

**REPORT ON ARTICLE**

Article by	: <b>Surbhi Jain and Tulsipriya Rajkumari</b>
Subject/Ministry	: <b>Paradigm ideological shift in envisaged role of the public sector</b>
Date of Publication	: <b>26.02.2021</b>

SL No.	State/UT	Language	Name of Newspaper
1.	Chhattisgarh	ENGLISH	THE HITAVADA

# Paradigm ideological shift in envisaged role of the public sector

■ **By Surbhi Jain & Tulsipriya Rajkumari**

**U**nion Budget, 2021-22 epitomizes a unique confluence of an ideology and vision – making a decisive break from the constraining legacies of the past. It reposes its faith in the ability and potential of Indian entrepreneurial spirit to set India on the path of vibrant resurgence. The Budget had the acumen to redefine the role of the Public Sector in the modern Indian economy – with the policy clarity that 'Atmanirbhar Bharat cannot be built on idle assets.'

Government of India has embarked on a paradigm shift from the past in establishing 'government not being in the business of business' as the new norm and government participation in business as an exception. Building on the announcement in the Atmanirbhar package, the Budget lays a clear roadmap for disinvestment of Public Sector Enterprises (PSEs) in non-strategic and strategic sectors. The strategic sectors, as identified for bare minimum presence of PSEs, are i) Atomic energy, Space and Defence; ii) Transport and Telecommunications; iii) Power, Petroleum, Coal and other minerals; and iv) Banking, Insurance and financial services. This step marks a definitive shift in ideology adopted by India since independence. It will transform

the hegemony enjoyed by PSEs as commanding heights of the economy to handing over the baton to the private sector.

The boldness of India's new disinvestment policy can be appreciated better if we look at the previous efforts towards disinvestment that have been undertaken so far. PSEs, since the Industrial Policy Resolution of 1956 till the beginning of the 1980s, were the commanding heights of the Indian economy. This was sought to be revisited by liberalization reforms of 1991 that ushered in an increased demand for efficient use of capital and level playing field.

Disinvestment, initially was done through the sale of minority stake in bundles through auction, followed by separate sale for each company in the following years, a method popularly adopted till 1999-2000. Strategic disinvestment emerged as a policy measure for the first time in 1999-2000 with sale of substantial portion of Government shareholding in identified PSEs up to 50 per cent or more, along with transfer of management control. Post 2004, disinvestment was mostly done via a public offer instead of the auction method. Strategic sales got a renewed push after 2014 accounting for around one third of total proceeds from disinvestment during 2016-17 to 2018-19. Of the various dis-

**GUEST  
COLUMN**

investment methods, buyback of shares by large PSEs and exchange traded funds (ETFs) were the more recent routes of divestment. In November, 2019, India launched its biggest privatization drive in more than a decade wherein an "in-principle" approval was accorded to reduce Government of India's paid-up share capital below 51 per cent in select Central PSEs (CPSEs). Notwithstanding these efforts over three decades, they were piecemeal in nature in striking contrast to the holistic approach adopted in the recent Budget.

This approach is based on crucial evidence on the benefits of privatization as analysed by the Economic Survey 2019-20. An exhaustive analysis was done on the before-after performance of 11 PSEs that had undergone strategic disinvestment from 1999-2000 to 2003-04. The analysis showed that these privatized CPSEs, on an average, performed better post privatization than their peers in the same industry group in terms of their net worth, net profit, return on assets (RoA), return on equity (RoE), gross revenue, net profit margin, sales growth and gross profit per employee. In particular, the RoA and net profit margin turned around from negative to positive surpassing that of the peer firms, a clear signal that priva-

tised CPSEs had been able to generate more wealth from the same resources. This improved performance was seen for each CPSE taken individually too. This provides compelling evidence that privatization unlocks the potential of CPSEs by more efficient use of resources. This will also release public resources for developing critical infrastructure and social capital – which is the 'business' of Government.

The paradigm shift in ideology of disinvestment blends perfectly well into the new thinking of efficiency of resource use presented in the Budget. At a time when traditional sources of revenue are strained, Union Budget 2021-22 has astutely provided a slew of measures that are innovative, thoughtful and underscore the thinking of garnering resources from avenues like monetisation of government owned assets. Last but not the least, breaking away from the conventional path and setting the new norm of government's business not to be in business will go a long way in sending the correct signal to all stakeholders and maximizing productivity and efficiency gains from all public and private enterprises alike, a permanent behavioural shift that will persist past the pandemic!

*(The authors are Officers in the Department of Economic Affairs, Ministry of Finance)*