

Emerging Issues in Disinvestments in Public Sectors

Prof. Dhruv Rohit Gangadwala

Lecturer

M.Com, NET (Commerce)

J.Z. Shah Arts & H.P Desai Commerce College
Amroli-Surat

Prof. Manish H. Tailor

Assistant Professor

M.Com, M L.I.Sc., NET (Commerce & Lib Sci.)

J.Z. Shah Arts & H.P Desai Commerce College
Amroli-Surat

Abstract:

The public sector is the part of the economy, composed of public services and public enterprises. Public services include public goods and governmental services such as the military, police, infrastructure (public roads, bridges, tunnels, water supply, sewers, electrical grids, telecommunications, etc.), public transit, public education, along with health care and those working for the government itself, such as elected officials. Investment refers to the conversion of money or cash into securities, debentures, bonds or any other claims on money, whereas Disinvestment involves the conversion of money claims or securities into money or cash. Disinvestment can also be defined as the action of an organisation (or government) selling or liquidating an asset or subsidiary. It is also referred to as 'divestment' or 'divestiture.' Primary objective of this research paper is focused on Emerging Issues in Disinvestments in Public Sectors. Research methodology for said purpose will be secondary data collection.

KEY WORDS:

Public Sector, Investment, Disinvestment, Divestiture.

Introduction:

At the time of introduction of economic planning, the mixed economy system was accepted by India after getting independent. The core feature of this economy system is co-existence of public sector and private sector. The year 1991 is an important landmark in the economic history of post-Independent India. The country went through a severe economic crisis triggered by a serious Balance of Payments situation. The crisis was converted into an opportunity to introduce some fundamental changes in the content and approach to economic policy, on result LPG was introduced, where P is meant for Privatization. The meaning of Privatization and Disinvestment are almost same but they are not same at all. Disinvestment and Privatization are two different terms in technical sense, though both involve the sale of

Government's share in the Public Sector Undertakings. So it is important to clear this semantic problem. Privatization implies a change in ownership resulting in a change in management. But disinvestment need not always imply change in management. Disinvestment is actually dilution of the stake of the government in a public enterprise. If the dilution is less than 50 percent the government retains management even though disinvestment takes place. It is not privatized. But if the dilution is more than 50 percent there is transfer of ownership and management. It will be called privatization. Thus disinvestment is wider than privatization.

Research Methodology:

The purposes of this research paper have been served with the help of secondary data methodology. Data and the information have been collected from various magazines, articles and reports.

OBJECTIVE OF THE DISINVESTMENT:

Privatization intended to achieve the following:

- Releasing large amount of public resources
- Reducing the public debt
- Transfer of Commercial Risk
- Releasing other tangible and intangible resources
- Expose the privatized companies to market discipline
- Wider distribution of wealth

Objective of Study:

- Core objective of study is to focused on issues occurring in disinvestment.
- To evaluate impact of issue of disinvestment in public sector.
- Establishing difference between disinvestment and privatization.

Problems in Disinvestment in India.

Disinvestment is meant the process of an organization or the government in selling or liquidating or subsidiary, which may be defined in simple word as withdrawal of capital from country or organization. It is having some silent features which may be summarized as under:

- 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**'

The concept disinvestment is not exceptional from issue. It is being affected by the following factors:

1. Absenteeism of Political Will:

Due to lack of political will for Privatization as a means towards economic well being notwithstanding, the fact that in India the present Government is in power has taken step towards liberal economy in a big way since 1990. Politicians find it easier to take the constituents with anti privatization move rather than economic achievements through the process of private ownership. As was happened with the scooters India Limited. An attempt to sell out scooters India Limited, a recurring loss maker in a non-strategic area all members of the major opposition parties stage a walk out from the parliament on March 7, 1988. There are many such instances where proposals for Disinvestment of PSUs or for closing down of loss making units with compensation to the work force could not cross the political barriers for implementation.

2. Issue of strategic and non-strategic sector:

The experts of disinvestment argue that the public sector should be limited only to strategic areas. One argue is that the strategic sector has been narrowly defined in India. In the USA the oil sector has been considered as a strategic area. But in India the oil sector has not been recognized as strategic. PSUs in these areas should be managed by the government. So that the benefit of strategic sector can be availed.

