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Strategic Disinvestment

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Why in News?

- ❑ Cabinet clears the plan to sell
 - 53.3% of its stake in BPCL
 - 63.8% of SCI
 - 30.8% of CONCOR to strategic buyers
 - 74.2% of its stake with THDCIL
 - 100% of NEEPCO to NTPC
- ❑ The Govt had set a disinvestment target of 1.05 lakh crore rupees for the financial year 2019-20

Introduction

- ❑ **Disinvestment:** sale or liquidation of assets by the govt. (usually Central and state public sector enterprises, projects, or other fixed assets)
- ❑ **Strategic disinvestment:** transferring the ownership and control of a public sector entity to some other entity (mostly to a private one). Implies some sort of privatization
- ❑ Guided by the basic economic principle '**government has no business being in business**' in India

Main Objectives of Disinvestment in India

- ❑ To meet the budgetary needs
- ❑ To reduce fiscal deficit
- ❑ To improve public finances and overall economic efficiency
- ❑ To diversify the ownership of PSU for enhancing

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- ❑ To diversify the ownership of PSU for enhancing efficiency of individual enterprise
- ❑ To raise funds for technological upgradation, modernization and expansion of PSUs
- ❑ To introduce, competition and market discipline
- ❑ To fund growth and development programmes
- ❑ To encourage wider share of ownership
- ❑ To depoliticise non-essential services
- ❑ Transfer of Commercial Risks

Importance of Disinvestment

- ❑ As a short-term goal, It is helpful in financing the increasing fiscal deficit
- ❑ Disinvestment funds can be utilised for long-term goals such as:
 - Financing large-scale infrastructure development
 - Investing in the economy to encourage spending
 - Expansion and Diversification of the firm
 - The repayment of Government Debts: Almost 40-45% of the Centre's revenue receipts go towards repaying public debt/interest
 - Investing in social programs like health and education
 - It would help in generating a better environment for investment
 - Companies' performance will improve and become more competitive
- ❑ Performances of earlier disinvested companies have increased significantly

Challenges of Disinvestments

- ❑ Selling of profit-making and Dividend paying PSUs would result in the loss of regular income to the Government
- ❑ Chances of "Asset Stripping" exist. Most of the PSUs have valuable assets; plant and machinery, land and buildings, etc
- ❑ Strategic and National Security concerns; involvement of foreign players in strategic areas such as Oil and Petroleum
- ❑ Affects labour forces' social Security

- ❑ Concerns of cronyism
- ❑ The depressed state of the markets and the paucity of reasonable buyers would land in a bad deal
- ❑ Using funds made available from disinvestment to bridge the fiscal deficit is an unhealthy and a short term practice
- ❑ A majority stake sale done to another CPSE results in no real change in ownership, and is thus just hogwash

Conclusion

- ❑ “Privatisation (Strategic Disinvestment) leads to greater competition in all case” need to be ensured
- ❑ The process for Privatisation to be very fair and transparent; ensures, a situation such as cronyism does not arise



For TTP