



## PRIVATIZATION THROUGH DISINVESTMENT OF CPSEs: ITS PROS AND CONS IN THE PRESENT PERSPECTIVE

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### ABSTRACT

*Privatization of state owned enterprises has become a common economic policy prescription in almost all developing countries around the globe. In simple terms, privatization implies transfer of property or ownership of business from public to private sector with the intention of utilising it for private benefits and for profit maximization. In other words, it is a route from state ownership of property and assets to private or individual ownership. From the other point of view, it is a change in ownership that results in a change in management. From another aspect it is a strategy that provides advantages to a few at the cost of many individuals. Privatization is still a highly debatable issue in the context of our country and the debate about the superiority of the private and public sectors has been going on for the last four to five decades in India. Some researchers demonstrated that privatization did not contribute to growth but some other stated that privatization play vital role for the economic growth of our country. Keeping this debatable situation in mind, this paper attempted to analyse the present status of disinvestment and privatisation in India, major advantages and disadvantages of privatization in the present socio economic context of our country.*

**KEYWORDS :** *Disinvestment, Privatisation, Public Sector Undertakings (PSUs), Central Public Sector Enterprises (CPSEs),*

### INTRODUCTION

Privatization simply means transfer of property or ownership of business from public to private sector with the intention of utilising it for private benefits and for profit maximization. In other words, it is a route from state ownership of property and assets to private or individual ownership. From the other point of view, it is a change in ownership that results in a change in management. From another aspect it is a strategy that provides advantages to a few at the cost of many individuals. Privatization of state owned enterprises has become a common economic policy prescription in almost all developing countries around the globe for economic development and growth. Though, our country is not exceptional to this issue, it is a highly debatable issue for the last four to five decades. The debate is about the superiority of private over public sectors. In spite of debate, recently, privatization has been adopted as an economic policy prescription by many developing countries of the world. Privatization in our country is still at nominal level. Privatization got tremendous boost by the introduction of new economic policy in 1991 that allowed delicensing, relaxing entry restrictions and equity funding, **Gouri, G., (1996)**. In 1990-91, the huge fiscal imbalance and growing balance of payments crisis have forced the country to approach the IMF and also to the World Bank for structural adjustment loan. While giving such loan and assistance, both the IMF and the World Bank imposed certain conditions. One of such conditions was gradual opening up and liberalisation of sectors of the economy.

The process of privatization can be successful way to bring about fundamental structural change and proper legislation that will directly create strong incentives for the individual. According to many experts, privatization may improve the efficiency of the enterprises through competitiveness as the private sector has effective policies in solving the problems, through costless bargaining driven by individual incentive schemes. Again due to the growing problem of large-scale fiscal deficits, the government of our country has brought the issue of privatisation to the forefront in recent years. So, if the basic intention of privatisation is an important factor for its benefit. The intention of the government is also an important consideration in this regard. So, in our country, there is an ongoing debate among the academicians, researches as well as in political circles as to whether the economic growth in India can be attributed to the reforms associated with disinvestment and privatizations. Findings of many studies demonstrated that privatization did not contribute to growth. On the other hand, several economists stated that privatization play vital role for economic growth.

Keeping this debatable situation in mind, this paper attempted to analyse the present status of disinvestment and privatisation in India, major advantages and disadvantages of privatization in the present socio economic context of our country. Accordingly, this paper has been segregated into ten sections or part including this introductory part. In second part of this paper the difference between disinvestment and privatization has been explained. In the third part, various terms such as PSUs, PSEs, and CPSEs have been explained. . Fourth and fifth section contain review of related studies and historical background of PSUs and their privatisation in India. Likewise, the sixth and seventh part of this paper discuss about the initiative taken by the government for disinvestment and privatisation and the present status of disinvestment of PSEs in India respectively. An analysis of advantages and disadvantages of privation has been done in eighth and ninth part of this paper, finally in the last part the paper is concluded with some suggestions

