



Disinvestment In India: Challenges, And Policy Implications

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Abstract

Disinvestment has emerged as a significant policy instrument in India's economic reform trajectory, aimed at enhancing efficiency, reducing fiscal burdens, and promoting wider ownership of public sector enterprises. Initiated in the early 1990s as part of the broader liberalization process, disinvestment seeks to reallocate resources from non-strategic sectors to priority areas while fostering market competitiveness and corporate governance. Despite its intended benefits, the process of disinvestment has encountered numerous challenges. These include political resistance, valuation complexities, lack of investor confidence, regulatory hurdles, and concerns over employment and social equity. Additionally, issues such as inadequate transparency, delays in execution, and fluctuating market conditions have often impeded the effectiveness of disinvestment initiatives.

Key words: Disinvestment, challenges, government policy, policy implementation,

Disinvestment refers to the process where a government or organization sells or liquidates assets, subsidiaries, or stakes in enterprises, often to raise funds or reallocate resources. In economic contexts, especially in India, it typically means the government reducing its equity in public sector undertakings (PSUs) by selling shares to private entities or the public, aiming to cut fiscal burdens and boost efficiency. Disinvestment refers to the sale or liquidation of a asset or subsidiary of an organisation or government to the private sector.

Disinvestment has different terminology in different countries like 'privatisation', 'peopalisation', 'popular capitalism', 'denationalisation', 'prioritisation', 'industrial transition, 'economic democratisation', 'partners in development', 'disinvestment', 'transformation and restructuring'. The words privatisation and disinvestment are often used interchangeably.¹

The process of privatization is referred to as disinvestment. Put otherwise, it is the procedure that could lead to privatization. It was found that the public sector only fared successfully when it was shielded by high tariffs, entrance restrictions, state monopolies, etc. It was suggested that the state shouldn't have to use taxpayer funds to cover the losses of public sector businesses that consistently experience losses. The issue of pulling out of this industry was also brought up in India because the public sector had already ventured into too many domains. As a result, the issue of public sector disinvestment was brought up.²

Challenges of Disinvestment in India

India's three-decade disinvestment trajectory is closely associated with its economic liberalization after 1991. The government implemented market-oriented reforms, abolishing the license-permit raj and redefining the state's role in the economy, in response to a balance of payments crisis. Disinvestment, or the partial or whole selling of public sector enterprise (PSE) interests, has been a popular tactic to reduce budget deficits, boost productivity, and free up funds for social and infrastructure projects. Critics point out employment losses, asset undervaluation, and reduced welfare goals, while supporters claim that disinvestment improves governance and competitiveness.³

(A) Political and Bureaucratic Hurdles

India's disinvestment activities in public sector enterprises (PSEs) are severely hampered by political and bureaucratic obstacles, which frequently lead to missed goals like the FY26 shortfall to Rs 8,800 crore versus Rs 47,000 crore anticipated. These barriers stem from entrenched interests and procedural rigidities, echoing historical challenges post-1991 liberalization discussed earlier. Fearing employment losses and voter backlash from unions connected to opposition parties, coalition dynamics and electoral pressures result in opposition to privatizing "national champions" like banks or defence companies. Governments lack cross-party agreement on strategic sales, divert funds inconsistently, and emphasize short-term budgetary plugging over long-term efficiency.⁴Reforms are frequently halted by union

¹ Govt document 2001 pp.1

² Sanjay Tiwari, *Disinvestment in India* (New Delhi: sarup and Sons ,2005), pp.171

³ Bhaskar, Sarmah. "Three Decades of Disinvestment in India: Policy Shifts, Outcomes, and Challenges." *Journal of Research in Humanities and Social Science* 13, no. 3 (2025): 134–13

⁴ Shrishti Sharma, "Economic Survey 2025–26 Proposes 26% Government Stake in CPSEs," *The Economic Times (ET BFSI)*, January 30, 2026

opposition and populist rhetoric. 40,000 workers participated in the 2003 protest against HPCL and BPCL disinvestment, which caused a ten-year delay in sales⁵. Transparent procedures are further hampered by bureaucratic resistance to accountability. Disinvestment frequently becomes a divisive topic in India's political environment, which is marked by a complicated interplay of interests. Political parties have always opposed privatization because they see it as a threat to public welfare and job security, especially those with a large labour base. Transparent procedures are further hampered by bureaucratic reluctance to responsibility.

