DISINVESTMENTS IN INDIA

GS Paper III
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On the eve of independence

- Socialistic Pattern of Economy
- State led capitalism
- Mixed Economy (Public + Private)
- Centralized planning → Imperative planning
- Self Reliance
- 2\textsuperscript{nd} Five Year Plan → Mahalanobis Model → Heavy Industries → PSU Dominance
Rationale behind PSU’s dominant Role

- Tackling regional imbalances
- Jobs creation
- Import substitution
- Coordinated decisions
- Basic Industries like steel, power etc
- Market for Big Industries through each other
- Budgetary support → Big enough to face risks
- Weak private sector
Problems faced by PSU’s-1991

- Financial **losses** – burden on fiscal deficit.
- Issue of **White Elephant** – poor project planning & time & cost overruns.
- Generalist **Bureaucratic control** → **Low efficiency/accountability**
- Excessive **political interference**.
- **Surplus man power** – cost of man power is more but Efficiency is less.
- Low price recovery due to **social Burden**.
- **Over protection** from competition – so started producing poor quality of goods.

"The **difficulty with PSU** → a PSU is expected to perform on similar lines as private sector units yet is deprived of management autonomy →"
Disinvestment: Meaning

• Government’s action for selling or liquidating its share holding in a PSU in order to
  – get the government out of the business of production and
  – increase its presence and performance in the provision of public goods and basic public services such as infrastructure, education, health etc.
Three Categories of disinvestments

- **Disinvestments**
  - partial transfer of govt equity to private Sector

- **Outright sale**
  - 100% sale

- **Strategic Disinvestment**
  - 51% of equity and Management control to private sector
  - e.g. Air India
Purposes of Disinvestment Policy

i. To infuse the professional management vs. Bureaucratic system

ii. Wider ownership comprising of Govt, Public & private sector → Accountability

iii. De-politicisation of essential services

iv. Enhance the financial discipline & reduce subsidy burden: reduces fiscal burden.

v. More competition and Better Quality of goods and services
vi. More autonomy to the PSU management through Navaratna, Maharatna, Miniratna status

- Autonomy to invest till particular levels as per their status
- Their workforces not apply rules of Govt. {economic logic vs Public Service Logic}.

viii. To enable Govt. to focus on social objective like education, health, rather than business values.
Timeline

1991-93
- 20% disinvest in select PSUs
- Shares sold to Domestic FIs and MFIs
- Later expanded to FIIs, Banks, PSU Employees

1998-2000: PSUs classified into 2 parts
- **Strategic Sector**—industries which are strategically important like Defence, Railways, and Atomic etc. → No Disinvestment
- **Non strategic Sector**: others -> Disinvestment in phased manner

PSUs like Maruti, VSNL etc were privatised
Timeline

2004: UPA Common Minimum Programme
- Revive Sick PSUs
- Don’t touch profitable PSUs
- Commercial Autonomy

2005: National Investment Fund
75% proceeds social sector; 25% PSUs capitalisation
Disinvestment policy
2009 : PRINCIPLES

1. Public enterprises are the assets of public → So, public’s ownership should be increased.

2. Reserve 20% of shares in OFS (offer for sale) for retail investors (for General Public/individuals) → Broad base ownership.

3. Retaining majority shareholding of 51% & management control in strategically imp. Sectors

4. Strategic disinvestment of identified PSU’s with more than 50% equity sale & simultaneous transfer of management control
Budget 2016-17: Investment based approach

- Govt moved from Disinvestment based approach to investment based approach. → to enhance efficiency of PSU → Get more profit.

- Transfer of Dept of Investment to Dept of Investment & public Asset management (DIPAM).
The current government is pursuing disinvestment, not to vacate the public sector, but to enhance its efficiency.

The new disinvestment mantra is to

i) Minimize interference

ii) Allow public sector undertakings to function along commercial principles

iii) Grant managerial autonomy in decision-making, such as in appointments.
Department of Investment and Public Asset Management or ‘DIPAM’

• **Aim of DIPAM**: Efficient management of centre’s investments in equity including its disinvestment in central public sector undertakings (CPSU)

• **Mandate**:
  • i) Advice the government in the matters of financial restructuring of CPSUs.
  • ii) Attracting investment through capital markets.
  • iii) Addressing issues such as capital restructuring, dividend, bonus shares, etc.
Investment Based Approach
Recent Initiatives

• Time bound listing of 14 CPSU’s – Transparency inc. – Accountability (pipeline of initial public offers (IPOs) of state-owned enterprises in place)

• To promote the retail investors through index based ETF like Bharat 22
Proposed Alternative Set up

– to speed up strategic sales
– comprises select ministers empowered to decide on the timing, price and amount of shares of a state-run company to be put on the block for outright sale,
Targets and Actuals

• FY 2017-18
  Target 72,500 Cr   Actual Rs 100000 Cr

• FY 2018-19
  Target 80,000 Cr   Actual Rs 85,000 Cr
FY 2019 – 20 : Target Rs 90,000

• Rail Vikas Nigam IPO Started
• 10 more companies proposed are
  – Telecommunication Consultants India,
  – RailTel Corporation India
  – National Seed Corporation India
  – Tehri Hydro Development
  – Water & Power Consultancy Services India
  – FCI Aravali Gypsum and Minerals India
  – Indian Railway Finance Corporation
  – Indian Railway Catering and Tourism Corporation,
  – IREDA and
  – North Eastern Electric Power Corporation.
Arguments For Disinvest -

1. At time of 1947 we did not have any investment Base -
   – The initial rational for growth of PSU’s is no longer valid.
   – We already have strong industrial Base, wider market & Good private sector in space.

