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Policy, Performance and Problems of Disinvestment in Indian Central Public Sector Enterprises

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Abstract: The Government of India (GoI), soon after independence, adopted a mixed economy approach to speed and build up the low economic profile by adopting Articles of 38 and 39 of Constitution of India, various Industrial Policy Resolutions and Five Year Planning Policy, which all put together facilitated establishment and growth of Central Public Sector Enterprises (CPSEs), to accelerate the industrialization of the country with a simultaneous objective of fulfilling the social responsibilities. While during the year 1951 there were only five CPSEs with an investment of Rs 29 crores, there are 348 CPSEs with a total investment of Rs. 26, 33,956 crores by the end of 31.03.2019. It is also a fact that after four decades of establishing CPSEs the country was facing an alarming situation, during the year 1991-92, with very little foreign exchange reserves available to meet both the National and international trade demands. Therefore, GoI decided to implement New Economic Policy (NEP), with a host of measures including Disinvestment of CPSEs. While Disinvestment was being implemented, GoI, based on performance of CPSEs, categorized a few of them as Miniratna, Navaratna during the year 1997 and Maharatna, during the year 2009, with an expectation that they become global giants over a period of time. Under such a paradoxical situation where in on one hand the CPSEs are being subjected to disinvestment and on the other hand several CPSEs are categorized as Miniratna, Navaratna and Maharatna. Further, disinvestment also faces several problems during its implementation. It is under such a scenario and also the fact that it is nearing three decades being completed ever since Disinvestment made its presence in this country, the study, "Policy, Performance and Problems of Disinvestment in Indian Central Public Sector Enterprises" assumes significance.

Keywords: Policy, Performance, Disinvestment, Navaratna, Maharatna.

1. Introduction:

In 1947 when the country became independent (1) there were various socio-economic problems confronting the country, which needed to be dealt with in a planned and systematic manner. India at the time of independence was an agrarian economy with a weak industrial base, low levels of savings, inadequate investment and lack of infrastructural facilities. There existed considerable inequalities in income and levels of employment, glaring regional imbalances in economic development and lack of trained manpower. Therefore, State's intervention in all the sectors of the economy was inevitable since private sector neither had the necessary resources, the managerial and scientific skill, nor the will to undertake risks associated with long-gestation investments. Among the imperatives before the Government were the removal of poverty, equitable distribution of income, generation of employment opportunities, removal of regional imbalances, accelerated growth of agricultural and industrial production, better utilisation of natural resources and a wider ownership of economic power to prevent its concentration in a few hands. Given the type and range of problems faced by the country on the economic, social and strategic fronts, it became a pragmatic compulsion to use the public sector as an instrument for self-reliant economic growth. Accordingly, the Industrial Policy Resolution (IPR) of 1956, together with the Constitution of India, particularly the Articles 38 and 39 (b) and Five Year Plans emphasized the establishment of Central Public Sector Enterprises (CPSEs). These CPSEs are owned, invested and managed by the respective ministries of Government of India (GOI). CPSEs have huge investments and long gestation periods and most of them were in heavy engineering sector and located in backward areas of the country.

The major objectives (2) of CPSEs include promotion of rapid economic development, to generate financial resources, to promote redistribution of income and wealth, to create employment opportunities and to promote balanced regional growth etc. and the GoI started with huge investments in CPSEs and accelerated their growth. While there were only five CPSEs during the beginning of first five year plan, 1951, with an investment of Rs. 29 crores, as on 31.03.2019 (3), there are 348 CPSEs with an investment of Rs. 26, 33,956 crores. Up to the Fifth Five Year Plan (1974-79) adequate provisions were made for the development of CPSEs and from

Sixth Five Year Plan, (1980-85), onwards government focused on evaluating the performance of CPSEs. The CPSEs expanded in to medium & light engineering and consumer goods manufacturing activities [4]. The share of investment in heavy engineering sector has decreased and the share of investment in light & medium engineering and consumer goods increased, between the period 1985 and 1990. Economically, the shift from heavy engineering to medium & light and consumer goods is an indication of a shift to laissez-faire environment. It means the CPSEs, are supposed to have built in them the so called "Competitive Advantage", that is they are supposed to be more productive and profitable in their functioning. However, as per available information [5], though profit from profit - making CPSEs has been increasing over a period, at the same time loss from loss - making CPSEs is also increasing and therefore, contribution to central exchequer has been reducing which conclude that the CPSEs are not productive and profitable in their respective activities.

