
Public Sector Disinvestment
A review on the policies framed and progress 2009-2014

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A) ABSTRACT

This review is done to assess the various policy initiatives/strategies adopted by different governments over several periods after the initial stages of decision to go for disinvestment of PSUs.

Public Sector Undertakings have been assigned a vital role in the development of Indian economy. PSUs were established to primarily to offset the basic necessity of unemployment and set up a socialistic pattern of society in the country.

Public sector was expected to be the guiding force for growth in the path of development. However, the public sector overgrew itself and its shortcomings started manifesting in under capacity utilisation and efficiency below par due to excess manpower, low work ethics, over capitalisation due to substantial time and cost over runs, lack of innovation, lack proactive approach to take quick and timely decisions, too much interference in decision making process.

Hence, a decision was taken in 1991 to follow the path of disinvestment and it is noticed that PSUs showed better performance in the post-reform period. The better performance can be viewed in terms of high productivity and reducing cost of production.

This was continued till now by various governments with some modifications due to political pressures, but the importance of disinvestment was accepted by all.

B) INTRODUCTION:

Disinvestment policy in India in broader terms has been in the thinking process over the years. There have been changes in the policy frame work and the methods by various governments.

Throughout the cycle of Disinvestment process implementation by various governments form 1991 till now,there have been policy changes due to low realization of returns compared to planned or expected.

This is due to lack of transparency and high ambitious yearly budget target which were factually not feasible.

The lack of enthusiasm by private players due to governments high targets,also added to the problem of low returns..

The Need For Disinvestment

- Historically the public sector has played an important role. However, in the year 1991 the national economic policy laid stress on liberalization, privatization and globalization and in the process de-emphasized the role of the public sector.
- It is quite evident to accept the reality that most of the public sector units were characterized by high levels of inefficiencies, excessive manpower and ad-hoc decision making, without the necessary emphasis on profitability.
- 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 of 8.66%.
- In view of the efficiencies and the profitability usually associated with the private sector, disinvestment/privatization of the PSUs has therefore been offered as one of the remedies for the problems plaguing the public sector.

C) KEY WORDS:

Public Sector/Undertakings Enterprises, Disinvestment/Budgetary allocation/Economic Surveys/DOD

D) REVIEW PROCESS:

A brief on the relevance of PSUs and their significance, growth over period of time,was done before dealing with the actual status of the PSU divestment post policy implementation through the initial 5 year period.

In the past there were several studies done on the subject of disinvestment, its effects on the performance of PSUs.

A review was done on all the relevant studies available on the subject.

1.Public Sector Undertaking and their relevance:

1a) Evolution of Public Sector Undertakings and Significance

Post-Independence, India was grappling with grave socio-economic problems, such as inequalities in income and low levels of employment, regional imbalances in economic development and lack of trained manpower, weak industrial base, inadequate investments and infrastructure facilities, etc.

Hence, the roadmap for Public Sector was developed as an instrument for self-reliant economic growth. The country adopted the planned economic development polices, which envisaged the development of PSUs. Initially, the public sector was confined to core and strategic industries.

The second phase witnessed nationalization of industries, takeover of sick units from the private sector, and entry of the public sector into new fields like manufacturing consumer goods, consultancy, contracting and transportation etc.

At the time of independence activities of the public sector were restricted to a limited fields-irrigations, railways, power, ports, communications and some departmental undertakings.

To assure the private sector that its activities will not be unduly curbed, two industrial policy resolutions were issued in 1948 and 1995 respectively.

These policy resolutions divided the industries into different categories. Some fields were left entirely for the public sector, some were divided between public and private sector and some others were left entirely to private sector

Public Sector Undertakings (PSUs) have laid a strong foundation for the industrial development of the country. The public sector is less concerned with making profits.

Hence, they play a key role in nation building activities, which take the economy in the right direction. PSUs provide leverage to the Government (their controlling shareholder) to intervene in the economy directly or indirectly to achieve the desired socioeconomic objectives and maximize long-term goals.

The Economic Survey of the Union Government (2000-01) has also emphasised the need to "get the Government out of the business of production and enhance its presence and performance in the provision of public goods" (basic infrastructure, education, health etc). Funds from privatisation would also help to reduce public debt and bring down the debt-GDP ratio while competitive public enterprises would be enabled to function effectively.

