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Performance Review of Disinvestment Policy of India: A Study of Post Reform Era

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Abstract:

Disinvestment Programme is an integral part of the New Economic Policy of the Government of India since July 1991. It is a major policy instrument through which scarce financial resources of inefficient PSUs are directed towards the sectors of national priorities. The main objectives of disinvestment policy are to reduce the burden of financing PSUs and release the large amount of public resources locked up in non-strategic PSUs. This policy is in force for the last 25 years. The present article makes an attempt to examine the outcome of the disinvestment programme during 1991-92 to 2015-16. The study reveals that the actual receipts from disinvestment, though increasing, are not up to the mark as compared to the targets set for the same.

Key words: Public Sector Enterprises, Disinvestment, Liberalization, Industrial Policy, New Economic Reforms, Strategic Sale, Initial Public Offering (IPO), Offer for Sale.

JEL Classification: G38, H6, L32, O25.

1. Introduction

The Public Sector Enterprises have been playing a vital role in the economic development of Indian Economy. Hence, more importance has been given to the development of public sector enterprises since the beginning of planning period. These, enterprises protected fully by providing budgetary support. However, the performance of some public sector enterprises has not been satisfactory as compared with private sector enterprises. Further, it is very essential that both the public and private sectors must become competitive in the changing global economic environment. Therefore, the Government of India has decided to disinvest the equity of some selected public sector enterprises to improve the management, enhance availability of resources and yield resources for the exchequer.

2. Statement of the Problem

In July 1991, Govt. of India adopted the policy of new economic reforms and declared the policy of disinvestment in selected Central Public Sector Enterprises (CPSEs). In this context some important aspects like the nature of disinvestment policy, status of disinvestment in India, methods of disinvestment, targets and achievement of disinvestment, its impact on Indian Economy and reasons for slow achievement needs closer look. The present study entitled "**Performance Review of Disinvestment Policy of India: A Study of Post Reform Era**" is an attempt in this direction.

3. Objectives

The main objectives of the study are;

1. To clarify the meaning of the concept of disinvestment.
2. To explain the nature of disinvestment policy of Government of India.

3. To analyze the different ways and methods adopted for disinvestment.
4. To study the target - achievement position of disinvestment and analyze its growth during the period under review.
5. To assess the impact of disinvestment on the Indian Economy.
6. To find out the hurdles those come in the way of disinvestment of the programme.

4. Methodology and Data Sources

The study based on secondary data only. It has been collected from various government reports, reference books, concerned research literature, websites of department of disinvestment and department of public sector enterprises. The period of analysis is of 25 years ranging from 1991-92 to 2015-16. The study includes the analysis of the meaning of the disinvestment, methods of disinvestment, targets and achievement of disinvestment and hurdles in the way of disinvestment. The collected data has been analyzed by using appropriate tools such as ratios and percentages etc.

5. Disinvestment in Post Reform Period

In July 1991, with the introduction of New Economic Policy the Government of India adopted the policy of Disinvestment to reduce the burden of financing Public Sector Undertakings (PSUs) and to raise the funds for meeting the capital needs of our country. This section deals with an analysis of progress and impact of disinvestment Policy.

5.1 Meaning and Objectives of Disinvestment

Disinvestment is a process of off-loading government equity in public sector undertakings in favour of private parties.

Disinvestment can also be defined as an action of the government selling or liquidating an asset or subsidiary partly or fully, of a government - owned enterprises. A company or a government organization will typically disinvest an asset either as a strategic move for the company, or for raising resources to meet general or specific needs.

The major objectives of disinvestment policy are to provide better customer service, to make effective use of disinvestment funds, to overcome the problem of political intrusion and to enable the government to concentrate on social development.

5.2 Why Disinvestment?

The importance of disinvestment lies in utilization of funds for financing the increasing fiscal deficit and financing large- scale infrastructure development. Disinvestment also assumes significance due to the prevalence of an increasingly competitive environment, which makes it difficult for many PSUs to operate profitably. The large amount of public resources which is locked up in non- strategic public sector units can be used for re-employment in areas that are much higher on the social priority. Besides, the skilled man power locked up in the managing PSUs can be deployed in high priority social sector. Disinvestment would expose privatized companies to market disciplines and help them to become self-reliant. The significance of disinvestment further lies in the fact that it would result in wider distribution of wealth by offering shares of privatized companies to small investors and employees. It may also have a beneficial effect on the capital market. Thus, the disinvestment will increase economic activities and have an overall beneficial effect on economy, employment and tax revenues.

