Disinvestment Policy in India: Progress and Challenges

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Abstract

The role of the public sector and private sector has been one of the major issues in development economics and policy. In a mixed economy such as India, historically the public sector had been assigned an important role. In the nineties, India's budgeting, fiscal deficits, and balance of payments problems kick started the government's urge to unlock the huge investments chained in the public sector enterprises (Pses). The major thrust for Disinvestment Policy in India came through the Industrial Policy Statement 1991.

The new policy of liberalization, privatization and globalization de-emphasized the role of the public sector in the nation's economy. The policy stated that the government would disinvest part of their equities in selected PSEs. However it did not state any cap or limit on the extent of disinvestment. It also did not restrict disinvestment to any class of investors.

The main objective was to improve overall performance of the PSEs. In eighties the model of privatization/divestment was initiated by Margaret Thatcher in UK and implemented by other countries including Germany (Unified), and other socialist countries. The Four Ps of disinvestment are Policy, Promise, Prognosis and Performance. In recent past, we have been witnessing a lot of debate on the disinvestments scenario suggesting dynamic movement.

Keyword: Disinvestment, Progress,Privatization, Public Sector Enterprise, Productivity

Introduction

Disinvestment refers to the action of an organization or the government in selling or liquidating an asset or subsidiary. In simple words, disinvestment is the withdrawal of capital from a country or corporation. Some of the salient features of disinvestment are:

1. Disinvestment involves sale of only part of equity holdings held by the government to private investors.
2. Disinvestment process leads only to dilution of ownership and not transfer of full ownership. While, privatization refers to the transfer of ownership from government to private investors.
3. Disinvestment is called as 'Partial Privatization'.

In India a large number of Psus were set up across sectors, which have played a significant role in terms of job creation, social welfare, and overall economic growth of the nation; they rose to occupy commanding heights in the economy. Over the years, however, many of the PSUs have failed to sustain their growth amidst growing liberalization and globalization of the Indian economy. It is also contended that the functioning of many public sector units (Psus) has been characterized by low productivity, unsatisfactory quality of goods, excessive manpower utilization, inadequate human resource development and low rate of return on capital. For instance, between 1980 and 2002, the average rate of return on capital employed by PSUs was about 3.4% as against the average cost of borrowing, which was 8.66%. Disinvestment (or divestment) of the PSUs has therefore been offered as one of the solutions in this context.

There are basically two reasons in support of disinvestment:

1. To provide fiscal support: It emphasizes that the resources raised through disinvestment must be utilized for returning past debts and thereby bringing down the interest burden of the Government. The demands on the Government, both at the centre and State are increasing. There is compelling need to expand the activities of the State are in areas such as education, health and medicine. It is,

therefore, legitimate that a part of the additional resources needed for supporting these activities comes out of the sale of shares built up earlier by the Government out of its resources.

2. To improve efficiency: The second important argument in favour of disinvestment is the contribution that it can make to improve the efficiency of the working of the enterprise. Leaving aside the extreme case of disinvestment where the dilution is of a lesser order and where the Government control is still retained, the induction of public ownership can have a salutary effect on the functioning of an enterprise. It increases the accountability of those in charge of the enterprise. The shareholders would require to be compensated and earn more profits. The induction of public into the ownership structure can also create conditions in which there could be greater autonomy for the functioning of the public sector enterprise. Disinvestment can, therefore, be regarded as a tool for enhancing economic efficiency.

One more rational for privatization in the concept that private ownership leads to better use of resources and their more efficient allocation. Throughout the world, the preference for market economy received a boost after it was realized that the State could no longer meet the growing demands of the economy and the state share holding inevitably had to come down. The ‘State in business’ argument thus lost out and so did the presumption that direct and comprehensive control over the economic life of citizen from the Central government can deliver results better than those of a more liberal system that directly responds according to the market driven forces.

Another reason for adoption for privatization policy around the globe has been the inability of the Governments to raise high taxes, pursue deficit / inflationary financing and the development of money markets and private entrepreneurship.

Further, technology and W.T.O. commitments have made the world a global village and unless industries, including Pses do not quickly restructure, they would not be able to survive.

Public enterprises, because of the nature of their ownership, can restructure slowly and hence the logic of privatization gets stronger. Besides, techniques are now available to control public monopolies by regulation/competition, and investment of public money to ensure protection of consumer interests is no longer a convincing argument.

Review of Literature

Joshi and Little (1994) have tried to estimate the real rates of return to investment in thepublic and private sectors. Bhaya (1990) studied disinvestment by giving base his findings on thetime series data from 1981-82 to 1985-86 published annually for the public and private sector by the survey of industries. Bhaya used three indicators of efficiency (managerial efficiency – things that can be controlled by managers). They are money, workforce and material. On the basis of the evidence available over the period 1981-82 and 1985-86, Bhaya concluded that barring the burden of the fixed capital over which the public sector management has no control and despite higher wages and administered prices over which the management has no control, efficiency in public sector is in no way inferior to the private sector.

