



DISINVESTMENT PROGRAMME AND STRATEGIC DISINVESTMENT OF PUBLIC SECTOR IN INDIA: A STUDY ON CURRENT PERSPECTIVE

Dr. Md. Imran Alam

+2 Teacher, Department of Economics,
L.N. Inter School Malikpur, Pirpainti, Bhagalpur (Bihar)

ABSTRACT : At present, to deal with the economic slowdown in the country, the Central Government has decided to strategically disinvest in public sector undertakings (PSUs). It is worth mentioning that in the first phase of strategic disinvestment, five public sector undertakings - Bharat Petroleum Corporation Limited (BPCL), Shipping Corporation of India (SCI), Container Corporation of India Limited (CONCOR), Tehri Hydro Development Corporation India Limited (THDCIL) and North Eastern Electric Power Corporation Limited by the government in the first phase of strategic disinvestment Parts of (NEEPCO) will be sold. Giving information about the government's decision, Finance Minister Smt. Nirmala Sitharaman said that "the government has decided that it will reduce its stake in many PSUs to below 51 percent." Analysts are assuming that this decision of the government will significantly increase the treasury which will be used by the government as public expenditure. The article presented discusses the government's recent decisions related to disinvestment in PSUs, its necessity, its consequences, challenges arising and measures to make the performances effective.

Key words : public sector undertakings, disinvestment, Indian economy.

INTRODUCTION

In the context of the Indian economy, the most discussed and controversial topic in the last decade of the 20th century has been the disinvestment program in public industries in India. After independence, a lot of government money was invested in the establishment of public industries in the country. Financial institutions also came under the purview of the public sector after the nationalization of banks and insurance companies in India due to control, licensing quota and permit system. But the public sector has failed to achieve its establishment objectives. Losses had become their culture and were proving to be a burden for the economy. Due to laxity, mismanagement and red tape, their capital was also ending. Their losses started increasing so much that it became difficult to operate. Shortages were felt for the smooth functioning of the economy, with international, financial institutions (World Bank and International Monetary Fund) pressuring the government to implement disinvestment programs in exchange for financial support. Thus, due to the prevailing financial crisis and pressure from international financial institutions, the disinvestment program had to be implemented. The policy of disinvestment in PSUs was implemented by the Central Government from 1991-92. A summary of the current guidelines of the privatization policy is given in a self-contained statement laid in both houses of Parliament on 9 December 2002. Disinvestment programs have been implemented to fulfill the following objectives:

- ♣ Modernization and Upgradation of Government Sector Industries.
- ♣ Creation of new assets.
- ♣ Generation of employment.
- ♣ Eliminating government debt.
- ♣ To ensure that ownership of assets is not transferred through the disinvestment process as the assets remain the same through the process of disinvestment. Where it is, it will also ensure that disinvestment does not lead to private monopolies.
- ♣ Establishment of Disinvestment Income Fund.
- ♣ To prepare guidelines for disinvestment of natural asset companies.
- ♣ The government is preparing a document on the civilization and functioning of an asset manager company to hold, manage and dispose of the remaining holdings of the government in companies from which government equity has been disinvested to a favorable partner.
- ♣ The government is taking the following specific decisions:
 - (a) Disinvestment in Bharat Petroleum Corporation Limited (BPCL) through sale of shares to the public,
 - (b) Disinvestment in Hindustan Petroleum Corporation Limited (HPCL) through strategic sale.

(c) Allocation of a specific percentage of shares to employees of both companies at discounted prices in both HPCL and BPCL cases.

The Department of Disinvestment was constituted in December 1999 to accelerate the disinvestment process in the shareholding industries of employees and for the first time the Ministry of Disinvestment was established in the Central Government. In the Union Budget presentation for 2000-01, the Central Government clarified that for the disinvestment program of government companies, the government may consider 100% disinvestment of some undertakings. It was announced to reduce the government stake in all non-critical public sector undertakings to 26 percent or even less. The amount received from the disinvestment was used to fulfill the needs of the social sector and promised to repay the loans taken earlier.

MEANING OF DISINVESTMENT

It is known that the process of selling the government's stake in public sector undertakings (PSUs) is called disinvestment. But under disinvestment, the government retains its ownership or ownership of that venture. Disinvestment is usually seen as a budget, under which the government sets annual targets for disinvestment in selected PSUs. Whereas strategic sales involve the transfer of management control along with shares of a public sector entity i.e. ownership and control is transferred to a private sector entity. Strategic disinvestment is a kind of privatization as opposed to simple disinvestment.

