



A study of different issues of disinvestment in Indian public sector

Dr. Pankaj Yadav

Assistant Professor, Department of Commerce, K.A.P.G. College, Kasganj, Uttar Pradesh, India

Abstract

This paper gives the definition of disinvestment, expresses the contrast between disinvestment and privatization, gives a short record of public-sector in India and changes in government policy towards the public-sector. The part of the public-sector and private sector has been one of the major issues being developed financial aspects and approach. In a blended economy, for example, India, verifiably the public-sector had been doled out a vital part. In the nineties, India's planning, financial shortages and adjust of installments issues kick began the administration's inclination to open the gigantic speculations affixed in the public sector enterprises (Pses). The real push for Disinvestment Policy in India came through the Industrial Policy Statement 1991. The new strategy of liberalization, privatization and globalization-underlined the part of the public-sector in the nation's economy. The approach expressed that the administration would disinvest some portion of their values in chose PSEs. The Four Ps of disinvestment is Policy, Promise, Prognosis and Performance. In later past, we have been seeing a considerable measure of verbal confrontation on the disinvestments situation proposing dynamic development.

Keywords: disinvestment, government policy, management, privatization, public sector

Introduction

After freedom when economic planning was presented India received the blended monetary framework. The primary element of the blended financial framework is the conjunction of public-sector and private sector. The Industrial Policy Resolutions of 1948 and 1956 differentiated the territories of operations of public-sector and private sector. There were a few goals for working up the public-sector. The goals run from building framework for economic development to producing investable assets for improvement by gaining appropriate returns. The inspiration for growing general society part stretches out from the hypothesis of charging statures to the arrangement of utilization merchandise at sponsored rates. In the end public-sector undertakings are presently spread over from coal, steel and oil toward one side to lodging and bread making at the other. It was before felt that by the dynamic development of the public-sector, the nation would have the capacity to move towards the socialistic pattern of society which was tried to be accomplished as an objective.

The policy of economic reforms in 1991 and began the disinvestment process in chose Central Public Units. Notwithstanding, from 1991 to 1999 the Government had essentially sold minority offers of Public Sector Undertakings (PSUs). The disinvestment process, in any case, was quickened after the Department of Disinvestment was set up on December 10, 1999 with the duty of managing all issues relating to disinvestment. With the vital offer of PSUs, exchange of administration control began. The Department of Disinvestment was in this way raised to the status of an undeniable Ministry of Disinvestment on September 6, 2001. It was chosen that 20 for every penny of value of such

endeavors will be disinvested incrementally and they will be sold to financial institutions, banks and workers and so on. The principle goal of the disinvestment policy was setting up a "Disinvestment Proceeds Fund" and defining the rules for the disinvestment of natural assets companies, modernization and up degree of PEs, production of new resources, age of work, resigning of public debt. The problems and issues associated were interesting of its kind. The procedure received, territory picked for disinvestment or privatization and mode of disinvestment and additionally measure of offer to strip were troublesome issues and problem anticipating the solution.

Review of Literature

The term "Disinvestment" is the inverse of the term "Investment". Investment is procurement of winning resource with the assistance of money. For instance if securities are acquired or offers of organizations are obtained by burning through cash it is known as investment (Sri Santosh Koner 2014) ^[1]. On account of investment money is changed over into gaining advantage for earn income. Then again for the situation of disinvestment a winning resource is changed over into fluid money. Here we might utilize the term disinvestment in an extraordinary sense. By disinvestment we mean the offer of offers of public-sector endeavors by the government (Disinvestment Policy in India 2014) ^[2]. The offers of government companies held by the government are gaining resources at the transfer of the government. In the event that these offers are sold to get money, at that point earning assets are changed over into money. So it is alluded to as disinvestment.

Disinvestment refers to the activity of an organization the legislature in offering or selling a benefit or auxiliary. It is

additionally alluded to as 'divestment' or 'divestiture' (Kiran Kumar 2013) [3]. 'In basic words, disinvestment is the withdrawal of capital from a nation or enterprise. A portion of the striking feature of disinvestment is:

1. Disinvestment involves sale of only part of equity holdings held by the Government to private investors.
2. 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.
3. Disinvestment is called as 'Partial Privatization'.

