DISINVESTMENT: Sigh of relief or Digging one's own grave.

Though the Preamble of the Indian Constitution composes India into a socialist economy, however in recent years it has been on a path of converting into a capitalist economy. So, what does the socialist and capitalist economy mean? And why does India take the path of a capitalist economy?

The capitalist economy is hinged on an individual initiative and favors market mechanisms over government intervention, while the socialist economy is based on government groundwork and the role of private resources is confined to law and order. The Economic reforms 1991 aimed at converting the Indian economy into a market economy, and increasing the participation of private players in all sectors of the economy. There was the abolition of industrial licensing, the role of the public sector was diluted, free entry was allowed for foreign investment and technology, and it finally led to the beginning of privatization in India. Slowly, different sectors of the Indian economy are moving towards a more privatized way of functioning. There is one question that pricks my mind and soul. Would capitalism be better for PSUs?

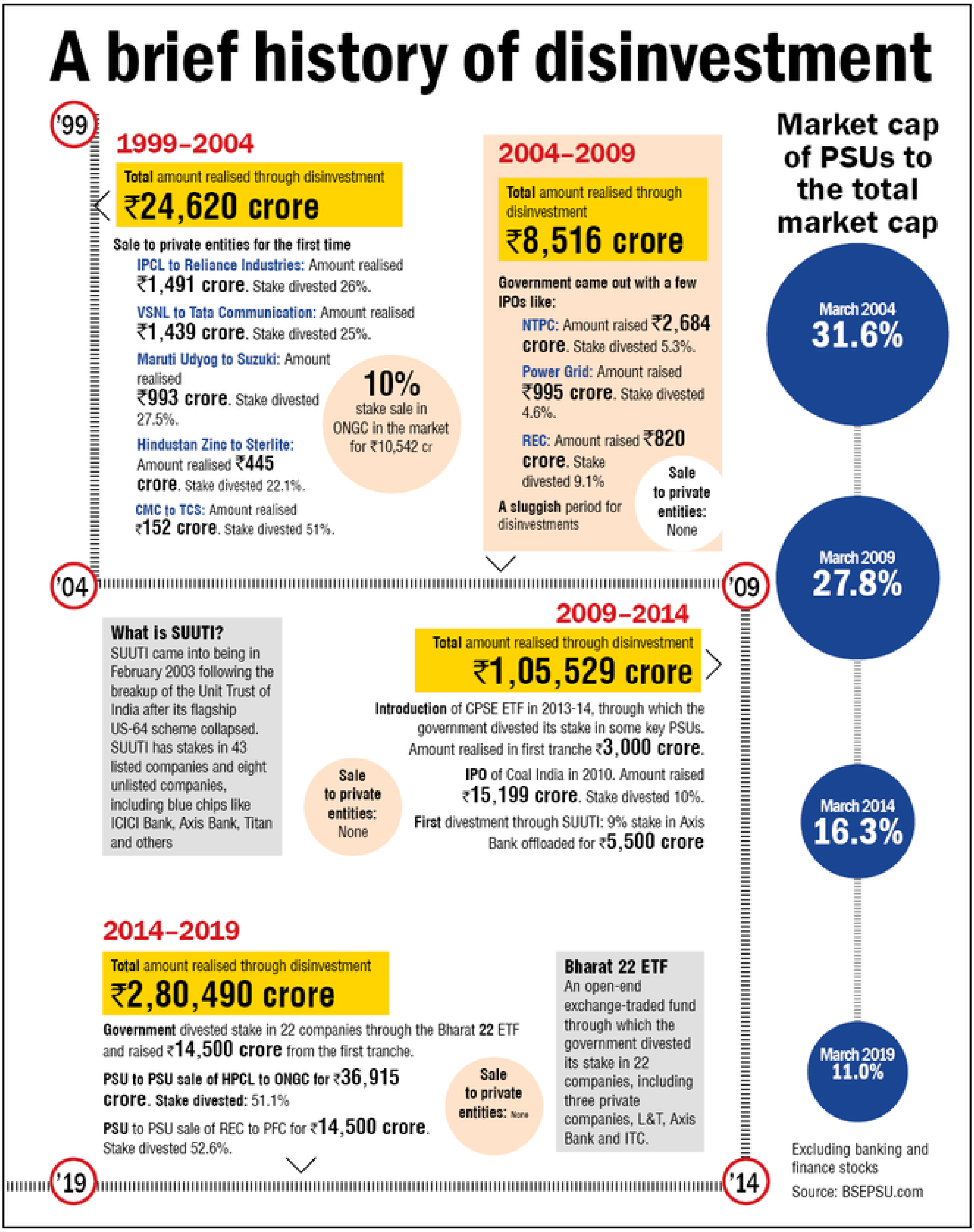
Disinvestment is a policy instrument to promote privatization. It occurs when the government sells off its share capital of PSUs (public sector undertakings) to private investors. Public sector enterprises are for public welfare but in the current situation, Is disinvestment in the best interest of public welfare, or Is it for the amelioration of the economy?

