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A Study of Disinvestment and Privatization Polices of PSU in India

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<<< *Abstract*

Public enterprises in certain fields are not able to compete with the private enterprises. Their profitability is still not very satisfactory. However, it may be said that profitability is not the only criterion to judge the efficiency of the state enterprises, yet one always expects that there should be a fair rate of return on capital invested in public undertakings because it would otherwise mean a constant drain on capital and the ultimate closure of many undertaking. The term disinvestments are used to indicate the process of privatization. Since the beginning of 1980s, the functioning of the public sector began to be questioned. It was held that the public sector performed well only when protected through state monopolies, entry reservations, high tariffs and quotas etc. Since quite a large number of public enterprises incurred losses year after year, it was argued that the state should not be called upon to meet the losses of these enterprises out of taxpayers, money. In view of the fact that in our country the public sector had entered into too many areas, the question of withdrawing from these areas was also raised. Consequently, the question of privatization of the public sector was debated disinvestment is the process through which privatization could take place. The advocates of privatization have always held that the magic of private property can turn sand into gold. In other words mere change of ownership can bring about sea change in the culture of an organization. If this statement is taken at its face value, the logic follows that the private sector should take over the loss making concerns and converts them into profit making organization. But even disinvestments ministry has conceded whether the taxpayers' money can be saved from commercial risks by transferring the risk to the private sector wherever the private sector is willing to step in and assume such risks. If past is any guide, the private sector has shown its keenness to take change of PUSs which are highly profit making leaving weak and sick PSUs in the top of the public sector. The Disinvestments Ministry should be cautious of transferring PSUs which are milch cows to the private sector by acquiring strategic partnership to the extent of 26%.

1. INTRODUCTION

The term privatization connotes the act of demising the role of the state in the economy. It is termed that privatization is an act of strengthening economic democracy. It denotes the acts of selling of the public sector units to private sector, thus, increasing private participation and diminishing the role of the state. The scheme of privatization and Memorandum of Understanding are the outcome of the poor performance of public sector units. Both the schemes are responsible to a question that the public sector has not developed the levels it was supposed to. Privatization is a long drawn and continuous process even when the state decided to private its assets. Public sector in India has done a lot for solidifying the industrial base and for ensuring a balanced development of economy. The public sector has, however come under severe strain and has ridden with several problems. It has started inviting severe criticism from every quarter. Its working and operator have not been upto mark with this sector, with several other problems; there is one burning problem and the problem is of inadequate profitability or heavy losses. Only for this problem, the public sector on the whole is regarded as nobody's sector. It is termed as a synonym of inefficiency.

The development of public sector in India has been increasing both as coverage of the activities and a capital investment and development of the same has not been accidental. It has been mainly for the definite policy of the government. In relation to the policy of the state, it is pertinent to evaluate the Industrial Policy, Directive Principle of State Policy of Privatization and Disinvestments, Policy of Liberalization and reforms in relation to the Public sector.

The government announced its new industrial policy and it contains a section of public sector also. The government has laid more emphasis on the Public Sector's existing units rather expanding the coverage of the sector. The role of public sector has been redefined the state has decided to streamline the public on the whole, underlying restructuring involving modernization, rationalization of the capacity, product mix and selective exit and privatization. The Tenth Plan visualizes important role an autonomous and efficient public sector for achieving the targeted rate of economic growth.

In India although there were some isolated case of privatization, no definite policy decision was taken until the new economic policy was been ushered in. The privatization policy has also been operational by withdrawal of administration controls and the licensing system. In addition logically the private enterprises is now regarded, in principles and with an ideological bias, as efficiency and the public enterprises condemned as a drain on available resources in the economy. As per the announcement of industrial policy statement and also in the budget speech of July 1991 in order to raise resources, encourage order public participation and promote greater accountability. The policy of the government on Privatization and Disinvestments has evolved over a period. A brief account of it is given below in the chronological under.

2. INITIAL PHASE

The disinvestments policy, as enunciated by the Central Government in the interim budget 1991-92 was to divert up to 20% of government equity in selected PSEs in favour of public sector institutional investors. The objective of the policy was stated to be to broad base equity, improve management, and enhance availability of resources for the PSEs and yield resources for the exchequer.

