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A STUDY OF DISINVESTMENT CONCEPT OF PUBLIC SECTOR IN INDIA: AN OVERVIEW

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ABSTRACT

This article defines disinvestment, distinguishes between well disinvestment and privatization, and gives an ephemeral outline of changes in government policy towards public sector and public sector in India. The term "disinvestment" is the contrary of the term "investment". An investment is an acquisition of assets with the help of money. For example, if bonds are bought or shares of companies are bought with money, it is well-known as investment. In the case of investments, money is transformed into an asset for earning income. On the other hand, in the case of disinvestment, an income asset is transformed into liquid cash. Here we will use the term disinvestment in a special sense. By disinvestment we mean the sale of public sector shares by the govt. This article also looks at some of the issues related to different investment, such as excuses, how much disinvestment, how to assign, and so on.

KEYWORDS*: Public Sector Shares, Disinvestment, Economic Infrastructure, Privatisation.*

Introduction

After independence, when economic planning was make known to, India adopted a mixed economic system. The main feature of the macroeconomic system is the coexistence of the public sector and the private sector. The Industrial Policy Resolutions of year 1948 & 1956 identified areas of work for the public sector and the private sector. There were many purposes for building the public sector. The goals are to build investment resources for economic growth, from building infrastructure to making a reasonable profit. The drive to expand the public sector extends to the concept of 'commanding heights', from the supply of consumer goods at discounted rates. Finally, public sector businesses have expanded from coal, steel and oil to hotels at one end and bread at the other. At first it was thought that with the progressive development of the public sector, the country would be able to move towards a socialist style of society, which was an attempt to achieve a goal.

Concept of Disinvestment and Privatization

Before we move on, let's fix a reasonable problem of this concepts. There is a basic difference between disinvestment and privatization. Privatization means a change in proprietorship that results in a change in management. But disinvestment doesn't always mean a change in management. In fact, disinvestment is a govt. business plan. If the deduction is less than 50%, the government maintains the management even though it is a disinvestment, not privatized. But if the weakness is more than 50%, there will be a transfer of ownership and management. This will be called privatization. Thus, disinvestment is more extensive than privatization. Privatization means a disinvestment, but disinvestment does not inevitably mean privatization. Only when the attachment goes beyond 51 does it mean privatization. The threshold is set as part of the government's renovation policy. Before considering disinvestment, let us first briefly look at the role of the PSUs in the Indian economy and pay attention. It is a significant to understand this perspective, which reflects the government's decision to disinvestment in innovation.

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Objectives of the Study

- To study the major reason behind disinvestment.
- To study the performance of public sector units (PSUs) after disinvestment.
- To study the limitation of disinvestment in public sector enterprise.

Methodology

A variety of studies and documents have been reviewed and analysed. This study was developed with the help of secondary data. The foremost sources of secondary data, have been collected from books, magazines, research articles and various online sites that provide relevant information on the study.

Major Reason of Disinvestment in PSEs

The government has given two main reasons for disinvestment. One is to provide financial provision and the other is to improve the performance of the enterprise. The funding argument goes like this: Government resources are limited. These resources should be allocated to socially priority sectors such as elementary health, family-welfare, basic education and social and economic infrastructure. By releasing closed resources in non-strategic PSEs, more resources can be devoted to these priority areas. Demands from governments are growing at both the levels. State activities need to be expanded to priority areas. Therefore, it is reasonable to assume that a portion of the additional resources required to support these activities come from the sale of pre-made shares by the government from its own resources.

The second reason intended for disinvestment is that it will expand the working efficiency of the enterprise. If the undivided limit is such that the enterprise is go public and the management of the enterprise is taken over by the private sector, it will be free from the control of the govt. and will be able to operate more resourcefully. Here it is assumed that the performance for the private sector is higher than that of the public sector enterprise. Even if the disinvestment limit is less than 50% so that the government can maintain its control over the unit, the inclusion of private property can have a supportive effect on the work of the enterprise. This increases management accountability. Shareholders expect returns on their investment and their expectations will be met. This will force the enterprise to run more efficiently and earn more profit. Flexibility in proprietary structures can, in practice, provide efficiency. In fact, the inclusion of the public in the property structure can also create conditions in which public sector enterprises have more autonomy to operate. Disinvestment can be understood as a tool to increase economic efficiency.

Limitation of Disinvestment in PSUs

Obviously, the level of disinvestment in any enterprise in any given year should be achieved from the target level of public proprietorship in that enterprise in the medium term. At general enterprise meetings, the ownership target level can be 26% to ensure limited control over special resolution, 51% for effective control and 100% for full ownership. The aim level of disinvestment should be consequent from the desired level of public ownership in a unit. The Rangarajan Committee emphasized the need for extensive disinvestment. It said up to 49% of the disinvestment in the public sector could be important for industries. He suggested that in special cases, such as enterprises that dominate the market or where separate identities have to be maintained for strategic reasons, the target of public ownership could be 26%. In all other cases. He recommended 100 disinvestment of govt. interests. In 1999, the government classified public sector enterprises into strategic and non-strategic units for landscaping purposes. Strategic public sector enterprises will be in the areas of defines production, nuclear energy and railway transport. All other public sector undertakings were to be considered non-strategic. For non-strategic public sector operations, it has been decided that the 26% reduction in government shares will not be unconscious and the manner and speed of doing so will be adjusted depending on the situation.

