

Privatisation, Meaning, Types, Evolution, Significance, Challenges

June 11, 2026 • vajiramandravi.com



In India, privatisation has emerged as a major component of economic reforms aimed at enhancing efficiency, improving competitiveness, reducing fiscal burden, and accelerating economic growth. It forms an important pillar of India's transition from a state-led mixed economy to a market-driven economy.

Privatisation Meaning

Privatisation refers to the transfer of ownership, management, control, or operational responsibility of a public sector enterprise (PSE) from the government to private entities.

It expands the role of private enterprise in sectors traditionally dominated by the state, with the **objective** of **improving efficiency, competitiveness, innovation, and resource allocation**.

Types of Privatisation

Privatisation can take different forms depending on the extent of ownership transfer and private sector participation.

- **Strategic Disinvestment:** The government sells a majority stake and transfers management control to a private entity.
 - **Examples:** Air India (2022), BALCO (2001)
- **Minority Stake Disinvestment (Partial Privatisation):** The government sells part of its shares but retains majority ownership and control.
 - **Examples:** LIC IPO (2022)
- **Denationalisation (Complete Privatisation):** The government completely exits an enterprise by transferring full ownership and management to the private sector.
 - **Example:** Air India
- **Asset Monetisation:** Private firms are allowed to operate and earn revenue from public assets for a fixed period, while ownership remains with the government.
 - **Examples:** National Monetisation Pipeline (NMP), NHAI's TOT Model.
- **Public-Private Partnership (PPP):** The government and private sector jointly develop and manage infrastructure or public services, sharing risks and rewards.
 - **Examples:** Delhi Airport, Mumbai Airport, Metro Rail projects.
- **Management Contracts and Leasing:** Ownership remains with the government, but operations and management are handed over to private firms.
 - **Examples:** Container terminals at ports, tourism properties.
- **Outsourcing or Contracting Out:** Specific services are outsourced to private agencies while overall responsibility remains with the government.
 - **Examples:** Security services, housekeeping, IT services, e-governance projects.

Difference Between Privatisation and Disinvestment

Although the terms privatisation and disinvestment are often used interchangeably, they are not the same.

Disinvestment refers to the sale of government equity in a public sector enterprise, whereas **privatisation** involves the transfer of ownership and management control from the government to the private sector.

Basis	Disinvestment	Privatisation
Meaning	Sale or dilution of the government's stake in a Public Sector Enterprise (PSE).	Transfer of ownership and management control of a PSE to private entities.
Government Ownership	The government may continue to hold majority ownership.	The government relinquishes majority ownership.
Management Control	Usually remains with the government.	Transferred to the private sector.

Objective	Revenue mobilisation, widening public ownership, and improving corporate governance.	Enhancing efficiency, productivity, competitiveness, and reducing government involvement in business.
Extent of Change	Partial reduction in government stake.	Fundamental change in ownership and control structure.
Nature	Financial transaction.	Structural and managerial reform.
Government Role After Process	Continues as majority shareholder in many cases.	Becomes a minority shareholder or exits completely.

Historical Background of Privatisation in India

Phase I: State-led Development Model (1947-1991)

After Independence, India adopted a **mixed economy** model influenced by socialist planning, wherein the public sector occupied the “commanding heights” of the economy. The **Industrial Policy Resolution of 1956** reserved several strategic industries for the state, leading to the rapid expansion of PSUs in sectors such as steel, coal, banking, power, telecommunications, and heavy engineering.

While these enterprises played a crucial role in nation-building and industrialisation, over time many suffered from low productivity, excessive bureaucratic control, political interference, overstaffing, and mounting financial losses.

Phase II: Economic Reforms and Disinvestment (1991-2004)

The Balance of Payments crisis of 1991 compelled India to initiate the LPG reforms – **Liberalisation, Privatisation, and Globalisation**. The Narasimha Rao Government reduced the exclusive domain of the public sector and initiated disinvestment in government-owned enterprises.

The creation of the **Disinvestment Commission (1996)** and strategic sales during the Vajpayee Government marked the first serious attempt at privatisation.

Phase III: Limited Privatisation (2004-2014)

During this phase, the focus shifted largely towards minority stake dilution rather than strategic sales. While significant resources were mobilised through **Initial Public Offering (IPOs)** and **Follow-on Public Offering (FPOs)**, management control remained with the government.

Phase IV: Strategic Privatisation and Asset Monetisation (2014-Present)

The recent phase has witnessed a renewed emphasis on strategic disinvestment, privatisation of non-strategic PSUs, and monetisation of public assets through the **National Monetisation Pipeline**. The **New Public Sector Enterprise Policy (2021)** represents the most comprehensive privatisation framework adopted by India so far.

Significance of Privatisation

Privatisation is a structural reform that seeks to improve efficiency, strengthen public finances, enhance service delivery, and enable the government to focus on its core developmental responsibilities.