2. Poor performance of PSU’s in productive efficiency parameter

In FY18, 71 out of 257 operational central public sector entities were in the red, notching up combined losses of Rs 31,260 crore.
State-run BSNL and MTNL had a combined loss of nearly Rs 11,000 crore.
Air India contributed Rs 5,338 crore to the loss
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Arguments For Disinvest

3. It is just change in portfolio of assets by the owner → means, selling the good investment to buy more promising Assets (Social security assets)

4. Current principle is that investment should be change in favour of high social returns.

5. Public Management may never be able to revive some of sectors and their financial operational health.

6. We should be guided by economic logic rather than guided by nostalgia
Argument against Disinvestments

1. Initially when we were in difficult Situation PSUs was rescued us.
   – By transferring ownership, whatever we built by public taxes, profit will be enjoyed by the private sector at the cost of public money.

2. PSU built by tax payer’s money often in those areas where private sector was not often ready to go due to high initial risk should not be transferred on they are becoming profitable.
Argument against Disinvestments-

3. Lack of clarity in valuation of PSU assets and absent of clear-cut polity promote *crony capitalism* as was reported by CAG in 2006 → that surplus land was sold @ very low price

4. The *social objective* of formal jobs, need based goods, providing level playing field, etc. will be compromised.

5. Disinvestment is not going to benefit enterprise itself, as the proceeds are just used to reduce the fiscal deficits.
6. The **unfavourable market conditions** have resulted into very low disinvestments proceeds for many years

7. Issues of **mis-utilisation of natural resources**.
The Present

**ECONOMIC HEFT:**
235-odd PSUs chip in 20% of GDP and 15% of stock market capitalisation through 50 listed firms

**BIG EMPLOYER:**
There are 235 CPSEs employing OVER 10 lakh people

**STATES' SHARE:**
There are over 1,000 PSUs at the state and municipal level

**AILING ENTERPRISES:**
One-third of the CPSEs are making losses today

**LOSEING MOMENTUM:**
Gross turnover of CPSEs fell 7% in 2015-16 despite good GDP growth

**SURGING LOSSES:**
Between 2007 and 2016, sick CPSEs had losses totalling ₹19.68 lakh crore
1. As per NITI AYOG → The S.D. should be done only in those areas where Private Sector is sufficiently present and the chances of monopoly are less. E.g. - Air India

2. Disinvestment changes from case to case basis rather than one shoe fit for all approach.
Suggestions-

3. Judicial balance b/w labour welfare, social agenda and economic logic should be maintained.

4. An Independent regulatory authority to regulate sale procedure and monitor its after effects.

5. We should not wait for revival of sick enterprise and act proactively to get maximum price.
NITI Aayog has recommended strategic sale of over 40 PSUs and outright closure of 26 sick PSUs.

Two decades after first being mooted, Air India and its subsidiaries are finally being readied for disinvestment.

NIPFP has advised a 10-year divestment plan of 50% of PSU assets, collecting $250 billion. Proceeds should go to a strategic investment fund to invest in public infrastructure.

The thinking is "government has no business to be in business" except strategic areas and should shift focus to improve social indicators.

NITI Aayog CEO Amitabh Kant recently suggested handing over schools, colleges and prisons to private sector.
Conclusion

• NITI Aayog CEO Amitabh Kant → Government should spend money on improving social indicators like health, education, nutrition".

• PSUs are a necessity in areas
  – where government has a natural monopoly; like railways, metro rail, utilities or sensitive areas like satellite or nuclear power.
  – where private sector is not keen to invest, like public health in rural areas
Conclusion

- Disinvestment proceeds must be parked in a separate fund to be used in infrastructure investment. ("We should not be selling the family silver to pay the grocery bills")

- "Private and public sector need not be completely divorced. While PSUs can build and own the infrastructure, private sector could do operations and maintenance efficiently."
  - For example: railway tracks could be state-owned, and trains with the private sector.
NATION-BUILDING: Post 1947
PSUs were conceived as part of state-led capitalism to bring self-reliant economic growth. The thrust was on import substitution, job creation and tackling regional imbalances. **Between 1951 and 1990, the number of central PSUs increased from 5 to 244 units. But by 1990 many PSUs had turned into inefficient enterprises.**

COURSE CORRECTION: Post 1991
Poor finances forced the government to liberalise economy and rethink its PSU policy. Promising PSUs were classified into maharatnas, navratnas and miniratnas. Sectors reserved for PSUs, like telecom, were opened up. It was a tentative start: **Against a target of ₹54,300 crore from disinvestment between 1991 and 2001, only ₹20,078 crore could be raised.**

PRIVATISATION BUZZ: Post 2001
Newly set up Department of Disinvestment oversaw strategic sales of many PSUs like ITDC, Balco, Modern Foods. **Realised the best ever disinvestment proceeds of ₹21,163 crore between 2001-02 and 2003-04 as against a target of ₹38,500 crore.**

LEFT HURDLE: Post 2004
Under UPA government, PSU disinvestment took a back seat. By 2011-12, **only ₹14,000 crore could be raised against a disinvestment target of ₹40,000 crore.**

PRIVATISATION PART II: Post 2016
Air India is up for disinvestment. In April, Cabinet cleared disinvestment in four PSUs under the Defence Ministry – Bharat Dynamics, Garden Reach Shipbuilders & Engineers, Mazagon Dock Shipbuilders and Mishra Dhatu Nigam; **plans afoot to list them by selling up to 25% via IPOs; launch of an ETF fund announced, which will include companies in which government owns stakes.**
Upcoming Relevant Topics

- Strategic Disinvestments in India
- Air India – Case Study

OTHER TOPICS
- Inequality in India
- Irrigation sector in India
- PPP in India and so on
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