Application of disinvestment on PSEs

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ABSTRACT

Disinvestments are initiated for reducing the public debt that is threatening to assume unmanageable proportion and transferring the commercial risk to which the taxpayer money locked up in public sector is exposed to. The money that is deployed in the PSEs is really the public money and is exposed to an entirely avoidable and needless risk in most cases. Scarce public resources are used for sustaining the unviable non-strategic PSEs. Since inception, public sector enterprises have played an important role in achieving the objective of economic growth with social justice. However, economic compulsions, *viz.*, deterioration of balance of payment position and increasing fiscal deficit led to adoption of a new approach towards the public sector in 1991.

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In India, for almost four decades, the country was pursuing a path of development in which public sector was expected to be the engine of growth. However, the public sector had overgrown its positive attributes and their shortcomings started manifesting in the shape of low capacity utilization and low efficiency due to over manning and poor work ethics, overcapitalization due to substantial time and cost overruns, inability to innovate, take quick and timely decision, large interference in decision making process etc. The government started to deregulate the area of its operation and subsequently, the disinvestments in public sector enterprises were announced. The process of deregulation was aimed at enlarging competition and allowing new firms to enter the markets. The market was thus opened to domestic entrepreneurs/ industrialists and norms for entry of foreign capital were liberalized.

The main idea behind the disinvestments is realized large amount of public resources locked up in non-strategic Public Sector Enterprises (PSE), re- employment in areas that are much higher on social priority such as basic health, family welfare, primary education and social infrastructure. Disinvestments are initiated for reducing the public debt that is threatening to assume unmanageable proportion and transferring the commercial risk to which the taxpayer money locked up in public sector is exposed to. The money that is deployed in the PSEs is really the public money and is exposed to an entirely avoidable and needless risk in most cases. Scarce public resources are used for sustaining the unviable non-strategic PSEs. The government of India has undertaken major disinvestment initiatives as part of its reforms package. Several public sector undertakings – owned by both the federal as well as the state governments – have been identified for disinvestment either through strategic sales or through public offerings. The disinvestment process faces several challenges in the socio-economic context of India. Communications have to address the concerns of employees, unions, media, and opinion leaders as well as other activist groups.

The first (partial) disinvestment made through a public offering was easy for VSNL. Public Relation (PR) managed for providing integrated communications support. The firm has also provided consultancy and communications support to several bidders with an interest in different corporations being disinvested for strategic sales. Disinvestment of a percentage of shares owned by the Government in public undertakings emerged as a policy option in the wake of economic liberation and structural reforms launched in 1991. Initially, it was not conceived as privatization of existing undertakings but as limited sales of equity with objective of raising some resources to reduce budgetary gaps and providing market discipline to the performance of public enterprises in general.

The objectives are as follows : A study of disinvestment of public sector enterprises is aimed at examining the following to analyze the impact of disinvestment on liquidity and long term solvency position

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