Letter from the Executive Board

Dear delegates,

We welcome you to the Lok Sabha at CENMUN 2024. It will be a pleasure to host you in committee in a manner that has not been seen in almost the past three years now.

This background guide has been created while keeping in mind that the agenda is a bit technical and you'll be tested based upon both your analytical and research skills in the committee. This background guide is not intended and should not restrict your research base, additionally the guide can in no way be used as a source of proof in the committee.

The guide has been created to help you start your research and give you hints about the important aspects of the committee. The guide has been divided into following parts in order to ease the process of research for you:

Introduction to the agenda
Case studies/ Noteworthy Incidents
Synopsis of the Bill
Additional Links for research and understanding

You are requested to go through the Background guide in the order it has been made because each is connected to the previous section in some way or the other.

If we could give you a tip before you start research regarding the agenda, it would be to keep in mind that this is an analytical agenda and how you interpret the agenda from your portfolio/party's point of view is critical to how you begin your representation in committee from the get go. Analysis and Policy should play a major role in keeping your point forward in front of the committee, hence make sure you understand the terminologies and research you find regarding the agenda.

Apart from that, in case of any queries related to the committee or Rules of Procedure you may contact us on the committee whatsapp group.

We look forward to seeing you at the conference!

Mr. Mohil Mehra

Mr. Somesh Singh

Agenda: Discussion on annual budget 2024 with special emphasis on Public Sector being privatised.

Indian Annual Budget 2024: Focus on Public Sector Privatisation

The Indian Union Budget for 2024 comes at a time when the country's economy is rebounding from the effects of the COVID-19 pandemic, inflationary pressures, and global economic disruptions. As India marches towards becoming a $5 trillion economy, the 2024 budget is expected to focus on several key areas, such as infrastructure development, digital transformation, fiscal consolidation, and green energy. One of the central themes in this year's budget is the emphasis on the privatisation of public sector enterprises (PSEs), a critical part of the government's broader strategy to boost economic growth and enhance efficiency in the public sector.

Historical Context of Privatisation in India

India's journey towards privatisation began in the early 1990s, during the economic reforms initiated by the government to liberalise and open up the economy. The policy of disinvestment, or selling the government's stakes in public sector units (PSUs), has been a tool to raise resources, reduce the fiscal burden, and improve the performance of these enterprises. Over the years, several PSUs have been either partially or fully privatised , with strategic disinvestment becoming a significant aspect of the government's economic policy.

The rationale behind privatisation includes reducing inefficiencies and losses incurred by PSUs, encouraging competition, bringing in private capital and management expertise, and freeing up government resources for other priority areas such as health, education, and infrastructure.

The Government's Privatisation Agenda

In recent years, the government has placed a renewed emphasis on privatisation as part of its broader economic reforms. The 2021 Budget laid the foundation for an aggressive disinvestment program, with the goal of privatising two public sector banks and one general insurance company. In addition, several major PSUs, including Bharat Petroleum Corporation Limited (BPCL), Shipping Corporation of India, and Air India, were earmarked for privatisation. The successful sale of Air India to the Tata Group marked a significant milestone, signalling the government's commitment to this agenda.

The government's privatisation policy, as articulated by Finance Minister Nirmala Sitharaman in the 2021-22 Budget, was based on the principle of "minimum government, maximum governance." The policy aimed to create a more dynamic and efficient economy by reducing the government's role in non-strategic sectors while retaining control in sectors of national importance, such as defence, atomic energy, and railways.

Privatisation in the 2024 Budget

The 2024 Budget is expected to build upon the government's privatisation efforts, with several new announcements related to public sector disinvestment and asset monetisation. Privatisation is seen as a crucial strategy to address the country's fiscal deficit and raise the capital necessary for funding large-scale infrastructure projects under the National Infrastructure Pipeline (NIP).

1. Continuation of Strategic Disinvestment: The government has reiterated its commitment to strategic disinvestment in several non-strategic sectors. The 2024 Budget is likely to announce the sale of stakes in key PSUs, including those in sectors like petroleum, power, steel, and banking. Bharat Petroleum Corporation Limited (BPCL) continues to be a significant target for , with the government seeking to divest its entire 52.98% stake in the company.

2. Focus on Asset Monetisation: In addition to outright privatisation, the government is also emphasising asset monetisation, where public sector assets are leased or transferred to private players to generate revenue while maintaining ownership. This includes assets like roads, airports, power transmission lines, and warehouses. The National Monetisation Pipeline (NMP), launched in 2021, has identified assets worth Rs 6 lakh crore to be over four years, and the 2024 Budget is expected to provide updates on the progress of this initiative.

