

**THIRTIETH REPORT**  
**STANDING COMMITTEE ON FINANCE**  
**(2002)**

**(THIRTEENTH LOK SABHA)**

**MINISTRY OF DISINVESTMENT**

**DEMANDS FOR GRANTS**  
**(2002-2003)**

*Presented to Lok Sabha on 23 April, 2002*  
*Laid in Rajya Sabha on 23 April, 2002*



**LOK SABHA SECRETARIAT**  
**NEW DELHI**

*April, 2002/Vaisakha, 1924 (Saka)*

11

## CONTENTS

COMPOSITION OF THE COMMITTEE .....	
INTRODUCTION .....	(v)
REPORT .....	1
APPENDIX	
Minutes of the Sitzings of the Committee held on 04 and 22 April, 2002 .....	23

COMPOSITION OF STANDING COMMITTEE  
ON FINANCE (2002)

Shri N. Janardhana Reddy—*Chairman*

MEMBERS

*Lok Sabha*

2. Dr. Sanjay Paswan
3. Shri Ramsinh Rathwa
4. Shri Rattan Lal Kataria
5. Shri Kirit Somaiya
6. Shri Kharebela Swain
7. Shri Raj Narain Passi
8. Shri S. Jaipal Reddy
9. Shri Ramesh Chennithala
10. Shri Kamal Nath
11. Shri Pravin Rashtrapal
12. Shri Sudarsana E.M. Natchiappan
13. Shri Rupchand Pal
14. Shri Varkala Radhakrishnan
15. Dr. Daggubati Ramanaidu
16. Shri Chada Suresh Reddy
17. Shri Prakash Paranjpe
18. Shri Raashid Alvi
19. Shri T.M. Selvaganapathi
20. Shri Trilochan Kanungo
21. Shri Sudip Bandyopadhyay
22. Shri Sharad Pawar
23. Shri Abdul Rashid Shaheen
24. Capt. Jai Narain Prasad Nishad
25. Shri Prabodh Panda
26. Shri Amir Alam Khan
- \*\*27. Shri M.V.V.S. Murthy
- \*\*\*28. Shri Jyotiraditya Madhavrao Scindia
- \*29. Shri Surender Singh Barwala
30. Vacant

---

\* Nominated *w.e.f.* 19.4.2002

\*\* Nominated *w.e.f.* 18.1.2002

\*\*\* Nominated *w.e.f.* 11.3.2002

(iv)

*Rajya Sabha*

31. Dr. Manmohan Singh
32. Shri S.S. Ahluwalia
- \*33. Shri Dina Nath Mishra
34. Shri Parmeshwar Kumar Agarwalla
35. Dr. Biplab Dasgupta
36. Shri P. Prabhakar Reddy
37. Prof. M. Sankaralingam
38. Shri Amar Singh
39. Shri Sanjay Nirupam
40. Shri Palden Tsering Gyamtso
- \*\*41. Shri Prithviraj Dajisaheb Chavan
- \*\*\*42. Shri Praful Patel
- \*43. Shri Murli Deora
44. Vacant
45. Vacant

SECRETARIAT

1. Shri P.D.T. Achary      → *Additional Secretary*
2. Dr. (Smt.) P.K. Sandhu      → *Joint Secretary*
3. Shri R.K. Jain      → *Deputy Secretary*
4. Shri S.B. Arora      *Under Secretary*

---

\* Nominated vice Shri Narendra Mohan *w.e.f.* 4.1.2002

\*\* Nominated *w.e.f.* 8.4.2002

\*\*\* Nominated *w.e.f.* 8.4.2002

◊ Nominated *w.e.f.* 10.4.2002

## INTRODUCTION

I, the Chairman, Standing Committee on Finance having been authorised by the Committee to submit the Report on their behalf, present this Thirtieth Report on Demands for Grants (2002-2003) of the Ministry of Disinvestment.

2. The Demands for Grants of the Ministry of Disinvestment were laid on the Table of the House on 18 March, 2002. Under Rule 331E of the Rules of Procedure and Conduct of Business in Lok Sabha, the Standing Committee on Finance are required to consider the Demands for Grants of the Ministries/Departments under its jurisdiction and make Reports on the same to both the Houses of Parliament.

3. The Committee took oral evidence of the representatives of the Ministry of Disinvestment at their sitting held on 4 April, 2002 in connection with examination of the Demands for Grants (2002-2003) of the Ministry of Disinvestment.

4. The Committee consider and adopted the Report at their sitting held on 22 April, 2002.

5. The Committee wish to express their thanks to the Officers of the Ministry of Disinvestment for the co-operation extended by them in furnishing written replies and for placing their considered views and perceptions before the Committee.

6. For facility of reference, the observations/recommendations of the Committee have been printed in thick type.

NEW DELHI;  
22 April, 2002  
2 Vaisakha, 1924 (Saka)

N. JANARDHANA REDDY,  
Chairman,  
Standing Committee on Finance.

## Report

### Disinvestment - Policy and Procedure

The Disinvestment Manual prepared by the Department of Disinvestment has stated that the policy makers, be it in the administrative Ministries or in the State Governments occasionally face a dilemma. They were often convinced about the merits of Privatisation, but do not know how to implement it. It has further been stated that “while we would do well to learn from the successful experiences of the west, we would have to be careful with the pitfalls, which were responsible for setback to some of the economies in the east. In the final analysis while experience of other countries is available to us by way of guidance, we would have to evolve our own techniques, best suited to our level of development”.