Need for Disinvestment

- Disinvestment is expected to give monetary help. The requests on the Government, both at the Center and State are expanding. There is convincing need to extend the exercises of the State in territories, for example, instruction, wellbeing and medication. It is, in this manner, honest to goodness that a piece of the extra assets required for supporting these exercises leaves the offer of offers developed before by the Government out of its assets.
- Disinvestment is expected to enhance the effectiveness of the working of the undertaking. Leaving aside the extraordinary instance of disinvestment where the weakening is of a lesser request and where the Government control is as yet held, the acceptance of open possession can salutarily affect the working of an undertaking. It expands the responsibility of those accountable for the endeavor. The investors would require to be repaid and gain more benefits. The enlistment of open into the possession structure can likewise make conditions in which there could be more prominent self-governance for the working of people in general division venture. Disinvestment can, subsequently, be viewed as a device for upgrading financial productivity.
- Another objective reason for privatization is the idea that private proprietorship prompts better utilization of assets and their more effective distribution. All through the world, the inclination for advertise economy got a lift after it was understood that the State could never again meet the developing requests of the economy and the State shareholding unavoidably needed to descend. The 'State in business' consequently missed out thus did the assumption that immediate and far reaching control over the monetary existence of subject from the Central government can convey comes about superior to those of a more liberal framework that specifically reacts as indicated by the market driven powers.
- Privatization approach is required far and wide as was the powerlessness of the Governments to raise high expenses, seek after shortfall/inflationary financing and the advancement of currency markets and private business enterprise.
- Technology and W.T.O. responsibilities have made the world a worldwide town and unless businesses, including PSEs don't rapidly rebuild, they would not have the capacity to survive. Open endeavors, on account of the idea of their possession, can rebuild gradually and subsequently the rationale of privatization gets more grounded.

Difference between disinvestment and privatization

Before we proceed further let us clear one semantic problem. There is a difference between disinvestment and privatization. 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 (Datt & Sundaram, 2008) [4]. 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. Privatization implies disinvestment but disinvestment does not necessarily imply privatization. Only when disinvestment goes beyond 51 percent it implies privatization. The extent of dilution of the government's stake is determined as part of the policy of disinvestment (NaibSudhir 2004) [5]. Before considering disinvestment let us first consider, in brief, the role of public sector in Indian economy. This is necessary in order to understand the perspective in which disinvestment decision has been considered by the government.

Emerging Issues and Problems out Of Disinvestment

The issues and problems related were one of a kind of its kind. The procedure received, zone decided for disinvestment or privatization and method of disinvestment and in addition measure of offer to strip were troublesome issues and issue anticipating the arrangement. One of the issues raised for measure of offer to strip was raised amid the 1999-2000, through a proposition of disinvestment which was mooted through the issue of Golden offer idea. As indicated by this idea, Government will disinvest all the 100 for each penny offers to the private individual and hold just a single offer with itself known as brilliant offer. The brilliant offer will have energy to have a chosen one in the board and the ability to a wide range of administration choices, which, as indicated by government will conflict with the enthusiasm of actualized, yet this was not plausible in light of the fact that it required change in Company Act. At first as more extension to open endeavors was propelled, numerous shortcomings and inadequacies crawled into nation's open segment. The extension progressed toward becoming in separate, even sick all through. People in general endeavors started to set up in non-foundation and non-center regions of the economy like lodgings, bikes and so forth. The poor execution of general society division in India turned into the trademark. The method of working of PSUs turned out to be more bureaucratic as opposed to business. The main driver in their reality, working, execution and disinvestment offered ascend to numerous issues.

Employees' Issues in Disinvestment

The issue of workers is one the critical issue in disinvestment of open part units. Worldwide experience demonstrates that if the privatized organizations develop quickly, work rebuilding may not be required but rather a general dread among the representatives at the season of disinvestment or privatization are that they might be conserved or their compensation scales and administrations conditions might be unfavorably

influenced. This issue can be tended to by number of assurances accessible to the workers under different work laws. These work laws are pertinent to the organization regardless of whether it is in the Public Sector or in the Private Sector (T. N. Srinivasan 2010) [6]. The arrangements of Industrial Disputes Act, 1947 are relevant to the organization even after disinvestment. The organization will remain a modern foundation even after the disinvestment and every one of the arrangements of Industrial Disputes Act will consequently connected to the strip organization. The exchange unions may have a fear that specialists of a PSU appreciate more security under the tradition that must be adhered to than those in the private area. In actuality, insofar as wander seems to be "mechanical foundation", the arrangements of Industrial Disputes Act are relevant to that wander, regardless of it being out in the open area or private division. On occasion, some exchange unions request affirmations with respect to fringe advancement after the disinvestment of the organization, which are being delighted in by the towns connecting the plant (Mohan Joshi 2000) [7]. Contract workers additionally request regularization of their occupations previously the disinvestment.

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 Disinvestment Target

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

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.

Privatization of profit making PSUs

Government's policy of disinvesting profit making PSU has also been criticized. The profit making PSUs are like the geese that lay golden eggs and it is unwise to kill these geese. The supporters of disinvestments argue as follows: The rationale for privatizing or not privatizing a PSU is not based on whether it is making profit or loss but whether it is in a strategic sector or in a non-strategic sector, and 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.

Utilization of the proceeds of disinvestment

Disinvestment does not really profit the undertakings as far as prompt gathering of assets. The returns of disinvestment go to the Consolidated Fund of India from which it meets the spending shortage. A fundamental feedback of the disinvestment strategy is that a raised support by offering family silver is utilized to pay the steward. On December 9, 2002 because of solid open weight, the administration declared that it would set up a different Disinvestment Proceeds Funds to give finish straightforwardness to the government's sense of duty regarding usage of disinvestment continues for social and foundation areas, as opposed to crossing over the financial shortfall (Ahluwalia 2001)^[9]. This is an appreciated improvement. In any case, care ought to be taken that since assets wind up noticeably accessible from disinvestment continues, ordinary assets allotted to social and foundation parts are not diminished. With a specific end goal to maintain the enthusiasm of the ventures during the time spent disinvestment, it might be valuable to set aside a specific level of the benefits – say 10 percent as suggested by the

board of trustees on disinvestments – to be given to the endeavors themselves for their own particular extension.

