I believe that the objective for disinvestment should be to benefit the public the consumer and the investor, and at the same time, to improve competitiveness and eliminate monopoly... Our Disinvestment Policy should therefore, be to offer these companies to the public of India. The current system of strategic sale is tantamount to handing over the entities created with the wealth of the people of India to further enrich the already rich... In the transfer of VSNL and IPCL we have created monopolies with Tata and Reliance. Cases of rich becoming richer with people's money. If we pursue the strategic sale route in the aluminium and petroleum sectors, it is very likely that we will create monopolies within these vital sectors of the economy. State monopolies will become private monopolies. Is this good for the Indian consumers?"  

George Fernandes  
Defence Minister of India

**Conclusion**

India’s privatization effort has been on a piecemeal until recently. It has been able to achieve near about 40 per cent only of its targeted privatization. A much smaller percentage qualifies for a true privatization. The initial years of 21st Century has seen an increase in momentum and genuine privatization.

However a successful larger-scale privatization is yet to happen. The Disinvestment ministry and its department have been working hard to make the process transparent, organized and efficient. And they have been fairly successful.

9.1: Ruddar Dutt, KPM Sundharam, Indian Economy, S.Chand & Co. Pg.204
The major stumbling blocks hindering privatization are organized labour, union government ministers and state governments. The bank union have hold hostage, the privatization of public sector banks through the voluntary retirement schemes are on in full swing. While organized labour has been vocal in expressing their rights, what about the rights of the Hundred millions Indians registered as unemployed?

Given the state of government finances, it is only private sector that can create jobs for them. It is true that with privatization there will be initial loss of jobs, but productivity will rise and so will wages for the remaining workers who actually work. There is also scope for retaining and development to build skills to prosper in a liberalized competitive environment.

Privatization will continue to be an important dynamic feature in global economic restructuring. Privatization for the sake of privatization can have disastrous effects.

Disinvestment of equity in central or state PSUs should be viewed as a device for enabling the government to withdraw from purely commercial activities, particularly in non-core or consumer goods sector and create a climate of fair competition which would benefit both the producers and the consumers; and not as a revenue raising device for reducing budgetary deficit.

The privatization efforts so far have not resulted in any significant reduction in the number of PSUs or mobilization of sizeable resources by disinvestments. Mere ‘privatization’ of PSUs is not enough but it should consist of:

a) Broad basing the ownership and management of PSUs by selling government equity to the general public or the workers or making ‘strategic sale’ of PSUs on a selective basis and thereby mobilizing resources which could be used to reduce budgetary deficit of the government,

b) Revival of sick PSUs by referring them to BIFR
c) Taking measures to improve the performance of PSUs by giving them greater autonomy and making them accountable.

d) Permitting private investment (including the inflow of foreign capital) particularly in infrastructure such as power, telecommunication, air transport, road construction and information technology.

Public sector continues to contribute more than one fourth of the country’s GDP. Its share in total capital formation is declining particularly in the reforms period. Its share in the net capital stock of the country, which had increased to more than 45% by the end of 80’s, came down to about 39% by 2000-2001. Public sector contributed nearly 30% of the total capital formation in ‘agriculture, forestry and fishing’, 45% in ‘industry’ and 42% of service in 1990-1991, which came down to about 28%, 38% and 46% respectively by 1999-2000. These trends could be interpreted as decline in public sector or rise in private sector, depending on how one views it.

**Achievement Of The Objectives Of Disinvestment Programme Of India**

Defining divestiture objectives is an important component of divestiture strategy. But the government did not came out with a precise statement of objectives of disinvestment programme. From the industrial policy statement 1991, and budget statement that the broad objectives sought to be achieved were fiscal, distributional and efficiency.

The steady growth of government non-planned expenditure has been the main reason for the fiscal crises. The disinvestment proceeds helped the government to contribute to the exchequer and to reduce the fiscal deficit but to a limited extent.
The Fiscal Deficit Objective

The total disinvestment proceeds from 1991-92 to 2001-02 is Rs.23,382 crore (233.82 billion), while the fiscal deficit is about 8,78,973 crore (8789.73 billion) in the corresponding period. This means that on an average 2.66% of the fiscal deficit has been finance through divestiture. Contribution on disinvestment proceeds is almost negligible in retiring internal debt on account of market borrowings. Thus the disinvestment proceeds help to reduce the fiscal deficit but to a limited extent.