2. When asked if the Government has evolved techniques suitable to our level of development for privatization, the Government in their reply stated as under:

“ In different countries of the world, including the developing countries, disinvestment of public enterprises is carried out through various methods. These include public offerings in domestic markets, GDR/ADR offerings in international markets, strategic sales to strategic partners, trade sale, management/employee buy-outs etc.

Government of India is carrying out disinvestment in accordance with a procedure that ensures complete transparency. The procedure is reviewed from time to time and modified with a view to accelerating the process further. Whenever required, disinvestment procedures are refined further, based on experience of each transaction, to reduce the time needed to close/complete a transaction.

Initially, a small percentage of Government equity in selected Central Public Sector Undertakings were sold to financial institutions in bundles. Thereafter, small percentages were offered in Indian and international markets. Strategic sale of shares to strategic investors has started from 1999-2000. In the policy for the year 2000-01, for the first time, the Government made the statement that it was prepared to reduce its stake in the non-strategic PSEs even below 26% if necessary and that there would be increasing emphasis on strategic sales. The Budget Speech of 2001-02 has further elaborated;

The procedure for privatisation of public sector enterprises has now been considerably streamlined. The Department of Disinvestment has been set up to accelerate the privatisation process. To maximise returns to government, our approach has shifted from the disinvestment of small lots of shares to strategic sales of blocks of shares to strategic investors .....

Ministry of Disinvestment has conducted a series of privatisation/ Disinvestment in companies like BALCO, CMC, HTL, VSNL, IBP, Modern Foods, PPL, many hotels of ITDC, HCI and HZL.

With every privatisation, some new experience is gained. If need be, the techniques and procedures are further refined.

3. When the Committee desired to know whether any broad base policy has since been adopted by the Ministry for disinvestment of PSUs or it is being considered on case-to-case basis, the Ministry in their written submission stated as under:

“The Government’s policy on disinvestment is clear and unambiguous. The policy of the Government on disinvestment has evolved over a decade and has now assumed a definitive shape. The Government policy on disinvestment has been laid down by successive Governments mostly as a part of Budget Speech of the Finance Minister, from as early as 1991-92.

The policy of the Government on Disinvestment has evolved during the last decade. Disinvestment in public sector undertakings was first done during the year 1991-92. Thereafter, Government has been disinvesting its equity holdings in public sector undertakings in a planned way, against the disinvestment targets fixed every year in the annual budgets. The present policy of the Government is to generally reduce its stake in the “non-strategic” public sector enterprises to 26% (or below, if necessary). Government will retain its majority holding in strategic PSUs. The emphasis has also shifted from selling small lots of shares in profit-making PSUs to strategic sale with change of management control in respect of both profit and loss-making enterprises. The change in emphasis towards strategic sale has started yielding good results, measured in terms of Price-Earning ratio.

Disinvestment proceeds are to be utilised for providing restructuring assistance to PSUs, safety net to workers, reduction of debt burden and additional budgeting support for the Plan, primarily in the social and infrastructure sectors.

On 16<sup>th</sup> March 1999, the Government classified the Public Sector Undertakings into strategic and non-strategic areas for the purpose of disinvestment. It was decided that the Strategic Public Sector Undertakings would be those in areas of:

- Arms and ammunitions and the allied items of defence equipment, defence air-crafts and warships;
- Atomic energy (except in the areas related to the generation of nuclear power and applications of radiation and radio-isotopes to agriculture medicine and non-strategic industries);
- Railway transport.

All other Public Sector Undertakings were to be considered non-strategic. For the non-strategic Public Sector Undertakings, it was decided that the reduction of Government stake to 26% would not be automatic and the manner and pace of doing so would be worked out on a case-to-case basis.

The Government has decided to refer to the Disinvestment Commission “non-strategic” Public Sector Enterprises (PSEs) including their subsidiaries, excluding IOC, ONGC & GAIL. Since such PSEs would be quite large in number, the Commission would prioritise the cases and make recommendations to the Government.

It is therefore, submitted that a broad based policy exists for disinvestment in PSUs. However, each case, in view of the uniqueness of the PSU being disinvested, is examined carefully, in consultation with all stake-holders, before a final decision is taken.”

4. When asked to state how the Government intend to portray their accountability/credibility with regard to disinvestment process, the Government in their reply stated as under:

“Disinvestment is an on-going process and is done keeping in view the Government policy, market conditions, financial performance of the company and in consultation with the concerned ministries. No time-bound programme has been drawn for disinvestment.

Decision to disinvest is based on considerations like classification of industry as strategic or non-strategic and not on considerations like profitability. Disinvestment in profitable or non-profitable public enterprise is aimed at optimal utilisation of capital, better corporate governance, reduction in commercial risk of tax-payers’ money, release of scarce resources for deployment in social sectors like family welfare, health, education and other sectors of greater public interest. Disinvestment of the Government stake in PSUs is carried out in accordance with the declared policy of the Government and through a transparent process involving competitive bidding, which ensures that the best price determined by the market forces is obtained for the stake being disinvested.

#### **Transparent Procedure for disinvestment**

The disinvestment policy of the Government is clear and unambiguous and is carried out with the assistance of professional advisors of repute, selected through the process of competitive bidding, and in accordance with the prescribed procedure that ensures complete transparency. The procedure is reviewed from time to time and modified with a view to accelerating the process further. At present it is as follows:



- Proposals for disinvestments in any PSU, based on the recommendations of the Disinvestment Commission or in accordance with the declared Disinvestment Policy of the Govt., are placed for consideration of the Cabinet Committee on Disinvestment (CCD).

- After CCD clears the disinvestment proposal, selection of the Advisor is done through a competitive bidding process.

