UNIT 23 DISINVESTMENT POLICY: A CASE STUDY OF INDIA

Structure

23.0 LEARNING OUTCOME

After studying this Unit, you should be able to:

- Understand the policy process of disinvestments in India-its change over the years;
- Discuss the disinvestments of Central Public Enterprises;
- Explain an overview of disinvestments and restructure of the State-Level Public Enterprises in various states in India; and
- Bring out major recommendations and analysis of the disinvestment policy process in India.

23.1 INTRODUCTION

This Unit analyses the strategy, economics, and administrative exercise behind the policy process of disinvestments of public enterprises. It discusses, in brief, the methods of disinvestments and provides a profile of the nature of enterprises and the financial gains to the government. In addition, this Unit highlights the progress made so far and what lies ahead on the road to privatisation and disinvestments.

Public enterprises are incorporated organisations, set up under various statutes, wherein government has equal to or more than 51 per cent of the share capital. There are *236* Central Public Enterprises (CPEs), having a capital of Rs. 2,02,000 crores and gross profitability of 14.53 percent; and 911 State-Level Public Enterprises (SLPEs) with Rs.2,21,600 crore capital, most of them with negative contribution. In addition, there are departmental enterprises, which are not incorporated; these include Railways, Postal Department, and Ordinance Factories. This Unit relates to disinvestments of CPEs and SLPEs only.

Disinvestment of shareholding in public enterprises by government may be a part of economic reform of the country or/and is in response to the demands of various financing or donor agencies. Disinvestment, a form of privatisation, has been resorted to by a number of countries including India. It refers to the offer of shares or equity to the financial institutions or the public. There are various methods of disinvestments, which are presented as under:

Disinvestment- Methods

- **Public Floatation => requires**
  - ± **Developed Capital Market**
  - ± **Profitable P E**
- **Private Placement => by offering shares to**
  - ± **Mutual Funds/FIIs**
  - ± **Voucher System**
- **Employee/ MGT Buyout**
- **Trade Sale**
  - ± **Strategic Sale**
  - ± **Share Buy-back**
  - ± **Share Cross-holding**

The auction disinvestments process is relatively less cumbersome; it involves less administrative expenses, and results in higher realisation. Among the disinvestments methods, private sector companies that involve high publicity, other floatation expenses, and net proceeds normally follow public floatation. Trade investment method is suitable for industries of specialised nature, like telephone or telecommunication, electricity generation, or airline. Piggyback method increases the size of the issue and is reported to be quicker and less expensive.

This Unit attempts, in the first part, to portray and analyse the disinvestments of CPEs. Further, in the second part, it presents the analysis of restructure and disinvestment measures of SLPEs in various states.

23.2 DISINVESTMENTS: CENTRAL PUBLIC ENTERPRISES

Disinvestments of government shareholdings in Central Public Enterprises (CPEs) started in 1991-92 as an integral part of the process of economic reforms. The total realisation from disinvestments up to 2004-05, from about 50 enterprises, had been Rs. 47,645 crores against the target of Rs. 96,800 crores.

A profile of the CPEs in terms of their profitability and service or manufacturing activity is given as under:

Table 23.1: Number of Central Public Enterprises

Public Enterprises	Manufacturing	Services	Total.
Profit Making	81	51	132
Loss Making	79	23	102
No-profit no-loss	1	1	2
Total	161	75	236

Throughout, disinvestments had been a part of annual budgetary exercise of the government, and year-wise realisation and target are given in table 23.2

Table 23.2: Disinvestment in Central **Public** Enterprises (CPEs)

Year	Target (Rs. Crore)	Achievement (Rs. Crore)
1991-92	2,500	3,038
1992-93	2,50	1,913
1993-94	3,50	*@disinvestment proceeds received in 1994-05*
1994-95	4,000	4843
1995-96	7,000	168
1996-97	5,000	380
1997-98	4,800	910
1998-99	5,000	5,3,71
1999-2000	10,000	1,860
2001-01	10,000	1,871
2001-02	12,000	5,632"
2002-03	12,000	3,348
2003-04	14,500	15,547
2004-05	4,000	2,764
TOTAL	**96,800**	**47,645**

@Disinvestment proceeds of six enterprises were received next year, i.e.1994-05

"'Includes amount realised by way of control premium, special dividencls and transfer of surplus cash reserves prior to disinvestments.

Sources: Department of Disinvestment web-site- www.disinvest.gov.in/disinvest/*Economic Survey,* Government of India

Disinvestments of the Central Public Enterprises (CPEs) holdings by the government over the years could be analysed by grouping them under four periods, as presented in the following table.

