Cabinet approves strategic disinvestment of CPSEs (20-11-2019)

The Cabinet Committee on Economic Affairs, chaired by Prime Minister Shri Narendra Modi has accorded 'In-principle' approval for strategic disinvestment in select CPSEs as per the details below:

Bharat Petroleum Corporation Ltd. (BPCL) Strategic disinvestment of Government of India shareholding of 53.29% along with transfer of management control to a strategic buyer.

Shipping Corporation of India Ltd. (SCI) Strategic disinvestment of Government of India shareholding of 63.75% in Shipping Corporation of India Ltd along with transfer of management control to a strategic buyer.

Container Corporation of India Ltd. (CONCOR) Strategic disinvestment of Government of India shareholding of 30.8% (out of 54.8% equity presently held by the Government of India) along with transfer of management control to a strategic buyer.

Tehri Hydro Development Corporation India Limited (THDCIL) Strategic disinvestment of Government of India shareholding of 74.23% in THDCIL along with transfer of management control to an identified CPSE strategic buyer, namely, NTPC.

North Eastern Electric Power Corporation Limited (NEEPCO) Strategic disinvestment of Government of India shareholding of 100% in NEEPCO along with transfer of management control to an identified CPSE strategic buyer, namely, NTPC.

These all are profit making PSUs.

As per Public Enterprises Survey 2017-18, Profit of Profit making CPSEs (184 CPSEs) stood at Rs. 1,59,635 crore during 2017-18. Loss of loss incurring CPSEs (i.e. 71 CPSEs) stood at Rs. 31,261 crore in 2017-18. Dividend declared/paid by CPSEs in the year 2017-18 stood at Rs.76,578 crore.

Government Company or PSU

As per Section 2(45) of Companies act 2013, Government company" means any company in which not less than fifty one per cent (51%) of the paid-up share capital is held by the Central Government, or by any State Government or Governments, or partly by the Central Government and partly by one or more State Governments, and includes a company which is a subsidiary company of such a Government company;

Features of Disinvestment Policy

- Public Sector Undertakings are the wealth of the Nation and to ensure this wealth rests in the hands of the people, promote public ownership of CPSEs
- While pursuing disinvestment through **minority stake sale** in listed CPSEs, the Government will retain majority shareholding, i.e. at least 51 per cent of the shareholding and management control of the Public Sector Undertakings;
- **Strategic disinvestment** by way of sale of substantial portion of Government shareholding in identified CPSEs upto 50 per cent or more, alongwith transfer of management control.

Strategic Disinvestment

Strategic Disinvestment "Strategic disinvestment would imply the sale of substantial portion of the Government share holding 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."

Main objective for Setting up the Public Sector Enterprises

To help in the rapid economic growth and industrialisation of the country and create the necessary infrastructure for economic development;

2nd Five Year Plan (1956-61) stated very clearly that 'the adoption of socialist pattern of society as the national objective, as well as the need for planned and rapid development, require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. Other industries, which are essential and require investment on a scale, which only the state, in the present circumstances, could provide, have also to be in the public sector. The state has, therefore, to assume direct responsibility for the future development of industries over a wider area '.

The Second Plan further emphasized that ' the public sector has to expand rapidly. It has not only to initiate developments which the private sector is either unwilling or unable to undertake, it has to play the dominant role in shaping the entire pattern of investment in the economy, whether it makes the investments directly or whether these are made by the private sector. The private sector has to play its part within the framework of the comprehensive plan accepted by the community.'

Need for privatisation of PSEs

Strategic Disinvestment is guided by the basic economic principle that the **Government should discontinue** its engagement in manufacturing/producing goods and services in sectors where the competitive markets have come of age, and such entities would most likely perform better in the private hands due to various factors e.g. technology up-gradation and efficient management practices; and would thus add to the GDP of the country.

In India for almost four decades the country was pursuing a path of development in which public sector was expected to be the engine of growth. However, the public sector had overgrown itself and their shortcomings started manifesting in the shape of **low capacity utilization and low efficiency** due to over manning and poor work ethics, over capitalisation due to substantial time and cost overruns, inability to innovate, take quick and timely decisions, large interference in decision making process etc.

Prior to 1991, a large number of industries were reserved for the public sector.

It has been widely observed that the PSEs have no commercial motivation. They often face shortage of funds. They generally **survive on monopolistic profits**. Apart from all this, the increasing integration of the Indian financial, capital and foreign exchange markets with global markets, starting with the economic reforms of July 1991 and the recent WTO Agreements, have exposed the public sector to market forces, as a result of which it now finds itself unable to stand on its own feet without State support.

Disinvestment would expose the privatised companies to market discipline, thereby forcing them to become more efficient and survive or cease on their own financial and economic strength. They would be able to respond to the market forces much faster and cater to their business needs in a more professional manner.

The resources unlocked by the strategic disinvestment of these CPSEs would be used to finance the social sector/developmental programmes of the Government benefiting the public. The unlocked resources would form part of the budget and the usage would come to scrutiny of the public. It is expected that the strategic buyer/ acquirer may bring in new management/technology/investment for the growth of these companies and may use innovative methods for their development.

It is often suggested that weak and sick PSEs should be privatised first, and the **profit making PSEs need not be touched**. However, the logic / rationale for privatising or not privatising a PSE is not based on whether it is making profit or loss but whether it is in a strategic sector or in a non-strategic sector, and whether the taxpayers' money can be saved from the commercial risks by transferring the risk to the private sector wherever the private sector is willing to step in and assume such risks.

Government presence in such **non-strategic sectors** not only distorts competitive dynamics for private players, it also results in consumers and taxpayers bearing the brunt of inefficient PSU operations.

In many areas, e.g., the telecom and civil aviation sector, the end of public sector monopoly and privatisation has brought to consumers greater satisfaction by way of more choices, as well as cheaper and better quality of products and services.

The disadvantages of sale of minority stakes by the Government:

- Lower realisations because management control is not transferred.
- The minority sales also give a wrong impression that the main objective of the Government is to obtain funds for reducing its fiscal deficit, and not to improve performance or governance.

Why Union oppose disinvestments

Fear of Job security and Job cut
More responsibility and accountability
Longer working hour
Fear of Wage cut

However, In the companies privatised till now, no labour retrenchment has taken place. Whenever, rationalization has been undertaken, a VRS package at least equal to that offered by the PSU before privatisation is offered.

At the time of privatisation, suitable provisions are made in the Share Holders' Agreement (SHA) to protect employee interest. "Best efforts" clause is also incorporated in SHA mentioning the benefits given by the Government to the members of SC/ST, physically challenged person and other socially disadvantaged categories of the society stating that the Strategic Partner shall use its best efforts to cause the company to provide adequate job opportunities to such persons.

In most of the privatised companies better working conditions have been provided. Training, use of computers and other employee welfare measures have been introduced.

They've also yielded convincing success stories like Hindustan Zinc's, which has seen increase in its profits since its takeover by Vedanta in 2002.

Disinvestment target

Centre has set Rs 1,05,000 crore disinvestment target for 2019-20. Achievement is Rs. 17,364.26 Cr till date.