

# Disinvestments Policy

The meaning of disinvestment is the actions of the government to dissolve the shareholders in the public sector. There is a surge in the purveying of public goods and services. The funds attained from the disinvestment will assist in more purveying of the public sector enterprises. The major objectives of the disinvestments are to lower the financial burden and to surge and uplift public finances.

## Types of Disinvestment

The major types of disinvestment have been stratified into minority, majority, and complete privatization. The main significance of the disinvestment lies in financing the infrastructural projects, lowering the debt-to-GDP ratio etc. Take a look at the illustration of the types of disinvestments in India-

- **Minority Disinvestment:** The government tries to preserve the majority stake in the company which is around 51%. Further, it tries to put control in the hands of the management.
- **Majority Disinvestment:** Majority Disinvestment is the one in which the government retains a minority stake in the company after the disinvestment.
- Complete privatization is a type of majority disinvestment in which the company's entire ownership is transferred to a buyer.

## DIPAM

The reformation and the renaming of the Department of Disinvestment was named as Department of Investment and Public Asset Management. The renaming of the department was declared by the Minister of Finance in the budget. The foremost and primary objective of DIPAM is to regulate the investments of the Centres effectively. It also governs disinvestment. It suggests the Government for reformation of the financial aspects. They also bring in investments. It effectively caters to the reformation of capital shares, dividends, and bonuses.

## Disinvestment Policy of India - Background

During the 1990s, after the onset of the economic policy popularly known as 'liberalization, privatization, and globalization, the Indian Government had begun disinvesting its stake in the public-sector companies, which helped them reduce the fiscal deficits in their accounts.

- The sold stakes in the public-sector companies by the government would help them raise revenue. Even in recent times, the central government has used this method to make up for the ventures facing losses and then to increase non-tax revenues.
- Ever since the NDA (National Democratic Alliance) came to power in the central government, it has made a few vital disinvestments in key PSUs (Public Sector Undertakings) like Hindustan Zinc and Bharat Aluminium, VSNL, and Indian Petrochemicals Corporation Limited.
- The NDA government under the leadership of Prime Minister Narendra Modi tried to retire the government debt because approximately 41-45% of the revenue receipts of the central government were used for repayment of public debt or related interest which

further led to the increment of the disinvestment target for the year 2017-18 by the government, after failing to retire the debt of Air India.

## Objectives Of Disinvestments

The method of strategic cross-disinvestment in which one PSU buys a stake in the other could have made this possible. This not only allows the government to raise the revenue it needs but also keeps the control of the company under the government. The other objectives of the disinvestment have been mentioned here-

- Helps in improving the public finances of the country
- Depoliticizing essential services
- Permitting private ownership
- Working on the diversification and expansion program
- Stabilizing the competition in the market with balance
- Workforce rationalizing and retraining

## Need of Disinvestments

The Disinvestment Policy of India is beneficial to a country's economy because it generates revenue for the government, improves the performance of enterprises, and strategizes units that are losing money.

- To meet the fiscal shortfall.
- Augmentation or assortment of the firm.
- The government can repay debts.
- Planning to implement a government plan.
- A negative rate of return on the Public Sector Undertaking

## Disinvestment Policy of India Importance

The importance of disinvestment policy of India includes lowering the GDP to debt ratio. The importance of the disinvestment are as listed below-

- Funding the growing fiscal deficit
- Subsidizing the large-scale infrastructure development
- To encourage investment in the economy
- For repaying public debt
- For social programs such as health care and education

## Recent Disinvestment Policy of India

The central government has revised and reduced the estimate for its disinvestment during the current fiscal year to Rs. 78,000 crores. It was initially Rs. 1.75 lakh crores which was the target estimate in the budget on the 1st of February last year and is a reduction of 55.4%.

The revised estimate of the current financial year was reduced by the government to prevent the revelation of the estimated value of the IPOs (Initial Public Offerings) of LIC India (Life Insurance Corporation) at the current stage. It is a big IPO and is scheduled for the current financial year.