The Distributional Objective

The distributional objective which was sought to be achieve by encouraging wider public participation has been totally ignored in the whole disinvestment process. Now with the increasing emphasis on strategic sales, where a majority stake is sold to a single party, the objective of public participation is not being pursued. However public participation has been followed successfully in UK, France, Japan and many other countries. Probably it has not been done assuming that the Indian capital market is not yet vibrant to absorb big-ticket disinvestments. Also, another consideration might have been that thinly spread equity will not bring performance improvement.

Thus, whereas fiscal objective has been met to a limited extent, the distributional objective is not at all being pursued. Regarding efficiency objective it was found that the objective of moving away from low technology, non-strategic, and inefficient areas was not fully reflected in the enterprises being referred for disinvestment.
Disinvestment Fund

As no data is available on the use of disinvestment proceeds, public support for disinvestment process can not be secured. Only when the proceeds of the disinvestment are spent for specific social purposes, instead of going to meet budgetary deficit, public support will be gained. The stated aim of the government is to reduce public debt and provide funds for social sector from the proceeds of disinvestment. The suggestion of the Disinvestment Commission for creation of Disinvestment Fund has till not found acceptance in government.

Post Disinvestment Scenario*

To access the impact of ownership change effected via strategic sale, the study of pre and post disinvestment scenario in case of MFIL, LJML and BALCO is done. The study is limited to these three enterprises as other strategic sale are too recent and post disinvestment performance in their cases is yet to come.

Although the post divestiture performance results are available for a short period, yet one can conclude that in partly disinvested enterprises with no change in ownership, there was no improvement in performance. Whereas post-privatization scenario in MFIL, LJMC and BALCO suggest that ownership matters in improving performance.

BALCO was a test case of privatization of enterprise which had a large work force. The supreme court ruling that correctness of the government’s disinvestment policy can not be gone in to the court and general improvement in service conditions of the employees has sent an encouraging signal to other enterprises put on disinvestment list. As such there has been no labour opposition in subsequent strategic sales as seen in case of CMC, HTL, IBP, VSNL, Paradeep Phosphates, Hindustan Zinc, Maruti and IPCL. But these enterprises had moderate manpower.
Strategic sales with transfer of management control to strategic partner have resulted in buoyancy in capital market as there is a general filling among investors that financial returns now will be higher. With privatization, employees will now be more accountable and this is likely to improve productivity and profitability.

*Note for Post disinvestment scenario*

The effect of ownership and competition on the efficiency of a firm is based on the findings of empirical literature and different studies conducted by various experts such as Millward & Parker (1983), Borins & Boothman (1885) and Boyd (1986). The theoretical predictions of the private rights theory suggest:

The theoretical prediction of the private rights theory suggests that public enterprises should perform less efficiently and less profitably than private enterprises. Empirical evidence on performance of public and private firms is quite large, with mixed findings about their relative efficiency. However, it is still possible to make some conclusions regarding the relative efficiency of public and private enterprises. First, when market power is significant (as in the case of regulated or natural monopolies such as electric utilities, and water), there is no systematic efficiency difference between public and private firms. Hence there is little empirical justification for a general presumption in favour of either type of ownership in cases where market power is significant. Second, in competitive markets where other allocative inefficiencies associated with market failures are not substantial, often private firms are more efficient than public ones. This does not mean that in competitive markets public enterprises are always less efficient. Relatively efficient public enterprises can and do survive, but, on average, frequency of this occurrence is expected to be lower than private enterprises. Third, the key factor driving performance is competition. When public enterprises operate in markets where they have market power, they do just as
well (or poorly) as private firms operating in similar markets under regulation. When markets are deregulated, the performance of firms—public and private—improves.

The policy of disinvestment of PSUs has provided a good response to government’s failure to achieve technical and allocative efficiency. Though there are various methods and strategies for privatization, GOI has rightly selected the divestiture method as its PSU privatization strategy. Disinvestment of government’s equity in PSUs along with the transfer of ownership control to a private partner helped to solve the problems of PSUs, such as poor performance inefficiency and non-compatibility of PSUs in market economy on one hand and on the other releasing the funds to meet the fiscal deficit and the internal debt of the government and to utilize the disinvestment proceeds for the social sectors and educational development. Disinvestment also helped the government to reduce its role in the commercial sector.
Summary

Privatization episode is touching every domain of national life. The aggrandizement of industrial families and diminishing role of state economic activity are the hallmark of privatization process. The recent phenomena of privatization in India are producing greater socio-economic and political impact on the national life. The on going economic process that started from the period of independence is largely affected by this newly emerged scenario. The growing importance of the industrial families in the economic activities and the reduction of the economic role of the state has given a setback to the Nehruvion model of the economic development; as it failed to solve the saturated problems of development and growing unemployment.

