



Disinvestment Of Public Sector Undertakings In India And Its Effects, Challenges And Trends



M.Vadivel Prabu
Ph.D Research Scholar (Part-time)
Department of Public Administration
IDE, University of Madras
Chennai-600 005

Abstract: In India, disinvestment policies have become an important part of economic reforms meant to improve the accountability, efficiency, and competitiveness of Public Sector Undertakings (PSUs). Disinvestment is the process of selling government shares in PSUs to the public or private sector. It was first implemented in the early 1990s as part of the liberalization program. The main goals are to lessen the financial load, enhance public finances, promote greater ownership, and develop a more vibrant, market-driven economy. Strategic disinvestment and the privatization of non-performing or non-strategic PSUs have replaced partial stake sales as India's disinvestment approach over the years. Although the government has benefited greatly from disinvestment in non-tax revenue, it has also triggered discussions about valuation, transparency, social impact, and the role of the state in the economy. The government's commitment to streamlining the public sector is demonstrated by important efforts such as the establishment of the Department of Investment and Public Asset Management (DIPAM) and policies on strategic disinvestment. With an emphasis on how it affects PSU performance, this article examines the idea, goals, significance, implementation problems, difficulties and ramifications of India's disinvestment strategy. This article also looks at the main problems that PSUs are facing today and examines the recent challenges in a fiercely competitive privatized economy.

Keywords: PSUs, DIPAM, Disinvestment, LPG, Private Sector, Subsidy reforms

Introduction

Since independence, Public Sector Undertakings (PSUs) have been essential to India's social and economic advancement. PSUs were once the foundation of India's planned economy, having been founded with the goals of fostering industrialization, minimizing regional imbalances, and creating jobs. The function and applicability of PSUs were questioned after 1991 when economic Liberalization, Privatization and Globalization (LPG) reforms were implemented. Policy changes including disinvestment and strategic privatization resulted from the shift in emphasis from state-led industrialization to a market-oriented economy. Many PSUs currently confront operational and structural difficulties, such as inefficiency, financial losses, and bureaucratic roadblocks, notwithstanding their historical accomplishments. Since India's economic liberalization in 1991, the government has used disinvestment the sale of all or a portion of PSUs more frequently as a means of lowering budgetary burdens, boosting infrastructure spending, and improving operational effectiveness. The Pradhan Mantri Ujjwala Yojana (PMUY), one of the LPG subsidy reforms that followed, aimed to improve energy access by providing low-income households with cooking fuel subsidies. Disinvestment and LPG, two policy domains, have, nevertheless, brought in new complications and systemic problems.

Meaning of Disinvestment

Disinvestment, or divestment, refers to sale of assets or a subsidiary by the Government like the sale of Public Sector Enterprise/Unit (PSE/PSU) by Union or State Government. The sale of Enterprise can be full (i.e., 100% of Government ownership is sold) or partial. Accordingly the disinvestment can be classified as minority disinvestment, majority disinvestment or complete privatisation. In minority disinvestment, the Government retains a majority in the company, typically greater than 51%, thus ensuring management control. In the case of majority divestment, the government hands over control to the acquiring entity but retains some stake. In complete privatisation, 100% control of the company is passed on to the buyer.

Methods of Disinvestment

- **Initial Public Offering (IPO):** It is offer of shares by an unlisted PSE or the Government out of its shareholding or a combination of both to the public for subscription for the first time.
- **Further Public Offering (FPO):** It is offer of shares by a listed PSE or the Government out of its shareholding or a combination of both to the public for subscription.
- **Offer for Sale (OFS) of Shares by Promoters through Stock Exchange:** This method allows auction of shares on the platform provided by the Stock Exchange. This method has been extensively used by the Government since 2012.
- **Strategic Sale:** It refers to sale of substantial portion of the Government shareholding of a PSE, up to 50%, or such higher percentage as the competent authority may determine, along with transfer of management control.
- **Institutional Placement Program (IPP):** Under IPP, only Qualified Institutional buyers can participate in the offering. Qualified Institutional Buyers are those institutional investors who are perceived to possess expertise to evaluate and invest in the capital markets.
- **CPSE Exchange Traded Fund (ETF):** Disinvestment through ETF route allows simultaneous sale of Government's stake in various PSEs across diverse sectors through single offering. It provides a mechanism for the Government to monetize its shareholding in those CPSEs which form part of the ETF basket.