A HISTORICAL OUTLOOK

The Industrial Policy Resolution 1956, classified industries into three slices: exclusively owned by the state; public-cum-private sector; and the private sector. 17 industries were reserved for state-owned as against 12 industries which were envisaged to be progressively State-owned but the private sector was expected to supplement the efforts of the State. After Independence, India pursued a path of growth in which the public sector was expected to be an engine of development. The major consideration for setting up PSUs was to generate employment, accelerate the growth sector, and income. After the crisis, the government began disinvestment to lower the fiscal deficit, raise capital and privatize companies facing a financial crisis. The first disinvestment was made in 1991, 31 PSUs were selected to be disinvested. The first National Democratic Alliance (NDA) regime privatized some PSUs such as Bharat Aluminium Co. Ltd, but these ran into trouble as some of the strategic sales were questioned.
In 1999, public sector enterprises were classified into Strategic and Non-strategic units for disinvestment. The industries which provide large innovative spillover falls

under the Strategic sector. The strategic public sector includes defense, banking, insurance, and energy. All the other PSUs apart from strategic falls under the Non-strategic sector including Power Discoms.

The following chart shows the disinvestment history in India for over 20 years. The Indian Government has raised around ₹4.5 lac crore through disinvestment.



"Not so tempting"

Disinvestment has never been an attractive idea because the government sells ownership of PSUs to private hands to maximize their profit margins. They merely use this tool to raise resources rather than make PSUs efficient or restructure PSUs at a massive scale. Corruption and administrative loopholes have made disinvestment an imbroglio idea. It led to controversies regarding legal hassles and creating a negative impact on disinvestment. There's never been a crystal clear direction to disinvestment as it has been subjected to political power. Have you ever noticed why the government targets profit-making PSUs? Let's take some instances, the government targeted PSUs like ONGC, NTPC, NHPC, and SAIL but failed to meet the targets because of its policies. It is not just the Indian formula; it is a global situation. The success of disinvestment can only be seen when it is lifted by retail investors rather than the government's financial agencies. Even if it succeeded, it was the government's financial agencies that lifted part of it. The government possibly analyses the pros and cons and it is only done when the government's interest is not in jeopardy. The Department of Disinvestment tried to sell off BALCO, Modern Bread, CMC, IPCL, VSNL, and many hotels under the Hotel Corporation of India situated in prime locations, and in all the cases, huge public assets were transferred to private hands at throw-away prices. They did the same with Navratanas but at first tenure, it couldn't disinvest all of it as planned. In all the other cases SAIL, GAIL, BEL, BPCL, or ONGC some part of disinvested shares have gone to the general public. If this is not befooling the people, what else?

“Is Strategic disinvestment a good initiative?

A lot of PSUs have very good value and strategic disinvestment would do a lot of good for the companies because their real value can be realized and new promoters will be happy to create more wealth, says **Sanjiv Bhasin**, Executive Vice President, IIFL Securities in an interview with The ET NOW.
For instance, Hindustan Zinc Limited was incorporated as the public sector in 1996 and Atal Bihari Vajpayee's NDA government, in August 2000, decided to disinvest 26 percent of its equity through a strategic sale. Sterlite Industries emerged as the highest bidder, offering Rs 40.5 per share for the government's stake. The transaction was completed in April 2002. The government sold 45 percent of its stake in the firm for around Rs 769 crore. The former PSU, headquartered in Rajasthan, saw its profits rise manifold in the 17 years after privatization. The full-year profits as of 31 March 2019 stood at Rs 7,956 crore, as against Rs 68 crore in the full year ending March 2002. Hindustan Zinc is the second-largest zinc-lead miner in the world after Swiss firm Glencore, globally. It has now also broken into the top 10 list of silver producers in the world. This is how ‘dust turned out to be gold’.

"Pandemic jeopardized the FY21 plan"

For the FY21 plan, the government has set a disinvestment target of ₹2.10 lakh crore. Of this, ₹1.20 lakh crore will come from disinvestment of public sector undertakings and another ₹90,000 crores from stake sale in financial institutions. "There are already nearly 22-23 such PSUs which have been cleared by the Cabinet for disinvestment. The intent is clear that at least for those which had already been cleared by the Cabinet, we will have to disinvest," **Nirmala Sitharaman** said.
The DIPAM(Department of Investment and Public Asset Management) has set a disinvestment process for BPCL, Air India, LIC, CONOR, NRL, SCI, and a bunch of other minority stake sales.
The pandemic has adversely affected the tax revenues and calls for disinvestment louder than ever. The nationwide lockdown forced the Indian government to extend deadlines for several Expressions of Interest (EOI). Like, the deadline for Air India and BPCL was extended for more than a month. Speaking of which, the TATA group has initiated its due diligence on Air India and bidding close to the deadline of August 31st.

ALL IN ALL,

The government should focus its money and efforts away from running companies. Instead, it should ensure a level playing field and appropriate regulatory mechanisms for private companies to flourish. Disinvestment of PSUs shouldn't be viewed as a revenue generation source, it frees up resources that are being unproductive for more use. When the government disinvestment in any sector it analyzes some pros and cons and all existing possibilities that reduce corruption to some extent.
I am certain, by now you must've found the answer to my previously asked question that disinvestment is in the best interest of the government and public welfare.

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