#### **DIFFERENCE BETWEEN DISINVESTMENT AND PRIVATIZATION:**

Privatization is a broad concept. In simple terms it implies transfer of property or ownership of business from the public sector to the private. It basically emphasises a change in ownership that results in a change in management. But disinvestment need not always imply change in management. Disinvestment is actually sale of share or stake of the government enterprise. If the dilution is less than 50 percent the government retains management even though disinvestment takes place. It is not privatized. But if the dilution is more than 50 percent there is transfer of ownership and management. It will be called privatization. Thus disinvestment is wider than privatization. Privatization implies disinvestment but disinvestment does not necessarily imply privatization. Only when disinvestment goes beyond 51 percent it implies privatization. In India, privatization by way of sale of public sector enterprises is at minimum level. Apart from direct selling divestment of state owned PSUs is also being done by way of selling of a portion of shares of such enterprises.

#### **MEANING OF PUBLIC SECTOR UNDERTAKING (PSUs), PUBLIC SECTOR ENTERPRISES (PSEs) AND CENTRAL PUBLIC SECTOR ENTERPRISES (CPSEs):**

The full form PSU is Public Sector Undertaking. A Public Sector Undertaking is an enterprise in which the majority of the shares (i.e. more than 50%) are owned either by the Central Government, State Government or Union Territory Government solely or jointly. Public Sector Undertakings (PSUs) are also called Public Sector Enterprises (PSEs) or simply Public Enterprises (PEs). Stated alternatively, a company stock needs to be majority-owned by the government to be a PSU. In 1951 there were just five enterprises in the public sector in India, but at present this number is about 300. The terms Public Sector Enterprises (PSEs) is often used in some different context as compared to the term PSUs. A public sector enterprises or PSEs refer all those institutions or organisations having public ownership and from which the government expects a return on the capital invested. The PSUs can be classified into three categories viz CPSEs, SLPEs and PSBs. Central Public Sector Enterprises or simply CPSEs are the enterprises in which 51% or more stocks are

held by Central Government or other CPSEs and works under the direct control of either central Government or other CPSEs. Similarly, State Level Public Enterprises or simply a SLPEs are the enterprises in which 51% or more stocks are held by the state government or other SLPEs and works under the direct control of either State Government or other SLPEs. On the other hand Public Sector Banks or PSBs are the Banks which works under the control of the Government or other PSB and share 51% or more stocks with them

#### REVIEW OF RELATED LITERATURE:

Public enterprises are transformers of our economy. They have played a vital role in the development of our country. Their contributions are manifold. Disinvestment does not necessarily benefit the enterprises in terms of immediate accrual of resources. The proceeds of disinvestment go to the Consolidated Fund of India from which it meets the budget deficit (**Koner & Sarkhel, 2014**). India came to the privatization fold as a reform measure in the early 1990s. The question always arises as to what extent economic reforms; particularly privatization has benefited economy growth in the country. There is an ongoing debate in the literature (as well as in political circles) as to whether the recent acceleration of economic growth in India can be attributed to the reforms implemented in the pre-1991 era. **Rodrik (2002)** argued that tentative measures taken under the Rajiv Gandhi Government in the 1980s led to disproportionately high growth, while the reforms undertaken in and after 1991 had a far smaller impact with respect to GDP growth. **Panagariya (2004)** refuted this argument by identifying an upward shift in the mean growth rate in the post 1990s. Experts both advocate and criticize privatization making it more or less a provocative decision that calls for a diligent scrutiny by the decision makers in assessment of pros and cons attached to the concerned policy, **Young, R. (2005)**.

