Syllabus subtopic: Government policies and interventions for development in various sectors and issues arising out of their design and implementation.

Prelims and Mains focus: About the govt.’s move and its significance; about disinvestment and its types; India’s Coal sector

News: The Union cabinet on Wednesday approved opening up of coal mining and further disinvestments. It also extended the validity period of mining lease clearances ending in 2020 by two years.

Context: Govt.’s move comes at a time when the window for fossil fuels is rapidly closing, and the global energy landscape evolving, with fundamental changes to the investment culture amid growing climate concerns.

Background

It comes against the backdrop of India’s gross domestic product growth decelerating to a six-and-a-half-year-low of 4.5% in the September quarter amid slowing domestic and external demand.

About the govt.’s move and its significance

- In an attempt to attract investments in coal mining, the Cabinet approved the promulgation of Mineral Laws (Amendment) Ordinance 2020.
- Under the Ordinance, requirement of previous approval in cases where allocation of blocks was made by Centre has been dispensed with to speed up the process of implementation of projects and ease of doing business.
- The ordinance allows coal mining by any company present in sectors other than steel and power, and does away with the captive end-use criteria.
- While the move will help create an efficient energy market, usher in competition and reduce coal imports, it may also bring an end to state-run Coal India Ltd’s (CIL) monopoly.
- The move will also help India gain access to sophisticated technology for underground mining used by global miners.
India’s Coal Sector

- Despite having the **world’s fourth largest coal reserves**, India imported **235 million tonnes (mt)** of coal last year, of which **135mt valued at Rs.171,000 crore could have been met from domestic reserves**.

- The Centre has set a **mining target of 1.5 billion tonnes of coal by 2020**. Of this, 1 billion tonnes was to be from CIL and 500 million tonnes from non-CIL sources, in line with the **government’s push to raise natural resources production to kickstart economic growth**. This has now been revised down to 1 billion tonnes of coal by 2023-24.

- The government has been progressively liberalizing the coal sector over the last several months to attract new investments, and getting rid of this **archaic end-use restriction** was a key step. It is expected that the government will also address other procedural issues that add to time delays and upfront cost of developing a mine.

Govt.’s decisions on disinvestment

- As part of the NDA government’s disinvestment agenda, the **Cabinet Committee on Economic Affairs** gave ‘in-principle’ approval for **strategic disinvestment** of equity shareholding of Minerals & Metals Trading Corp. Ltd (49.78%), National Mineral Development Corp. Ltd (10.10%), MECON (0.68%), Bharat Heavy Electricals Ltd (0.68%) and two Odisha state government units—Industrial Promotion and Investment Corporation of Odisha Ltd (IPICOL) (12.00%) and Odisha Mining Corp. (OMC) (20.47%) in Neelachal Ispat Nigam Ltd.

- The government has set an **ambitious disinvestment target** of Rs.1.05 trillion for FY20, of which it has managed to garner only Rs.17,364 crore so far.

What does the term ‘disinvestment’ mean?

- The term 'disinvestment' literally means the **opposite of investment**.
Disinvestment is the process of reducing the share of government in public sector undertakings (PSUs). It is the sale of shares of the government in these companies to financial institutions, employees or the public at large.

- In disinvestment, also called divestment, there is no change in the management of PSUs from the public to private hands as the government still holds majority equity (51 percent). Even when the government’s share falls below 51 percent, the rest of the equity may be sold in such a way that no one institution or individual holds enough stake to take control of the management.

- Disinvestment is primarily a money-raising exercise. The proceeds of disinvestment are treated as non-debt creating capital receipts. Though the government can technically hold a stake less than 51 percent and still be the largest shareholder in PSUs, it was not done on a large scale. This is because a PSU ceases to be a public sector company post such exercise.

Types of Disinvestment

Disinvestment of a minority stake in PSUs can be done in the following ways:

1. **Initial Public Offering (IPO):** an offer of shares by an unlisted PSU to the public for the first time.
2. **Follow-on Public Offering (FPO):** also known as Further Public Offering, it's an offer of shares by a listed PSU.
3. **Offer for sale (OFS):** shares of a PSU are auctioned on the platform provided by the stock exchange. This mode has been used extensively by the government since 2012.
4. **Institutional Placement Programme (IPP):** under this, only selected financial institutions are allowed to participate and the government stake is offered to only such institutions. E.g., mutual funds, insurance, and pension funds such as LIC etc.
5. **CPSE Exchange Traded Fund (ETF):** Through this route, the government can divest its stake in various PSUs across diverse sectors through a single offering. This mechanism allows the government to monetize its shareholding in those PSUs which form part of the ETF basket.
6. **Cross-holdings:** in this method, one listed PSU takes up the government stake in another listed PSU.

Disinvestment of a majority stake in PSUs:

- **Strategic sale:** it is the sale of a substantial portion of government
shareholding, 50 percent or higher, in a PSU, along with the transfer of management control.

- **Privatization**: it's a type of strategic sale in which the government divests its entire shareholding, along with the transfer of management control, to a private entity.