The industrial policy statement of 24th July 1991 stated that the government would divert part of its holding in selected PSEs, but did not place any cap on the extent of disinvestments nor did it restricts disinvestments in favour of any particular class of investors. The objective for disinvestment was stated to be to provide further market discipline to the performances of public enterprises. However, budget speech 1991-92, reinstated the cap of 20% for disinvestments and eligible investors' universe was again modified to consist of mutual funds and investments institutions in the public sector and the workers in these firms. The objectives 100 were modified, the modified objectives being "to raise resources, encourage wider public participation and promote greater accountability". In 1993 government of India set up a committee on disinvestment in public sector enterprises under the chairmanship of C. Rangarajan.

The recommendation of the report of the Committee on Disinvestment of Shares in PSEs (Rangarajan Committee), submitted in April, 1993, emphasized the need for substantial disinvestment. The committee suggested that, the percentage of equity to be disinvested could be upto 49 percent for industries explicitly reserved for the public sector. It recommended that in the exceptional cases, such as the enterprises which had a dominant market share or when separate identity had to be mentioned for strategic reasons, the target public ownership level could be kept at 26 percent, that is, disinvestment could take place to the extent of 74 percent. In all other cases, it recommended 100 percent disinvestment of government stake. Holding of 51 percent 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 and Railway Transport.

Other important recommendations of committee including the following.

- The best method for disinvestment is offering shares to the general public at a fixed price through a general prospectus. However, since these shares have not been traded so far in the stock markets, it would be difficult to decide the 'fixed rate' at which they should be offered to the public. Once a reasonable time elapsed had normal trading atmosphere established in the market, this indeed would be the best method. Till than, the auction method with wide participation may be adopted.
- Instead of year wise targets of disinvestment, a clear action plan should be evolved.
- Disinvestment shall be in stages and sales shall be spread over a period of time so as to get best possible price.
- A scheme for preferential offer of shares to workers and employees may be divised.
- Ten percent of the proceeds of privatization may be set apart for lending to the public enterprises on concessional terms for meeting their expansion and rationalization needs.

The common minimum program (CMP) of United Front Government 1996, sought to carefully examine the public sector non-core strategic areas and to set up a disinvestment Commission for advising on the disinvestment related matters; to take and implement decision to disinvest in a transport manner and to ensure job security, opportunities for retraining and redeployment. No disinvestment objective was however, mentioned in the policy statement. Pursuant to the above policy of United Front Government, a Disinvestment Commission was formed in 1996. It made recommendation on 58 PSEs. The recommendation indicated a shift from public offerings to strategic/trade sales, with transfer of management, as shown in Table 1.

The commission has recommended disinvestment of varying levels for a number of PSUs namely MFIL, GHL, MTNL, CONCOR, PHL, ET&T, HVOC, HCIL, RICT, R-Ashok, U-Ashok NALCO.

Strategic sales in various proportions have been recommended for many enterprises, like BALCO, ITI, HTL, KLOCT, ITDC, BRPL, MFL, HCL, SCI, EIL, EPIL, HPL, IBP, NEPA, HZL, PPCL, FACT, HLL, IPCL, NFL and SAIL.

Table -1

Recommendations Disinvestment Commission

Mode of Disinvestment Recommended	**No. of PSEs**
A. Involving Change is Ownership/ Management	
1. Strategic Sales	29
2. Trade Sales	08
B. Involving No Change in Ownership/ Management Offer of Share	5
C. No Change	
1. Disinvestment Deferred	11
2. No Disinvestment	01
D. Closure/Sale of Assets	04
Total	**58**

For several enterprises, namely ONGC, MOIL, OIL, RITES, PHCL, NTPC, and NHPC, the commission has advocated no disinvestment for the present.

3. SECOND PHASE

In its budgetary pronouncement (1998-99), the new Government decided to bring down Government shareholding in PSEs to 26% in the generality of cases, (thus facilitating ownership as was recommended by the Disinvestment Commission). It however state that the government would retain majority holdings in PSEs involving strategic consideration and the interest of the workers would be protected in all cases. The policy for 1999-2000, as enunciated by the government in the budget speech, was to strengthen strategic PSEs, privatize non-strategic PSEs through gradual disinvestment or strategic sale and devise viable rehabilitation strategies for weak units. A highlight of the policy was that the expression 'privatisation' was used for the first time.