Table 23.3: Disinvestments of CPEs
During **1991-92** to 2004-05

Period	Targets (Rs. Crore)	**Actual Receipts (Rs. Crore)**
Phase I 1991-92 to 1997-98	29,300	11,251
Phase II 1998-99	5,000	5,371
Phase III 1999-00 to 2003-04	58,500	28,258@
Phase IV 2004-05 onwards	4,000	2,768
TOTAL	96,800	47,645

Characteristics of disinvestments for the four periods are as under:

i) **Period I - 1991-92 to 1997-98**

CPEs disinvestments got a-boost from the Industrial Policy of 1991, and as a part of economic reforms, government holdings in selected public enterprises were to be disinvested up to 20 per cent of equity in mutual funds, investment institutions in public sector, including sale or transfer to employees of these enterprises. Disinvestment was pursued in order to raise resources; introduce market sensitivity to improve the performance of the enterprises and; for attracting wide public participation.

Disinvestment process involved auction under which bids were invited for shares having a minimum reserve price for each script — except that in the first year, bids were invited for a 'bundle' of shares, with each bundle comprising of nine 'very good', 'good' and 'average' companies. Bids were initially opened to public sector banks, insurance companies, UTI. Bids were opened to private agencies during 1992-93 and to approved Foreign Institutional Investors (FIIs) also from 1993-94 onwards. The government had not laid-down any minimum number of shares offered for sale and there was no underwriter, as had been the practice in the UK.

Disinvestment was a part of annual budgetary exercise and the sale process was to be carried out during the period of validity of the budget. A Disinvestment Commission was set up in 1996 as an advisory body to draw up an overall long-term disinvestment programme for the Public Enterprises (PEs) referred to it; or to determine the extent of disinvestments and to recommend the preferred model(s) of disinvestments in the overall interest of shareholders, employees and other stakeholders. As an advisory body, the Commission identified enterprises for disinvestments; laid down the extent and mode of disinvestments and issues relating to grant of autonomy. By August 1999, the Commission made recommendations on 58 PEs and the recommendations indicated, as discussed later, a shift from public offerings to strategic/trade sales with transfer of management.

Disinvestment during the early period led only to sale of 'fractional equity' of selected enterprises without any change of management, control or ownership. In fact, disinvestments had been confined mainly to profitable enterprises and that too about half of the total realisation had been from the disinvestments of five enterprises, namely, BPCL, HPCL, SAIL, ONGC, MTNL, Still, such sale of fractional equity did not result in privatisation of PEs, nor did it bring in positive effects like managerial autonomy, or introduction of market forces, as there was very little trading for such securities listed on stock exchanges.

To quote from The Economist (1995), "Partial disinvestments of equity in the public sector enterprises fails to address the efficiency problem, it has no impact on ownership, control and management....It has been used more as a fiscal tool in order to raise cash to finance the government deficit, rather than to improve the efficiency af enterprises operations....There is also the danger that such an approach can be a temptation to privatise badly, and to postpone the more difficult but much needed longer term fiscal reforms".

In short, this period of disinvestments had a 'passive' or 'silent' approach having no visible or significant impact on economic reforms.

ii) **Period II - Year 1998-99**

In the budget speech for the year 1998-99, the then Finance Minister also referred to government decision of bringing down the government shareholdings in public enterprises to 26 per cent other than enterprises of strategic importance and in the case of enterprises involving strategic considerations, the government was to continue to retain majority holding.

During the year, there were different alternative proposals of disinvestments which included Special Purpose Vehicle (SPV), sale of shares to financial institutions, buy-back of shares and share cross-holdings. Disinvestment during the year was mainly through shares cross-holding among IOC, ONGC and GAIL.

This strategy of equity swap, first of its kind, which was expected to have synergic effect on the enterprises' operations, had a dampening effect on the prices of the scripts swapped.

Further, as in the earlier period, the disinvestments had no positive effect on economic reforms.

iii) **Period III - 1999-00 to 2003-04**

The expression 'privatisation' was used-for the first time in the budget speech for the year 1999-2000. The policy towards public sector enterprises was to encompass a judicious mix of strengthening strategic units, privatising non-strategic ones through gradual disinvestments or a strategic sale, and devising viable rehabilitation package for weak units. For purposes of disinvestments, public enterprises (PEs) were classified as strategic and non-strategic, and following were reserved as strategic areas:

- Arms and ammunitions and allied items of defence equipment, defence air crafts and warships;
- Atomic energy (except in certain areas); and
- Railway transport.

List of CPEs under the strategic list are given in table 23.4. Thirteen CPEs in the strategic list include four enterprises, which were earlier (1996) referred to the Disinvestment Commission (but later withdrawn) and of which one had been referred to the BIFR.

