

**ADVANTAGES OF POST REFORM PERIOD AND ITS IMPACT ON INCENTIVES AND DIS-
INVESTMENT IN THE INDUSTRIAL DEVELOPMENT OF KARNATAKA / INDIA,**

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ABSTRACT

Industrial development can be said as the backbone and very essential for any developed and developing economies in the world, But in India the disinvestment and incentives changes during post reforms paved the way to rise in private sectors role in growth of Industrial sector. During the 1980s, the disillusionment witnessed in the socialist, communist economies added to the disenchantment with the public sector in the mixed economies in the world. USSR started the economic reforms under perestroika, which swept the economies of Eastern Europe. China also introduced economic reforms and it was recognized that public sector did not optimize efficiency and productivity of capital. It was realized that the large number of public enterprises working under mixed economies were victims of over centralisation in decision making and excessive bureaucratisation. The World Bank has reported that developing countries garnered US\$ 66.6 billion through privatisation in 1997.

Incentives and concessions to promote industrial in Karnataka date back to 1968. Introduction of economic reforms and the formulation of New Industrial Policy (NIP) resulted in stiff interstate competition to attract industrial investment. One of the strategies adopted by the state governments was to announce very attractive fiscal incentives. The two packages announced for the periods 1990-95 and 1993-98 underwent many changes in between and were not implemented in full. Hence, They are not discussed here. The next package implemented in full was for the period 1996-2001. While China mopped up US\$ 9.1 billion, Latin America raised US\$ 34 billion, though India's share was a meagre US\$ 1 billion. Disinvestment and incentives reforms in India has paved way for many private entrepreneurs, MNC`S (Multi National Companies) in India to contribute GDP, GNP and can lead to Industrial development in Karnataka and other Indian states in India.

**KEY WORDS: 1991 REFORM AND ITS IMPACT, INCENTIVES & DISINVESTMENT and
INDUSTRIAL DEVELOPMENT**

INTRODUCTION

Disinvestment in India – After Independence, we taught that the public sector in general and the public sector undertakings (PSUs) in particular, were to expect to reach the "commanding height" in the Indian economy. It was also generally believed that Indian economy would either sink or swim would depend upon the efficiency with which "Public Sector Unit`s" operate". On this belief, the number of Public Sector Unit`s therein have increased by leaps and bounds during a period of 4 decades since 1948, when the first (IPR) Industrial Policy Resolution was adopted in India. It is also true that through the efforts of only PSU`s alone, our country has become self-sufficient in the production of basic and infrastructural goods like petroleum, fertiliser, coal etc. The disinvestment Commission itself admitted in its report that "the country's ranking in terms of industrialisation with other developing countries is quite high. But since the Seventh Plan particularly, it was observed that the PSUs had been converted into H-centres of poor management" and "fun-munch garden of bureaucrats". The return on investment in PSUs, at least for the decades of 1970s and 1980s, was so poor that it was significantly lower than the rate of return for a time deposit in commercial banks. If the profits of the PSUs working in the monopoly environment were excluded, the picture would be different. In the post-reform era, when the PSUs are supposed to perform better, then also the performance of PSUs is truly disappointing in comparison to that of private sector.

REVIEW OF LITERATURE:

Divestment Definition

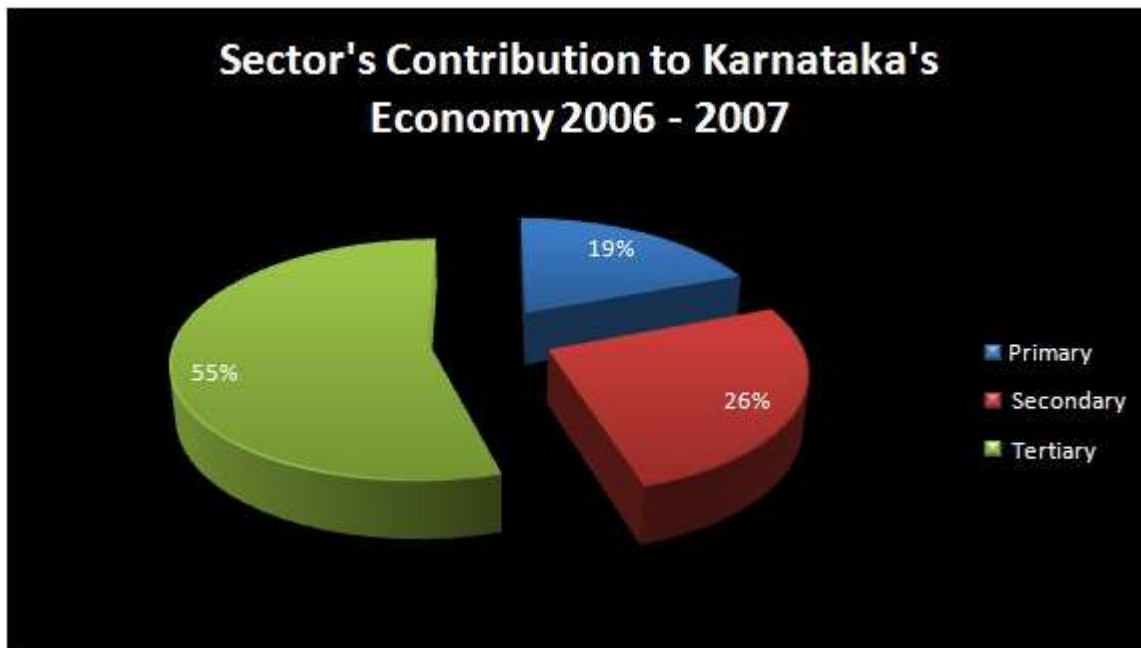
Divestment is the partial or full disposal of a business unit through sale, exchange, closure, or bankruptcy.