IMPORTANCE OF DISINVESTMENT IN INDIA

At present, many public sector undertakings of the Government of India are closed, with excessive amount of funds lying idle. The government can use this fund for the public interest by disinvestment of these companies which can prove to be very important for the Indian economy. Dissolved money can be used as follows:

- ♣ To finance India's growing fiscal deficit,
- ♣ To finance large-scale infrastructure projects across the country,
- ♣ To balance the increase in consumption and demand,
- ♣ To reduce government debt
- ♣ To implement social programs in health and education sectors

On the other hand, private entities or companies buy these disinvested stakes of PSUs at a cheaper price and the skill, discipline and talent brought by such private entities helps in improving the overall performance of such sick units.

FEATURES DISINVESTMENT POLICY

The disinvestment policy has developed largely through the President's address to the Joint Session of Parliament and the statements made by Finance Ministers in Parliament in their budget speeches.

The salient features of the policy are as follows -

- ♣ Public sector undertakings are the property of the nation and to ensure that this property should be in the hands of common people, public ownership should be promoted in CPSEs.
- ♣ While disinvesting through minority sales in listed CPSEs, the government will retain majority control i.e. at least 51% shareholding and management control of PSUs.
- ♣ Transfer of management control with strategic disinvestment through sale of a significant share of 50% or more of Government shareholding in identified CPSEs.

EVOLUTION OF INDIAN DISINVESTMENT POLICY

- ♣ Disinvestment in India first started in the year 1991 when the government decided to sell 20 per cent stake in select public sector companies.
- ♣ In the year 1993, Rangarajan Committee proposed disinvestment of 49 percent of the public sector units reserved for the public sector and 74 percent for all other public sector units. However, these recommendations could not be implemented.
- ♣ A non-statutory and advisory nature disinvestment commission was set up in 1996 under the leadership of GV Ramakrishna and a major step in the Department of Disinvestment was set up in 1999 under the Ministry of Finance.
- ♣ In 2001, the Department of Disinvestment was renamed as Ministry of Disinvestment.
- ♣ In 2004, the then government announced revival of stressed public sector companies and giving them commercial autonomy with a 'common minimum program'.
- ♣ Subsequently, the National Investment Fund was established in the year 2005, through which the process of disinvestment was conducted.
- ♣ The new disinvestment policy was launched in the year 2014 and the recommending powers regarding disinvestment were authorized in NITI Aayog.
- ♣ In the budget speech for the financial year 2016-17, the Finance Minister announced the renaming and reorganization of the Department of Disinvestment. After which it came to be known as Department of Investment and Public Asset Management & DIPAM.

CRITICISM OF DISINVESTMENT POLICY

After the announcement of the Industrial Policy of 1991, the various governments which came to power adopted the disinvestment policy after some changes. Most ministers of the National Democratic Alliance government have been critical of this disinvestment policy. He said that it is not right to sell high profit making enterprises. The then Defense Minister George Fernandes, in a letter to the Prime Minister, strongly opposed this disinvestment policy. He said that "I believe that before any further disinvestment is done, all of us working in the government will have to decide whether the path we have adopted is benefiting the citizens of India. My opinions that the objective of disinvestment should be to benefit the general public, consumers and investors and at the same time competition should be advanced and monopolies should be eliminated."

The main points of criticism of the disinvestment policy are:

- ♣ Whether the profit making enterprises should be disinvested and the loss making industries should be left under government ownership.
- ♣ How should the interests of workers and employees be protected.
- ♣ What should be the procedure for disinvestment.
- ♣ Should public sector enterprises be allowed to bid for disinvestment.
- ♣ How should revenue from disinvestment be used?

STRATEGIC DISINVESTMENT OF PSUs

The strategic disinvestment of the following five PSUs has been decided by the government :

Bharat Petroleum Corporation Limited (BPCL): According to the central government, the existing 53.29 percent stake of the Government of India in Bharat Petroleum Corporation Limited will be strategically disinvested as well as entrusting managerial control to the strategic buyer. It is noteworthy that Numaligarh Refinery Limited under BPCL will not be included in this disinvestment and its control will be given to any other PSU engaged in oil and gas sector.

Shipping Corporation of India (SCI): Government of India's existing 63.75 percent stake in Shipping Corporation of India will be strategically disinvested as well as giving managerial control to the strategic buyer.