- After receipt of the Expressions of Interest, in pursuance of Advertisement in newspapers/website, prospective bidders are short

listed based on objective screening in the light of announced criteria/requirements.

- The advisors, after due diligence of the PSU, prepare the information memorandum in consultation with the concerned PSU. This is given to the short listed prospective bidders who have entered into a confidentiality agreement.

- The draft share purchase agreement and the shareholder agreement are also prepared by the Advisor with the help of the legal Advisors.

- The prospective bidders undertake due diligence of the PSU and hold discussions with the Advisor/ the Government/ the representatives of the PSU for any clarifications.

- Concurrently, the task of valuation of the PSU is undertaken in accordance with the standard national and international practices.

- Based on the reactions received from the prospective bidders, the Share Purchase Agreement (SPA) and ShareHolders Agreement (SHA) are prepared. After getting them vetted by the Ministry of Law, they are approved by the Government. Thereafter, they are sent to the prospective bidders for inviting the final binding bids.

- After examination, analysis and evaluation, the recommendations of the Inter Ministerial Group (IMG) are placed before the Core Group of Secretaries on Disinvestment (CGD), whose recommendations are placed before the Cabinet Committee on Disinvestment (CCD) for a final decision regarding selection of the strategic partner, signing of the Share Purchase Agreement and ShareHolders Agreement, and other related issues.

- In the disinvestment process mentioned above, Ministry of Disinvestment is assisted at each stage by an IMG, headed by

Secretary (Disinvestment) and comprising officers from the Ministry of Finance, Department Of Public Enterprises, the Administrative Ministry/Department controlling the PSU, Department of Company Affairs, Department of Legal Affairs, CMD/Director (Finance) of the company being disinvested, and the Advisors.

- After the transaction is completed, all papers and documents relating to it are turned over to the CAG of India; the CAG prepares an evaluation for sending to Parliament and releasing to the public.

The paragraphs above show that decisions are taken collectively through the structure of IMG/CGD/CCD after adequate consultations at each stage. Transparency of procedures and decision making structure ensures accountability/credibility. The disinvestment policy and process have now been widely accepted nationally. Most of the states are also pursuing their privatisation programme. The privatisation policy and procedure have been clearly laid down in the manual on “Disinvestment: Policy and Procedure”, circulated widely by the Government.”

5. With regard to laying of ‘Disinvestment Policy and Procedure’, the Ministry have stated as under:-

- “(i) The booklet “Disinvestment Policy & Procedures” is a compilation of the policy announced from time to time in the Budget speeches of the Minister of Finance and in other policy announcements of the Government.
- (ii) The procedure part of the booklet is also a compilation of the process followed for disinvestment cases.
- (iii) The details and information given in the booklet are factual and compiled from the various reports and surveys etc.
- (iv) The booklet was not placed on the Tables of both Houses of the Parliament.
- (v) No Motion was moved by the Government for discussion.”

**6. The Committee note that despite their earlier recommendation made in the Report on Demands for Grants (2001-2002) and again in the Action Taken Report desiring that a comprehensive policy on Disinvestment should be framed, the Government has not brought out any such policy. The disinvestment still continues to be done on case to case basis and the procedure is also re-defined and modified from time to time. In the opinion of the Committee, a decade long exposure and exercise with disinvestment is sufficient to equip the Government with the requisite competence to bring out a uniform policy/procedure for disinvestment. The Committee, therefore, reiterate that the Government should shun its case-to-case basis approach and bring out an updated comprehensive policy document which should also be placed before the Parliament for its approval.**

## Utilisation of Disinvestment receipts

7. The “Disinvestment: Policy and Procedure” states that due to interest payments, wages and salaries of Government employee and subsidiaries, the Government is left hardly with any surplus for capital expenditure on social and physical infrastructure such as basic education, primary health and family welfare as huge amounts of resources are blocked in several non-strategic sectors such as hotels, trading companies, consultancy companies, chemical pharmaceuticals companies, consumer goods companies etc.

8. When asked if the objectives of disinvestment have been achieved vis-a-vis increased expenditure on social and physical infrastructures ever since the policy of disinvestment took place, the Government furnished written reply as under:

“The disinvestment proceeds are deposited in the Consolidated Fund of India like any other receipt of Government of India. The expenditures out of the Consolidated Fund of India include outlays for infrastructure sector, restructuring of public sector enterprises, social sectors like education, health and family welfare etc. The expenditure incurred for these purposes was much higher than the receipts from disinvestment. In regard to utilization of these receipts, Finance Minister in his Budget speech of 2001-2002 has clearly stated:

“Given the advanced stage of the process of disinvestment in many of these companies, I am emboldened to take credit for a receipt of Rs.12,000 crore from disinvestment during the next year. An amount of Rs.7000 crore out of this will be used for providing restructuring assistance to PSUs, safety net to workers and reduction of debt burden. A sum of Rs.5000 crore will be used to provide additional budgetary support for the Plan primarily in the social and infrastructure sectors. This additional allocation for the plan will be contingent upon realization of the anticipated receipts. In consultation with Planning Commission I shall come up with sectoral allocation proposals during the course of the year.”