State and Future Strategy about Public Sector

On 16th March, 1999, the government classified the PSEs in to strategic and non-strategic areas for the purpose of disinvestment. It was decided that the strategic PSEs would be there in the areas of arms and ammunitions and allied items of defence equipment, defence air-crafts and warships, atomic energy (except in the areas related to the generation of nuclear power and applications of radiations and radio-isotopes to agriculture medicine and non-strategic industries) and railway transport.

All other were to be considered non-strategic. For the non-strategic PSEs, it was decided that the reduction of government stake to 26 percent would not be automatic and the manner and pace of doing so would be worked out on a case-to-case basic. A decision in regard to the percentage of disinvestment i.e. Government Stake going down to less than 51 percent or to 26 percent, would be taken on the following consideration; whether the industrial sector requires the presence of the public sector as 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 PSEs are privatized.

The highlights of policy for the year 2005-06 were that for the first time the government made the statement that it was prepared to reduce its stake in man strategic PSEs even below 26% if necessary, that there would be increasing emphasis on strategic sales and that the entire proceeds from disinvestment/privatization would be deployed in social sector, restructuring of PSEs and retirement of public debt. According to a policy statement laid in both houses of parliament on December 9, 2002, the objective of disinvestment is to put national resources and assets to optimal use and in particular to unleash the productive potential inherent in our Public Sector Enterprises.

Government decided on January 27, 2010, in Principle, to list large, profitable PSEs on domestic stock exchanges and to selectively sell a minority stake in listed, profitable PSEs while retaining atleast 51% of the shares alongwith full management control so as not to disturb the 'Public Sector Character' of the companies.

Government has also decided to constitute a 'National Investment Fund' into which the realization from sale of minority shareholding of the Government in profitable PSEs would be channelised. The fund would be maintained outside the Consolidated Fund of India. The income from the fund would be used for the following broad investment objectives.

(a) Investment in social sector projects which promote education, health care and employment.

(b) Capital investment in selected profitable and reviable PSEs that yield adequate return in order to enlarge their capital base to finance expansion/diversification.

The privatization process began in India 1991-92 with sale of minority stakes in some PSEs. From 1999-2000 onwards, the focus shifted to strategic sales. Table 2 highlights the actual disinvestment proceeds as compared with target for the year.

Table - 2

Disinvestment in Public enterprises

YEAR	TARGET (Rs. Crore)	ACHIVEMENTS (Rs. Crore)
1991-92	2500	3037.74
1992-93	2500	1912.42
1993-94	3500	0.00
1994-95	4000	4843.10
1995-96	7000	168.48
1996-97	5000	379.67
1997-98	4800	910.00
1998-99	5000	5371.11
1999-00	10000	1860.14
2005-06	10000	1871.26
2006-07	12000	5657.44
2007-08	12000	3347.98
2008-09	14500	15547.41
2009-10	4000	2764.84

Source : Public enterprises survey of various issues

The communist parties, with whose support the united progressive Alliance government was formed in May, 2004, have tied to control the progress of privatization. The statement of Common Minimum Programme (CMP) made by the government has proposed a case-by-case approach towards privatization. It has been stated that the government is 'generally' against privatization of profit making public sector undertaking. It was also decided to windup the ministry of disinvestment.

The policy reforms, however, has set the stage for privatization. For instance, even if the government will shy away from privatization of the banking sector, it is likely to take place by rapid growth of existing private sector banks and expansion of business of the foreign bank.

4. CONCLUSION

It may be said that removing corruption in the public sector units, improving technology, implementing better R&D measures, involving private skill and entrepreneurship ensuring sincere and honest involvement of worker through effective work ethics and culture, using stick against ailing units, improving managerial efficiency, making work and performance the main security of the employers and ensuring private participation in the public sector units in general and service units/groups in particulars. Unless we provide a long terms practical solution to the problems of poor profitability the very notion of social contribution of the public sector units would be immaterial From the angle of profitability, Public sector units in India all together have been an utter failure. However, it is inspiring to note that lately the government has shown heartfelt wish and will in its parts to deal with the problem and has started taking strict action the below par units. So far, the government has used the carrot, and now the government has warned all the sick units that the stick shall now be used against them, if they do not perform well. The public sector units should have to strong on the profitability front or they would be handed over to private sector.

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