



# **DAILY EDITORIAL ANALYSIS**

**TOPIC**

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**DISINVESTMENT  
AS KEY ECONOMIC STRATEGY**

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## DISINVESTMENT AS KEY ECONOMIC STRATEGY

### Context

- The government's approval of the **strategic sale of its stake in IDBI Bank has renewed the debate on disinvestment** as an instrument for fiscal consolidation, and increasing private-sector participation in the economy.

### Disinvestment Policy of the Government of India

- Government policy on disinvestment consists of** Strategic Disinvestment/ Privatisation and Minority Stake Sale in CPSEs.
- Strategic disinvestment** implies the entire or substantial sale of the government shareholding of a CPSE along with the **transfer of management control**.
  - In case of privatisation**, which is a **subset of strategic disinvestment**, the government equity in CPSE and its management control is transferred to a private strategic buyer(s), and in other cases of strategic disinvestment, the government equity is transferred to another CPSE along with control.
- Minority stake sales** in certain CPSEs are carried out without transfer of management control through various SEBI-approved methods like Initial Public Offer (IPO), Offer for Sale (OFS), buyback of shares, etc. These methods play an important role in strengthening the capital market through:
  - Increasing the float of well-performing CPSE's;
  - Providing opportunity to retail investors to participate in an extended range of stocks and
  - Increasing liquidity and depth of the capital market.

### New Public Sector Enterprise (PSE) Policy

- The New Public Sector Enterprise (PSE) Policy** for Atma Nirbhar Bharat, which provides overall guidance on strategic disinvestment, **was notified in 2021**, with the approval of the Cabinet.
  - The policy intends to minimise the presence of government in the PSEs across all sectors of the economy.
  - Existing CPSEs, Public Sector Banks and Public Sector Insurance Companies to be covered under it.
- Two-fold classification** of Sectors to be disinvested;
  - Strategic Sector:** Bare minimum presence of the public sector enterprises and remaining to be privatised or merged or subsidiarized with other CPSEs or closed. Following **4 sectors** to come under it;
    - Atomic energy, Space and Defence
    - Transport and Telecommunications
    - Power, Petroleum, Coal and other minerals
    - Banking, Insurance and financial services.
  - Non-Strategic Sector:** In this sector, CPSEs will be privatised, otherwise shall be closed.

### Department of Investment and Public Asset Management (DIPAM)

- The Department of Disinvestment** was set up as a **separate department in 1999**.
  - It has been renamed the Department of Investment and Public Asset Management (DIPAM) from 2016.
- As per the present allocation of business rules, the mandate of the Department is as follows:
  - All matters relating to the **management of Central Government investments in equity**, including the disinvestment of equity in Central Public Sector Undertakings.
  - All matters relating to the **sale of Central Government equity through offer for sale or private placement or any other mode** in the erstwhile Central Public Sector Undertakings.

### Significance of Disinvestment

- Unlocks public assets:** Disinvestment can help realise the value of government investments and make capital available for alternative public uses.

- **Revenue mobilisation:** According to DIPAM data, the government mobilised 62,124 crore through disinvestment and asset monetisation during April–September 2026, including 55,757 crore from disinvestment.
  - ♦ The collections had reached approximately 78% of the full-year budget target of 80,000 crore.
- **Managing expenditure pressures:** Net tax revenue grew by 3.4% during April–August 2026, while capital expenditure increased by over 18%.
  - ♦ Disinvestment receipts can provide additional fiscal resources amid competing expenditure commitments.
- **Improves operational efficiency:** Private participation can introduce stronger commercial incentives, professional management and improved accountability.
- **Promotes competition:** Private participation can improve service quality, encourage innovation and strengthen competition in sectors where adequate safeguards exist.

### Challenges in India's Disinvestment Process

- **Uncertain market conditions:** Weak investor sentiment, volatile valuations and sector-specific risks can delay transactions or reduce sale proceeds.
- **Valuation concerns:** Selling public assets below their fair economic value can result in a long-term loss to the public exchequer.
- **Employment concerns:** Employees may face uncertainty regarding job security, service conditions and future restructuring.
- **Revenue uncertainty:** Disinvestment is a one-time source of receipts and cannot sustainably substitute for recurring tax revenues.

### Way Ahead

- Disinvestment should be guided by **long-term economic efficiency and the appropriate role of the state**, rather than being driven solely by annual revenue targets.
- **Multiple valuation methods, transparent bidding and adequate competition** should be used to ensure fair returns to the public exchequer.
- Disinvestment receipts should support capital formation and productive public investment wherever feasible, rather than becoming a substitute for sustainable fiscal management.

### Concluding remarks

- Disinvestment can help reconcile the government's developmental responsibilities with the need for greater economic efficiency and private-sector participation.
- However, the long-term success of disinvestment must be measured by improvements in efficiency, asset utilisation and economic value creation, rather than revenue collections alone.

### Daily Mains Practice Question

- [Q] Disinvestment is not merely a fiscal instrument but also a means of restructuring the role of the state in the economy. Discuss its significance, challenges and the measures required to make India's disinvestment policy more effective.

Source: TH

