

DISINVESTMENT PROCESS IN INDIA

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The Need For Disinvestment—One basis rational for privatization in the concept that private ownership leads to better use of resources and their more efficient allocation. Throughout the world, the preference for market economy received a boost after it was realized that the State could no longer meet the growing demands of the economy and the State share holding inevitably had to come down. The 'State in business' argument thus lost out and so did the presumption that direct and comprehensive control over the economic life of citizen from the Central government can deliver results better than those of a more liberal system that directly responds according to the market driven forces. Another reason for adoption for privatization policy around the globe has been the inability of the Governments to raise high taxes, pursue deficit/inflationary financing and the development of money markets and private entrepreneurship. Further, technology and W.T.O. commitments have made the world a global village and unless industries, including PSEs do not quickly restructure, they would not be able to survive. Public enterprises, because of the nature of their ownership, can restructure slowly and hence the logic of privatization gets stronger. Besides, techniques are now available to control public monopolies by regulation/competition, and investment of public money to ensure protection of consumer interests is no longer a convincing argument.

Objectives—Following objectives were stated in July, 1991 while propounding the disinvestment policy: 1. To meet the budgetary needs. 2. To improve overall economic efficiency. 3. To reduce fiscal deficit. 4. To diversify the ownership of PSU for enhancing efficiency of individual enterprise. 5. To raise funds for technological upgradation, modernization and expansion of PSUs. 6. To raise funds for golden handshake (VRS).

Disinvestment in India—The new industrial policy statement 1991 based on economic reform measures envisaged disinvestment of a part of government holding in the case of select public sector enterprises to provide financial support and improve the performance of public sector enterprises. This became necessary because of the withdrawal of the budgetary support of 60 percent by the government to the loss making units. The Common Minimum

Programme of the United Front Government, has also, emphasized that it would be a democratic disinvestment.

Rangarajan Committee (1993)—Rangarajan Committee of 1993 constituted by the government for this purpose made important observations. It maintained that the units to be disinvested should be identified and disinvestment could be made upto any level, except in defence and atomic energy where the government should retain the majority holding in equity. Further disinvestment should be a transparent process duly protecting the right of the workers. Further, it suggested setting up of an autonomous body for the smooth functioning and monitoring of the disinvestment programme. Disinvestment Commission was thus constituted in 1996 as an advisory body having a full time chairman and four part-time members. The Commission was required to advise the government on the extent, made, timing and pricing of disinvestment. It suggested four modes of disinvestment—ruse sale, Strategic sale, offer of shares and closure or sale of Assets. Trade sale · Strategic Sale · Offer of shares · Closure or sale of Assets.

In its budget speech of 2000-01, the government emphasized that more emphasis would now be paid on the strategic sale of public sector enterprises. Upto November 1999, the commission had submitted 12 reports to the government covering 58 public sector enterprises. On 30th November 1999, the term of the Commission expired. However, it was reconstituted in July 2001. Initially the Department of Disinvestment was constituted which was later on upgraded as the ministry of disinvestment in order to streamline and speed up the process of disinvestment including restructuring. The Disinvestment Commission also recommended creation of separate disinvestment fund in which the disinvestment proceeds would be placed to be used for the purpose of financial restructuring of the concerned unit before disinvestment and for carrying out voluntary retirement schemes. It also suggested merger of National Renewal Fund with the disinvestment fund.

Progress of Disinvestment in india (1991-2008)—The 1991 economic reforms introduced the privatization process when the sale of minority stake

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वर्ष	निर्धारित प्राप्तियाँ (₹ करोड़)	वास्तविक प्राप्तियाँ (₹ करोड़)
1991-92	2,500	3,038
1992-93	2,500	1,913
1993-94	3,500	Nil
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	1,860
2000-01	10,000	1,871
2001-02	12,000	5,658
2002-03	12,000	3,348
2003-04	14,500	15,547
2004-05	4,000	2,765
2005-06	No target	1,570
2006-07	No target	Nil
2007-08	No target	2,367
Total	96,800	51,609

was there in some public sector undertakings. However, now the focus has shifted to strategic sale of the identified public sector units. For the period 1991-2008, the progress of disinvestment has been a normal one. Against the budgeted disinvestment of Rs.96,800 crores, only an amount of Rs.51,609 crores approximately could be collected. The pressure of the left parties has largely restricted the pace of disinvestment. Now, we don't have the ministry of disinvestment also.

