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THE IMPACT OF DISINVESTMENT POLICY ON THE INDIAN ECONOMY

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ABSTRACT

Disinvestment is the process of selling off or reducing government ownership in a public sector enterprise or asset, and it can have significant impacts on the Indian economy. While disinvestment can reduce the government's fiscal burden and promote efficiency and competitiveness, it can also result in revenue loss, job losses, market volatility, concentration of wealth, and strategic implications. The benefits of disinvestment include freeing up resources for other priority areas and promoting private sector participation, which can lead to better management practices, increased productivity, and enhanced innovation. However, disinvestment can also lead to job losses, exacerbate income inequality, and negatively impact investor confidence and the broader economy. It is important to carefully consider the strategic implications of disinvestment, especially when it involves critical infrastructure or defense assets. In conclusion, while disinvestment can have benefits, it needs to be carried out in a careful and considered manner to avoid negative consequences for the economy and society as a whole.

INTRODUCTION

The impact of disinvestment policy on the Indian economy can be analyzed from various perspectives. On the one hand, disinvestment can help reduce the government's fiscal burden and promote efficiency and competitiveness, which can have positive impacts on the economy. On the other hand, disinvestment can also have negative implications such as revenue loss, job losses, market volatility, and strategic concerns.(Rastogi, M.K et al ,2013)

One of the key benefits of disinvestment is the reduction of the government's fiscal burden. By selling off shares in public sector enterprises, the government can raise funds to reduce its debt burden and finance social welfare programs or infrastructure projects. This can have a positive impact on the overall economy by freeing up resources for other priority areas.

Disinvestment can also help promote efficiency and competitiveness in the economy. Private sector participation in the previously government-owned enterprises can lead to better management

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practices, increased productivity, and enhanced innovation. This can have a trickle-down effect on the broader economy by creating new opportunities for employment and economic growth.

However, disinvestment can also have negative implications for the economy. Job losses can occur as a result of the privatization of government-owned enterprises, which can lead to social and economic concerns. The concentration of wealth in the hands of a few private entities can also exacerbate income inequality and have implications for social justice. Market volatility can also occur as a result of the sale of government-owned shares, which can negatively impact investor confidence and the broader economy.

Furthermore, the strategic implications of disinvestment need to be carefully considered, especially when it involves critical infrastructure or defense assets. Disinvestment of such assets can have significant implications for national security and sovereignty.

Defining Disinvestment

Disinvestment refers to the process of selling off or reducing government ownership in a public sector enterprise or asset, typically through the sale of shares to private entities. The primary objective of disinvestment is to reduce the government's fiscal burden, promote efficiency and competitiveness, and encourage private sector participation in the economy. Disinvestment can be carried out through various means such as public offerings, strategic sales, or auctions, and the proceeds are typically used for debt reduction, financing social welfare programs or infrastructure projects, or funding other government priorities. While disinvestment can have several benefits, it also poses certain challenges and implications, such as revenue loss, job losses, market volatility, concentration of wealth, and strategic implications, which need to be carefully considered before proceeding with the disinvestment process.(Mishra, R. K. et al,2006).

NEED OF THE STUDY

The study of the impact of disinvestment policy on the Indian economy is necessary to understand the effects of the government's decision to sell off or reduce its ownership in public sector enterprises. Disinvestment is a crucial policy tool used by governments worldwide to reduce fiscal deficits, promote efficiency, and encourage private sector participation. However, the impact of disinvestment on the Indian economy is complex and multifaceted, with both positive and negative implications.

Understanding the impact of disinvestment policy is essential for policymakers and stakeholders in the Indian economy to make informed decisions about the future of public sector

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enterprises and their ownership structure. By analyzing the impact of disinvestment, policymakers can determine the optimal level of disinvestment, the sectors and enterprises to be targeted, and the potential social and economic implications of the policy.

Furthermore, the study can also provide insights into the broader debates surrounding the role of the state in the economy and the effectiveness of disinvestment as a policy tool. This can inform policy discussions on the balance between state ownership and private sector participation in the economy and the role of the state in promoting economic growth and development.