5.3 Disinvestment Policy

Disinvestment of the government's equity in Central Public Sector Enterprises (CPSEs) started in 1991-92 when minority shareholing of the central government in 30 individual CPSEs was sold to selected financial institutions (LIC, GIC, UTI etc.) in bundles. Since then the policy of disinvestment in India was shaped up by the successive budget announcement in the subsequent years. Between 1991-92 and 1996-97, India's disinvestment process was handled by the Department of Public Enterprises (Ministry of Heavy Industries) and subsequently, from 1st April 1997 till 9th December 1999 by the Department of Economic Affairs (Ministry of Finance). The Department of Disinvestment (DOD) was set-up as a separate department on 10th December, 1999 and was subsequently renamed as Ministry of Disinvestment (MODI) from 6th September, 2001. The salient features of the present disinvestment policy of India are:

i. Citizens have every right to own part of the shares of public sector undertakings.
ii. Public Sector Undertakings are the wealth of the nation and this wealth should rest in the hands of the people.
iii. While pursing disinvestment, the government has to retain majority shareholding, i.e. at least 51 per cent of the total stake and also the management control of the public sector undertakings.

On 5th November 2009, India's government approved the following action plan for disinvestment in profit making government companies.

i. Already listed profitable CPSEs (not meeting mandatory shareholding of 10 per cent) are to be made compliant by 'offer for sale' by government or by the CPSEs through issue of fresh shares or a combination of both

ii. Unlisted CPSEs with no accumulated losses and having earned net profit in three preceding consecutive years are to be listed.
iii. Follow -on public offers would be considered taking into consideration the needs for capital investment of CPSEs, on a case by case basis and government could simultaneously or independently offer a portion of its equity shareholding.
iv. The Department of disinvestment is to identify CPSEs in consultation with respective administrative ministries and submit proposal to government in cases requiring "offer for sale" of government equity.

5.4 Methods of Disinvestment

The government of India implements its disinvestment policy with the help of following five important methods

i. **Auction** is one of the methods for divesting shares under market sale where the pricing is optimized through bidding. It is less time consuming and involves low transaction cost. It is targeted at the institutional investors. In the initial rounds of disinvestment, Government divested its stake in PSUs through this method.
ii. **Strategic sale** implies selling of a substantial block of government holdings to single party, which would not only acquire substantial equity holdings of up to 51 per cent but also bring in the necessary technology for making the public sector enterprise viable and competitive in the global market. Alternatively, Strategic sale includes two elements; one is transfer of block of shares to a strategic partner and the second is transfer of management control to the strategic partner.
iii. **Market sale** signifies sale of shares to individuals, financial institutions or private sector business, which can then be traded in the market. It includes the sale of

shares through initial public offer, offer for sale to public, international offering, private placement and auction.

iv. **Initial Public Offering (IPO)** is the first issue of equity shares to the public by an unlisted company.

v. **Offer for sale** is offer of shares by exiting share holder(s) of a company to the public for subscription, through offer document.

5.5 Disinvestment: Current Scenario

The implementations of disinvestment policy begin in July 1991. The government of India adopted more and more liberal, supportive and on the whole encouraging attitude towards the process of disinvestment. A review of the same has been presented in this section.

A. Target -Achievement Position

The target -achievement position of disinvestment during the period 1991-92 to 2015-16 has been shown in Table 1. It is clear from the Table that the actual receipts of disinvestment was Rs. 20354.01 crore during 1991-92 to 2000-01, Rs. 169487.09 crore during 2001-02 to 2015-16 and Rs. 189841.10 crore during the entire period under study. This performance in terms of percentage to target was discouraging. For instance during 1991-92 to 2000-01 the achievement as against the target was only 37.48 per cent. It was 62.67 per cent in the period of 2001-02 to 2015-16. The overall achievement in regard with the disinvestment was recorded only 58.46 per cent during the entire post reform period.

Table 1: Target and Achievements of Disinvestment (1991-92 to 2015-16)
(Rs. Corors)

Sr. No.	Year	Target	Achievement	Achievement as % of Target
1	2	3	4	5
1.	1991-92	2500	3037.74	121.50
2.	1992-93	2500	1912.51	76.50

3.	1993-94	3500	-	-
4.	1994-95	4000	4843.10	121.00
5.	1995-96	7000	168.48	2.40
6.	1996-97	5000	379.67	7.60
7.	1997-98	4800	910.00	19.00
8.	1998-99	5000	5371.11	107.40
9.	1999-00	10000	1860.14	18.60
10.	2000-01	10000	1871.26	18.70
11.	2001-02	12000	5657.69	47.10
12.	2002-03	12000	3347.98	27.90
13.	2003-04	14500	15547.98	107.20
14.	2004-05	4000	2764.87	69.10
15.	2005-06	No Target	1569.68	-
16.	2006-07	No Target	-	-
17.	2007-08	No Target	4181.39	-
18.	2008-09	No Target	-	-
19.	2009-10	No Target	23552.93	-
20.	2010-11	40000	22144.21	55.30
21.	2011-12	40000	13894.05	34.70
22.	2012-13	30000	23956.81	79.85
23.	2013-14	40000	15819.46	39.55
24.	2014-05	36925	24348.71	65.94
25.	2015-16	41000	12701.33	30.98
First Phage of Liberalization (1991-92 to 2000-01)		**54300**	**20354.01**	**37.48**
Second Phage of Liberalization (2001-02 to 2015-16)		**270425**	**169487.09**	**62.67**
Overall Period (1991-92 to 2015-16)		**324725**	**189841.10**	**58.46**

Source:- Government of India, Department of Disinvestment, Ministry of Finance,
Official website http://www.divest.nic.in/summarysale.asp.

