CHAPTER -1

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OVERVIEW OF CURRENT DISINVESTMENT POLICY IN INDIA
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INTRODUCTION

The whole process of disinvestment process has become an instrument of transferring public property to private hands for a song much to the detriment of the national interest and the industrial economy of the country in particular. And with the whole process, corruption is woven intrinsically. The very concept of privatization of public sector units and more so the blue chips ones, in it is a bankrupt corrupt policy perception, treachery with the nation and fraud on the people of country. Therefore, we oppose this policy and demand its reversal.

Today privatization of public sector Enterprises has become a burning issue due to the global failure of the system of management of PSEs and other local problem associated with the sector. The basic objective of such privatization are improvement in efficiency and performance, encouragement to the global competition, reduction in borrowing requirement, generation of employment opportunities, elimination of governmental interference and bureaucratic control encouraging worker’s participation in share ownership and management, reduction in political interference and easing the pressure on pay determination by weakening unions, in the public sector. In any scheme of privatization of public sector enterprises, the following should be taken into account.

There has been phenomenal and tremendous growth of PE’s in India. They were established to attain the ‘commanding heights’ of the economy
of the country and achieve rapid growth of industrialization and economic development. Some of these PSEs later became ‘white elephant’ and started incurring losses. Several of them became chronically sick industries. The Govt. declared the disinvestment process, which began in 1991 with the sale of minority stakes in some PE's, shifted focus to strategic sales during 1999-2000 to 2003-04. The present UPA Govt. announced that, all disinvestment will be considered on a transparent and consultative case-by-case basis. The Govt. has approved the constitution of a “National Investment Fund” comprising of proceeds from disinvestment. The present paper is an attempt to discuss same important issues such as restructuring, valuation of equity, Mechanism of disinvestment, Application of disinvestment proceeds, Parliamentary approval and political issues.

**Meaning of Disinvestment**

The word "Disinvestment is used rather than "privatization". Privatization implies a change in ownership resulting in a change in management. Disinvestment in that sense is a wider term extending from dilution of the stake of the Government to a level where there is no change in control to dilution that results in the transfer of management. If, in fact, in a particular enterprise there is dilution of Government ownership beyond 51 per cent, this can results effectively in a transfer of ownership. The extent of dilution needs to be determined as part of the policy of disinvestment.

Public Sector Undertakings have been one the greatest paradoxes of the Indian industry. There has been a great debate whether they have succeeded in their objectives. Also, in the context of globalization, the need of such industries has been questioned. Have these industries outlived their utility? Do these industries still deserve the fiscal backing provided by the government? Or should we be
selling our family silver? An endeavor will be made to find answers to these questions.

In this thesis, answers will be sought to the following questions

- Have Indian PSU’s achieved their objectives and should they be disinvested?
- Has the disinvestment procedure been successful?

Historically, public sector undertakings (PSUs) have played an important part in the development of the Indian industry. At the time of independence it was felt that the political independence without economic self-reliance would be detrimental to the country’s sovereignty and autonomy in policy making. Hence, the basic objectives of starting the public sector were:

- To build infrastructure for economic development and promote rapid economic growth and industrialization of the country.
- To create employment opportunities and promote balanced regional development.
- To create a self-reliant economy through the development of local industries for import substitution and by encouraging and promoting exports.
- to generate invisible resources for development by earning suitable returns
- To prevent / reduce concentration of private economic power.

In the sixties and seventies the public sector policy has been largely guided by the Industrial Policy Resolution of 1956 which gave the public sector a strategic role in the economy. Massive investments have been made in the past four decades to build a public sector, which has a commanding role in the economy. Many key sectors of the economy are today dominated by the mature public enterprises that have successfully expanded production, opened up new areas of technology and built up a reserve of technical competence in a number of areas.
As a result, the countries ranking in terms of industrialization with other developing countries is quite high. India's comparative advantages such as a large pool of well trained work force, technical skills in manufacturing and chemical industries primarily stem from the public sector.

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However, after the initial exuberance the public sector entering new areas of industrial and technical competence, a number of problems began to manifest themselves in many enterprises. Problems were observed in terms of low productivity, poor project management skills, over manning, and lack of
technological up gradation, inadequate attention to R&D and low priority to

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An important aspect relating to the performance of the PSUs has been the incidence of budgetary support. Till the nineties, PSUs in general had access to funds from other government in the form of budgetary support. Widening fiscal deficits since the early nineties has however led to a sudden withdrawal of budgetary support for PSUs as is evident from the graphs:

Budgetary support of the total plan outlay on the public sector has declined considerably from 32% to 13%. This has been offset by the increased component of extra budgetary resources from sources other than the government, which has grown from 34% to 41% during the same period. Now, the profitability of the PSUs in each sector will be analyzed. The policy of the Government on Disinvestment has evolved over a period of time. The National Common Minimum Programme (NCMP) outlines the present policy of the Government with
respect to the Public Sector, including disinvestment of Government's equity in Central Public Sector Enterprises (CPSEs).

