

## 15. Divestment Policy and its Impact on Indian Economy - An Insight into its Rationale

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### **Abstract**

Divestment or disinvestment means selling a stake in a company, subsidiary or other investments which is the biggest weapon of the government to improve the efficiency of the public sector, has also allowed the private sector to perform more productive activities. Unfortunately, the proceeds of the disinvestment were not utilized properly. Disinvestment was not properly carried out in the right manner during the past decade. This paper aims to analyze the impact of disinvestment on the Indian economy through various factors such as target, achievements, utilization and trends.

**Keywords :** Divestment, new monetization pipe line, Public Sector Enterprises...

### **1. Introduction**

Divestment or disinvestment means selling a stake in a company, subsidiary or other investments. Businesses and governments resort to divestment generally as a way to pare losses from a non-performing asset, exit a particular industry, or raise money. Disinvestment in India is a policy of the Government of India, wherein the Government liquidates its assets in the Public sector Enterprises partially or fully. The decision to disinvest is mainly to reduce the fiscal burden and bridge the revenue shortfall of the government. The key engine in achieving growth in India during post-independence was played by Public Sector Enterprises (PSE). Among other responsibilities of PSE's post-independence, the social and developmental obligations of the nation were most important, which resulted in these units escaping competitive race. Later on the activities of the PSU's were divergent, concentrating towards more non-core areas like hotels and consumer goods among others. Further, the public enterprises were used as tools for political and bureaucratic manipulation; which was consequential in low capacity utilization, reduced productivity, failure to innovate, and complex decision-making processes on vital issues of development.

By the end of the 1980s, the growth of the PSE's had turned into, as expressed by some commentators, an "end in itself". These factors became an obstacle to the growth of India. Therefore, the poor performance of the PSE's called for reforms to address the weakness in India's development. After the change of Government in 1991, among many economic reforms launched; privatization was one, which focused on the efforts required to be taken to curtail the fiscal burden of the state by reducing public sector borrowings and bring in fiscal austerity.

The economic policies of the colonial governments during the pre-independence era were mainly focused on promoting their home country rather than India. Hence, most of the industrial activity was centered on exporting raw materials and importing finished products from Britain. India's Economic and Industrial policy after independence was worked out on the lines of the Soviet Union, which was characterized as the 'Socialist framework'. However, this socialist policy of industrialization regulated most of the private enterprises with rigid restrictions over its operations, resulting in an ineffective industrial system to be replaced by Import-substitution industrialization. Further, disappointing performance by the industrial sector and Balance of Payment crisis of 1991 forced the policymakers to reassess the situation and program reforms towards a further open-market oriented policy.

## **2. Divestment in India- Policy and Procedure**

The basic objective of starting Public Sector in India was to build infrastructure and rapid economic growth. However, a number of problems such as low productivity, over-manning and other economic compulsions like deterioration of balance of payment position and increasing fiscal deficit led to the adoption of new approach toward the public sector in 1991.

### **A. Periodic Analysis of Disinvestment**

**i. Period from 1991-92 to 2000-01** - To redefine the economic reforms in the country and the performance of PSU's, a new Industrial policy was drawn up in 1991, which discussed the role of PSU and came up with a comprehensive policy for disinvestment of public sector undertakings. The policy brought autonomy to the PSU boards and encouraged them to improve efficiency in their operations. The Government identified PSU's under priority areas and concentrated towards them and subsequently privatized most of the loss-making entities. Under Industrial restructuring, the Government opened up most of the sectors to the private entities. While, Public sector concentrated towards Railways, Mining, and atomic energy. Another key prospect of the 1991 policy was to end "red-tapism" which was known as Industrial licensing,

wherein the requirement to get a license to start a private sector industry was abolished. Thereby, cutting down unnecessary delays in establishing an industrial unit by any private entity.

