

Disinvestment and how it benefits india



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Disinvestment, or divestment, refers to the act of a business or government selling or liquidating an asset or subsidiary or the process of dilution of a government's stake in a PSU (Public Sector Undertaking).

The Indian Ministry of Disinvestment in April 2001 published a manual entitled " Disinvestment Policy and Procedures". In the introduction to the manual it had tried to define Disinvestment by stating:

" Privatisation has different nomenclature in different countries like disinvestment, peoplisation, popular capitalism, denationalisation, economic democratization, partners in development, asset sales programme, dis-incorporation, transformation and restructuring. In this manual words privatization and disinvestment has been used interchangeably."

Also, there are several definitions from online websites regarding the term:

" The withdrawal of capital from a country or corporation"

– **wordnetweb. princeton. edu/perl/webwn**

" Disinvestment, sometimes referred to as divestment, refers to the use of a concerted economic boycott, with specific emphasis on liquidating stock, to pressure a government, industry, or company towards a change in policy, or in the case of governments, even regime change. ..."

– **en. wikipedia. org/wiki/Disinvestment**

" The process of disinvesting; negative investment"

– **en. wiktioary. org/wiki/disinvestment**

" Disinvest - divest: reduce or dispose of; cease to hold (an investment); "

The company decided to divest"; " the board of trustees divested \$20 million

in real estate property”; “ There was pressure on the university to disinvest in South Africa”

– **wordnetweb. princeton. edu/perl/webwn**

“ Disinvest - In finance and economics, divestment or divestiture is the reduction of some kind of asset for either financial or ethical objectives. A divestment is the opposite of an investment.”

– **en. wikipedia. org/wiki/Disinvest**

“ Disinvest - To reduce investment, or cease to invest”

– **en. wiktioary. org/wiki/disinvest**

“ Capital investment shrinkage caused by a firm’s failure to maintain or replace capital assets being used up or by the firm’s sale of capital goods such as equipment.”

– **brokerage. nbk. com/kuwait2/invest_glosry_DiDis. htm**

“ The process of dilution of the government’s stake in Public Sector Undertakings.”

– **ibnlive. in. com/news/no-jargon-please/58091-27-p1. html**

“ The action of an organization or government selling or liquidating an asset or subsidiary.”

– **www. vjondalalstreet. com/marketgot. php**

The Disinvestment Benefit to India

India benefits from disinvestment in several ways:

1. Disinvestment allows the transferring of the Indian government’s enormous public debt of its PSU’s to the Indian private sector. By

transferring the debt the Indian government's overall debt becomes greatly reduced.

2. Disinvestment also eliminates the taxpayer's exposure to the monetary risk of PSU's by transferring the exposure to the private sector where private stakeholders are willing step in and assume the monetary risk.
3. Disinvesting in PSU's also enables the Indian government to raise funds for so that the government can invest in improving its current physical and social infrastructure.
4. Disinvestment allows the reallocation of PSU resources such as manpower, real estate, technological, and operational infrastructure to critical governmental sectors that require urgent assistance.
5. Disinvestment forces financially sick PSU companies, through privatization, to either become healthy (profitable) enterprises or close down as a unhealthy business due to pressure from competing companies in the private sector.
6. Disinvestment of PSU's in India, i. e. the hotel industry, would bring more competition into various private sectors thus dramatically improving the quality of service for the customer through the PSU having to compete in a competitive private market.
7. Disinvestment helps to promote broader share ownership for the citizens of India and also helps in the development of the capital market in India..
8. Worldwide, the market driven companies are more robust and better managed than government PSU run companies. This is because

competition in the private sector forces companies to become effectively and efficiently managed.

9. Governments have traditionally shown a poor track record or successfully entering into the same areas as the private sector and also performing in areas that the private sector has shown a past history of proven success.
10. Market driven economies have shown in the past to be much more proficient at profitability in the long run than the state-sponsored economies.
11. A government is best suited to oversee and help to regulate a private market system. A government is worst suited to be an active participant and compete with private companies in the market system.
12. Disinvestment allows government assets allocated for profit-making ventures to instead be reallocated for use in non profit activities or social causes thus helping to strengthen both the non profit activities and social causes

India's Disinvestments Ministry's 10 Year Track Record

The Department of Disinvestment was set up as a separate department in December, 1999 and was later renamed as Ministry of Disinvestment from September, 2001. From May, 2004, the Department of Disinvestment became one of the Departments under the Ministry of Finance.

Disinvestment from 2000-2003

2000-2003 was the time period when maximum number of disinvestments occurred in India. These disinvestments took the shape of either transferring the control and management of a PSU to a private entity (strategic sale) or

an offer for sale to the public, with the Indian government still retaining control of the management. Below is a sample of some of the companies which witnessed a strategic sale:

- BHARAT ALUMINIUM CO. LTD.
- CMC LTD.
- HINDUSTAN ZINC LTD.
- HOTEL CORP. OF INDIA LTD. (3 PROPERTIES: CENTAUR HOTEL, JUHU BEACH, CENTAUR HOTEL AIRPORT, MUMBAI & INDO HOKKE HOTELS LTD., RAJGIR)
- HTL LTD.
- IBP CO. LTD.
- INDIA TOURISM DEVELOPMENT CORP. LTD.(18 HOTEL PROPERTIES)
- INDIAN PETROCHEMICALS CORP. LTD.
- JESSOP & CO. LTD.
- LAGAN JUTE MACHINERY CO. LTD., THE
- MARUTI SUZUKI INDIA LTD.
- MODERN FOOD INDUSTRIES (INDIA) LTD.
- PARADEEP PHOSPHATES LTD.
- TATA COMMUNICATIONS LTD.

Strategic sales values were realized to be substantially higher than those from minority stake sales.

