

ANNEXURE - II

STATUS GENERAL RECOMMENDATIONS OF THE DISINVESTMENT COMMISSION AND ACTION TAKEN THEREON BY GOVERNMENT¹.

GENERAL RECOMMENDATIONS

1. Establish Disinvestment Fund

The proceeds from the disinvestment may be placed, separately in a 'Disinvestment Fund' and the National Renewal Fund should also be merged with this Fund. The resources of the fund may be primarily used for.

- temporary funding of losses of some PSUs in preparation of disinvestment,
- for providing benefits to workforce found to be surplus
- for conducting the publicity campaign for the disinvestment of PSU shares.

The Fund would also help the Government in undertaking disinvestment at the most opportune time in the market for maximum realisations, as reasonable percentage of Disinvestment Fund should be earmarked for funding social infrastructure for promoting rapid growth of the economy.

Action Taken : According to Government communication, Fund had been set-up in September 1996. Details regarding the scope or purpose are not available.

2. Delink the disinvestment process from the Budgetary Exercise of Government

Linkage of the implementation of disinvestment with the budgetary exercise may hinder achievement of the larger objective of the disinvestment exercise.

Action Taken : Decision awaited.

3. Standing Empowered Group

Given the advisory nature of the Commission, the Commission recommends formation of a Standing Empowered Group (SEG) to ensure smooth implementation of its recommendations. SEG may also be entrusted with the selection of Financial Advisors, supervision of the overall sale process and decision on instrument, pricing, timing, etc. SEG could comprise the Cabinet Secretary, Secretaries of the Ministry of Finance, Department of Public Enterprises, Administrative Ministry of PSU alongwith the CEO of the concerned PSU.

Action Taken : Core Group has been empowered as recommended.

4. Transfer of Management

While selling a substantial stake in the Undertaking, Management could be transferred to the strategic buyer and the time frame for a further dilution of its share holding, where necessary, as agreed with the strategic buyer.

Action Taken : Decision Awaited

5. Reduction of Government Equity

The Commission also recommended that in the interest of establishing credibility with the strategic buyers, the Government may, where necessary, keep its direct share holding below the level of investment being offered to the strategic bidder by divesting some portions of its equity to multilateral financing institutions, private equity funds, mutual funds and a few select PSUs who have business interest in the particular PSU being disinvested

Action Taken : Decision Awaited.

6. Referral of PSUs to the Commission

The matter whether a PSU should be considered by the Commission for disinvestment or not should be sorted out between the SEG and the administrative ministry before the referral to the Commission. This would avoid wastage of the Commission's time and efforts and Government resources. Also, the subsidiaries of PSUs should not be referred to the Commission, as the decision in this regard would have to be taken by the Boards of Management of the concerned PSU.

Action Taken : Government has decided not to refer subsidiaries of PSUs to the Commission.

7. Voluntary Retirement Scheme

Commission recommends that Government should frame a clear cut policy statement on the terms of VRS on a stable and long term basis and also suggest a modality for the implementation of VRS. A pension cum insurance scheme could be thought of as an alternative to a one-time payment.

Action Taken : Decision Awaited.

8. Disinvestment without reference to the Commission

Disinvestment of the PSUs whether through Joint Venture participation or strategic sale not referred to the Commission, is likely to deny the benefits of detailed consideration by an independent body. Therefore, Government should review the position and decide whether such cases should be kept outside the purview of the Commission.

Action Taken : Decision Awaited

9. Public Offer of equity by the PSUs referred to the Commission

Primary issue by any PSU referred to the Commission, without involvement of the Commission, would be inconsistent with the terms of reference of the Commission to take a coordinated view or to recommend a mix between primary and secondary disinvestment.

Action Taken : Decision Awaited.

10. **Disinvestment Package**

The Commission reiterates that undertaking disinvestment without implementing the general recommendations of the Commission, - in particular those relating to corporate governance, managerial autonomy, managerial remuneration, accountability, incentives, professionalizing the Board of Management and restructuring where necessary – would result in under-valuation of Government shares and loss to the national exchequer.

Action Taken : Decision Awaited.

11. **Restoration of Monitoring and Supervision Powers**

The Commission is of the view that the disinvestment process can be an important instrument for building up a lean and strong public sector and for providing funds for development. The amendment dated 12 January 1998 of the terms of reference of the Commission has considerably diluted the role of the Commission in the disinvestment process. It limits even advisory functions apart from removing overall monitoring and advisory functions. The roles of Commission as an advisory body without powers of monitoring and supervision of the overall disinvestment process renders the Commission ineffective. Therefore, the powers of monitoring and supervision as envisaged in the earlier Government notification dated August 1996 should be restored.

Action Taken : Decision Awaited

12. **Setting Up of Full-time Implementation Machinery**

In order to get the best prices for the shares disinvested by Government, particularly in the undertakings that will remain in the public sector, it is essential to time the sale under favorable market conditions. Timely action to select the financial advisers and a close watch on market conditions are necessary to get the best results. The commission therefore recommends that full time implementation machinery under the Ministry of Finance including public sector merchant bankers be set up under Government with a clear mandate. This machinery will select financial advisers and put through the sale of shares, either through offer of sale or by strategic sale and get the best price for the shares within a reasonable price band that should be approved in advance by Government. Implementation group should seek the advice of the Commission whenever necessary and be subject to the overall supervision of the Commission.

Action Taken : Decision Awaited.

13. **Presenting the Commission Report in its entirety before the Cabinet**

The Commission is not aware if all its recommendations have been taken before Cabinet for decision. The Commission would emphasize that both its general and specific recommendations should not be filtered by official groups but should be placed before the Cabinet in their entirety to enable Government to appreciate the interconnected strategy of the various recommendations and taken decisions thereon. The Chairman of the Commission may be invited, wherever necessary, to the

meetings of the Cabinet, to offer clarifications on the recommendations of the Commission.

Action Taken : Decision Awaited.

14. Disinvestment through Strategic Sale to optimize realisation under the present state of Capital Markets

In view of the present state of the Indian and Overseas Capital Markets, offerings in these markets may not achieve optimum realisation. The Commission, therefore, suggest giving a big push to strategic sales of PSUs recommended by the Commission. At the present juncture, the advantages of such a big push operation for strategic sales are many. They are

1. Since strategic sales depend not on capital market conditions but on the intrinsic value of the concerned enterprises, they can be undertaken straightaway
2. The response to the offer of strategic sales will send the right signals about the confidence of the international community in the Indian economy. This will also stimulate foreign direct investment in India.
3. Substantial amounts of foreign exchange can be earned to strengthen our foreign exchange reserves.
4. Successful strategic sales will boost the confidence of the Foreign Institutional Investors and induce their increasing support to the Indian capital market. This will also encourage domestic investors. Even the GDR market is likely to pick up as a result of successful strategic sales.
5. Government's realisation from proceeds of disinvestment would be substantial

Action Taken : Decision Awaited

REFERENCE

1. Disinvestment Commission, Disinvestment Commission Reports –IX-XII, October, 1999, Appendix –VI, pp.226-229.

