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INDIAN DISINVESTMENT PERFORMANCE EVALUATION BETWEEN NDA & UPA GOVERNMENTS

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ABSTRACT

This study is aimed to identify and evaluate difference between two alliance governments in terms of Disinvestment implementation and performance, if difference persists what is the degree of that difference, study aims to identify challenges and methodologies adopted for Disinvestment implementation. Disinvestment Performance evaluated using multiple parameters like Disinvestment Target Taken, Methods used, Number of PSU's considered, percentage of target considered against Budget and fiscal deficit. Even though two different Indian political alliances are pursuing similar economic policies, interesting demarcation is found while implementing same economic policies and the degree of implementation. The aim of this article is to analyze the performance of privatization between two political alliances.

KEYWORDS

Analysis of Indian Disinvestment, Indian Privatization, NDA disinvestment, Summary of Indian disinvestment, UPA disinvestment.

INTRODUCTION

Since 25 years India is run by group of political parties rather than one political party, India possess such two major alliances one is United progressive alliance led by "Indian National Congress" and other one is "National Democratic alliance" Led By "BharatiyaJanata Party". UPA alliance government is completing 10 years in the office as a ruling party. Even both alliances are different; Economic Policy such as Privatization is implemented by both the alliances, this study aimed at analyzing UPA's Disinvestment performance vis-a-vis with NDA government.

For analysis purpose, this article considered NDA's 5 years government during "1999-2004" versus UPA's "2009 – 2014" government, this study has not considered UPA-1 government disinvestment performance during 2004 to 2009 because of UPA's internal challenges from Left front parties against disinvestment. UPA-1 disinvestment track record is abysmal during 2004-2009. Common Minimum Program prepared by UPA-1 (i.e. 2004-09) is unfavorable to Privatization.

PUBLIC SECTOR ENTERPRISES IN INDIA

Since Independence, India has invested large amount of its revenue resources into building commercial enterprises. Over the period, India has built large commercial enterprises in various forms.

As per the Comptroller and Audit General of India (C&AG) report 2004-05

1. About 1200 public commercial enterprises controlled by union and state governments
2. Around 400 non commercial autonomous bodies and authorities owned or controlled by union or state governments.
3. Over 4400 authorities and bodies substantially financed from union or state revenues

SIGNIFICANCE OF THE STUDY

Since 35 years world is undergoing major economic reforms, specially reforms in terms of Business liberalization, Globalization and Privatization. Economic research has shown that economic reforms have helped in alleviating poverty (Himanshu). Many of the developing countries have aggressively persuaded LPG policy since 1980. India has started economic reforms in 1991 and shown faster economic growth compared to previous decades. However gap found in certain areas like disinvestment against assumed target.

This study gives knowledge on achievement of Indian Disinvestment and relative performance of two different governments. This helps economist to predict government disinvestment behavior and such behavior may be used during investment decision making.

EVOLUTION OF PRIVATIZATION

Even though privatization examples can be noticed during Nazi government in Germany, The credit of modern privatization goes to Margaret Thatcher government, Government of England has started privatization in 1979 with BP (British Petroleum), British Aerospace (1981), National Freight Corp (1982) and so on...Then the advantage of Privatization spread across the world and the privatization aggressively persuaded by south American countries like Chile, Brazil, Argentina. The advantage of privatization even spread to communist countries like USSR and China. In the last 35 years world has seen more than 1,00,000 firms undergone privatization (John Nellis, 2005). Even though Nazi government has started the privatization, It was more of Political in nature rather economic oriented (GermaBel), Thatcher government privatization was economic oriented not political one.

Indian Disinvestment (privatization) started because of the economical compulsions instead of economic vision policy. Economical compulsions such as high Fiscal deficit, Balance of payment crisis, current account deficits and International institutions are reason behind the economic reforms and privatization. The credit of initiating privatization in India goes to Shri P V Narasimharao government, government started privatization by selling 31 companies in its first attempt.

PRIVATIZATION METHOD IN INDIA

This study noticed interesting observations on usage of disinvestment method in India. Surprisingly, India follows a relatively different strategy to implement privatization. The first noticeable difference is in its name, India replaced internationally known "Privatization" word by "Disinvestment". As per the dictionary, the meaning of Disinvestment is withdrawal of Investment.