Container Corporation of India Limited (CONCOR): It is known that the Government of India currently holds about 54.8 per cent stake under CONCOR, out of which the sale of 30.8 per cent has been decided under the strategic disinvestment process. Also, managerial control will be given to the strategic buyer.

Tehri Hydro Development Corporation India Limited (THDCIL): THDCIL is a joint venture between Uttar Pradesh and the Government of India, with a three-fourth stake being held by the Government of India while the rest with the Government of Uttar Pradesh. As part of the disinvestment process, the Indian government will sell 74.23 per cent stake to NTPC, another public sector company. Also, its managerial control will be handed over to NTPC.

North Eastern Electric Power Corporation Limited (NEEPCO): As part of the disinvestment process, the government will transfer its 100 percent stake in NEEPCO and its managerial control to NTPC.

NEED FOR STRATEGIC DISINVESTMENT

Following are the requirements of the government to take strategic disinvestment decisions of PSUs :

- ❖ It is noteworthy that in the year 2015, the government had re-launched the policy of strategic disinvestment so that private companies can use their management skills to contribute to India's economic growth.
- ❖ Some analysts believe that this decision has been taken by the government with the objective of reducing its fiscal gap, as according to statistics, in September 2019, the government has received only 16.5 lakh crore rupees as net tax revenue, which is only 36.8 percent of the estimated amount in the budget.
- ❖ Apart from this, the Finance Minister had also said during his budget speech that disinvestment of public sector undertakings in the coming years will remain in the priorities of the government. Also, the government had set a disinvestment target of Rs 1.05 trillion for the current financial year ending 31 March 2020.

POTENTIAL CONSEQUENCES OF STRATEGIC DISINVESTMENT DECISIONS OF PSUs

The strategic disinvestment decision of the above PSUs by the government may have the following possible consequences :

- ❖ The financial resources derived from the strategic disinvestment of public undertakings will be used to finance social sector and government development schemes, which will not only benefit the common people of the country but will also increase the overall demand of the country.
- ❖ It is important to note that the resources received will be a part of the budget and hence common people will be able to check its utilization.
- ❖ According to analysts, the strategic buyers or recipients of these PSUs will bring new management, new technology and new investment to their development, which will give them an opportunity to innovate and grow economically.
- ❖ SEBI is also of the view that disinvestment in public sector undertakings may accelerate the capital market.

CHALLENGES BEFORE STRATEGIC DISINVESTMENT

The following are the challenges faced by the government in making strategic disinvestment decisions of PSUs -

- ❖ Significantly, there is only four months left in the end of the current financial year and according to experts, it can be relatively challenging for the government to complete the process in such a short time.
- ❖ In the absence of necessary time, bringing transparency in the processes like appointment of consultants and pricing mechanism can also prove to be a big challenge for the government.

MEASURES TO MAKE DISINVESTMENT EFFECTIVE

The following measures can be taken to make disinvestment in the public sector effective :

- ❖ The disinvestment program has proved to be a miserable failure over the years. From this, it appears that there is a problem in the disinvestment process. If the shares are overvalued, there will be at least tenders for the shares, which will cause risk to the purchasers and the government will suffer losses if the shares are overvalued. In such a situation, it is necessary that the government should adopt international norms regarding valuation of shares of PSUs and take advantage of the experiences of other successful countries. The current marketing reliefs and the future of the company should be taken into consideration. If this is done, it will help in balanced pricing of the shares.
- ❖ There is considerable difference between the target and the income achieved by the government through disinvestment in public sector industries. In the Indian economy, the government is disinvesting industries which are running in profit. The government should not adopt a policy of disinvestment under such industries.
- ❖ It would be more appropriate to provide more opportunities for employee participation in disinvestment. This partnership can be given not by selling shares to them but by providing a share in the ownership. Company's wealth can be increased by employees by increasing more efficiency in which employees will also own. It would be appropriate for the government to get the support of employees in this way.
- ❖ In this new environment of increasing competition, employees of public sector companies can be seen defending their rights (under the welfare state). In such a situation, an agreement is needed between the protection given to the employees and the possible exemption given to any strategic partner to run the company.
- ❖ More delay in marketing of shares has the effect of keeping the funds of potential buyers as a long-term block. This type of delay should be avoided.
- ❖ Process and priorities should be clearly defined in relation to disinvestment work.
- ❖ To promote the disinvestment process, foreign certified investors should be attracted with the use of new technology.
- ❖ Under the appropriation process, the ratio of share sale and share of private investors should be assessed from time to time and the government should ensure proper ratio in the national interest.

