Strategic Disinvestment

Strategic Disinvestment refers to the sale of a public sector holding/undertaking to a non-government entity and in most cases, to the private sector. It is done so by the government in order to relieve itself the burden of maintaining a non-performing public enterprise.

Strategic Disinvestment came to the fore with the government of India's decision to sell Air India, Bharat Petroleum Corporation (BPCL) and the Container Corporation of India.

Following the Union Budget of 2021, the disinvestment target was raised to Rs. 2.14 Lakh Crore, three times than the target of Rs.67000 in the previous year.

This article will give details about Strategic Disinvestment within the context of the IAS Exam.

Facts about Strategic Disinvestment

Disinvestment about the liquidation of assets held by the government, usually state and public sector undertakings (PSU’s), enterprises, or other fixed assets. It is usually undertaken by the government to relieve fiscal burden and for raising money for specified purposes.

The guiding principle to strategic disinvestment in India is that the government plays little to no role in the manufacture/production of goods and services in the day and age of competitive markets. Regarding the potential of entities subject to disinvestment, they are best asserted by strategic investor who evaluate based on the facts of technology, efficient management and technology upgradation

Strategic disinvestment can be approached in the following ways:

Minor disinvestment: The government gives away a portion of its stake but retains a majority stake, preferably at 51%, in order to retain management control.

Major disinvestment: The government sells off the majority of its stake and retains minor holdings in the company.

Compete privatisation: In this the government hands over complete control of its holdings to a private player.

Objectives and Importance of Strategic Disinvestment

The objectives of Strategic Disinvestment are as follows:

- Meeting budgetary requirements

- Reduce fiscal burden
- Raise funds to finance growth and development projects
- Improve market competitiveness and discipline
- Transfer of commercial risks

Importance of strategic disinvestment are as follows:

- Strategic disinvestment can be used for repaying government debts and for investing in social programs like health and education.

- Through innovative management skills and technology, a strategic investor can improve the growth of such units.

- Government presence in non-strategic sectors will only disrupt the market dynamics and the burden of maintaining inefficient public sector undertaking will fall on the general public.

- Investing in the economy will encourage spending which in turn will improve the economy.

- Although there have been issues regarding strategic disinvestment in the past, it has yielded favourable returns. An example is the Hindustan Zinc, which saw fantastic increase in its profits after its takeover by Vedanta in 2002.

Challenges Regarding Strategic Disinvestment

Strategic Disinvestment has its own fair share of challenges. They are as follows:

- Loss of revenue to the government should a profit making PSU be sold

- There might be incidences of 'Asset Stripping' as in the buyer will strip the PSU of its valuable assets such as buildings, tools, machinery etc.

- Disinvesting in strategic assets such as oil refineries may be a threat to national security as oil is an important strategic asset.

- Although using funds from disinvestment can be a major boost for the government exchequer, it is a short term measure mainy and cannot be used often.

- Complete privatisation may result in the government losing its monopoly in certain sectors.

Conclusion

Strategic Disinvestment can be a useful tool for short-term cash injection without having to raise new taxes, if used properly that is. Otherwises it is akin to selling the ‘family silver’ for short term monetary gains. Additionally the money gained through the sale of public sector holdings must be used judicially and not wasted away.