Understanding Disinvestment

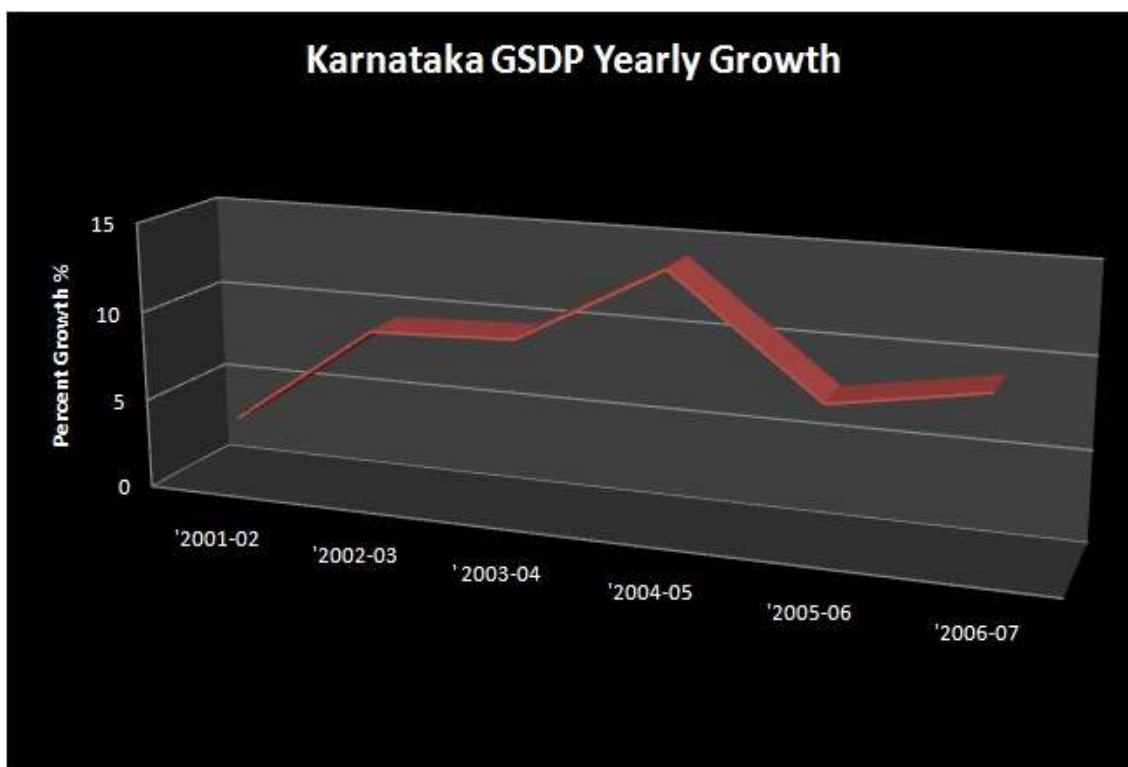
Disinvestments, in most cases, are primarily motivated by the optimization of resources to deliver maximum returns. To achieve this objective, disinvestment may take the form of selling, spinning off, or reducing capital expenditures. Disinvestments may also be undertaken for political or legal reasons.

Data and Statistics

Karnataka`s contribution in sector wise in 2006 -2007



Karnataka's major contribution can be seen in the figure i.e. tertiary sector, post reform was the main reason to implement disinvestment and incentives reforms in Karnataka and other states in India, so we can predict that post reforms has made way for the long term growth in India, even in secondary sector we can see around 26% growth after reforms, but earlier the contribution of secondary sector was less than twenty percentage in Karnataka.



The data explains the percentage of Estimates of Gross/Net State Domestic Product (GSDP) in Karnataka state, as "GSDP" are one of most important single indicator to measure the economic devel-

opment as well as to study the Sector wise shifts in a state. The per capita state domestic Products contribution by different sectors, we can find the rise in Income from 2001-2006, due to economic reforms in the state.

DISINVESTMENT AND INDUSTRIAL GROWTH IN KARNATAKA

The significant slowdown of industrial growth witnessed in 2000-01, as measured by the Index of Industrial Production (IIP), continued with greater intensity in 2001-02. There was a distinct deceleration in growth of manufactured exports and slowdown in growth rates of core and infrastructure industries. The overall industrial growth in terms of the IIP during April-December 2001-02 was only 2.3 per cent compared to 5.8 per cent during the corresponding period of the previous year. In fact, the industrial growth during the first nine months of the year is the lowest recorded during the last ten years. The sharp deceleration in overall industrial growth is due to a number of structural and cyclical factors such as normal business and investment cycles and lack of both domestic and external demand.