The salient features of the policy as laid down in NCMP are as Follows:-

- "The Government is committed to a strong and effective public sector whose social objectives are met by its commercial functioning.
- The Government is pledged to devolve full managerial and commercial autonomy to successful, profit-making companies operating in a competitive environment.
- Generally profit making companies will not be privatized.
- All privatizations will be considered on transparent and consultative case by-case basis.
- The Government will retain existing "navaratna" companies in the public sector while these companies raise resources from the capital market.
- While every effort will be made to modernize and restructure sick public sector companies and revive sick industry, chronically loss-making companies will either be sold-off, or closed, after all workers have got their legitimate dues and compensation.
- The Government will induct private industry to turn around companies that have potential for revival.
- The Government believes that privatization should increase competition, not decrease it. It will not support the emergence of any monopoly that only restricts competition. It also believes that there must be a direct link between privatization and social needs—like, for example, the use of privatization revenues for designated social schemes. Public sector companies and nationalized banks will be encouraged to enter the capital market to raise resources and offer new investment avenues to retail investors."
The Government deserves to be congratulated for its decision to reduce its holdings in many public sector undertakings (PSUs) to below 50 percent and even its equity in certain cases to 26 per cent, thereby relinquishing its control over the day-to-day management of these enterprises. The purpose of disinvestment is two-fold. One, to generate cash, two, to improve their performance. But implementation of such a proposal would require clear policy guidelines.

The implication for India is that it is first necessary to establish competitive markets and draw up clear rules for competition and arbitration before embarking on a major Privatization program. Otherwise, Privatization or the ad hoc disinvestment of the kind now being practiced may give a lot of revenue to the Government but do nothing for the efficiency of the firms now in the public sector.

**Sectoral analysis**

In India at the "central" (that is, the Union Government) level, there are 240 non-departmental public enterprises currently in operation and 6 more public enterprises are under construction. 135 public enterprises are operating in manufacturing, covering many sectors, including steel; mineral and metal; coal and lignite; power; petroleum; fertilizers; chemicals, pharmaceuticals, and drugs; heavy engineering; medium and light engineering; transport equipment; consumer goods; agro-based industries; and textiles. 105 public enterprises are operating in services, including trading and marketing; transportation; construction; industrial development and technical consultancy; tourism; finance; and telecommunications. This subsection examines the prospect for disinvesting public enterprises, sector by sector.

**Steel**

There are 9 public enterprises in India's steel sector. The steel sector public enterprises in aggregate are losing money: in 1993-94, it had -0.6 percent returns and, in 1993-92, it had -1.3 percent returns on the capital employed. The major steel public enterprises are: Steel Authority of India Ltd., Indian Iron and Steel
Company Ltd., and Rashtriya Ispat Nigam Ltd. While Steel authority of India Ltd., is a profitable company, the other two major steel companies are incurring huge losses. The integrated steel plants are mainly in the public sector, whereas the secondary mini-plants are in the private sector. The steel industry was party liberalized in the early 1990s. There is no price control on iron and steel. However, the steel industry remains protected, and production costs are high. As tariffs are reduced, the industry will need to invest for modernization. It has to improve its productivity and quality to compete with imported products. Disinvestment of steel enterprises would introduce better management.

Minerals and Metals, and Coal and Lignite
There are 13 public enterprises operating in the mineral and metals sector; and 9 companies in the coal lignite sector. The mineral and metal and the coal and lignite sectors in aggregate are earning small net profits, respectively return of 3.3 percent returns in 1993-94 and 5 percent returns in 1992-93 on the capital deployed. Coal and lignite sector had returns of 4.3 percent in 1993-94 and 3.5 percent in 1992-93. Disinvestment of the enterprises related to minerals, metals, coal and lignite should pay appropriate attention to the economics of natural resources.

Power
Power is mainly a state-level issue. In the power sector, there are 4 central public enterprises. In aggregate, these obtained 13 percent returns in 1993-94 and 9.1 percent returns in 1992-93. Selling these enterprises will bring good revenues for the Government.

Petrochemicals
There are 14 public enterprises in this sector. The public enterprise, Indian Petrochemicals Corporation Ltd., enjoys near monopoly conditions in this sector. It is generating profits. It has been a profitable sector for the Government due to its market control. Divestiture of the oil sector has preceded deregulation.
However, as a result of reforms, private sector firms are entering this sector. The authorities still control some prices. India's domestic demand for petrochemicals is bound to grow as its economy expands. The private sector should be allowed to play a significant role to meet India's growing demand. The authorities should consider disinvestment of the petrochemicals industry, along with setting an appropriate competition mechanism. It should not disinvest without deregulating. Fully disinvesting the Indian Petrochemicals Corporation Ltd., would provide the Government with a handsome amount of cash.

Fertilizers
There are 8 public enterprises operating in the fertilizer sector. The sector as a whole is losing money: In 1993-94, it had -19.5 percent returns and, in 1992-93, it had -23.3 percent returns on the capital employed. Two major public enterprises, the Fertilizer Corporation of India, and Hindustan Fertilizer Corporation Ltd., are incurring large losses. The fertilizer sector has a supportive role in agriculture. The authorities retain price controls in fertilizer, particularly urea. The subsidy on fertilizers causes the Government considerable fiscal problems. The fertilizer subsidies are an extremely sensitive political issue. Disinvesting public enterprises and allowing firms to set their own prices may turn out to be difficult due to political constraints. However, even if the authorities wish to subsidize fertilizer prices, there is no reason for fertilizer enterprises to remain under public ownership.