9. When the Government were further asked to furnish details of expenditure incurred out of the proceeds of disinvestment of PSUs covering last three years the Government replied as below:

“The amounts received from disinvestment and dividends, dividend tax, cash surplus, etc. taken out prior to disinvestment for the last three years are as follow;

<b>Year</b>	<b>No. of Cos. in which equity sold</b>	<b>Target receipt for the year (Rs. Crore)</b>	<b>Receipts (Rs. Crore)</b>
<b>1999-00</b>	<b>2</b>	<b>10000</b>	<b>1829</b>
<b>2000-01</b>	<b>4</b>	<b>10000</b>	<b>1870</b>
<b>2001-02</b>	Strategic sale of CMC-51%, VSNL-25%, HTL 74%, IBP-33.58%, PPL-74%, JESSOP-72% (Subject to approval of BIFR), MFIL-II- 26%, HZL-26% and others ITDC, HCL, STC, MMTC	<b>12,000</b>	<b>6230*</b>

\* The figure for 2001-2002 also includes the amounts likely to be received for disinvestment decisions already finalised. The figures also include amounts received/to be received from subsidiaries of PSUs.

Since disinvestment proceeds are deposited in Consolidated Fund of India (CFI), there is no way to estimate how they have been spent. But, as indicated earlier, the allocations/expenditure on social and physical infrastructure have been much higher than disinvestment proceeds received in that year.”

10. During evidence, when answering to a specific question as to how money received from sale proceeds has been utilized, the Secretary of the Ministry of Disinvestment gave his submission as below:

“It must go to the Consolidated Fund and must come out of the Consolidated Fund through a budgetary support where the Minister of Finance gets the Budget approved by you. However, in the last year’s Budget, the Finance Minister has said that Rs. 7,000 crore will go in the Budget; Rs 5,000 crore will go for infrastructure, health etc. The fact of the matter is that today the realization is so small and the investment in strategic areas is large. So, it will be presumptuous on our part to say that there are Rs. 2000 crore or Rs. 3,000 crore, I will do it for infrastructure. When the income increased, the Finance Minister has already given a communication in the last year’s Budget Speech about Rs. 7,000 crore and Rs. 5,000 crore. But no separate fund has been created. We have been trying for the creation of separate fund. But there is no Government order at present. “

11. When asked if the Government chalked out an action plan for the utilization of the anticipated receipt for the year 2002-03 the Government gave their written reply as below:

“The achievement of target in disinvestment depends upon various factors like market conditions, interest of prospective bidders adequacy of bid price etc. Therefore, the amount expected to be generated through disinvestment cannot be precisely predicted at this stage. However, Ministry of Disinvestment is hopeful of meeting the target and would do its best to reach the figure, through the procedures now established well. Whatever amount will be received, during the year 2002-2003, will be deposited in the Consolidated Fund of India.”

**12. One of the objectives of the disinvestment policy is to ensure spending on social and infrastructural sectors such as basic education, primary health and family welfare. However, the Committee find that there is no system to ensure that the funds thus received are utilized for these sectors. In their opinion, since the proceeds are deposited in the Consolidated Fund of India, the Government may change its priorities later on and utilize the proceeds in any other sector. The Committee, therefore, desire that the Government should put in place a system to ensure that a good portion of the sale proceeds from the PSU disinvestments is actually spent on the social and infrastructural sectors as was envisaged in the objectives of the disinvestment.**

**Demand No. 20**

**Major Head: 3451**  
**Sub-Major Head: 00.90**  
**Minor Head: 52**  
**Detailed Head: 52.00.11**

**Ministry of Disinvestment.**  
**Domestic Travel Expenses**

(Non-plan)

(In thousands of Rs.)

<b>Year</b>	<b>B.E.</b>	<b>R.E.</b>	<b>Actuals</b>
1999-2000			
2000-2001	5000	1000	238
2001-2002	4000	800	
2002-2003	1000		

13. The Ministry were asked why the actuals fell far short of even the reduced revised estimates during 2000-2001, and the Government have given their reply as below:

“The Ministry was set up as a Department on 10<sup>th</sup> of December, 1999. For a major part of the Financial Year 2000-2001, the Department had only two officers on its roll namely, the Secretary and one Joint Secretary. While one Deputy Secretary and two Under Secretaries joined on transfer on other Departments, they continued to draw their pay and allowances from their respective erstwhile Departments. Most of the work relating to disinvestment had at that time being handled with the help of the Administrative Ministries. The full complement of the sanctioned strength of the officers of the Department could be filled up only in the later part of the FY 2000-2001 beginning from September, 2000. By September, 2000, two posts of Under Secretaries were filled up. By November, 2000 the Department had got two vacant posts of Joint Secretaries, one Director and one Deputy Secretary could be filled up. All the posts from the level of Under Secretary and above are filled up through the process of Central Staffing Scheme and the Department does not have any direct authority in the matter. Disinvestment work being relatively new to the Government, there was no past experience to rely upon in the matter of estimating the quantum of travel that would be involved in the various transactions. Combined with the absence of full complement of officers for a major part of the financial year and that the work was handled in the concerned Administrative Ministries, the expenditure on account of domestic travel was short of even the Revised Estimate (RE).”



14. The Committee are perturbed to note that the full complement of the sanctioned strength of the officers of the Department could be filled up only in the later part of the financial year 2000-01 beginning from September, 2000, resulting thereby in the mismatch in the budgetary allocation. It has further been observed by the Committee that despite having seen such a yawning gap between the BE/RE and actuals in the financial year 2000-01 which were Rs. 50 lakhs, 10 lakhs and 2.38 lakhs, respectively, similar gross budgetary miscalculation under the same head was repeated in the subsequent financial year 2001-02 where the BE was Rs 40 lakhs and the RE pegged at meager rupees 8 lakhs. The Committee fail to comprehend as to why such a huge amount is allocated at BE/RE stage with actuals turning out to be relatively small. The Committee are of the opinion that such a practice has resulted in blocking of amount which could have been meaningfully and productively earmarked for some other head. The Committee, therefore strongly urge the Government to make budgetary allocations need based and realistic.