#### HISTORICAL BACKGROUND OF PSUs AND THEIR PRIVATISATION IN INDIA:

When India achieved independence in 1947, it was primarily an agricultural country with a weak industrial base. First five year plan highlighted the need for a rapid expansion of the economic and social responsibilities of the state to satisfy the expectations of the people of the nation. At that time the national consensus was in favour of rapid industrialisation for economic development, improving living standards and economic sovereignty. The main objectives for the setting up of PSUs was to accelerate the growth of fundamentals or core sectors of the economy; i.e. to serve the equipment needs of strategically important sectors as well as to generate employment and income. Many Indian leaders particularly Jawaharlal Nehru believed that establishment of basic and heavy industry was fundamental to the development of the Indian economy. Based on this propositions India's second five year plan (1956–60) and the Industrial Policy Resolution of 1956 emphasised the development of public sector enterprises to meet Nehru's national industrialisation policy. His vision was carried forward by Dr. V. Krishnamurthy known as the "Father of Public sector undertakings in India". Public Sector Undertakings (PSUs) were a major part of Indian economy. They have been running for a long time in India and are now being apprehended several problems relating to the performances of the PSEs as compared to the similar private enterprises comes into the forefront along with several other limitations. Performance of the private sector highlighted the loopholes of underperforming PSUs in terms of efficiency, productivity and profitability. In most of the cases state owned enterprises are defeated by the private enterprises. When compared, private enterprises, shows better results in terms of efficiency, productivity and profitability.as a result, a debate stated arousing throughout the country regarding the functionality of the underperforming and loss making Public Sector Enterprises. Due this reason along with several arguments against disinvestment government is forced to think of privatisation of PSUs through gradual disinvestment. Finally, privatization got tremendous boost by the introduction of new economic policy in 1991. In 1990-91, the huge fiscal imbalance and growing balance of payments crisis have forced the country to approach the IMF and also to the World Bank for structural adjustment loan. While giving such loan and assistance, both the IMF and the World Bank imposed certain conditions. One of such conditions was gradual opening up and liberalisation of sectors of the economy.

**INITIATIVES TAKEN BY THE GOVERNMENT:**

In order to privatise the economy, our government adopted various measures during 1990s. Various initiatives such as scrapping of legislations such as MRTP and FERA, abolition of license raj for the purpose of deregulation of industries, approval of 100% equity for NRIs, were taken with the inception of new industrial policy of 1991. Apart from these, Disinvestment in Public Sector Enterprises (PSEs), and reference of sick industrial units to Board of Industrial and Financial Reconstruction (BIFR) for rationalisation were also meant for privatisation of the Indian economy. To encourage modernization, more and more emphasis has been on the use of latest technology. For this purpose foreign technological collaboration has been allowed to a great extent. According to the new industrial policy of 1991, industries are freed to a large extent from the licenses and other controls. In this way, the role of the public sector is tried to be minimised. **Again**, a policy measure is adopted for not expanding unprofitable or loss making industrial units in the public sector. This measure is simply taken for contraction of public sector.

In order to make Indian market more and more competitive government has taken several measures. For instance, in order to encourage foreign trade, import-export procedure has been simplified. Export-import duty on some items has been abolished completely and in some other cases it has been reduced to the minimum level. Restrictions on the exports-imports have been removed with a few exceptions.

Many steps have also been taken to attract foreign investment in Indian industries. For example, in 1991, 51% of foreign investment in thirty four high priority industries was allowed without seeking government permission. Non-Resident Indians (NRIs) were allowed to invest 100% in specific fields such as export houses, hospitals, hotels, etc. To encourage and speed up foreign investment proposals, Foreign Investment Promotion Board (FIPB) was established. In order to encourage privatisation, efforts have also been made to give importance to the small industries for the economic development of the country.

**PRESENT STATUS OF DISINVESTMENT OF PSEs IN INDIA:**

With the intention to provide market discipline and to improve the performance of public sector Government of India decided disinvestment of a part of Government holdings in the share capital of selected Public Sector Enterprises (PSEs) as envisaged in the Industrial Policy, 1991. The following Table (Table No-1) gives the details year-wise scenario of disinvestment executed in public sector from 1991-92 to 2016-17.

