RSTV Summary: The Big Picture: Disinvestment of 23 PSUs

Context

- The government is working on completing the stake sale process of about 23 public sector companies whose divestment has already been cleared by the Cabinet, Finance Minister Nirmala Sitharaman said on Monday.
- The minister also said she would soon meet small finance firms and non-banking finance companies (NBFCs) to review the credit being extended by them to businesses. The minister said the government wants to sell stake in public sector companies at a time when it fetches the right price.
- For the 2020-21 fiscal, the government has set a disinvestment target of Rs 2.10 lakh crore. Of this, Rs 1.20 lakh crore will come from disinvestment of public sector undertakings and another Rs 90,000 crore from stake sale in financial institutions. In this edition of The Big Picture we will analyse the disinvestment of PSUs.

Why is the government so keen on disinvestment of PSUs?

- In the 1950s-60s it was necessary to set up PSUs like ONGC, SAIL, and GAIL, SBI etc. in key sectors as private participation or capacity was quite low but lots of changes have taken place in the last 50 years. Now private sectors have come up in most of the areas giving tough competition to the PSUs.
- They are no longer profitable due to tough competition and inability to adapt to changing nature of business against private companies
- If they are not disinvested at an appropriate time, then over a period of time many of them will become sick. Many of them have already become sick. For example Scooter India Limited which is on the list for disinvestment for 10 years but hardly anything is left to attract the buyers.
- Many of these undertakings have outdated technology, they are not really competitive so it is good time to disinvest them because over the time even profit making PSUs may meet the same fate as AIR India, Scooter India limited.
- Disinvestment is also a structural solution of taking government out of loss-making operations.
- Rational justification for disinvestment is a poor track record of several PSU's, serving neither a social nor an economic cause. Earlier the PSUs were aiming to remove regional inequalities and provide jobs to people but these objectives are now taken by governments directly.
- Government should leave the tourism, consumer goods manufacturing, and automobiles etc. sector for private players as they can provide consumers with abundant choice.
- Government could utilise the money gained by selling off PSUs to improve services in public goods like infrastructure, health and education.
- Poor management and aggressive trade unionism have made PSUs a battlefield for political parties with myopic objectives.
- Disinvestment can allow the government to finance its increasing fiscal deficit.
- Reducing government debt as almost 40-45% of the Centre's revenue receipts go towards repaying public debt/interest.

- It allows a larger share of PSU ownership in the open market that helps in development of a strong capital market in India.
- Disinvestment assumes significance due to the prevalence of an increasingly competitive environment, which makes it difficult for many PSUs to operate profitably. This leads to a rapid erosion of value of the public assets making it critical to disinvest early to realize a high value.

What are concerns voiced against disinvestment?

- Using funds made available from disinvestment to bridge the fiscal deficit is an unhealthy and a short term gain practice.
- Loss in terms of dividend as in the case of disinvestment, chances of income from dividends are forgone against a one-time receipt from the sale of stakes.
- Loss in tax income as the Effective tax rate for the CPSEs is higher than the average effective tax rate for private sector companies.
- Employees of PSUs fear job loss as the process of restructuring the number of employees and introducing voluntary retirement schemes after privatization can hurt employee's interest.
- Complete Privatisation may result in private monopolies and they can exploit their position to earn more profits.
- Complete Privatisation can result in a situation where political compulsions may make companies being sold cheap to preferred parties.

Disinvestment policy of Government of India

- Since the 1990s, disinvestment has become an almost regular feature of the Union budgets under successive governments.
- The Department of Investment and Public Asset Management set Disinvestment targets under each Union Budget.
- The Government of India constituted the National Investment Fund (NIF) into which the proceeds from disinvestment of Central Public Sector Enterprises are channelized.
- Niti Aayog identifies CPSEs for strategic disinvestment and advises mode of sale, percentage of shares to be sold and method for valuation.
- According to Union Budget 2020-21, the central government aims to earn Rs 2.1 lakh crore through disinvestment.

What is Disinvestment?

It means sale of assets by the government, usually Central and state public sector enterprises or other fixed assets.

Disinvestment can also be defined as the action of an organisation (or government) selling or liquidating an asset or subsidiary. It is also referred to as 'divestment' or 'divestiture.'

What are the Objectives of Disinvestment?

To reduce the financial burden on the Government

To improve public finances

- So far the government has been able to meet its disinvestment target only twice in the past eight years.

What are various approaches to disinvestment?

- Minority disinvestment: Government retains a majority stake in the company, greater than 51%, thus ensuring management control.
- Majority disinvestment: Government retains a minority stake in the company i.e. it sells off a majority stake.
- Complete privatization: Here 100% ownership and control of the organisation goes to the private sector.
- Strategic disinvestment: Here a substantial portion of the government stakes in public sector enterprise i.e. up to 50% or higher is sold along with transfer of management control.

What are various challenges in disinvestment and in getting attractive prices from disinvestment?

- Policy environment is not very conducive, private sectors have complained of frequent change in policy and lack of long term policy at place.
- Unfavourable market condition – given the economic situation due to COVID-19 pandemic, the private sector has a resource crunch to buy the stakes in PSUs.
- Offers made by the government were not attractive for private sector investors.
- Lots of opposition to the valuation process blaming that the government is selling the PSUs at below market price to benefit some selected business houses.
- Strong opposition from employee and trade unions who do not want disinvestment as they fear loss of job and job security and various benefits.
- Most of the PSUs except 4-5 such as BPCL on list of disinvestments are either in bad condition or in loss. So, private sectors are not very enthusiastic about buying stakes in those PSUs.

What is the way forward?

- Policy environment must be very-very conducive to attract the private sectors, especially foreign investors to buy stakes in PSUs.
- Government should come up with long term policy in consultation with the private sectors.
- Government should also come up with the proper support to the private sectors and provide them ease of doing business.
- Disinvestment plans of PSUs need to be shared with the nation to bring fairness and transparency in the privatization process.
- Government should also look for other productive means to enhance revenue instead of merely depending on disinvestment.
- There is a need for drawing detailed medium-term disinvestment plans including listing of potential candidates, releasing advance calendar and period of disinvestment etc. to attract more buyers.
- Proceeds from disinvestment should be used mainly for the creation of new assets and investment not to meet its revenue expenditure.

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