5. Public Sector Enterpriser's Privatisation - Economy

Faster, demand-led approach needed for PSE privatisation- CII The Confederation of Indian Industry (CII), in its recommendations for the Union Budget 2026–27, has urged the government to shift towards a faster, demand-led approach to the privatisation of Public Sector Enterprises (PSEs) to unlock significant market value.

1. Understanding Public Sector Enterprises (PSEs)

Definition- PSEs are government-owned corporations or state-owned enterprises where the government holds a majority stake (51% or more). They operate in key sectors such as energy, steel, telecommunications, transportation, and finance.

Categorization

1. Central Public Sector Enterprises (CPSEs)- Owned by the Central Government.
2. State Level Public Enterprises (SLPEs)- Owned by State Governments.

Oversight- They are primarily overseen by the Department of Public Enterprises (DPE) under the Ministry of Finance.

Classification of CPSEs

1. Maharatna- Large, highly profitable CPSEs with significant global presence and greater autonomy (e.g., ONGC, NTPC).
2. Navratna- CPSEs with operational autonomy and strong financial standing (e.g., BEL, HAL).
3. Miniratna**-** Smaller CPSEs that show consistent profits and have operational flexibility.

2. Disinvestment- Concept and History

Definition

Disinvestment is the process where the government reduces its stake in state-owned enterprises, either partially or fully.

Objective- To infuse market efficiency, attract private investment, and reduce the fiscal burden on the exchequer.

Historical Context

Vision- Former PM Jawaharlal Nehru envisioned PSEs as the 'temples of modern India'.

Decline- By the 1980s, many PSEs faced issues like inefficiency, overstaffing, and financial non-viability.

1991 Policy Shift- Disinvestment formally began under the New Industrial Policy of 1991, allowing private participation.

Goals- Modernize PSEs, reduce fiscal deficit, encourage public ownership, and introduce market discipline.

3. Policy Framework and Mechanisms

Nodal Agency- Department of Investment and Public Asset Management (DIPAM) under the Ministry of Finance manages the disinvestment programme.

Key Mechanisms

Mechanism	**Description**	**Example**
Minority Disinvestment	Gov retains majority control (>51%) while selling small equity stakes.	Initial IPOs of various PSUs.
Strategic Disinvestment	Transfer of management control along with equity sale.	Air India sale to Tata Group (2021).
Exchange Traded Funds (ETFs)	Government equity pooled into investment funds traded on stock exchanges.	CPSE ETF, Bharat 22 ETF.
Buyback of Shares	PSEs buy back their own shares from the government using their surplus cash.	-

4. Economic Rationale and Benefits

Fiscal Consolidation- Disinvestment receipts act as non-tax revenue, helping to bridge the fiscal deficit.

Operational Efficiency- Private management introduces modern governance, faster decision-making, and market responsiveness.

Market Development- Listing PSEs expands the depth and liquidity of India's capital markets.

Resource Optimization- Frees up government resources, allowing a shift from business management to social and infrastructure spending.

Strategic Benefits

1. Mobilize capital for development.
2. Leverage private sector expertise.
3. Attract global capital in logistics, energy, and manufacturing.
4. Offload loss-making or non-strategic assets.

5. Challenges and Concerns

Valuation Concerns- Critics often argue that public assets are sold at undervalued prices ("selling family silver").

Employment Impact- Fear of job losses or changing service conditions due to private restructuring.

Political Opposition- Privatization of "strategic" or culturally sensitive sectors (e.g., Railways, Oil) faces resistance from unions and political groups.

Execution Delays- Bureaucratic hurdles often slow down the strategic disinvestment process.

6. CII's Recommendations for Budget 2026-27

The CII has proposed a robust roadmap to accelerate privatisation.

A. Calibrated Disinvestment to Unlock Value

Potential- Reducing government stake to 51% in 78 listed PSEs could unlock nearly ₹10 lakh crore.

Phased Approach

1. Phase 1- Target 55 PSEs where government holding is 75% or less. Potential mobilization- ₹4.6 lakh crore.
2. Phase 2- Target 23 PSEs where government holding is over 75%. Potential mobilization- ₹5.4 lakh crore.
3. Long-term Goal- Eventually reduce stake to 33–26% to free up capital while retaining strategic oversight.

B. Rolling Three-Year Privatisation Pipeline

Create a predictable and transparent roadmap to

1. Enable better investor engagement.
2. Facilitate realistic price discovery.
3. Align investor expectations with government timelines for faster execution.

C. Demand-Driven Selection of Enterprises

Issue- The current method identifies PSEs first and seeks buyers later, causing delays.

Recommendation- Reverse the sequence. Gauge investor interest across a wide set of enterprises first. Prioritise those attracting stronger demand and meeting valuation thresholds.

D. Institutional Framework for Oversight

CII proposes a dedicated framework to enhance transparency

Ministerial Board- For strategic direction.

Advisory Board- Comprising industry, financial, and legal experts for independent benchmarking.

Professional Management Team- To oversee due diligence, execution, and market engagement.

7. The Road Ahead

Asset Recycling- The focus has shifted from mere revenue generation to 'asset recycling' via the National Monetisation Pipeline (NMP), where proceeds are reinvested into new infrastructure.

Economic Survey 2023–24- Highlights the need for transparency, strong valuation frameworks, and social safeguards.

India Vision 2036–37- Emphasizes sustained reform through

1. Improved asset valuation.
2. Broader retail participation.
3. Strengthened governance of privatized entities.
4. Reintegration of proceeds into welfare and development.

Source- https-//www.thehindu.com/business/Economy/faster-demand-led-approach-needed-for-pse-privatisation-cii/article70498231.ece