Disinvestment in India

The disinvestment is a policy of the Government of India, wherein the Government liquidates its assets in the Public Sector Enterprises partially or fully. The decision to disinvest is mainly to reduce the fiscal burden and bridge the revenue shortfall of the government. The key engine in achieving growth in India during post-independence was played by Public Sector Enterprises (PSE). Among other responsibilities of PSE's post-independence, the social and developmental obligations of the nation were most important, which resulted in these units escaping competitive race. Later on the activities of the PSU's were divergent, concentrating towards more non-core areas like hotels and consumer goods among others. Further, the public enterprises were used as tools for political and bureaucratic manipulation; which was consequential in low capacity utilization, reduced productivity, failure to innovate, and complex decision-making processes on vital issues of development.

By the end of the 1980s, the growth of the PSE's had turned into, as expressed by some commentators, an "end in itself". These factors became an obstacle to the growth of India. Therefore, the poor performance of the PSE's called for reforms to address the weakness in India's development. After the change of Government in 1991, among many economic reforms launched; privatization was one, which focused on the efforts required to be taken to curtail the fiscal burden of the state by reducing public sector borrowings and bring in fiscal austerity.

Objectives of Disinvestment

The new economic reform started in July 1991 plainly demonstrated that PSUs had appeared exceptionally negative rate of profit for capital utilized. Numerous endeavours customarily settled as mainstays of development had turned into a weight on the economy. The national GDP and gross national savings were additionally getting antagonistically influenced by low returns from PSUs. Around 10% to 15 % of the complete gross domestic savings were getting decreased by virtue of low investment funds from PSUs. In connection to the capital utilized, the dimensions of benefits were excessively low. The major factors which are responsible for low profits in PSUs are given below:

- ❖ Pricing policy of public sector undertakings.
- ❖ Under-utilization of resources, capacity and capital.
- ❖ No proper planning and implementation.
- ❖ Problems related to labour and human resource management.
- ❖ Lack of authority and responsibility.

Thus, the requirement for the Government to dispose of these units and to focus on central issues was recognized. The Government additionally took a view that it should move out of non-centre organizations, particularly the ones where the private area had now entered in a huge manner. At long last, disinvestment was likewise observed by the Government to raise assets for gathering general/ explicit requirements. Toward this path, the Government embraced the 'Disinvestment Policy'. This was recognized as a functioning instrument to diminish the weight of financing the PSUs. The accompanying principle goals of disinvestment are illustrated:

- To diminish the monetary weight on the Government.
- To improve open accounts.
- To present, competition and market discipline.
- To finance development.
- To facilitate wider share of ownership.
- To depoliticize unimportant administrations.

Importance of Disinvestment

Currently, the Government has about Rs. 2 lakh crore secured up PSUs. Disinvestment of the Government stake is, consequently, extremely critical. The significance of disinvestment lies in use of assets for:

- Financing the expanding monetary shortage.
- Financing enormous scale framework improvement.
- For putting resources into the economy to empower spending.
- For retiring Government obligation- Almost 40-45% of the Centre's income receipts go towards repaying public debt.
- For social projects like wellbeing and training.

The prevalence of an unstoppable aggressive state that hinders some PSUs' ability to operate efficiently makes disinvestment crucial. This causes the estimation of public resources to quickly break down, making it essential to disinvest early in order to determine a high value.

Reasons for undertaking Disinvestment

- Government Revenue: With disinvestment the Government can earn revenue which can be used for meeting expenditure obligations including on welfare measures. Proceeds from disinvestment of assets are used to finance the budget deficit, invest in the economy and various development/social sector programmes, and pay the national debt.
- Improve Competition: The privatisation of State-owned companies paves the way for the entry of increasing number of businesses into the industry. This boosts market competitiveness and ultimately results in an improvement in market efficiency. Additionally, it assists businesses that

are run by the public sector in modernising their technology in order to boost their level of competitiveness.

