An Analytical Study on Disinvestment Policy in India

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Abstract:

Disinvestment is a process by which the government withdraws a part of the equity in the public sector undertakings (PSUs). It is one of the most sources for the government to raise funds. It enables the public sector to improve its efficiency and become more responsible towards the public and towards the nation. But unfortunately, the proceeds of the Disinvestment were not flown properly towards the further development of the nation through productive activities. In the last two decades, Government of India (GOI) has taken many steps to improve the efficiency of public sector undertakings through disinvestment in many sectors effectively. This paper is analytical and descriptive in nature. It focuses on the concept of disinvestment, the ways to disinvest the enterprise PSUs in nation.

Keywords

Disinvestment, Investment, Development, Public Sector Undertakings (PSUs).

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Introduction

Defining the Term Disinvestment

Disinvestment is one of the most critical areas of economic reforms and has been subject of disputation since 1991 when GOI 1st introduced these reforms in India. This issue is one of the most political in nature since it is an issue raise relating to philosophy towards the role of State of the nation. The economic considerations are of secondary importance since the amount involved in disinvestment has been proportionally small and the major effect on the Indian economy is yet to be seen. It is interesting to note that critique hardly objects to privatization process than to disinvestment. The difference in these two must be understood clearly. The entire approach of economic reforms is now market oriented and guided by private considerations-particularly profit motive including public sector enterprises and by large people including critics of disinvestment have accepted that public sector enterprises should also earn profit and therefore policy measure be directed towards it. The purpose behind disinvestment policy is that the Government should divest its funds from loss making PSUs and use the realizations (receipts) for creating social as well as physical infrastructure in country.

Objectives of Disinvestment

The new economic policy of India initiated in July 1991 clearly indicated that Public Sector Undertakings PSUs had shown a very negative rate of return on capital employed. Inefficient Public Sector Undertakings PSUs had become and were continuing to be a drag on the Government's resources turning to be more of liabilities to the Government than being assets. Many undertakings traditionally established as pillars of growth had become as per the new economic policy 1991 it was observed that the Public Sector Undertakings (PSUs) has been reflecting a very negative rate of return on capital employed. As a result of there is a flow of capital erosion, the Government liabilities are more than the Government assets. There are some Public Sector Undertakings (PSUs) which are traditionally established as the main core of the Indian Economy. But they had become now the burden of the Indian economy. The Domestic Savings has been declining day by day on account of the loss-making Public-Sector Undertakings (PSUs). The main objectives of disinvestment are as follows:

(i) Release of Public Resource: Disinvesting entails the sale of a part of the government's ownership in public sector companies to free up funds and raise money for social welfare programmes, infrastructure improvements, or debts reduction. This encourages participation and completion from the private sector, which increases productivity and efficiency and fosters a dynamic economy effectively.

(ii) Minimization of public debt: One of the objectives of disinvestment is to reduction of public debt which is the most important issue of the public sector undertakings (PSUs).

(iii) Performance of the Public Sector undertakings (PSUs): Another objective of disinvestment to be enhance the work operation of the PSUs.

(iv) Market Discipline: Disinvestment invites private sectors and private sectors can force them to survive and to become more efficient and effective in Indian economy.

(v) Unlocking public Resources: After disinvestment Much amount locked in the non-strategic public sectors. Strategic disinvestment unlocks that amount of which the government may use in the basic priority sectors.

(vi) Benefits to consumers: The Government has the monopoly over the sectors like telecom and electricity. Disinvestment may overcome the monopolistic pricing policies and the consumers can get the benefits of more choices, competitive price and also may get better quality services.

(vii) Liquidity in the Capital Market: As a result of disinvestment the capital market may get more liquidity and more depth in capital market. The investors of the capital market may get early exit options.

(viii) Broad distribution of wealth: Disinvestment invites the benefit of wider distribution of its wealth through offering shares amongst the employees and small investors.

(ix) Depoliticizing essential services: Most of the essential services in the Indian economy are controlled by the public sector undertakings on which there is deep involvement of politics. Disinvestment may depoliticize these sectors. As a result, work environment will be more pleasant and output will be more.

(x) Research and Development and Competence building: In the business world, it is necessary to build its capacity parallel to the other business concerns. It may increase the scope of research and development which is essential in this regard.

(xi) Monetary Crises resolve: Monetary crises are an important barrier for Infrastructure development. This monetary shortfall may reduce the funds from the disinvestment.

(xii) Resource Optimization: By the disinvestment resource of the public sector undertakings are optimized by delivering the highest returns.

Types of Disinvestments: Initially there are three different approaches or types or categories of disinvestment. The categories are as follows:

(i) Minority Disinvestment: The minority disinvestment is a situation where the government typically retains at least 51% ownership or stake or management control. In general, the Government by way of offer for sale inviting participation by the public or auctions the minority stake to the potential institutional investors

(ii) Majority Disinvestment: On the basis of strategic policies and grounds of the Government, when the Government gives up the majority stake in a government-held company and the Government is left holding a minority stake in the company then a case of Majority Disinvestment takes place.

