Budget 2023-24's Disinvestment Target

Why in news?

In the Union Budget 2023-24, a disinvestment target of Rs 51,000 crore, has been set, which is nearly 21% less from the budget estimate for the current year.

To know about the key highlights of the Budget 2023-24, click here

What is disinvestment?

- Divestment or disinvestment means selling a stake in a company, subsidiary or other investments.
- Governments often sell stakes in public sector companies to raise revenues.
- **Approaches to disinvestment**
  - **Minority Disinvestment** - The government retains a majority in the company, typically greater than 51%, thus ensuring management control.
  - **Majority Disinvestment -** 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.
- **Department of Investment and Public Asset Management (DIPAM)** deals with all matters relating to management of Central Government investments in equity including disinvestment of equity in Central Public Sector Undertakings.

How has the Central Government's performance been on disinvestment?

- **Industrial Policy Statement of 1991** – It provided for a complete review of public sector investments to focus on strategic and essential infrastructure undertakings and new methods.
- In the latter half of the 90s, the range of disinvestment was gradually increased to bring about a clear distinction between strategic and non-strategic enterprises.
- In **the 1998-99 Budget**, the government announced that it would lower its shareholding in public sector firms to 26% while continuing to hold the majority shares.
- **The UPA manifesto in 2004** said it would take up privatization selectively there would be no disinvestment just to raise funds to meet short-term targets.
- Proceeds of disinvestment would be used for designated social welfare programs.
- 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 divestment of major holdings of **the IDBI bank** is also in the pipeline and is likely to be concluded by mid-FY24.

- **Budget 2023-24** - The Centre is not going to add new companies in 2023-24 and will stick to the already-announced and planned privatisation of State-owned companies.

What are the concerns with disinvestment?

- **Tool for revenue generation** - Disinvestment should be done 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.
- **Unachievable Targets** - The Centre's reliance on disinvestment proceeds to bridge the gap in its Budget receipts had been increased sharply over 10% of the fiscal deficit.
- **Disinvesting profitable units** - There would be no urgency to sell stakes in profitable PSUs at cheap valuations, or to devise innovative methods to show higher proceeds.
- The profitable oil refining and marketing company BPCL, which was put up for divestment, had been paying healthy dividends.

What needs to be done now?

- There is a need to stick to the new strategic disinvestment policy, 2021 that requires bare minimum presence in strategic sectors like atomic energy, defence etc., and exit non-strategic sector enterprises.
- The Centre needs to stop relying on disinvestment proceeds to bridge the gap in its Budget (fiscal deficit).
- In case of sale of strategic or partial stake in any year, it can be accounted for in the actual budget numbers.
- The Centre should instead focus on improving the management of these enterprises to increase their profitability.
- It may be a good idea to not set any budget targets for disinvestment.

References

1. The Hindu | The status and proceeds of disinvestment
2. The Hindu | No separate mention of disinvestment proceeds
3. The Hindu | Reimagine disinvestment

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