2. Objective of the Study:

The year 1991-92 was threshold year for the beginning of a new era in the Indian economy, with the government promulgating the New Economic Policy (NEP). Among the host of policy changes brought in by NEP, the implementation of "Disinvestment and Privatization of CPSEs" is considered to be important. While the process of Disinvestment continues unabated, the Government had introduced, in 1997, the Miniratna, Navratna and during 2009, the Maharatna scheme [6] with an objective to empower the CPSEs to expand their operations and emerge as global giants.

It has been observed that while the disinvestment of CPSEs, as a policy, is continuing unabated, it has never been a smooth performance, rather there are several problems such as the employee's unrest and protests, the trade unions strikes including legal issues.

The above description not only confirms the existence of a paradoxical scenario, wherein CPSEs, based on their performance are categorized as Miniratna, Navaratna and Maharatna but at the same time CPSEs are being subjected to continued disinvestment inspite of the fact that there are several problems that cropped up due to disinvestment. It is in this context, the present study "Policy, Performance and Problems of Disinvestment in Indian Central Public Sector Enterprises" is taken up.

3. Methodology:

The research methodology adopted for the study is empirical in nature and therefore, the basic secondary source of information was drawn from published data from Wikipedia, and the other sources of information are from published articles in reputed journals, and websites. The information was collected for the period between 1991-92 and 2018-19. Simple ratios/percentages were used as statistical tools for the data analysis. The study also includes the analysis of some of the CPSEs which were divested to understand the problems that were faced by those CPSEs during the process of disinvestment.

4. Literature Review:

Disinvestment [7] means sale or liquidation of assets by the government, usually Central and State public sector enterprises, projects, or other fixed assets. The government undertakes disinvestment to reduce the fiscal burden on the exchequer, or to raise money for meeting specific needs, such as to bridge the revenue shortfall from other regular sources. In some cases, disinvestment may be done to privatise assets.

Disinvestment [8] is the action of an organization or government selling or liquidating an asset or subsidiary. Disinvestment is when governments or organizations sell or liquidate assets or subsidiaries. Disinvestment is carried out for a variety of reasons, such as strategic, political, or environmental.

As per DIPAM, Govt. of India [9], the methods of disinvestment of CPSEs are as follows:

- "Initial Public Offering (IPO)" offers of shares by an unlisted CPSE or the Government out of its shareholding or a combination of both to the public for subscription for the first time.
- "Further Public Offering (FPO)" – offer of shares by a listed CPSE or the Government out of its shareholding or a combination of both to the public for subscription.
- "Offer for Sale (OFS)" of shares by Promoters through Stock Exchange mechanism – method allows auction of shares on the platform provided by the Stock Exchange; extensively used by the Government since 2012.
- "Strategic Sale" - sale of substantial portion of the Government share holding of a central public sector enterprise (CPSE) of up to 50%, or such higher percentage as the competent authority may determine, along with transfer of management control.
- "Institutional Placement Program (IPP)" – only Institutions can participate in the offering.

- "Exchange Traded Fund (ETF)" –Disinvestment through ETF route allows simultaneous sale of GoI's stake in various CPSEs across diverse sectors through single offering. It provides a mechanism for the GoI to monetize its shareholding in those CPSEs which form part of the ETF basket.

Harsh Jain [10] states that Disinvestment in India is aimed at reducing the financial burden on the government due to the inefficient and poorly functioning CPSEs (called sick units) and to improve public finance. It introduces competition and market discipline and helps to depoliticize non-essential services. Currently, the Government of India has around Rs. 2 lakh crores locked up in CPSEs. Disinvestment of the government stakes in these companies, thus, it would be significant to the Indian economy. The disinvested money can be used for: (i) Financing India's increasing fiscal deficit, (ii) Financing large-scale infrastructure projects across the country (iii) Increasing consumption and demand (iv) Minimizing government debt (v) Implementing social programs in health and education sectors. GoI generally adopts three approaches such as (i) Minority Disinvestment, where in the government of India retains a majority stake (typically more than 51%) in the company and ensures management control. (ii) Majority Disinvestment is such that, at the end of it, the government of India retains a minority stake in the company i.e. it sells off a majority stake, which is also called Strategic Disinvestment and (iii) Complete Disinvestment or privatization is a form of majority disinvestment wherein 100% control of the company is passed on to a buyer i.e. government of India completely disinvests from that CPSE.