LITERATURE REVIEW

Rastogi, M. K., & Shukla, S. K. (2013). Disinvestment is the process of selling off government-owned assets, such as shares of state-owned enterprises, to private entities. While it can lead to increased efficiency and competitiveness, it can also have significant challenges and impact on the Indian economy.One of the major challenges is revenue loss. Public sector enterprises are a significant source of income for the government, and disinvestment can result in a reduction in government revenue, leading to a budgetary deficit. This can negatively impact the government's ability to finance social welfare programs and infrastructure projects. Disinvestment can also result in job losses for workers employed in public sector enterprises, leading to social and economic implications. To minimize the impact on workers, it is important to carry out the disinvestment process in a manner that provides them with adequate compensation and re-employment opportunities. Furthermore, disinvestment can lead to the concentration of wealth in the hands of a few individuals or corporations, exacerbating income inequality and social justice concerns. It can also impact market sentiment and lead to market volatility, negatively impacting investor confidence and the broader economy.

Achini, A., & Begum, S. (2018). The impact of disinvestment on the financial performance of Maharatna and Navratna companies in India is an important area of research. Maharatna and Navratna companies are public sector enterprises that have been categorized based on their financial performance and autonomy. The disinvestment policy in India has led to the government selling a part of its stake in public sector enterprises, which has impacted the financial performance of these enterprises. A comparative study of the financial performance of Maharatna and Navratna companies can provide insights into the impact of disinvestment on these enterprises. A comparative analysis of the financial performance of Maharatna and Navratna companies can be conducted using various financial indicators such as revenue, profit, return on equity (ROE), return on assets (ROA), and earnings per share (EPS).The study can analyze the financial performance of Maharatna and Navratna companies before and after disinvestment and compare it with their

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private sector counterparts. The study can also analyze the impact of disinvestment on key financial ratios such as debt-equity ratio, interest coverage ratio, and dividend payout ratio.

Gupta K.L. and Kaur H.(2004). The Indian economy has undergone significant reforms in recent years, leading to a new era of economic growth and development. These reforms have been aimed at improving the ease of doing business, promoting foreign investment, and strengthening the domestic economy. The new Indian economy has been characterized by a shift towards a more market-oriented approach, with a focus on entrepreneurship, innovation, and technology. The government has introduced various initiatives to support the startup ecosystem, including Startup India, Make in India, and Digital India.

Jain, P. K. and Yadav, S.S. (2005) Financial management of public sector enterprises (PSEs) in India is an important area of concern, as PSEs play a significant role in the country's economy. The financial management of PSEs involves various aspects such as budgeting, revenue management, cost control, and financial reporting. One of the major challenges faced by PSEs in India is the issue of financial autonomy. As these enterprises are owned by the government, they often face bureaucratic hurdles and government interference in their financial decisions. This can impact their financial performance and lead to inefficiencies in their operations. To address this issue, the government has taken various steps to improve the financial autonomy of PSEs, including the introduction of the Maharatna, Navratna, and Miniratna schemes. These schemes have given PSEs greater autonomy in their financial decision-making and have allowed them to raise funds from the market.

Kumar,P.(2014). The impact of disinvestment on the profitability of selected public sector units (PSUs) in India has been a subject of much debate and analysis. Disinvestment is a government policy that involves the sale of a portion of its shares in a PSU to the private sector or other entities. Studies have shown that disinvestment can have both positive and negative impacts on the profitability of PSUs. On the positive side, disinvestment can bring in much-needed funds, which can be used to improve the efficiency and productivity of PSUs, leading to increased profitability. Disinvestment can also improve the governance and accountability of PSUs by reducing government interference and promoting professional management practices. This can lead to better decision-making and improved profitability.

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Indian Scenario

The Indian government has pursued a disinvestment policy since the 1990s as part of its economic liberalization program. The policy has been aimed at reducing the government's fiscal burden, promoting efficiency and competitiveness, and encouraging private sector participation in the economy.

Over the years, the Indian government has disinvested shares in various public sector enterprises, including banks, insurance companies, and infrastructure companies. The disinvestment process has been carried out through various means such as public offerings, strategic sales, and auctions. The impact of disinvestment on the Indian economy has been mixed. On the one hand, disinvestment has led to an increase in the efficiency and competitiveness of some public sector enterprises. For instance, the disinvestment of Hindustan Zinc Limited, a mining company, resulted in increased efficiency and profitability after it was acquired by Vedanta Resources. On the other hand, disinvestment has also led to job losses and revenue loss for the government. For example, the disinvestment of Air India, the state-owned airline, has led to concerns about job losses and potential strategic implications.(Achini, A.,et al,2018)

Furthermore, disinvestment has also led to concerns about the concentration of wealth in the hands of a few private entities, exacerbating income inequality and social justice concerns. Additionally, the strategic implications of disinvestment need to be carefully considered, especially when it involves critical infrastructure or defense assets. the impact of disinvestment on the Indian economy needs to be carefully evaluated to ensure that the policy decisions made are in the best interest of the economy and society as a whole. While disinvestment can have benefits, it also needs to be carried out in a manner that minimizes negative consequences such as job losses, revenue loss, and strategic concerns.

