

## Should the government exit navratna companies?

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### "Disinvesting partial stakes is more fruitful than outright asset sales of PSUs."

Last month, the Cabinet approved sale of the government's stake in Bharat Petroleum Corporation Limited, a navratna public sector company with oil refining and marketing operations. BPCL's stake alone is expected to raise about ₹60,000 crore for the exchequer this year, and given the fiscal pressures the government is facing on the tax revenue front, such large-scale disinvestment will help. In a conversation moderated by Vikas Dhoot, T.T. Ram Mohan and C.P. Chandrasekhar discuss the implications of BPCL's stake sale. Edited excerpts:

**If we look at India's approach to disinvestment since liberalisation, the focus in the Narasimha Rao government and the UPA years was on offloading minority stakes and listing them on the stock exchange. During the time of the Atal Bihari Vajpayee government, we saw some bold moves on strategic sales with many large, loss-making PSUs like Balco, Modern Foods and Hindustan Zinc being sold off. In September 2014, Prime Minister Narendra Modi had said that the government has no business to be in business. In the last six years, we saw a slightly cautious approach until now. For the first time, we are looking at a profitable public sector undertaking (PSU) like BPCL being put up for sale in an import-dependent sector like petroleum. Would you say that this signals a turning point?**

**T.T. Ram Mohan:** I think it's a little early to say that it is a shift because this move seems to be driven primarily by pressures on the fiscal front. So, it is not clear whether they would have opted for something as drastic as this if they had not faced the shortfalls in tax revenues that they are facing now. The effort is primarily to raise revenues in quick time. I think what is missing at the moment is the framework in which this sort of disinvestment or strategic sale is to take place. You have to be very clear about the objectives. Is it primarily about raising revenue? Is it about improving efficiency? Is it about broadening the capital market? The fact that they're not talking of something similar in the case of public sector banks suggests that this may not be as much of an ideological shift as a matter of expediency.

**Mr. Chandrasekhar, what do you think?**

**C.P. Chandrasekhar:** We have to recognise that this is a culmination of a tendency we've observed over a significant period of time, particularly starting with the Vajpayee government. The original understanding was that you go in for partial disinvestment to public sector equity with two purposes, among many. One was it would allow you to mobilise a certain amount of resources which can be put into some kind of a fund which could be used to modernise, renovate or make viable public sector firms which still have the possibility of being profitable despite being loss-making.

This could also be used to put money into firms that were so loss-making that it is best to shut them down, by paying off retrenchment funds to workers and cleaning the books. The other was that having private equity holding in public firms brings in a certain degree of monitoring and discipline of managers in the public sector that comes from outside the government. We have clearly shifted from both of these.

It's now clear that even partial disinvestment or even a strategic sale is clearly to mobilise resources to finance the Budget, which is problematic at multiple levels.

**The CEA recently argued that the private sector does a far better job of taking savings in the economy and making sure that they are ploughed back productively. One of the long-standing problems of India's public sector has been about bureaucratic and political interference and rent-seeking. So, one could argue that this kind of a sale will free up entities like BPCL to scale bigger heights under private management.**

**CPC:** You just have to look at the civil aviation sector where we brought in the private sector in a big way. You have to look at what "competition" has done in the telecom sector. And we know that survival in these sectors for a number of firms was essentially because they were bankrolled by public sector banks.

**TTR:** It is not borne out empirically that the private sector is more efficient. Even in post-liberalisation India, a number of studies show a trend towards convergence in performance between PSUs and private enterprises. Even in banking, until about 2011 when the NPA crisis started, we saw a similar trend. One of the reasons people tend to believe that the private sector is more efficient is because there's something called a survivorship bias in the data. When a public sector enterprise makes losses, it continues to exist. Whereas, if a private sector enterprise makes losses for a long time, it sort of exits the database. So, people will look at public and private sector banks and say private sector banks are doing much better, but they will ignore the many private sector banks that failed and had to be merged with other entities. The problem in comparing the two is that only the survivors of the private sector are left standing and you say they are doing marvellously.

If improving efficiency is the argument, then it logically follows that the focus of disinvestment or privatisation should be on loss-making or underperforming entities. It is not clear why you should take a highly competitive and profitable company such as Concor or BPCL and opt to privatise it first unless, of course, your basic motivation is to raise revenue in quick time.

One of the arguments being made about BPCL is that if the government sells it now when it is doing well, then it stands to realise a very good price. But if and when private competition comes into distribution of oil, then BPCL surely will not do well and the government wouldn't realise the same price. That is just pessimistic thinking because you presume that every public enterprise is doomed to fail. The question one should ask is, if basic engineering and managerial skills are there, then how do we ensure that the enterprise continues to perform well? How do you address governance issues so that these public assets are managed well? Instead of asking that, we start off with the presumption that whatever is public cannot do well and should be sold off.

Of course, one can make the argument that within the oil sector, even if you sell BPCL, there will still be public sector dominance. There is HPCL merged with ONGC and there is IOC which is much bigger than BPCL. So selling BPCL will fetch the government revenue without necessarily undermining government dominance in the oil sector. But that's a limited argument to make and one should be careful not to stretch it too far and extend it to PSUs in general.

In Parliament, when asked about its disinvestment policy, the government said this month that it is not driven by profit or loss but decided on the basis of 'national security, sovereign functions, market imperfections and public purpose.' How would you interpret this differently than the earlier focus of retaining PSUs in strategic sectors?

**CPC:** The phrases used in the response to the Parliament question is just to obfuscate... The essential purpose of this exercise is to get money for the Budget and getting money in this manner is neither rational nor, in an accounting sense, meaningful because the government will lose hugely in the process and, therefore, the people who are essentially one step removed from the owners of these assets would also lose.

#### Expected Questions (Prelims Exams)

1. Consider the following statements: -

1. When the public sector enterprise makes loss then their existence are lost.
2. Recently, the government has approved the selling of government share in Bharat Petroleum Corporation Limited (BPCL).
3. To arrange resources for finance the budget Partial disinvestment or a strategic selling is required.

**Code:-**

- |             |                |
|-------------|----------------|
| (a) 1 and 2 | (b) 1 and 3    |
| (c) 2 and 3 | (d) 1, 2 and 3 |

**Note:** Answer of Prelims Expected Question given on 19 Dec., is 1 (d)

#### Expected Questions (Mains Exams)

**Q.** In the current liberalization and free market era, would it be a reasonable step for the government to abolish public sector undertakings? Give arguments in favor of your opinion. **(250 words)**

**Note:** - The question of the main examination given for practice is designed keeping in mind the upcoming UPSC main examination. Therefore, to get an answer to this question, you can take the help of this source as well as other sources related to this topic.