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DISINVESTMENT POLICY: A SOLUTION TO PUBLIC SECTOR ENTERPRISES IN INDIA

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India's disinvestment policy has been a significant component of its economic reform agenda aimed at promoting efficiency, reducing fiscal burden, and encouraging private sector participation in key industries. The Government of India had adopted the policy of disinvestment back in 1991 after the enactment of the New Industrial Policy mainly due to poor performance of public sector enterprises for several past years. India had experienced huge losses in public enterprises, heavy foreign assistance, adverse foreign trade, high budget deficit etc., all of these unfavourable conditions forced the Government to take some serious economic decision to address the various interlinked issues. The policy of disinvestment of public enterprises is one of them (Singh, 2020).

In some cases, disinvestment may be done to privatise assets. However, not all disinvestment is privatisation. Some of the benefits of disinvestment are that it can be helpful in the long-term growth of the country; it allows the Government and even the company to reduce debt. Disinvestment allows a larger share of PSU ownership in the open market, which in turn allows for the development of a strong capital market in India.

The Government, whenever it so desires, may sell a whole enterprise, or a majority stake in it, to private investors. In such cases, it is known as privatisation, in which the resulting ownership and control of the organisation does not rest with the Government. The Government usually avoids doing this. The Government mostly retains more than half of the stake in the public-sector enterprise so that the control remains in its hands. But when it doesn't, then the ownership is transferred to the private sector, which results in privatisation. It is also known as majority disinvestment or complete privatisation wherein 100 per cent control goes to the private sector.

Objectives of Disinvestment

1. To reduce the financial burden of the sick, loss-making PSU's on the Government
2. To improve public finances
3. To introduce competition and market discipline
4. To fund growth, social sector welfare
5. To encourage a wider share of ownership

Different Approaches, Types and Methods to Disinvestment

A. There are primarily three different approaches to disinvestments (from the sellers' i.e. Government perspective)

1. **Minority Disinvestment:** A minority disinvestment is one such that, at the end of it, the Government retains a majority stake in the company, typically greater than 51 per cent, thus ensuring management control.

2. **Majority Disinvestment:** A majority disinvestment is one in which the Government, post disinvestment, retains a minority stake in the company i.e. it sells off a majority stake.

3. **Complete Privatisation:** Complete privatisation is a form of majority disinvestment where in 100 per cent control of the company is passed on to a buyer.

B. Different Types of Disinvestment

1. **Token Disinvestment:** The process of disinvestment started in India with great caution, rather than the radical process of disinvestment, the Government aimed for a gradual process of disinvestment. The process started with political caution and the type of disinvestment that the Government initiated is known as the 'Token Disinvestment'.

2. **Strategic Disinvestment:** Under the strategic disinvestment, the Government sells a majority stake (minimum 51%) in the public-sector company to the private sector Therefore, as the majority of the shares would go into the hands of these

specialized private players, they will be able to take all the major decisions concerning the business operations and can bring major changes in its functioning.

C. Methods of Disinvestment

- **Initial Public Offering (IPO)** - Initial Public Offering is the event when a company issues its share in the market for the first time. In an IPO the investors can buy the securities directly from the issuing company.
- **Further Public Offering (FPO)** - Further Public Offering is also called follow-up public offering, it is when a listed company (that has already issued its shares through an IPO) issues additional shares after an IPO. Follow-on offerings are also known as secondary offerings.
- **Offer for Sale (OFS)** - Through OFS, shares are auctioned on the platform provided by the Stock Exchange.
- **Qualified Institutional Placement (QIP)** - The QIP is also a type of private placement through which companies' issues equity shares, debentures, or other types of securities to the Qualified Institutional Buyers (QIB). The QIBs are the investors who are deemed to have the required financial knowledge and are legally recognizable by the securities market regulators.
- **Exchange Traded Fund** - Disinvestment through ETF route allows the simultaneous sale of the Government's stake in various Central Public Sector Enterprises (CPSEs) across diverse sectors through a single offering. It provides a mechanism for the Government to monetize its shareholding in those CPSEs, which form part of the ETF basket.

Regulation of Divestment in India

- **Department of Investment and Public Asset Management (DIPAM)-2016**

  Main functions involves: Management of Central Government investments in equity including disinvestment in CPSUs. Sale of Central Government equity through- Offer for Sale (OFS), Initial Public Offer (IPO), Exchange-traded Fund (ETF), or private placement. Strategic disinvestment- sale of 50 per cent or more of GOI shareholding in identified CPSEs, along with transfer of management control. Capital Management of CPSUs- bonus shares, dividends, buyback, etc. Advising Govt. in matters of financial restructuring of the CPSES and for attracting investment in CPSEs through capital market. Public Asset Management.