3. Banking and Insurance Sector Reforms: The 2024 Budget could see renewed efforts to privatise public sector banks (PSBs) and insurance companies, which has been a politically sensitive area. While progress has been slower than anticipated, the government remains committed to reducing its ownership in these sectors, with the goal of enhancing competition, improving efficiency, and attracting private capital.

4. Privatisation of Railways and Defence: While complete privatisation of these sectors is not on the cards due to their strategic importance, the government is likely to encourage more private participation through public-private partnerships (PPPs). In the railway sector, for instance, private players may be invited to operate trains, manage stations, and invest in freight corridors. In the defence sector, the emphasis will be on encouraging private players to manufacture defence equipment and participate in defence production.

5. Potential New Targets for Privatisation: Apart from the sectors that have been historically open to privatisation, the government could expand its drive to other areas, such as energy, mining, and logistics. The Coal India divestment, which has been under consideration for several years, may see fresh momentum in the 2024 Budget, as the government seeks to attract private investment into coal mining and related infrastructure.

The Impact of Privatisation on the Economy

Privatisation is expected to bring several benefits to the Indian economy:

1. Increased Efficiency: By transferring ownership and management of public sector enterprises to private players, the government aims to improve the efficiency of these companies. PSUs have often been criticised for being overstaffed, poorly managed, and loss-making. Privatisation could bring in more professional management, greater accountability, and better operational efficiency.

2. Revenue Generation for the Government: Privatisation allows the government to raise substantial revenue, which can be used to reduce the fiscal deficit or invest in critical areas like infrastructure, health, and education. The sale of Air India, for example, brought in much-needed capital for the government and helped reduce its financial burden.

3. Boost to Investment and Growth: Privatisation attracts private capital, both domestic and foreign, into sectors that have traditionally been dominated by the public sector. This influx of investment can drive economic growth, create jobs, and spur innovation. The energy, infrastructure, and banking sectors, in particular, are expected to benefit from increased private sector participation.

4. Reduction in Fiscal Burden: Many PSUs have been a drain on the government's finances due to their poor financial performance. By privatising loss-making entities, the government can reduce its fiscal burden and redirect resources towards more productive uses.

Challenges and Concerns

Despite the potential benefits, the privatisation process is not without its challenges:

1. Political Opposition: Privatisation, particularly in sensitive sectors like banking and insurance, faces strong opposition from labor unions, political parties, and other stakeholders. The sale of PSUs is often seen as a threat to job security, leading to protests and strikes.

2. Valuation Issues: One of the key challenges in privatisation is ensuring a fair valuation of public assets. There have been concerns in the past about undervaluation of PSUs, which can lead to public backlash and allegations of crony capitalism.

3. Regulatory and Bureaucratic Hurdles: The privatisation process in India is often bogged down by regulatory delays, bureaucratic red tape, and legal challenges. These issues can slow down the disinvestment process and erode investor confidence.

Privatisation can take many forms, including:

Asset sales: This involves selling off public assets, such as land, buildings, or infrastructure, to private investors. This may include the sale of state-owned companies or utilities, such as telecommunications or energy providers.
Public-private partnerships (PPPs): In a PPP, the government contracts out the provision of public services or infrastructure to private companies, who are responsible for financing, constructing, and operating the project. The government typically retains some control over the project and may provide funding or subsidies.
Outsourcing: This involves contracting out specific tasks or services to private companies, such as waste management or maintenance services. The government retains overall control over the service, but the private company is responsible for providing the service.

Since coming to power in 2014, the BJP government has initiated a series of economic reforms, including the privatisation of state-owned enterprises. The aim of these reforms is to improve efficiency, reduce corruption, and boost economic growth. The BJP government believes that the private sector is better equipped to manage and run companies and that it can bring in more investment, create jobs, and boost productivity.

The BJP government's privatisation efforts have been met with mixed reactions from different sections of society. While some argue that privatisation will lead to greater efficiency and profitability, others fear that it will lead to job losses, reduced access to public services, and greater inequality. Let's take a closer look at some of the key cases of privatisation in India under the BJP government.

Air India: In 2018, the government announced its plan to sell its stake in Air India, the national carrier. The move was aimed at reducing the burden of the airline's mounting debt on taxpayers and improving its operational efficiency. The government cited the success of similar privatisation efforts in the aviation sector in other countries such as the UK, Australia, and New Zealand. However, the move was met with criticism from opposition parties and trade unions, who argued that the airline should remain in public hands to protect the interests of its employees and passengers.

