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Growth and Disinvestment of Public Sector Enterprises in India

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Abstract: When India became independent, there were various socio-economic problems confronting the country which needed to be dealt with in a planned and systematic manner. India at that time was primarily an agrarian economy with a weak industrial base, low level of savings, inadequate investments and lack of infrastructure facilities. There existed considerable inequalities in income and levels of employment, glaring regional imbalances in economic development and lack of trained manpower. As such, the State's intervention in all the sectors of the economy was desirable and inevitable since private sector neither had the resources, managerial and scientific skill nor the will to undertake the risks associated with large, long-gestation investments. And at this point of time the need of government interference was required to bring out the economy from this vicious situation. The Public Sector Enterprises are well known as the government companies which is funded, controlled and managed by the government. The Public Sector Enterprises as a group are engaged in the production and supply of a wide range of products and services. These Enterprises are doing well and flourishing the country with all the necessities required and try to bring the economy to the extent of standard level of the world . But suddenly in the year 1991 it was start felt by the present leading government that some of the enterprises are not doing well and they are escalating the government deficit and outlay which in return effecting the economy adversely. After which the Government has decided to go for Disinvestment or privatization of PSE in India.

Keywords – Public Sector, PSE, growth.

I. INTRODUCTION

In countries like India, massive investments were made in the public enterprises as an economic strategy adopted for accelerated and equitable economic development. With every successive National Plan commencing from start of the First Plan (1951-56) to the end of Ninth Plan (1997-2002), progressively large investments were made in the public sector. The strategy led to defining and redefining the role of the state in national development As such, the state's intervention in all the sectors of the economy was desirable and inevitable since private sector neither had the resources, managerial and scientific skill, nor the will to undertake the risks associated with large, long-gestation investments, which lay down the need of such enterprises who are competent enough to take the burden, so in First Five Year Plan the five Central Public Sector Enterprises with a total investment of Rs. 29 crores was established .Since then both the number of enterprises and the total investment in CPSEs shows an remarkable increase over the years. On 31st March, 2009, there were as many 246 CPSEs (excluding 7 Insurance Companies) with a total investment of Rs.528951 crore. Public sector enterprises have been set up to serve the broad macro-economic objectives of higher economic growth, self-sufficiency in production of goods and services (wherever so desired), long term equilibrium in balance of payments and low and stable prices. These enterprises are said to be the backbone of Indian economy at that point of time when the economy was shallow and it the only ray of hope for the country to bring the country in a stable position.

II. OBJECTIVE OF THE STUDY

1. To find the reason for poor performance of Public Enterprises in India
2. To find the reason for disinvestment of Public Enterprises in India.
3. Measures to convert Sick Public Enterprises in to the working Enterprises.
4. Measures to reduce the No. of Disinvestments of Public Enterprises in India.
5. To increase the accountability of Public enterprises in India.
6. To increase the profitability ratio of Public Enterprises in India.

III. MEANING OF DISINVESTMENT

Disinvestment means when the Government sell its enterprises completely to the private sector or disinvest a part of its equity capital held by it to the private sector companies or in the open market. Generally disinvestment

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and privatization are taken as a same thing but there is a clear difference between both of them. Disinvestment means the dilution of stake of the Government share in a public enterprise or when the Government sells a part of its equity of a public enterprise less than 50 per cent of its total stock, it is called merely disinvestment and in this case control and management of the business enterprise remains in the hands of Government. On the other hand, when government sale more than 50 percent of its shares means the majority ownership and therefore control and management of the enterprise is transferred to private enterprise, it results in privatisation. Therefore, in many disinvestment programmes government retains 51 per cent or more of the total equity capital of the public enterprises so that control and management remains in its hands. Through disinvestment or privatisation, the Government can mop up a good amount of resources which can be used for various purposes. The released resources can be used to restructure and strengthen the public sector enterprises which are potentially viable. These resources can also be used to pay back a part of public debt. These resources can also be used to finance budget deficits.