Table 23.4: List of CPEs Under the Strategic List

Sl.No.	Name	Industry
1.	**Hindustan Aeronautics Ltd.	Transp. Equip.
2.	Airports Authority of India.	Transp. Equip.
3.	*Bharat Electronics Ltd.	M & L Engg.
4.	Nuclear Power Corpn. of India Ltd.	Power
5.	Bharat Dynamics Ltd.	M & L Engg.
6.	"Garden Reach Shipbuilders. and Engg. Ltd.	Transp. Equip.
7.	Indian Rare Earth Ltd.	Minerals & Metals
8.	*Bharat Earth Movers Ltd.	Transp. Equip.
9.	Mazagon Dock Ltd.	Transp. Equip.
10.	Uranium Corporation of India Ltd.	Minerals & Metals
11.	Antrix Corporation Ltd.	M & L Engg.
12.	Mishra Dhatu Nigam Ltd.	Steel
13.	Konkan Railways Corp. Ltd.	Contr. & Constr. Serv.

* *Withdrawn from the First List (September 1996) to Disinvestment Commission.*

** *Withdrawn from the First List (September 1996) to Disinvestment Commission. Referred to BIFR.*

Source: http://www.disinvest.gov.in/disinvest/

All other PEs were to be considered non-strategic and for these reduction of government stake would not be automatic and the manner and pace of disinvestments would be decided on a case by case basis, However, decision as regards the percentage of disinvestments, that is, to bring down government stake to less than 51 per cent or to 26 per cent were to be taken on the basis of the following considerations:

- Whether the industrial sector requires the presence of the public sector as a countervailing force to prevent concentration of power in private hands?
- Whether the industrial sector requires a proper regulatory mechanism to protect the consumer interests before public enterprises are privatised?

Further, during 2000-01, it was decided to reduce government stake in non-strategic CPEs even below 26 per cent. However, disinvestments during this period were characterised as 'strategic' sale, whereby, a substantial stake in an enterprise was sold along with the management control to a bidder who was expected to complement the existing strength of the enterprise with a view to impart a long-term viability.

A Department of Disinvestment was established in 1999 under the charge of a Minister to lay down a systematic policy approach to disinvestments and privatisation, and to give an impetus to the disinvestment programme. After this, there had been a strategic sale of shares, of a number of PEs, resulting in the transfer of management control and also privatisation of enterprises. These enterprises included, Modern Food Industries, Hindustan Zinc, IPCL, BALCO, CMC, VSNL, IBP, PPL, HTL. Details of strategic sale of PEs are presented in Table 23.5. In addition, there are a number of enterprises, which are on the anvil of disinvestment; these are listed in table 23.6.

Table *23.5:* Strategic Sale - Central Public Enterprises

S. No.	Public Enterprise	Equity	Accru-als	Buyer	Paid up Capital@	Net Worth@	Employe-es@
		Sold %	(Rs. Crores)		(Rs. Crores)	(Rs. Crores)	(Nos.)
1	Lagan Jute Machinery Company Ltd. (LJMC)	74	2.53		76.53	5	395
2	Modern Food Industries Ltd. (MFIL)	100	149	HLL		30	2301
3	Bharat Aluminium Company Ltd. (BALCO)	51	826.5	Sterlite Inds	489	913	7294
4	CMC Ltd. (CMC)	51	158.07	Tatas	15	46	3025
5	HTL Ltd. (HTL)	74	55	Himachal Futuristic	15	45	1171
6	IBP Ltd. (IBP)	33.58	1153.7	IOC	22	310	2723
7	Videsh Sanchar Nigam Ltd. (VSNL)	25	3689	Tatas	95	542	2975
8	Indian Tourism Development Corpn. (ITDC) 19 Hotels		444.1	Bharat Hotels & Others	67	264	7890
9	Hotel Corp. of India Ltd. (HCI) 3 Hotels		242.51		40	57	4066
10	Paradeep Phosphates Limited (PPL)	74	151.7	Zuari-Maroc	337	337	1092
11	Jessop	72	18.18	Ruia Cotex	87	88	3285
12	Hindustan Zinc Limited (HZL)	44.92	775.07	Sterlite Inds	422	980	11,851
13	IPCL	26	1490.8	RIL	248	3030	13,402
14	Maruti Udyog Limited (MUL)	-	1000	Suzuki			
15	STC		40*				
16	MMTC		60*				
			10257.19				

Sources: Department od Disinvestment site- http://www.disinvest.gov.in/disinvest/
Economic Surveys previous years
@ Public Enterprises Survey - Vol I to III - 1999
*Receipts on account of transfer of cash reserves

