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# REVIEW OF DISINVESTMENT POLICY IN INDIA

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The present study deals with the review of literature available on the disinvestment policy and impact of disinvestment on selected public sector undertakings. This study includes the review of research papers, e Committee reports, which were appointed by the Govt. of India specially to take over the Disinvestment process and well reputed Journals with some books. The paper is divided into four different parts i.e.Review of Research paper, Review of Books, Review of Committees and Review of Journals.

## REVIEW RESEARCH PAPER

**Dr.M.S. Smriti Khurasia** highlighted in her research paper entitled "A positive aspect of Disinvestment of public sector in India" she argued that the objective of disinvestment should be to benefit the public, the consumer and the investor, and at the same time, to improve competitiveness and eliminate monopoly. In this direction the former NDA Government made exerting efforts it has collected over Rs.14,000 crore by way of disinvestment proceeds. Considering the pivotal role of PSUs, it would be better to turn some PSUs into venture capitalists.

**Mr.Sandeep Mathur** in his research paper entitled "Disinvestment of public sector in India said that Disinvestment is an effective instrument for restructuring of the PSUs. If this is not properly understood and effective and quick measures are not taken, then drain on the scare budgetary resources will be such that sooner or later most of the undertakings will go bankrupt and there will be a dead weight of assets and unemployment for which it is not easy to find a satisfactory solution. The mechanism for easy to find a satisfactory solution.

**Ms.Ajanta Bose** tried to highlight in his research paper that, in India whatever the form of Government may be, both the public and the private sector are likely to survive together. But it is essential that, for their efficient running, neither should be over protected or discriminated against. There must be an atmosphere of healthy competition.

**Dr.Richa Rai** explained the urgent need is to disband the Ministry of Disinvestment so that the process of privatization which is proving to be harmful to the national interest can be stopped. The public sector is becoming performance oriented, hence more powers need to be given to the MDs of PSUs in decision making and reduce their dependence on ministerial control.

**Mrs. Neeta Deeparware highlighted in her research paper that,** The disinvestment process involves the sale of equity and bond capital invested by the Government in PSU's. Disinvestment is generally expected to achieve a greater inflow of private capital.

In the Budget Speech for 2002-03 it was started that the Govt. has completed strategic sale in 7 public sector companies and some hotel properties of Hotal Corporation of India (HCI) and India Tourism Development Corporation (ITDC). In 2003-04 budget, the target for disinvestment was kept at Rs.14,500 crore. The Govt. was able to raise Rs.1,300 crore by making public offer in Maruti Udyog Limited and Hindustant Zinc Ltd. Total realisation of disinvestment during 2003-04 is likely to be Rs.150,126 crores.

Out of 222 State Level Public Enterprises (SLPE's) identified for disinvestment, 124 enterprises are initiated for disinvestment, 30 SLPE's have been privatised and 68 SLPE's have been closed down.

**Dr.Bhartendu Singh** highlighted in his article that, the strategic sale which was started in the year 99-00, have been probed very successful as the prices realized through it have been very high. In the year 03-04 Disinvestments through public sale of share was predominant.

**Ms.Navita Nathani said about the disinvestment that,** Most of the problems in public sector stem from the fact that it has been exposed to competition but without any of the relative decision making freedom and flexibility of private companies.

**Dr.S.K.Bajpayee** argued on the disinvestment that, the real issue is not whether to have total marketisation of the economy or fully state owned economy.

**Dr. Manohar Pandit opined in** his research paper entitled "No controversy or myth, Disinvestment is the only Reality & way forward for India" says that the initial need and compulsions of post independence era of 1950s might have justified the investment in public sector, the poor execution of the objectives and the policies by both the political and bureaucratic leadership of the country has made it a bad dream, that should have ended much earlier.

**Dr.Harshvardhan Halve had his overview on disinvestment that, t**he valuation of business entity is a balanced combination of Art and Science. There is no `Surefire' way to value a company or a business entity. The bottom line is, of course, that the business is worth what a buyer is ready or willing or able to pay. So, the value of an entity finally by all practical means becomes the value as perceived by the involved parties.

## REVIEW OF BOOKS

Mr. Sudhir Naib in his book "Disinvestment in India" discussed about the Public Sector in India, Strategy for privatization. The effects of ownership & competition on efficiency, corporate response to economic reform Disinvestment in India, etc. out of which a brief review of main types of Disinvestment Method of Divestiture, criteria for selection of PSU's for Disinvestment and the procedure of Disinvestment are given.

Jones et al. (1990) have suggested a model to answer which enterprises should be disinvested. According to this, an asset should be sold only if the seller is better off after the sale, i.e. the change in welfare ($\Delta W$) in positive. If the government behaves as a private seller, then this would simply require that the sale price exceed the value of the future-earning stream foregone, i.e.

Sell if $\Delta W = W - V_{sg} > 0$

Where $\Delta W$ = Change in welfare.

Z= Price at which sale executed.

$V_{sg}$ = Social value under continued government option.

## REVIEW OF COMMITTEE REPORTS

Since 1991 Government of India appointed various committees to institutionalize the Disinvestment process a brief overview of these committees are given below.

### Krishnamurthy Committee

This was the first committee constituted by the Chandrashekhar government. While presenting the interim budget for the year 1991-92 declare disinvestment up to 20 percent of the government equity in the selected PSE's in favor of the public sector institutional investors. Later, the Industrial Policy Statement of 24 July 1991 stated that the government would divest part of its holdings in selected PSE's but did not place any cap on the extent of disinvestment. Nor did it restrict disinvestment in favor of any particular class of investors. The objective for disinvestment was to provide further market discipline to the performance of public undertakings.