- **Reduce Government's Role:** According to economy and policy experts, the Government should be involved only in strategic sectors. For rest of the sectors, the Government should let the private sector efficiencies take control (subject to effective regulation). Government should focus more on the welfare sector.
- **Efficiency:** It is commonly believed that interference by the Government in the PSUs impact their independence and functioning e.g., in PSEs, new investments can drive by political factors rather than pure economic logic. Similarly PSEs may employ more workers than actually needed. Private sector firms tend to be more competitive. Hence, reduction in Government control enhances overall economic efficiency. So it makes sense to privatize inefficient public sector enterprises.
- **Valuation:** Dilution of Government shareholding, and giving the shares for retail trading opens up the market. It increases the liquidity of the shares and helps get better/realistic valuation.

Latest Policy on Disinvestment

The disinvestment policy will cover existing Central Public Sector Enterprises (CPSEs), Public Sector Banks, and Public Sector Insurance Companies. The government has classified the public sector under 2 categories: Strategic Sector and Non- strategic Sector.

- ❖ In Non-strategic sectors, the Government will exit from all businesses. It will keep only a 'bare minimum' presence in four broad strategic sectors, i.e. (a) Atomic energy, Space and Defence; (b) Transport and Telecommunications; (c) Power, Petroleum, Coal, and other minerals; (d) Banking, Insurance, and financial services.
- ❖ The government will incentivize States for disinvestment of their Public Sector companies.
- ❖ The new policy is significant as it goes beyond the past case-by-case approach and lays down a rationale for deciding the future ownership pattern of 439 CPSEs, including their subsidiaries. For instance, it is now clear that 151 public sector firms in non-strategic sectors (including 83 holding companies and 68 subsidiaries) will either be closed or sold. The policy also brings public sector banks and insurance entities into the ambit of disinvestment for the first time.
- ❖ The Government will also monetize the surplus land with Government Ministries and Departments and PSEs. The Cabinet has already approved the creation of National Land Monetisation Corporation.

Trends of Disinvestment in India

- ❖ The process of disinvestment began in 1991, post the economic reforms. The Industrial Policy Statement of 1991 stated that the Government would divest a portion of its holdings in selected PSEs, but it did not specify the extent of the disinvestment.
- ❖ During 1991-1998, the Government could realize only INR 17,557 crore (equivalent to INR 90,000 crore in 2022 prices). The pressure of coalition politics limited the political will to push for disinvestment.
- ❖ In 1996, the Government established the Public Sector Disinvestment Commission (under G. V. Ramakrishna) for a 3-year term with the goal of developing an overall long-term disinvestment programme (like extent of disinvestment, mode of disinvestment) for PSEs.
- ❖ Between 1999 and 2004, the Government implemented some of the recommendations of the Disinvestment Commission like reducing the government's shareholding in selected PSEs to 26% in order to facilitate ownership changes. In 1999, the Government stated its policy would be to strengthen strategic PSEs and privatise non-strategic PSEs through disinvestment. In December 1999, the Department of Disinvestment was established.
- ❖ During this period (1999-2004), the Government realized INR 27,599 crore (INR 93,300 crore in 2022 prices) in just five years (1999-2004).

- ❖ Between 2004 and 09, the pace of disinvestment fell, again due to pressure of coalition politics. In this period, INR 11,591 crore were earned through disinvestment. The pace picked between 2009 and 14, with proceeds rising to INR 1.2 lakh crore.
- ❖ The revenues through disinvestment have risen rapidly since 2014. Total INR 4.48 lakh crore have been earned. This represents ~70% of the earning through disinvestment since 1991.
- ❖ As part of the May 2020 Atmanirbhar Bharat package to stabilise the lockdown-hit economy, the Government announced a Public Sector Enterprise Policy to encourage private sector participation and reduce government involvement in business. In the Union Budget 2020-21, the Government announced a new policy for strategic disinvestment in PSEs.
- ❖ The government also launched the National Monetisation Pipeline (NMP) to generate new revenue streams by unlocking the value of previously unutilised and underutilised public assets.