**TABLE NO-1**  
**YEAR WISE TARGET, ACTUAL RECEIPTS AND INFLATION ADJUSTED RECEIPTS FROM DISINVESTMENT FROM 1991-92 TO 2016-17**

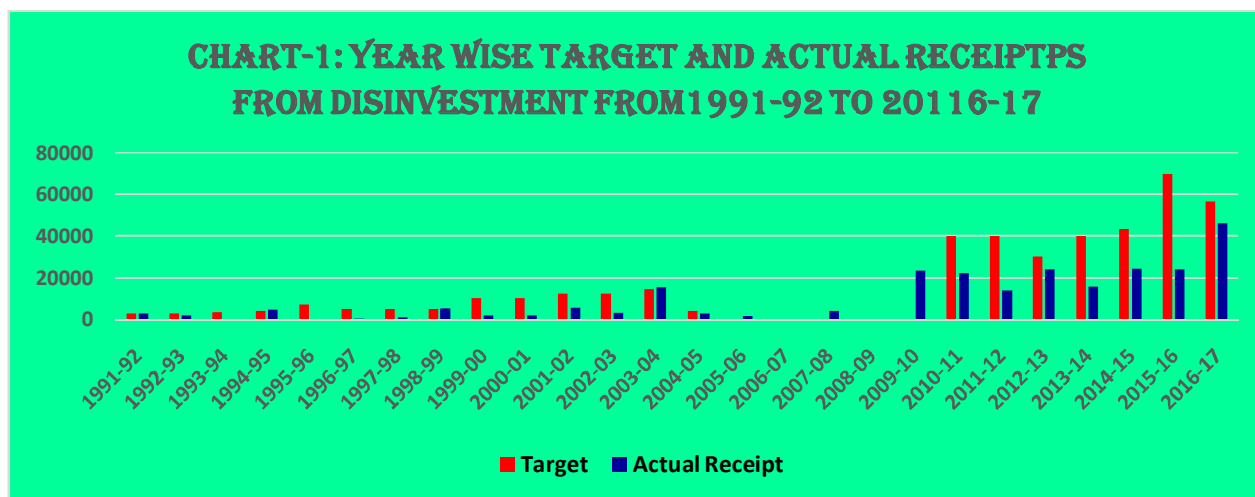
Years	Target (Rs. in crores)	Actual Receipt (Rs. in crores)
1991-92	2500	3,037
1992-93	2500	1,912
1993-94	3500	0
1994-95	4,000	4,843
1995-96	7,000	168

1996-97	5000	379
1997-98	4,800	910
1998-99	5000	5,371
1999-00	10000	1,860
2000-01	10000	1,871
2001-02	12,000	5,657
2002-03	12,000	3,347
2003-04	14,500	15,547
2004-05	4,000	2,764
2005-06	No target fixed	1,569
2006-07	No target fixed	0
2007-08	No target fixed	4,181
2008-09	No target fixed	0
2009-10	No target fixed	23,552
2010-11	40,000	22,144
2011-12	40,000	13,894
2012-13	30,000	23,956
2013-14	40,000	15,819
2014-15	43,425	24,348
2015-16	69,500	23,996
2016-17	56,500	46,247

*Source: Department of Investment and Public Assets Management, Govt. of India*

From the above table (Table No-1) it is seen that in 1991-92, the actual receipts in respect of disinvestment of PSEs shares was Rs. 3,037 crore as against its target of Rs. 2,500 crore. In 1992-93, the actual receipts from disinvestment was only Rs. 1,912 crore as against the target of Rs. 2,500 crore. But in 1993-94 nothing was received in spite of the target of Rs.3500 crore. In this way, after the close examination of data it is seen that the target of the government in the next twelve years i.e. up to 2003-04 was in upward direction towards disinvestment. But due to the repeated non-fulfillment of the target in many years the government was forced to set its target at quite lower level in 2004-05. In this year target was fixed at 4000