Some of the important factors responsible for PSUs evolution.

- * To accelerate the growth of the core sectors of the economy.
- * To serve the equipment needs of the strategically important sectors like railways, telecommunications, nuclear power and defense.
- * To exert countervailing power over the operation of private monopoly and multinationals in selected areas
- * To ensure easier availability of articles of mass consumption, to check prices of important articles etc-the rationale behind setting up of consumer oriented industries
- * To protect employment, the government was forced to take over the sick industrial units over a period of time Government entered into many sectors for all types of good and bad reasons and many cases for no reasons at all.

2. Disinvestment – Thought Process

2.a) Disinvestment story prior to 2009.

The disinvestment process began in 1991-92. The government sold minority stakes in 31 public sector undertakings raising Rs.30.3 billion as against a targeted Rs.25 billion. Over the years the government undertook strategic sales as well as minority sales in its disinvestment programmes.

Till 1999-00, the government divested only minority stakes. Thereafter, it began focusing on strategic sales that involve effective transfer of control and management.

The period 2001-02 to 2003-04 witnessed the highest number of divestments by the government. The government raised Rs.237.5 billion from these disinvestments during this period.

Disinvestments stagnated during the period 2004-05 to 2006-07. Total receipts from the divestment were only Rs.65.3 billion.

Disinvestments gathered momentum after 2007-08. Total receipts from the divestment were Rs.387.9 billion during 2007-08. The government started selling minority stakes in listed and unlisted PSUs.

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.

The major factors contributed for such low realisation from disinvestment against the actual targets:

- Unfavourable market conditions
- Government fixed sale prices were not attractive for prospective private sector investors
- Lot of opposition on the valuation process
- No clear-cut policy on disinvestment
- Strong opposition from employee and trade unions as well as some of the ruling partners in the government.
- Lack of transparency in the process
- No proactive coordinated approach from respective governmental agencies/departments.

2(b) Disinvestment Targets & Realisation Post 2009

Year	Target (in crore)	Actual Receipts (in crore)	Achievement (%)
2009-2010	25,000	4,259.90	94.21
2010-2011	40,000	22,763	56.91
2011-2012	40,000	14,035	35.09
2012-2013	24,000	23,857	79.52
2013-2014	19,000	18,321	33.93

Interim budget 2014-15 by the then Finance Minister P Chidambaram had planned to mobilize Rs 51,925 crores which was raised by the new FM Arun Jaitley to 58,425 crore, in expectation of receiving Rs 43,425 crore from selling stake in PSUs. But actual receipts were only a meagre amount of Rs. 24,328.93 crore.

From the day the NDA won the elections the stock markets were soaring but the PSUs' performance at stock markets has been lackluster. The expected increase of supply of PSU stocks and the constrained investor appetite had started affecting the prices.

3. CONCLUSIONS

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.

But the main problem behind non achievement of disinvestment targets is passive behavior of government.

BJP and Congress both government has included disinvestment part in their manifesto for the Lok Sabha Election 2014.

But no government review policies for disinvestment after fixing the targets. So our government should look after it if it wants to achieve its goals and also set targets by keeping in mind various market conditions, elections and should issue policies for it time to time.

- It has been observed that there is a noticeable change in the performance of PSUs which is evident by their upbeat in several parameters of performance.
- The objective of disinvestment should be to benefit public, the investor and at same time to improve competitiveness and to eliminate monopoly.
- The Govt should be more careful while disinvesting highly profitable PSUs. otherwise it might kill the goose which lay golden eggs
- Govt should proceed with a more proactive approach with more transparency to achieve the targets.
- Targets should be more realistic with a clear approach, which can be achievable.
- 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.
- In short, Indian economy could lose its vitality without public sector enterprises considering the country's existing socio-economic structure.
- But there is an urgent requirement to address inefficiencies and limitations pertaining to the sector.
- Mere privatisation of all public sector units could not be the only solution to it.
- Rather, there is a need to have a fresh look on the role of public sector enterprises

- Government should fix disinvestment targets by considering last year targets and current GDP rate.
- Government should review policy from time to time.
- At present government review the policy after 2 or 3 years and not continuously.

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