- ♣ Disinvestment policy should be more realistic. Keeping the public isolated from the disinvestment process hinders the attainment of broad share ownership, which is the basic objective of privatization. Also, each round of disinvestment means additional cost to the government, so the disinvestment program should be declared in a proper shape.
- ♣ The separation of assets by strategic partners (such as disposal of assets of companies), profit from it and eventually abandoning it after exploiting the industry concerned is a matter of concern for the government. Therefore, the government should have laws to deal with such situations.
- ♣ Probably the best method of disinvestment of PSUs would be to make public issue of shares of PSUs as done by IPCL. With this, the ownership of the shares will get a detailed form and the government will also get the appropriate value of the shares. However, from the point of view of security of the investors, it will be necessary to take care that adequate and up-to-date information is provided to them.
- ♣ Corrective measures should be implemented by periodically reviewing the disinvestment work or periodically examining the disinvestment work.
- ♣ Private industrialists and industry associations related to trade under non-governmental efforts in the national interest should also take initiative from time to time for the success of disinvestment and give suggestions for success.
- ♣ Public enterprises should be reconstructed for successful disinvestment and new techniques are adopted, so that they can be fetched at a reasonable price.
- ♣ Experts believe that disinvestment should not be seen merely as a tool to reduce the fiscal gap.
- ♣ Government should focus on strengthening the regulatory framework which ensures efficient market conditions.
- ♣ There is a possibility of attracting private promoters in respect of loss making ventures as it is believed that even after disinvestment in loss making ventures, this apprehension persists. To whom will the government sell the remaining shares? It is generally difficult to determine the market value of the assets of loss making enterprises. Therefore, this task should be entrusted to professional evaluations to determine the actual market value.
- ♣ There is a high degree of incorporation on PSUs. In fact, statutory regulation is more effective in the merger, consolidation, acquisition, etc. of companies, while these processes must operate independently without any regulatory intervention. Foreign and local employers, institutions and corporations should get more opportunities for participation.
- ♣ The government should make an effort to increase the disinvestment by public financial institutions and individuals in PSUs. This would allow private ownership to get an opportunity for participation by ending government monopoly. Till now, the government is maintaining control over PSUs through government financial institutions. These financial institutions have failed to monitor the undertakings and keep the employees disciplined.
- ♣ For the success of disinvestment or privatization, it is necessary to increase competition. Many firms should be born in each industry so that competition between them can be generated. This will enable development of commercial potential and good business results can be obtained from the enterprises.
- ♣ In relation to employees, an appropriate issue policy should be followed which aims to distribute assets without neglecting the interests of the employees in such a way that their more productive use is possible.
- ♣ The future process should be determined based on the efforts made so far in relation to disinvestment of share capital of PSUs.
- ♣ There should be transparency in the disinvestment process. There is a possibility of many mistakes in the speed, if the best or suitable alternative system of disinvestment is adopted then irregularities, corruption and malfunctions in relation to the disturbances can be avoided.
- ♣ Public undertaking is the property of the common people, so the government should meet the fiscal and income losses from the funds received from disinvestment, but at the same time provide basic facilities, human development programs in education, health, poverty alleviation and food security put more power.
- ♣ In token privatization, they should be selected impartially on the basis of the capitalist class, domestic and foreign potential investors should also be selected in minimum terms and political interference should be kept away, so that there is no dispute and maximum value of shares could be obtained.

There is immense potential for disinvestment in the Indian economy by adopting the above mentioned corrective measures. But the failure of the disinvestment program in India suggests that there is something wrong. The undervaluation of shares results in under-tendering, resulting in risk to the underwriters, while overvaluation of shares results in loss to the government. At the same time, the economy also develops with proper utilization of the funds received from share sale of public sector undertakings on equal basis. In this regard, the government needs to adopt international norms so that the pricing of shares of PSUs can be balanced. The process of disinvestment would be appropriate to be implemented in a balanced and planned manner so that proper reform can be brought in the field of PSUs. At this time it is extremely important that transparency should be maintained at every level of the Indian disinvestment program along with the above corrective measures.

CONCLUSION

It is essential that the government does not use disinvestment as a tool to reduce the fiscal gap, but rather this important budgetary system should be used as part of a strategic plan to improve the production of goods and services in India.

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