Union Government's Exit Plan from erstwhile PSUs

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The government is eyeing a sale of its residual stakes in erstwhile public sector firms like Paradeep Phosphates, Hindustan Zinc and Balco, which were privatised during the Atal Behari Vajpayee regime. Disinvestment is a major portion of budgeting targets of the Government of India and might be a focus area for prelims and mains.

In news: Govt. to completely exit erstwhile PSUs
Placing it in syllabus: Economy
Dimensions

- Explanation of key terms
- Evolution of divestment from PSUs
- Divestment as a revenue source
- Yearly targets of divestment
- Pros and cons of divestment

Content:

Explanation of key terms:

Disinvestment:

- Disinvestment is just the **opposite of investment**, i.e. it means **pulling out the money invested** in the company **by selling the stake**, either partially or fully.
- It is driven by the effective use of the resources, to earn the highest returns out of the money invested.
- Disinvestment involves **Dilution** of ownership of the business.
- Disinvestment may or may not result in a change in management
- In disinvestment, **usually, 26% or 51% of share is**

retained with the government company, and the rest is transferred to the strategic partner.
- When the Government retains at **least 26% of the shares carrying voting powers** while selling the remaining to a strategic buyer, it would have disinvested, but would not have 'privatised'.
- This is because with 26%, it **can still stall vital decisions for which generally a special resolution (three-fourths majority) is required**.

Privatization

- On the contrary, Privatization is a **transition of government-owned company, operation, unit or division to the privately-owned enterprise**.
- When **there is a transfer of ownership, control and management**, from the public sector to the private sector, specifically due to the sale of assets, it is called Privatization.
- Privatization involves **change in ownership** of a public sector business to the private sector. When the transfer becomes effective, the **government ceases to be the owner** of such an undertaking.
- It **happens when more than 51% of the shareholding** of the government undertaking is **transferred to private hands.**

Strategic sale0

- Simply, **strategic disinvestment** is **transferring the ownership and control of a public sector entity to some other entity** (mostly to a private sector entity).
- Unlike the simple disinvestment, **strategic sale implies some sort of privatisation**.
- The disinvestment commission defines strategic sale: "Strategic sale/disinvestment would imply the sale of substantial portion of the Government shareholding of a central public sector enterprise (CPSE) of upto 50%, or such higher percentage as the competent authority may

determine, along with transfer of management control."

Exit:

- Complete privatisation or Exit is a form of majority disinvestment wherein 100% control of the company is passed on to a buyer.
- Government does not hold any share in the ownership of a company after exit.

Evolution of divestment from PSUs:

- Industrial Policy Resolution, 1956 talks about the growth of the country through PSUs. Hence, from the 2nd Five Year Plan India started focusing on PSEs.
- PSUs are the wealth of Nation and it ensures that wealth rests in the hands of the people, promoting public ownership of CPSEs.

Phases of Disinvestment

Period from 1991-92 – 2000-01

- The change process in India began in the year 1991-92, with 31 selected PSUs disinvested for Rs.3,038 crore.
- In August 1996, the Disinvestment Commission, chaired by G V Ramakrishna was set up to advise, supervise, monitor and publicize gradual disinvestment of Indian PSUs.
- It submitted 13 reports covering recommendations on privatisation of 57 PSUs.Dr R.H.Patil subsequently took up the chairmanship of this Commission in July 2001.
- However, the Disinvestment Commission ceased to exist in May 2004.

Period from 2001-02 – 2003-04

- This was the period when the maximum number of disinvestments took place. These took the shape of either strategic sales (involving an effective transfer of control and management to a private entity) or an

offer for sale to the public, with the government still retaining control of the management.
- The Government appointed **C Rangarajan Committee** which recommended ~49% of disinvestment.
- PSUs were bifurcated into 2 – Strategic (defense, atomic) and Non strategic.

Period from 2004-05 – 2008-09

- The issue of PSU disinvestment remained a contentious issue through this period. As a result, the disinvestment agenda stagnated during this period.
- In 2005, Govt. came out with the National **Investment Fund** under **Public Accounts of India.**
- Purpose of the fund was to receive disinvestment proceeds of CPSEs.
- Money from disinvestment is put upon this money is invested in stock market or other investment instruments the income of which
  - 75% of returns are used in social sector like MGNREGA, Housing for All, AIBP, Health, Education, Employment etc.
  - 25% can be utilized for Profitable PSUs and revival of PSUs.
- This fund was professionally managed by 3 Fund Managers: UTI, SBI and LIC. But CCEA restructured the NIF and decided to do away with the management of the disinvestment proceeds by the Fund Managers of NIF.
- Now from 2013, all the money is credited to Public Accounts.

