

# Disinvestment

The withdrawal or reduction of an investment is known as disinvestment.

## Definition of Disinvestment

At the very basic level, disinvestment can be explained as follows:

“Investment refers to the conversion of money or cash into securities, debentures, bonds or any other claims on money. As follows, 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.’

In most contexts, disinvestment typically refers to sale from the government, partly or fully, of a government-owned enterprise.

A company or a government organisation will typically disinvest an asset either as a strategic move for the company, or for raising resources to meet general/specific needs.

## Objectives of Disinvestment

The new economic policy initiated in July 1991 clearly indicated that PSUs had shown a very negative rate of return on capital employed. Inefficient PSUs had become and were continuing to be a drag on the Government’s resources turning to be more of liabilities to the Government than being assets. Many undertakings traditionally established as pillars of growth had become a burden on the economy. The national gross domestic product and gross national savings were also getting adversely affected by low returns from PSUs. About 10 to 15 % of the total gross domestic savings were getting reduced on account of low savings from PSUs. In relation to the capital employed, the levels of profits were too low. Of the various factors responsible for low profits in the PSUs, the following were identified as particularly important:

- Price policy of public sector undertakings
- Under-utilisation of capacity

- Problems related to planning and construction of projects
- Problems of labour, personnel and management
- Lack of autonomy

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. Finally, disinvestment was also seen by the Government to raise funds for meeting general/specific needs.

In this direction, the Government adopted the 'Disinvestment Policy'. This was identified as an active tool to reduce the burden of financing the PSUs.

### **Indian Scenario**

Disinvestment in Public sector units in India, is process of public asset sales by President of India on behalf of Government of India, directly (offer for sale to public) or indirectly (bidding process) in capitalized market. The Public Enterprises Survey (2015-16), brought out by the Department of Public Enterprises, Ministry of Heavy Industries, & Public Enterprises, Government of India on the performance of Central Public Sector Enterprises was placed in both the Houses of Parliament on 21 March 2017. There were 331 CPSEs in 2017-18, out of which 257 were in operation. Rest (74) of the CPSEs were under construction.

As in need of Economic Liberalism and Infrastructure development, in Union Budget of India Total Expenditure of Government of India increased from Rs. 1,13,422 crore (1991-92) to Rs. 21,46,735 Crore (2017-18). To raise the funds partially for these Expenditures and also to minimize fiscal deficits in union budgets, Indian Government started divestment in public sector undertakings. Conceding to demands of privatization and with tough resistance from labour unions, government of India is slowly divesting from PSUs.

Major divestment steps were taken in past by BJP-led NDA government (1999-2004), made four strategic disinvestment's - in Bharat Aluminum Company (BALCO) and Hindustan Zincboth to Sterlite Industries), Indian Petrochemicals Corporation Limited (to Reliance Industries) and VSNL (to the Tata group), While track record and future of these companies were good. BJP led NDA Government

(1999-2004) has also been criticized for divestment of IPCL, in which Reliance industries bid very high as compared to other competitors.

Again in starting from 2014 to 2018 BJP led NDA government divested total Rs.1,94,646 crore, which also includes minority and majority stake sale of most profitable Public sector undertaking companies, like ONGC-HPCL deal worth Rs. 36,915 crore. in budgetary announcement of financial year 2017-18 The Finance Minister noted that the government initiated strategic disinvestment in 24 PSUs, including Air India, this fiscal. This would be the first year when the government is on course to hit the divestment target.

Since financial year 1991-92 to 2017-18 government led by political parties sold total public assets of Rs.3,47,439 Crore. In past recent years Public sector undertaking units performed well as compared to other private competitors and paid huge dividends to government. Net Profit of all 257 operating CPSEs during 2016-17 stood at Rs.1,27,602 crore compared to Rs. 1,14,239 crore during 2015-16 showing growth of 11.70%, while Loss of loss incurring CPSEs minimized to Rs. 25,045 crore in 2016-17 compared to Rs. 30,759 crore in 2015-16 showing a decrease in loss by 18.58%.

Sources- [www.bsepsu.com](http://www.bsepsu.com), [www. Dipam.gov.in](http://www.Dipam.gov.in) And Wikipedia,