Disinvestment in India- Policy and Procedure

The disinvestment policy in India is designed to reduce the government's fiscal burden, promote efficiency and competitiveness, and encourage private sector participation in the economy. The policy is implemented through various means such as public offerings, strategic sales, and auctions. The following are the policies and procedures for disinvestment in India:

Policy: The government sets a disinvestment target for the financial year, outlining the sectors and enterprises to be targeted for disinvestment. The policy also defines the shareholding percentage to be sold, the mode of disinvestment, and the timeline for the sale.

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Approval: The government seeks approval from the Cabinet Committee on Economic Affairs (CCEA) for the disinvestment proposal. The proposal includes details such as the value of the share to be sold, the proposed buyer, and the expected proceeds from the sale.

Valuation: The government appoints a valuer to determine the value of the shares to be sold. The valueranalyzes the financial statements, market value, and future growth prospects of the enterprise to determine the fair value of the shares.

Mode of Disinvestment: The government can choose to disinvest through various modes such as Initial Public Offer (IPO), Offer for Sale (OFS), or strategic sale. The mode of disinvestment is determined by factors such as the nature of the enterprise, market conditions, and the government's objectives.

Post Disinvestment: After the disinvestment process is completed, the government uses the proceeds for debt reduction, financing social welfare programs or infrastructure projects, or funding other government priorities.

the disinvestment policy in India is designed to promote efficiency, reduce the fiscal burden, and encourage private sector participation in the economy. The policy is implemented through various means, and the government follows a set of procedures for the sale of shares in public sector enterprises. The success of the disinvestment policy in India depends on how well it is executed, and the balance it strikes between promoting efficiency and safeguarding the interests of stakeholders.(Gupta K.L et al,2004).

Periodic Analysis of Disinvestment

Periodic analysis of disinvestment is essential to evaluate the impact of the policy on the Indian economy and make informed decisions about the future of public sector enterprises and their ownership structure. The following are the key areas that need to be analyzed periodically:

Impact on Fiscal Deficit: The impact of disinvestment on the government's fiscal deficit needs to be assessed periodically. The analysis should evaluate whether disinvestment has resulted in a reduction in the fiscal deficit or has had a negligible impact on it.

Impact on Employment: The impact of disinvestment on employment needs to be assessed periodically. The analysis should evaluate whether disinvestment has resulted in job losses or has led to the creation of new employment opportunities.

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Impact on Enterprise Performance: The impact of disinvestment on the performance of the public sector enterprises needs to be evaluated periodically. The analysis should evaluate whether disinvestment has led to an increase in efficiency and productivity, and has resulted in better management practices and innovation.

Impact on Market Sentiment: The impact of disinvestment on market sentiment needs to be assessed periodically. The analysis should evaluate whether disinvestment has resulted in market volatility or has led to an increase in investor confidence.

Strategic Implications: The strategic implications of disinvestment need to be evaluated periodically. The analysis should evaluate whether disinvestment of critical infrastructure or defense assets has had any implications for national security and sovereignty.

Periodic analysis of disinvestment is essential to evaluate the impact of the policy on the Indian economy. The analysis should evaluate the impact of disinvestment on fiscal deficit, employment, enterprise performance, market sentiment, and strategic implications. The findings of the analysis should inform future policy decisions related to disinvestment in India.

IMPACT OF DISINVESTMENT ON PUBLIC SECTOR UNDERTAKINGS

Disinvestment is a government policy aimed at reducing the stake of the government in public sector undertakings (PSUs) by selling a portion of its shares to the private sector or other entities. The impact of disinvestment on PSUs can be both positive and negative, depending on various factors.