**Demand No. 20**  
**Major Head: 3451**  
**Sub-Major Head: 00.090**  
**Minor Head: 52**  
**Detailed Head: 52.00.28**

**Ministry of Disinvestment.**  
**Payments for Professional and Special Services**

(Non-plan)	(In thousands of Rs.)		
Year	B.E.	R.E.	Actuals
1999-2000			
2000-2001	5000	2000	79,260
2001-2002	6000	60200	
2002-2003	233800		

15. The Ministry have informed the Committee that under this head the payments to the Advisors engaged by the Ministry for each transactions are booked. The Advisory Services include the Main Advisor, Legal Advisor, Asset Valuer, Environmental Advisor and Chartered Accountants, etc.

16. When the Ministry were asked to justify the steep fluctuation either between BE and RE or between RE and actuals during 2001 and 2001-02 they gave the following reply to justify their stand

“The BE for 2001-2002 were fixed in November, December 2000. Thereafter, based on an opinion of Ministry of Law, it was decided that the Ministry of Disinvestment would bear expenditure for the professional services of the various Advisors like the Main Advisor, Legal Advisor, Asset Valuer, Environmental Advisor and Chartered Accountants, etc. which were hitherto incurred by the concerned PSUs. Therefore, a proposal for additional funds was made by way of supplementary grants (first batch) and additional funds to the extent of Rs.4.5 crores were provided making a total of Rs.5 crore. In the month of January, 2002, the additional funds to the extent of Rs.1.02 crore were provided by way of re-appropriation making a total of Rs.6.02 crore. It may be mentioned that with the completion of the some of the major disinvestment transactions like those of IBP and VSNL, the provision of Rs. 6.02 crores in 2001-02 would not be adequate for all the payments due. Some of the payments for the transactions completed in the current year will spill over to 2002-2003.”

**17. The Committee note that the Government have adopted a casual approach with regard to the allocation and re-appropriation of funds under this head. The Committee note that when the Government have chalked out an ambitious plan of disinvestment for the year 2001-02 it should have sought the opinion of the Ministry of Law as to who would bear the expenses towards professional and special services well in advance.**

**The Committee feel that if the Ministry had been alert in this matter, such a wide gap between the BE and the Actuals would not have occurred. They, therefore, recommend that the Government should obtain all opinions before hand so that budgetary allocations may not go haywire.**

**Demand No. 22**

**Object Head :**

**Publication:**

(in thousands)

<b>Year</b>	<b>B.E.</b>	<b>R.E.</b>	<b>Actuals</b>
1999-2000			
2000-2001			219
2001-2002	1500	700	
2002-2003	54000		

18. The increase of about 900% in the BE of the current financial year has been explained by the Department on the ground that since the quantum and the number of disinvestment proposals is increasing it would entail publications of a number of booklets on the companies privatized. This would, however, would be suitably modified at the RE state after reviewing the pace of expenditure.

19. The Committee note that there has been a substantial increase in the allocations made under this head for the current financial year i.e. 2002-2003 as compared to the previous year. Though the increase has been justified on account of publications which may have to be published with respect to increase in the proposals of disinvestments, the Committee apprehend that the provisions may not be utilized fully. They, therefore, recommend that the Department should make a realistic assessment particularly at the revised stage with a view to ensuring that funds do not remain unutilized and estimates are realistic vis-à-vis the actual expenditure likely to be incurred.

## **Asset Valuation**

20. Valuation of the Company under disinvestment is a key component of the process of disinvestment that is undertaken by the Government. Since most of the PSUs are either not listed on the Stock Exchanges or their shares are often undervalued, deciding the worth of a PSU is indeed a challenging task.

21. The Ministry furnished a detailed note on valuation methodologies for disinvestment in CPSUs which inter alia spills the following :-

“.....whereas market prices reflect realized events that are influenced by unanticipated factors. However, a specific valuation itself may not be valid over a period of time as it is a function of the competitive position of the company, the nature of market in which it operates and the Government policies. Therefore, it may be appropriate to update or revise valuations”

“The Asset Valuation takes into consideration the market values of all the tangible assets of the company to determine its value. In theory, there are two different approaches to determine asset based valuation (1) Replacement Cost Approach and (2) Liquidation Value Approach.....”

The Asset Valuation also tends to overlook the intangible assets that a company over a period of its existence tends to build, such as goodwill brands, distribution network customer relationships, etc, all of which are very important to determine its true intrinsic value.....”

Replacement Cost Approach-This approach takes into account the amount of money that may be required to create a similar infrastructure (i.e. all the assets) that the company being valued owns as on a particular point in time when valuation exercise is undertaken.

Liquidation Value Approach: The Liquidation Value approach on the other hand, takes into account the amount of money that can be generated by the company through the sale of all its assets.”

22. On Valuation of asset, the disinvestment manual, published by the Department of Disinvestment has given the following guidelines or method on valuation of assets as stated below:

“ While assessing the fair value of the property, the valuer takes into consideration the following:

1. The status of the title of the company over land and building.
2. Any restrictive covenants incorporated in the title documents imposing limitations on the use or transfer of the property or any other restrictions.
3. Any restrictions pertaining to the use or transferability of the property or other restrictions arising from any civic regulations or MasterPlan or other reasons.
4. The values at which transaction have taken place in the recent past for properties of comparable nature, in terms of use, size, location and other parameters.
5. Valuation parameters currently in use by Authorities for determination of stamp duty and other taxes.