Jha and Sahni (1992) use Annual Survey of Industries data for the years 1960-61 to 1982-83 for our industries: cement, cotton textiles, electricity, and iron and steel in another study. The latter two industries, they claim are primarily in the public sector while the first two are owned predominantly by private interests. Therefore on every aspect the research has been done but no research is done for analyzing the reasons of failure in setting up targets of disinvestment and its achievements as well. Therefore this study has been conducted.

Objectives of Disinvesment

Following objectives were stated in July, 1991 while propounding the disinvestment policy:

1. To meet the budgetary needs
2. To improve overall economic efficiency
3. To reduce fiscal deficit
4. To diversify the ownership of PSU for enhancing efficiency of individual enterprise
5. To raise funds for technological up gradation, modernization and expansion of PSUs
6. To raise funds for golden shake hand. Releasing the large amount of public resources locked up in non-strategic public sector enterprises (PSEs) for redeployment in areas the much higher on the social priority, such as health, family welfare, primary education and social and economic infrastructure
7. Reducing the public debt that is threatening to assume unmanageable proportions
8. Transferring the commercial risk to the private sector wherever the private sector is willing and able to step in
9. Releasing other tangible and intangible resources, such as large manpower currently locked up in managing PSEs, and their time and energy for redeployment in high priority social sectors that are short of such resources.

Disinvestment Policy

First Phase: 1991-1998

The Industrial Policy Statement of 24th July,1991, stated that the government would disinvest part of its holdings in selected PSEs, but the policy placed no cap on the extent of disinvestment in favour of any particular class of investors. The objective for disinvestment was stated to be to provide further market discipline to the performance of public enterprises.

It was decided that in the case of selected enterprises, part of Government holdings in the equity share of these enterprises will be disinvested in order to provide further market discipline to the performance of public enterprises.

Report of the Rangrajan Committee on the Disinvestment of shares in PSEs : April 1993

The Rangarajan Committee recommendations emphasised the need for substantial disinvestment. It stated that the percentage of equity to be disinvested could be up to 49% for industries explicitly reserved for the public sector. It recommended that in exceptional cases, such as the enterprises, which had a dominant market share or where separate identity had to be maintained for. strategic reasons, the target public 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. However, the Government did not take any decision on the recommendations of the Rangarajan Committee.

The Common Minimum Programme of the United Front Government l996

The United Front Government promulgated the policy for disinvestment in Public sector undertaking. The highlights of the policy formulated by the United Front Government were as follows:

1. To carefully examine the public sector non-core strategic areas
2. To set up a disinvestment commission for advising on the disinvestment related matters
3. To take and implement decisions to disinvest in transparent manner
4. Job security, opportunities for retraining and redeployment to be assured

Disinvestment Commission Recommendations Feb 1997-Oct. 1999

Pursuant to the above policy of the United Front Government, a Disinvestment Commission was set up in 1996. By August 1999, it made recommendations on 58 Psus. The recommendations indicated a shift from public offerings to strategic/trade sales, with transfer of management in case of 41 PSUs referred to it and only 'n 5 Psus by public offering route.

Second Phase: 1998-99 onwards

The Government decided to bring down government shareholding in the Psus to 26% in the generality of cases, thus facilitating ownership changes, as was recommended by the Disinvestment Commission. It, however, stated that the government would retain majority holdings in PSUs involving strategic considerations and that the interests of the workers would be protected in all cases.

The Policy for 1999-2000, as enunciated by the Government was to strengthen strategic Psus, privatise non-strategic Psus through gradual disinvestment or strategic sale and devise viable rehabilitation strategies for weak units. One highlight of the policy was that the expression 'privatisation' was used for the first time

Strategic and Non-Strategic Classification

On 16th March 1999, the Government Classified the Public Sector Enterprises (PSEs) into strategic and non-strategic areas for the purpose of disinvestment. It decided that the Strategic Public Sector Enterprises would be those which are in the areas of:

1. Arms and ammunitions and the allied items of defence equipment, defence aircrafts and warships
2. Atomic energy (except in the areas related to the generations of nuclear power and applications of radiation and radio-isotopes to agriculture, medicine and non-strategic industries)
3. Railway transport

All other Public Sector Enterprises were to be considered non-strategic. For the non- strategic public Sector it was decided that the reduction of government stake to 26% would not be automatic and the manner and pace of doing so would be worked out on a case-to-case basis. A decision in regard to the percentage of disinvestment i.e. Government stake going down to less than 51 % or to 26%, would be taken on the following considerations Whether the industrial sector requires the presence of the public sector as a countervailing force to prevent concentration of power in private hands, and Whether the industrial sector requires a proper regulatory mechanism to protect the consumer interests before Public Sector Enterprises are privatised.