One of the key accomplishments of the industrial policy statement, as indicated in the Union Budget of 1992 was: it reduced the industries reserved for the public sector from seventeen to four. Further, the budgetary provisions for the PSUs were sharply curtailed and most of the loss-making enterprises were referred to the Board of Industrial and Financial Reconstruction. A committee was set up to develop guidelines for disinvestments headed by C. Rangarajan. The commission submitted its report in 1993, which recommended: disinvestments up to 49 percent to be allowed in companies reserved for the public sector and 100 percent in other entities.

The change process in India began in the year 1991-92, with 31 selected PSUs disinvested for Rs.3,038 crore. In August 1996, the Disinvestment Commission, chaired by G V Ramakrishna was set up to advise, supervise, monitor and publicize gradual disinvestment of Indian PSUs. It submitted 13 reports covering recommendations on privatisation of 57 PSUs. Dr R.H.Patil subsequently took up the chairmanship of this Commission in July 2001. However, the Disinvestment Commission ceased to exist in May 2004. The Department of Disinvestment was set up as a separate department in December, 1999 and was later renamed as Ministry of Disinvestment from September, 2001. From May, 2004, the Department of Disinvestment became one of the Departments under the Ministry of Finance. Against an aggregate target of Rs. 54,300 crore to be raised from PSU disinvestment from 1991-92 to 2000-01, the Government managed to raise just Rs. 20,078.62 crore (less than half). Interestingly, the government was able to meet its annual target in only 3 (out of 10) years. In 1993-94, the proceeds from PSU disinvestment were nil over a target amount of Rs. 3,500 crore. This was the period when disinvestment happened primarily by way of sale of minority stakes of the PSUs through domestic or international issue of shares in small tranches. The value realized through the sale of shares, even in blue chip companies like IOC, BPCL, HPCL, GAIL & VSNL, however, was low since the control still lay with the government. Most of these offers of minority stakes during this period were picked up by the domestic financial institutions. Unit Trust of India was one such major institution.

**ii. Period from 2001-02 to 2003-04** - This was the period when maximum number of disinvestments took place. These took the shape of either strategic sales (involving an effective transfer of control and management to a private entity) or an offer for sale to the public, with the

government still retaining control of the management. Some of the companies which witnessed a strategic sale included. The valuations realized by this route were found to be substantially higher than those from minority stake sales. During this period, against an aggregate target of Rs. 38,500 crore to be raised from PSU disinvestment, the Government managed to raise Rs. 21,163.68 crore.

**iii. Period from 2004-05 to 2008-09** - The issue of PSU disinvestment remained a contentious issue through this period. As a result, the disinvestment agenda stagnated during this period. In the 5 years from 2003-04 to 2008-09, the total receipts from disinvestments were only Rs. 8515.93 crore.

**iv. 2009-10-2019-20** - A stable government and improved stock market conditions initially led to a renewed thrust on disinvestments. The Government started the process by selling minority stakes in listed and unlisted (profit-making) PSUs. This period saw disinvestments in companies such as NHPC Ltd., Oil India Ltd., NTPC Ltd., REC, NMDC, SJVN, EIL, CIL, MOIL, etc. through public offers. However, from 2011 onwards, disinvestment activity slowed down considerably. As against a target of Rs.40,000 crore for 2011-12, the Government was able to raise only Rs.14,000 crore. However, the subsequent years saw some improvement and the Government was able to raise Rs. 23,857 crore against a target of Rs. 30,000 crore (Revised Target : Rs. 24,000 crore) in 2012-13 and Rs. 21,321 crore against a target of Rs. 54,000 (Revised Target : Rs. 19,027 crore) in 2013-14. The achieved target dropped to Rs. 24,338 crore against a target of Rs. 58,425 crore in 2014-15. In 2015-16 the Government was able to raise Rs. 32,210 crore against a target of Rs. 69,500 crore (Revised Target : Rs. 25,312 crore) and Rs. 46,378 crore against a target of Rs. 56,500 (Revised Target : Rs. 45,500 crore) in 2016-17. In 2017-18, some steep improvement was seen and the Government was able to raise Rs. 1,00,642 crore against a target of Rs. 72,500 crore (Revised Target : Rs. 1,00,000 crore) and Rs. 85,063 crore against a target of Rs. 80,000 in 2018-19. Further, the achieved target dropped to Rs. 49,828 crore against a target of Rs. 90,000 crore (Revised Target : Rs. 1,05,000 crore, further the Target Revised downward to Rs.65,000 crore) in 2019-20.

