foreseeable future.

Changing objectives

Govt must not lose sight of disinvestment

The Union government, as reported by this newspaper last week, is in the process of merging two departments — the Department of Public Enterprises (DPE) and the Department of Investment and Public Asset Management (Dipam) — in the Ministry of Finance. The idea is to improve the efficiency and performance of central public-sector enterprises (CPSEs). There is said to be a significant overlap in the work of these two departments. There is no harm in merging departments if the government believes it will improve outcomes. However, the question is whether the merged department will focus more on managing CPSEs or disinvestment. There seems to have been a subtle change in the approach of the government towards disinvestment.

A new public sector policy, announced in the Budget for 2021-22, stated that the government would minimise its presence in CPSEs. It proposed to have a minimal presence in strategic sectors. In non-strategic sectors, the CPSEs will be either privatised or closed down. When the DPE was integrated into the Ministry of Finance in 2021, it was hoped that the shift would enable a faster implementation of the new policy. However, not much has happened in this context. Even at a broader level, while the shape and nature of Dipam changed several times over the years, disinvestment never became a serious policy objective for a sustained period. There have been years when the government set higher disinvestment targets and managed to sell considerable equity in CPSEs. However, on most occasions, it was driven by the need to reduce the fiscal deficit.

Although top government officials at the Ministry of Finance have reiterated that there is no change in the stated policy, they have also said the focus is on value creation. Since Dipam and the DPE are now being merged, the idea of value creation may dominate. It is also worth noting that the government has stopped giving explicit disinvestment targets in the Union Budget. Although this approach provides flexibility to divest at an appropriate time, such discretion should not lead to any neglect of this critical revenue stream. Riding the market vibrancy, overall fundraising in the equity market in 2024-25 stood at over ₹3.7 trillion, which was about 90 per cent higher than in the previous year. However, during the same period, the government raised only a little over ₹10,000 crore through disinvestment.

The merits of pursuing an aggressive disinvestment programme are well known. The stated CPSE policy, for instance, would not only have raised substantial revenue, which the government could have used in other areas for asset creation, but would have freed significant state capacity. Disinvestment has suffered over the years mainly because of a missing political consensus. The political Opposition often projects it as selling the family silver. Thus, the department can be renamed but the real progress will depend on political conviction. A 2022 report by the Comptroller and Auditor General of India showed that there were 198 government companies and corporations with accumulated losses of over ₹2 trillion. The accumulated losses had completely eroded the net worth of 88 companies. These companies, over time, will only increase the burden on the exchequer.