In the year 2000-01, for the first time the Government made the statement that it was prepared to reduce its stake in the non-strategic Pses even below 26% if necessary, that there would be increasing emphasis on strategic sales and that the entire proceeds from disinvestment/privatisation would be deployed in social sectors, restructuring of PSEs and retirement of public debt. The main elements of the policy are reiterated as follows:

1. To restructure and revive potentially viable PSEs
2. To close down PSEs which cannot be revived
3. To bring down Government equity in all nonstrategic PSEs to 26% or lower, if necessary
4. To fully protect interests of workers
5. To put in place mechanisms to raise resources from the market against the security of PSEs assets for providing an adequate safety-net to workers and employees
6. To establish a systematic policy approach to disinvestment and privatization and to give a fresh impetus to this programme by setting up a new Department of Disinvestment
7. To emphasize increasingly on strategic sales of identified PSEs
8. To use the entire receipt from disinvestment and privatization for meeting expenditure in social sectors, restructuring of PSEs and retiring public debt.

The Budget speech for the year 2001 -2002 highlighted that after setting up of the Ministry of Disinvestment, the process of privatization of Pses has been streamlined. To maximize returns to Government, the approach shifted from disinvestment of small lots of share sale to strategic sale of blocks of share to strategic investors.

It was declared that the proceeds would be used for providing

1. Restructuring assistance to Pses
2. Safety net to workers
3. Reduction of debt burden

Challenges Before Government

Disinvestment was a very bold and important step initiated by the government as a part of its reform measures. But the way it was handled has defeated its very purpose.

Social Problem

Process of disinvestment is not favored socially as it is against the interest of socially disadvantageous people and society at large. This process will definitely affect the social objectives of the government.

Political Problem

The government at the centre faces opposition from a number of parties has posed a serious threat to this programme. Conflicting interest has made it difficult toarrive at a national consensus.

Economic Problem

Most of the units identified for disinvestment are in a very bad shape which does not offer good returns. The Government due to paucity of funds is also not in a position to revive it.

Progress of Disinvestment In India

The year wise targeted and actual disinvestment in the Psus is as presented in table

Table:1

Annual Cpse Disinvestment Target vs. Achievement Table since 1991-92(as on 25 November 2014)

Year	Target (Rs.Crore)	Achieved * (Rs.Crore)	Achievement (%)
1991-92	2,500	3,038	121.51
1992-93	2,500	1,913	76.50
1993-94	3,500	0	0.00
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
2002-03	12,000	2,348	19.57
2003-04	14,500	15,547	107.22
2004-05	4,000	2,765	69.12
2005-06	0	1,570	N.A.
2006-07	0	0	N.A.
2007-08	0	4,181	N.A.
2008-09	0	0	N.A.
2009-10	25,000	23,553	94.21
2010-11	40,000	22,763	56.91
2011-12	40,000	14,035	35.09
2012-13	30,000#	23,857	79.52
2013-14	54,000##	21,321	39.48
2014-15	58,425	61	0.10
TOTAL	3,44,225	1,55,348	45

1. # Revised Target : Rs. 24,000 crore
2. ## Revised Target : Rs. 19,027 crore

Source:www.bsepsu.com

The above table reveals that in 1991-92, total achievement in respect of disinvestment of PSE shares was Rs. 3038 crores as against its targets of 2500 crores. In 1992-93 and 1993-94, the achievement of disinvestment was only Rs. 1913 crores and zero respectively as against the target of Rs.2500 crores and Rs.3500 crores respectively. Against the target of Rs. 40 00 crores and Rs.7000 crores for 1994-95 and 1995-96 respectively, the Government raised Rs. 4843 crores and only Rs. 168 crores in respective year.

In 1996-97 and 1997-98, the achievement in respect of disinvestment was only Rs. 380 crores and Rs. 910 crores respectively as against target of Rs.5000 crores and Rs. 4800 crores in respective year. Again 5371 crores and 1585 crores against a target of 5000 crores and 10000 crores in the years 1998-99 and 1999-2000 respectively. Against target of Rs.10000 crores and Rs.12000 crores in the year 2000-2001 and 2001-2002 the government raised Rs.1871 crores and Rs. 3268crores Again, in 2002-2003 and 2003-04 the Government set a budgetary target of Rs.12000 crores and 14500 crores in respect of disinvestment and the Government could raise Rs.2348 crores and Rs.15547 crores respectively.

