Status and Proceeds of Disinvestment

Prelims: Disinvestment, DIPAM, CPSE, IPO,

Mains: Status and Proceeds of Disinvestment.

Why in News?

In the **Union Budget 2023-24**, the government has set a disinvestment **target of Rs 51,000 crore**, down nearly 21% from the budget estimate for the current year and just Rs 1,000 crore more than the revised estimate. It is also the lowest target in seven years.

What is Disinvestment?

- **About:**
  - The disinvestment process involves **the sale of government stake in public sector enterprises to strategic or financial buyers,** either through the sale of shares on stock exchanges or through the sale of shares directly to buyers.
  - The proceeds from the **disinvestment are used to finance various social and infrastructure projects** and to reduce the government's fiscal deficit.
- **Approaches:**
  - **Minority Disinvestment:** The government retains a majority in the company, typically greater than 51%, thus ensuring management control.
  - **Majority Divestment:** The government hands over control to the acquiring entity but retains some stake.
  - **Complete Privatisation**: 100% control of the company is passed on to the buyer.
- **Process:**
  - In India, the disinvestment process is conducted by the **Department of Investment and Public Asset Management (DIPAM)**, which comes under the **Ministry of Finance.**
  - The primary objective of DIPAM is **to manage the government's investments in public sector enterprises** and to oversee the disinvestment of government equity in these enterprises.
  - Government had constituted the **National Investment Fund (NIF) in 2005** into which **the proceeds from disinvestment of Central Public Sector Enterprises were to be channelized.**

What is the Need For Disinvestment?

- **Reduce the Fiscal Burden:** 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.
- **Encourages Private Player:** Disinvestment also encourages private ownership of assets and trading in the open market.
  - Encourage private sector investment in the economy, as **it signals the government's**

commitment to reforms and to creating a more conducive business environment.
    - If successful, it also means that the **government does not have to fund the losses of a loss-making** unit anymore.
- **Improves Efficiency:** By divesting from public sector enterprises, the government can **improve the efficiency and competitiveness of these enterprises,** as private sector ownership and management can bring in new ideas and a more market-oriented approach.
- **Better Allocation of Resources:** The government can reallocate the resources freed up through disinvestment **towards other priorities, such as social and infrastructure development.**
- **Increases Transparency:** Disinvestment can bring in greater transparency and accountability in the functioning of public sector enterprises, **as private sector ownership and management can lead to more stringent financial and operational reporting.**

How has Disinvestment Fared in Recent Years?

- Since 2014, the 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.
- The Government has **not met the disinvestment target for 2022-23 so far**, having realised Rs 31,106 crore to date, of which, Rs 20,516 crore or close to a third of the budgeted estimate came from the **IPO (Initial Public Offering)** of 3.5% of its shares in the **Life Insurance Corporation (LIC).**

What is the Disinvestment Plan in 2023-24?

- The Centre is **not going to add new companies to the list of CPSEs** to be divested in 2023-24.
- 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.

What are the Challenges of Disinvestment in India?

- **Political Opposition**: Disinvestment is a politically sensitive issue in India, and the process has often been opposed by political parties and trade unions who are opposed to the sale of public sector enterprises.
- **Valuation Issues:** The valuation of public sector enterprises can be a challenge, as these enterprises may not be able to compete effectively in the market due to their bureaucratic and non-market-oriented structures.
- **Labor Issues:** Disinvestment can also lead to labor-related issues, as workers in public sector enterprises may fear job losses or wage cuts following the sale of these enterprises.

- **Lack of Interest from Buyers:** In some cases, the government may struggle to find buyers for its stakes in public sector enterprises, especially if these enterprises are not performing well financially.
- **Regulatory Challenges:** The process of disinvestment is subject to a range of regulations and approval processes, which can slow down the process and add to its complexity.
- **Legal Challenges**: The process of disinvestment can also be challenged in the courts, as litigants may challenge the validity of the sale or the terms and conditions under which it was conducted.

Way Forward

- Overall, disinvestment is seen as an important tool for promoting economic growth and development in India. The government in India has continued to pursue its disinvestment program, with the objective of generating revenue, improving the efficiency of public sector enterprises, and promoting economic growth and helping create a more dynamic and sustainable economy.

UPSC Civil Services Examination, Previous Year Question (PYQ)

Q1. In the context of governance, consider the following: (2010)

1. Encouraging Foreign Direct Investment inflows
2. Privatization of higher educational Institutions
3. Down-sizing of bureaucracy
4. Selling/offloading the shares of Public Sector Undertakings

Which of the above can be used as measures to control the fiscal deficit in India?

(a) 1, 2 and 3
(b) 2, 3 and 4
(c) 1, 2 and 4
(d) 3 and 4 only

Ans: (d)

Q2. Why is the Government of India disinvesting its equity in the Central Public Sector Enterprises (CPSEs)? (2011)

1. The Government intends to use the revenue earned from the disinvestment mainly to pay back the external debt.
2. The Government no longer intends to retain the management control of the CPSEs.

Which of the statements given above is/are correct?

(a) 1 only
(b) 2 only
(c) Both 1 and 2
(d) Neither 1 nor 2

Ans: (d)

Q3. With reference to the National Investment Fund to which the disinvestment proceeds are routed, consider the following statements: (2010)

1. The assets in the National Investment Fund are managed by the Union Ministry of Finance.
2. The National Investment Fund is to be maintained within the Consolidated Fund of India.
3. Certain Asset Management Companies are appointed as the fund managers.
4. A certain proportion of annual income is used for financing select social sectors.

Which of the statements given above is/are correct?

(a) 1 and 2
(b) 2 only
(c) 3 and 4
(d) 3 only

Ans: (c)

Source: TH