The status and proceeds of disinvestment

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Why is in news? In the Union Budget for 2023-24, the government has set a disinvestment target of ?51,000 crore, down nearly 21% from the budget estimate for the current year and just ?1,000 crore more than the revised estimate.

A Brief about Disinvestment

The Union government invests in several public sector undertakings (PSUs) such as Air India, Bharat Petroleum, DelhiMetro Rail Corporation etc.

Since it is the majority shareholder (meaning that it owns more than 51% of the shares), the Centre can raise money through the liquidation of its shareholding in these PSUs.

Disinvestment or divestment, in this context, is when the government sells its assets or a subsidiary, such as a Central or State public sector enterprise.

After the the Atal Bihari Vajpayee-led NDA government's privatisation drive, the stock market saw the listing of shares of a bunch of public sector firms. A bold push for disinvestment of the public sector was expected soon after Prime Minister Narendra Modi assumed office in May 2014, announcing that the government had "no business to be in business".

The Union Finance Ministry has a separate department for undertaking disinvestment-related procedures called the Department of Investment and Public Asset Management (DIPAM).

Such asset sales can either reduce the government's share — like when it attempted to do with the public listing of Life Insurance Corporation in 2020 — or it can also transfer the ownership of the firm altogether to the highest bidder — as it did with Bharat Aluminium Company, which was sold to the Vedanta group in 2001.

Minority disinvestment, majority disinvestment, and complete privatisation are the three main approaches to disinvestment.

On fruition of minority disinvestment, the government retains a majority in the company, typically greater than 51%, thus ensuring management control.

Government had introduced a new strategic disinvestment policy in 2021 to maintain 'bare minimum' presence in strategic sectors like atomic energy, defence etc., and exit non-strategic sector enterprises.

In the case of majority divestment, the government hands over control to the acquiring entity but retains some stake whereas in complete privatisation, 100% control of the company is passed on to the buyer.

Rationale behind disinvestment

There are two main motivations behind disinvesting in PSUs

To improve the overall efficiency of their functioning:

As PSUs, they are managed by the government on a daily basis. But in doing so, there are chances of political considerations overshadowing economic and corporate interests.

This is especially true when the PSU transacts with the government, for example when it sells its products and services to the government, the pricing may be influenced by factors other than market factors.

By disinvesting (or reducing the government stake), an attempt is made to make such a PSU more efficient as it would not be accountable to people and entities other than the government.

The underlying hope is that private or corporate ownership will result in more efficient management.

To manage the government deficit

Indian governments perennially run budget deficits. In other words, the government is unable to meet its expenditures just from its tax revenues.

In times of extreme monetary stress, governments have thought of selling off their stake in PSUs to raise funds and meet the gap between its expenses and revenues.

Before economic liberalisation, such efforts to monetise government’s assets were criticised as selling the family silver.

But post-liberalisation, reducing government stake, especially in sectors such as the strategic sectors like defence where government presence is not necessary, disinvestment is welcomed.

With the proceeds of these sales, the government can reduce its debt liabilities and raise money for investments in other parts of the economy such as building infrastructure in the form of new roads and bridges or increased spending on providing welfare to the poor and needy in the country.

