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INEFFICIENCY OF PUBLIC SECTOR UNITS PAVES THE WAY OF PRIVATISATION

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ABSTRACT

In the liberalisation era and the post-1991 Industrial Policy Resolution period, competitiveness of industry, be it public or private, assumes great importance for their very survival. The PSEs no longer enjoy any special privileges or facilities. In fact, they have to bear the burden of past legacies and social considerations and at the same time, they have to complete with the private enterprises. Today, private initiative is being encouraged even in the development of infrastructure like power, roadways, telecommunications, etc. It may be worthwhile to determine whether public sector presence is required in markets, which are fully matured. There is perhaps, good justification in withdrawal of govt. presence in such areas, and public sector should remain confined to a few restricted areas. This paper is a modest attempt to study the inception of disinvestment towards privatisation.

KEY WORDS: Disinvestment, Industrial Policy, Liberalisation, Privatisation, PSU's.

INTRODUCTION

Today, there is a lot of debate on the· merits of disinvestment public sector enterprises. There is a case for govt.'s withdrawal from non-core sectors on considerations of long term efficient use of capital, growing financial non viability and the compulsions of these enterprises to operate in an increasingly competitive and market oriented environment. In certain other key and core sectors of the economy, the public sector should be called upon to continue to play an important role. However, they should be managed on sound commercial lines and must generate adequate surpluses and make contribution commensurate with the quantum of public resources invested in them. But privatisation efforts so far have not resulted in any significant reduction in the number of PSUs or mobilization of sizeable resources by disinvestments.

Public sector continues to contribute more than one fourth of the country's GDP. Its share in total capital formation in the country has been declining, particularly in the reforms period. Its share in the Net Capital Stock of the country, which had increased to more than 45 percent by the end of the eighties, came down to about 39 percent by 2000-01. Public sector contributed nearly 30 percent of the total capital formation in 'Agriculture, Forestry and Fishing', 45 percent of 'Industry' and 42 percent of 'service' in 1990-91, which came down to about 28 percent, 30 percent and 46 percent, respectively by 1999-00. These trends could be interpreted as decline of the public sector or rise of the private sector, depending on how one view it.

There has been a precipitous fall in the rate of saving in the public sector, which had recorded a negative AAGR during the period 1982-83 to 1990-91. By the year 2000-01, the public sector's negative savings had risen to Rs. 34479 crores. The largest contributor to public sector's dissavings has all along' been 'Government Administration', which contributed Rs. 106521 crores in 2000-01. Other constituents of the public sector, viz. 'Departmental Commercial Enterprises', 'Government Companies' and 'Statutory Corporations' have been making declining but positive contributions. One reason for it may be rising Govt. profligacy reflected in Govt. Final Consumption Expenditure rising at much higher rates than the Private Final Consumption Expenditure during both the eighties and the nineties.

Mere 'Privatisation' of PSUs is not enough. PSUs are only one of the several constituents of the public sector. It is necessary to make detailed diagnostic studies of each constituent, particularly 'Govt. Administration’ to decide what package of measures needs to be adopted to set the entire public sector on the right track.

NEED OF DISINVESTMENT

The term disinvestment is used to indicate the process of privatisation. In India, the term disinvestment is used rather than privatisation. Privatisation implies a change in ownership resulting in a change of management while disinvestment may or may not lead to a change of management. The disinvestment of public sector enterprises means the sale of public sector equity leading to a dilution of the Govt.'s stake. Thus, disinvestment implies sale of shares (ownership) of the PSEs to the outsiders conferring the right ownership to these units. This disinvestment may take place in the form of sale of partial shares of the public sector units to the private entrepreneurs or all of their shares to the private entrepreneurs. The process of disinvestment was initiated by the Govt. of India during 1991-92 as part of a package of PSEs reform. The disinvestment of Govt. stake from PSEs follows from the industrial Policy Statement of 1991-92.

The Industrial Policy Statement of July-1991 envisaged the disinvestment of a part of the govt. shareholding in selected public sector enterprises to provide financial discipline and improve the performance of public enterprises. Subsequently, as a part of the budget speech for 1991-92, the Govt. also announced the intention of partial disinvestment in selected PSEs in order to raise resources, encourage wider public participation and greater accountability. Disinvestment Commission was also setup in August 1996 to advise the govt. in the extent, strategy, methodology and timings for disinvestment in each PSE. The govt. also constituted the Department of Disinvestment on Dec.10, 1999 which was to act as a nodal agency for disinvestment and to have a systematic policy approach towards disinvestment. With the constitution of the department, the veil over the disinvestment process started lifting. The Department of Disinvestment is responsible for all matters relating to disinvestment of Central Govt. equity from Central PSUs, taking decisions on the recommendations of the Disinvestment Commission and implementation of disinvestment decisions, including appointment of advisors, pricing of shares, etc. For decision making and implementation of disinvestment, there is a three-tier mechanism in the govt., viz., Cabinet Committee on Disinvestment (CCD), Core Group of Secretaries and Disinvestment (CGD), and Inter Ministerial Group (IMG).