Impact of Disinvestment and Public Sector Undertakings

Disinvestments have been made in India, although mostly by giving a small portion of the equity to a private company rather than by fully transferring ownership of the PSUs. As a result, some analysts have suggested that the term "partial privatization" is more appropriate for this type of deal. Disinvestment in India: Policies, Procedures, Practices, written by Dr. Sudhir Naib, states that "the government has gradually moved from disinvestments to privatization." Additionally, the author discovered through his research that the economic efficiency of the relevant firm was enhanced whenever ownership of any PSEs was transferred to private organizations through disinvestment. In a similar vein, Harjit Singh claims in his book Corporate Restructuring through Disinvestment (An Indian perspective) that while managerial control of the company remained constant, PSU performance did not significantly improve following minority disinvestment. Therefore, the author points out that the company's leadership transition and other market-driven elements like innovation, technology, and administrative intervention have a greater impact on economic efficiency than the amount of disinvestment.

The government's disinvestment and strategic sale policy aim to reduce the fiscal burden and improve efficiency. However, this transition brings its own challenges:

- ❖ **Valuation issues:** Difficulty in pricing assets appropriately, especially in loss-making or monopolistic sectors.
- ❖ **Resistance from trade unions:** Concerns over job security and labour rights.
- ❖ **Public backlash:** Privatization of profitable PSUs is often viewed as asset stripping.

Moreover, strategic sectors like defence, energy, and railways raise concerns regarding national security and control when opened to private players.

Competition from Private Sector

With liberalization, PSUs now compete with agile and innovation-driven private firms. In sectors like banking, telecom, and oil & gas, private companies have outpaced PSUs in terms of customer service, technology adoption, and profitability.

Challenges in competing include:

- Slow decision-making processes.
- Inability to attract and retain skilled professionals due to rigid HR practices.
- Limited marketing and branding capabilities.

Technological Obsolescence and Innovation Deficit

Most PSUs have failed to modernize their infrastructure or invest in R&D. For example:

- ❖ State-run telecom operators struggle to compete in the 5G era.
- ❖ Manufacturing PSUs often use outdated machinery.

This technological lag hampers productivity and reduces competitiveness in both domestic and international markets.

Disinvestment Policy: Key Challenges

Fiscal and Strategic Trade-offs

- ❖ Selling profit-making PSUs risks diverting a steady revenue stream in the form of dividends to the government
- ❖ Continued majority control (direct or indirect) by the government post-disinvestment can hinder meaningful operational autonomy for PSUs, limiting efficiency gains.

Operational Inefficiencies and Bureaucracy

- ❖ Many PSUs suffer from soft budget constraints, where central and state governments bail them out regardless of performance.
- ❖ Multiple, overlapping control authorities and excessive bureaucratic red tape slow down decision-making, innovation, and responsiveness

Valuation Complexities & Investor Hesitance

- ❖ Loss-making PSUs attract few buyers; the government may in rare cases even pay buyers to take them over.
- ❖ Strategic sectors like oil, defence, and transport pose valuation and national-security concerns when privatization is considered.
- ❖ Investors are deterred by continued government control and regulatory unpredictability.

Legal, Political, and Market Barriers

- ❖ Disinvestment is frequently delayed by legal disputes, land and asset clearance issues, union resistance, and court cases.
- ❖ Global shocks like the COVID-19 pandemic or geopolitical instability further dampen investor appetite and derail plans.
- ❖ Disinvestment targets often fall short. For instance, FY 2022-23 realized only ₹35,282 crore vs. the revised ₹50,000 crore estimate.

Social and Political Costs

- ❖ Unions and civil society often resist privatization for fear of job losses and erosion of public assets.
- ❖ Public protests have occurred e.g., in July 2025, trade unions protested privatization of railways and PSUs, demanding job security and pension rights
- ❖ Privatization risks concentrating wealth in a few hands, potentially creating private monopolies, reducing competition, and increasing prices

Key structural issues include

- ❖ Overstaffing due to employment-oriented mandates.
- ❖ Underutilization of assets and poor capacity utilization.
- ❖ Obsolete technology and lack of modernization.
- ❖ Lack of clear performance metrics or profit motives.

Financial and Operational Inefficiencies

According to the Public Enterprises Survey (2022-23), while some PSUs remain profitable, a significant number continue to incur heavy losses. This affects government finances and leads to recurring bailouts.

Major financial challenges

- ❖ Loss-making CPSEs drain fiscal resources.
- ❖ High debt levels in sectors like telecom (e.g., BSNL, MTNL) and airlines (e.g., Air India pre-privatization).
- ❖ Low return on equity and investment.