Chemical and Pharmaceutical Drugs
There are 20 public enterprises operating in the chemical and pharmaceutical sector. The chemical public enterprises generate small profits and the pharmaceutical drugs incur losses. The Indian chemical and pharmaceutical industry has witnessed strong growth both in the volume of production and in the range of products. The pharmaceutical and drugs industry is highly controlled and regulated. The performance of public enterprise in this sector has been poor. Disinvesting these would enhance productivity.
Engineering
Approximately 50 public enterprises operate in the engineering sector, covering heavy engineering (15 enterprises), medium and light engineering (24 enterprises), and transport equipment (12 enterprises). The public sector contributes to about a third of the value added in the engineering industry. India has a wide range of engineering firms. It has a critical role in the national economy. However, central planning has influenced the engineering sector. The heavy engineering sector public enterprises in aggregate are losing money: Returns on capital employed were -18.1 percent in 1993-94 and -4.4 percent in 1992-93. For the medium and light engineering enterprises returns on capital were -1.2 percent in 1993-94 and 3 percent in 1992-93. In transport equipment, returns on capital were -5.7 percent in 1993-94 and -5.3 percent in 1992-93. Analysts have noted that the engineering public enterprises are often more concerned with narrow engineering competencies and hardware than financial, business, and marketing capabilities. Low capacity utilization, wages and benefits out of proportion with productivity, irrational vertical integration, and high debt services characterize public enterprises in the engineering sector. The Indian Government has liberalized this sector, and public enterprises now face domestic and international competition. Disinvesting engineering firms would enhance their financial and business capabilities.

Consumer Goods
There are 19 public enterprises in the consumer goods sector. Most of the public enterprises in this sector making huge losses. There is no reason for the Government to remain in the consumer goods sector. Most of the enterprises in this sector can be easily disinvested, especially the profitable ones.

Agro-based Products
There are 4 enterprises in the agro-based sector, all of which are incurring losses. In aggregate, these enterprises had returns on capital of -3.7 percent in
1993-94 and -11.5 percent in 1992-93. These enterprises are essentially subsidizing some sections of the agricultural sector. It would be better to provide direct subsidies to farmers and regions rather than operating loss-making public enterprises.

Textiles
There are 14 public enterprises in the textile sector. The major public enterprise is the National Textile Corporation. The textile sector is very important part of India’s industry. Whereas private sector textile firms are profitable, the public sector units are incurring tremendous losses. The textile industry is quite competitive: There is no strategic reason for the Government to remain in this sector. Compared to similar firms in the private sector, public enterprises have far more workers. Worker productivity in textile public enterprises is low. A major problem with disinvestment in the textile industry would be the retrenchment of workers. Disinvestment plan in this sector would need to pay particular attention to worker retrenchment issues.

Trading and Marketing
There are 18 companies in the trading and marketing services. Public enterprises in this sector, generate very low rates of return. In 1993-94, returns on capital were only 1 percent and, in 1992-93, returns were 1.5 percent only. The largest of the trading and market public enterprises is the Food Corporation of India. Its profitability during 1992-93 was 0.02 percent.

Transportation Services
There are 11 public enterprises in the transportation sector. In aggregate, these earned returns of -0.3 percent in 1993-94 and 1.6 percent in 1992-93. Some of the transport enterprises, such as Indian Airlines Ltd., and Delhi Transport Corporation, are losing substantial amounts of money. India has partially liberalized its airline industry. Disinvesting transport services will further develop India’s private sector.
Industrial Development and Technical Consultancy

Tourist Services
In the tourist industry, there are 9 public enterprises. These enterprises earned meager 2.4 percent returns in 1993-94 and lost 2.7 percent in 1992-93 on the capital employed. Disinvestment in the tourism industry is non-controversial and can be done readily.

Finance
There are 7 public enterprises offering financial services. They earned 2.7 percent net returns on capital in 1993-94 and 2 percent net returns on capital in 1992-93. Indian's financial industry can provide the same services more efficiently than the public firms. As India continues to open and liberal its financial sector, the authorities can also disinvest its financial public enterprises. However, there is a problem of public sector debt held by financial enterprises, which should be settled prior to disinvestment. The authorities can provide sound regulation and surveillance of the financial sector.

Telecommunications
In telecommunications, there are 2 central public enterprises. These had returns of 7 percent in 1993-94 and 5.4 percent in 1992-93. The establishment of proper regulation authority in the industry, transparency in the evaluation of new entrants and so forth, would prepare the ground for disinvesting the central telecommunications firms. The lack of transparency in bidding and obtaining permission for entry has limited the scope of rapid liberalization and disinvestment in the telecommunications sector.
Infrastructure Sector

Infrastructure and related services do not have to remain under Government monopoly for the following reasons: First, infrastructure services are not a natural monopoly; and second, the involvement of the private sector typically yields major gains in infrastructure in terms of improved quality, better services, productivity, efficiency, and so forth. Private sector can bring additional capital and better management.

Without private sector involvement in infrastructure (power, roads, irrigation and water, and telecommunications), India will be unable to achieve high growth. Disinvesting public enterprises in the infrastructure sector (power, transport, and telecommunications), with proper regulations and administrative arrangements in place, along with attracting private investment in infrastructure, would contribute to India's economic growth.

Thus, the public enterprise sector in India, which represents a substantial part of its economy, has performed moderately over the past fifty years. To some extent, this can be attributed to the social objectives of the public sector enterprises. But its losses contribute to a great extent to India's fiscal deficit.

India's public enterprises account for approximately 15 percent of Gross Domestic Product and 30 percent of investment. As mentioned before there are 240 central public enterprises and a large number of state enterprises like the state electricity boards. Approximately 40 percent of the central public enterprises are chronic loss makers. The public enterprise sector requires a budget support of 0.5 percent of GDP and their after-tax return on capital of 5 percent is almost entirely due to the oil-sector monopoly. Public enterprises have higher production costs than private enterprises. They crowd out private investment and Government expenditure for social services and infrastructure. They divert resources from growth-enhancing public spending. The poor qualities
of products and the high cost of inputs, produced by public enterprises, affect India’s industrial competitiveness. From the above table it is evident that the majority of the PSU’s, except in the oil sector are either making losses or are just achieving break even. This can be concluded because the profits as a percentage of the GDP of all the PSU’s are nearly the same as that of the oil sector itself. Also, the public sector has not really achieved the objective of social development, exceptions being certain companies like SAIL. The level of literacy and poverty has improved only marginally over the past four decades. Also the unemployment in absolute numbers has also gone up. Thus the first conclusion that can be drawn is that the PSU’s have not achieved the objectives of both profits as well as social development.