Table-1
Targeted and Actual Disinvestment from April 1991 onwards
(Rs. Crores)

Year	Targeted Receipts	Actual Receipts
1991-92	2,500	3,038
1992-93	2,500	1,913
1993-94	3,500	Nil
1994-95	4,000	4,843
1995-96	7,000	168
1996-97	5,000	380
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Source: Government of India, White paper on disinvestment of Central Public Sector Enterprises (2007).

Table-1 shows that except for a few years, the realized proceeds have been much below the targeted amount. In the year 2003-2004, the realization was Rs. 15,547 crore which exceeded the target of Rs. 14,500 crore. Again in 2004-05, Proceeds realized were only RS.2,765 crore against a target of RS.4,000.

Recent Trend— The present UPA government led

by Dr.Manmohan Singh, has taken a U-turn regarding the policy at privatization pursued by the NDA regime, declared that no profit making PEs will be disinvested. The finance minister in his budget, speech announced “As long as the government retains control over the PE, and its public sector character is not effected, the government may dilute its equity and raise resources to meet the social needs at the people.” The finance minister observed that there is another side to the public sector which is best with problems and these should be addressed, ‘Disinvestment and privatization are useful economic tools. We will selectively employ these tools, consistent with the declared policy’. The finance minister announced that a Board for Reconstruction of PEs will be constituted, which will advise the government regarding measures to be taken to restructure PEs, including where disinvestments or closure or sale is justified. While the government has decided not to privatize profit making PEs it nevertheless wants to dilute shareholding of some of these companies, while still retaining majority control. The government is going to divest 15% shares in four profit making PEs-Hudco, National Mineral Development Corporation, Neyveli Lignite and power Finance Corporation. The said minister that a part of the disinvestment would be done through the IPO route.

- Table-2**
List of main Public Sector Units in which partial/ full disinvestment has already been made
- Shipping Credit and Investment Corporation of India
 - Container Corporation of India Ltd.
 - Videsh Sanchar Nigam Ltd. (VSNL)
 - Oil and Natural Gas Corporation (ONGC)
 - Gas Authority of India Ltd. (GAIL)
 - Steel Authority of India Ltd. (SAIL)
 - Mahanagar Telephone Nigam Ltd. (MTNL)
 - Indian Petrochemicals Corporation Ltd. (IPCL)
 - Power Grid Corporation
 - Shipping Corporation of India
 - National Aluminum Company (NALCO)
 - National Fertilisers Ltd. (NFL)
 - Indian Airlines
 - Dredging Corporation
 - LNG Petro Net
 - Madras Refineries Ltd.
 - Hindustan Zinc Ltd.
 - Maruti Udyog Ltd.
 - Modern Food Industries (India) Ltd.
 - Indian Tourism Development Corporation (10 Hotels)
 - Hotel Corporation of India etc.
- Former Finance Minister P. Chidambaram said on

May 26, 2004 that the present government will not further disinvest the strategic, profit-making and **navratan** PSUs like Oil and Natural Gas Corporation (ONGC), Indian Oil Corporation (IOC), Hindustan Petroleum Corporation Ltd. (HPCL), Bharat Petroleum Corporation Ltd. (BPCL), Oil India Limited (OIL), National Thermal Power Corporation (NTPC), Steel Authority of India Ltd. (SAIL) etc. However, disinvestment of sick PSUs will be allowed.

Challenges Before Disinvestment—

Disinvestment was a very bold and important step initiated by the government as apart of its reform measures. But the way it was handled has defeated its very purpose. The challenges before investment are as follows-

- **Social Problem**—Process of disinvestment is not favoured socially as it is against the interest of socially disadvantaged people and society at large. This process will definitely affect the social objectives of the government.
- **Political Problem**—The coalition government at the centre with 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.

- The Government does not have a well defined disinvestment policy with a time bound programme. There was no disinvestment in 2004-05 and the present budget (2005-06) does not mention anything about disinvestment.
- The progress of disinvestment programme is at a very slow pace. Only 10 percent of the total money invested in public sector undertakings was realized till date by the government.
- 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 between disinvestment ministry and other concerned ministries has also greatly affected the disinvestment programme.

Conclusion—The disinvestment process needs to be taken up more seriously by the government. The Government should try to come out with a time bound programme to conduct the process with transparency in all the activities need to reach. Some consensus is very essential. Only then the real benefits can be reaped.

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