(B) Issues with Valuation

It's similar to attempting to appraise an antique car that has been sitting in a garage for years when determining the true worth of a public sector enterprise. Although it may appear valuable on paper, its true market value depends on a number of factors, including great real estate holdings, surplus labour, and outmoded technology. The government is frequently criticized for either overvaluing assets, which results in unsuccessful disinvestment attempts, or undervaluing them, which results in the loss of potential revenue. Take Air India as an example. Only after several rounds of bidding and protracted negotiations over differences in valuation did the airline change hands. Years passed during what should have been a simple transaction, demonstrating how complicated pricing choices can completely ruin the process.⁶

(C) Impact on Job Losses and Social Welfare Concerns:

One major point of dispute has been how disinvestment in India's public sector affects social welfare issues and employment losses. Because privatization may lead to restructuring, downsizing, or reallocating human resources, one of the main concerns is the possibility of job losses. This may have negative social and economic repercussions, particularly for those who depend on jobs in the public sector. Labor union resistance, protests, and social unrest can result from job losses in the context of disinvestment. Opposition to privatization initiatives may arise from workers' fear of unemployment and decreased job security. Furthermore, the idea that private companies might put profit ahead of social responsibilities gives rise to social welfare concerns. When privatized organizations are thought to be motivated more by profit than by the general welfare, worries regarding affordability, equal distribution, and access to basic services may surface.⁷

⁵ S. Sharma, "Disinvestment and Trade Unions: The Case of Oil Sector Workers," *Indian Journal of Industrial Relations* 39, no. 4 (2004): 449–467.

⁶ Economics.com, "Indian Economic Policy: Challenges in India's Disinvestment Process and Modes," last modified May 4, 2025.

⁷ Amit Kumar Tiwari, "Disinvestment in Public Sector in India: Problems and Prospects (1991–2023)," *Amoghvarta* 2, no. 4 (Year 02): 238–247.

(D) Transparency and Accountability Issues:

Concerns about accountability and transparency have long plagued India's disinvestment process. Lack of accountability and transparency can damage investor confidence, erode public trust, and reduce the overall efficacy of disinvestment programs. The opaqueness around the valuation of assets and businesses being sold is a significant transparency problem. There have been cases where the criteria and procedures used for appraisal have been questioned, casting doubt on the process's fairness. It has also been difficult to provide details about the disinvestment process, such as liabilities, asset quality, and financial performance. Investor decision-making may be hampered by inadequate or delayed disclosure, which may also make it more difficult for the market to fairly evaluate the worth and any hazards of the divested companies. Furthermore, the requirement for clearer procedures for tracking and assessing the performance of privatized companies after disinvestment gives rise to accountability concerns. Protecting public interests requires private owners to uphold operating standards, fulfill social commitments, and adhere to contractual obligations.⁸

(E) Labour Union Resistance

Labour union resistance constitutes one of the most significant challenges in the process of disinvestment of Public Sector Undertakings (PSUs) in India. Disinvestment, which involves the sale or dilution of government ownership in public sector enterprises, is often undertaken with the objective of improving efficiency, reducing the fiscal burden on the state, and promoting private sector participation. However, the implementation of such policies frequently encounters opposition from labour unions representing employees of public sector enterprises.

Trade unions generally perceive disinvestment as a direct threat to job security, employment stability, and workers' welfare. Employees of public sector undertakings often fear that privatization or strategic sale may lead to downsizing, retrenchment, or restructuring measures aimed at increasing operational efficiency and profitability. These apprehensions are intensified by concerns regarding the potential loss of long-term benefits such as pension schemes, social security provisions, and other employment protections traditionally associated with public sector employment. Consequently, labour unions mobilize workers through protests, strikes, demonstrations, and collective bargaining in order to resist or delay disinvestment initiatives.

(F) Private Sector Competition

PSUs now face competition from nimble, innovative private companies as a result of liberalization. Private businesses have surpassed PSUs in terms of customer service, technological use, and profitability in industries including banking, telecom, and oil and gas. Among the difficulties in competing are: Slow decision-making processes Strict HR procedures make it difficult to draw in and keep qualified workers. limited capacity for branding and marketing. Innovation

⁸ Amit Kumar Tiwari, "Disinvestment in Public Sector in India: Problems and Prospects (1991–2023)," *Amoghvarta* 2, no. 4 (Year 02): 238–24

Deficit and Technological Obsolescence is also one reason. The majority of PSUs have not invested in R&D or updated their infrastructure. For example: State-run telecom operators struggle to compete in the 5G era. Manufacturing PSUs often use outdated machinery. In both home and foreign markets, this technology lag lowers competitiveness and hinders production.

