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INDIAN DISINVESTMENT POLICY: A RIGHT PATH TOWARDS ECONOMIC DEVELOPMENT

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Abstract

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-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. 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.

Balance of Payment position and increasing fiscal deficit led to adoption of a new approach towards the Public Sector in 1991. Disinvestment of Public Sector Undertakings is one of the policy measures adopted by the Government of India for providing financial discipline and improve the performance of this sector in tune with the new economic policy of Liberalization, Privatization and Globalization, (LPG) through the 1991 Industrial Policy Statement. Thus, the paper aims to present a picture of the disinvestment in India based on the secondary literature available.

Key Words: Public Sector Enterprises, Disinvestment, Privatization, Industrial Policy.

Introduction

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

- Disinvestment involves sale of only part of equity holdings held by the Government to private investors.

- 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.
- 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 through 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 been offered the solutions for this.

Definition of Disinvestment:

The term "Disinvestment" is the opposite of the term "Investment". Investment is acquisition of earning asset with the help of money. For example: if bonds are purchased or shares of companies are purchased by spending money it is known as investment. In the case of investment money is converted into earning asset to earn income. On the other hand in the case of disinvestment an earning asset is converted into liquid cash. Here By disinvestment we mean the sale of shares of public sector undertakings by the government. The shares of government companies held by the government are earning assets at the disposal of the government. If these shares are sold to get cash, then earning assets are converted into cash. So it is referred to as disinvestment.

Objectives of Disinvestment:

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

- To meet the budgetary needs.
- To improve overall economic efficiency.
- To reduce fiscal deficit.
- To diversify the ownership of PSU for enhancing efficiency of individual enterprise.
- To raise funds for technological up gradation, modernization and expansion of PSUs.

- To reduce the financial burden on the Government.
- To improve public finances.
- To introduce, competition and market discipline.
- To encourage wider share of ownership.

Different Approaches to Disinvestments:

There are primarily three different approaches to disinvestments (from the sellers' i.e. Government's perspective)

➢ **Minority Disinvestment**

A minority disinvestment is one such that, at the end of it, the government retains a majority stake in the company, typically greater than 51%, thus ensuring management control. Historically, minority stakes have been either auctioned off to institutions (financial) or offloaded to the public by way of an Offer for Sale. The present government has made a policy statement that all disinvestments would only be minority disinvestments via Public Offers. Examples of minority sales via auctioning to institutions go back into the early and mid 90s. Some of them were Andrew Yule & Co. Ltd., CMC Ltd. etc. Examples of minority sales via Offer for Sale include recent issues of Power Grid Corp. of India Ltd., Rural Electrification Corp. Ltd., NTPC Ltd., NHPC Ltd. etc.

➢ **Majority Disinvestment**

A majority disinvestment is one in which the government, post disinvestment, retains a minority stake in the company i.e. it sells off a majority stake. Historically, majority disinvestments have been typically made to strategic partners. These partners could be other CPSEs themselves, a few examples being BRPL to IOC, MRL to IOC, and KRL to BPCL. Alternatively, these can be private entities, like the sale of Modern Foods to Hindustan Lever, BALCO to Sterlite, CMC to TCS etc.Again, like in the case of minority disinvestment, the stake can also be offloaded by way of an Offer for Sale, separately or in conjunction with a sale to a strategic partner.

➢ **Complete Privatisation**

Complete privatisation is a form of majority disinvestment wherein 100% control of the company is passed on to a buyer. Examples of this include 18 hotel properties of ITDC and 3 hotel properties of HCI. Disinvestment and Privatisation are often loosely used interchangeably. There is, however, a vital difference between the two. Disinvestment may or may not result in Privatisation. When the Government retains 26% of the shares carrying voting powers while selling the remaining to a strategic buyer, it would have disinvested, but would not have 'privatised', because with 26%, it can still stall vital decisions for which generally a special resolution (three-fourths majority) is required.

Disinvestment Policy:

For the first four decades after Independence, the country was pursuing a path of development in which the public sector was expected to be the engine of growth. However, the public sector overgrew itself and its shortcomings started manifesting in low capacity utilisation and low efficiency due to over manning, low work ethics, over capitalisation due to substantial time and cost over runs, inability to innovate, take quick and timely decisions, large interference in decision making process etc. Hence, a decision was taken in 1991 to follow the path of Disinvestment.

Period from 1991-92 to 2000-01: 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.

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 change process in India began in the year 1991-92, with 31 selected PSUs disinvested for Rs.3,038 crore. The Department of Disinvestment was set up as a separate department in December, 1999 and was later renamed as Ministry of Disinvestment from September, 2001. From May, 2004, the Department of Disinvestment became one of the Departments under the Ministry of Finance.

