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Disinvestment in PSUs' interest

The bane of PSUs is lack of accountability and professionalism in their managements, says Uttam Gupta

AFTER considerable dilly-dallying, the government is again proposing disinvestment in public sector units from mid-February. In the budget for 1993-94, the finance minister had made a provision of Rs 3,500 crore as receipts from this source. Despite the buoyancy in the capital market, it is unlikely that the government will realise the target.

When the disinvestment exercise was first initiated in 1991-92, the revenue earned was Rs 3,038 crore as against a target of Rs 3,500. The exercise was repeated in 1992-93. However, this time, the government was able to realise only Rs 1,912 crore against a target of Rs 3,500 crore. This translates to about 55 per cent of the target.

While disinvestment was implemented in two phases in 1991-92, in the following year this was done in three phases. Purely on the basis that the disinvestment for the current year i.e. 1993-94 is being taken up at the fag end there is little reason for hope.

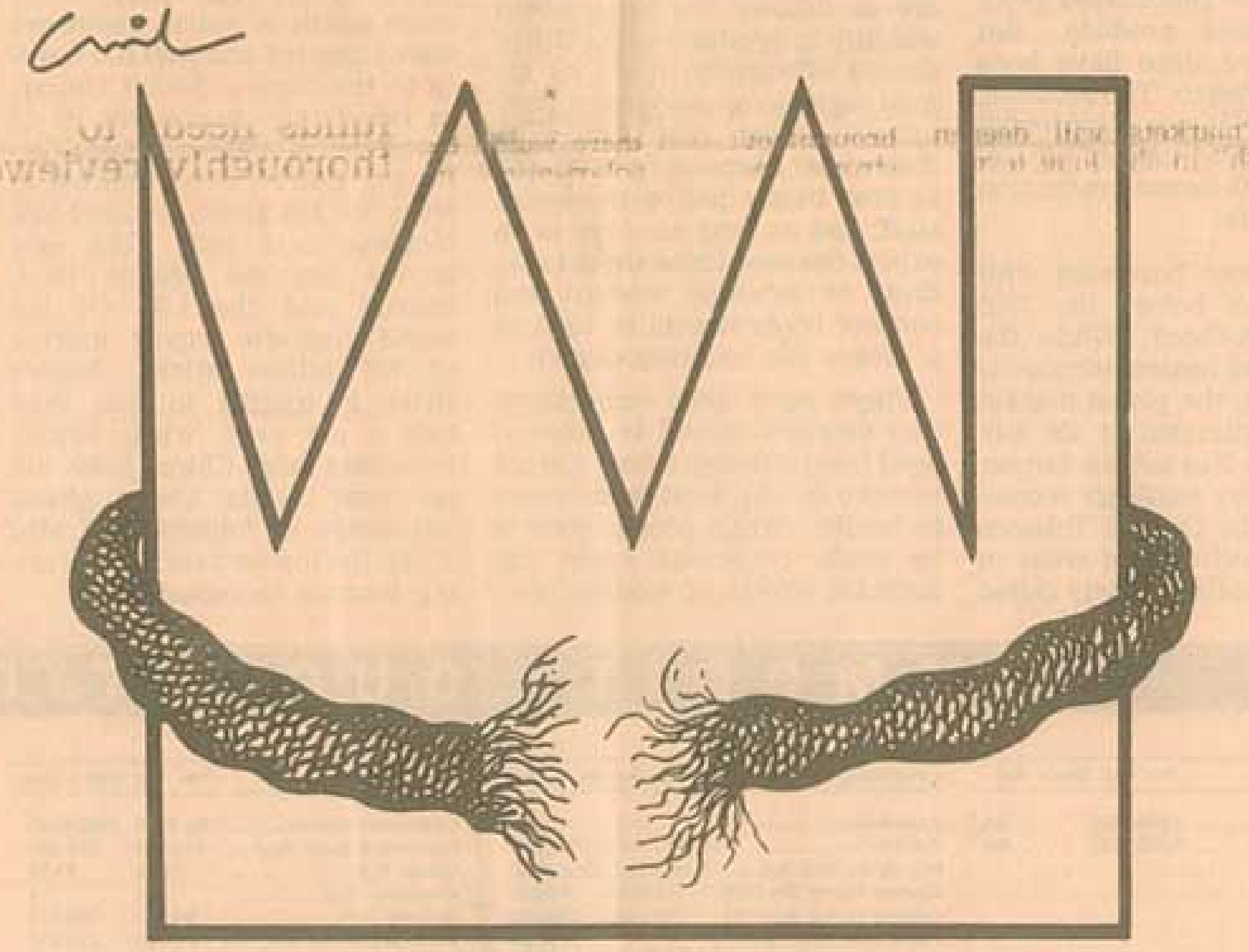
In the aggregate, the realisation of only Rs 4,950 crore so far against a target of Rs 7,000 crore, is disappointing. But, much worse is the present attitude to visualise this as an exercise in reducing the fiscal deficit. Unfortunately, the much broader considerations which lend credibility to this otherwise bold initiative, seem to have been sidelined.