Power distribution companies: In 2020, the government announced its plan to privatise power distribution companies in union territories. The move was aimed at improving the quality of services and reducing losses due to theft and inefficiencies. The government also cited the success of similar privatisation efforts in Delhi and Mumbai, which had led to significant improvements in the quality and reliability of power supply. However, the move was met with protests from trade unions and political parties, who argued that it would lead to job losses and higher tariffs for consumers.

Bharat Petroleum Corporation Limited (BPCL): In 2019, the government announced its plan to sell its stake in BPCL, a major oil refiner and marketer. The move was aimed at attracting private investment and improving the efficiency of the company. The government cited the success of similar privatisation efforts in the telecom and aviation sectors, which had led to increased investment, job creation, and improved services. However, the decision to privatise BPCL was met with criticism from opposition parties and trade unions, who argued that it would lead to job losses and reduce the government's control over a strategic asset.

Case study sponsored by the Asian Development Bank

India became independent in 1947 and has had to deal with several obstacles, such as massive poverty, high illiteracy and unemployment levels, a low GDP, and disease. As necessity is reportedly the mother of invention, India's necessity prompted the establishment of SOEs in independent India. The challenges including economic, social, developmental, and industrial problems caused India's government to adopt appropriate industrial policies and launch SOEs, which was a major step toward becoming a developed country. In India, the main purpose of the five-year plan is to construct a socialistic model for the society, concentrating on economic growth, selfreliance, social justice, poverty alleviation and the eradication of all its developmental barriers. Hence, the five-year plan led to a mixed economy with due respect and provision for both public sector and private sector entities. The government manages nationalized industries, such as public utilities, railways and communications, because these generate a revenue source. In contrast, due to the high risk and low returns, information shortage, and reluctance on the part of a number of private enterprises, the country has established state capitalist enterprises from imperfect product and factor markets (Gillis 1980). The Government of India has founded hundreds of SOEs covering various manufacturing and service sectors. Similarly, the state (province) governments of various states have founded hundreds of public enterprises since independence.

There are reasons why the Government of India has shown more interest in SOEs since the country became independent. The previous industrial policy in India in the British regime resulted in the slow growth of industries; it appeared that the British rulers were not serious about developing Indian industries but aimed to retain India as a permanent market for British products. Therefore, there was a need for the state to intervene in economic activities. The then Indian National Congress recommended and its committee emphasized the need for state intervention in all the economic activities of the country, including the establishment of SOEs (Gupta1978).

Dhar (1987) reported that a noteworthy record in the public enterprise history was the Burma Oil Company's establishment of the first oil refinery under the British Government initiative in 1921 at Digboi (Chattopadhyay, 1987). Similarly, tea plantations and coal mining were important industries in Assam during the contemporary period.

India has its own model for SOEs, taking into consideration unity in diversity. The central government owns enterprises with a partial funding arrangement from the private sector or equity market, but it controls the enterprises. This arrangement refers to the SOEs of the central government of India. The state governments of different states of India follow the same model. Both the central and the state governments in India own wholly funded and controlled enterprises, like Indian Railways. In these enterprises, the business model involves 100% government decision making, and the governments earn revenues or profits for their exchequer. Yet another truth in the SOE scenario of India is that, at times, the terms SOE, public sector, and so on are used interchangeably, as the difference is marginal. Indeed, both central and state governments of India need to enhance their value in the economy and society; hence, SOEs have acted strategically to position themselves in the competitive world. Evidence has indicated that the role of SOEs has increased in India for the first decade since independence. According to the source of public sector enterprises of the Government of India Department (2018), there are 257 operating central public sector enterprises that are profit making. However, there are some loss-making public sector enterprises. Furthermore, there are public sector undertakings that the state governments of various states of India own and control. According to the Public Enterprises (PE) Survey, Government of India 2011 in India, more than 80% of PSEs operate in five sectors, consisting of agriculture, mining, manufacturing, electricity, and services. The Central Exchequer receives the contributions of central public sector enterprises (CPSEs) through dividend payments, interest on government loans, and the payment of taxes and duties (Government of India 2005). Many plants in the public sector operate in backward parts of the county, which lack basic industrial and civic facilities, such as electricity, water supply, townships, and workforce. Therefore, by providing these facilities and founding public sector enterprises, both central and state governments can achieve balanced regional development.