

Course– Indian Economy, ECON(H)221

Lecture 34: Disinvestment



Disinvestment

- Generally, disinvestment refers to the sale, either partly or fully, of government owned enterprises by the government.
- It involves the conversion of securities into cash
- Disinvestment is also referred to as 'divestment'.

Disinvestment v/s Privatization

- The terms disinvestment and privatization are often used interchangeably. But there is a vital difference between the two.
 - Disinvestment may or may not result in Privatization.

Indian Economy and PSUs

- At the time of independence, India faced many socio-economic problems and our planners took note of the same through taking appropriate policy measures (emphasis was on heavy and basic industries, infrastructure etc.)
- Country had weak or almost no industrial base and primarily agrarian economy; low savings and lack of investment capacity; many sick units maintained to protect the interest of the workers etc. Thus it became a pragmatic compulsion to use the public sector as an instrument for self-reliant economic growth.
- There existed considerable inequalities in income and levels of employment, glaring regional imbalances in economic development and lack of trained manpower.

Disinvestment policy

- The 1991 new economic policy noted that PSUs had shown a very negative rate of return on capital employed.
- Inefficient PSUs had become a burden on the government's resources as many of these were liabilities to the government rather than being assets.
- Hence, the need for the government to get rid of these units and to concentrate on core activities was identified.
- The government also took a view that it should move out of non-core businesses, especially the ones where the private sector had now entered in a significant way.
- Disinvestment was also seen by the government as a way to raise funds for meeting general/specific needs.

Benefits of Disinvestment

➤ For the Government

- Raising valuable resources for various developmental projects.
- The government can focus more on core activities such as infrastructure, defense, education, healthcare, and law and order.

➤ For the PSUs

- Greater autonomy leading to higher efficiencies

➤ For the Markets and Economy

- Greater efficiencies for the economy and markets

➤ For the Employees

- Greater opportunities and avenues for career growth
- Pay rises, as has been seen in past divestments

Approaches to Disinvestments

- Complete Privatization
- Complete privatization is when 100% control of a company is passed on to a buyer.
- For example in 2003-04 18 hotel properties of ITDC and 3 hotel properties of HCI were privatized.

Majority Disinvestments

Majority Disinvestment

- Government retains a minority stake in the company
- Historically, majority disinvestments have been typically made to strategic partners.

Minority Disinvestment

- The government retains a majority stake in the company.
- The government's policy now is that all disinvestments would only be minority disinvestments via Public Offers.
- Several minority sales done via Public Offers (Power Grid, NTPC, NHPC etc.)

Thank you

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