6. Assessment of demand and supply of comparable properties at given locations.

7. The state of maintenance and depreciation of the property, and evaluation of expenditure, if any, required to repair and renovate the property to suit the intended use.

8. Terms and conditions of the proposed new lease agreements to be entered into with the lessors for the purpose of disinvestment.

The valuation of the property is done by the asset valuation methodology taking into consideration the above factors.

Valuation of plant and machinery

Valuation of mines, if any.

Valuation of intangibles, if required.

Valuation of other assets.”

23. Referring to the sale of BALCO the Committee desired to know the rationale for sale of profit making companies at a throw away prices. In his reply the Secretary, Ministry of Disinvestment placed before the Committee the following reasoning:

“ It was a profit making company and we used to get Rs. 5.69 crore average dividend on the equity that we sold. This is the average of the last eight years. We get Rs. 826 crore and since we borrow at ten percent and therefore, we would now get Rs. 82.65 crore every year. Should we then disinvest it.”

24. When pointed out that the estimated worth of the BALCO mines was over a billion dollars, the Secretary in his oral submission stated as under:

“ ..... a company might have huge assets but those assets are not giving income to the Company.”

He added:

“ Sir, you raised a very valid question about land. Let me now deal with that question. The hon'ble Member from Mumbai knows the question as well as the answer. NTC has 2400 crore worth of land in Mumbai. Now could that land worth because he cannot reach that Rs. 2400 crore be sold by NTC to anyone for Rs. 5 /-? The answer would be 'no' because he cannot reach that Rs. 2400 croe asset because that is an encumbered asset and because no State Government will give permission to sell that land. We have been trying for the last ten years, in different Government, to sell that land but the permission has not been given. When an industry has located an asset of the company if it is liquidated it would go to the liquidator first and there is a huge list and whether you will get any money if you are a new owner is a very questionable proposition.”

“ If they are not giving income to the company, then the value of those assets is questionable and I have shown that. In BALCO I have got Rs. 826 crore. What I was getting earlier from this huge-earnings company was Rs. 5.69 crore every year. “

25. The Committee note that the asset valuation guidelines are inadequate and vague especially on the issue of land valuation of the disinvested PSU . Though the Government has taken the position that land value of a company under consideration for disinvestment is computed as part of the assets, the actual land value is not considered in most of the cases when the PSU concerned is disinvested/sold to another party. Hence, the Committee do not subscribe to the view of the Government that the value of the assets which are not giving income to the company is questionable. The Committee are of the view that since land is a tangible asset which has value irrespective of whether it fetches income at a particular time, the land should be valued separately and should be factored into the computation of the total value of the assets of the company which is disinvested.

The Committee, therefore, recommend to the Government to improve and modify the guidelines for evaluation of the assets of the PSUs under consideration for disinvestment which would take value of the land invariably into consideration.



## Qualification/disqualifications of bidders

26. The guidelines adopted by the Ministry on qualifications and disqualification of bidders seeking acquisition of public sector enterprises through the process of disinvestment are contained in their circular dated 13 July, 2001 which reads as under:

“Government has examined the issue of framing comprehensive and transparent guidelines defining the criteria for bidders interested in PSE-disinvestment so that the parties selected through competitive bidding could inspire public confidence. Earlier, criteria like net worth, experience etc. used to be prescribed. Based on experience and in consultation with concerned departments, Government has decided to prescribe the following additional criteria for the qualification/disqualification of the parties seeking to acquire stakes in public sector enterprises through disinvestment.

(a) In regard to matters other than the security and integrity of the country, any conviction by a Court of Law or indictment/adverse order by a regulatory authority that casts a doubt on the ability of the bidder to manage the public sector unit when it is disinvested, or which relates to a grave offence would constitute disqualification. Grave offence is defined to be of such a nature that it outrages the moral sense of the community. The decision in regard to the nature of the offence would be taken on case to case basis after considering the facts of the case and relevant legal principles, by the Government

(b) In regard to matters relating to the security and integrity of the country, any charge-sheet by an agency of the Government/conviction by a Court of Law for an offence committed by the bidding party or by any sister concern of the bidding party would result in disqualification. The decision in regard to the relationship between the sister concerns would be taken, based on the relevant facts and after examining whether the two concerns are substantially controlled by the same person/persons.

(c) In both (a) and (b), disqualification shall continue for a period that Government deems appropriate.

(d) Any entity, which is disqualified from participating in the disinvestment process, would not be allowed to remain associated with it or get associated merely because it has preferred an appeal against the order based on which it has been disqualified. The mere pendency of appeal will have no effect on the disqualification.

(e) The disqualification criteria would come into effect immediately and would apply to all bidders for various disinvestment transactions, which have not been completed as yet

(f) Before disqualifying a concern, a Show Cause Notice why it should not be disqualified would be issued on it and it would be given an opportunity to explain its position.

(g) Henceforth, these criteria will be prescribed in the advertisements seeking Expression of Interest (EOI) from the interested parties. The interested parties would be required to provide the information on the above criteria, along with their Expressions of Interest (EOI). The bidders

shall be required to provide with their EOI an undertaking to the effect that no investigation by a regulatory authority is pending against them. In

case any investigation is pending against the concern or its sister concern or against its CEO or any of its Directors/Managers/employees, full details of such investigation including the name of the investigating agency, the charge/offence for which the investigation has been launched, name and designation of persons against whom the investigation has been launched and other relevant information should be disclosed, to the satisfaction of the Government. For other criteria also, a similar undertaking shall be obtained along with EOI.”