Against an aggregate target of Rs. 54,300 crore to be raised from PSU disinvestment from 1991-92 to 2000-01, the Government managed to raise just Rs. 20,078.62 crore (less than half). Interestingly, the government was able to meet its annual target in only 3 (out of 10) years. In 1993-94, the proceeds from PSU disinvestment were nil over a target amount of Rs. 3,500 crore. This was the period when disinvestment happened primarily by way of sale of minority stakes of the PSUs through domestic or international issue of shares in small tranches. The value realized through the sale of shares, even in blue chip companies like IOC, BPCL, HPCL, GAIL & VSNL, however, was low since the control still lay with the government.

This was the period when maximum number of disinvestments took place. These took the shape of either strategic sales (involving an effective transfer of control and management to a private entity) or an offer for sale to the public, with the government still retaining control of the management. Some of the companies which witnessed a strategic sale included:

- BHARAT ALUMINIUM CO.LTD.
- CMC LTD.
- HINDUSTAN ZINC LTD.
- HOTEL CORP.OF INDIA LTD. (3 PROPERTIES: CENTAUR HOTEL,JUHU BEACH, CENTAUR HOTEL AIRPORT,MUMBAI & INDO HOKKE HOTELS LTD.,RAJGIR)
- HTL LTD.
- IBP CO.LTD.
- INDIA TOURISM DEVELOPMENT CORP.LTD.(18 HOTEL PROPERTIES)
- INDIAN PETROCHEMICALS CORP.LTD.
- JESSOP & CO.LTD.
- LAGAN JUTE MACHINERY CO.LTD.,THE
- MARUTI SUZUKI INDIA LTD.
- MODERN FOOD INDUSTRIES (INDIA) LTD.
- PARADEEP PHOSPHATES LTD.
- TATA COMMUNICATIONS LTD.

The valuations realized by this route were found to be substantially higher than those from minority stake sales.

During this period, against an aggregate target of Rs. 38,500 crore to be raised from PSU disinvestment, the Government managed to raise Rs. 21,163.68 crore.

Period from 2004-05 to 2008-09

The issue of PSU disinvestment remained a contentious issue through this period. As a result, the disinvestment agenda stagnated during this period. In the 5 years from 2003-04 to 2008-09, the total receipts from disinvestments were only Rs. 8515.93 crore.

Periodfrom2009-10to2013-14

A stable government and improved stock market conditions initially led to a renewed thrust on disinvestments. The Government started the process by selling minority stakes in listed and unlisted (profit-making) PSUs. This period saw disinvestments in companies such as NHPC Ltd., Oil India Ltd., NTPC Ltd., REC, NMDC, SJVN, EIL, CIL, MOIL, etc. through public offers.

However, from 2011 onwards, disinvestment activity slowed down considerably. As against a target of Rs.40,000 crore for 2011-12, the Government was able to raise only Rs.14,000 crore. However, the subsequent years saw some improvement and the Government was able to raise Rs. 23,857 crore against a target of Rs. 30,000 crore (Revised Target : Rs. 24,000 crore) in 2012-13 and Rs. 21,321 against a target of Rs. 54,000 (Revised Target : Rs. 19,027 crore) in 2013-14.

2014-15onwards

The NDA Government has set an ambitious disinvesment target of Rs. 58,425 crore. As such, 2014-15 is likely to see some big ticket disinvestments taking place.

Challenges of Disinvestment before the 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 to arrive 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.

- **Lack of transparency:** The Government has failed to maintain transparency in the various stages of disinvestment process which has decreased its reliability.
- **Lack of co-operation and co-ordination:** Lack of coordination between disinvestment ministry and other concerned ministries has also greatly affected the disinvestment programme.

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)
1991-92	2,500	3,038
1992-93	2,500	1,913
1993-94	3,500	0
1994-95	4,000	4,843
1995-96	7,000	168
1996-97	5,000	380
1997-98	4,800	910
1998-99	5,000	5,371
1999-00	10,000	1,585
2000-01	10,000	1,871
2001-02	12,000	3,268
2002-03	12,000	2,348
2003-04	14,500	15,547
2004-05	4,000	2,765
2005-06	0	1,570
2006-07	0	0
2007-08	0	4,181
2008-09	0	0

2009-10	25,000	23,553
2010-11	40,000	22,763
2011-12	40,000	14,035
2012-13	30,000	23,857
2013-14	54,000	21,321
2014-15	58,425	61
Total	3,44,225	1,55,348

Revised Target for 2013-14: Rs. 19,027 Crore

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 achieves 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 government could achieve Rs. 22763 crores and Rs. 14035crores 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.

Conclusion:

Disinvestment is a process. The disinvestment process needs to be taken up more seriously by the government. The Government should try to come out with a time bound programme to conduct the process with transparency in all the activities need to reach. Two points should be noted in connection with the disinvestment policy. First, some restructuring of PSUs may be needed before disinvestment to enhance the value of shares and increase sale proceeds. The three broad areas of restructuring would be corporate governance, financial restructuring and business and technological restricting. Secondly, the process of disinvestment has to take into account the conditions in the capital market. Disinvestment should not result in "crowding out" resources available for the private sector. 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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