crores and actual receipt was also far below the target again at Rs. 2764 crore. During the next five years i.e. from 2005-06 to 2009-10, government did not set any target for disinvestment. In spite of having no target of disinvest, government received Rs. 4,181 and Rs. 23,552 for 2007- 08 and 2009-10 respectively. After this, government again set a target of Rs.40000 both for the years 2010-11 and 2011-12. But the actual receipts in respect of disinvestment of PSEs shares for those two years were Rs.22, 144 and Rs.13, 894 respectively. In 2012-13, the actual receipts from disinvestment was Rs. 23,956 crore as against the target of Rs. 30,000 crore. After that government again started setting target for disinvestment in an upward direction since 2012-13 to till the F.Y 2015-16. It is significant to note that in the year 2016-17, though the target of the government in this regard was low actual receipts from disinvestment was all time high at Rs. 46,247 crores as compared to the previous years. To get the overall picture at a glance about the target of and actual receipts from disinvestment during period covered under study, the entire data has been presented in a chart (Chart No-1) below.



Source: Department of Investment and Public Assets Management, Govt. of India

From the above chart, it is quite clear that there is an overall upward trend both in the target of and actual receipt from disinvestment over the period 1991-92 to 2016-17.

**ANALYSIS OF ADVANTAGES OF PRIVATISATION:**

According to many researchers, privatization may have a positive impact on the economy of our country. According to them privatization of Public Sector Enterprise (PSEs) is the need of the time and is very necessary for the economic development and growth of the nation. There are various strong arguments favouring privatization and thus seems to be rewarding or profitable for the country. Some of the Pros/advantages of privatization of Public Sector Enterprise (PSEs) are as follows;

- ❖ Privatization can highlight the loopholes of underperforming PSUs in terms of efficiency in terms of productivity and profitability. In most of the cases state owned enterprises are defeated by the private enterprises in competition. When compared, private enterprises, shows better results in terms of efficiency, productivity and profitability. The privatization of Public Sector Enterprise (PSEs) will bring the competitiveness and thus increase their productivity. As a result the overall productivity of the nation will increase automatically.
- ❖ All PSUs generally appoint employee in large numbers. It results in not only wastage of money paid as salary it is also a wastage of human resources. The Public Sector Enterprise (PSEs) spent unnecessary capital in extra activities that ultimately leads to the wastage of time and man-power. In our country, most of the PSEs are suffering from the problem of inefficiency and that is why privatization may be the



best remedy to come out of this problems. It is the private sectors which understand better the value of time and money and to make optimum utilization of available resources.

- ❖ The PSUs generally don't incentivize employees according to their performances and the best performer is often treated in the same way as average performer. The privatization may help in improving the performances of the employees by the providing performance or quality based incentives. This will make the employee accountable to their work as well as to increase their efficiency.
- ❖ It is the private sector that has effective policies in solving the problems, through costless bargaining driven by individual incentive schemes. Individual employee will take part in a cost-benefit analysis directly or indirectly, which will ultimately result in the most efficient solution.
- ❖ Red-Tapism is the root of the Public Sector Enterprise (PSEs) and that is why it takes long time for any decision to be taken or finalised. PSEs are often managed by the related ministry and Board of directors lose their power which causes failure to the achievements. Privatization to Public Sector Enterprise (PSEs) will help in removing the bureaucracy from the enterprise as well as in help in quick decision making.
- ❖ Privatization leads to implementation of the global best practices along with management and motivation of the best human talent to immediate competitive advantage and efficient management of resources. Most of the Public Sector Enterprise (PSEs) are also not concerned with the quality of the services provided. On the other hand private enterprises always try to provide better and quick services to the customers.

#### DISADVANTAGES OF DISINVESTMENT AND PRIVATISATION:

Although there are so many strong arguments in favour of privatization it has some dark side too. None of them can be ignored. Although, India is marching forward at rapid rate towards privation through disinvestment, it is very important for us to know about its adverse effects on the economy and to take preventive measures in reducing such effects. In recent times, a good number of studies which was conducted on this issue have questioned the validity of the belief that privatisation improves the performance of the enterprise. Based on these outcomes, some of the disadvantages of privatization through disinvestment of Public Sector Enterprise (PSEs) are highlighted below:

- ❖ Profit motive is not the main motive of the public sector enterprises. It, in many cases, initiates socially viable adjustments in public interest. Private sector, on the other hand focuses on profit maximization than on social welfare as compared to public sector enterprises. Profit maximization motive encourages malpractices like production of lower quality products, price escalation etc. in many cases.
- ❖ Privatization has an adverse impact on the employee morale as compared to public sector and generate fear of dislocation or termination from services. PSUs works with the motive of social welfare, employees are not victimised but, as the the private enterprises is mostly concerned with profit of the enterprise, it is obvious that the employees in private enterprises often become the victim of exploitation.
- ❖ Although the main goal of privatization is to increase the efficiency through the increase in competitiveness among the enterprise yet the inefficiency, in many cases, is found in private enterprises too. High employee turnover is a common feature in private sector. To overcome the situation of high employee turnover a lot of investment may be required to train make the new staff of the enterprise abreast with the latest business practices.
- ❖ Privatization has provided the unnecessary support to the corruption and unlawful ways of accomplishments of business deals amongst the government and private bidders. Political influence and corruption are the common issues humiliating the practical applicability of privatization.

- ❖ Another important aspect of privatisation is that over a long period of time, private infrastructural units may improve its position and grow into a powerful monopoly. In that case, privatisation would mean replacing public sector monopoly with private sector monopoly in many cases.
- ❖ Last but not least that privatization efforts face many obstacles, including existing legislation and regulations, public employee resistance, misinterpretation and misperceptions about privatization.

So, from the above analysis it is seen that there are some important Pros and Cons of the privatization of a PSUs. As all the Pros and Cons are justified in one or some other ways nor so neither any Pros nor any Cons can be avoided fully and our government must think over these points seriously both for the interest of common people as well as overall development of the country. Again, many studies have revealed that public sector enterprises can be managed efficiently and they can also experience a higher productivity growth as compared to their private sector counterpart. Thus, the benefits from privatisation have to be contemplated very carefully as there is no positive relationship between the nature of ownership and performance.

### CONCLUSIONS:

From the above discussion of advantages and disadvantages of privatisation it is seen that both the advantages and disadvantages are common to both public and private sector enterprises. Similarly, the question of efficiency and inefficiency are also common to both public enterprises and private enterprises because in both the sectors there are efficient and inefficient units. So, what is required in our country, at this moment, is to improve the efficiency of inefficient units by the creation of proper competitive environment. Thus, it is the competitive environment that is more important than ownership in promoting the desired level of efficiency. Efficiency of any business unit does not depend only on economic factors alone, it also depends on other non-economic factors also. Thus, if the problem before a country how to tackle the inefficiency in the public sector then it ought to be realised that the problem of a good number of public sector undertakings is how to run and manage such undertaking rather than a matter who owns such enterprise. One vital reason for the privatisation of Public Sector Enterprise (PSEs) may be to reduce the incidence of corruption arising from political interference. But in practice, political influence and corruption are the common issues humiliating the practical applicability of privatization. In our country, most of the public sector enterprises have experienced irregularities which are generally due to political interference in their day to day working but this cannot be the main argument for the privatisation of the public sector. This sort of political interference must be eliminated in anyway because the privatisation may fail to remove the role of non-economic factors such as political interference, corruption etc. in managing a business units. Presently, our government is planning to privatise the Public Sector Enterprise (PSEs) before considering the above mentioned steps. During 1990s the huge fiscal imbalance and growing balance of payments crisis have forced the country for gradual opening up and liberalisation of various sectors of the economy. This is one kind of forced privatisation of PSUs through disinvestment. If the basic intention of disinvestment is to meet the budget deficits then it may be presumed that privatisation through disinvestment will be meaningless in the context of economic development of our country. Government at the initial stage created a Consolidated Fund of India from proceeds of disinvestment and from this budget deficit were met. Later in the year 2002 due to strong public pressure, the government announced that it would set up a separate Disinvestment Proceeds Funds and the proceeds from disinvestment would be utilised for social and infrastructure sectors instead of meeting fiscal deficit. These always raise question as to the intention of the government regarding disinvestment.

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