Simrit Kaur [11] (2002) in the paper 'The Employment Implication of Divestiture: The Indian Experience', has attempted to explore the employment implications of disinvestment of State owned Enterprises in India. It discusses the magnitude and extent of disinvestment in the 40 CPSEs and analyses its impact on employment.

A. K. Nauriyal [12] (2002), in the article entitled "Disinvestment Programme in India- Some Issues", has identified some issues related to disinvestment which are- (i) Issue of the route of disinvestment, (ii) Issue of Efficiency and Autonomy, (iii) Issue of the Uses of disinvestment proceeds, (iv) Issue of the political will power and (v) Issue of the redundancy of workers.

B. S. Ghuman [13] (2003) has authored the paper entitled "Social Audit of Privatization and Challenges for Governance: The Indian Case". In this paper, Ghuman has taken a review of social implications of privatization. This paper involves the study of some important issues such as employment environment, poverty and vulnerable groups, women, backward areas including border areas, socially backward classes, and households.

A. Jagan Mohan Reddy etal [14] (2004) have written the article entitled 'Privatization is Not the Panacea for All the Ills of PEs'. They argued that when one talks of privatization it is the relevant context that matters, namely, the efficiency of economy, its level of development, resource prospects, socio-economic imperatives and the socio-political perspective.

Dr. Srikrishna Mahajan [15] (2008), in his article "Disinvestment Policy and Its Impact on Employment In Public Sector: A Study" had stated that Government of India has adopted liberalization, privatization, globalization policy as a part of economic stabilization and structural adjustment programme in 1991, the disinvestments has started in public sector as a route of privatization. Some issues are left unanswered on privatization and disinvestments and one of the issues is employment. It is not affordable in the context of jobless growth in developing country like India.

As per "Problems in Disinvestment in India, Shodhganga.inflibnet.ac.in ›bitstream›13, chapter 6"[16] problems are identified as lack of Political Will, lack of Matured Capital Markets, opposition from Work force, lack of Support from Governments, inadequate Capacity of Private parties etc.

5. Study Details:

The study comprises the three components Policy, Performance and Problems of disinvestment, which are described below:

5.1. Disinvestment Policy:

Disinvestment means the act of selling or liquidating of assets. The process of dilution of a government's stake in a CPSE is addressed as disinvestment. It allows the transferring of the government's enormous public debt of CPSE to the private sector. Disinvestment Policy in India comprises of i) the government of India's decision to privatise the Public sector enterprises in a gradual and phased manner through disinvestment, ii) it will be done by bringing down government's equity shares in all non-strategic public sector enterprises to 26% or lower and iii) the Government has decided to permit up to 49% disinvestment of equity so that the government would continue to hold 51%. In addition to certain benefits to government such as reducing its debt, less resource to spend on these CPSEs, facilitates reducing the fiscal deficits, etc., the disinvestment process may also bring in certain issues such as controversies about the prices at which some of the initial shares were sold even though all the disinvestment has been done through an auction process,

5.2. Disinvestment Performance:

Study on performance of disinvestment was carried for the period between 1991-92 and 2018-19. Year wise disinvestment receipts collected from Wikipedia and presented at Table-1.

Table - 1

Year wise Disinvestment in CPEs between 1991-92 and 2018-19 (crores)

Year	**91-92**	**92-93**	**93-94**	**94-95**	**95-96**	**96-97**	**97-98**	**98-99**	**99-00**	**00-01**
Disinvestment	3037	1912	0	4843	168	379	910	5371	1860	1871

Table – 1 (contd)

Year	**01-02**	**02-03**	**03-04**	**04-05**	**05-06**	**06-07**	**07-08**	**08-09**	**09-10**
Disinvestment	5657	3347	15547	2764	1569	0	4181	0	23552

Table – 1 (contd)

Year	**10-11**	**11-12**	**12-13**	**13-14**	**14-15**	**15-16**	**16-17**	**17-18**	**18-19**
Disinvestment	22144	13894	23956	15819	24348	23996	46247	100056	84972

Source: Disinvestment of Public Sector Units in India Wikipedia, en.wikipedia.org ›wiki ›

The sum total of disinvestment between the period 1991-92 and 2018-19 is 4, 32,400 crores. Year wise Percentage of Disnvestment to Total Disinvestment was calculated and presented at Table-2 below:

Table - 2

Year wise Percentage of Disinvestment Total Disinvestment

Year	**91-92**	**92-93**	**93-94**	**94-95**	**95-96**	**96-97**	**97-98**	**98-99**	**99-00**	**00-01**
Disinvestment	3037	1912	0	4843	168	379	910	5371	1860	1871
% Disinvestment	0.0070	0.0044	0.0000	0.0112	0.0004	.0009	0.0021	0.0124	0.0043	0.0043
Govt.	Cong.	Cong.	Cong.	Cong.	Cong.	Cong.	Cong.	BJP	NDA1	NDA1

Table – 2 (contd)

Year	**01-02**	**02-03**	**03-04**	**04-05**	**05-06**	**06-07**	**07-08**	**08-09**	**09-10**
Disinvestment	5657	3347	15,547	2764	1,569	0	4181	0	23552
% Disinvestment	0.0130	.0077	0.0360	0.0064	0.0036	0.0000	0.0097	0.0000	0.0545
Govt.	NDA1	NDA1	NDA1	UPA1	UPA1	UPA 1	UPA1	UPA 1	UPA 2

Table – 2 (contd)

Year	**10-11**	**11-12**	**12-13**	**13-14**	**14-15**	**15-16**	**16-17**	**17-18**	**18-19**
Disinvestment	22144	13894	23956	15819	24348	23996	46247	100056	84,972
% Disinvestment	0.0512	0.0321	0.0554	0.0366	0.0563	0.0555	0.1070	0.2314	0.1965
Govt.	UPA2	UPA2	UPA2	UPA2	NDA2	NDA2	NDA2	NDA 2	NDA 2

Basically there were two major political parties, Congress (Cong.) or UPA and BJP or NDA that have ruled the country during the period 1991-92 and 2018-19. The Table – 3, given below, gives the disinvestment that took place during ruling of these two governments. Further, the table includes the data of disinvestment per year, the average disinvestment achieved by each of the governments and finally the disinvestment ratio between these two governments.

Table – 3

Party wise Disinvestment (crores)

Party	**Disinvestment**	**No. of Years**	**Disinvestment per year**	**Party wise Average Disinvestment**	**Disinvestment Ratio between NDA (BJP) & UPA (Congress)**
Congress	11,249	7	1607	119128 /17 = 7,007.52	NDA to UPA is 4.06
UPA 1 & 2	1,07,879	10	10787.9		
BJP	5,371	1	5371	313272/11 = 28,479.27	
NDA 1	28,282	5	5,656.4		

NDA 2	2,79,619	5	55,92308		
Total	4,32,400	28	15,439.60	-	

While 2, 79, 619 crores, out of sum total of Rs. 4, 32,400 crores or 64.67% disinvestment took place during the last five years i.e. between 2014-15 and 2018-19 (NDA2), and 35.33% disinvestment took place during the remaining period of 23 years i.e. between 1991-92 and 2013-14. It means 12.934% disinvestment per year took place during the NDA2 government where as in the remaining 23 years it was only 1.54. Further, it is noted that while during the Congress and UPA (1&2), the total disinvestment took place stood at Rs. 1, 19,128 crores in 17 years i.e. Rs. 7, 007.52 per year, whereas during the BJP and NDA (1&2) the total disinvestment was Rs. 3, 13,272 crores in 11 years i.e. 28, 479.27 crores per year. Therefore the ratio of disinvestment between NDA (Including BJP) and UPA (including Congress) is recorded as 4.06.

5.3. Disinvestment Problems:

The disinvestment problems comprise of general problems and legal issues, which are discussed below. The disinvestment problems have already been stated, in brief, under literature review which is now presented in detail. In addition to these problems, there are legal issues that have cropped up during disinvestment and in this context the examples of Bharat Aluminium Company Ltd (BALCO) and Hindustan Zinc Ltd. (HZL) are detailed.

