# EDUPHORE IAS
# WEEKLY CURRENT AFFAIRS

## GOVERNMENT HAS NO BUSINESS TO BE IN BUSINESS


- **Disinvestment is for reorienting the government away from business and towards the business of governance. The government's role is to facilitate a healthy business environment.**

### What is Disinvestment?

**Disinvestment means sale or liquidation of assets by the government, usually Central and state public sector enterprises, projects, or other fixed assets. It is withdrawal of government equity from public sector enterprises.**

- Are disinvestment and privatisation related?
- If the government sells shares but retains more than 50% of equity with itself, the company continues to be a public sector company.
- But if government sells more than 50% of its shares to private sector, then the company ceases to be a PSE and will become a private concern.
- In privatisation, resulting ownership and control of organisation does not result with the government. It is also known as majority disinvestment or complete privatisation wherein 100% control goes to the private sector.
- Therefore, disinvestment is a way toward privatisation.

### Types of disinvestment

**Minority Disinvestment:**
After disinvestment, government retains a majority stake in the company, typically greater than 51%, thus ensuring management control.

**Majority Disinvestment**
After disinvestment, government retains a minority stake in the company. Example include Modern Foods sale Hindustan Lever and BALCO to Sterlite.

**Complete Privatisation**
100% control is passed on to the private buyer. For example government sold 100% control in 18 hotel properties of ITDC.

### What are the objectives of Disinvestment?

- Reducing the fiscal burden on the exchequer
- Improving public finances
- Promote efficiency and market discipline
- Encourage private ownership
- Promoting competition in market
- Depoliticise non-essential services
- Funding growth and development programmes

## Why sell a profitable PSU?

### Case for

- The answer is 'Why would a buyer be interested in a loss making unit? Air India is a case in point. The government has been unsuccessfully trying to sell the debtladen and loss ridden airline for a while now.

- Government may not find a buyer easily for a loss making unit. Therefore, it is wise to sell profitable PSU as the guiding principle is 'Government has no business to be in business'. It is better to sell it now to realise a very good price.
- A profitable unit does ensure that it is efficient too. The PSUs which are profitable have enjoyed monopolies over a longer period of time. Such PSUs should be transferred to private sector which will improve efficiency.

### Case against

- It is not born out empirically that private perform more efficiently. A number of studies of post-liberalisation show a trend towards convergence between performance of PSUs and private enterprises.

- When a public enterprise makes losses, it continues to exit whereas when a private enterprise makes losses over a long time, it exits the data. So when people believe private are more efficient, there is a 'survivorship bias' in the data which doesn't account for private enterprises that failed and had to be merged.

| Evolution of Disinvestment/Privatisation policy in India | |
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| **Pre-Independence** | • Public sector had a minor role in the Indian economy<br>• At the commencement of the First Five-Year Plan in 1951, there were only five public sector undertakings (PSUs), with a total investment of a mere Rs 29 crore. |
| **After independence** | With the advent of a Nehru-led socialist model for the country, as ensconced in the Industrial Policy Resolution (IPR) of 1956. The IPR envisaged that PSUs will lead in the economic and industrial development of the nation and build the required infrastructure, under the presumption that the private sector lacked the necessary resources or the long-term investment perspective. Income redistribution, job creation, and balanced regional growth were other objectives of the IPR.<br>• The public sector grew organically and was also later enlarged by the numerous nationalisations in the 1960s.<br>• By the mid-1970s, the public sector accounted for one-fifth of the GDP.<br>• Growing still further, by 2001 the public sector accounted for about one-fourth of the GDP.<br>• The socialist experiment of PSUs did not meet expectations in India, or else-where in the world. PSUs performed poorly, and glaringly so when compared with firms in the private sector. |
| **1991 Reforms** | 1. The official impetus for privatisation in India came as part of a broader change in policy. In 1991 India introduced major reforms to liberalise the economy, including plans for privatisation.<br>• In about the first 10 years of the programme only an average of 19.2 per cent of the equity of some 40 PSUs was sold, with **no sales of a majority stake**.<br>2. Interim budget and budget speech, 1991-92, Chandrashekhar government:<br>• The GoI enunciated a policy to **divest up to 20 per cent of its equity in** |

