



## Be Mains Ready

**Q.** What do you mean by disinvestment? How is it different from strategic disinvestment? Why do you think the Union government has adopted a targeted approach for disinvestment? (150 words).

13 Dec 2021 | GS Paper 3 | Economy

### Approach / Explanation / Answer

- Give a brief introduction about disinvestment.
- Differentiate it with strategic disinvestment.
- Discuss why the disinvestment route has been adopted by the government

### Answer

Divestment or disinvestment means selling a stake in a company, subsidiary or other investments. Businesses and governments resort to divestment generally as a way to pare losses from a non-performing asset, exit a particular industry, or raise money.

Governments often sell stakes in public sector companies to raise revenues. In recent times, the central government has used this route to exit loss-making ventures and increase non-tax revenues.

**'Strategic disinvestment'** implies sale of a substantial portion of the government shareholding of a CPSE of up to 50%, or such higher percentage, along with **transfer of management control**.

**Disinvestment in India meaning:** It aims to raise money for meeting specific needs, such as to bridge the revenue shortfall from other regular sources. In some cases, disinvestment may be done to privatise assets. Some of the benefits of disinvestment are that it can be helpful in the long-term growth of the country; it allows the government and even the company to reduce debt.

By dis-investing its own businesses, the government can put the proceeds to better use. The idea was first floated in the 1991 Budget while India began liberalising and reforming the economy. Last year, the Finance Ministry set a disinvestment target of Rs 1,05,000 crore, and the government has already achieved Rs.17,364.26 crore.

Disinvestment allows a larger share of PSU ownership in the open market, which in turn allows for the development of a strong capital market in India.

### Main objectives of Disinvestment in India

- Reducing the fiscal burden on the exchequer

- Improving public finances
- Encouraging private ownership
- Funding growth and development programmes
- Maintaining and promoting competition in the market

It is advisable that the government should also look for productive means to enhance revenue instead of merely depending on disinvestment. Reviving the slowdown holds the key to boost its tax collections. Disinvestment is one structural solution of getting the government out of operations that are loss-making and impede competition, but India needs further reforms like those on the side of regulatory and administrative uncertainty

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