In short the Public Sector Undertakings in India faced the following changes under this committee :

1) Disinvestment took place in twenty four selected Public Sector Undertaking.
2) Up to 20 percent of Government equally were allotted to Minimal funds, Investments Institutions in
the public sector and the workers in Public Sector Undertaking

### Rangarajan Committee

The govt. reconstituted the committee in November 1992 with Dr. C. Rangarajan, then the Member, Planning Commission as Chairman and Dr. Y. Venugopal Reddy as Member Secretary. The Committee gave its report on 20 April, 1993

The Committee took upon itself to indicate the objectives sought to be achieved through disinvestment in public sector equity. According to it, the objectives were:

(a) To mop up resources of non-inflationary character to meet the budgetary needs which include requirements of developmental activities and social obligations?
(b) To sub serve, in the medium term, the overall fiscal objective of gradually reducing the fiscal deficit and
bringing about a positive overall impact on future liabilities and income flows to Government.
(c) To improve the overall economic efficiency by bringing about a more competitive atmosphere with
emphasis on the cost and quality of product and service to the customers of public sector enterprise.

The committee did not suggest any criteria for selection of enterprises for disinvestment on the ground that the financial year 1992-93 was about to end.

In short the Public Sector Undertakings in India faced the following changes under this committee :

1) Industries explicitly reserved for the public sector were disinvested up to 49 percent.

2) 74 percent of enterprises having dominant market share or separate entity were also disinvested.
3) All other (Excluding the above) public sector undertakings were disinvested up to 100 percent.

The committee never allowed the foreign investors to buy more than 24 percent of equity except in case of strategic alliance on terms and conditions approved by the government

**Ramakrishna Committee**

This committee was constituted by the United Front government in 1996, in its Common Minimum Programme stated its policy as being to carefully examine the public sector in non-core strategic areas and to set up a Disinvestment Commission for advising on the disinvestment related matters. However, no disinvestment objective was mentioned in the policy statement.
In short the Public Sector Undertakings in India faced the following changes under this committee:

1) Public sector Disinvestment commission was constituted on August 23rd 1996 for a period of three years with the main objective of preparing an overall long-term Disinvestment programme for public sector undertaking.
2) The Disinvestment commission had given six reports which included specific recommendations in respect of 34 enterprises, showing the concern about slow progress in implementation of its recommendations and it was particularly critical of the Governments going a head with strategic sales leading to joint ventures in same. PSUs which are not referred to the commission. Obviously the Government not like the criticism as it axed the powers of the commission in January 1998.

**Patil Commission**

The government reconstituted the Disinvestment commission in July 2001 for a period of two years under the chairmanship of Dr R.H. Patil. The commission has four other part- time members and one member secretary. The government decided to refer all ‘non-strategic’ PSEs including subsidiaries (excluding IOC, ONGC, and GAIL ) to the Disinvestment Commissions for it to priorities, examine and make recommendations taking into consideration the existing policy as articulated on 16 March 1999 and the budget speeches of the Finance Minister from time to time. The reconstituted commission has submitted six reports till March 2003. In these reports, fresh recommendations have been made for 17 PSEs and review recommendations for four PSEs. The commission recommended strategic sale in case of eight PSEs and sale of entire government stake or closure in six PSEs out of the 17 freshly examined PSEs.
In short the Public Sector Undertakings in India faced the following changes under this committee:

1) To priorities examine and make recommendation reconstituted Disinvestment Commission came in
July 2001.
2) Through strategic sale mode eight PSUs were Disinvested.

## REVIEW OF JOURNALS

**Economic & Political Weekly**, one of the reputed Journal, research article appears in the issue, May 29, 2004 published showing "How to disinvest & to whom". It explains, Disinvestment could be by way of retail sale or through sale of equity to public financial institutions or through sale of large chunks of equity to strategic partners who would then take over the management of the PSU.

**Mrs. K.T. Geeta,** viewed that Public sector units in India are frequently saddled with a host of non commercial goals – employment generation, income redistribution, promotion of socialism, etc.

**Ms.Susheela Subramania** Editor of Southern Economist, published her article regarding “The Agony and Ecstasy of Disinvestment" in Southern Economics – Vol. 35. she highlighted on the ASU’s that, 246 central PSUs are making losses. Others like ONGC, IOC, OIL etc. show profits despite higher production cost mainly because they are able to more than fully offset the later by increase in the administered prices. **Ms. D.S. Vishwanath** in his Articles, entitled "PSUs – Is it an Opportunity" gives few suggestions to over come the challenges. He tried to suggest some remedies to overcome the problems, I,e,

1. As CEO accept the job gracefully.
2. Be bold, brave & courageous. Face pressure, threat etc.
3. Empower executives & workmen.
4. Apply the principle of Sama, Dana Bedha and Dhanda.
5. Continuous analysis about Budgets, Budgetary Control, BEP, Funds flow & cash flow in consultation with departmental heads.
6. Respond to technology changes & technology up gradation. But only if it enables more supplies & bring more returns to the organization.
7. Decisions only in the interest of the organization.
8. Need not oblige to everybody for every thing but tell obligingly to every one.
9. Be offensive as regards marketing and productivity. Be defensive as regards other areas.
10. Foremost thing needed is consolidation, which is a Prime Concern in the era of LPG. and 22. Hardwork is the only way for survival. With this one may decide whether PSU is an opportunity or otherwise.

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