27. The confidential undertaking which a bidder must make and comply are as follows:

“Confidentiality undertaking also provides that the bidder shall not deal with any officer, Director or employee of the Government or company, regarding the business, operations, prospects or financing of the company without advisor’s express written consent.

The confidentiality undertaking contains an indemnity clause, whereby the bidder agrees to indemnify the advisor, the Government, and the company any damages, loss, cost or liability arising out of any unauthorized use or disclosure by the bidder.”

28. Queries were raised on M/s Reliance’s participation in the bidding of BPCL and HPCL in face of CBI’s remarks against Reliance in his reply the Secretary stated as under:

“ I will try to explain the facts of the case. When we started this Ministry around the end of 1999, we did not have any guidelines regarding disqualification or qualification of bidders. This issue was agitating for quite sometime whether we should have formal guidelines disqualifying or qualifying the bidders. Ultimately, after consulting the Law Ministry and taking a cross section of opinion, we came out with a circular on 13<sup>th</sup> July, 2001 which basically lays down the grounds on which we will disqualify bidders, and also advises us as to how to go about the transaction. The 13<sup>th</sup> July, 2001 circular for bidders basically states that it is a matter which involves national security, even a charge sheet by any Government agency like the CBI will be sufficient to disqualify the bidder. If it a case which does not pertain to national security, conviction by a court of law or an indictment by a regulatory authority like SEBI is required. If is for a grave offence, the bidder will be disqualified.

In this case the issue that arose was whether the complaint filed by CBI against that particular bidder came under the purview of our guidelines. As I mentioned, in a case that does not deal with national security, there has to be a conviction. There is no conviction here. The records which we have got and which have been examined in the Ministry right up to the Minister show that there is no conviction. Therefore, the only other clause that could have applied was the national

security angle. There also we have examined the papers that have been supplied to us. The Act under which the clauses have been applied by CBI in the complaint is the Official Secrets Act and the Indian Penal Code. Under the Indian Penal Code, the Section used is 120 (B) which is criminal conspiracy. In Official Secrets Act basically defines

the quantum of punishment. So, what is really relevant is Section 52. Section 52 relates to any official document which is secret being received by anybody. The allegation is that certain employees of this particular bidder company had received certain documents which came under the category of official secret documents and the documents which were received do not pertain to anything which pertains to national security.”

29. When asked about the contents of the documents, the representative replied that they were Government documents relating to the Ministry of Petroleum and the Ministry of Disinvestment as well. When the Ministry were asked to clarify the intention of M/sReliance Industries Ltd the representative submitted the following reply:-

“The relationship that they have drawn in the report that we have got is that since the employees were of Reliance and this information is relevant to the company, the Reliance as a company has also been made a party to the complaint apart from the employees. But as far as our guidelines go, we are not concerned about that part. What we are concerned with is, does this amount to a question of national security or not? That test has failed, when we examined that. It does not come under the purview of an issue which is related to national security. So, as my Minister has explained many times through the press and the other media,....”

30. When asked whether it amounts to disqualification, the Secretary, Ministry of Disinvestment stated:

“The Documents definitely relates to commercial interest of Reliance. But our test is of national security. Therefore, the guidelines do not apply for disqualification of Reliance in a bidding process.”

31. He added:

“Sir, the guidelines are very clear that for some kinds of offences, there has to be a conviction. In this case there is no conviction. For some kind of offences, there has to be a charge-sheet. Now, that kind of offence is a national security. Now, these cases do not come under National security. The third class of cases is that you have to do something of very grave offence for which you receive indictment of SEBI or Reserve Bank. So, in these categories, this case does not fall.

We have examined and re-examined it. Therefore, there is no bar for Reliance bidding for Government companies, at present”

32. On being enquired whether a person who has taken loan from Banks and Financial Institutions and is a defaulter, would be disqualified from bidding, the Secretary during oral evidence submitted as under:

“In our guidelines, he is not disqualified because the question of determining whether you are a defaulter or not is a very complex issue. So, we go into the net work of the bidder. We do not get into whether he is defaulter to three to five banks. But the case is not before us. The case is before the BIFR. The Government is finalizing the package. “

**33. The Committee find that though the disinvestment process in our country is continuing for more than a decade yet no guidelines regarding qualification/disqualification of bidders seeking to acquire the stake in PSUs through the process of disinvestment were formulated initially. It was only in July, 2001 when a circular was issued detailing some guidelines for disqualifications for bidders. The Committee note that it debars only those bidders who have been actually convicted for an offence or have been charge sheeted for an offence against national security and those who have been either indicted by SEBI or RBI. The Committee feel that these guidelines are not sufficient and do not cover the offences committed under the Official Secrets Act and cases pertaining to wilful default of public money. The Committee are of the opinion that these offences are in no way less serious than those included in the guidelines.**

**Hence the Committee feel that weak, inadequate and porous guidelines are being used to qualify and disqualify bidders. The Committee strongly recommend that comprehensive guidelines for qualification/disqualification of bidders seeking to acquire stakes in the PSUs through the process of disinvestment may be drawn and included in the Disinvestment Policy. The Committee further desire that the scope of guidelines may also be broadened which may include the business activities of unhealthy, unethical and unscrupulous nature in its ambit. They also desire that it should also cover the offences under the Official Secrets Act and those pertaining to wilful default of public money etc. in its purview.**

## **Employees Welfare**

34. There is a general fear among the employees that as consequence of disinvestment they may be retrenched or their service conditions adversely affected, despite the fact that there are number of protections available to the employees under various labour laws. One of the four main features of the Government disinvestment policy is, "full protection of the interest of workers".