Internationally privatization implemented through various methods, among such methods, most popular are (RankoJelic – 2003), (ArbenMalaj – 2003)

1. Public Offers
2. Strategic Sale

3. Voucher privatization
4. Management Employee buyout (MEBO)
5. Sale through mutual funds and Financial Institutions

India mainly followed first two methods to implement privatization, in the beginning, government started privatization by issuing shares to mutual fund companies, later government adopted public offer model. During NDA regime, government adopted strategic sale method to implement privatization.

“Strategic Sale” is a sale which gives special importance to identifying appropriate private company to purchase and manage “Public Sector Enterprises” so that future of “Public Sector Enterprise” is secured and well managed.

“Public Offer” Sale is a sale where in government sell “Public Sector Enterprises” through initial public offer and sometimes selling shares in bulk quantity to financial institutions.

INDIAN DISINVESTMENT PROCESS

Government Of India has maintained Disinvestment Process relatively more Transparent, any disinvestment proposal first need to get approval from CCD (Cabinet committee on Disinvestment” Then proceeded to Selection of advisor by competitive bidding advertisement, preparing information memorandum, signing of confidentiality agreement selected bidders, preparing draft share purchase agreement with the help of legal advisors, Preparing final draft with the consultation of Inter Ministerial Group, conducting Due diligence, conducting valuation, coordination with respective departments, inviting final binding financial bids.

After examination, analysis and evaluation, the recommendation of the IMG are placed before the core group of secretaries on disinvestment (CGD), whose recommendations are placed before the CCD for a final decision regarding selection of strategic partner, signing of the share purchase agreement and shareholders agreement and other related issues..

The disinvestment process has been guided by recommendation made by committee on disinvestment set up in 1993. In the year 1996, government set up disinvestment commission to design and executive the privatization of PSU’s. Disinvestment process made more transparent, the department sends all its records to CAG for verification, as on date it is pool proof from corruption however issue are raised with respect valuation.

NDA & UPA ALLIANCE GOVERNMENTS

NDA GOVERNMENT

National Democratic Alliance (NDA) led by BharatiyaJanata Party (BJP) was formed soon after 1998 general elections (12th Lok Sabha) to claim government formation at central level. The defeat of Indian National congress and Third front parties (A group of State level political parties and communist parties) resulted formation of NDA alliance. The NDA government lasted for 13 months until mid-1999 when the AIADMK withdrew its support to government.

The fall of NDA government resulted to 1999 general elections (13th Lok Sabha). In the 1999 general elections, the BJP led NDA won 303 seats out of 543 seats in the Lok Sabha, there by securing comfortable and stable majority. On 13th October BJP Leader Shri Atal Bihari Vajpayee took oath as Prime Minister of India third time and led the government until 14th Lok Sabha elections held during April-May 2004.

UPA-1 GOVERNMENT

United Progressive Alliance (UPA) led by Indian National Congress was formed soon after 2004 general elections (April-May 2004) to claim government formation at central level. UPA formation triggered because of electoral defeat of ruling BharatiyaJanata party led NDA government. UPA won 222 seats against NDA’s 169 in the 543 member parliament. Left parties played a vital role in formation of UPA alliance; left front had 59 MP’s (includes CPM, CPI, Forward Block and RSP). The other parties which supported UPA governments were Samajwadi Party - 39 MP’s, Bahujan Samaj Party - 19 MP’s...

The UPA-1 government was dependent on crucial support of Left front which had 59 MP’s in the parliament, may be this was the reason behind not taking any disinvestment target during 2004 to 2009. Common Minimum Program – 2004 stated unfavorable to privatization. Left front has withdrawn its support due to nuclear agreement with USA. In the subsequent election, UPA developed an alliance with “Trinamool Congress” in the left front parties dominant west Bengal.

UPA-2 GOVERNMENT

The UPA-2 got re-elected in the 2009 general elections with the increment of 56 parliament seats. The other major highlights of 2009 general elections are NDA alliance support further dwindled, BJP’s total parliament seats decreased to 112 from 138. The other important development is decline of Left Front from 59 seats to 24. The 2009 general elections gave a comfortable majority to UPA alliance. The absence of Left front in the UPA, encouraged government to carry on much needed economic reforms. UPA government started Disinvestment by taking yearly target in the annual budget.

