

## **CHALLENGES OF DISINVESTMENT IN INDIA**

### **Abstract :**

Disinvestment, the colossal weapon and instrument in the hands of Government of Investment has enabled the public sector to improve its efficiency and to become more responsible as well as accountable to the , for that matter the nation a lot . Public Sector Enterprises have been playing a dominant role in industrial growth and development of Indian Economy . In order to take apart the accumulated problems of unemployment, technological backwardness and to set up a socialistic pattern of society in the country establishment of Public Enterprises have conceived .

The major thrust for Disinvestment Policy in India in India came through the Industrial Policy Statement 1991 . The new policy of liberalization , privatization and globalisation - emphasized the role of the public sector in the nations's economy . The policy stated that the government would disinvest part of their equities in selected PSEs. The main objective was to improve overall performance of the PSEs. In eighties the model of privatization /disinvestment was initiated by Margaret Thatcher in UK and implemented by other countries including Germany (Unified),and other socialist countries . The Four Ps of disinvestment are Policy, Promise , Prognosis and Performance . Disinvestment of Public sector Undertakings is one of the policy measures adapted by the Government Of India for providing financial discipline and improve the performance of this sector in tune with new economic policy of liberalization, Privatization and Globalization , (LPG) through the 1991 Industrial Policy Statement .

### **Definition of Disinvestment**

The term "Disinvestment" is the opposite of the term "Investment". Investment is acquisition of earning asset with the help of money.

Disinvestment refers to the action of an organization or the government in selling or liquidating an asset or subsidiary . In simple words disinvestment is the withdrawal of capital from a country or corporation.

**Some salient features of disinvestment are:**

- Disinvestment involves sale of only part of equity holdings held by the government to private investors .
- Disinvestment process leads only to dilution ownership and not transfer of full ownership. While, privatization refers to the transfer of ownership from government to private investors.
- Disinvestment is called as ' Partial Privatization ' .

### **Objective Of Disinvestment**

- ❖ The new economic policy initiated in July 1991 clearly indicated that PSUs had shown a very negative rate of return on capital employed . In relation to the capital employed, the levels of profits were too low. Of the various factors responsible for low profits in the PSUs , the following were identified as particularly:
  - I. Price policy of public sector undertakings.
  - II. Under utilisation of capacity.
  - III. Problems related to planning and construction of project.
  - IV. Problems of labour, personal management.
  - V. Lack of autonomy .

The Government adopted the 'disinvestment Policy'. This was identified as an active tool to reduce the burden of financing the PSUs. The following main objectives of disinvestment were outlined :

- A. To reduce the financial burden on Government .
  - B. To improve public finances
  - C. To introduce, competition and market discipline
  - D. To fund Growth
  - E. To encourage wider share of ownership
  - F. To depoliticise non-essential services
- ❖ The Rangarajan committee on Disinvestment of 1993 was constituted by the government for making recommendations in context with the disinvestment. The committee said that the units to be disinvested should be identified and disinvestment could be made up to any level

,except in defence and atomic energy where the government should retain the majority holding in equity .

- ❖ The Disinvestment commission of 1996 as an advisory body having a full time chairman and four part time members, An autonomous body for the smooth functioning and monitoring of the disinvestment should be established . the commission was required to advise the government on extent, made, timing and pricing of disinvestment . it suggested four modes of disinvestment viz. Trade sale, Strategic sale , Offer sale of shares and closure or sale of assets.

### **CHALLENGES OF DISINVESTMENT**

Disinvestment was a very bold and important step initiated by the government as a part of its reforms measures. But the way it was handled has defeated its very purpose.

- **Social Problem** process of disinvestment is not favoured socially as it is against the interest of socially disadvantaged people and society at large . this process will definitely affect the social; objectives of Government .
- **Political Problem** the government at the centre faces opposition from a number of parties has posed a serious threat to this programme. Conflicting interest has made it difficult to arrive at a national consensus.
- **Economic Problem** Most of the units identified for disinvestment are in a very bad shape which does not offer good return. The Government due to paucity of funds is also not in a position to revive it.
- **Lack of Transparency** the Government has failed to maintain transparency in the various stages of disinvestment process which has decreased its reality.
- **Lack of co- operation and co- ordination** Lack of co-ordination between disinvestment ministry and other concerned ministries has also greatly affected the disinvestment programme.

A number of problem and issues have bedevilled the disinvestment process. The number of bidders for equity has been small not only in the case of financially weak PSUs, but also in that of better performing PSUs. Besides the government has often compelled financial institutions, UTI and other mutual funds to purchase the equity which was being unloaded through disinvestment. These organizations have been very enthusiastic in listing and trading of shares purchased by them as it would reduce their control over PSUs. Instance of insider trading of shares by them have also come to light.

Further, in many cases, disinvestment has not really changed the ownership of PSUs, as the government has retained a majority stake in them. There has been some apprehension that disinvestment of PSUs might result in crowding out of private corporate (through lower subscription to their shares) primary capital markets.

It is not clear that if the rationale for disinvestment process is well founded. The assumption of higher efficiency, better/ethical management practices and better monitoring by the share holders in the case of private sector.

The US economist Kenneth Galbraith had visualised a role of countervailing power for PSUs While creation of PSUs Originally had economic, social welfare and political objectives, the current restructuring through disinvestment is being undertaken primarily out of need of government finances and economic efficiency .

**To the extent that the sale of Government equity in PSUs is to the Indian private sector, there is no decline in national wealth. But the sale of such equity to foreign companies has far more serious implications relating to national wealth, control and power particularly if the equity is sold below the correct.**