Consumer Issues Post disinvestment

Privatization and consequently, competition are expected to bring in efficiency and better quality of services to the consumers, there are authorities created under the CPA (Consumer Protection Act) 1986 to protect consumers by ensuring that they are not exploited by the monopolistic service providers prevalent in the provision of infrastructure services after disinvestment (Anshman 2003)^[10]. There is also a need to empower the consumers so that their effective participation in the regulatory process is effective. It is not possible for regulators to protect consumer interests unless civil societies assist them in giving support through information dissemination, research, feedback, etc. It follows from the above analysis that a good number of issues and problems are involved in the disinvestment of public undertakings which are responsible for the slow progress of disinvestment process. These are of high importance and have to be settled if the process of disinvestment is to be accelerated and targets to be achieved.

Objectives

1. Improving the efficiency of public enterprises;
2. Improving Government's budgetary position through reduced financial support to enterprises, additional resources through sale of ownership and increased tax revenue after the improvement in the efficiency level of the firms;
3. Attracting private investment, both domestic and foreign and developing Indian capital markets;
4. Infusing competitive business environment;
5. Achieving political objectives through reducing the size and influence of public sector and wider distribution of asset ownership.

Hypothesis

- H1: To reduce the financial burden on the Government.
 H2: To improve public finances.
 H3: Achieving political objectives through reducing the size and influence of public sector and wider distribution of asset ownership.
 H4: To encourage wider share of ownership.
 H5: To improve overall economic efficiency.

Limitations

- Private sector focuses more on profit maximization and less on social objectives unlike public sector that initiates socially viable adjustments in case of emergencies and criticalities.
- Disinvestment loses the mission with which the enterprise was established and profit maximization agenda encourages malpractices like production of lower quality products, elevating the hidden indirect costs, price escalation etc.
- Disinvestment escalates price inflation in general as Disinvestment enterprises do not enjoy government subsidies after the deal and the burden of this inflation affects the common man.

- There is lack of transparency in public sector and stakeholders do not get the complete information about the functionality of the enterprise.

Conclusion

Disinvestment is a process. The disinvestment process should be considered up more important by the government. The Government should attempt to turn out with a period bound program to direct the procedure with straightforwardness in every one of the exercises need to reach. Two focuses ought to be noted regarding the disinvestment policy. First, some rebuilding of PSUs might be required before disinvestment to improve the estimation of offers and increment deal continues. The three broad zones of rebuilding would be corporate governance, financial restructuring and business and innovative limiting. Secondly, the procedure of disinvestment has to consider the conditions in the capital market. Disinvestment should not bring about "swarming out" assets accessible for the private sector. Disinvestment is a procedure. It appears that there is no chance to get of withdrawing from disinvestment. It has come to remain in Indian economy.

Findings and suggestions

It has been criticised that the government does not have a clear policy on the Findings and Suggestions 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. It is really intriguing that in the case of HPCL and BPCL, the government has adopted two approaches. In case of BPCL it will adopt public offering Suggestions and in case of HPCL it will adopt sale to a strategic investor. It is indeed strange why there should be two approaches for two companies that are otherwise similar and in the same business. Obviously the public offering policy has logical superiority over the strategic partner method and the public offering method should be adopted in all cases.

Scope of further research

The following points may be useful for Scope of Further Research.

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.

References

1. Sri Santosh Koner, Professor Jaydeb Sarkhel. Disinvestment of Public Sector in India: Concept and Different Issues, IOSR Journal of Economics and Finance (IOSR-JEF), 2014, 3(6).
2. Disinvestment Policy in India: Progress and Challenges, Shrinkhala, 2014, 3(2).
3. Kiran Kumar, Chetan Kumar. Disinvestment Policy in India: Progress and Challenges Indian Journal of Applied Research, 2013, 3(8).
4. Datt, Sundaram. Indian Economy, S. Chand Publication, New Delhi, 2008.
5. NaibSudhir. Disinvestment in India Policies, Procedures Practices, Sage publications. New Delhi, 2004.
6. Srinivasan TN. Indian Economic Reforms: A Stocktaking, 2010.
7. Mohan Joshi. High lights their national building potential, Vajpayee Bemoans PSUs decay. Budget, special, 2000.
8. Public sector enterprise survey. Disinvestment-privatisation, 2005-06, 1.
9. Ahluwalia Montek Singh. Economic Reforms - A Policy Agenda for the Future. The Indian Journal of Commerce, 2001, 54(3).
10. Anshman Rabi V. Disinvestment of PSUS, Economic and Political Weekly, 2003, 38(10).