DISINVESTMENT

Disinvestment refers to selling of equity of a PSU to a private sector companies, financial institutions, general public or workers

Disinvestment versus Privatisation

- Disinvestment refers to selling of equity of a PSU to a private organization or to general public.
- Privatisation refers to providing for larger role for private capital and enterprise in the functioning of an economy.
- Privatisation is a wider term than disinvestment. Disinvestment is one of the means for achieving privatization.
- Privatisation may result from any of the following:-
    - Disinvestment
    - Denationalisation (i.e., complete sell off of a PSU)
    - Transfer of management and control of a PSU to the private sector
    - Dereservation of areas reserved for the public Sector etc.

Objectives of Disinvestment

- To transfer the resources from non-strategic sector to the strategic sector, which is much higher on social priority such as basic health, family welfare, primary education etc.
- To raise funds to cover up the fiscal deficit of the government.
- To improve efficiency of the public sector by inducing private initiative and competition.
- To enhance accountability of the PSUs by exposing them to the capital market.
- To reduce political interference by imparting market orientation to the enterprise.
- Bring down Government equity in all non-strategic PSUs to 26 % or lower, if necessary.
- Restructure and revive potentially- viable PSUs
- Close down PSUs which cannot be revived
- Fully protect the interest of workers.

The Disinvestment Process

- In 1992, Government constituted a committee on the Disinvestment of shares in PSE's headed by Dr. C. Rangarajan to recommend over the policy of disinvestment.
- The committee recommended that upto 49% equity of the PSUs under the exclusive participation of the state could be disinvested but for rest of the industries disinvestment can be allowed upto 74%.
- Further, the government constituted a five member Disinvestment Commission under the chairmanship of Shri G.V. Ramakrishnan in August 1996 to draw up a comprehensive policy for the long term disinvestment programme.
- The commission was mandated to advise the government on the extent, methodology, strategy and timing of disinvestment.
- In May 2004, the Government adopted National Common Minimum Programme, which outlined the policy of the Government with respect to the Public Sector.
    - General, profit making PSU's will not be privatized.
    - In case of privatization of profitable PSU's government will retain atleast 51% of the equity and the management control of the enterprise.
    - Navratna PSU will be retained under the public sector.
    - Chronically loss-making companies will be either sold-off or closed, after all workers get their legitimate dues and compensation.

- All privatisations will be considered on a transparent and consultative case-by-case, basis.
- A board for Reconstruction of Public Sector Enterprises (BRPSE) to be constituted.

➢ A National Investment Fund will be established.

➢ On 25 November 2005, the Government decided, in principle, to list large, profitable CPSEs on domestic stock exchanges and to selectively sell small portions of equity in listed, profitable CPSEs (other than the Navratnas).

➢ The target for disinvestment is Rs 40,000 crore every year. But due to the financial crisis government is not able to meet its targets. The targets have now been reduced to Rs. 30,000 crore.

SMALL SCALE & COTTAGE INDUSTRIES

➢ Small Scale Industries are industries in which the investment limit is upto certain limit which was 1 crore initially 1 crore and now has been increased to 5 crore

➢ Cottage Industries are usually very small and are established in cottages or dwelling places.

➢ In Small scale industry outside labour is used whereas in cottage industries family labour is used.

➢ SSI uses both modern and traditional techniques. Cottage industries depend on traditional techniques of production.

➢ New Definitions of Micro, Small & Medium Enterprises

➢ In accordance with the provision of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified in two Classes:

- **Manufacturing Enterprises:** The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and regulation) Act, 1951). The Manufacturing Enterprise is defined in terms of investment in Plant & Machinery.
- **Service Enterprises:** The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment:

Manufacturing Sector	
Enterprises	**Investment in plant & machinery**
Micro Enterprises	Does not exceed twenty five lakh rupees
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees
Service Sector	
Enterprises	**Investment in equipment**
Micro Enterprises	Does not exceed ten lakh rupees:
Small Enterprises	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than two crore rupees but does not exceed five core rupees

Contribution of Small Scale Industries

➢ Small enterprise sector provided employment to about 225 lack people during 2008-09. The small scale sector accounts for over 80% of the manufacturing sector's employment.

➢ It contributed significantly towards the economic growth of the nation, with over 39% of the industrial production.

➢ The small-scale accounts for over 34% of the total exports and about 45% of the manufacturing exports. Further over 90% of exports of the SSIs consists of non-traditional items like sports goods, readymade garments, processed foods, chemicals etc.