**v. 2020-21 on wards** - The Government has set an ambitious disinvestment target of Rs. 2, 10,000 crore. As such, 2020-21 is likely to see some big ticket disinvestments taking place.

### **B. Divestment Proposals in Union Budget 2020-21**

The Government on Monday budgeted Rs 1.75 lakh cr from stake sale in public sector companies and financial institutions, including 2 PSU banks and one general insurance company, in the next fiscal year beginning April 1. The amount is lower than the record Rs 2.10 lakh cr which was budgeted to be raised from CPSE disinvestment in the current fiscal year. However, the COVID-19 pandemic impacted the government's CPSE stake sale programme, and the target has been lowered. For fiscal year 2021-22, out of the total Rs 1.75 lakh cr, Rs 1 lakh cr is to come from selling government stake in public sector banks and financial institutions. Rs 75,000 cr would come as CPSE disinvestment receipts. Unveiling the Disinvestment/Strategic Disinvestment Policy, Finance Minister Nirmala Sitharaman said four sectors -- Atomic energy, Space and Defence; Transport and Telecommunications; Power, Petroleum, Coal and other minerals; and Banking, Insurance and financial services. In strategic sectors, there will be bare minimum presence of the public sector enterprises. The remaining CPSEs in the strategic sectors will be privatised or merged or subsidiarized with other CPSEs or closed. In non-strategic sectors, CPSEs will be privatised, otherwise shall be closed. In her 2021-22 Budget speech, she said strategic disinvestment of BPCL, Air India, Shipping Corporation of India, Container Corporation of India, IDBI Bank, BEML, Pawan Hans, Neelachal Ispat Nigam Ltd, . Other than IDBI Bank, we propose to take up the privatization of two Public Sector Banks and one General Insurance company in the year 2021-22. This would require legislative amendments and I propose to introduce the amendments in this session itself. Also the legislative amendments required for launching IPO of LIC would be brought in the ongoing session of Parliament. To fast-track the disinvestment policy, NITI Aayog would work out on the next list of central pub. Also to similarly incentivize states to start disinvestment of their public sector companies, the government will work out an incentive package of central funds for states. Besides, to ensure timely completion of closure of sick or loss making CPSEs, a revised mechanism would be brought in, she said. Idle assets will not contribute to Aatmanirbhar Bharat. The non-core assets largely consist of surplus land with government Ministries/Departments and Public Sector Enterprises. Monetizing of land can either be by way of direct sale or concession or by similar means. This requires special abilities and for this purpose, I propose to use a Special Purpose Vehicle in the form of a company that would carry out this activity.

### **C. National Monetization Policy**

The NMP comprises a four-year pipeline of the government's brown field infrastructure assets. In the Union Budget 2021-22, the government laid a lot of emphasis on asset monetization as a means to raise innovative and alternative financing for infrastructure, and included a number of key announcements. In an effort to list out its infrastructure assets to be sold over the next four-years, Union Budget identified infrastructure as the key focus for public expenditure. The NMP comprises a four-year pipeline of the government's brown field infrastructure assets. In the Union Budget 2021-22, the government laid a lot of emphasis on asset monetization as a means to raise innovative and alternative financing for infrastructure, and included a number of key announcements. Underlining the importance of the project, the finance minister said National Monetization Pipeline talks about brown field assets where investment is already being made, where there are assets either languishing or not fully monetized or under-utilized. Maximum monetization by the financial Year 2025 is expected from the road sector where Rs 1.6 lakh crore worth national highways of NHAI are identified. Road sector is followed by the Railways sector where about 400 stations, about 150 trains, and some tracks and woodshed are identified worth Rs 1.5 lakh crore. The power sector will see some Rs 67,000 crore worth transmits. InvIT mode or Public-Private Partnership (PPP) concessions. Most of the assets under monetization will be done through the InvIT mode or Public-Private Partnership concessions. In sectors like mining, Centre may also look for auction and Mine Development Operator routes, for airports it may look at stake divestment as well. Monetizing operating public infrastructure assets is a very important financing option for new infrastructure construction. A 'National Monetization Pipeline' of potential brown field infrastructure assets will be launched. An Asset Monetization dashboard will also be created for tracking the progress and to provide visibility to investors.