- **Department of Public Enterprises (DPE)-1990**

It is largely engaged in coordination of matters of general policy affecting all Public-Sector Enterprises (PSEs).Restructuring or closure of PSEs including the mechanisms. Rendering advice relating to revival.Counselling, training and rehabilitation of employees in CPSEs under Voluntary Retirement Scheme. Categorisation of CPSEs including conferring 'Ratna' status, among others.

Table 1: Recent disinvestment activity of Public Sector Undertakings FY (2021-22)

Name of the CPSEs	% of GoI's Shares Disinvested	Method of Disinvestment	Receipts (Rs. Crores)	GoI's shareholding Post Disinvestment
Hindustan Aeronautics Ltd.	14.82	OFS	4924.23	75.15
Bharat Dynamics Ltd.	12.82	OFS	771.46	74.93
Mazagon dock Shipbuilders Ltd	15.17	IPO	442.79	84.83
Indian Railway Catering and Tourism Corporation Ltd	20.03	OFS	4473.92	67.4
Steel Authority of India Ltd.	10	OFS	2737.56	65
Indian Railway Finance Corporation Ltd.	4.55	IPO	1541.37	86.36
Rail Tel Corporation India Ltd.	27.16	IPO	817.60	72.84
Ircon International Ltd.	16	OFS	676.28	73.18
Rail Vikas Nigam Ltd.	9.63	OFS	542.69	78.2

Source: DIPAM, Government of India.

Table 1. Shows recent disinvestment areas of PSUs. Where Government announced highest disinvestment in Rail Tel Corporation India Ltd. (27.16%) followed by Indian Railway Catering and Tourism Corporation Ltd. (20.03%) and Government able to receive

817.6 crores and 4473.92 respectively. Because this type of disinvestment providing way to efficiency in the public sector and gradually leading to growth of public enterprises.

Advantages of Disinvestment

- **For the Government**

  Raising valuable resources for the Government, which could be used to bridge the fiscal deficit for one, but also for various developmental projects in key areas such as infrastructure. Apart from generating a one-time sale amount, many of these stake sales would also result in annual revenues for the Government, as has been shown in the past. The Government can focus more on core activities such as infrastructure, defences, education, healthcare, and law and order. A leaner government with reduction in the number of ministries and bureaucrats.

- **For the Markets and Economy**

  Brings about greater efficiencies for the economy and markets as a whole.

- **For the Taxpayers**

  Letting go of these assets is best in the long-term interest of the taxpayers as the current yield on these investments in abysmally low. Even if the funds from the sale are not utilised for bridging fiscal deficit, a much better utilisation of these 'stuck' funds would be into critical sectors such as healthcare, education and infrastructure. Unlocking of shareholder (in this case the citizens of India) value.

- **For the Employees**

  Monetary gains through ESOPs and preferential issue of shares pay rises, as has been seen in past divestmentsGreater opportunities and avenues for career growth- further employment generation.

- **For the PSUs**

  Allow PSU to raise capital to fund their expansion plans and improve resource allocation in the economy.Greater autonomy leading to higher efficiencies.

Challenges of Disinvestment

- The Sale of profit-making and dividend-paying PSUs would result in the loss of regular income to the Government. It has become just a resource raising exercise by the Government. There is no emphasis on reforming PSUs.
- The valuation of shares has been affected by the Government's decision not to reduce government holdings below 51 percent. With the continuing majority ownership of the Government, the public enterprises would continue to operate with the earlier culture of inefficiency.
- The process of disinvestment is suffering from bureaucratic control. Almost all processes starting from conception to the selection of bidders are suffering due to it. Moreover, bureaucrats are reluctant to take timely decisions in the fear of prosecution after retirement.
- Some experts say Strategic Disinvestment of Oil PSUs as a threat to National Security. Oil is a strategic natural resource and possible ownership in the foreign hand is not consistent with our Strategic goals. For example, disinvesting Bharat Petroleum Corporation Limited (BPCL).
- Loss-making units do not attract investment so easily. It depends upon the perception of investors about the PSU being offered. This perception becomes more important in the case of strategic sales, where the amount of investment is very high.
- Complete Privatization may result in public monopolies becoming private monopolies, which would then exploit their position to increase costs of various services and earn higher profit.
- Using funds from disinvestment to bridge, the fiscal deficit is an unhealthy and short-term practice. It is said that it is the equivalent of selling 'family silver' to meet short-term monetary requirements.

Conclusion

Disinvestment is good for a country's economy as it provides revenue for the Government, increases operating and financial performance of enterprises and restructure those units, which are continuously loss-making enterprises. Disinvestment can lead to increase the efficiency through better utilization of resources but riskless privatization may not provide the ultimate solution for longer period. India's disinvestment policy has been instrumental in promoting efficiency, encouraging private sector participation, and generating revenue for developmental purposes. While facing challenges and criticisms, the policy continues to be an important tool in India's economic reform agenda, facilitating economic growth and restructuring of key sectors.

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