- SSIs are conducive for the economic development of underdeveloped countries like India. Such industries are relatively labour intensive so they make economical use of the scarce capital.
- Small scale industries are instrumental in reducing the inequalities in wealth. In these
- industries capital is widely distributed in small quantities and the surplus of these industries is distributed among large number of people.
- Small scale industries bring about regional dispersal of industries and alleviate regional imbalances.
- Small-scale industries make use of local resources including the capital and entrepreneurial skills which would have remained unused for want of such industries.
- Small industry sector has performed exceedingly well and enabled the country to achieve a wide measure of industrial growth and diversification.
- In these industries relations between employers and employees are direct and cordial. There is hardly any scope of exploitation of labour and industrial disputes.

Government measures to promote small scale industries.

(a) Organisational measures

- Establishment of Boards
- National Small Industries Corporation (NSIC)
- Industrial Estates
- District Industries Centre (DIC)

(b) Financial measures

- Small Industries Development Fund (SIDF) - set up in 1986 to provide refinance (i.e. finance to the financial institutions in lieu of their lending to SSIs) assistance for development, expansion, modernization, rehabilitation of SSIs.
- National Equity Fund (NEF)
- Single Window Scheme (SWS)
- Small Industries Development Bank of India (SIDBI):—It was established in October, 1989 by amalgamation of small Industries Development Fund (SIDF) and Natural Equity Fund (NEF)

(c) Fiscal Measures

- Small-scale enterprises having turnover, upto 1 crore are fully exempted from the excise duty.
- Concessional rate of custom duties are levied on import of certain kind of raw materials and components used by SSIs.
- Price and purchase preference is granted to products manufactured in the small-scale sector in government purchase programme.

(d) Technical assistance

- Small-scale Industries Development Organisation (SIDO):—It was established in 1954. SIDO provides technical, managerial, economic and marketing assistance to SSIs through its network of extension centres and service institutes.
- Council for Advancement of Rural Technology (CART):—It was established in 1982 to provide technical assistance to rural industries.
- Technology Development and Modernisation Fund (TDMF):—It was set up for the technological upgradation and modernization of the export oriented units.

Problems of Cottage and Small-Scale Industries

1. Non-availability of timely and adequate credit.
2. Inefficient management
3. Lack of infrastructure
4. Technological obsolescence
5. Limited availability of raw materials
6. Marketing problems
7. Competition with large-scale industries and imports.
8. Excessive burden of local taxes,
9. Widespread sickness.

(e) Reservation of items for SSIs

- The policy to reserve certain items for the small-scale sector was introduced in 1967.
- It aims to promote the SSIs by protecting them from competition with the large-scale units. In April 1967 there were only items in the reserved category which were increased in several phases to 873 in 1984.
- The policy of reservation was widely criticized by a number of economists because it adversely affected the production and productivity of the reserved items. So, government appointed the Abid Hussain Committee to review the policy of reservation of items for the SSIs.
- The committee gave its report in 1997 with the observation that the policy of reservation has actually reduced the competitiveness of the SSIs engaged in the production of such items.
- Only a few SSIs were involved in the production of the reserved items and their output was almost negligible in comparison of the total output of the SSIs. Thus, the committee recommended that the policy of reservation of items for SSIs should be abandoned.
- Government did not abandon the policy of reservation altogether; however government has dereserved few items in the recent past. Government dereserved 79 items in February, 2008. The total number of reserved items now stands at 35.

<u>INDUSTRIAL SICKNESS</u>

The government defined the industrial sickness for the first time in the Sick Industrial Companies (Special Provisions) Act, 1985. According to this Act, a medium or large (i.e. non-SSI) company was defined as sick if:

(1) it was registered for atleast 7 years (later reduced to 5 years)
(2) it incurred cash losses in the current year and the preceding year.
(3) its entire net worth (i.e. paid-up capital and reserves) was eroded.

A company is regarded, as weak or incipiently sick on the erosion of 50% of its peak net worth during any of preceding five financial years.
The industrial sickness has been redefined in the Companies (Second Amendment) Act, 2002.

Revival and rehabilitation measures
The government undertake the following measures to revive and rehabilitate the sick industrial units.

- Financial Assistance
  As per the directions of the RBI, the commercial banks granted the following concessions to sick industrial units:
  (a) Rescheduling of loans and interest:
  (b) Grant of additional working capital:
  (c)Waiving off interest on loans:
  (d) Moratorium on payment of interest, etc.

- Organisational measures
  - State-level inter-institutional committees — These are set up by the RBI to ensure better coordination "between the banks, state governments and other concerned financial institutions.
  - Special Cell: It was set up by the Rehabilitation Finance Division of the IDBI to provide assistance to the banks for revival of sick units.

  .
- Fiscal Concessions
  - The government amended the Income Tax Act in 1977 to provide tax benefit to those units which take over the sick units for reviving them.
  - The government announced a scheme for grant of excise loans to sick / weak units.
  - Under this scheme, selected sick units are eligible for excise loans not exceeding 50% of the excise duty actually paid over the preceding 5 years.