Operational inefficiencies include

- ❖ Delay in decision-making due to bureaucratic controls.
- ❖ Inadequate research and innovation.
- ❖ Poor customer service and marketing strategies.

Governance and Autonomy Deficits

One of the fundamental weaknesses of Indian PSUs is the lack of managerial autonomy. Despite being corporatized entities, most PSUs are still subjected to:

- Political interference in appointments and decision-making.
- Overregulation by multiple ministries.
- Absence of a professional board structure.

This affects agility, innovation, and responsiveness to market conditions.

Challenges and concerns related to Disinvestment

- The Sale of profit-making and dividend-paying PSUs would result in the loss of regular income to the Government. Disinvestment has become just a resource raising exercise by the government. There is no emphasize on reforming the PSUs.
- The valuation of shares has been affected by the Government's decision not to reduce government holdings below 51%. With the continuing majority ownership of the Government, the public enterprises would continue to operate with the earlier culture of inefficiency.
- Government is not willing to give up its control even after strategic disinvestment. In the Budget (2019-20) Speech the Union Finance Minister stated that government will change the policy of 'directly' holding 51% or above in a CPSU to one whereby Government's total holding, 'direct' plus 'indirect', is maintained at 51%. It means government will still exercise its control over PSUs. This will reduce the interests of buyers.
- The process of disinvestment is suffering from bureaucratic control. Almost all processes starting from conception to the selection of bidders are suffering due to it. Moreover, bureaucrats are reluctant to take timely decisions in the fear of prosecution after retirement.
- Strategic Disinvestment of Oil PSUs is seen by some experts as a threat to National Security. Oil is a strategic natural resource and possible ownership in the foreign hand is not consistent with strategic goals.
- Loss-making units don't attract investment. It depends upon the perception of investors about the PSU being offered. This perception becomes more important in the case of strategic sales, where the amount of investment is very high.
- Complete Privatization may result in public monopolies becoming private monopolies, Private monopoly has a tendency to exploit their position to increase costs of various services and earn higher profits.
- Using funds from disinvestment to bridge the fiscal deficit is an unhealthy and short-term practice. This is not sustainable in the long term. Government should focus on increasing its revenue from more reliable resources and cut down.

Challenges on Public sector Undertakings

Many PSUs were set up in the post-independence era when the private sector lacked capital and capability. These undertakings were often established for socio-political objectives rather than commercial viability. As a result, several PSUs today operate in sectors where they no longer hold competitive advantages. PSUs in every country generally suffer from three major problems:

- ❖ Soft Budget Constraint: Sick PSUs are always funded by central and state government to maintain its operations unlike any other private companies which affects government finances.
- ❖ Multiple objectives: PSUs does not generally focus on profit making. Their main aim is to provide social service like generating employment, improving backward areas, offering products at reasonable prices. Their performance is not determined by how much commercial profit they make. The manager of loss making PSUs can make excuses of promoting social profit.
- ❖ Multiple control authorities: PSUs are managed by various people like politicians, bureaucrats, etc. Manager does not focus on diversification, modernization and technological upgradation.
- ❖ Loss of Public Interest: Disinvestment of PSUs results in no public welfare.
- ❖ Unemployment: Jobs of workers will be affected.
- ❖ Very less bidders: There are very less buyers of PSUs. It is because of these major problems even socialist country like China wanted to privatize its PSUs at a greater extent to maintain its social stability.

Way forward

- Craft clearer, transparent disinvestment roadmaps with stakeholder consultation to pre-empt social resistance
- Empower PSUs via corporatization, independent boards, and autonomy -echoing global models like Singapore's Temasek or China's corporatized state
- Make LPG subsidy reforms more equitable: ensure inclusion beyond banked/Aadhaar populations, reinforce awareness, and tailor livelihood-linked incentives.
- Transition from crisis-driven bailouts to strategic governance reform with performance benchmarks, professional leadership, and accountability.