The primary objective of the scheme is to partially privatise the PSUs. This should also pave the way to professionalisation of the managements of the PSUs and running them on commerical lines. Enchanced autonomy and accountability of the management, which is still a far cry despite the MoUs, should be additional gains.

Disinvestment has to start with those enterprises which are healthy and profitable, a necessary condition for enthusing the public to pick up the shares which would also enable the government to realise a good price. With these conditions obtaining, the second important objective of the exercise would then be to utilise the consequential revenue for rehabilitating and revamping of the enterprises that are sick.

A related consideration would be to utilise the money so realised for funding training and redeployment of workers laid off due to closure of the units or to finance compensation packages like the voluntary retirement scheme (VRS).

A third objective is to use the proceeds for retiring at least apart of the huge accumulated debt which, in turn, would help in reducing the interest burden with consequential positive effect on the revenue deficit on a recurring basis. The government can take a leaf out of the private sector. For instance, Reliance used the funds generated from its recent Euroissue for retiring a Rs 400-crore debt, which meant an interest saving of about Rs 70 crore per annum.



These objectives if realised successfully, will automatically help in lowering the fiscal deficit. Besides dealing with the monster of interest, the scheme can be converted into a potent instrument for substantially reducing the requirement for budgetary support to loss-making or sick enterprises. Partially privatised public sector undertakings can meet their growth and expansion requirements on their own, with little or nil budgetary support.

All this necessarily calls for implementing a comprehensive and well-structured scheme for disinvestment. Unfortunately, this has not happened. That the government was not quite serious even about the partial privatisation from the word go, would be amply clear from the decision to offer the shares only to financial institutions e.g. UTI, GIC, LIC etc. It is a different matter that subsequently these shares passed into private hands.

That the proceeds from these transactions were substantially below the fair value demonstrated the government's insensitivity to the second important objective of garnering sufficient resources from this potentially lucrative route. Already, the CAG has highlighted the enormous loss to the exchequer consequent to the serious irregularities in the disinvestment exercise undertaken during 1991-92.

Finally, the disinvestment process in both the previous rounds was initiated only towards the fag end of the year, which is also true of the contemplated round. That clearly shows an action taken in haste and with an eye on the budget.

A four-pronged strategy is called for to get the best out of the disinvestment plan. First, the buoyant conditions prevailing in capital market present an immediate opportunity. We also have the advantage of knowing the market prices and consequently, an indication of the amount that unloading of shares could fetch.

For instance, MTNL is currently ruling at Rs 300 and it should be possible to realise at least 50 per cent of this, if not more.

Second, for guiding and undertaking disinvestment from 1994-95 onwards, a core group of professionals should be constituted to formulate appropriate disinvestment package for select PSUs and endeavour to get these implemented within a reasonable time schedule. For achieving the desired success, the cooperation of the concerned enterprises is absolutely necessary. Apart from providing the necessary orientation to the management regarding the objectives of the scheme, the PSUs will also have to be given back-up support in terms of the required expertise. The latter is woefully lacking as amply demonstrated even on past occasions.

Third, a clear-cut policy has to be laid down for utilisation of the proceeds of disinvestment. The first charge has necessarily to be to the enterprises whose shares have been disinvested. Having declared that no budgetary support will be provided to enterprises other than sick, the unit should have access to these funds for supporting their expansion and modernisation plans. How much they should get can be worked out appropriately in each case.

The balance funds can go into a common pool for rehabilitation of sick units and/or workers. Compensation packages may be the next candidate in order of priority. The surplus available after meeting these obligations, may then be used for retiring debt.

Fourth, the government should stop supporting enterprises which are considered beyond redemption. Instead, efforts should be made to either sell these units to private parties through a process of competitive bidding or alternatively, the assets disposed off to fetch whatever amount possible. Although, the resultant proceeds may not be sufficient to settle the outstanding liabilities including appropriate compensation packages for the workers, the government's gain would still be substantial in terms of staying clear from any future liability on these otherwise dud units.

The entire strategy for disinvestment will have to be implemented as a package and various components sequenced properly. The government has to whole-heartedly push the strategy of liberalisation and fostering competition in the economy for these measures to be successful.