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| | **selected PSUs to mutual funds and investment institutions in the public sector, as well as workers in these firms.**<br>• Stated purpose of the policy: To place equity across a broad base, improve management, increase re-sources to the enterprises, and to raise funds for the general exchequer.<br>3. Initially, shares of different PSUs were bundled together and sold to domestic financial institutions.<br>4. Later in 1992-93, to ensure better prices individual shares were auctioned separately. |
| **Report of Committee on the Disinvestment of Shares in PSEs, Rangarajan Committee, 1993** | • The percentage of equity divested could be up to 49 per cent for industries reserved for the public sector, and that, in exceptional cases up to 74 per cent of the equity could be divested.<br>• In industries not reserved for the public sector, a 100 per cent of the equity could be divested.<br>• Only the following six industries were reserved for the public sector: (i) coal, (ii) minerals and oils, (iii) armaments, (iv) atomic energy, (v) radioactive minerals, and (vi) railways.<br>The **GoI did not act** on these recommendations. |
| **Disinvestment Commission Recommendations: February 1997 – October 1999** | • Divestment of 58 different PSUs.<br>• In a break from a past policy of share public offerings, the commission recommended **strategic sales with transfer of management**.<br>• By 1996-97, sales were open to NRIs and foreigners, and through global depositary receipts in the international markets, |
| **Budget speech by Yashwant Sinha, 1998-99** | • Government has decided that in the generality of cases, the **government shareholding in public sector enterprises will be brought down to 26 per cent**.<br>• In cases of public sector enterprises involving **strategic considerations, government will continue to retain majority holding**.<br>• The interests of workers shall be protected in all cases. |
| **Strategic and Non-Strategic Classification, 1999** | • Reflecting the report of the **Rangarajan Committee** from some six years earlier, the government announced the classification of industries into strategic and non-strategic areas.<br>• Strategic industries were limited to: (i) arms, ammunitions, and related defence industries, (ii) atomic energy, (iii) mining of minerals for the atomic industry, and (iv) railway transport.<br>• All other industries were classified as non-strategic. For all PSUs in non-strategic industries, **government stakes could be dropped to as low as 26 per cent on a case-by-case basis**. Since three-fourths majority is needed to pass certain important board resolutions, for control reasons government set a lower limit of 26 per cent of the equity. |
| **Address of president K R Narayanan to joint session of Parliament, February 2001** | The government's approach to PSUs has a threefold objective:<br>• revival of potentially viable enterprises<br>• closing down of those PSUs that cannot be revived<br>• bringing down government equity in non-strategic PSUs to 26 per cent or lower.<br>• Interests of workers will be fully protected through attractive Voluntary Retirement Schemes and other measures |
| **Budget speech by Jaswant Singh, 2003-04** | • BS 2003-04: Disinvestment is not merely for mobilising revenues for the government, it is mainly for unlocking the productive potential of these undertakings, and for reorienting the government away from business and towards the business of governance.<br>• In a challenge to the sale of a profitable PSU, BALCO, to Sterlite, the |

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| | Supreme Court in December 2002 handed down a landmark verdict against opponents of privatisation. The court legitimised the privatisation procedures, and refused to second guess the government with respect to its privatisation policy. |
| **National Investment Fund, January 25, 2005** | • A fund is to be established with proceeds from sales of minority shareholdings of the government in profitable PSUs.<br>• The fund, to be professionally managed by public sector financial entities, would generate returns that can be applied to investment in education, health, employment, and support of profitable or revivable PSUs.<br>• Disinvestment proceeds w.e.f. 2013-14 are credited to the Public account of India under the head NIF. |
| **Disinvestment 2009** | • An Action Plan for Disinvestment was approved which included that in all cases of disinvestment, the government would retain at least 51% equity and management control. |
| **Budget Speech 2016-17** | • Disinvestment Department renamed as Department of Investment and Public Asset Management (DIPAM).<br>• NITI Aayog will identify CPSEs for strategic sale. |
| **2014** | • In 2014 PM Modi announced that the government had "no business to be in business".<br>• However, the first term saw little activity by the government on this front, barring an aborted attempt to sell 76% of its stake in the loss ridden national carrier Air India.<br>• A few public sector enterprises were merged with other PSEs and the proceeds from the transactions counted as disinvestment proceeds in the government's accounts. |
| **2019** | • Fresh push to sell Air India (lock stock and barrel, with 100% stake sale), followed by Maharatna oil PSU Bharat Petroleum Corporation Ltd. (BPCL), and the likes of Shipping Corporation of India, Container Corporation of India and Pawan Hans.<br>• The process for those sales is under way, although timelines and investor interest were affected by the pandemic.<br>• The process indicated a piecemeal approach to privatisation and created uncertainty. |

