Disinvestment Policy

Public Sector in India

- A state-owned enterprise in India is called a **public sector undertaking** (**PSU**) or a **public sector enterprise**.
- These are owned by the union, state or territorial government of India.
- The company stock needs to be majority-owned by the government
- PSUs may be classified as central public sector enterprises (CPSEs) or state level public enterprises (SLPEs).
- CPSEs are companies in which the direct holding of the Central Government or other CPSEs is 51% or more. They are administered by the Ministry of Heavy Industries and Public Enterprises.

Role of public sectors

- Capital Formation
- Employment Generation
- Balanced Regional Development
- Contribution to Public Exchequer
- Export promotion and foreign exchange earnings
- Import Substitution
- Promotion of Research and Development

Problems of Public Sectors:

- Poor policy making and its execution
- Over staffing
- Wastage of resources or under utilization of resources
- Higher operating cost
- Lack of motivation for self improvement
- Lack of proper price policy

Disinvestment

"Investment refers to the conversion of money or cash into securities, debentures, bonds or any other claims on money, disinvestment involves the conversion of money claims or securities into money or cash."

Disinvestment can also be defined as the action of an organisation (or government) selling or liquidating an asset or subsidiary. It is also referred to as 'divestment' or 'divestiture.'

Disinvestment involves the government selling off or liquidating its assets, primarily public sector companies, projects, and fixed assets owned by federal and state governments. This disinvestment strategy aims to alleviate the financial burden on the government's treasury. It generates funds that can be utilized for specific needs, such as addressing revenue shortfalls from alternative sources.

Objectives

- Reduce the financial burden on PSUs that are sick and going bankrupt.
- Encourage private ownership and sharing of government assets.
- Improves market discipline, competition, and introduction of new enterprises
- Depoliticization of essential services
- To become competitive, public enterprises must upgrade their technology.
- Workforce rationalization and re-training
- Increasing R&D expertise and strength
- Developing diversification and expansion strategies.

Disinvestment Policy

1. New Industrial Policy
2. Navaratnas and Miniratnas
3. The Department of Disinvestment and Public Asset Management deals with managing central govt investments, stake of Central govt equity, discussion on recommendations of Administrative Ministries, NITI Ayog for disinvestment, decisions of capital restructuring, bonus, dividends etc.

Methods of disinvestment

(a) Public Offer:

The offer is made to the general public through the medium of recognised market intermediaries. Initially equity was offered to retail investors through domestic public issues. This was followed by issuance of the Global Depository Receipts (GDRs) to tap the overseas market.

(b) Sale of Equity:

Sale of equity through auction of share amongst pre-determined clientele, whose number can be large. The reserve price for the PSE's equity can be determined with the assistance of merchant bankers.

c) Offer for Sale:

Offer for sale, determining the fixed price for sale of a public enterprise, inviting open bidders and accepting highest bidder's quotation for sale.

(d) Cross Holding:

In the case of cross holdings, the government would simply sell part of its shares of one PSU to one or more PSUs.

(e) Golden Share:

In this model, the government retains a 26 percent share in the PSU. This 26 percent share will continue to give the Government the status of majority shareholder.

(f) Warehousing:

Under this model, the government owned financial institutions were expected to buy the government’s share in select PSUs and holding them until third buyer emerged.

(g) Strategic Sale:

Of late, Government is pursuing the strategic sale method. Under this method, the government sells a major portion (51 percent and above) of its stake to a strategic buyer and also gives over the management control. Disinvestment price will be market based and not prefixed and PSUs shares will be under the department of Disinvestment.

Current disinvestment policy

a) Public Sector Undertakings are the wealth of the Nation and to ensure this wealth rests in the hands of the people, promote public ownership of CPSEs;

b) In the case of disinvestment through minority stake (share) sale in listed CPSEs, the Government will retain majority shareholding, i.e. at least 51 per cent of the shareholding and management control of the PSU;

c) Strategic disinvestment by way of sale of substantial portion of Government shareholding in identified CPSEs up to 50 per cent or more, along with transfer of management control.

Limitations of disinvestment in India

- Equity bidders have been small not only for underperforming PSUs but also but also in the case of better performing PSUs.
- Financial institutions like UTI and other mutual funds have been compelled by the Government to purchase the equity which was being unloaded through disinvestment. Instances of insider trading of shares by them have also come to light. All this has led to low valuation or underpricing of equity
- In most cases, the government has retained a majority stake in them even after divesting and thus the ownership has not really changed. Also, there have been some apprehensions that disinvestment will lead to the crowding out of private corporates from the primary capital market

- Several experts have maintained that a mere government decision to disinvest is not enough to carry out the sale of people assets in the absence of wider national consensus.
- Disinvestment process of PSUs is never completely open and transparent since knowing the fact that they are not directly going to benefit by the disinvestment process PSUs are most of the time reluctant to prepare and distribute prospectuses and share facts.
- Many people argue that total disinvestment of PSUs would naturally concentrate economic and political power in the hands of the private corporate sector. This may lead to a greater loss of the Indian citizens.

- The sale of such equity to foreign companies has a lot of implications relating to nation’s wealth, power and control, particularly if the equity is sold below the correct price.

Evaluation

1. Hasty and unplanned
2. Strategic partners
3. Government control
4. Reduction in public sector employment
5. Continued deficits
6. Peoples concern
7. Disinvestment to public-private partnership

Resources

1. yourarticlelibrary.com
2. Economicdiscussion.com
3. H.L Ahuja, Principles of Macroeconomics (S.Chand Publishing, 2019)
4. Salvatore, D.: Managerial Economics in a global economy (Thomson South Western Singapore, 2001)
5. Economic Survey by Government of India