could not be accomplished. In 1993-94, net proceeds from PSU disinvestment were nil against a target amount of Rs 3,500 crore. (as given in the succeeding table)

YEAR	TARGET (Rs. crore)	ACHIEVED * (Rs. crore)	ACHIEVEMENT (%)
1991-92	2,500	3,038	121.51
1992-93	2,500	1,913	76.5
1993-94	3,500	0	0
1994-95	4,000	4,843	121.08
1995-96	7,000	168	2.41
1996-97	5,000	380	7.59
1997-98	4,800	910	18.96
1998-99	5,000	5,371	107.42
1999-00	10,000	1,585	15.85
2000-01	10,000	1,871	18.71
2001-02	12,000	3,268	27.24

* Excludes Other Receipts of the Government from CPSE Disinvestment

Some of the reasons for such low proceeds from disinvestment against the actual target set were:

- Unfavorable market conditions
- No clear-cut policy on disinvestment
- Strong opposition from employee and trade unions
- Lot of opposition on the valuation process
- Lack of transparency in the process

- Lack of political will

2.4 APPREHENSIONS

The problems and issues associated were unique of its kind. The process adopted, area chosen for disinvestment or privatisation and mode of disinvestment as well as amount of share to divest were difficult issues and problem awaiting the solution.

The poor performance of the public sector in India became the hallmark. The mode of functioning of PSUs became more bureaucratic rather than commercial. The root cause in their existence, functioning, performance and disinvestment gave rise to many issues.

The basic objective is profit maximization in case of any private sector enterprise while it is not the case for PSU. India has not resolved all its traditional issues like lack of modern technology in strategic sectors, under exploitation of local resources, a thin and lopsided industrial base, skewed income distribution, regional disparities and high unemployment rate.

Privatisation of all public sector units was not “the solution”. Rather, there is a need to have a fresh look on the role of public sector enterprises in Indian economy and need to realign the policies accordingly.

3. CONCLUSIONS

The objective of disinvestment should be to benefit public, the investor and at same time to improve competitiveness and to eliminate monopoly.

The entire process should be a more coordinated exercise among all the stake holders as well as all the bureaucrats by creating a easily accessible climate.

The achievement of disinvestment has been falling short of the target barring some period, the achievements have been unsatisfactory.

Reasons for Slow Achievements:

- Concerned stake holders were not taken into confidence before the starting the disinvestment process resulting in opposition by certain groups and parties in opposition.
- The unfavorable market conditions were mainly responsible for this downward trend of disinvestment hence the receipt generated was poor.

- The amount realized through disinvestment was not paid to the enterprise concerned for its expansion and improving efficiency but the Government has been using such disinvestment proceeds to bridge the budget deficit.
- The Government was not transparent about its approach towards sequencing the restructuring and methods of disinvestment of PSEs.
- The offers made by the Government for disinvestment of PSEs were not attractive and stringent bureaucratic procedures discourage the private sector interest.
- The Government had no clear cut policy on disinvestment of its PSE's when the disinvestment process was started.

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