Trends in Disinvestment in India

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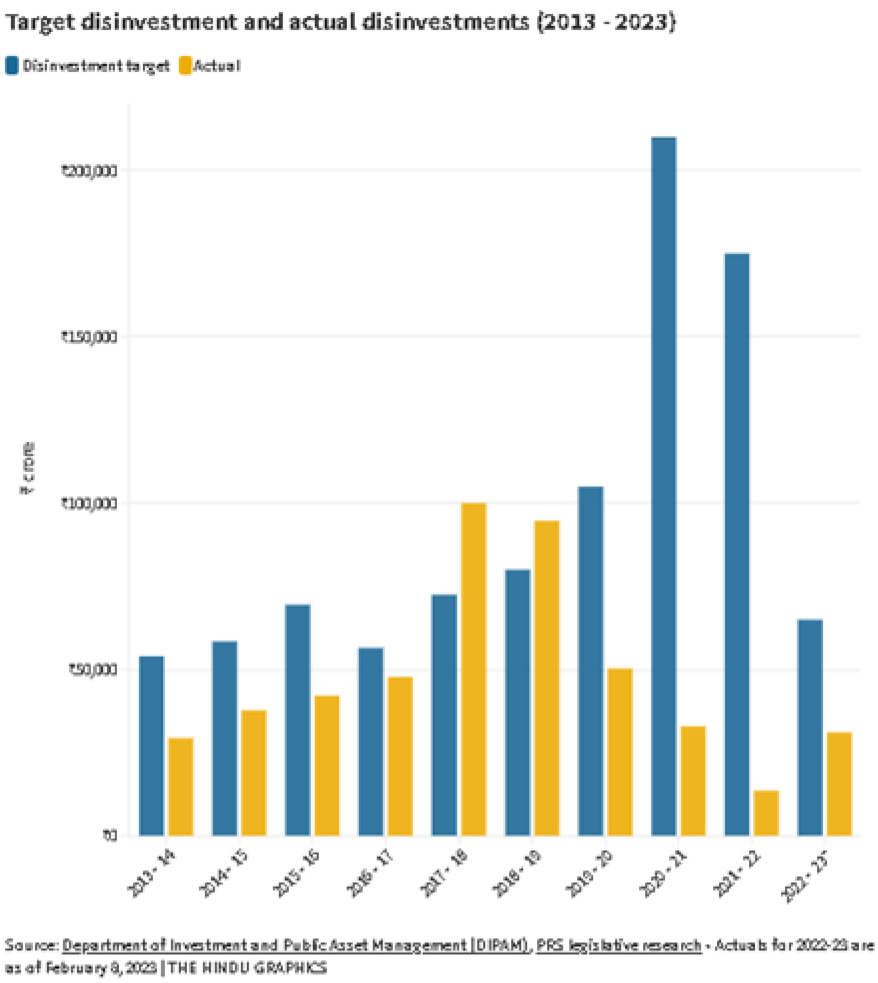


To begin with, different central governments over the last three decades have been able to meet annual disinvestment targets only six times.

Since coming to power in 2014, the BJP-led NDA government has met (and overachieved) its disinvestment targets twice.

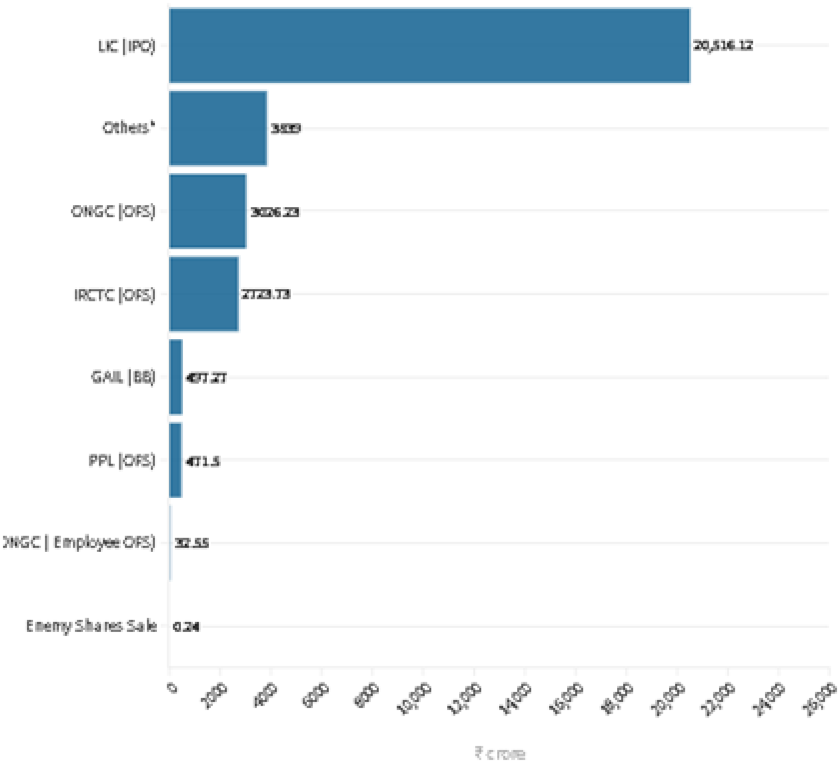
In 2017-18, the government earned disinvestment receipts of a little over ?1 lakh crore as against a target of ?72,500 crore, and in 2018-19, it brought in ?94,700 crore when the target was set at ?80,000 crore.

