

In Budget, disinvestment and borrowings

Why asset sale targets are important

Despite favourable market conditions, the government has raised less than 3% of budgeted revenues from disinvestment. As a result, fiscal deficit for the current year is set to worsen.

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PRESENTING THE Union Budget last year, Finance Minister Nirmala Sitharaman had surprised everyone when she announced a disinvestment target of Rs 2.1 lakh crore.

As annual targets go, this was easily three to four times the usual targeted amount. Given its size, it was a vital element in the government's strategy to keep its fiscal deficit under check. However, the tardy pace of sales of these public assets during the year implies that the government is unlikely to meet its target.

What is disinvestment?

The Union government invests in several public sector undertakings (PSUs) such as Air India, Bharat Petroleum, Delhi Metro Rail Corporation etc. Since it is the majority shareholder (meaning that it owns more than 51% of the shares), the Centre can raise money through the liquidation of its shareholding in these PSUs.

Such asset sales can either reduce the government's share — like when it attempted to do with the public listing of Life Insurance Corporation in 2020 — or it can also transfer the ownership of the firm altogether to the highest bidder — as it did with Bharat Aluminium Company, which was sold to the Vedanta group in 2001.

Why are PSUs up for sale?

Broadly speaking there are two main motivations behind disinvesting in PSUs.

One is to improve the overall efficiency of their functioning. As PSUs, they are managed by the government on a daily basis. But in doing so, there are chances of political considerations overshadowing economic and corporate interests. This is especially true when the PSU transacts with the government — for ex-

ample when it sells its products and services to the government, the pricing may be influenced by factors other than market factors.

By disinvesting (or reducing the government stake), an attempt is made to make such a PSU more efficient as it would not be accountable to people and entities other than the government. The underlying hope is that private or corporate ownership will result in more efficient management.

The second factor is the government's need to plug its deficit. Indian governments perennially run budget deficits. In other words, the government is unable to meet its expenditures just from its tax revenues. In times of extreme monetary stress, governments have thought of selling off their stake in PSUs to raise funds and meet the gap between its expenses and revenues.

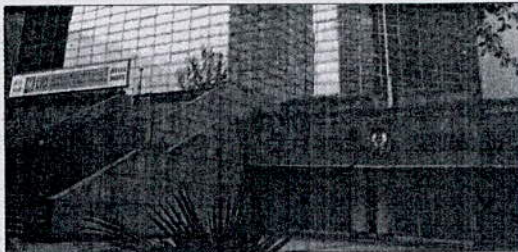
Before economic liberalisation, such efforts to monetise government's assets were criticised as selling the family silver. But post-liberalisation, reducing government stake, especially in sectors — such as the strategic sectors like defence — where government presence is not necessary, disinvestment is welcomed. With the proceeds of these sales, the government can reduce its debt liabilities and raise money for investments

in other parts of the economy — such as building infrastructure in the form of new roads and bridges or increased spending on providing welfare to the poor and needy in the country.

How are these revenues generated?

All PSUs work under different departments and ministries within the government. However, the Department of Investment and Public Asset Management (DIPAM) under the Ministry of Finance is tasked with managing the Centre's investments in the PSUs. Sale of the Centre's assets falls within the mandate of DIPAM.

Each year, the Finance Minister sets a "disinvestment target". Accordingly, bids are in-



A big chunk of the current financial year's disinvestment target was expected to come from the public listing of LIC. Express Archive

DISINVESTMENT TARGETS, RARELY ACHIEVED

YEAR	DISINVESTMENT TARGET (BE, Rs CRORE)	ACTUAL DISINVESTMENT RECEIPTS (Rs CRORE)	ACTUALS AS A PROPORTION OF BE (%)
2006-2007	3840	0	0.00
2007-2008	41651	3392	8.14
2008-2009	1165	2	0.17
2009-2010	1120	4306	384.46
2010-2011	40000	22275	55.69
2011-2012	40000	1145	2.86
2012-2013	30000	2193	7.31
2013-2014	40000	1589	3.97
2014-2015	43425	222	0.51
2015-2016	41000	12853	31.35
2016-2017	36000	21433	59.54
2017-2018	100000	100195	100.20
2018-2019	80000	85045	106.31
2019-2020	105000	50304	47.91
2020-2021	210000	6179	2.94

Source: CGA

vided, or as in the case of LIC, public offerings are made and the PSU is privatised partially or fully.

Are disinvestment targets met? Will it be met in 2020-21?

The table alongside shows the government's performance in meeting its disinvestment target over the past 15 years. Except in a few years, the government has failed to raise as much money as it wanted at the start of the year.

The current year was particularly poor in this regard. According to the latest data on the Controller General of Accounts (CGA) website, only Rs 6,179 crore of the total budgeted amount for 2020-21 — that is, less than 3% of the targeted revenues — have been generated through disinvestment as of November 2020. This is despite there being an appetite for

public assets in the market.

An about-turn in the disinvestment situation seems unlikely even in favourable market conditions, according to Dr Rathin Roy of the Centre for Policy Research, New Delhi. "It is surprising and unfortunate that despite favourable market conditions, it appears that the central government will yet again fail to meet its disinvestment targets in any substantial way," he said.

What are the implications of this shortfall for the Centre's finances?

According to CGA, as of November, the Centre's fiscal deficit had overshoot its target by 35%. Of course, not all of the slippage would be due to the lack of revenues from disinvestment, but with 97% of the biggest target ever still unrealised till November, it is a matter of concern.

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BUDGET '21



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