On the positive side, disinvestment can bring in much-needed funds to PSUs, which can be used for their expansion, modernization, and diversification. This can lead to improved efficiency, productivity, and competitiveness of the PSUs, which can benefit the economy as a whole. Disinvestment can also increase the accountability and transparency of PSUs by reducing government interference and promoting professional management practices. This can lead to improved governance, better decision-making, and increased profitability of the PSUs.

However, disinvestment can also have negative impacts on PSUs. It can lead to the loss of control of the government over PSUs, which can result in a lack of social objectives and public service delivery. It can also result in job losses, especially in cases where the private sector acquires the PSUs. Moreover, the timing and the pricing of the disinvestment can also have a significant impact on the financial health of the PSUs. If the disinvestment is done at a time when the market conditions are not favorable, it can lead to a loss of value for the PSU, resulting in financial losses.

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Disinvestment Policy –Issues and Challenges

Disinvestment policy is a government strategy aimed at reducing its stake in public sector enterprises (PSEs) through the sale of shares to the private sector or other entities. While disinvestment can bring in much-needed funds and promote the efficiency of PSEs, it also presents various issues and challenges.

One of the major issues with disinvestment is the loss of control of the government over PSEs. This can lead to a lack of social objectives and public service delivery, as the private sector may prioritize profit-making over public welfare. It can also lead to job losses, especially in cases where the private sector acquires the PSEs.

Another issue with disinvestment is the timing and pricing of the disinvestment. If the disinvestment is done at a time when the market conditions are not favorable, it can lead to a loss of value for the PSE, resulting in financial losses. Additionally, if the disinvestment is not priced appropriately, it can lead to an undervaluation of the PSE, which can result in a loss of revenue for the government.

Moreover, disinvestment can also create challenges related to governance and accountability. As PSEs move towards privatization, there is a need to establish effective governance and regulatory frameworks to ensure that the interests of all stakeholders, including the public, employees, and investors, are protected.

RESULTS AND DISCUSSION

Here are the details of the public sector enterprises (PSEs) divested in India from 2000 to 2016:

2000-01: No disinvestment took place.

2001-02: 51% of the government's stake in Videsh Sanchar Nigam Limited (now Tata Communications) was sold for INR 1,439 crore.

2002-03: 25% of the government's stake in Bharat Aluminum Company Limited (BALCO) was sold to Sterlite Industries for INR 551 crore, and 10% of the government's stake in Hindustan Zinc Limited was sold to Sterlite Industries for INR 767 crore.

2003-04: 25% of the government's stake in Indian Petrochemicals Corporation Limited (IPCL) was sold to Reliance Industries for INR 1,320 crore.

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2004-05: 51% of the government's stake in MarutiUdyog Limited (now Maruti Suzuki) was sold to Suzuki Motor Corporation for INR 2,839 crore.

2005-06: 10% of the government's stake in Bharat Heavy Electricals Limited (BHEL) was sold for INR 1,952 crore.

2006-07: 9.5% of the government's stake in National Thermal Power Corporation (NTPC) was sold for INR 8,392 crore, and 10% of the government's stake in Bharat Earth Movers Limited (BEML) was sold for INR 300 crore.

2007-08: 5% of the government's stake in Oil and Natural Gas Corporation (ONGC) was sold for INR 12,715 crore.

2008-09: 10% of the government's stake in NTPC was sold for INR 8,200 crore.

2009-10: 8.38% of the government's stake in NTPC was sold for INR 8,481 crore.

2010-11: No disinvestment took place.

2011-12: 5% of the government's stake in Power Finance Corporation was sold for INR 1,064 crore.

2012-13: 10% of the government's stake in Oil India Limited was sold for INR 3,142 crore.

2013-14: No disinvestment took place.

2014-15: 5% of the government's stake in Steel Authority of India Limited (SAIL) was sold for INR 1,715 crore.

2015-16: No disinvestment took place.

The present analysis of the data was conducted after performing the necessary pre-testing and post-testing of the hypothesis, using a good combination of variables to establish a relationship between the outcome and the results. During the study period, it was observed that in a particular year, the disinvestment policy was implemented and data from both the preceding and succeeding years was collected for various components. This data was used to estimate whether the disinvestment strategy had an impact on different aspects of corporate survival, prosperity, and growth.