Notably, PRS Legislative Research points out that in recent years, in cases of disinvestment where the government sold more than 51% of its shareholding in Central Public Sector Enterprises (CPSEs), along with a transfer of management control, its stake was sold to another public sector enterprise.

Case in point, when the Centre exceeded its target in 2017-18, it earned ?36,915 crore by selling Hindustan Petroleum Corporation Limited (HPCL) to the state-owned Oil and Natural Gas Corporation (ONGC).

Similarly, in 2018-19, REC Limited was sold to the state-owned Power Finance Corporation Limited, through which the government raised ?14,500 crore.

Disinvestment receipts (2022-23)



As of now, the government's disinvestment receipts stood at ?31,106.64 crores as against the budget estimate of ?65,000 crores.

In 2021-22, when Air India was added to the Tata group, the Centre missed its high disinvestment target of ?1.75 lakh crore by a significant margin, raising just ?13,534 crore in disinvestment proceeds.

In the current year, a third of its budget estimate came from the delayed LIC IPO, which would have happened in the previous year if not for market volatility.

The sale of the 52.8% stake in Bharat Petroleum (BPCL) had to be called off in mid-2022 because almost all the bidders had withdrawn.

The strategic sale of Central Electronics was also shelved due to lapses in the bidding process and the Pawan Hans stake-sale did not take off as well. While the Neelachal Ispat Nigam Ltd. (NINL) was sold to a steel entity of the Tata group, no sale proceeds accrued to the Centre’s exchequer as it held no equity in the company.

With ?31,106 crore in the exchequer as disinvestment proceeds so far, and less than two months remaining in the current fiscal, the government is likely to miss its target.

Disinvestment target for 2023-24

The Centre is not going to add new companies to the list of CPSEs to be divested in 2023-24 and the aspirational divestments of two public sector banks and one general insurance firm, announced in the budget two years ago, will not be a part of the divestment plan either.

According to DIPAM, the government has decided to stick to the already-announced and planned privatisation of State-owned companies.

These include IDBI Bank, the Shipping Corporation of India (SCI), the Container Corporation of India Ltd (Concor), NMDC Steel Ltd, BEML, HLL Lifecare, and so on.

Incidentally, the disinvestments of Bharat Petroleum Corporation Limited, SCI, and ConCor had been approved by the government in 2019 but have not gone through yet.

The divestments of both SCI and ConCor were stuck as some of the physical assets of these companies were properties of the States they are located in and had to be demerged.

The divestment of major holdings of the IDBI bank is also in the pipeline and is likely to be concluded by mid-FY24.

Importance of Disinvestment

The government may disinvest in order to reduce the fiscal burden or bridge the revenue shortfall for that year.

It also uses disinvestment proceeds to finance the fiscal deficit, to invest in the economy and development or social sector programmes, and to retire government debt.

Disinvestment also encourages private ownership of assets and trading in the open market. If successful, it also means that the government does not have to fund the losses of a loss-making unit anymore.

Challenges to disinvestment

Disinvestment should ideally be driven by the long-term vision of the government on the extent to which it wants to privatise the economy and the sectors where it needs to retain a presence and not by the need to raise revenues.

However, of late, the government's reliance on disinvestment proceeds to bridge the gap in the Budget has been increasing.

Besides, disinvestment planning calls for a consistent and long-term rationale. The profitable oil refining and marketing company BPCL, which was put up for divestment, had been paying healthy dividends and made investments in upstream energy resources

The Way Ahead

Divestment should not be seen as a short-term fiscal measure; instead, it should be part of a long term plan to improve the production of goods and services in India. The government should strengthened the regulatory framework that ensures efficient market conditions.