Performance of Public Sector Units (PSUs)

Disinvestment means the sale or withdrawal of assets by the government, usually central and state PSEs, projects or other fixed assets. It introduces competition and market discipline and helps eliminate unnecessary services. This policy has undergone extensive changes in India in recent times. The renovation in India aims to reduce the financial burden on the government due to inefficient and unproductive PSUs (called sick units) and to improve public finances. The govt. has set an exact disinvestment target in its interim budget 2019 for the fiscal year 2019-20. ₹90,000 crore, more than the budget of ₹80,000 crore for the current year was said to be exceeded. The current non-investment policy followed by the government can be seen in the following salient features:

- Working under the public sector is the wealth of the nation and keeping this wealth in the hands of the people, promoting the public ownership of CPSE.
- Pursuing the transfer of minority shares in the CPSE-listed CPSE, the government will maintain a majority stake, at least 51% in public sector undertakings in shareholding and management control.
- Strategic relationship through the transfer of CPSE management control as well as the sale of a substantial share of government shares in the identified CPSE of 50% or more.
- In February 2018, the Cabinet cleared the institutional framework for monetization of CPSE-identified non-core assets under the Strategic Non-Investment.
- According to the Department of Investment and Public Asset Management (DIPAM), the current policy on strategic sales stipulates that the Niti Ayog will identify CPSE for strategic alignment and that CPSEs also advises on how to sell shares.
- Strategic disinvestment is the transfer of ownership and control of a public sector property to another entity (mostly a private sector entity). Unlike direct investment, strategic selling means a kind of privatization.

Some of the views on Disinvestment can be seen as given below:

- Disinvestment is important due to the rapidly expanding competitive environment, which makes it difficult for many PSUs to operate profitably. This leads to a sharp decline in the value of public assets, which is why it is necessary to cut the skin in order to realize the high cost.
- In order to diversify PSUs ownership to enhance individual business potential, immovable projects can be considered necessary to raise funds for technical enhancements, modernization and expansion in PSU.
- Public sector units can only exist on an equal footing with the private sector if their shareholders give them the required flexibility. Therefore, if the govt. focuses on providing a stable, clear and effective regulatory system and gets out of the business of moving industries, then the welfare of the people is at its best.

Disinvestment and its impact on Economy:

- In the situation of macroeconomics, time has shown us how countries such as Chile, the United Kingdom, China, New Zealand and Poland have used formal disinvestments to reach new economic heights. Divided disinvestment allows the govt. to gain better control over the market economy without disturbing the principles of market behaviours.
- Many countries have used disinvestment as a sure way to restore balance in the budget and restore sustainable growth after the economic crisis of the 1980s.
- Disinvestment is very positive for the Indian equity markets and economy. This will bring foreign and domestic money into the markets. This will allow PSUs to fund their expansion projects and improve resource allocation in the economy.
- Disinvestment will allow the government to stimulate the economy while resorting to less debt market borrowing. Private debtors won't be crowded out of the markets by the govt. and will have to pay less to borrow from the open market.

In addition to financial performance, one can judge technical performance in the field of public performance in terms of allocated performance and dynamic performance. Technical performance is related to input-output ratio or output of inputs. Allocation performance is related to market failure correction which leads to better distribution of resources which will be decided by pricing method. Dynamic performance is about innovation and technological advancement. Even in relation to these standards, the results are mixed in relation to public enterprises. Current profits and / or current losses do not inevitably have to be appropriately measured for investment. Just because a unit is profitable, it will not be able to continue in the public sector units unless it works for a social cause. Loss-making units need to be removed from real estate if there are buyers who can make it profitable.

Conclusion

Disinvestment is a procedure. We can learn from experience. We can edit ways to go along. There seems to be no way out of investing. It has come to sustain India's economy. Two points should be noted regarding disinvestment policy. First, some reorganization of PSUs may be required before investing in order to increase the share price and speed up the sale process. The three broad areas of restructuring will be corporate governance, financial restructuring, and business and technical restrictions. Second, the transition process has to take into account the conditions in the capital market. Increasing investment returns can be a magical solution, but it is an initial. Performance depends on how it is dismantled according to sectoral policies, power and presence of the public sector with the COVID-19 pandemic; it is time to reproduce how to develop an interdependent relationship between experienced public and private sectors to adoptive India's potential as an industrial powerhouse.

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