- **Enhances Economic Efficiency:** Privatisation introduces professional management, market discipline, and performance-based decision-making, leading to higher productivity and better resource utilisation.
- **Strengthens Public Finances:** Privatisation reduces the burden of funding loss-making PSUs and generates resources for development.
 - **For example:** The sale of Air India for ₹18,000 crore ended decades of taxpayer-funded bailouts
- **Improves Quality of Goods and Services:** Competition encourages firms to focus on customer satisfaction, innovation, and service quality.
 - **For example :** India's broadband subscriber base increased from 295 million in FY17 to over 964 million in FY24, largely driven by private sector participation.
- **Attracts Investment and Technology:** Private ownership facilitates capital infusion, technological modernisation, and adoption of global best practices.
- **Promotes Competition and Consumer Welfare:** Greater private participation reduces monopoly power, lowers prices, and expands consumer choice.
 - Private telecom operators account for over 90% of the wireless market, helping India become the world's second-largest mobile broadband market.
- **Allows Government to Focus on Core Functions:** Privatisation enables the government to concentrate on governance, welfare, infrastructure, and national security instead of managing commercial enterprises.
 - The New PSE Policy, 2021 aims to limit government presence mainly to strategic sectors.
- **Encourages Innovation and Entrepreneurship:** Private firms are more responsive to technological change and market opportunities.
- **Unlocks Value from Public Assets:** Privatisation and asset monetisation ensure productive utilisation of public assets.
 - **For example:** NMP Phase-I achieved around ₹5.3 lakh crore (89% of the ₹6 lakh crore target), while NMP 2.0 targets ₹16.72 lakh crore during FY26-30.
- **Boosts Infrastructure Development and Economic Growth:** Private participation mobilises investment for airports, roads, logistics, and energy infrastructure, supporting higher growth.

Challenges of Privatisation

While privatisation can improve efficiency and attract investment, its implementation faces several economic, social, and institutional challenges that need careful management.

- **Risk of Undervaluation of Public Assets:** Public assets built over decades may be sold below their true value due to market fluctuations, weak valuation mechanisms, or limited bidder participation, resulting in

loss of public wealth.

- **Employment and Labour Concerns:** Privatisation often leads to workforce rationalisation, voluntary retirement schemes (VRS), and restructuring, creating fears of job losses and reduced job security among employees.
 - Protests during BALCO disinvestment and concerns surrounding Air India privatisation illustrate this challenge.
- **Monopoly and Market Concentration:** Privatisation may replace a public monopoly with a private monopoly if adequate competition and regulatory safeguards are absent.
 - **For example:** The telecom sector's increasing concentration around a few major players highlights this concern.
- **Social Equity and Accessibility Issues:** Private firms primarily focus on profitability and may neglect remote, rural, or economically weaker sections where service delivery is less profitable, affecting equitable access to essential services.
- **Political and Trade Union Resistance:** Privatisation often faces opposition from political parties, employee unions, and civil society groups due to concerns regarding job losses, national assets, and social welfare, delaying reform initiatives.
- **Regulatory and Institutional Weaknesses:** Weak regulatory institutions may lead to monopoly pricing, poor service standards, or regulatory capture, undermining the benefits of privatisation.
- **Strategic and National Security Concerns:** Privatisation of enterprises operating in sectors such as defence, banking, energy, and telecommunications may raise concerns regarding national security and strategic autonomy.
- **Regional Development Concerns:** Many PSUs were established in backward regions to promote balanced regional development. Private owners may prioritise profitability over regional objectives, potentially widening regional disparities.
- **Fiscal Dependence on Disinvestment Receipts:** Governments may treat privatisation primarily as a revenue-generation tool rather than a structural reform, leading to short-term fiscal gains at the cost of long-term strategic considerations.
- **Complex and Slow Implementation Process:** Privatisation involves multiple approvals, valuation exercises, legal clearances, and stakeholder consultations, often leading to delays.
 - **For example:** The prolonged strategic disinvestment process of IDBI Bank and the shelving of BPCL privatisation demonstrate these difficulties.

Way Forward

Privatisation should not be viewed merely as a revenue-generating exercise but as a strategic reform aimed at improving efficiency, promoting competition, and safeguarding public interest. A balanced and transparent approach is essential to maximise its benefits.

- **Adopt a Sector-Specific Approach:** Privatisation should be pursued in non-strategic sectors while ensuring adequate government presence in critical areas such as defence, atomic energy, and national security, in line with the New PSE Policy, 2021.
- **Ensure Transparent and Fair Valuation:** Independent valuation, competitive bidding, and public disclosure of transactions should be adopted to prevent undervaluation of public assets and enhance public

trust.

- **Strengthen Regulatory Institutions:** Strong regulators such as TRAI, CCI, RBI, IRDAI, and PNGRB are essential to prevent monopolistic practices, protect consumers, and ensure fair competition after privatisation.
- **Protect Workers' Interests:** Comprehensive rehabilitation measures, including reskilling, redeployment, social security benefits, and attractive VRS packages, should accompany privatisation to minimise labour-related concerns.
- **Promote Competition, Not Private Monopolies:** Privatisation should create competitive markets rather than replacing public monopolies with private ones. Effective competition policy and antitrust regulation are crucial in this regard.
- **Prioritise Corporate Governance Reforms:** Before privatisation, PSUs should be restructured through professional boards, greater managerial autonomy, and improved governance practices to enhance their value and attractiveness.
- **Focus on Long-Term Value Creation:** Disinvestment should be guided by efficiency and productivity gains rather than short-term fiscal considerations. Asset sales must support broader economic and developmental objectives.
- **Leverage Asset Monetisation and PPP Models:** Where full privatisation is not desirable, models such as Public-Private Partnerships (PPP) and National Monetisation Pipeline (NMP) can improve efficiency while retaining public ownership of strategic assets.
- **Establish a Professional Asset Management Framework:** India can consider a Temasek Holdings (Singapore) or Khazanah Nasional (Malaysia)-type model to professionally manage government investments and maximise returns from public assets.
- **Align Privatisation with Viksit Bharat 2047:** Privatisation should complement broader goals of economic growth, infrastructure development, employment generation, ease of doing business, and global competitiveness.

Source: <https://vajiramandravi.com/current-affairs/privatisation/>

© Vajiram & Ravi. For personal use only.