Types of Disinvestment

Fitting Assets

A company may opt for the disinvestment of certain assets of a company it has acquired, particularly if those assets do not fit with its overall strategy. For example, a company focused on domestic operations may sell the international division of a company it has purchased, due to the complexities and costs of integration, as well as operating it on an ongoing basis.

As a result of the disinvestment, the acquiring company can reduce the total cost of the purchase and determine the optimal use of the proceeds, which may include reducing debt, keeping the cash on the balance sheet, or making capital investments.

Political and Legal

Organizations may decide on the disinvestment of holdings that no longer fit with their social, environmental, or philosophical positions. For example, the Rockefeller Family Foundation, which derived its wealth from oil, divested its energy holdings, due to false statements from oil companies regarding global warming.

Data / Statistics

Table 8.1: Details of Income PRIs (three- tiers) in Karnataka (Rs.Crore)

Year	Own Revenue	% to Total	Central Government Transfers	% to Total	Central Finance Commission Transfers	% to Total	Assigned/ Devolved Grants From the State	% to Total	Total Income/ Revenue
2002-03	66	1.51	575.45	13.21	75.53	1.73	3710.27	85.15	4357.25
2003-04	116	2.39	616.02	12.69	75.53	1.56	4126.93	84.98	4856.09
2004-05	81.22	1.60	528.15	10.38	65.23	1.28	4525.40	88.96	5087.11
2005-06	125.81	1.75	779.23	10.82	177.3	2.46	6491.55	90.16	7199.89
2006-07	161.49	1.92	1048.19	12.49	388.23	4.63	7290.54	86.90	8389.57

Source: 1) From 2002-03 to 2006-07 – Finance Department, ‘Information furnished to the Thirteenth Finance Commission in respect of Local Bodies pertaining to PRIs and ULBs’,

The data explains the impact of LPG (Liberalisation, Privatisation and Globalisation) on Disinvestment and Incentives changes in Karnataka’s Industrial or secondary sector, tertiary sector growth, from 2002 -03 to 2006 reports. It was one of the great reforms India has witnessed from the Independence.

ADVANTAGES OF DISINVESTMENT IN INDIA

- To increase or rise in GDP and GNP in the country by increase in disinvestment purpose.
- The release of tangible and intangible assets, such as large manpower locked in PSU administration, would be ensured during the privatization process, and such assets would be reallocated to areas of greater priority.
- When private enterprises are subjected to a variety of market procedures as part of the Disinvestment process, they become more self-sufficient.
- Privatization would help to reduce the outflow of scarce public resources, thereby supporting "non-strategic public sector entities."
- The process of privatization facilitates the transfer of commercial risks, in which taxpayer money locked up in the public sector is left vulnerable to the private sector anytime a corporation steps in.

DISADVANTAGES OF DISINVESTMENT

- From the year 1990 to 2004, the amount obtained from disinvestment was 2056 crore per year, which is insufficient given the Indian government's debt ratio. Furthermore, the disin-

vestment process lacks transparency because the use of the money generated from disinvestment is never disclosed.

- Only the government can ensure that the market system is sufficiently regulated and that private enterprises are not solely motivated by profit and are concerned about the interests of their customers.
- Monopolies may never produce anything beneficial; only a fair and healthy competition can benefit customers.

The government can achieve its goal of disinvestment by using number of strategies and methods, the most common one being the public offer, where the shares are sold to the private entities at a pre-determined price. The expected disinvestment in the Life Insurance Corporation of India is proposed to follow the public offering route. Another method is to sell the equities of the company to pre-determined clients. Offer for Sale method allows the sell by the process of bidding, where the shares are allotted to the bidder who places the highest bid. These are some of the common methods which are used by the Government of India for disinvestment in PSUs.

CONCLUSION

Disinvestment after 1991 was a needed economic reforms in India, and other states in India, because the public sector units was just like monopoly market in the Indian State, as India was a mixed economy, there was a need of sector hand to utilize the resources and contribute to the rise in GNP and GDP. As we discussed, it can be perceived that there are competing effects to disinvestment. The updated disinvestment policy of the Indian government is better left to time for ascertaining its effectiveness. However, it is evident that with the upcoming policy, there is soon going to be a plethora of opportunities for the investors. This led to the realization in less developed countries to change their industrial policies from inward-looking to outward looking so that required dynamism in the industrial economy can be generated. Within less developed countries, the growth experience in some of the regions after initiating economic reforms, however, has shown dynamism in their growth structure albeit to a limited extent, the investors only need to put in their money at the right time. Detailed insights into the same can be discussed with a registered investment advisor who can also help you in planning your investments as per the upcoming opportunities in the market. Even changes in incentives by the government, was a positive move after 1991 reforms in Karnataka and various Indian states.

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