### **3. Problems Realized with Divestment**

The disinvestment process has been plagued by various problems. Among these are the low number of qualified investors for acquiring the shares of the disinvestment firms. The government also discourages mutual funds from acquiring the shares of the disinvestment firms. The lack of enthusiasm among these organizations for listing their shares has led to low valuations and under pricing of equity. Even if the government proceeds with the disinvestment

of public assets, it should not be considered a success unless the public is fully informed about the details of the companies operating in the sector.

Since the public sector banks do not benefit from disinvestment, they are reluctant to prepare and distribute the prospectuses. This has prevented the disinvestment process being transparent. Total disinvestment of public sector units would concentrate their political and economic power in the hands of private corporate.

Since the public sector undertakings do not benefit from disinvestment, they are reluctant to prepare and distribute the prospectuses. This has resulted in the disinvestment process being shrouded in secrecy. Total disinvestment of public sector units would naturally concentrate political and economic power in the hands of private corporates. This is because the creation of these institutions had political and economic objectives.

The sale of government shares to foreign companies has serious implications for national wealth, power and control. Even if the sale price is right, it could dilute the national wealth.

#### **4. Conclusion and Recommendations**

They also stress that PSUs can be in such a bad shape that they should not be allowed to bid for auction and that the government should step in and take over their managements. It is due to the mismanagement of PSUs that they suffered huge losses. The policies and procedures were not followed properly.

The concept of disinvestment has been widely considered as it proposes to rationalize the various unproductive activities of the economy. Unfortunately, the proceeds from these disposals were not used for the productive and non-productive purposes.

The government's decision to privatize certain sectors of the economy has become questionable. This is because the private sector can now offer a better alternative to the inefficient units and bring about a competitive environment in the market. The government's intervention in the operations and managerial decisions of enterprises should be considered as a last resort.

It is understandable that the government faces difficulties in closing the loss-incurring PSEs. However, in order to avoid causing huge losses to the government, it should first explore the possibility of selling the loss-incurring PSEs to private players. Sometimes, it is difficult to sell them at apposite price. In other cases, they may be sold with a negative tender price. This method will help avoid operating losses in the future. They also stress that PSUs are in a poor

shape and are prone to running out of funds. In Germany, for instance, the government has permitted negative bids in an auction for a bankrupt company. Many of the reasons cited above were due to the poor performance of public sector units over the years. This was mainly due to the mismanagement of their assets and their control over them.

The concept of disinvestment was initially conceptualized to address the needs of the economy for the non-productive sectors and the productive ones. Unfortunately, the proceeds from this process were not used for the productive ones. Privatization has become a waste of time and money. Thus the belief of privatization, as a lead to better performance has become questionable. Hence, the government should change its mind and move from earth to heaven, keeping in view the global experience as a cushion and caution agent to improve the efficiency of inefficient units and create competitive market in the present bloodthirsty environment to enable the PSUs to work efficiently for the good health of the economy and in turn the nation.

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### **Further Reading**

- Public Sector Enterprises in India: The Impact of Disinvestment and Self Obligation on Financial Performance: <https://dipam.gov.in/>
- Disinvestment in India: Policies, Procedures, Practices by Dr. Sudhir Naib.