Table 23.6 : Other CPEs which are on the Anvil for Disinvestment

Sl.No.	Name of the Organisation
1.	Air-India Limited (AI)
2.	Engineering Project (India) Limited (EPIL)
3.	Hindustan Cables Limited (HCL)
4.	Hindustan Copper Limited (HCL)
5.	Hindustan Organic Chemicals Limited (HOCL)
6.	Hindustan Salts Limited (HSL)
7.	Indian Airlines Limited (IA)
8.	Madras Fertilisers Limited (MFL)
9.	Minerals and Metals Trading Corporation of India Ltd. (MMTC)
10.	National Fertilisers Limited (NFL)
11.	Shipping Corporation of India Limited (SCI)
12.	Sponge Iron India Limited (SIIL)
13.	State Trading Corporation of India Limited (STC)
14.	MECON Limited
15.	National Aluminium Company Limited (NALCO)
16.	Tungabahadra Steel Products Limited (TSPL)
17.	Burn Standard Company Limited
18.	Braithwaite and Company Limited
19.	BPCL
20.	HPCL

Source: Economic *Surveys*, Government of India

A strategic sale agreement normally contained safety provisions like, 'claw back' provision, or 'post-closure adjustment' or provisions for the use of assets, or terms of employment for the existing employees of the unit divested. The claw back provision gives a right to the government to share in future profits and specify the period of such sharing. Similarly, the post-closure adjustment clause entitles the successful bidder to claim refund for the losses incurred by the enterprise from the date of last published financial results till the date when the bids were invited from the bidder. Estimated refunds on account of post-closure adjustment in respect of BALCO and MFIL were Rs. 8 crores and Rs. 16 crores, respectively, In addition, the government hadcollected special dividends from certain cash-rich enterprises, like VSNL, MMTC, STC, EIL, and also control premium for MUL; these are included in the disinvestment realisations shown in tables 23.2, 23.3 and 23.5. Strategic sale as shown in table 23.5 included three enterprises (namely, PPL, LJMC, MFIL) running into losses, and it resulted in disinvestment proceeds of Rs. 10,257 crores, accounting for transfer of approximately 40 per cent of total equity of the enterprises.

In short, government's policy towards public sector was amplified in the budget speech of the Finance Minister for the year 2000-01. It elaborated on disinvestment/privatisation/public sector restructuring as:

- Restructure and revive potentially viable PEs.
- Close down PEs, which cannot be revived.
- Bring down government equity in all non-strategic PEs to 26 per cent or lower, if necessary.
- Fully protect the interests of workers.

Government policy towards public sector and disinvestments is well portrayed by the address of the then President, Shri K.R. Narayanan, to the Joint session of the Parliament in February, 2002. Excerpts from the address are: "The public sector has played a laudable role in enabling our country to achieve the national objective of self-reliance. However, the significantly changed economic environment that now prevails both in India and globally makes it imperative for both the public sector and the private sector to become competitive. Learning from our experience, especially over the last decade, it is evident that disinvestments in public sector enterprises is no longer a matter of choice, but an imperative. The prolonged fiscal haemorrhage from the majority of these enterprises cannot be sustained any longer. The disinvestments policy and the transparent procedures adopted for disinvestments have now been widely accepted, and the shift in emphasis from disinvestments of minority shares to strategic sale has yielded excellent results. The Government has taken two major initiatives to improve the safety net for the workers of PSUs. The first enhanced VRS benefits in those PSUs where wage revision had not taken place in 1992 or 1997. The second increased training opportunities for self-employment for workers retiring under VRS."

Similarly, the privatisation policy of the government as summarised in a statement laid before the Parliament on December 9,2002 states, "... the main objective of disinvestment is to put national resources and assets to optimal use and in particular to unleash the productive potential interest in our public sector enterprises".

iv) **Period IV — 2004-05 Onwards**

During this period, the government stated its policy of commitment towards a strong and effective public sector, and that profit-making public enterprises, in general, were not to be privatised; disinvestments was to be made for a fractional equity holdings; and the earlier policy of strategic sale was shelved. A National Investment Fund (NIF) was constituted into which the realisation from the sale of minority shareholdings of the government in profitable PEs was to be channelised. The NIF was to be maintained outside the Consolidated Fund of India and was to be used for social sectors like education, health care, and employment or for revival of PEs. The disinvestment proceeds during the period were Rs 2,764 crores against the target of Rs 4,000 crores. The proceeds were mainly from the disinvestments of 5.25 per cent shares of NTPC by adopting the 'piggy back' method.