The assertion of capitalist forces in international level, the failure of socialism in the communist countries, and the fastest economic development of the for East Asian countries with more liberal economies have all resulted in replacement of on going economic models in the third world countries. This resulted in the aggression of foreign investment and economic aid treaties among developed and under developed countries. India too breaking its ties from the Gandhian as well as welfare politics, accept the policy shift and alteration of the economic model.

Massive public investments have been made since 1950 to build a public sector, which has a commanding presence in the Indian economy. The public sector enterprises function in a variety of fields and have made significant contributions to industrialization, the achievement of self -reliance and the creation of employment opportunities. However, their financial performance has been poor and the low return on capital employed has been a contributing cause for macro-economic imbalances. Their record on productivity, manpower costs and responsiveness to the consumer has been disappointing. The recent
liberalization of the economic policies has put additional pressures on them, necessitating basic changes in their mode of functioning.

Since the mid-1980s, more particularly since July 1991, a few public sector enterprise reform measures have been introduced as part of the structural reform program. Changing the method of financing the capital investments of PSEs, the MOU system, the partial disinvestment of Government shareholding in selected PSEs, and reference of the chronically sick PSEs to the BIFR are the major components of the partial reform programs. These have not been effective in improving the operational efficiency of the PSEs. Which should be the main objective of public sector reform. These also do not address the key issue of public sector reform, which is to change the system in which the PSEs operate and distance the Government from the enterprises.

In these circumstances privatization of PSEs becomes a practical necessity. However, given the socio-political milieu in India a careful, structured and systematic commercialization will have to be formulated and implemented in a focused manner. Appropriate institutional arrangements and a long-term and strong political will is necessary for the program’s success.

**Policy Shift Since 1991**

The disinvestment process, which started in 1991-92, has undergone a major shift in policy. The government has gradually moved from partial divestiture to privatization. This gradual approach helped in involving political consensus and general acceptability by public to privatization. The partial divestiture is actually a compromise, which is as good as no divestiture.
Currently, government is prepared to reduce its stake in the non-strategic PSEs to below 26% if necessary. In this situation workers interest may be safeguarded either through shareholder agreement in case of strategic sale or by making a provision that government approval will be sought in issues concerning the workers.

The overall pattern of disinvestment suggests that divestiture was marginal in the initial period to begin with. Lately emphasis has been on strategic sale along with transfer of management control. Government stake has been reducing to minority in ten central PSEs and seventeen hotels of ITDC have been sold completely till March 2003. Another ITDC hotel in Banglore has been given on long-term lease. Subsidiaries of holding companies (Bharat Bhari Udyog Ltd. and Hotel Corporation of India) have also been privatized.
Objectives Of Disinvestment

An Indian disinvestment program objectives have not been precisely stated. Budget statement and Industrial Policy statement indicate the objectives sought to be achieved are efficiency, improvement and reducing fiscal deficit. Encouraging wider public participation in the disinvestment program was initially an objective but the same was dropped later and only strategic sale route was followed. Regarding the fiscal objective limited success has been achieved. Regarding the efficiency objective, it was found that in partly disinvested enterprises with no change in ownership, there was no improvement in performance. However, in privatized enterprises, although results are available for a shorter period improvement was noticed in MFIL, LJMC, and BALCO.

Enterprises controlled by strategic investors have performed much better than those controlled by investment funds or other financial institutions.

It is recommended that after giving shares to core investor the balance equity should be offered to public and employees of the enterprise. This methodology will not only turn over the firm to a good owner but also increase the sales realization and chances of the public to increase their wealth. Such environment of public and employees will bring more acceptability to the process of disinvestment.
Procedure Of Disinvestment

There is a three tire mechanism for decision making and implementation of disinvestments viz., cabinet committee on disinvestment, core group of secretaries of disinvestment, and inter ministerial group. There is a need to institutionalize a system to re-comment list of enterprises to be disinvested.

Ministry of disinvestment took the efforts to maintain the transparency in the process. Mr. Arun Shourie, the disinvestment minister, has proved to be a turning for the fast pace of disinvestment with transparency.

Value Of Shares

In almost all strategic sales, the government has obtained higher value than the ‘Reserved Price’ and even there after price of PSE shares have gone up considerably in capital market.

Although discounted cash flow is the most appropriate method for valuation, asset valuation is probably a more relevant method in case of 100% sale of hotel properties (land and building). This will yield much better realization.