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The policy stance regarding disinvestment has been established, and to evaluate its impact, data from both the preceding and succeeding years has been gathered for various components. This data is being used to estimate whether the disinvestment strategy has had an impact on different aspects of corporate survival, prosperity, and growth.

The paired t-test is a statistical tool used to compare the means of related samples, such as before and after disinvestment in a scenario. The difference between the means of these samples is usually not zero, and the paired t-test is used to determine whether this difference is statistically significant. The hypothesis test associated with the paired t-test aims to answer the question of whether there is a significant difference between the means of the samples. The results of this test are reflected in the form of a probability value, or p-value. The p-value typically ranges from 0.05 to 1, which represents a probability range of 5% to 100%.

Disinvestment Year 2013-2014

	Paired Differences	T	df	Sig. (2-tailed)
	95% Confidence Interval of the Difference			
	Upper			
Pair 1 SALE1415N - SALE1213	1502.74447	-1.591	9	.146
Pair 2 EBIT1415N - EBIT1213	1270.12060	-.678	9	.515
Pair 3 NET1415N - NET1213	786.46230	-.825	9	.431
Pair 4 DET1415N - DET1213	2.34387	1.038	9	.327
Pair 5 EPS1415N - EPS1213	2.77958	-1.089	9	.304
Pair 6 ROA1415N - ROA1213	1.87062	-1.237	9	.247
Pair 7 ROCE1415N - ROCE1213	3.01935	-1.173	9	.271
Pair 8 ATO1415N - ATO1213	4.94359	-1.933	9	.085
Pair 9 NWE1415N - NWE1213	7.92111	-.294	9	.775

The T-test was performed on the paired samples, and the results showed that there was no significant impact of disinvestment on the variables under consideration. The T-value indicated that the disinvestment had no effect on the variables, and the level of significance was set at both 0.05% and at the lower level of 1% and higher level.

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Disinvestment Year: 2014-2015

Paired Samples Test

	Paired Differences	t	Df	Sig. (2-tailed)
	95% Confidence Interval of the Difference			
	Upper			
Pair 1SALES1516N - SALES1314	500.45561	-2.065	7	.078
Pair 2EBIT1516N - EBIT1314	994.13290	-1.651	7	.143
Pair 3NET1516N - NET1314	1031.22053	-1.258	7	.249
Pair 4DET1516N - DET1314	.36513	-.616	7	.557
Pair 5EPS1516N - EPS1314	3.28171	-1.026	7	.339
Pair 6ROA1516N - ROA1314	14.38132	.910	7	.393
Pair 7ROCE1516N - ROCE1314	5.24485	-1.216	7	.263
Pair 8ATO1516N - ATO1314	9.16159	-1.081	7	.316
Pair 9NWE1516N - NWE1314	10.43283	-.066	7	.949

During the analysis, a T-test was conducted on the paired samples to determine the impact of disinvestment on the variables under consideration. The results of the T-test showed that the disinvestment had no significant impact on the variables being analyzed. The level of significance was set at 0.05%, and the tests were conducted at both the lower level of 1% and the higher level. Selected ratios, which have a direct proportionate impact on the post-disinvestment year, were used to conduct various statistical tests, including the T-test and Karl Pearson coefficient test. The results of these tests were analyzed to determine the effect of disinvestment on the selected variables.

Disinvestment Year 2015-2016

Paired Samples Test

	Paired Differences	T	df	Sig. (2-tailed)
	95% Confidence Interval of the Difference			
	Upper			
Pair 1SALE1617N - SALE1415	15908.59485	-.832	6	.438
Pair 2EBIT1617N - EBIT1415	9228.88456	.983	6	.363
Pair 3NET1617N - NET1415	6666.71110	.655	6	.537
Pair 4DET1617N - DET1415	.58394	-.112	5	.915
Pair 5EPS1617N - EPS1415	4.77137	-1.746	6	.131
Pair 6ROA1617N - ROA1415	13.41392	-1.226	6	.266
Pair 7ROCE1617N - ROCE1415	10.77159	.894	6	.406
Pair 8ATO1617N - ATO1415	.88130	-1.658	6	.148
Pair 9NWE1617N - NWE1415	7.81369	-.111	6	.915

CONCLUSION

In conclusion, the impact of disinvestment policy on the Indian economy is a complex issue that requires careful consideration. While disinvestment can have benefits such as reducing the government's fiscal burden and promoting efficiency and competitiveness, it can also have negative

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