Policy Implementations

Interim Budget 1991-92 (Chandrashekhar Government)

The policy, as enunciated by the Government, under the Prime Minister Shri Chandrashekhar was to divest up to 20% of the Government equity in selected PSEs in favour of public sector institutional investors. The objective of the policy was stated to be to broad-base equity, improve management, enhance availability of resources for these PSEs and yield resources for the exchequer.

" It has been decided that Government would disinvest up to 20 per cent of its equity in selected public sector undertakings, in favour of mutual funds and financial or investment institutions in the public sector. The disinvestment, which would broad base the equity, improve management and enhance the availability of resources for these enterprises, is also expected to yield Rs. 2,500 crores to the exchequer in 1991-92. The modalities and details of implementing this decision, which are being worked out, would be announced separately."

Industrial Policy Statement of 24th July, 1991

The Industrial Policy Statement of 24th July 1991 stated that the government would divest part of its holdings in selected PSEs, but did not place any cap on the extent of disinvestment. Nor did it restrict disinvestment in favour of any particular class of investors. The objective for disinvestment was stated to be to provide further market discipline to the performance of public enterprises.

" In the case of selected enterprises, part of Government holdings in the equity share capital of these enterprises will be disinvested in order to provide further market discipline to the performance of public enterprises ".

The Common Minimum Programme of the United Front Government: 1996

- The highlights of the policy formulated by the United Front Government were, as follows:
- To carefully examine the public sector non-core strategic areas;
- To set up a Disinvestment Commission for advising on the disinvestment related matters;
- To take and implement decisions to disinvest in a transparent manner;
- Job security, opportunities for retraining and redeployment to be assured.
- No disinvestment objective was, however, mentioned in the policy statement.⁹

⁹ GOVT DOCUMENTS PG13

Budget Speech: 2000 - 2001

The highlights of the policy for the year 2000 - 01 were that for the first time the Government made the statement that it was prepared to reduce its stake in the non-strategic PSEs even below 26% if necessary, that there would be increasing emphasis on strategic sales and that the entire proceeds from disinvestment/ privatisation would be deployed in social sectors, restructuring of PS Es and retirement of public debt. The main elements of the policy are reiterated as follows:

- To restructure and revive potentially viable PSEs;
- To close down PSEs which cannot be revived;
- To bring down Government equity in all non-strategic PSEs to 26% or lower, if necessary;
- To fully protect the interests of workers;
- To put in place mechanisms to raise resources from the market against the security of PSEs' assets for providing an adequate safety-net to workers and employees;
- To establish a systematic policy approach to disinvestment and privatisation -and to give a fresh impetus to this programme, by setting up a new Department of disinvestment

Disinvestment in 2003-04

In 2003-04, the disinvestment strategy was broadened to include offers for sale of residual shares in privatised PSUs and a minority portion of Government equity in select PSUs. There was an initial public offering by Maruti Udyog Ltd. in June 2003, which received an overwhelming response from institutional and retail investors. This was followed by offers for sale of residual shares of privatised PSUs, viz., CMC Ltd., IBP Ltd and Indian Petro Chemicals Corporation Ltd and a portion of Government equity in Dredging Corporation of India Ltd, Gas Authority of India Ltd., and Oil and Natural Gas Corporation Ltd. During the year 2003-04, summarizes the transactions in 2003-04, when realization from disinvestments was Rs. 15,547 crores, exceeding the revised budget estimate of Rs.14,500 crore for the year. The major portion of receipts in the year was through "Offers for Sale." The overwhelming response from institutional and retail investors witnessed in July, 2003 in the case of Maruti Udyog Ltd. continued in the subsequent six public Sale of shares. Over 16 lakh retail investors were allotted shares in the last six offerings and the level of over subscription ranged from 2.8 times in the case of IBP Ltd. to 18.11 times in the case of DCIL.

Disinvestment 2007-08

The government made Rs. 4181.39 crore in 2007-08 by selling 10.27 percent of MUL's stock and 10 percent of Power Grid Corporation of India Ltd.'s paid-up equity. Through the sale of 5% ownership in NHPC Ltd., 10% in Oil India Ltd., 5% in REC Ltd., and 8.38% in NMDC Ltd., the government made Rs. 23552.93 crore during the 2009-10 fiscal year. The Government made Rs. 22,144.21 crore in 2010-

11 by disinvestment and the sale of 10.03 percent of SIVN Ltd. In contrast to the target of Rs. 40,000 crore, the government made Rs. 22,144.21 crore through disinvestment, the sale of 10.03 percent in SIVN Ltd., and 10 percent equity each in Engineers India Ltd. (EIL), Coal India Ltd., Power Grid Corporation of India Ltd., MOIL Ltd., and Shipping Corporation of India Ltd.¹⁰