Critique Of The Disinvestment Policy

The opponents have criticized the disinvestment programme since its inception. The issues opposed were mostly pertaining to the procedures modality, valuation and methodology of disinvestment.
Privatization, Democracy And The Society

It is argued that the privatization is possible only in democratic world, therefore, it is committed to strengthening the freedom and individualism in this process. But at the same time it become antidemocratic in its manner as it replaced government monopoly by private monopolies. The development of oppressive mechanism to protect the economic interest of MNCs will be required to check the challenges of labour organization, environmentalists and human rights concerned organizations.

Privatization is the process of reform and restructuring the system suitable for market requirement. It includes the improvement in all infrastructure forces helpful for the economic growth. The privatization is supposed to be the guarantee for this achievement it may try to restructure the existing educational system and technological facilities as per market requirement. This may shatter the entire socialization process based on creation of civilized population suitable for each and every country’s Socio-cultural as well as political others. In the privatization, the on going process will become more concerned about peoples Socio-economic problems.

Workers Worst Affected

The background note circulated by the labour ministry has projected that the post privatization danger of retrenchment and detrimental change in service condition is totally unfounded but the reality is different. Contrary to the publicity of the government, privatization of CPSUs almost invariably involves reduction of workman. Such reduction takes place immediately before and after privatization, as it is seen in the case of “asset stripping” in the VSNL. To cite an example of pre-privatization reduction of workmen, let take the case of Bharat Petroleum Corporation Ltd. (BPCL) and Hindustan Petroleum Corporation Ltd.(HPCL). These two PSEs have drown plan to reduce the number of workmen
by around 4000. that aim of such reduction is to shape PSEs slim to attract private buyers has been admitted by the director of BPCL who said, “The VRS was part of efforts to cut cost and make the company leaner – a leaner organization would attract better valuation”.

In fact ever since the government has launched the privatization onslaught, the management of CPSUs, under order from the government have been reducing the workmen. The labour ministry note itself has mentioned, “during last ten years, the workforce in the public sector undertakings has reduced from 2.3 million to 1.7 million”.

In BALCO, several hundred workmen has been retrenched after privatization. In IPCL 400 workmen are being dislodged and further Reliance has identified 2000 excess staff at the Vadoda plant alone.

So far as the question of wage revision in concerned, the experience of the CPSU workers in privatized companies is very bad. The wage revision of BALCO is rather a case of deprivation.
Need For Referendum On Privatization Policy

There are the examples of referendum in other countries on such issues. In Uruguay, a referendum was conducted on the question of privatization. 73% of the people voted against the move of privatization. Yet another example is Peru. On the issue of privatization of mining of copper, silver and gold in the Tambo grand valley in Peru a referendum was organized. An overwhelming 95 percent people expressed their opposition to the proposal.

In India too referendum was held among the public sectors workers on 11th January 2000, seeking their opinion on the government policy privatization. The referendum evoked unexpected response from the workers and overwhelming majority of PSU workers gave their opinion against privatizations and supported the call for long drawn direct action including strike against the anti PSU and anti-national policy of the govt. so, it is wrong to feel that no such referendum was conducted in our country to take the opinion of the public on the government policy and steps of privatization of public sector.

The government is also blamed for dismantling the public sector for carrying out the economic reform, keeping the mass of people in dark. Public sector, being the national asset built with public money and at the cost of the sweat and blood of the workers, is handed over to private profiteers.

Even the pro-reform forum has noted, “reforms have been debated in the English language press, in parliament and in the elite forums of discussion, but even though, India had two parliamentary election since 1991, reform have not been thrust in to electoral politics as a major issue....”

9.4: Internet
The government while spreading removers against the trade union movement in the public sector opposing the dismantling of public sector claim that they have public support in their policy of privatizing the public sector industries. That such claim of the government is baseless is exposed from the above observation.
Suggestions

1. **Need of an Explicit Policy:**

   India should have an explicit policy of privatization which involves transfer of ownership, management and financing of the state-owned enterprises to the private sector in order to tackle effectively the efficiency question in the context of an emerging competitive, market-driven economy.

2. **Improving Efficiency and Competitive Strength:**

   The focus should be more on improving the performance of the public sector enterprises through increased efficiency, greater responsiveness to consumer and relief from the public sector financial and administrative constrains and less on raising cash through the sale of enterprises or assets to meet the government deficit.