In the year 2004-2005 against a target of Rs. 4000 crores government could achieve Rs.2765 crores and in 2005-2006 no target was fixed even then government achieve Rs.1570 crores. In the year 2006-2007 no target was fixed by the government and no disinvestment took place in this year. In 2007-2008and 2008-2009 also no target was fixed for disinvestment and government achieved disinvestment of Rs.4181 in 2007-2008 and no disinvestment was made in the year2008-2009.In 2009-2010 against a target of Rs.25000 crores government could achieve Rs.23553 crores.

In 2010-2011 and 2011-2012 against a target of Rs.40000 crores and Rs. 40000 crores government could achieve Rs. 22763 crores and Rs. 14035 crores respectively.In 2012-2013 and 2013-2014 against a target(revised) of Rs.24000 crores and Rs19027 crores government could achieve 23857crores andRs.21321 crores respectively. The Finance Minister Arun Jaitley has raised the disinvestment target for 2014-15 to Rs.58425 crores from the Rs.51930 crores target set by the former Upa government in the Interim Budget.

The current year’s target is three times the amount raised in 2013-14. The current government plans to raise Rs.43425 crores from selling its stakes in public sector units (PSUs) and Rs.15000 crores from sale of government’s stake in non-government companies, which will mainly include the residual stake sale in the erstwhile government companies.So far about 10percent of the target i.e. 61 crores has been achieved. Since 1991-92 the Government of India could raise resources through disinvestment to the extent of Rs. 155348 crore up to 2013-2014 and part of 2014-2015 which is just 45 per cent of its target,i.e. of Rs. 344225 crore.

The track record of both the Upa and the Nda government in achieving their disinvestment targets has been poor. Of its five year tenure 1999-2004, the Atal Bihari Vajpayee led NDA government had failed to meet its disinvestment target in three years. The government had managed to achieve only 48.3 per cent of its disinvestment target for 1999-04.

The success rate of the UPA I government was relatively better. It achieved 76.9 per cent of the disinvestment target during its tenure 2004-09. But, this government too missed its target in three of the five years.The Upa II government's tenure started on a good note. It exceeded its disinvestment target for 2009-10. The government raised Rs.245.8 trillion, as against its target of Rs.11.2 trillion, through its stake sale in Nhpc, Oil India, Nmdc and Rec. The government started missing its target from there onwards. In the last year of its tenure, it could achieve only 35.2 per cent of its target.

The disinvestment target set by the Nda government for the current year is ambitious and achieving it is very crucial for meeting the fiscal deficit target. Disinvestment is expected to contribute 4.7 per cent to the total non-debt receipts in 2014-15.

The companies identified for disinvestment during the fiscal year include Ongc, Sail, Coal India, Nhpc, Pfc, Rec, Hindustan Zinc and Balco.

The government is scheduled to offload five per cent of its stake in Ongc this year. This stake sale is expected to fetch the government around Rs.170 crores. This will be the highest amount raised by the government through a single stake sale. Earlier in 2011, the Coal India IPO had fetched it Rs.150 crores.

The government is also planning to re-consider the proposal of 10 per cent stake sale in Coal India.

The former Upa government wanted to raise Rs.200 crores through this stake sale last year. But, met with a strong resistance from the Coal India employees, the government could not dilute its stake in the company. If the current government manages to achieve this task, it will garner around Rs.230 crores.

A 5 per cent stake of the government in Sail is likely to be on offer in 2014-15, which can fetch the government around Rs.18 crores, as per the company's current share price in the stock market. Sale of the government's 10 per cent stake in Nhpc is also on cards.

Besides, the Department of Disinvestment is also looking at the government's residual stake sale in Hindustan Zinc and Balco. Vedanta, which has the controlling stake in the two companies wanted to buy the government's 29.54 per cent stake in Hindustan Zinc and 49 per cent stake in Balco last year.

Conclusion

The present study concludes that the disinvestment is good for a country's economy as it provides revenue for the government, increases operating and financial performance of enterprises and also restructure those units which are

continuously loss making enterprises. Disinvestment in India, though slow,it has helped considerably the government to unlock value of central PSEs.The process needs to be hastened to ensure that the market is able to benefit from this exercise.

If disinvestment policy is to be in wider public interests, it is necessity to examine systematically issues such as correct valuation of shares and appropriate use of disinvestment proceeds. The disinvestment of public sector units which is, in fact, the public's money should be done with due amount of debate in the parliament. This, therefore, calls for utmost care and meticulous planning.

The following points may be useful for policymakers.

1. Place administrative control in the hands of the Finance Minister: This would enable him to complete the disinvestment process focusing on Fdi which could be deposited in the Disinvestments Fund.
2. Hand over companies that are a burden on the government to the employees: This could be done on a token share price of one paisa per share. They may turn the company around or resell it for scrap or close down the outfit.
3. Manage revivals: Any revivals must be professionally managed on a lease basis.
4. The process of disinvestment should be transparent so that public or private entities can come to know fair process.

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