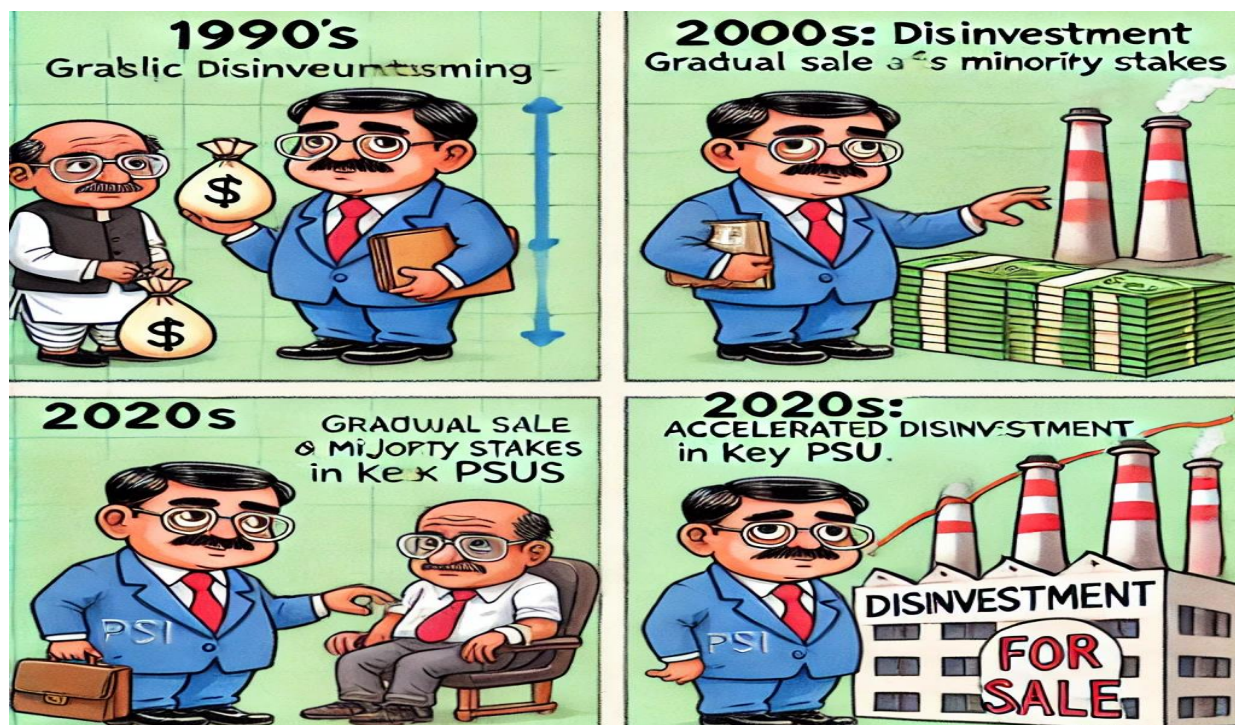


# EVOLUTION OF INDIA'S PSU DISINVESTMENT POLICY SINCE 1990: AN ANALYSIS – PAPER - III



## India's PSU Disinvestment Policy Since 1990

India's approach to public sector undertakings (PSUs) and their disinvestment has evolved significantly since the early 1990s. The roots of this policy can be traced back to the economic reforms initiated in 1991, when India faced a severe balance of payments crisis. The government, led by then-Finance Minister Manmohan Singh, embarked on a series of liberalization measures aimed at revitalizing the economy.

### Early 1990s: Reform Era

The disinvestment policy in the early 1990s marked a departure from the Nehruvian model of state-led development. The focus was on reducing the fiscal burden of loss-making PSUs and improving efficiency. The government, under Prime Minister P.V. Narasimha Rao, established the Disinvestment Commission in 1996, tasked with recommending strategies for disinvestment and privatization.

### 2000s: Strategic Sales and Public Offerings

The turn of the millennium saw the policy shift towards strategic sales. The United Progressive Alliance (UPA) government, led by Prime Minister Manmohan Singh, continued this approach, though with mixed results. While some successful public offerings were conducted, the policy faced challenges due to political resistance and bureaucratic hurdles.