Thus, disinvestments of CPEs over the years 1991-92 to 2004-05 yielded Rs. 47,645 crores against the target of Rs. '96,800 crores, and a greater part of it was realised in the later years, with the adoption of the policy of strategic sale of enterprises. The strategic sale resulted in transfer of management control of the enterprises to the strategic buyer, though this process of disinvestments had not been without controversies and resistance from employee unions and local government authorities. The resistance was mainly on political grounds and less on economic considerations. The Supreme Court observed, in its order dated December 10,2001, with regard to BALCO disinvestments: "Thus, apart from the fact that the policy of disinvestments cannot be questioned as such, that the facts herein show that fair, just and equitable, procedure has been followed in carrying out this disinvestments". Similarly, differences within the government, and more specifically between the Disinvestments and Petroleum ministries on the quantum of shares to be off-loaded and mode of sale, or giving 'strategic' status to certain oil companies, and other details. This highlights the need for political as well as economic justifications of strategies towards disinvestments. .

Political justification of disinvestments warrants that resources are to be owned and managed by people, commonly known as 'popular capitalism' as in the UK. It goes by the principle that government should not interfere in the management of business; rather it should concentrate on 'governance' or regulatory function. It raises a question, is there a political consciousness of disinvestrnents among the various major political parties in the countty? Or is there political mandate on disinvestments or controversies on disinvestments of BALCO or HPCL or BPCL? Or whether prior Parliament approval is required for disinvestments of enterprises, which were set up by Parliamentary enactment? Or was there any resistance by state governments when the project had been earlier cleared by the Central governmenl? All these issues emphasise the need for political justification.

Disinvestment can be justified on economic grounds as it lessens the burden on government finances. It is also expected to lead to faster economic growth by facilitating technology up-gradation through investment by the private sector in public enterprises whose performance is below par. Further, it encourages greater professionalism in the management of enterprises and frees them from political interference and bureaucratic shackles. Disinvestment would also enable government to inobilise funds, which could be used to reduce debt burden or to take up projects of social and community welfare.

23.3 DISINVESTMENTS: STATE-LEVEL PUBLIC ENTERPRISES

Various state governments initiated steps for privatisation/liquidation/restructure of their public enterprises. As mentioned earlier, 911 state-level public enterprises (SLPEs) were estimated to have an investment of Rs. 2,21,653 crores. Table 23.7 presents details of investment and status of working of PEs in various states. Data from table 23.7 shows that a sizeable number of SLPEs (about 63% of the total) were non-working or were running on losses, for Haryana, Rajasthan, and Andhra Pradesh the corresponding percentages were 31, 38 and 55 respectively. For the other states (Maharashtra, West Bengal, Orissa, Madhya Pradesh, Punjab, Himachal Pradesh, Assam) the proportion of the non-working or loss-making enterprises was around two-thirds of the total. Aggregate data for all the states reveals that about 37 per cent of the non-working or loss making enterprises were identified for restructure (privatisation/disinvestments/liquidation); the ratio was on the higher side for states like Andhra Pradesh, Karnataka, Orissa, Madhya Pradesh, Himachal Pradesh and Haryana. This indicates that a large number of states were actively considering restructuring of their PEs and have in fact initiated steps towards PE reforms. It should be noted that a very small number of enterprises in Rajasthan and Tamil Nadu were running on profits. Accumulated losses from PEs for all the states put together were approximately **14** per cent of the total investment.

A number of states had initiated economic reforms or PE reforms, including their restructure, and some had appointed disinvestrnents commissions, These states include, Andhra Pradesh, Gujarat, Haryana, Himachal Pradesh, Jammu and Kashmir, Karnataka, Maharashtra, Manipur, Orissa, Punjab, Rajasthan, Tamil Nadu, and Uttar Pradesh. Further, states like Andhra Pradesh, Orissa and Madhya Pradesh have been utilising assistance from multilateral agencies like the World Bank, Asian Development Bank, and DFID for PE restructure or VRS for employees. Most of the states have been utilising financial assistance from B.I.F.R. States like Andhra Pradesh Karnataka, Maharashtra, West Bengal, Madhya Pradesh, Punjab, Rajasthan and Orissa had initiated measures towards privatisation or disinvestments. Despite the SLPEs being a drastic drain on state resources, a number of states had sizeable budgetary outgo on SLPEs in terms of grants/subsidies, guarantees and waiver of dues and conversion of loans into equity. For six states, these amounts are estimated at Rs. 7,961 crores for the year 2000-01, the corresponding figures for the years 1998-99 and 1999-2000 were Rs. 4,694 crores and Rs. **4,652** crores, as'shown **in** table 23.7.

