

Disinvestment of 23 PSUs: RSTV- Big Picture

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What's in the news?

- The Indian Government is completing the stake sale process of about 23 Public Sector Undertakings (PSUs) whose divestment has already been cleared by the Cabinet.

Details:

- 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:
 - Rs 1.20 lakh crore will come from disinvestment of public sector undertakings
 - Rs 90,000 crore from stake sale in financial institutions.

Background:

- Post-independence, the public sector industries were established to enable the government to take the necessary steps to regulate industrial development. The objectives were:
 - To accelerate the growth of core sectors of the economy like steel, shipping, oil and gas and others.
 - Promoting a balanced regional development across various states.
 - Generating employment opportunities.
 - Export promotion.
- In 1948 the telecom giant ITI, independent India's first public sector undertaking was established.
- Disinvestment in India began in the year 1991-92 and 31 selected PSUs were disinvested for Rs.3,038 crore.

- In 2016, the Department of Disinvestment was renamed as Department of Investment and Public Asset Management (DIPAM).
 - DIPAM has been made the nodal department for the strategic stake sale in the Public Sector Undertakings (PSUs).

What is disinvestment?

- Disinvestment is the process through which the governments or organizations sell or liquidate assets or subsidiaries.
- Disinvestment is done for several strategic, political, or environmental reasons.

Why is the Government undertaking the disinvestment of PSUs?

- The target of disinvestment is to contain the fiscal deficit of the Government.
- The PSUs are no longer profitable as they are facing competition from private companies which are working in the same sectors.
- If the PSUs are not disinvested at an appropriate time, then many of them will become sick. Many PSUs have already become sick units.
 - Example: Scooter India Limited (SIL).
- Many of these undertakings have outdated technology and are not really competitive.
- Out of the 23 units to be disinvested, not more than four or five are expected to attract good prices.
- Currently, as the government needs money, option of disinvestment is favourable, rather than investing for modernizing and reviving unprofitable PSUs, considering that they do not serve any strategic purpose.
 - BALCO was disinvested in 2001 despite being a profit making unit as it had old technology and the mines were exhausted.
- Disinvesting Bharat Petroleum Corporation Limited (BPCL) immediately is profitable considering that with growing interests of private entities like Reliance in the retail business of oil products, BPCL might not remain attractive in future.
 - Therefore other PSUs have been banned from participating in the bidding process of BPCL.
- Privatisation is the best option for Indian economy to push forward its growth trajectory, as it is facing massive slowdown by slipping from a **GDP** rate of 6% to nearly 4%.
- Banks can be privatised more conveniently. With digital India making progress, the physical presence of the banks in rural and remote areas is no longer necessary.

- Whether to allow the foreign investors to bid for the PSU disinvestment is a major dilemma as foreign companies can bring in a lot of profits.

Procedure followed for disinvestment:

- Suggestions are sought from different ministries for suitable candidates for disinvestment.
- Proposals for disinvestments in any PSU, are placed for consideration of the Cabinet or Cabinet Committee on Disinvestment (CCD).
- An Advisor who examines the feasibility of disinvestment of the referred PSU is selected.
- Bidders are invited through advertisements in newspapers/websites to submit their Expression of Interest.
- While some companies like Air India and BPCL have greater chances of finding foreign bidders, others may attract domestic bidders.

Best way forward:

- The entire procedure of disinvestment including the bidding has to be transparent and fair.
- Given the declining GDP and skewed GDP – fiscal deficit ratio, policy reforms need to be implemented, in consultation with all the stakeholders in the private and Government sector.
- Policy environment has to become conducive for the effective functioning of Private entities:
 - Ease of doing business and reduced cost of doing business for private companies has to be ensured by the government.
 - There is a need for lowering the interest rate for private companies, to reduce the cost of capital.
 - Policy bottlenecks for the private players have to be removed.

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