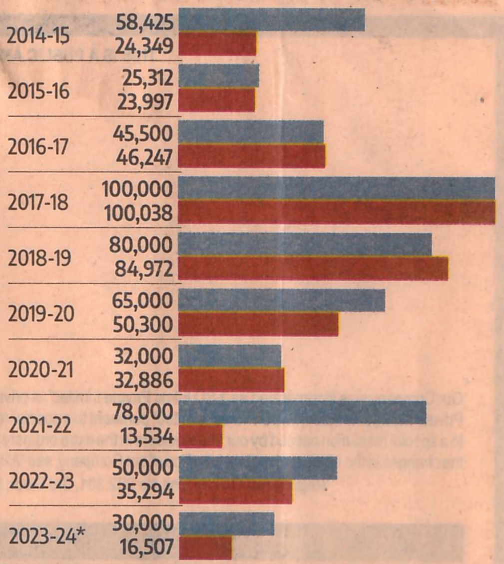
Govt in business

The Centre must urgently return to its 2021 divestment policy, as only privatisation can transform the working culture of PSEs

Falling short



*Separate disinvestment target has been discontinued since the Revised Estimate (RE) stage of FY 2023- 24. Divestment receipts are now accounted for as a part of broader target of "Miscellaneous Capital Receipts"

Prime Minister Narendra Modi was spot on when he said, “The government has no business to be in business,” during a webinar on disinvestment in February 2021. His brief speech was well drafted, and the message was clear. This event followed the Union Budget 2021-22, which announced the government’s policy on “disinvestment in all non-strategic and strategic sectors,” setting an ambitious disinvestment target of ₹1.75 trillion for FY22.

Unfortunately, as with many such noble pronouncements, the reality has turned out to be quite different. In fact, there has effectively been a policy U-turn, with the level of divestment activity now even lower than it was before FY21. The table provides year-wise details, from FY15 onwards, of the annual divestment targets and actual achievements in public sector enterprises (PSEs).

The practice of fixing annual divestment targets in the budgets was designed to tap an additional revenue source to contain the revenue deficit. As we examine in this column, the case for divestment goes far beyond this aim. In fact, the other considerations dwarf the revenue-generation objective.

Before turning to the question of the government’s capability in handling commercial activities, consider the overall roles and responsibilities of a democratically elected government towards its citizens. They are truly mind-boggling, at times even incomprehensible.

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Just because of capacity constraints, the government has no choice but to prioritise the functions that it must necessarily perform, and those that can be handled by others. The natural choice of government functions would include public good functions — such as defence, policing, justice, law enforcement, environmental preservation, and welfare — along with essential areas like elementary education and primary health care, which cannot be entirely left to market forces. These roles alone are more than a handful for any government. Even the most efficient ones find it difficult to measure up to public expectations.

Now, to the point of government ownership of commercial enterprises. Historically, many PSEs were established in the early decades after Independence under the concept of the “commanding heights,” rooted in Nehruvian socialism, which envisaged PSEs controlling key industries and resources to guide the nation’s economic development. Gradually, as India moved towards a free market economy, especially post-1991, most sectors were opened to private participation.

The limitations of the government dealing with commercial matters are well known — bureaucratic risk averseness, more attention to processes than the potential outcomes, multiplicity of accountability, among others. With the private sector coming of age, the government, realising its limitations, and the need to augment the non-tax receipts to contain the ever-growing fiscal deficit, gradually embarked upon the divestment process.

The department of disinvestment was established as a separate department in 1999. While the nomenclature of the department has undergone many changes since then, there is nothing much to write about any significant divestments undertaken by it except perhaps during the Vajpayee government between 1999 and 2004.

Apart from political expediency, the real reasons for poor performance in disinvestment are the reluctance of the administrative ministries to part with their fiefdom and patronage; and bureaucratic fear of getting into trouble with vigilance — Central Bureau of Investigation, Central Vigilance Commission — over likely allegations of underselling the “family silver”. These aspects are camouflaged by putting forth reasons such as PSEs serving public purpose (whatever it may mean); the supposed need for restructuring before selling so as to unlock maximum value (a never-ending exercise and tactic to not let it go); the question of why profit-making enterprises should be sold (as if the private sector would rush to buy only loss-making ones); and finally, the catch-all excuse of “strategic” reasons — perhaps the most misused term of all.

Government capital being blocked in PSEs isn’t the only issue. The government, as promoter and owner, is also involved in various associated corporate activities. Institutions like the Public Enterprises Selection Board (PESB), Financial Services Institutions Bureau (FSIB), and several selection committees have been set up to facilitate the appointment of directors on PSE boards, including banking and financial institutions. In addition, there is a Cabinet committee (Appointments Committee of the Cabinet) devoted exclusively to approving such appointments, besides other government appointments.

In fact, the sole rationale for the existence of some ministries/departments is to service PSE requirements. Doing away with them, or reducing their functions, would unlock resources. Given the plethora of essential jobs that the government must necessarily perform, and its admittedly limited capability to handle commercial enterprises, why waste time, energy, and resources in running PSEs, notwithstanding that some of them are doing a decent job? This thinking also rhymes with the government’s other avowed goal of “minimising government”.

The PSEs regularly seek various dispensations from sectoral regulators. For instance, listed PSEs often want to be treated differently by the market regulator vis-à-vis other listed companies on several parameters. This distorts the regulatory architecture and adversely impacts market discipline.

What is more worrying is the recent trend of the government infusing substantial funds into PSEs through equity and easy loans. The oft-given justification of doing so for value creation needs rigorous and critical analysis. What are the key performance indicators to substantiate this claim? Has such a policy delivered in the past? The government takes credit for sizably increasing capex as a percentage of gross domestic product in post-Covid annual budgets, and for improving the quality of expenditure. What seems to be missed out is that an increasing portion of this capex is going as equity and loans to PSEs, with this proportion being higher than 50 per cent of the ₹10.2 trillion capex in the FY25 Budget.

The government needs to urgently return to its 2021 policy and implement it with rigour in a time-bound manner, backed by proper planning. It should focus on the privatisation of selected PSEs rather than expending time and energy on selling small minority shareholdings in many of them. Privatisation alone can change the working culture of PSEs, increase investors’ trust, reduce government’s burden of running them, and improve the overall ecosystem. These should be the guiding factors in deciding the road map for disinvestment, instead of aiming only at divestment receipts.

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