The critics of public sector enterprises have mentioned the following arguments in favour of transferring public enterprises to the private sector:

INEFFICIENCY OF PUBLIC SECTOR UNITS

Many public sector units are characterized by inefficiency in the use of physical and human resources. They are not utilizing properly the available resources. Therefore, these units have no right to waste the scarce natural resources which if utilized efficiently and effectively can be really helpful and fruitful in the economic development of the country.

- **Sickness in the Public Sector:** Most of the public sector enterprises are incurring losses from year to year like FCI, HMT, etc. As a result, these units have become so sick that they cannot be revived. In the interest of the economic development of the country, such units must be eliminated or sold to the private sector.
- **Excess Human Resources:** Several public sector enterprises are troubled by this problem of excess manpower. They are not a fruitful and productive resources to these enterprises. This problem of excess manpower can be solved by transferring these units to the private sector.
- **Under Utilisation of Capacity:** Several PSEs are not fully utilising their productive capacity. A large number of these units are not able to ensure more than 50 percent utilisation of plant capacities. It could be avoided if these units are handed over to the private sector.
- **Lack of Autonomy:** There is a lack of proper autonomy or freedom to take policy decisions independently in the matters in case of these units. Many a times a profitable opportunity misses out due to looking to the higher ups for decisions. Therefore, they are not in a position to earn good profits. Private enterprises are totally independent and hence, good profit makers.
- **Lack of Professional Management:** There is lack of professional management in case of PSEs. Several public enterprises are not being managed professionally because the civil servant run them on bureaucratic lines. They do not adopt and follow sound and suitable commercial principles in taking important decisions. Moreover, there is the absence of scientific inventory control and dynamic marketing efforts on the part of public enterprises.
- **Lack of Accountability:** On paper, the managements of these enterprises are accountable to the public through the parliament. But, this public control is not as effective as in case of private sector. In a private enterprise, the management is fully and directly responsible to the owners of the business for the results and incase of inefficient and poor performance, the management can be changed.

The Disinvestment Commission's Report, submitted in February 1997 Underlined the Long-Term Strategy on Disinvestment

- Strengthen PSUs where appropriate in order to facilitate disinvestment.
- Strengthen profitable PSUs to promote greater competitiveness to enable payment of higher dividends to the Government and to enhance share values strengthen other

marginally profitable PSUs and reduce their future dependence on the budget. Financially restructure and revive loss-making PSUs to invite private capital for long-term turnaround.

- Protect employee interests
- Sustaining long-term employment by financial turnaround of loss making PSUs
- Providing adequate and fair compensation though VRS to surplus workforce
- Provide scope for employee participation in management
- Board base ownership
- Enhance retail reach of PSU shares to small investor and offer at suitable price discount as compared to the institutional investor.
- Augment receipts for Government
- Enhance Government receipts by disinvestment in profitable PSUs.
  On 16th March 1999, the Government classified the industries into strategic, core and non-core for the purpose of disinvestment:

1. **Strategic group** - This includes only four industries viz.,

- Arms and ammunitions and defense equipment
- Atomic energy
- Minerals specified in the schedule to Atomic Energy Order 1953
- Railway transport

Core group - In sectors, which are capital or technology intensive, the most prevalent market structure, is an oligopoly. With the entry of private sector in these areas, there may be a tendency towards oligopolistic market structures. Examples are telecom, power generations and transmission or petroleum exploration. The commission felt that the presence of public sector would be necessary for some time as a countervailing force and prevents concentration of private economic power. At the same time a proper regulatory mechanism should be in place in order to regulate industries particularly in non-competitive market for protecting interests of customers. According to the committee, it may be desirable to continue public sector presence in these basic industries till such time, as the market becomes fully competitive. Thus in these core industries disinvestment is limited to a maximum of 49 percent.

Non-core group - Over the past four decades, private sector investments have grown considerably in these industries. The presence of a large number of players including mature industries have made these markets fully contestable. These would ensure that the customer's interests are well protected. It can therefore be concluded that the initial objectives of the public sector in such industries have been met. Further investment in such industries would be driven more by demand-supply imbalances and public investment shall no longer be necessary. Such industries can be categorized as non-core and can be disinvested up to 74 percent in such cases. Table 1 shows the grouping of PSU's in 'core' and 'non-core' group:

Table 1: Grouping of PSUs

Group	**Name of the PSUs**
Core	ONGC, OIL, BRPL, SAIL, MTNL, GAIL, AI, CONOR, PH; NLC, NCL, SECFL, WCFL, BALCO, NALCO, IBP, NTPC, PGCIL, NHPC, KIOCL
Non-core	SCI, ITDC, IPCL, FACT, NFL, MFL, HCIL, HTL, ITI, MFIL, HLL, BEML, HCL, HZL, MOIL

Out of the 35 companies recommended by the commission, only MTNL, GAIL, CONCOR, BALCO, HCIL, ONGC and few others have been disinvested partially. More so, most of the divestment has been through an equity swap between each of these firms.

