

## Revisiting disinvestment

The programme needs a systematic approach

**T**he Union government's approach to disinvestment needs to be reviewed. Over the years, it has been used as a tool to reduce the fiscal deficit, though the government has often failed to attain the budgeted target. Even in the current fiscal year, the government so far has not raised even half the targeted amount. It is nonetheless confident of attaining the fiscal deficit target of 6.4 per cent of gross domestic product for the year because of the comfortable tax revenue position. Higher than expected growth in nominal terms because of higher inflation would push up the size of the economy and also help contain the deficit despite significantly higher expenditure. Since the pressure from the Budget is relatively low this year, it is a good time to revisit the disinvestment process. Some of the suggestions made by Department of Investment and Public Asset Management Secretary Tuhin Kanta Pandey could be useful in this context.

In an interview with this newspaper last week, Mr Pandey noted that "more of a bottom-up approach is needed" instead of a top-down approach. He further underscored that since market realities kept changing, the target should not just be one hard number. These arguments have merit and must be discussed further within the government. It should give up the dependence on disinvestment as an instrument for containing the fiscal deficit. The government must pursue the disinvestment programme to attain broader objectives. There is no reason, for instance, why the government should remain invested in so many companies with a large number of them only accumulating losses. The government in this regard has done well to formulate a clear public-sector policy, which envisages a limited presence of public-sector companies in strategic sectors only.

Since the government rightly intends to exit other areas, it should proceed with a more systematic approach. Finding companies to divest after having arrived at a target for the year will not help. It should instead have a rolling list of companies to be privatised over a period of time. A ready list will not only give the departments concerned much-needed clarity, but also allow the markets to prepare for buying shares of such companies. The proceeds can be used to finance important infrastructure projects. Depending on market conditions and the quality of companies being divested, revenue collection could vary significantly from one year to another. Therefore, the government can show the fiscal deficit number both with and without disinvestment proceeds. For analytical purposes, the target without the disinvestment figure can be used.

Since the proceeds are likely to be volatile, a mechanism can be devised to sustain the flow of investment in identified projects. Given the nature of demands on the Budget, disinvestment can help augment capital expenditure, which would help push up the growth potential of the Indian economy. With global economic prospects looking dim, it is likely that India's growth, to a large extent, will depend on government expenditure. However, since the government needs to reduce the fiscal deficit to a more reasonable level in the coming years, the disinvestment push could help maintain capital expenditure. Broadly, it is clear that the disinvestment programme in its current form is not working as desired. It thus needs a different approach.