3. **Building a consensus for Privatization Programme**

   In India the public sector has come to be treated as a “sacred cow” and there is often opposition to the concept of privatization on ideological grounds. It would require considerable tact, time and effort to establish that privatization in the present circumstances is a practical necessity, not related to any ideological motivation. A strong and long-term political will and broad enough consensus have to be built for the privatization programme to succeed. Besides, there is wide variety in the nature, function and performance of the public sector enterprises, all of which may not be amenable to privatization in the short-term. It would be necessary to be flexible and adopt different approaches depending on the circumstances of each enterprises or group of enterprises.
It would, therefore, be desirable to initiate a structured and systematic program of commercialization, which includes privatization as its most visible form. The major elements of the programme could be the following:

4. **Formulation of privatization policy**

An overall commercialization policy statement should be formulated outlining among other things, the place of privatization in the government policies for the liberalization of the economy, the rational and objectives of the commercialization programme, the modality, criteria and evaluation procedure and the relative roles of foreign investors, employees and the general public in the privatization process.

5. **Review of the statutes:**

A thorough review of the laws, regulations, guidelines, procedures and practices that grown public sector operations and the government-public sector enterprise relation should be made with a view to changing these provision and arrangements conform to market principles.

6. **To categorize PSUs:**

All public sector enterprises should be subjected to a thorough scrutiny with a view to categorizing them into four broad groups; (1) enterprises which would be retained in the public sector for strategic or public interest considerations; (2) enterprises which are profitable and viable and can be privatized; (3) companies where the performance is not good but which can be turned around through reorganization and preparatory measures for eventual privatization; and (4) PSEs which are loss-making and terminally unviable and therefore should be closed. An appropriate privatization programme over a 10-15 year period may be prepared based on this categorization.
7. **Suitable Institutional Arrangement**

Finally, suitable institutional arrangements will need to be made in order to design the policies and programs and implement these in a focused and systematic manner. A governmental agency has to be identified and will have to be given strong political and administrative support for its work.

8. **Advisory body needs to be associated:**

A high-level advisory body comprising professional from relevant fields may have to be associated with the agency in order to advice all matters related to the commercialization (including privatization) program.

9. **Transparency in disinvestment process:**

Methods of valuation could be revealed to the public once a deal has been signed. This will eliminate suspicion of any malpractice.

10. **Regulation:**

There needs to be clarity in the role of the regulatory agencies. Independent regulators are to be appointed to regulate the process.

11. **Labour:**

Disinvestment issues should give much attention to the labour. Disinvestment should not create unemployment and or labour retrenchment. Policy should not be antilabour.

12. **Disinvestment fund:**

Disinvestment proceeds should be used for special social purpose instead of going to meet budgetary deficits.
The market economy is now gaining an approval all over the countries, particularly the developing countries, as it is a quick and certain way, which can resolve almost all problems facing their countries. In this situation, the disinvestment of PSUs is regarded as a better alternative to improve the performance and competitive strength of the PSUs.

The disinvestment policy is proved justifiable on the following grounds:

1. The policy helped to reduce the fiscal deficit and enriching exchequer.
2. It helped to relate the economy to market forces, which in term increased the GOI’s revenues due to market-related prices.
3. It helped to restructure the loss making PSUs and to improve their performance and competitiveness in the competitive market economy. Otherwise, these units would have to be closed down, causing the loss of employment to thousands of workers.
4. If PSUs have to compete in the market place, they need more financial and managerial autonomy to develop and grow faster, disinvestment policy have solved this problem of the PSUs and helped them to take decisions quickly instead of waiting for a nod from bureaucracy.
5. Disinvestments of PSUs have facilitated them to adopt professionalism in overall approaches - costs, profits and earnings and globalization of the operation for holding the international markets.
6. PSUs which are privatized will naturally - put in their efforts in order to accelerate exports - foreign exchange, affect modernization and technological upgradation, reduce cost, achieve excellence in quality and energy efficiency, carry out pollution control measures and intensify R&D activities in order to compete in the international market.
7. India is considered by the foreign investors as a very profitable country. Disinvestment policy is a way to privatization and liberalization which helped India to increase its FDI which further facilitated the industrial
growth and increase in employment opportunities. Formation of capital and investment in the country is also facilitated due to the disinvestment policy. The main area of interest for FDI in India is communications followed by utilities and transport.

8. It helped the small investors to purchase the shares of disinvested PSUs in the open market and to contribute to the economic growth.

9. Disinvestment helped the PSUs to increase the revenue due to market related prices.

The policy of disinvestment has rejuvenated the Indian economy. To evaluate the success of the policy we actually need to wait and watch the reaction of economy to make further comment. The span of the implementations of the disinvestment process is too short to evaluate the policy. It is time we have to take a very rigid stand on PSU disinvestment. The controversies and criticisms against disinvestment can be largely avoided through a process transparency, wide publicity and enough safe-guards to the affected parties.

There is no option for disinvestment. It has to be done in a particular time frame so that the result will be larger resources for government, lesser debt burden, healthier fiscal position and a productive and vibrant economy.