Table 23.7 : Budgetary Outgo: Grants/Subsidies, Guarantees, Waiver of Dues and Conversion of Loans into Equity

(Rs. In Crores)

State	1998-99	1999-2000	2000-01
Assam	155	92	117
Haryana	694	848	1206
Karnataka	1341	1771	3974
Kerala	371	269	211
Orissa	336	279	98
West Bengal	1797	4647	2355
TOTAL	**4694**	**4652**	**7961**

Salient features of restructure of SLPEs in various states are as under:

i) **Rajasthan**

There were 24 SLPEs having an investment of Rs. 11,576 crores, and only 15 were showing profits. The Re-organisation, Strengthening and Disinvestments Committee studied 21 LSPEs, and the government decided to close/privatise six enterprises.

ii) **Uttar Pradesh**

The State has 4.1 SLPEs with a total investment of Rs. 17,773 crores, of which approximately 30 per cent had been lost; and as a step towards economic reforms, 27 SLPEs were identified for disinvestments or restructure.

iii) **Haryana**

The State has 41 SLPEs with a total investment of Rs. 443 crores, of which approximately 87 per cent was estimated to have been lost. Fourteen enterprises were non-functional or were running on losses, and 22 enterprises were identified for disinvestments, restructuring or winding up and a number of these had been closed after sanctioning VRS benefits to employees.

iv) **Himachal Pradesh**

There were 21 SLPEs involving an investment of Rs. 3,143 crores and of these 15 enterprises were identified for disinvestments or restructuring, and many enterprises were non-functional or were running on losses.

v) **Punjab**

The State has 53 SLPEs with a total investment of Rs. 12,425 crores; of these 25 enterprises were running on losses and 23 were non-functional. Five enterprises were closed down and leasing out to private parties through management contracts; and privatised a few others.'

vi) **Madhya Pradesh**

There were 26 SLPEs **with** a total investment of Rs. 7,923 crores, of these 23 were either running on losses or non-functional. Fourteen enterprises were identified for disinvestments **with** assistance from the ADB for VRS or a social safety net programme.

vii) Orissa

There were 68 SLPEs, with an investment of Rs. 9,796 crores; of these 52 enterprises were either non-working or were running on losses. The amount of losses was estimated to be 12 per cent of the investment. Twenty seven enterprises were identified for disinvestments, and a number of measures including reforms in the power sector, had been initiated.

viii) **Maharashtra**

There was a total investment of Rs. 19,186 crores in 65 SLPEs in the State; of these 60 were non-working or were running on losses. The State Government decided on disinvestment, with reduction of government holdings to 49 per cent, which was later reduced to 26 per cent. In addition, a number of entei-prises were identified for restructuring.

ix) **Gujarat**

These were 54 SLPEs, having an investment of Rs.23, 438 crores, and of these 24 enterprises were identified for restructure or disinvestment. Of the 24 enterprises identified for disinvestment, six loss-making enterprises were to be closed along with VRS to employees. Full privatisation was proposed for four enterprises and partial privatisation for four others. 'It was also decided to provide social safety net through VRS to employees.

x)' **Tamil Nadu**

Of the 59 enterprises, with a total investment of Rs. 6,192 crores, only 26 were showing profits. The government decided to set up Disinvestments Commission for disinvestments of profit-making enterprises and privatisation of loss-making ones. As a step towards restructuring PEs, seven units of Tamil Nadu Small Industries Corporation were closed: and 21 State Transport Corporations were reorganised into seven units.

xi) **Andhra Pradesh**

There were 128 SLPEs with an investment of Rs. 48,794 crores, of which Rs. 2,919 crores had been lost. Fifty five per cent of the enterprises were either running on losses or were non-functional.

Many enterprises have been disinvested, granting VRS to 16,436 employees.

xii) **Kerala**

Though a small state Kerala had 109 SLPEs, with a total investment of Rs. 9,805 crores, and of these 65 were either non-functional or were running on losses.

xiii) **Karnataka**

Of the 82 SLPEs, having an investment of Rs. 21,209 crores 33 were earning and generating profits, and the remaining ones were either running on losses or were not functioning. As part of the exercise in economic reforms the state has identified the SLPEs, which have become a recurring burden on the state exchequer. Following this, the Karnataka Government has decided to privatise or close 15 SLPEs in a phased manner, and disinvestment of the equity of **a** few others.

23.4 DISINVESTMENT POLICE ANALYSIS AND RECOMMENDATIONS

Disinvestment as a means to PE reforms, restructure and privatisation started in the early 1990s with the objective to raise resources, to broad base the equity, improve management, or to provide market discipline to the performance of the enterprise. In early years, disinvestments was for a 'fractional equity' or sale of only minority shares without any change of ownership or control; the sale was by inviting bids from mutual funds, public sector banks and FIIs. Later, during 1999 to 2003, there was a shift in emphasis from disinvestments of minority share sale to strategic sale by transferring control to private enterprise with or without change of ownership; again during 2004-05 onwards, disinvestment policy was changed with sale of fractional equity and there was to be no strategic sale involving transfer of ownership/control. In short, disinvestment policy took a full turn from fractional sale to strategic sale to and back fractional sale.