(iii) Complete Privatisation: Complete Disinvestment is actually leads to privatization of Public Sector Undertakings. It is the case or situation when a Public Sector Units sold 100% of the ownership and control of the Government stake to non-Government owners or buyer.

Procedure followed in disinvestment

(i) Minority stake sale through IPO/FPO involves to the following:

a) CCEA approves disinvestment of minority stake in the CPSE through IPO/FPO.

b) Constitution of a HLC to guide and oversee the disinvestment process.

c) Appointment of Advisers (Merchant Bankers/Book Running Lead Managers & Legal Advisers) by the IMG for the proposed transaction.

d) High-Level Committee after considering the advice of the Book Running Lead Manager recommends amount bands / floor price to substitute Mechanism.

e) Alternative Mechanism decides on the price band/floor price, the method of disinvestment.

(ii) Minority stake sale through OFS involves the following steps:

a) DIPAM forms a High-Level Committee (HLC) consisting of officers from different departments.

b) HLC recommends to AM the extent of minority stake to be divested.

c) AM considers HLC's recommendation and gives in-principle approval.

d) Merchant bankers-cum-selling brokers/Legal Advisors are appointed with the recommendation of the Inter-Ministerial Group (IMG).

e) DIPAM, along with the Administrative Ministry and CPSEs, undertakes Non-deal Roadshows

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f) Merchant Bankers recommends timing, number of shares and discount to be offered.

g) HLC considers recommendations of the Merchant Bankers and recommends timings and pricing to the AM.

h) Alternative Mechanism decides on the price band/floor price, method of disinvestment, and price discount for retail investors and employees.

(iii) Buyback of Government Shareholding by a CPSE involves the following steps:

a) CPSE's the Board of Directors considers the Buyback as per the provisions listed in the Companies Act-1956 (Amendment in 2014) and the existing guidelines issued by DIPAM based on its net worth and cash balance, unless exempted by the Inter-Ministerial Committee for Monitoring of Capital Management and Dividend in CPSEs.

b) The HLC recommends to AM on the Government's participation in CPSE's offer of buyback.

c) Alternative Mechanism approves the participation of the Government in the Buyback and offer of Government's equity in the Buyback.

(iv) Strategic Disinvestment of CPSEs involves in the following steps:

a) For CPSEs under Strategic Sectors.

b) NITI recommends CPSEs to be retained under the Government Control or to be considered for privatisation with another PSEs or for closure.

c) NITI Aayog's recommendations are put to the Core Group of Secretaries on Disinvestment (CGD).

d) CGD recommendations are put to the AM.

e) The AM has to approve the CPSEs to be retained under Government control or to be considered for privatisation or merger or subsidiarization with another PSE or for closure.

f) DIPAM moves to CCEA for in-principle approval for the Strategic disinvestment of the CPSE.

g) DIPAM appoints Transaction Advisors/Legal Advisor/Asset Valuers through tendering, with the approval of IMG.

h) Further, a two-stage bidding process (EoI/RFP) is followed. In each stage, the process passes through IMG, CGD, and AM, which finally approves the disinvestment.

(V) For CPSEs in non-Strategic Sectors:

The Central of Public Sector Enterprises (PSEs) has prepared guidelines (on dated 13 Dec. 2021) to operationalize the New Public Sector Enterprise (NPSEs)policy which inter-alia provides for the identification of the CPSEs either for closure or privatisation in the non-strategic sectors in consultation with the concerned Administrative Ministries or Departments, NITI Aayog, Department of Expenditure and DIPAM. The Department of Public Enterprises communicates to DIPAM the CPSEs approved for strategic disinvestment by CCEA as per the extant procedure.

VI-The Disinvestment policy in India fell short in past years:

The government policy in India has met (overachieved) its disinvestment target twice since 2014.

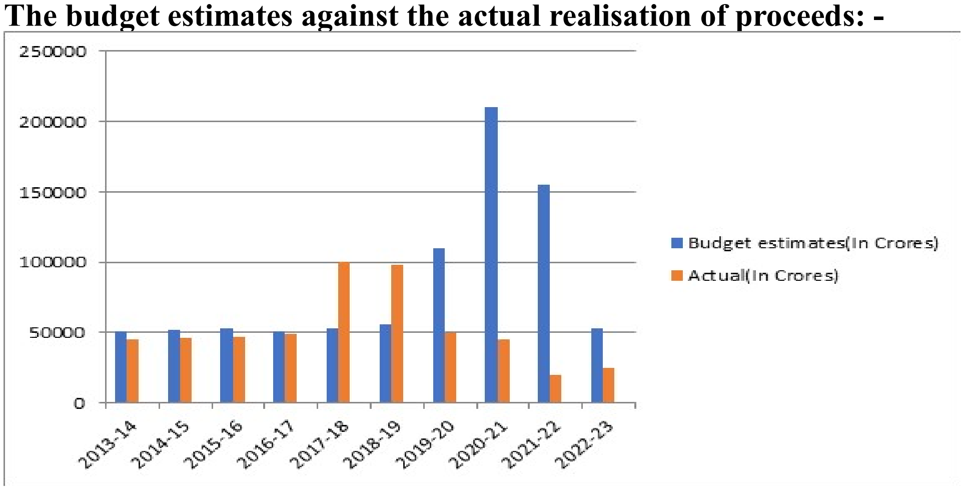
In 2017-18, the government of India managed disinvestment receipts of over Rs. 1 lakh crore as against a target of Rs. 72,500 crore and in 2018-19 it acquired 94,700 crores when the target of disinvestment set Rs. 80,000 crores.