## What does the Budget-2021 say?

- The budget has kept four areas that are strategic where bare minimum CPSEs will be maintained and rest privatised. In the remaining sectors, all CPSEs will be privatised- BS 2021-22.
- Once the government decides what is the bare minimum number of firms it wants to retain, the rest of the firms will be privatised, merged or subsidiaried with other CPSEs, or closed.
- For all firms in sectors considered nonstrategic, privatisation or closure are the only two options being considered.

Strategic sectors identified: Atomic energy, space and defence, transport and telecommunications, power, petroleum, coal and other minerals, and lastly, banking, insurance and financial services —bare minimum presence.

**Policy Objective:**

- Minimise the public sector's role
- Create new investment space for the private sector, in the hope that the infusion of private capital, technology and management practices will contribute to growth and new jobs.
- The proceeds from the sale of these firms would finance various government run social sector and developmental programmes.

**How is this different from policies in the past?**

- This is the first time since 2004 that India is working on a slew of privatisation deals. For the first time, the word privatisation has been actively used in the Budget.
- Earlier, the Atal Bihari Vajpayee government between 1999 and 2004 had managed to sell off majority stakes in a dozen odd public sector enterprises, including Modern Foods, Balco, Hindustan Zinc, VSNL and a few hotels.
- A separate Ministry had been formed just for disinvestment, led initially by the late Arun Jaitley and then by Arun Shourie.
- The new policy goes beyond the Vajpayee era privatisation drive, which was limited to a 'case by case' sale of entities in nonstrategic sectors.
- New disinvestment policy goes further than the past 'case by case' approach, and straightaway allows the sale or closure of nearly 151 PSUs (83 holding companies and 68 subsidiaries) in non strategic sectors.
- It also covers banks and insurers for the first time, with two public sector banks and one general insurer are proposed to be sold in 2021-22.
- The new policy creates certainty as lays down a rationale for deciding the future ownership pattern of 439 CPSEs.

## How will the process be facilitated?

- The NITI Aayog has been entrusted with suggesting which public sector firms in strategic sectors should be retained, considered for privatisation or merger or 'subsidiarisation' with another public sector firm, or simply closed.

1. A core group of secretaries on disinvestment will consider the NITI Aayog's suggestions and forward its views to a ministerial group. Apart from the Finance Minister, the group will include Road Transport and Highways Minister Nitin Gadkari and the minister in charge of the administrative ministry of the public sector enterprise concerned.
2. After the ministerial group's nod, the Department of Investment and Public Asset Management in the Finance Ministry will move a proposal to the Cabinet Committee on Economic Affairs for an 'in-principle' nod to sell specific CPSEs.
3. The NITI Aayog is expected to soon formalise its recommendations on which of the 77 public sector companies in strategic sectors should remain with the government.
    - Public sector firms and corporations engaged in activities allied to the farm sector, such as providing seeds to farmers, or the procurement and distribution of food for public distribution, will not be privatised.
    - Similarly, the policy excludes departments with commercial operations like Railways and Posts, firms making appliances for the physically challenged, and those providing support to vulnerable groups through financing of SCs, STs, minorities and backward classes.
    - CPSES "maintaining critical data having a bearing on national security", security printing and minting companies, will also be retained in the public sector.

## Are there any apprehensions?

- The turmoil in the global economy could impact the valuations of firms being privatised, as many potential investors may not have the appetite for bidding in these times.
- The prospect of post deal scrutiny by audit and investigating agencies, like the CAG (Comptroller and Auditor General of India) and the CBI, will be a source of worry for officials, with similar cases pertaining to the Vajpayee era transactions still cropping up in courts.
- Lastly, as economist Pronab Sen has warned, privatisation is a good idea, but doing it during a recession may dampen economic recovery as investors will end up buying existing capacities instead of embarking on fresh investments.