PRIVATIZATION PERFORMANCE

Year	Number of PSE's considered per year	Dis't Target Budget Estimates	Actuals Disinvest -ment	Dis't Target, Percentage of Budget	Dis't Percentage of fiscal deficit	Budget Estimates (Actuals)
1991 – 92	47	2500	3038	2.2	8.0 (37792)	113102 (RE)
1992 –93	35	2500	1913	2.0	5.2 (36722)	124726 (RE)
1993—94	6	3500	Proceeds received in 94-95	2.43	0 (58551)	143872 (RE)
1994 -95	13	4000	4843	2.46	7.9 (61035)	162272 (RE)
1995-96	5	7000	361	3.9	0.6 (60243)	178275
1996-97	1	5000	380	2.48	0.6 (66733)	201007
1997-98	1	4800	910	2	1 (86345)	232068
1998-99	5	5000	5371	1.79	4.7 (113348)	279366
1999-00	4	10000	1860	3.3	1.7 (104717)	298084
2000-01	4	10000	1871	3	1.6 (118816)	325611
2001-02	10	12000	5658	3.3	4 (140955)	362453
2002-03	6	12000	3348	2.89	3.3 (145466)	414162
2003-04	9	14500	15547	3	12.2(127149)	471368
2004-05	2	4000	2765	0.8	2.1(126483)	497682
2005-06	1	No Tgt	1569	0	0.89(174783)	506123
2006-07	0	No Tgt	----	0	0(183518)	583387
2007-08	3	No Tgt	4181	0	2.6(154966)	712671
2008-09	0	No Tgt	----	0	0(457498)	883956
2009-10	5	No Tgt	23553	0	5.4(432742)	1024487
2010-11	6	40000	22762	3.6	6.0(373892)	1108749
2011-12	2	40000	13894	3.0	2.6(516290)	1304365
2012-13	8	30000	23956	2.0	4.5(521225)	1430825
2013-14	9	40000	5591	2.4	1.0(542499)	1665297

(Note: for the year 2009-10, Disinvestment target assumed average percentage of 4 years of remaining period, i.e. 2.75% of budget actuals. Hence disinvestment target of 2009-10 is assumed as 2.75% of Rs 1024487 crores i.e. Rs 25612 crores. For calculation purpose)

(Dis't = Disinvestment, Govt = Government, Cr = crores, yrs=Years,)

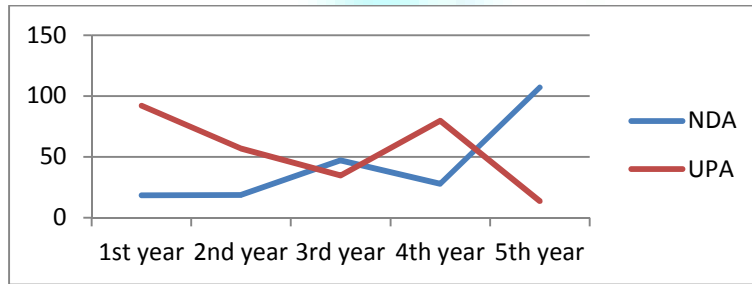
Comparison of NDA government 5 years (1999-00 to 2003-04) Versus UPA-2 five years i.e. (2009-10 to 2013-14), figures in Indian rupees

Type of Govt	No of co's for 5 yrs	Dis't Target Taken (in cr)	Dis't Target achieved (in cr)	Percentage Achievement Against Target	Average percentage of target of budget (of 5 yrs)	Percentage achievement of fiscal deficit for 5 years
NDA 1999-00 to 2003-04	33	58500	28284	48.34%	3.098%	4.439% (5 yr deficit Rs637103cr)
UPA 2009-10 to 2013-14	30	175612	89756	51.10%	2.75%	3.76% (5 yr deficit Rs2386648cr)

DISINVESTMENT TARGET FIXING

Either of the two different governments has not taken fixed percentage of disinvestment target against budget or fiscal deficit. NDA government has taken average of 3.098% disinvestment target of the budget for 5 years. UPA government has taken average 2.75% as a disinvestment target against the budget (average of 4 years). NDA government has taken 0.348% more target than the UPA government; however both the governments have preferred more targets in the initial years and gradually decreased the target as term approaches. It is not clear weather disinvestment target taken using the budget figures or estimated deficit.