3. Conversation of Profit Making PSUs into Private sector:

The policy of Government to convert a profit making PSUs into private sector by disinvesting is also not excluded from the list of criticism. The profit making PSUs can be defined as the geese that lay golden eggs and it is unwise to kill these geese. The argument in favor of the same is that privatizing or not privatizing is should not be based on whether it is profit making sector or loss making. Rather than this it should be based on the type of sector that is strategic sector or in a non strategic sector. Beside this tax payers' money can also be a base for the same, that is whether the tax payers' money can be saved from commercial risks by transferring the risks to the private sector wherever private sector is willing to step in and assume such risks.

4. Path opt for disinvestment:

The path or way or methodology of government for disinvestment is also short listed for criticism. There is no clarity about the policy on methodology of disinvestment. Earlier the government followed the policy of open auction sale. This method gave excellent result in 1994-95 when realization was Rs. 4843 crore against the target of Rs. 4000 crore. But later in 1999-2000 the government has shifted to strategic sale. It has been argued by the disinvestment ministry that the public offer method is dilatory and takes a long time to complete the process of disinvestment. In this context it can be pointed that the public offer method was adopted in countries

like UK, France, Germany, Malaysia and others. If the method can succeed in these countries there is no reason to believe that it will not succeed in India. This method is transparent and liable to much less abuse.

5. Valuation of shares of PSUs slated for disinvestment:

The valuation procedure of shares of PSUs slated for disinvestment has been colored of criticism. Even the Public Accounts Committee (PAC) or the Comptroller and Auditor General (CAG) has criticized that the shares have been undervalued. There is no transparency in the procedure of valuation. Generally the task of valuation is done by an expert merchant banker and the valuation is placed for consideration by a Committee of secretaries headed by the Cabinet Secretary. There is no expert government agency to crosscheck the valuation made by the merchant banker and the parameters used in the process. Moreover, lands belonging to the PSUs have been left completely out of the exercise of valuation on the plea that they do not earn any income and hence they need not be valued. This is clearly unjustified. Critics have rightly commented that the government is selling PSU silver for a song.

6. Utilization of the proceeds of disinvestment:

Disinvestment does not necessarily benefit the enterprises in terms of immediate accrual of resources. The proceeds of disinvestment go to the Consolidated Fund of India from which it meets the budget deficit. A basic criticism of the disinvestment policy is that a fund raised by selling family silver is used to pay the butler. On December 9, 2002 due to strong public pressure, the government announced that it would set up a separate Disinvestment Proceeds Funds to provide complete transparency to the government's commitment to utilization of disinvestment proceeds for social and infrastructure sectors, rather than bridging the fiscal deficit. This is a welcome development. However, care should be taken that since resources become available from disinvestment proceeds, normal funds allocated to social and infrastructure sectors are not reduced. In order to sustain the interest of the enterprises in the process of disinvestment, it may be useful to set aside a certain percentage of the profits – say 10 percent as recommended by the committee on disinvestments – to be given to the enterprises themselves for their own expansion.

7. Capital Market:

The place of Disinvestment function is very fast in the developed countries, as they have mature capital market. As against this, India's capital market is very young and is not very developed, for helping the Disinvestment Process in a good way. The state of the capital market has a great relevance to Disinvestment. Its depth and helps to determine the extent to which it can be adsorb the off loading of equity and debt by a Public Enterprise Identified for Privatization.

8. National Consensus:

There is absence of a clear understanding of the rationale for Disinvestment, even though Disinvestment has been going on since 1991, this lack of proper public awareness and consensus has definitely hindered the progress of Disinvestment. While there is widespread dissatisfaction among the public about the poor performance of a large number of PSUs, there is insufficient recognition that disinvestment could be the corrective action to tackle this problem. Studies of the experience of Disinvestment in different countries across the globe clearly show that in almost all the countries the impetus to Disinvestment came from the general perception among large sections of the people that the performance of the public sector by and large lacked commercial and market orientation and that there existed need; for better utilization of the returns from the public resources invested in the PSUs. In India too, therefore there has need to be a conscious effort towards building up such a consensus among the different sections of the people before disinvestment can really take off with any seriousness of purpose.