B. Route-wise Disinvestment

There are Five Routes of Disinvestment in India viz. Sale of minority shareholding in CPSEs, sale of majority shareholding of one CPSEs to another CPSEs, strategic sale, other related transactions and sale of residual shareholding in disinvested CPSEs/Companies. Table2 shows the route-wise receipts of disinvestment from 1991-92 to 2015-16. The total receipt of disinvestment was Rs. 189840.53 Crores during 1991-92 to 2015-16. The receipts through sale of minority shareholding in CPSEs contributed Rs.171703.97 Crores (90.45 per cent) and receipts from sale of residual shareholding in disinvested CPSEs Rs.6398.27 Crores (3.37 Per cent). The contribution of Strategic sale, other related transactions and sale of majority shareholding of one CPSEs to another CPSEs in the total receipts of disinvestment was Rs. 6344.35 Crores (3.34 Per cent), Rs. 4076.71 Crores (2.15 Per Cent) and Rs.1317.23 Crores (0.69 Per cent) respectively during the entire period under reference.

Table 2: Route- Wise Receipts of Disinvestment from 1991-92 to 2015-16
(Rs. Corors)

Sr. No	Disinvestment Route	Receipts	Percentage of Total
1	**2**	**3**	**4**
1.	Receipts through sale of minority shareholding in CPSEs.	171703.97	90.45
2.	Receipts through sale of majority shareholding of one CPSEs to another CPSEs.	1317.23	0.69
3.	Receipts through strategic sale.	6344.35	3.34
4.	Receipts from other related transactions.	4076.71	2.15
5.	Receipts from sale of residual shareholding in disinvested CPSEs/ Companies.	6398.27	3.37
Total Receipts		**189840.53**	**100.00**

Source:- http://www.divest.nic.in/summarysale.asp.

6. Impact of Disinvestment

The disinvestment process initiated by the government of India has both favorable and unfavorable impact on the Indian economy. The following are some of the effects of disinvestments on the Indian economy.

- Improvement in the productivity and performance of the public sector enterprises.
- Reduction in labour cost due to the introduction of VRS and increased productivity.
- Improvement in financial resources and technology of the company
- Rise in the market price of shares in the stock exchanges.
- Increase in the income of government and wealth of shareholders.
- Development in the infrastructure of the country.
- Export performance will go up due to improvement in productivity and competitiveness.

- Decrease in the burden of interest payment due to servicing of public debt from disinvestment proceeds.
- Quick and better decisions are possible due to more autonomy to the management.
- Inflow of more FDI in the country.
- Wide spread distribution of wealth among the people of the country.
- Products of high quality are available to the consumers at cheaper price.
- Improvement in the standard of living of the people.

7. Major Hurdles

The above facts and figures reveals that the performance of disinvestment programme during the post reform period in India is not up to the desired level. The hurdles responsible for the same are as follows

Firstly, there is a lack of long term policy framework for disinvestment and there is no time bound programme. Secondly, the amount realized through disinvestment is not paid to the enterprise concerned for its expansion and improvement in efficiency, but it used to bridge the budget deficit. Thirdly, there exits insufficient transparency and flexibility in term of the methods of disinvestment, balancing, ownership and control. Fourthly, absence of proper legal framework viz., Property Right, Foreign Ownership, Bankruptcy Law, SEBI Regulation, Labour Laws etc. also affects the desired results of disinvestment. Finally, the lack of co-ordination between disinvestment ministry and concerned ministries which leads investors hesitating to purchase the shares of PEs offered for Strategic Sales.

8. Suggestions

Based on the findings and observations, the following measures may be relevant to avoid present pitfalls of India's disinvestment policy.

1. Proceeds collected from the sale of shares of PSUs should be properly utilized to get optimum benefit for the society. Special attention should be given to utilize the amount on health, education and industry rather than for reducing budgetary deficits only.
2. Disinvestment programme should not be undertaken in haste. Objective analysis is required to prescribe annual target for this programme.
3. Certain percentage of shares should be reserved for the workers to invest in their company. This would act as an incentive.
4. Full transparency should be ensured in the disinvestment process.
5. The techniques selected for disinvestment should be enterprise specific.
6. To help the investors to make necessary evaluation, the government should provide all information concerned to the enterprises.

9. Conclusion

To sum-up, it can be concluded that disinvestment programme is an important aspect of New Economic Policy of Government of India. The receipts from disinvestment are essential for the social, economic and inclusive growth of the economy. The government has made lot of efforts to make the programme a grand success. However, it is not successful in meeting the targets right from the introduction of the programme. Numerous economic, political and administrative factors have contributed towards this poor performance. Hence the government should give utmost importance to disinvestment programme and make sincere efforts for its effective implementation. This can make "Disinvestment Receipts" a vital tool of economic development of India.

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