Conclusion

Disinvestment offers a number of advantages. It can increase efficiency and promote competition in a number of industries. Additionally, it helps the government raise money for assistance programs. The government should, however, be careful to guarantee its presence in some key industries, such as banking and energy. It will guarantee the protection of the strategic interests and social responsibilities that are closely related to these industries. India's public sector enterprises are at a turning point in their history. Even though they have traditionally been essential to development, their function, organization, and effectiveness need to be reassessed in light of the current economic climate. The problems PSUs face—from operational inefficiencies and financial losses to governance limitations and competitive pressures—highlight the pressing need for structural reforms. PSU reform calls for a well-rounded strategy. Although privatization and disinvestment can ease operational burdens and alleviate financial strain, strategic planning is necessary to protect the public interest and welfare of the country. Reviving PSUs requires boosting autonomy, implementing professional management techniques, promoting innovation, and guaranteeing responsibility. In addition to demolishing ineffective public companies, India's economic success in the twenty-first century will rely on turning them into innovative, lean, and competitive organizations that can make a significant contribution to the future of the country. Furthermore, India's efforts to modernize the delivery of LPG subsidies and reform PSUs through disinvestment have produced a range of outcomes. Disinvestment is still a powerful weapon for fiscal efficiency and consolidation in PSUs, but it faces obstacles from political limitations, institutional inertia, and valuation issues. Targeted operational restructuring can yield rewards, as demonstrated by the BSNL resurgence; but, these kinds of success stories are uncommon in the absence of broader corporate governance reforms. Similarly, although LPG changes have increased access, they still confront issues with sustainability, inclusiveness and cost.

Notes and References

1. Inherent inefficiencies and governance issues in PSUs, need for disinvestment & loss-making constraints
2. Fiscal trade-offs of losing profitable PSU dividends and holding patterns in strategic sectors.
3. Soft budget constraints, multiple objectives, controls hampering commercialization reflections. Goal and procedural hurdles, global shocks, slow asset monetization.
4. Valuation and buyer scarcity, especially for loss-making PSUs.
5. Public resistance, protests, wealth concentration and social risks, India Structural reform prospects in PSUs BSNL case and need for autonomy.
6. LPG subsidies: compensation to OMCs for under-recoveries.
7. "Give It Up" campaign and DBT - mechanics and inclusion issues Wikipedia.
8. PMUY's modest impact and inequalities in LPG adoption.
9. Global comparative models (Singapore, China) for PSU governance reform.
10. Need for consultative, transparent disinvestment policies
11. Arun, T. G.; Nixon, F. I. (2010). "The Disinvestment of Public Sector Enterprises: The Indian Experience". Oxford Development Studies.
12. Burange, G.; Yamini, Shruti (May 2011). "A Review of India's Industrial Policy and Performance".
13. Ghosh & Devaiah 2009."Mandate, Department of Investment and Public Asset Management | Ministry of Finance, Government of India".
14. "DIPAM | Disinvestment Policy". dipam.gov.in.
15. "What are the features of new industrial policy of 1991?" 4 October 2016.
16. Dhameja, Nand (2016). "PSU Disinvestment in India: Process and Policy–Changing Scenario". Vision: The Journal of Business Perspective.
17. "'NDA is better in pushing disinvestment policy' - The Sunday Guardian Live". 30 November 2019."Summary | Department of Investment and Public Asset Management | Ministry of Finance | Government of India".
18. Kakkar, Bhawna (2017). "A Study of Disinvestment of Central Public Sector Enterprises in India (1991-2016)". SSRN Working Paper Series:
19. Wadhwa, Charan (2005). "Review: Disinvestment in India: Policies, Procedures, Practices by Sudhir Naib". Pacific Affairs.
20. Harjit Singh (2007). Corporate Restructuring through Disinvestment (An Indian Perspective). New Age International (P) Limited. p. 104. ISBN 978-81-224-2162-0.
21. Gupta, Nandini (2010). "Selling the family silver to pay the grocer's bill? The case of privatization in India". Selling the Family Silver to Pay the Grocer's Bill? The Case of Privatization in India. 2010
22. Jain, Ritika; Sarkar, Shubhro (2018). "An empirical analysis of disinvestment policy in India: does ideology matter?" Journal of Economic Policy Reform.
23. Ashraf, Fahmida (2007). "Congress-led UPA Government in India: CPI-M's Support and Challenges". Strategic Studies.
24. Ghosh, Saptarshi; Devaiah, Vishwas H. (2009). "A critical discussion of the disinvestment/privatization process in India since the start of the economic reforms in 1991". Journal of Asian Public Policy.