Disinvestment from 2004- 2009

With a change in the government from the NDA to the UPA during this period, the issue of PSU disinvestment once again became a contentious

issue resulting in stagnation of the disinvestment strategy. From 2004 to 2009, only Rs. 6700 crore was obtained through disinvestments.

Disinvestment from 2009 onwards

With the UPA government elected to a second consecutive term and a better than expected economy, a renewed focus has been placed on the disinvestment agenda. A stable and secure government has already announced its policy on disinvestments, which entails a minority stake sale in profitable PSUs through the public offer route.

Recent Trends in India's External Sector Performance

The process of disinvestment means selling off partially or wholly the assets of state owned undertakings to private sector. Obviously, private sector comes to influence or fully control the management and production decisions of the firms concerned. It was first witnessed in Japan in the nineteenth century. After the Meiji Restoration, the state set up industrial undertakings because the private sector there was in no position to bear risks and mobilize necessary capital and technology. The state, thus, played a pioneering role in industrialization by setting up new undertakings and mobilizing financial resources and technology for them. It helped create, operate and strengthen new infrastructure facilities. This direct entrepreneurship role of the state more or less ceased by 1882 because the revenue receipts from state-owned and managed undertakings were not encouraging. Consequently, it sold off most of its industrial possessions at throw away prices to private buyers. To quote economic historian W. W. Lockwood: " They went mainly to certain big capitalists enjoying official favor and capable of financing and operating them."

In recent times, this phenomenon first came to be seen in Britain after Margaret Thatcher became prime minister. A number of undertakings were denationalized or sold off. The slogan was: 'the government has no business to be in business.' In India, however, disinvestment came to form part of the government policy in the beginning of the 1990s when a self-proclaimed socialist Chandrasekhar happened to head a short-lived government at the centre. His finance minister Yashwant Sinha, while introducing the budget for 1991-92, proposed to dispose of 20 per cent shares of selected state undertaking to the private sector in order to raise resources to tide over ongoing financial crisis. Before this proposal could be implemented, the Chandrasekhar government fell and his finance minister migrated to BJP, a professed enemy of socialism.

By this time, the United States and international financial institutions like the World Bank, the International Monetary Fund, etc., under its influence adopted 'Washington Consensus' as the panacea for all the economic problems of developing countries, disregarding their historical background and existing socio-economic conditions. The developing countries were not consulted about the prescription. The Washington Consensus, among other things, stressed the need of curtailing state's economic role. Developing countries were firmly told that state should not normally set up undertakings for production of goods and services nor should it expand or strengthen the capital base of existing ones. In fact, the state was required to begin immediately the process of privatizing the existing undertakings through disinvestment.

The Washington Consensus came to inform the economic reforms and policies of the Narasimha Rao government that ruled from mid-1991 to mid-1996 and Dr. Manmohan Singh who became finance minister became the kingpin of the new initiative. He was hailed as the great liberator of the Indian economy and entrepreneurial initiative from the shackles of Nehruvian thinking. It is a different matter that the electorate of posh South Delhi constituency preferred intellectually insignificant V. K. Malhotra of the BJP to him in 1996 and failed to recognize him as a great economic liberator.

Overall, the external sector of the India's economy exhibited toughness despite sharp decline in net capital flows during 2008-09 which turned negative during October-December 2008. Lower oil imports due to the price decline of international crude oil and a decline in commodity prices helped to lessen the impact of reduced exports to the world markets. Overseas remittances and IT enabled software services remained higher during April-December 2008 than the corresponding period last year. FDI stayed strong overall as India remained an attractive investment destination despite a slow start to the fiscal year as FDI flows on net basis more than doubled to US\$ 15.4 billion during April-December 2008. The comfortable foreign exchange reserves position also alleviated the impact of global crisis on the external sector of the economy.

As the global financial crisis worsened in 2009, its impact was transmitted from the Wall Street (financial sector) to Main Street (economic activity) western countries and then to emerging economies through the trade and financial channels. Growth in the volume of global trade in goods and services, which had shown signs of weakness in 2007, decelerated further in

2008 and is projected to record a decline of 11. 0 per cent in 2009.

Worldwide, both import and export volume growth rates decreased in 2008, with the decline being sharper in advanced countries. The International Monetary Fund (IMF) projects that fuel prices are expected to decline by 94. 4 per cent in 2009, while non-fuel prices are estimated to decline of 27. 9 per cent. Capital flows to emerging and developing economies declined from US\$ 617. 5 billion in 2007 to US\$ 109. 3 billion in 2008 - See Chart 6.

Unfortunately, the outlook continues to be grim as estimates expect further deterioration in 2009, as it is estimated that there would be a capital outflow of US\$ 190. 3 billion from emerging and developing economies.

As of today, after a low of 6. 7 per cent in 2008-09 caused by the worldwide slowdown, the Indian economy could exceed 8 per cent in the current fiscal year 2009-2010. A recent indicator of this is the 7. 9 per cent growth recorded in the July-September quarter 2009 despite the poor performance by the agriculture front due to drought and floods.

The total market value of PSU companies is enormous so if only 10 percent disinvestment happens to the PSU's then approximately a sizeable amount of money will be released. Disinvestment can help to solve the fiscal deficit issue currently facing the Indian government.. Disinvestment means more than simply privatization it means increasing the amount of shares available to the Indian citizen through the stock market and allowing private shares to be publicly traded through exchanges.

Disinvestment is greatly needed by the Indian government since the government struggles to fund and maintain them. Also, in spire of the

argument from the trade unions, disinvestment will help to create more jobs not less since the PSU's will become private companies and will be able to grow through an efficient and effective private management system.

Indian citizens should aggressively petition the government for more disinvestment at a faster pace since disinvestment will bring accountability and transparency to PSU's that enter the private marketplace to compete.