## **2010s: Accelerated Disinvestment**

Since 2014, there is a renewed focus on disinvestment, with the National Democratic Alliance (NDA) government under Prime Minister Narendra Modi pushing for accelerated sales of PSU stakes. The emphasis was on raising revenues to bridge the fiscal deficit and enhancing the efficiency of PSUs through reduced government ownership.

### **Rationality of the Disinvestment Policy**

The rationale behind India's PSU disinvestment policy can be understood from multiple perspectives:

#### **1. Economic Efficiency**

The primary argument for disinvestment is improving economic efficiency. Many PSUs, due to their bureaucratic nature and lack of competitive pressure, became inefficient and loss-making. By reducing government stakes or selling off PSUs, the aim was to introduce competition and improve operational efficiency.

#### **2. Fiscal Health**

Disinvestment was also seen as a tool to address the fiscal deficit. The revenue generated from selling stakes in PSUs provided a crucial source of funds for the government, which could be utilized for development projects and reducing public debt.

#### **3. Private Sector Involvement**

Encouraging private sector involvement was another key rationale. By privatizing certain PSUs, the government aimed to attract private investment, foster innovation, and create a more dynamic economy.

#### **4. Political and Social Considerations**

Despite the economic arguments, disinvestment policies often faced political and social resistance. Concerns over job losses, the strategic importance of certain industries, and the broader ideological stance towards state ownership influenced the policy's pace and direction.

### **Narendra Modi Government's Policy:**

#### **Pre-COVID Policy**

The Narendra Modi government's approach to PSU disinvestment was marked by a strong commitment to reducing the state's role in non-strategic sectors and enhancing efficiency. Key initiatives included:

1. **Strategic Disinvestment:** The government identified certain PSUs for strategic sale, focusing on sectors where private participation was deemed beneficial.
2. **Privatization Proposals:** In February 2021, the government proposed the privatization of two public-sector banks in addition to IDBI Bank. This move was in line with the broader objective of reducing government control in the banking sector.
3. **Increased Equity Infusion:** Despite the push for privatization, the government continued to infuse capital into key PSUs, indicating a dual strategy of gradual privatization while ensuring financial stability.

## Post-COVID Policy

The COVID-19 pandemic significantly impacted the policy landscape. The economic slowdown and the strain on government finances led to several adjustments:

1. **Deferred Privatization Plans:** The pandemic caused delays in privatization initiatives. The sale of IDBI Bank and other proposed privatizations faced postponements due to the disrupted economic environment.
2. **Amendments to Banking Laws:** Recent amendments to the Banking Regulation Act and related laws aimed at facilitating better management of banks and cooperative institutions but did not address privatization directly.
3. **Increased Equity Infusion:** Post-COVID, there was a continued emphasis on infusing equity into PSUs, particularly in sectors critical to economic recovery, such as infrastructure and railways.

## Post-COVID Measures

### 1. Focus on Strategic Sectors

Post-COVID, the government's policy has shifted towards focusing on strategic sectors where PSUs play a critical role. There is a more cautious approach to privatization in sectors deemed vital for national interest or economic stability.

### 2. Revival and Support Measures

The government has introduced measures to support and revive PSUs affected by the pandemic. This includes increased equity infusion, financial restructuring, and targeted assistance to ensure their operational stability.

### **3. Performance Metrics and Value Creation**

There is a growing emphasis on performance metrics and value creation. The government aims to improve the efficiency and financial health of PSUs before considering privatization. This involves enhancing internal resource generation and optimizing operations.

### **Policy Adjustment and Future Outlook**

The policy adjustments reflect a more nuanced approach, balancing immediate economic recovery needs with long-term privatization goals. The government faces the challenge of ensuring that PSUs remain efficient while navigating the complexities of post-pandemic economic recovery.

In conclusion, India's PSU disinvestment policy has evolved from an aggressive privatization strategy to a more cautious and strategic approach, especially in the wake of the COVID-19 pandemic. The Modi government's policies, both pre-COVID and post-COVID, reflect a dynamic response to changing economic conditions, aiming to balance efficiency with fiscal responsibility. As the situation continues to develop, the government's approach will likely adapt to address emerging challenges and opportunities in the public sector landscape.