Period from 2009-10 to 2017-18

- A stable government and improved stock market conditions initially led to a renewed thrust on disinvestments. The Government started the process by selling minority stakes in listed and unlisted (profit-making) PSUs.
- This period saw disinvestments in companies such as NHPC

Ltd., Oil India Ltd., NTPC Ltd., REC, NMDC, SJVN, EIL, CIL, MOIL, etc. through public offers. However, from 2011 onwards, disinvestment activity slowed down considerably.

Current Disinvestment (Budget 2021-22)

- The government budgeted Rs. 1.75 lakh crore from stake sale in public sector companies and financial institutions, including 2 PSU banks and one insurance company, in the next fiscal year.
- Unveiling the PSE policy in **Budget 2021-22**, Finance Minister Nirmala Sitharaman said barring four strategic areas, public sector companies in other sectors will be divested. The policy would give a clear roadmap for disinvestment in strategic and non-strategic sectors.
- She said strategic sale of IDBI Bank, BPCL, Shipping Corp, Container Corporation, Neelachal Ispat Nigam Ltd, among others, would be completed in 2021-22 fiscal year beginning April 1.
- Also legislative amendments required for LIC IPO would be brought in 2021-22. LIC was established in 1956 through an Act of Parliament. Before the Govt divests a part of its stake through a public issue, it will have to ensure that it amends the LIC Act, which ensures a sovereign guarantee for all policies under Section 37 of the Act.
- She said NITI Aayog has been asked to work on the next list of central public sector companies for strategic disinvestment.
- Sitharaman said a revised mechanism for fast-tracking closure of loss making PSUs would be worked out and an incentive package would be developed to incentivise states to sell stake in state PSUs.
- To monetise lands owned by CPSEs, a **special purpose vehicle (SPV)** would be developed.

Divestment as a revenue source:

- Governments often sell stakes in public sector companies **to raise revenues**. In recent times, the central government has used this route to exit loss-making ventures and increase non-tax revenues.
- Disinvestment reduces the assets of the government and brings in **capital receipts** for its budget.
- Disinvestment proceeds, which did not exist before 1991-92 are included in the capital receipts in India but are considered as revenue receipts in the definition of fiscal deficit of IMF and WB.
- A disinvestment programme allows the government to bring that money in, for the areas that it needs to spend on such as infrastructure and all of the programmes that they want to continue.
- In India, the central government is using disinvestment proceeds neither for the restructuring of the loss-making public sector nor for liquidation of public debt as was the initial declared objective of the disinvestment.
- The **disinvestment proceeds in India have been utilised for financing the fiscal deficit** rather than fulfilling the declared objectives of it
- The proceeds are also being **used to finance the deficits in the current account.**

Yearly targets of divestment:

- So far this fiscal, the government has garnered Rs. 19,499 crore through minority stake sale in CPSEs and share buybacks.
- The government budgeted Rs. 1.75 lakh crore from stake sale in public sector companies and financial institutions, including 2 PSU banks and one insurance company, in the next fiscal year.
- Finance Minister Nirmala Sitharaman had in her previous budget for 2020-21 set a target of raising Rs. 2.1 lakh

crore from privatisation and sale of minority stakes in state-owned companies. This includes Rs. 1.20 lakh crore from selling stake in CPSEs and Rs. 90,000 crore from stake sale in financial institutions.

Government plan to completely exit erstwhile PSUs

- The government is eyeing a sale of its residual stakes in erstwhile public sector firms like Paradeep Phosphates, Hindustan Zinc and Balco, which were privatised during the Atal Behari Vajpayee regime, a top finance ministry official said.
- The government still owns 49% stake in aluminium producer Balco and 29.5% in Hindustan Zinc, with the latter's sale held up since 2016 following a Supreme Court stay.
- With both the firms staying highly profitable after the transfer of management control to a private player, these stakes could yield a significant bonanza for the exchequer.
- Expressions of interest were expected to be invited soon for the sale of Container Corporation of India (CONCOR), once the government framed a land lease policy for the firm's holdings, Mr. Pandey said.
- The IDBI Bank sale process had also begun.
- Government intends to complete the privatisation of Air India, BPCL, Shipping Corporation of India, BEML, Pawan Hans and Nilanchal Ispat Nigam Limited

Mould your thought: Differentiate between disinvestment and privatisation? Also discuss the pros and cons of disinvestment of PSUs.

Approach to the answer:

- Introduction
- Define Disinvestment and Privatization
- Highlight the differences between them along different

dimensions

- Discuss the pros and cons of disinvestment
- Conclusion