### Possible Realization from Disinvestment in PSU

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<th>Public Sector Unit</th>
<th>Paid-up Capital (Rs. Crore)</th>
<th>Govt. Holding (%)</th>
<th>Price/Share (Rs.)</th>
<th>Realization if Disinvestment is 10%</th>
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A Comprehensive Disinvestment Policy

The Government of India needs to formulate a comprehensive policy of disinvestment. In India, the Rangaranjan Report (1993) can be viewed as a positive first step. The report analyzes the failure of the past policy of limited divestiture, and recommends a more active approach toward disinvestment. However, the recommendations of the report have not been carried out.

The Government of India can decide to move forward and announce a comprehensive policy of disinvestment and divestiture. It can set up a central disinvestment agency whose task will be to formulate a comprehensive disinvestment policy for India. This subsection proposes the creation of a central disinvestment agency to formulate a comprehensive disinvestment policy. It also provides a list of issues the policy statement may address.

Central disinvestment agency

The creation of a central disinvestment agency can accelerate the pace of disinvestment by streamlining and centralizing India's disinvestment policy. Its task should not only be to conduct the analysis required for prudent disinvestment policy but also to ensure its effective implementation. It should be given a strong political mandate to pursue the disinvestment of public enterprises, while being relatively independent of the authorities. It should be composed of officials supportive of disinvestment. The execution of disinvestment policy can be decentralized; once the policy and the method(s) of disinvestment have been finalized by the central disinvestment agency and approved by the political authorities, the relevant line ministries, departments, or other appropriate authorities can immediately and independently take the steps toward disinvesting the public enterprise in their own specific sectors, functional areas, or regions, within the time period, criteria, and the policy framework determined by the central disinvestment agency.
Disinvestment Policy Statement

The comprehensive policy statement on disinvestment may address the following issues:

- Define the objectives of the disinvestment program in India. No country can simply follow the disinvestment program of another country because not only the objectives of disinvestment are different but also the country conditions are widely divergent. Hence, a tailored approach for India would be necessary. The authorities must establish clear objectives. The design of the disinvestment program in India will depend on how the authorities define their objectives, and on the foundation of their political support. In India, the main objective of the disinvestment program should be to raise the efficiency of the firms. Therefore, the disinvestment program can be designed to transfer the management of the enterprises to the private sector. While obtaining revenue by selling the enterprise will prove important for improving the fiscal position, it should not be considered the only objective of disinvestment.

- Provide a detailed strategic review of public enterprises. Policy makers will have to determine the extent of control on industry by Government.

- Determine the parameters of the program: Specifically, identifying the public enterprises to be sold in India. It can announce the various stages of the disinvestment program and set the goals for each stages of disinvestment

- Determine the regulatory structures for the monopoly sectors, and set the mechanism for creating and enforcing the regulatory and competition policies for industries.
• Formulate the Government's policy on foreign participation in the disinvestment program.

• Establish the Government's position of the internal restructuring of the public enterprises, and the policy with respect to public enterprises that remains under Government ownership and/or control after the disinvestment program.

• Propose and implement rational policies regarding the retrenchment of workers, bankruptcy, and land use and sale.

• Establish an indicative timetable of disinvestment.

• Win public support. The disinvestment program must receive publicity not only for marketing purposes but also to gain public and labor union's interest and support. The program can benefit if it secures employee participation and motivation.

• Set the selling strategy, the procedures of disinvestment and the method for asset valuation. In order to sell any given public enterprise, the disinvestment agency must pay attention to prospectus preparation; overseas issue of shares, if any; the logistics of the sale; the marketing of the enterprise; and, of course, legal matters.

The comprehensive policy statement may specify which bodies should be responsible for strategic review; preparation for sale, including marketing; evaluation of tenders, sale negotiations, and tender awards; and finally sale and transfer to the private sector.

Problems in Disinvesting Different Types of Firms

When the authorities launches a disinvestment program, fundamental tactical questions related to the type of firms it should disinvest need to be addressed. The selection of firms and sectors to be disinvested and the appropriate timing of the program is vital to obtain financial and political success and to win public
support. It is argued here that achieving success at an early stage of the program is important. Furthermore, the authorities should focus not only on obtaining fiscal gains but also productivity gains from disinvesting its enterprises.

The Importance of Early Success

The authorities should ensure that the early sales of public enterprises, that is, the first set of disinvestment measures, are a success and a showcase for later measures. Therefore, the authorities ought to be especially careful in selecting the firms for disinvestment in the beginning. This success is necessary to convince trade unions and a skeptical public of the significant economic benefits from disinvestment and ensure support for implementing deeper reforms. It can be argued that part of the reason for the lack of progress on disinvestment in India owes to the failure of India's divestiture programs to generate public support, business community's interest and obtain enough revenue.