UPA and NDA Disinvestment implementation during ruling tenure:



Note:- X axis indicates percentage of achievement, y-axis indicates year in the given term. The behaviour of two governments, disinvestment achievement is different, In case of UPA, government has preferred achieving higher disinvestment in the initial years, while NDA has gradually moved from lower achievement to higher percentage of achievement as their term approaches. Performance Behaviour foundopposite in nature.

DISINVESTMENT METHOD USED BY UPA & NDA GOVERNMENT

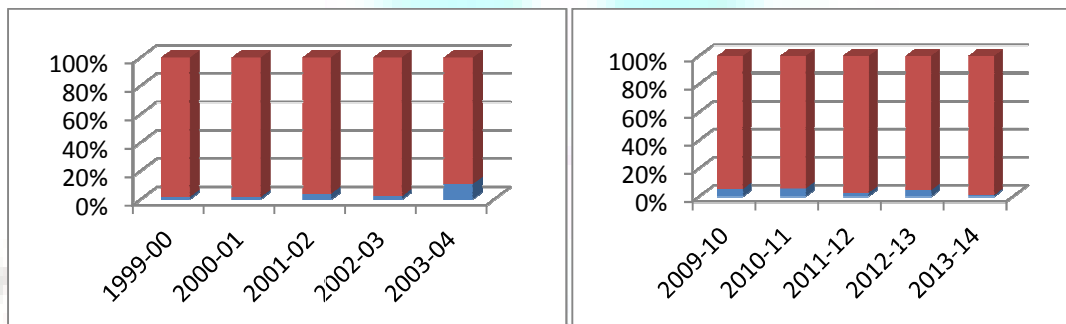
Disinvestment method used	NDA Alliance Government	UPA Alliance Government
Strategic Sale Method	12 + ITDC Properties	0
Public Offer, Bulk share sale to financial institution.	21	30
Total	33	30

Companies Sold Through "Strategic Sale Method":- MFIL, BALCO, LJM, CMC, HTL, VSNL, IBP, PPL, HCL, HZL, IPCL, JCL and ITDC hotel properties.

NDA government used "strategic sale" method to sell 12 public sector enterprises and ITDC hotel properties located in different cities, apart from public offer method.

UPA government has not used strategic sale method to sell any "Public Sector Enterprise", It has sold public sector enterprises through only "Public offer" method.

DISINVESTMENT PERFORMANCE INTERMS OF FISCAL DEFICIT



Both the alliance government as shown large dissimilarity in terms of disinvestment against fiscal deficit, large variation between each year found, NDA government has achieved 12.2% disinvestment against Fiscal deficit in the last year of its government term and it is ever highest percentage achievement against fiscal deficit since beginning of disinvestment. UPA government disinvested higher in the initial years of its government, it has disinvested 5.4 and 6% against fiscal deficit in the FY 2009-10 and 2010-11 respectively, later its performance gradually decreased against fiscal deficit.

RECOMMENDATIONS

1. This study identifies lack in any specific methodology followed to decide Disinvestment target. Our recommendation is Government required to adopt certain Disinvestment Target fixation methodology in terms of percentage either against estimated budget or estimated fiscal deficit.
2. This study identifies a continuous gap in disinvestment achievement versus set target since 24 years irrespective of any kind of government. Hence our recommendation is setting up an "Expert committee" to design better and acceptable methodology and process for successful disinvestment implementation.

LIMATATION

1. This study has considered only 5 years of 2nd term of UPA government and excluded 1st term of UPA ruling.
2. FY 2009-10 Disinvestment target is assumed as 2.75%, by taking average of balance 4 years UPA-2 government's target.

3. This article submitted on March 21, 2014, assuming that no more disinvestment is possible in FY 2013-14 due to official announcement of General Elections and model code of conduct from 5th March 2014.

CONCLUSION

Some of the straight conclusion what we can draw from the above disinvestment performance of different alliance is, Left Front participation in the government will hold back disinvestment. Looking at the performance, NDA alliance is relatively more aggressive than the UPA alliance government. NDA government has used Strategic Sale method along with public offer sale however UPA government has preferred only public offer method. In terms of taking the target UPA government is lagging by 11.23% with the NDA government. Important point is the degree of disinvestment implementation differs between two different alliances but not policy.

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