Disinvestment of public enterprises in India

Disinvestment of Public sector enterprises in India initiates in the year 1991-92,when the government is of the view that the Public enterprises who are not working well and fails to earn profit should undergo the process of disinvestment. As many public enterprises fails to comply with present economic scenario and are also running in continuous loss and increasing public deficient the government decided to sell part of equity share that will termed as disinvestment. Disinvestment is process of public asset sales by President of India on behalf of Government of India, directly or indirectly bidding process in capitalized market. One of the basic reason behind the decision of disinvestment is that the government wants to raise the funds and also to minimize fiscal deficits. Conceding to demands of privatization and with tough resistance from labour unions, government of India is slowly divesting the PSUs. Major divestment steps were taken by BJP-led NDA government (1999-2004), made four strategic disinvestment's - in Bharat Aluminium Company (BALCO) and Hindustan Zinc , Indian Petrochemicals Corporation Limited to Reliance Industries and VSNL to the Tata group, While track record and future of these companies were good. Even some how the government has to face criticism for disinvesting many enterprises

Reason for Public Sector Disinvestment:

1. **Scarcity of resources**- Resources available with the Government are scarce. The Government needs resources to reduce its budget deficit. Government also requires resources to make investment in infrastructure, social sectors such as education, public health and for poverty alleviation programmers. Resources released through disinvestment can be used for investment in these crucial sectors.

2 **Inefficient working**-.A good number of existing public enterprises are working inefficiently and incurring huge losses. Disinvestment can lead to the improvement of efficiency of these enterprises. When government disinvest a good part of its stake to a private enterprise or public at large, it increase accountability of management of an enterprise which have a beneficial effect on the efficient working of the enterprise. “The shareholders would require to be compensated and this will, in turn, compelling the enterprise to run more efficiently and earn more profits”.

3. **Lack of Importance to Profit Motive:** In the working of public enterprises profitability criteria was not given proper place. Some of the persons and economists associated with our Planning Commission who formulated policies on public sector enterprises as well as those who were entrusted with setting them up and running them played down the idea of profit making by public enterprises and unduly emphasized the social obligations of public enterprises. It is only recently that profit aspect of public enterprises has been given due recognition.

4. Under-utilization of Installed Capacity: Low utilisation of capacity has been a very important reason for the low profitability of the public undertakings. Enormous installed capacities have been created with the help of foreign credits and know-how on easy terms, but fuller use of them has not been made. The phenomenon of underutilization of capacities has arisen on account of overestimating demand, administrative deficiencies, lack of proper working techniques, labour troubles or failure to install balancing equipment or making technical improvement essential for fuller utilisation of capacity.

5. Delay in Project Completion: Also, very little consideration is given to the time-schedule in the construction of the public sector projects. The inevitable result is that the projects are commissioned much later than scheduled. It unnecessarily raises the cost of construction. Trombay Fertilizer Project, for instance, took 6-7 years to complete against time schedule of 3 years and this heavily raised the cost of the project.

6. Absence of Professional Management: The composition of the Boards of Directors indicates the absence of professional managers. These boards are dominated invariably by IAS officers from the civil service, a number of who owe their position to political patronage rather than their professional managerial abilities. The Committee on Public Undertakings remarked that the civil servants are costly on account of the burden of deputation pay and leave-salary and pension contribution. The use of civil servants such as IAS officers is not conducive to efficiency as by their attitude and training, they are used to

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a different way of working, which hardly fits into a business organisation.

7. Lack of Rational Pricing Policy: The public enterprises in India have failed to evolve an appropriate pricing policy for their products. Should public enterprises follow marginal cost pricing or average cost pricing or the mark-up pricing policy. In the absence of an appropriate pricing policy, optimal utilization of resources and profitability cannot be achieved.

8.Cost Overruns: Various surveys made on the working of public sector enterprises in India have highlighted the point that most of the projects took longer time to complete than was initially envisaged. Such delays raised the cost of such projects, putting extra burden on the country's scarce resources. The delay in construction time-schedule and the consequent increase in costs are largely attributable to poor and inadequate project planning.

Disinvestment Process and Valuation:

1. The first method of disinvestment is when entire the shares of a enterprise sold to a private sector whose bid is highest .In this case both the ownership and control or management is transferred to the private firm. For ex-Modem Food ltd was sold to Hindustan Lever .

2. The second method of disinvestment is in which a part of the Government stake of public enterprises is sold to a strategic private company. A strategic company is one which has a strategic interest in the public enterprise and has a capability to run it efficiently. The strategic buyer can be chosen by inviting tenders from the private companies.