Disinvesting Profitable Enterprises

The "star" performers are easier to disinvest than loss-making enterprises. Since the firm is profitable even under authorities' control, buyers would be eager to purchase it. However, the financial success of the firm may rest on the monopoly status granted by the authorities. The financial success of a public enterprise could also suggest that it is already being efficiently run and there is not much scope for productivity gains. Indeed, the public doubts the need to disinvest profitable enterprises. Hence, it will be incumbent upon the authorities to convince the public that private management of such firms will bring about greater efficiency and higher rate of return, and the sale of profitable public enterprise is necessary to improve its fiscal position. The authorities should deregulate in monopoly sectors before disinvesting enterprises in those sectors.
Disinvesting Unprofitable Enterprises

The firms that are operating at a loss are the ones with the greatest need for disinvestment. The loss-making and troubled firms have the highest potential for gains in productivity due to disinvestment. But the firms whose operation cannot be justified on economic grounds should be simply shutdown because, even under private ownership, these firms will not be profitable.

Disinvesting Large or Small Firms

There are "symbolic" or strategic (political) reasons for choosing to disinvest one firm rather than another and one sector instead of another. The authorities may decide to start its disinvestment program by selling large public enterprise monopolies, firms in what is perceived as strategically important sectors, to emphasize its commitment to reform, attract the attention of international capital, and so on. Although starting with large firms involves risks, it signals to the public and the markets that the authorities are serious about reducing Government intervention in the economy.

The authorities can decide to play a more cautious role by selling small and non-controversial firms in the beginning. The models for "small scale" disinvestment are based on individual choice; simplicity; and the fairness of the deal. After achieving success, building confidence, and learning how to disinvest, the authorities can embark on more ambitious programs of disinvesting large firms and firms in key sectors of the economy. The authorities might start with the disinvestment of small- and medium-sized firms because of low political risk and the ease of implementation and transfer. It also prepares the public for larger disinvestment. This has been the approach of the present Indian authorities. The disinvestment of bigger firms offers bigger welfare gains and the disinvestment of smaller firms offers smaller gains. However, large enterprise size in terms of the net worth can make a public firm difficult to disinvest due to the dearth of potential buyers. Enterprises with larger numbers of workers, involved in trade
unions, may oppose disinvestment; enterprise with smaller number of workers may not encounter trade union opposition to disinvestment.

The Problems of Remaining Public Enterprises

An important question that arises during the formulation, and after the implementation, of the disinvestment program is: What should be done with the remaining public enterprises? In general, the remaining viable public enterprises should be run on a commercial basis and the non-viable public enterprises should be shut down.

Dangers of Impudent Approaches to Disinvestment and the Importance of Productivity Gains

The main purpose of the disinvestment program should be to raise the productivity and performance rather than raising revenue. The authorities should not decide to disinvest a firm solely on the basis of its financial condition and the impact of the sale to the Government's fiscal position. The sale of any public enterprise is a part of its overall disinvestment and reform strategy. The authorities must consider the potential for gains in productivity under private ownership. If the objective in the disinvestment program is to solely raise funds, there is a danger that the Government may authorize the restriction of competition by permitting the disinvested firms to inherit the monopolistic features of public enterprises. It is possible that the authorities can raise plenty of funds by refusing to remove barriers to entry at the expense of the social welfare of the public. Potential buyers would be willing to pay a high price for the public enterprises because of their market power. Such an approach toward disinvestment is unsound since the main purpose of disinvestment is to increase the country's productive efficiency and the level of output. Thus, for instance, disinvesting the Indian petroleum sector might raise considerable revenue for the Government mainly because it would transfer a Government monopoly to the private sector. The authorities may liberalize monopolistic sectors, initially opening them to competition and then start disinvesting.
As argued earlier, early sales have to be successful but the authorities need to liquidate non-viable firms and disinvest its loss-making and otherwise troubled but viable firms as early as possible because these are the firms with the highest levels of inefficiency and are a financial burden on the Government. However, in order to get financial success, the authorities are likely to sell its monopolies and profit-making firms. But clearly Government monopolies should be sold after establishing an adequate regulatory body and competition policies to obtain the maximum gains from disinvestment.

**Schedule for Disinvestment**

On the one hand, if there are set deadlines for disinvestment, then the authorities are likely to obtain bad bargains from the sale of the enterprises. Knowing that the authorities are obliged to disinvest by a certain deadline, the potential buyers can compel the authorities to sell public enterprises at a low price to meet the preset deadline. On the other hand, unless policy makers ensure a feasible time framework and indicate clearly its commitment to reform, disinvestment of public enterprises may be unnecessarily postponed. Broadly speaking, there are two major reasons adduced for disinvestment. One is to provide fiscal support and the other is to improve the efficiency of the enterprise. The fiscal support argument has to be given due weightage. The demands on the Governments, both at the Centre and in the States are increasing. There is a compelling need to expend the activities of the State in areas such as education, health and medicine. It is, therefore, legitimate that a part of the additional resources needed for supporting these activities comes out of the sale of shares built up earlier by the Government out of its resources. It is sometimes argued that the resources raised through disinvestment must be utilized for retiring past debts and thereby bringing down the interest burden of the Government. So long as the Government is a net borrower of a fairly large magnitude year after year, it does not make any material difference whether the resources are utilized to retire past debts or are simply utilized as part of the receipts. In the latter case, it only results in a lower borrowing requirement.
The second important argument in favour of disinvestment is the contribution that it can make to improve the efficiency of the working of the enterprise. Leaving aside the extreme case where the dilution results in the transfer of ownership even in the case of disinvestment where the dilution is of a lesser order and where the Government control is still retained, the induction of public owner ship can have a salutary effect on the functioning of an enterprise. It increased the accountability of those in charge of the enterprise. The shareholders would require to be compensated and this will, in turn, compel the enterprise to run more efficiently and earn more profits. This must be regarded as part of the reform and restructuring of public enterprises. Flexibility in ownership can in effect impart efficiency. In fact, the induction of the public into the ownership structure can also create conditions in which there could be greater autonomy for the functioning of the public sector enterprise. Disinvestment can, there be regarded as a tool for enhancing economic efficiency. On the modalities of disinvestment, there are two acceptable and transparent processes available:

- Offering shares of public sector enterprises at a fixed price through a general respects. The offer is made to the general public through the medium of recognized market intermediaries.
- Sale of equity through auction of shares amongst a predetermined clientele whose number can be as large as necessary or practicable. The reserve price for the public sector enterprises equity can be determined with the assistance of merchant bankers.
Both these methods have their own merit and demerits. In the first alternative of "offer for sale", difficulties may be encountered in estimating and determining the "fixed" price if it is offered for the first time and the shares have not actually been trading in the stock exchange. On the other hand, this method has the advantage of spreading the ownership widely amongst the general public and in a transparent manner. In the case of those PSE’s for which the first sale of equity is yet to be made, or those where the track record of trading in shares is yet to be established, the tender system would be advantageous. Once a reasonable market price is established in a normal trading atmosphere over a reasonable period of time and a public enterprise completes the preparatory week the fixed price method would be appropriate. The second important issue with respect to disinvestment relates to the extent of disinvestment to be made in an enterprise. Obviously, the level of disinvestments in an enterprise in any year should be derived from the target level of Government ownership in that enterprise over the medium term.

The target levels of ownership could be 26 per cent to ensure limited control over special resolutions brought in, in the general body meetings of the enterprise; 51 per cent to have effective control and 100 per cent for full ownership. The target level of disinvestment should be derived from the desirable level of public ownership in an activity on unit consistent with the industrial policy. Yet another issue in relation to modalities is with respect to restructuring. In the case of some enterprises, some restructuring can result in increasing the proceeds of disinvestment. However whether the shares should be sold as is where is or whether some restructuring should be undertaken before sale should depend upon the time, energy and resources to be devoted for such restructuring. There has to be a balance of costs and benefits.
The disinvestment of equity of the PSEs was started primarily to subject them to the discipline of market forces and make their managements more professional and result-oriented. A disinvestment Commission was set up in August 1996 to advise the Government on the extent, strategy, methodology and timing for disinvestment in PSEs. The Commission had submitted 8 reports till August 1998, containing recommendations relating to 43 PSEs. The recommendations, interalia are: (a) disinvestment through strategic sale in 19 PSEs, (b) trade sale in 6 PSEs, (c) offer of shares through GDR and domestic route for 5 PSEs, (d) no investment for one PSE, (e) investment deferred in 8 PSEs and (f) closure in respect of 4 PSEs. Action on many of the recommendations has been taken and the remaining ones are under the active consideration of the Government.

**Disinvestment the facts**

- The Government of India (GOI) has more than USD 50 bn invested in Public Sector Units (PSU)
- The GOI has equity holding in 236 PSUs, 27 banks and 2 insurance companies. In addition, India's state administrations own stakes in over 1000 PSUs.
- Rs. 218 billion has been raised by GOI through divestment of stake in 42 PSUs between 1991 and 2001.
- The Department of Disinvestment was formed on Dec 10, 1999.

**Government Policy on Disinvestment**

The whole policy of disinvestments has undergone a sea change. Initially, it was one of offering a part of the equity to various private sector players both domestic and foreign. Now it is one of outright sale of majority shares to so-called strategic partners, with a clear commitment to ultimate off-load the rest of the shares after a time lag. And with such a strategy, the anxiety
of the present Govt. to bridge the fiscal deficit is creating a situation of distress sale of PSUs to private hands. Therefore, it is no longer disinvestments policy, but clear-cut policy conclusive privatization. The whole privatization process has become an instrument of transferring public property to private hands for a song much to the detriment of the national interest and the industrial economy of the country in particular. And with the whole process, corruption is woven intrinsically. The very concept of privatization of public sector units and more so the blue chip ones, in it is a bankrupt corrupt policy perception, treachery with the nation and fraud on the people of the country. Therefore; we oppose this policy and demand its reversal.

**The policy to wipe out public sector**

Under the on going drive of privatization, the government has mainly targeted most of the blue chip profit making PSUs which were decorated with the classification of `Ratnas'. Further, the most strategic sectors have been engulfed under the drive for privatization. Notable among them are oil & petroleum, power, telecom, rail, road and air transport, ports & docks, airports and of course the financial sector. The game plan is to completely erase the public sector network from the industrial map of the country. The creation of separate disinvestments Ministry under the exclusive charge of one Cabinet Minister clearly demonstrates the present Government's point of priority to completely destroy the public sector. This facts was reflected in the budget speech (2000-01) of the union Finance Minister pronouncing that, "Government have recently established a new department for Disinvestments to establish a systemic policy approach to disinvestments and privatization and to give fresh impetus to this programme, which will emphasize increasingly on strategic sales of identified PSUs". 
As noted above, when the government is desperately taking steps to wipe out public sector from the country, the mention in the agenda note that the government strategy is, “strengthening strategic units, privatizing non-strategic ones” is nothing but travesty of truth. The government has refused to recognize the strategic importance of the PSEs in energy, Telecommunication and defence production sectors including the airports in protecting the economic sovereignty and even security of the country’s independence. They have identified these CPSUs as non-strategic and selling them off chaotically. And after that talking about strategic and non-strategic sectors is nothing but extreme hypocrisy and self deception.