Over the years, the disinvestment process was institutionalised by setting up the Department of Disinvestment in 1999 under the independent charge of a minister. The Depa tment adopted the policy of disinvesting government shareholdings through strategic sale. The strategic sale of 13 CPSEs (in addition, management control in MUL was transferred to Suzuki for Rs. 2,424 crore) and fractional sale in 34 others since 1991 resulted in disinvestment proceeds of approximately 22 percent of the total of Rs. 47,645 crores; it amounted to transfer of approximately two-fifths of the equity capital. Realisation under strategic sales was about ten times that of the equity capital transferred and in about half of the cases equity transfer was more than 50 per cent, including three enterprises running into losses. However, Hindustan Zinc Ltd (HZL) was the first instance where the government ceded management control to Sterlite Company even while it retained approximately 50 per cent stake. Since disinvestment, the performance of the Hindustan Zinc has improved by increasing production and efficiency through de-bottlenecking and cost cutting. On an operational basis, between fiscal year 2001-02 and 2005-06, the production has increased by 60 per cent while earnings per share have increased twenty times. A significant growth has been observed in capital investment, which went up from Rs 19 crore to Rs 214 crore per year, peaking at Rs 1,036 crore during 2004-05. The government, along with the public shareholders, gained a lot from the transaction in addition to the money it received at the time of privatisation. The Central Tax proceeds increased from Rs 210 crore to Rs 1,200 crore over four years. The state exchequer also has seen similar gains. Even shareholders have gained as the share price has risen from Rs 37 to Rs 585, after achieving a peak of Rs *750* in early 2006. (Baijal, 2006)

The successful strategic bidders included Reliance India Ltd. (for IPCL), Tatas (for CMC and VSNL), Sterlite (for HZL and BALCO), Hindustan Levers Ltd. (for MFIL), Suzuki (for MUL), and IOC (for IBP). The IBP sale to IOC was not a case of privatisation, though it could be argued as a case of restructuring. It was certainly a case of unintended nationalisation resulting in strengthening of IOC, which already accounted for 40 per cent market share of petroleum products (while the remaining share was enjoyed by BPCL and HPCL 40 per cent and 20 per cent respectively). The IOC bid price was approximately four times that of the reserve price of Rs. 455 per share.

In order to ensure that transfer of management control under the strategic sale arrangement, with or without majority ownership transfer, does not lead to the creation of a monopoly a strong regulatory mechanism is necessary. One such instance of gaining monopoly was that of Sterlite Industries, which on acquisition of HZL, became one of the major global players in the non-ferrous mining and metals business.

As mentioned earlier, a strategic investor as per a special agreement, gives the government a veto power on critical issues and the strategic investor is required to consult the government on matters regarding sale, lease, exchange or disposal of existing assets or taking up a new line of business.

Similarly, privatisation of PEs or transfer of management control would lead to consideration of issues, such as, reservations in employment for certain categories, or promotion of national language, or 'nodal agency status' of an enterprise for preference in supply of goods and services to other departments.

What about continuance of some of the pre-existing facilities in post-disinvestment scenario? For example, as a nodal agency the Shipping Corporation of India (SCI) has a preference in supply of services to other departments; one is not sure as to whether on strategic sale of SCI, the successful bidder would enjoy this preference.

Further, there is need to spell out policy regarding the management of minority gavernment shareholdings in the post-disinvestment period.

As a matter of accepted policy, disinvestments proceeds have to be used for meeting of expenditure in social and infrastmcture sectors, restructuring of PEs and retiring of public debt; accordingly, 'Disinvestment Fund' was set up (during 2002-03) or 'National Investment Fund' was set up (during 2004-05). But we are not sure as to the extent to which the disinvestments proceeds are used for financing the purposes intended or diverted for meeting fiscal deficit.

There should be a time-frame for implementation of policies formulated for revival of PEs, or for improvement of their performance, or for reduction of burden on the national exchequer, Similarly, in order to activate the economic reform process, there is a need to lay down the policy to bring in a measure of privatisation of departmental enterprises like ordinance factories (39 in number) to improve their efficiency and productivity. At present, they operate under the purview of Ordinance Production Board and are entirely dependent on the national exchequer for funds.

Further, as regards the states, about 63 per cent of the PEs has been non-functional or running on losses. One striking feature is that a large number of states have initiated measures towards economic reforms, or restructure of public enterprises, or have set up disinvestment commissions.