9. Bureaucratic Will:

Bureaucracy is one of the reasons for the poor performance of Public Sector undertakings. And is averse to the privatization as it is used to “back seat drive” the public sector management and officials will find it difficult to digest if no chairman of and public sector turns up to this ‘darbar’ for something or other. Even for giving more autonomy to the public sector management, the bureaucracy in India puts forward the arguments that since the Government in power are responsible to Parliament, autonomy beyond certain points cannot be granted to the public sector. This is an interesting argument to keep ministers happy and bureaucratic control intact.

Analysis & interpretation:

Disinvestment is majorly affected by the various factors and from the above study of the research it can be stated that there a vital role of these factor and many more factor in disinvestment in public sector. For this some data has been undergone for study which is shown in the following table:

| YEAR | TARGET (RS CRORE) | ACHIVED (RS CRORE) |
|---------|----------------------|-----------------------|
| 1991-92 | 2500 | 3038 |
| 1992-93 | 2500 | 1913 |
| 1993-94 | 3500 | 0 |
| 1994-95 | 4000 | 4843 |
| 1995-96 | 7000 | 168 |
| 1996-97 | 5000 | 380 |
| 1997-98 | 4800 | 910 |
| 1998-99 | 5000 | *5371 |
| 1999-00 | 10000 | ** 1,479.27 |

| | | |
|---------|------------------|---------------------------------|
| 2000-01 | 10000 | 1871 |
| 2001-02 | 12000 | 3268 |
| 2002-03 | 12000 | 2348 |
| 2003-04 | 14500 | 15547 |
| 2004-05 | 4000 | 2765 |
| 2005-06 | Not fixed target | 1570 |
| 2006-07 | Not fixed target | 0 |
| 2007-08 | Not fixed target | 1,814.45 |
| 2008-09 | 0 | 0 |
| 2009-10 | 25000 | 23553 |
| 2010-11 | 40000 | 22763 |
| 2011-12 | 40000 | 14035 |
| 2012-13 | 30000 | 23857 |
| 2013-14 | 54000 | 21321 |
| 2014-15 | 58425 | 61 |
| 2015-16 | 41000 | ***28500 |
| 2016-17 | 56500 | 34,938.68 |
| 2017-18 | 72500 | 51,121.83 (as on 19-02-2018) |

*Out of Rs.5371.11, RS 4184 crore constitute receipts from cross purchase of shares of ONGC, GAIL and IOC.

** Out of RS.1479.27, Rs.459.27 crore constitute receipts from cross purchase of shares of ONGC, GAIL and IOC.

***FY 2015-16- An amount of RS.8152 crore has also been realised on account of NTPC sale of bonus debentures held with the Government to EPFO.

FY 2015-16- RS. 69,500 crore (including Rs. 41,000 crore as disinvestment of CPSEs and RS. 28,500 crore from strategic disinvestment).

FY 2016-17- RS 56,500 crore (including Rs. 36,000 crore as disinvestment of CPSEs and RS. 20,500 crore from strategic disinvestment).

FY 2017-18- RS. 72,500 crore (including Rs. 46,500 crore as disinvestment of CPSEs, RS. 15,000 crore from strategic disinvestment and Rs. 11,000 crore from listing of insurance companies).

Conclusion

Despite the fact that disinvestment is one of India's recent success, the process and its outcome, indicate many weaknesses and drawbacks. Public sector companies are being sold only to the indigenous entrepreneurs with the result that the process of disinvestment of PSE is not bringing to much foreign investment, and in that sense it is not adding much to globalization. In terms of the recommendations of the disinvestment commission of 1996 priority for sale of PSEs was to be given to loss making units. But in recent years this recipe has been ignored and all kinds of companies are being sold to the private sector in a rush

without following any proper sequencing on the basis of the given criteria of performance and efficiency. So ultimately it can be stated that there is giant number of factors that create impact on disinvestment in public sectors.

SOURCE OF DATA:

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