

Streamlining disinvestment

Govt should go beyond making administrative changes

The government is considering more powers to the department of investment and public asset management (Dipam). As reported by this newspaper on Tuesday, the Cabinet is likely to deliberate on a proposal that will make Dipam the administrative authority, irrespective of which department oversees a particular public sector undertaking (PSU) that has been picked for strategic sale. The move should be welcomed as it will help the government streamline the disinvestment process to an extent. Administrative departments are generally not keen on selling PSUs, which delays the entire process, among other things. Over and over again, it is clear that politicians and bureaucrats see their local PSUs as a source of patronage and perquisites. Unless this relationship is severed, the chances for a quick disinvestment remain slim. Putting the disinvestment process on the fast track will go a long way in helping the government attain the ambitious target of raising ₹1.05 trillion on this account in the current financial year.

At a broader level, it is heartening to see that the government is looking to smooth the process for strategic sale of PSUs. In this context, it would do well to go beyond just making administrative changes and look at the process in a more holistic manner. For instance, it would help if there is a medium-term plan for disinvestment in general and for strategic sale in particular. The government can put out a list of companies that can be sold in the medium term. It can ask the NITI Aayog, which has worked in this area, to maintain a list of possible candidates. This will improve the process in at least two ways. First, both Dipam and the administrative department will be able to work according to this calendar and prepare for strategic sales in a better way. Second, the market would know the kind of assets the government would be selling. This will give time to potential buyers to evaluate the prospects and prepare financially. It is likely that if the government follows this path, it will get a better price for its assets because of higher competition in the market.

Additionally, if the government follows such a process, it would know roughly how much money to expect from disinvestment in a particular financial year, which can augment its capital spending programme. In fact, the way disinvestment has been pursued over the years should be avoided. The government sets a target, depending on fiscal needs, and then looks for companies to meet the target. Also, the current practice of the government prevailing upon its own companies to step in to buy stakes in their peers must be avoided. This is faux disinvestment at the very least. The government needs to work with a view that it should not be running a commercial enterprise, which not only has a fiscal cost but also distorts the market. Further, the proceeds should be used to create new assets such as those in the area of infrastructure, which will help increase potential growth in the long run. Overall, the entire disinvestment process should be reviewed to maximise gains.