In order to smoothen and accelerate the privatisation and disinvestment process, there is a need to build national consensus so that a decision to disinvest or privatise a particular enterprise should be a national decision and political considerations should not deter such disinvestments. There is also need for co-ordination between the Centre and States to disinvest or privatise once the proposal is agreed upon.

As a step towards coordination between the Union and State Government for purposes of disinvestments and restructure of PEs, there should be a system of Memorandum of Understanding (MOU) similar to that of power sector reforms, identifying their respective commitments and roles in this regard. The MOU would also spell out the nature and extent of central assistance for restructuring/revival or for VRS schemes, etc. Further, there should be a system of time-bound clearances from the state government concerned so as to attract more bids for a strategic sale. Such procedures would prevent the mixing of political considerations with economic ones. Public representatives like MPs or MLAs, irrespective of their party affiliations, should shoulder the responsibility for articulating public opinion on disinvestment/privatisation of an enterprise falling in their respective constituencies.

At present, disinvestment is a part of annual budgetary exercise of the government and exerts pressure to achieve the target before the end of the financial year. Disinvestment programme for a longer period, say five years, as recommended by the Disinvestment Commission, will be a desirable step to improve investor confidence and to avoid crowding on the capital market. It would also be helpful in terms of costs and time. This would entail a separate enactment to enable the government to acquire or dispose of business or property, perhaps a task not easily possible in the present democratic set-up having governments of diverse political orientations. It may also cause problems when the five-year stretch overlaps with the tenure of political regimes.

No doubt, strategic sale of enterprises has resulted in change of ownership of PEs, it has also changed management control and is reported to have improved the operational performance of enterprises like, HZL, MFL, especially because of efforts to woo workers to VRS.

Lastly, change in the disinvestment policy over the years, as discussed above, raises a few questions, such as, the following:

What is the overall policy of the union and state governments regarding public enterprises?

To what extent is disinvestment an economic exercise, and to what extent it is influenced by political expediency?

Is disinvestment viewed as revenue-raising exercise or an exercise to improve the working of PEs?

What are the implications of privatisation?

What are the hurdles in granting greater autonomy to PEs?

23.5 CONCLUSION

In this Unit, we have discussed the policy process with special reference to disinvestment policy in India. The economic reforms of 1991-92 initiated steps for restructuring/privatisation/sale of equity of some PEs on various economic grounds so as to reduce the burden on the government exchequers since many PEs have not been functioning, or incurring heavy losses. The strategy, economics, and administrative exercise behind the policy process have been analysed. Disinvestment of the Central Public Enterprises (CPEs) has been described for each of the four phases.

In the case of State-Level Public Enterprises, the salient features of restructure of some SLPs in various states have been described. Lastly, the problems in the policy process of disinvestments have been analysed, besides highlighting important problems and major recommendations.

23.6 KEY CONCEPTS

Auction disinvestments : In this type of disinvestment, selected banks and financial institutions are invited to bid for tenders as per norms. The successful bidders, in their turn, offload the shares purchased in the stock market. This process of disinvestment does not lead to broad basing the equity holding pattern of public enterprises until the shares are listed on a stock exchange, and are made available to the public. This process of disinvestment of shares is relatively less cumbersome, which involves less administrative expenses and results in higher realisation.

Piggyback method	:	Under this method, government simultaneously approaches the stock market along with the public enterprise for a public issue. This method has the advantage of higher realisation from the issue and is reported to be quicker and less expensive.
Public floatation	:	The method of disinvestment of shares to the public through stock market is commonly termed as public floatation, which is normally followed by private sector companies and involves high publicity and other floatation expenses.
Share-cross holding	:	It refers to the selling of the shares of one public enterprise to another public enterprise in the disinvestment process.
Shares to employees	:	Disinvestments can also be by offering shares to employees or workers' co-operatives. Various Eastern European countries like Hungry and Argentina disinvested shares to employees by issuing them 'vouchers', which entitle them for a certain number of shares against a specific price.
Trade investment	:	Trade investment or 'buy out deals' are also called strategic sale under which shares are sold as a process of negotiation to organisations, domestic or foreign, engaged in similar business. This method is suitable for industries of specialised nature like telephone or telecommunication, electricity generation, or airlines.

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23.8 ACTIVITIES

1) 'Disinvestments lead toprivatisation' Critically comment.
2) How does disinvestment by 'sale of minority share' differ from 'strategic sale'? Discuss the political and economic implications of both.
3) Describe the process of disinvestments of the Central Public Enterprises in India from 1991 to 2005.
4) Describe briefly the salient features of the disinvestment process of State-Level Public Enterprises with reference to any four states in India.
5) Discuss the various problems and controversies associated with disinvestment of public enterprises in India, and offer your suggestions in this regard.