DISINVESTMENT IN 1996-97

In the budget speech for 1996-97 a target of Rs 5000 crore (50 billion) was fixed for mobilization of resources through disinvestment of PSE shares. In the process of identifying the enterprises to be taken up for disinvestment during 1996-97, the Government considered names of enterprises from the petroleum and communication sector. However, the Government finally decided to take up two PSEs (IOC and VSNL) initially for the first two tranches. While Indian Oil Corporation (IOC) and Videsh Sanchar Nigam Ltd. (VSNL) were earmarked, and preparatory work had also been initiated for the GDR issue, only VSNL could be taken up for disinvestment (in GDR) during the said period and IOC GDR could not be launched due to unfavourable market conditions. In the GDR, 39 lakh shares of VSNL could be disinvested resulting in realization of Rs 380 crore (3.8 billion).

DISINVESTMENT IN 1997-98

The Budget for 1997-98 had taken a credit for an amount of Rs 4800 crate (48 billion) to be realised from disinvestment of Government held equity in public sector companies. This was proposed to be achieved by disinvestment in MTNL, GAIL, CONCOR and IOC. A GDR issue of 40 million shares (4 crore) held by the Government in MTNL was offered in the international market in the month of November, 1997. The issue was a success and an amount of Rs 902 crore (9.02 billion) was realised.

However, due to extremely unfavourable conditions in the international market, it was decided to defer the issues of GAIL, CONCOR and IOC.

1998-99 ON WARDS:

This phase marked a paradigm shift in the disinvestment process. First, in the 1998-99 budget, the BJP Government decided to bring down Government shareholding in the PSEs to 26 per cent in the generality of cases, (thus facilitating ownership changes, as was recommended by the Disinvestment Commission). It however, stated that the Government would retain majority holdings in PSEs involving strategic considerations and that the interests of the workers would be protected in all cases.

DISINVESTMENT IN 1998-99

The budget for 1998-99 had taken a credit for an amount of Rs 5,000 crore (50 billion) to be realized from disinvestment of Government held equity in public sector enterprises. This was proposed to be achieved by disinvestment through offer of shares in GAIL, VSNL, CONCOR, IOC and ONGC.

The Government disinvested 0.90 crore shares (9 million) of its equity in CONCOR in the domestic market in November 1998 and realized Rs. 221.65 crore (2.21 billion). VSNL GDR cum domestic offering of 1 crore (10 million) share was completed in February 1999, and an amount of Rs.783.68 crore (7.83 billion) was realized. Government also offloaded 30 million of GAIL in the domestic market in February 1999, and realized Rs.181.78 crore (1.81 billion). These disinvestments amounted to Rs.1187.11crore (11.87 billion). In addition, a unique modality of disinvestment was also adopted, viz., cross holding amongst the oil enterprises under which Government disinvested part of its equity holding amongst the enterprises inter-se, namely ONGC, IOC and GAIL. In these transactions, the Government realized Rs 4184 crore (41.8 billion). Strictly speaking, this swap of cross holding of equity by PSEs cannot be considered disinvestment. Thus, in all, an amount of Rs 5371.11 crore (1187.11 plus 4184) was realized during 1998-99.

DISINVESTMENT IN 1999-2000

The budget for 1999-2000 had taken a credit of Rs.10,000 crores (100 billion) from disinvestment. In January 2000, strategic sale of Modern Foods India Ltd (MFIL) to the extent of 74 per cent of its equity was done in favour of Hindustan Lever Ltd (HLL) to realize Rs. 105.45 crore (1.05 billion). As per the agreement with HLL, the Government provided for post closing adjustments for the pre closing period (1 April 1999 to 31 January 2000). Under this clause, Rs 10.94crore (109.4 million) was returned to HLL. Thus net realization was Rs 94.51 crore (945. 1 million) for 74 per cent equity in MFIL. This was for the first time that more than 50 per cent shares of a PSE were sold to a strategic partner and the management of the company transferred to the private sector. Further, Government disinvested 13.50 crore (135 million) of shares of GAIL by GDR issue to realize Rs 945 crore (9.4 billion). Also, Rs 75 crore (750 million) was realized by disinvesting 0.10 crore shares of VSNL in domestic market. Government also realized Rs 459.27 crore (4.59 billion) through cross holding amongst IOC, ONGC and GAIL. In addition, Rs 244.42 crores (2.44 billion) was realized by financial restructuring of BALCO. This was done by reducing BALCO's equity by 50 per cent by using its substantial cash surplus. The Government is considering withdrawal of reserves from PSEs before disinvestment as disinvestment proceeds, but such an amount is strictly speaking not disinvestment proceeds per se. In all, Rs 1818.20 crore (18.18 billion), (i.e., Rs 1573.78 crore (15.73 billion) by disinvestment/cross holding in five PSEs plus Rs 244.42 crore (2.44 billion) by capital restructuring of BALCO) was realized during 1999-2000.

CONCLUSION

In 1999-2000, the Government stated that its' policy would be to strengthen strategic PSEs, privatise non-strategic PSEs through gradual disinvestment or strategic sale and devise viable rehabilitation strategies for weak units. For the first time, the expression 'privatization' was used instead of disinvestment. The Government formed the Department of Disinvestment on 10 December 1999, which was to act as a nodal agency for, disinvestment and to have a systematic policy approach towards disinvestment.

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