Disinvestment 2014-2015

The current NDA government, which was established in 2014–15, has largely adopted the public sector policies of the previous UPA government without making any significant adjustments. The government's goal is to keep the public sector robust. As a result, attempts are being made to assess ill industrial units and update and reorganize sick central PSUs.⁸ In 2014–15, state sales in SAIL and Coal India Limited (CIL) generated real disinvestment receipts of Rs. 24348 crores, compared to the budgeted aim of Rs. 58425 crores. In 2015–16, actual disinvestment receipts from sales in IOC and NTPC were Rs. 23996 crores, compared to the budgeted aim of Rs. 25312 crores. The actual disinvestment receipts for the year 2016–17 were Rs. 46247 crores, compared to the budgeted objective of Rs. 45500 crores.

Disinvestment in 2020

Finance Minister Nirmala Sitharaman declared on May 17, 2020, that all PSUs in non-strategic sectors would be privatized. Additionally, she said that there will only be four PSUs in strategic industries. To cut unnecessary administrative expenses, the government would privatize, combine, or consolidate PSUs under holding companies in important sectors with more than four PSUs. According to Nirmala Sitharaman, a clear policy is required in which PSUs play a significant role in specific areas and all sectors are open to private sector engagement.¹¹

Recent Developments

Union Budget 2026 sets an ambitious ₹80,000 crore target for FY27 disinvestment and asset monetization, a 136% jump from FY26's revised ₹33,800 crore, including CPSE REITs for real estate assets. Past years saw shortfalls, like ₹8,800 crore realized in FY26 so far against higher estimates.

Way forward for overcoming challenges

Disinvestment in India grapples with structural impediments such as political opposition, valuation discrepancies, and bureaucratic delays, necessitating rigorous policy recalibrations for efficacy.

¹⁰ Md. Firoz Alam, Abdul Saboor Mohammad, and Mohd. Anas, "Disinvestment in Public Sector Undertakings (PSUs) and Its Analytical Study," *International Journal of All Research Education and Scientific Methods (IJARESM)* 10, no. 5 (May 2022): n.p., ISSN 2455-6211, available at www.ijaresm.com.

¹¹ Ibid pp.780

(A) Formulating a Robust Framework

Scholars advocate a holistic policy architecture that prioritizes strategic divestment in non-core sectors while retaining stakes in vital industries like defence and energy. This entails delineating "strategic" versus "non-strategic" PSUs explicitly, as per NITI Aayog's blueprint, to mitigate ad-hoc decision-making and foster investor confidence.

(B) Enhancing Valuation and Transparency

Adopt standardized, independent valuation methodologies—such as discounted cash flow (DCF) and comparable multiples—over net asset value alone, appointing external advisors early in the process. Streamlining approvals via direct Cabinet Committee on Economic Affairs (CCEA) submissions circumvents ministerial bottlenecks, ensuring equitable pricing and curbing undervaluation.

(C) Mitigating Socio-Political Resistance

Implement employee stock ownership plans (ESOPs) and retraining programs to address labour displacement fears, balancing efficiency gains with social equity. Robust public engagement campaigns, underscoring fiscal relief and PSU performance uplift, can neutralize union-led opposition, as evidenced in successful cases.

(D) Integrating with Broader Reforms

Link disinvestment to the National Monetisation Pipeline (NMP) through innovative vehicles like REITs and InvITs for asset recycling, while incentivizing FDI via tax concessions. Establishing an autonomous disinvestment authority would professionalize execution, drawing from global models like the UK's privatization successes.

Conclusion

Disinvestment in India has emerged as a central pillar of the country's economic reform agenda, particularly since the liberalisation phase of the early 1990s. Conceived initially as a mechanism to reduce the fiscal burden on the state and improve the efficiency of public sector enterprises (PSEs), disinvestment has gradually evolved into a broader policy instrument aimed at restructuring the role of the state in the economy. The analysis undertaken in this study demonstrates that while disinvestment has contributed to resource mobilisation and has, in certain cases, enhanced operational efficiency, its outcomes have been uneven and context-dependent.

A critical evaluation of disinvestment policies reveals that the success of such measures is contingent upon transparent procedures, sound regulatory frameworks, and a well-functioning market environment. Instances where strategic disinvestment has been accompanied by improved corporate governance and professional management have yielded positive results. However, concerns persist regarding undervaluation of public assets, lack of institutional preparedness, and inadequate safeguards for employees and other stakeholders. These issues underscore the need for a more calibrated and transparent approach.

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