5.3.1. Disinvestment Problems - General:

The general problems are listed as:

i) There is lack of political will for Disinvestment as a means towards economic well being of the country. There are many instances in India where proposals for Disinvestment of CPSEs or for closing down of loss making units with compensation to the work force could not cross the political barriers for implementation.

ii) The Disinvestment Programme is very fast in the developed countries as they have matured capital market. As against this, India's capital market is very young and is not very developed for helping the Disinvestment Process in a good way.

iii) Though the Disinvestment process began during the year 1991, still there is lack of proper public awareness and consensus which has hindered the progress of Disinvestment. While there is widespread dissatisfaction among the public about the poor performance of a large number of CPSEs, there is insufficient recognition that Disinvestment could be the corrective action to address the situation.

iv) Disinvestment is seen by employees in various CPSEs as a threat to job security. The organised labour and trade unions strongly oppose any move towards Disinvestment. They put forward the general argument that the non profitability of CPSEs is due to the failure of management and they strongly feel that transfer of ownership from Government to the Private Sector imply total retrenchment.

v) The success of Disinvestment Programme in India largely depends upon the capacity of Private Sector to participate in the programme. Although the private sector had developed considerable managerial and financial ability, but there is a doubt whether large scale privatisation will find ready takers.

5.3.2. Disinvestment Problems - Legal Issues:

In connection with Disinvestment and Legal Issues, two examples are cited below; first one with regard to BALCO and the second with regard to HZL. In addition the latest issue of HAL is also being presented:

5.3.2.1. Legal Issue and BALCO:

In protest of the disinvestment in Bharat Aluminium Company Ltd. (BALCO) [17], the employees went on 67-day strike. Three writ petitions - two petitions in Delhi High Court and one in Chhattisgarh High Court were filed against disinvestment in BALCO in February 2001. The Hon'ble Supreme Court in its unanimous judgment, delivered on 10th December 2001 validated disinvestment in BALCO by the Government of India.

The Hon'ble Supreme Court, while validating BALCO-disinvestment, and dismissing the petitions, remarked, "Thus, apart from the fact that the policy of disinvestment cannot be questioned as such, the facts herein show that fair, just and equitable procedure has been followed in carrying out this disinvestment."

5.3.2.2 Legal Issue and HZL:

In the case of Hindustan Zinc Ltd. (HZL) the Hon'ble Supreme Court [18] on 14th July 2020, took a decision to examine why the CBI decided to close its investigation into alleged corruption in disinvestment of the government's share in HZL during the year 2002. In this context, it is worth to note that a PIL was filed in 2014 by an association of officers of HZL alleging illegalities in the disinvestment to bestow benefits to a few by undervaluing the shares, and demanded for a CBI probe into the deal and restraining the government from further divesting its share.

The Hon'ble Supreme court also declined to allow the GoI to disinvest the remaining shares in HZL by lifting its restraint order of January 2016.

5.2.2.3. Latest Issues with HAL:

Pearl Maria Dsouza [19], from The New Indian Express 30th August 2020, stated that workers of Hindustan Aeronautics Ltd. (HAL) felt that "divesting in HAL is like selling national sovereignty". It is understood that the workers of Hindustan Aeronautics Limited (HAL), a defence public sector undertaking, wrote to Prime Minister appealing him not to proceed with further disinvestment of HAL in the interest of national sovereignty. The workers, under the All-India HAL Trade Unions Coordination Committee, said that they were surprised when the government proposed further disinvestment by selling up to 15 per cent stake in HAL through Offer For Sale (OFS)". It is nothing but selling national sovereignty. The workers accused the government of crippling HAL's ability to expand and causing a disadvantage when competing with the private sector, with further disinvestment and lesser cash reserve.

6.0. **Conclusions**:

From the data available from Table-3, the respective governments were ranked as per their year wise performance of disinvestment and presented in the Table – 4, given below:

Table – 4
Ranking of the governments as per disinvestment made

Government	Period	No. of Years	Disinvestment	Disinvestment per Year	Ranking
Congress	1991-92 to 1997-98	7	11,249	1607	Fifth
BJP	1998-99	1	5,371	5371	Fourth
NDA1	1999-00 to 2003-04	5	28282	5656.4	Third
UPA1 & UPA2	2004-05 to 2013-14	10	1,07,879	10787.9	Second
NDA2	2014-18	5	2, 79,619	55923.8	First

The above ranking will conclude that while NDA2 tops the list with disinvestment of Rs. 55,923.8 crores per year, the Congress occupies the least position with disinvestment of Rs. 1,607 crores per year. The table also concludes that the disinvestment per year has been progressively increasing from a figure of Rs. 1,607 during the Congress regime (1991-92 to 1997-98) to a figure of Rs. 55,923.8 during NDA2 regime (2014-18) i.e. almost 35 times (34.80). This increase concludes that Disinvestment performance is gaining the speed and momentum as per expectations.

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