For the year 2022-23 government has not achieved the desired target, having realised Rs. 31,106 crores to date out of which Rs. 20,516 crore or close to a third of the budgeted estimate came from the IPO (Initial Public Offering) of 3.5% of its shares in the Life Insurance Corporation (LIC).

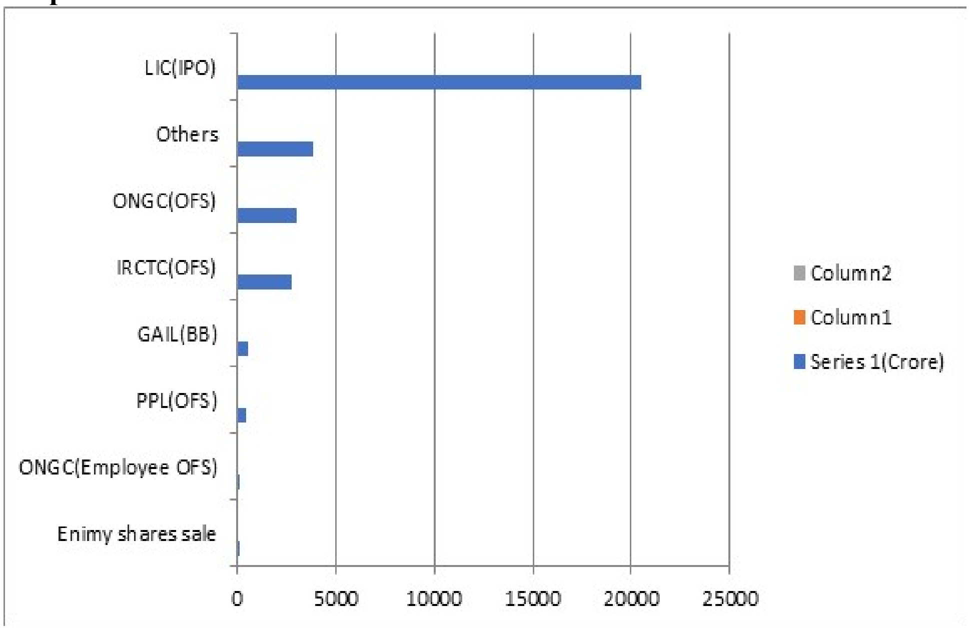
Higher Expectations of Government: -

The budget 2023-24 of the central government has standard a disinvestment target of Rs. 51,000 Crore, early below 21% budget estimate for the current year. With in two more months to go in the year, the centre is yet to achieved its target ASAP.

The budget estimates against the actual realisation of proceeds: -



The proceeds for disinvestment in 2022-23 so far: -



VII - Planning for Disinvestment in session 2023-24.

The planning of central government is not going to established new PSUs or CPSEs to be divested in the year 2023-24.

The decision of central government now is to stick to the pre-announced and planned privatization of State-owned companies. The list of these companies are: -IDBI Bank,

The Shipping Corporation of India (SCI), the Container Corporation of India Ltd (Concor), NMDC Steel Ltd, BEML, HLL Lifecare etc.

By the way, the disinvestment of BPCL, SCI, and Concor had been accepted by the government of India in 2019 but have not done through yet.

VIII-The list of Major Challenges of Disinvestment in India?

- The sale of profit generating PSUs would results in loss of constant revenue of the government. So, the disinvestment has become just as the resource raising terms for government. There is no reformation for that PSUs.
- The valuation the equity is affected the government decision not to reduce the holding below 51%, for this interference the public enterprises would continue to operate with their earlier ineffective and inefficiency culture.

- The funds from the procedure of disinvestment to bridge the gap of fiscal deficit is an unhealthy and very short-term practice.

IX-Conclusion: And finally, I would like to write that the disinvestment policy in India is see as very useful tool in promoting economic growth in India. The government in India has continuously work to continue this program with the aim of collecting revenue, improving the condition of PSUs, and also promoting economic growth and creating sustainable economy of India. The government should take care to ensure its presence in certain sectors of India like banking, energy etc.

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