35. It has time and again been stated by the Government that workers interest will be fully protected while going in for disinvestment of any PSU and not even a single employee of any PSU will be retrenched. Giving the example of BALCO it was, however, pointed out that the employees are being transferred to such places where there is already a surplus just to harass the employees or force them to leave the job or take VRS. In their submission the representatives of the Ministry of Disinvestment stated as under:

"In so far as Balco is concerned, we have received a newspaper report about the Vidhan Bagh unit. We have discussed it with the CMD of Balco. For the last 9 months there has been no production still salaries and wages to 500 employees have been paid in time. Company has informed of workmen who have applied for VRS. About 400 people have applied for the VRS."

36. The Committee find that 80 percent of the workers of one of the disinvested PSUs have applied for VRS despite the claim of the Government that workers interest will be fully protected. It appears to the Committee that it might be the handiwork of the new management to create such conditions and circumstances wherein the workers are left with no option but to seek VRS. The workers are transferred to far off areas in order to harass and compel them to seek voluntary retirement. In the opinion of the Committee, VRS is turning to be FRS (Forced Retirement Scheme) and the Government are acting as a mute spectator.

The Committee, therefore, strongly recommend to the Government to take necessary remedial steps and formulate a strategy to ensure proper redressal of the grievances of the workers of disinvested PSUs so that their interests and welfare is safeguarded.

NEW DELHI;  
22 April, 2002  
2 Vaisakha, 1924 (Saka)

(N. JANARDHANA REDDY)  
**Chairman,**  
Standing Committee on Finance

MINUTES OF THE TENTH SITTING OF STANDING  
COMMITTEE ON FINANCE

The Committee sat on Thursday, 4 April, 2002 from 1530 hours to  
1730 hours.

PRESENT

Shri N. Janardhana Reddy — *Chairman*

MEMBERS

*Lok Sabha*

2. Dr. Sanjay Paswan
3. Shri Ramsinh Rathwa
4. Shri Kharebela Swain
5. Shri Raj Narain Passi
6. Shri Sudarsana E.M. Natchiappan
7. Shri Rupchand Pal
8. Shri Varkala Radhakrishnan
10. Shri Trilochan Karungo
11. Shri Abul Rashid Shaheen
12. Shri M.V.V.S. Murthy

*Rajya Sabha*

13. Shri Dina Nath Mishra
22. Shri Parmeshwar Kumar Agarwalla
23. Shri Prem Chand Gupta
24. Shri Sanjay Nirupam

SECRETARIAT

1. Shri P.D.T. Achary — *Additional Secretary*
2. Shri R.K. Jain — *Deputy Secretary*
3. Shri S.B. Arora — *Under Secretary*



**Ministry of Disinvestment**

WITNESSES

- |                              |                           |
|------------------------------|---------------------------|
| 1. Shri Pradip Baijal        | — Secretary               |
| 2. Shri K.K. Jaswal          | — AS & FA                 |
| 3. Shri Amitabh Bhattacharya | — Joint Secretary         |
| 4. Shri K.K. Gupta           | — Joint Secretary         |
| 5. Shri P.K. Basu            | — Joint Secretary         |
| 6. Shri S.K. Bandyopadhyay   | — Deputy Secretary        |
| 7. Mrs. Novel S. Lavasa      | — Officer on Special Duty |
| 8. Shri V.P. Gupta           | — Under Secretary         |

2. At the outset, the Chairman welcomed the representatives of Ministry of Disinvestment to the sitting of the Committee and invited their attention to the provisions contained in Direction 58 of the Directions by the Speaker.

3. The Committee then took oral evidence of representatives of the Ministry of Disinvestment on Demands for Grants (2002-2003) of the Ministry and other related matters.

1. The oral evidence was concluded.
2. A verbatim record of proceedings has been kept.

*The witnesses then withdrew.*

*The Committee then adjourned.*

MINUTES OF THE ELEVENTH SITTING OF STANDING  
COMMITTEE ON FINANCE

The Committee sat on Monday, 22 April, 2002 from 1530 hours to  
1650 hours.

PRESENT

Shri N. Janardhana Reddy — *Chairman*

MEMBERS

*Lok Sabha*

2. Dr. Sanjay Paswan
3. Shri Rattan Lal Kataria
4. Shri Kirit Somaiya
5. Shri Kharebela Swain
6. Shri Sudarsana E.M. Natchiappan
7. Shri Rupchand Pal
8. Shri Varkala Radhakrishnan
9. Dr. Daggubati Ramanaidu
10. Shri Sharad Pawar
11. Shri Abdul Rashid Shaheen
12. Shri Jyotiraditya Madhavrao Scindia

*Rajya Sabha*

13. Shri Amar Singh
14. Shri Prithviraj Dajisaheb Chavan
15. Shri Praful Patel

SECRETARIAT

- |                       |                             |
|-----------------------|-----------------------------|
| 1. Shri P.D.T. Achary | <i>Additional Secretary</i> |
| 2. Shri R.K. Jain     | <i>Deputy Secretary</i>     |
| 3. Shri S.B. Arora    | <i>Under Secretary</i>      |

2. At the outset, the Chairman welcomed the Members to the sitting of the Committee. Then the Committee took up for consideration the draft report on the Demands for Grants (2002-2003) of Ministry of Disinvestment and adopted the same without any modifications.

3.

\*\*\*

\*\*\*

4. The Committee authorised the Chairman to finalise the Reports in the light of modifications as also to make verbal and other consequential changes arising out of the factual verification and present the same to both the Houses of Parliament.

*The Committee then adjourned.*