Similarly it is nothing but a stupid argument that “price realized through the sale of minority stakes, was low as compared to price realized through strategic disinvestments ...” It is but natural that conclusive privatization is bound to fetch higher yields than off-loading of minority shares. The price differential is bound to be there between simple share holding and acquiring the ownership including whole sole control of the enterprise and its management which in turn open up host of private commercial interest to the buyer. On the other hand, the dangerous fall out of conclusive privatization is also colossal. Realizing higher price by so called `strategic sale of PSUs is short sighted and suicidal for the country. Therefore, there is no rational behind the suicidal steps of strategic sale of CPSUs, particularly the blue chips ones.

The claim of the Government that “The concerns of the various stakeholders are taken care of through the shareholders’ Agreement (SHA), share purchase agreement and Parent guarantee Agreement is not correct. Expect extending due and undue benefits to the buyers, the strategic sale cause immense harm to all nations, the people and of course
the workman. The policy of the Government on disinvestment has evolved over the last decade and can be briefly stated in the various policy statements made over the years. The policy was to divest 20% of Government equity in select PSUs in favour of public sector institutional investors, Mutual funds and workers. Objectives were to raise resources, encourage wider public participation and promote greater accountability.

Disinvestment is generally expected to achieve a greater inflow of private capital and the use of private management practices in PSUs, as well as enable more effective monitoring of management discipline by the private share holders. Such changes would lead to an increase on the operational efficiency and the market value of the PSUs. This in turn would enable the much needed revenue generation by the government and help reduce deficit financing. However to date the market experience has been otherwise. The large national budgetary deficit on revenue account has been increasing. The Government has not use the Disinvestment proceeds to finance expenditure on Capital account, i.e. the Disinvestment policy has resulted in capital consumption rather than generation. Administrative costs of the disinvestment process have also been unduly high. The actual receipts through disinvestment have often fallen far short of their target (see figure). During the period 1991-92 to 2002-2003, the government had targeted the mobilization of about Rs.78,300 crores through disinvestment, but it could actually mobilize only Rs. 30,917 crores.

**National Common Minimum Programme**
The policy of the Government as stated in the National Common Minimum Programme of May, 2004 is as follows: The Government is committed to a strong and effective Public Sector whose social objectives are met by its commercial functioning. But for this, there is need for selectivity and a strategic
focus. It is pledged to devolve full managerial and commercial autonomy to successful, profit-making Companies operating in a competitive environment. Generally, profit-making Companies will not be privatized. All privatizations will be considered on a transparent and consultative case-by-case basis. The existing Navaratnan Companies will be retained in the public sector while

These companies raise resources from the capital market. While every effort will be made to modernize and restructure sick public sector companies and revive sick industry, chronically loss-making companies will either be sold-off, or closed, after all workers have got their legitimate dues and compensation. The Government will induct private industry to turn around companies that have potential for revival. The Government believes that privatization should increase competition, not decrease it. It will not support the emergence of any monopoly that only restricts competition. It also believes that there must be a direct link between privatization and social needs like, for example, the use of privatization revenues for designated social sector schemes. Public sector companies and nationalized banks will be encouraged to enter the capital market to raise resources and offer new investment avenues to retail investors. The NCMP has declared the Government’s policy on public sector enterprises (PSEs). While sick or ailing public sector enterprises have stirred a debate, not enough attention is paid to the healthy PSEs. I am happy to announce that in 2004-05 the Government will provide equity support of Rs. 14,194 crore and loans of Rs. 2,132 crore to Central PSEs (including Railways). Major investments will be made in PSEs falling in the sectors of power, telecommunications, railways, roads, petroleum, coal and civil aviation. I am sure Hon.ble Members will appreciate the deep commitment of Government to a strong and effective public sector operating in a competitive environment. There is, of course, another side to the public sector. This side is beset with problems, and we must address them with responsibility and courage. Disinvestment and privatization are useful economic tools. We will selectively employ these tools, consistent with the declared policy. As a first step, I propose to establish a Board for Reconstruction
of Public Sector Enterprises (BRPSE). The Board will advise the Government on the measures to be taken to restructure PSEs, including cases where disinvestment or closure or sale is justified.

One of our Navaratna companies, NTPC, has filed a prospectus with SEBI to raise capital through a public issue. Consequently, Government's holding in NTPC will be marginally diluted. In order to extract value for its holding and to compensate the effect of dilution, Government intends to piggy-back on the public issue of NTPC and disinvest approximately five per cent of its holding. This and some other cases which are under examination are expected to yield a sum of Rs. 4000 crore in the current year. While the disinvestment revenues will be part of the Consolidated Fund of India, I shall, while presenting the Budget for 2005-06, report to the House the manner in which the said revenues have been or will be applied for specified social sector schemes. The NCMP contains clear policy guidelines regarding disinvestment in PSEs. As long as Government retains control over the PSE, and its public sector character is not affected. Government may dilute its equity and raise resources to meet the social needs of the people. I propose to ask the BRPSE to examine each case objectively and make recommendations on disinvestment, consistent with NCMP. I am also happy to announce that I have taken the business of restructuring quite seriously. Hindustan Antibiotics Limited will be given financial support for restructuring. A rescue package has been worked out for Indian Telephone Industries (ITI), and ITI will be given Rs. 508 crore to remain out of the net of the BIFR.

Problems associated with disinvestment
A number of problems issues have bedeviled the disinvestment process. The number of bidders for equity has been small not only in the case of financially weak PSUs, but also in that of better-performing PSUs. Besides; the government has often compelled financial institutions. UTI and other mutual funds to purchase the equity which was being unloaded through disinvestment. These organization have not been very enthusiastic in listing and trading of
shares purchased by them as it would reduce their control over PSUs. Instances of insider trading of share by them have also come to light. All this has led low valuation or under pricing of equity. Further, in many cases, disinvestment has not really changed the ownership of PSUs as the government has retained a majority stake in them there has been some apprehension that disinvestment of PSUs might result in the crowding out of private corporate (through lowered subscription to their shares) from the primary capital markets.