3. The third method is when the Government can offer for sale its shares of a public enterprise to the general public through the stock-market intermediaries.

4. The fourth method is when Government sold a certain number of shares in a public enterprise through auction of shares among a selected number of private firms. The reserve price of shares of a company for auction can be determined with the help of merchant bankers.

TABLE 1

Year	No.of Operative PSE's	Profit making PSE's	Loss making PSE's	PSE's making no profit/Loss
1997-98	236	127	107	2
1998-99	235	126	105	1
1999-00	232	123	110	1
2000-01	234	129	103	2
2001-02	231	120	109	2
2002-03	226	119	105	2
2003-04	230	139	89	2
2004-05	227	143	73	--
2005-06	226	160	63	1
2006-07	216	154	60	1
2007-08	214	160	53	1
2008-09	213	158	54	1

Table 1-Source – Ministry of Public Enterprises of India

The above table shows the data from the year 1997-98 related to the Public Sector Enterprises in operation ,profit making PSE's ,loss making PSE's .As it is clear from the table that PSE's in operation is decreasing every year. From the year 1997-98 to 2002-03 the PSE's making loss is high from the 2003-04 there was gradual decrease in PSE's making loss. The PSE's making profit is not stagnate it goes on increase and decrease, which in return pave the path of disinvestment of many enterprises.

TABLE 2 Disinvestment of Public Sector Enterprises

Year	Budgeted Amount in Rs. In Crores	Total Amount in Rs. In Crores
1997-98	4800.00	379.79
1998-99	5000.00	910.00
1999-00	10,000.00	5371.00
2000-01	10,000.00	1860.14
2001-02	12,000.00	1871.26
2002-03	12,000.00	5657.69
2003-04	14,500.00	3347.98
2004-05	4,000.00	15547.41
2005-06	No target fixed	2764.87
2006-07	No target fixed	1569.68
2007-08	No target fixed	NIL
2008-09	No target fixed	4181.39

Table 2-source -Department of Investment and Public Asset Management

The above table shows that the government has not disclosed the exact number of enterprises disinvested very year as majority are partial disinvested by the government. Every year the government has fixed the target in the 1997-98 ,1998-99 not even a 10% of budgeted amount is realized from the process of disinvestment and in 1999-00 50 % is realsed. Major disinvestment was done in the year 2003-04 but the amount realised in the 20014-05, for next four years the government has not fixed any amount and in the year 2007-08 government fails to realised any amount. The method adopted for the disinvestment mostly is Initial Public offering(IPO).

IV. FINDING OF THE STUDY

1. The disinvestment is proofed to be a successful decision of government.
2. Every year 40%to 50% of total operative PSE's are running in loss.

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3. Every successive year the no. of operative PSE's are decreasing.
4. The no. of PSE's disinvested each year is not clearly mentioned by the government
5. In the study it is found that partial disinvestment of many PSE's is taken up by the government.
6. The government wants to retain the control and management in its hand.
7. Nearly 30% of PSE's has undergone full disinvestment.

V. SUGGESTION

1. The study specifies that Government should take the concrete steps to improve the working condition of PSE's

2. The loss making PSE's should be converted into profit making enterprises.

3. The Government should plan to increase the profitability ratio of PSE's

4. Niti Aayog should make specific plans for loss making Public Enterprises.

5. The amount realized from disinvestment should be invested in opening new profitable ventures.

VI. CONCLUSION

The public sector enterprises in the Indian economy are to play an important role that needs no emphasis. They account for over 22 % of the country's GDP, around 6 % of the total employment in the organized sector. A number of PSEs also serve critical functions of fur-thesring the socio-economic objectives of the government and ensuring stability in prices of key products and commodities. The public sector in India has always played a dominant role in shaping the path of the country's economic development. Visionary leaders of independent India

drew up a road map for the development of public sector as an instrument for self- reliant economic growth. The public sector has provided the much-required thrust and has been instrumental in setting up a strong and diversified industrial base in the country. Keeping pace with the global changes over a period of time, the PSEs in India also have adopted the policies like disinvestment, self-obligation, restructuring, etc. which proves to be important at certain point of time. Because the enterprises which are not able to move with current era has to be undergone with this difficult process in spite of objection from public or employees.

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