Primary objectives of disinvestments policy

- Releasing the large amount of public resources locked up in non-strategic PSEs, for redeployment areas that are much higher on the social priority, such as basic health, family welfare, primary education and social and economic infrastructure.
- Stemming further outflow of these scarce public resources for sustaining the unviable non-strategic PSEs.
- Reducing the public debt that is threatening to assume unmanageable proportions.
- Transferring the commercial sector is willing and able to step in; and
- Releasing other tangible and intangible resources, such as, large manpower currently locked up in managing PSEs, and their time and energy, for redeployment in high priority social sectors that are short of such resources.

How much of disinvestments

The second important issue with respect to disinvestments relates to the extent of disinvestments in an enterprise in any year should be derived from the target level of government ownership could be 0; 26 percent to
endure limited control over special resolutions brought in the general body meeting of the enterprise 51 percent to have effective control should be derived from the desirable level of public ownership in an activity or unit consistent with Industrial Policy.

The discussion Paper quotes from a government document that the extent of disinvestments in strategic, core and non-core non-strategic sector could be 'Nil', 49 percent and 74 percent or more, respectively. As quoted earlier, the Common Minimum Program has also indicated the possibility of withdrawing PSUs from non-core and non-strategic sectors. The Approach Paper of the Ninth Plan also states that disinvestments will be considered up to 51 percent and beyond in the case of PSUs operating in non-strategic and non-core sectors'. The time has come now to define very clearly what enterprise falls into what category. There is a general degree of consensus that in non-strategic and non-core sectors disinvestments can be beyond 51 percent.

For the rest of the sectors, the criterion of disinvestments can be the extent of improvement and efficiency that can be brought about as well as the need to take care of the financial requirements of the government.
OBJECTIVES OF THE STUDY

1. To analyse the benefit of strategic sale to investors.
2. To analyse that disinvestment will facilitate in restructuring and revival of PSUs particularly oil majors.
3. To conduct comparative study of strategic sale with other disinvestment strategies.
4. To analyse up to what extent will disinvestment will help the social sector.
5. To study various issues concerning the strategic sales.
6. To analyse the pros and cons of disinvestment through strategic sales.
7. To study the profitability strategic sale, problems and perspective of disinvestments and financial viability of disinvestment of PSUs.
8. To study various techniques and methods used in disinvestment policy by government and impact of strategic sale on government deficits financing.

HYPOTHESIS

1. Disinvestment would have a beneficial effect on the capital market.
2. Opening up the public sector to appropriate private investment would increase economic activity and have an overall beneficial effect on the economy, employment and tax revenues in the medium to long term.
3. Strategic sale will replace public monopoly with private monopoly.
4. Disinvestment through strategic route is logically superior to the other disinvestment route.

PRESENT STAGE OF KNOWLEDGE

As far as the topic as concern tremendous work done on the line various research paper and articles has been published on the related areas. The topic of the research work is currently in the proceeds.
Preliminary Work Done On the Line

To make a clear-cut perception on the disinvestment policy for PSUs, the in-depth study was carried out from wide rage of literature available. For this purpose existing literature were collected and analyzed. Various publication journal and articles were also referred. Preliminary feasibility of the study was also checked on the line of work done in other university and paper published in the journals, newspaper and magazines etc.

Dasgupta ashok, NEW DELHI, May 23, 2004, Business lines, has mentioned the high profile proposed strategic sale of the government's equity in national aluminum company Ltd (Nalco), the top low-cast proudr of aluminum globally, has been deferred, which in bureaucratic parlance is meant to mean 'postponed indefinitely'. The government has taken a decision that the strategic sale will be put off, but at least the IPO will be done by September and we are working towards meeting that deadlines" said Mr Munesh Khanna, Managing Director, N.M. Rothschild $ Sons (India) pvt. Ltd, in an exclusive chat with business line. Due diligence for NALCO, it may be recalled, came to standstill after workers opposing the aluminum major's privatization stopped a team of potential bidders from inspecting the main plant in October last year. In fact, it is believed that the Prime Minister's Office (PMO) had tom step in to instruct the disinvestment ministry not to send any more bidders for undertaking due diligence of Nalco's following resistance from various quarters.

Despite this, the then secretary, Disinvestment, Mr Pradip Baijal, had at that time stated that there would be no public issue of Nalco before its strategic sale. In fact, late last year, Nalco received an 'in-principle' clearance from the market regulator in India and in US-the Securities Exchange Board of India (SEBI) and the securities exchange commission – to make a simultaneous issue of IPOs in India and the US. This was deemed as clearance of a major hurdle in the proposed three-tier disinvestment in Nalco.
As of now, what is likely to be pushed through domestic IPOs of 10 percent of NALCO equity and an international IPO of 20 percent to reduce the Government's holding by 30 percent from the 87.19 percent stake held at present.

RESEARCH DESIGN

Tools - Various statistical tools used for the research purpose in the thesis e.g. Tabular analysis, Charts, Histogram, Pie Charts.

Period of study – The above topic is one of the burning issue in the today's scenario based on current situation of disinvestment policy for oil sector. The period of study is last twelve years e.g. (1992-2006)

Selection of the study - In the present scenario the study has brought to the there have been some anomalies and technical problems in disinvesting share of PSUs profitability. The Disinvestments trenches so far lacked predatory.