

A bold move

Policy on strategic disinvestment is a huge break from the past

One of the biggest announcements in the Union Budget presented on Monday was the policy on strategic disinvestment of central public sector enterprises (CPSEs). This would, among other things, give a big push to the overall economic reforms agenda. Finance Minister Nirmala Sitharaman had announced last year that the government would come up with such a policy, which was cleared by the Cabinet recently. The new policy provides a clear road map for CPSEs, the objective being minimising their presence, and creating more space for the private sector. In this context, the government has identified four broad strategic areas (atomic energy, space and defence; power, petroleum, coal and minerals; transport and telecommunications; and financial services) where CPSEs will have a minimal presence. In non-strategic sectors, CPSEs will be privatised or closed.

The government must be commended for this extraordinarily bold policy position. In fact, the finance minister has proposed to privatise two public sector banks (PSBs), along with a general insurance company, in the next fiscal year. This will certainly break critical policy barriers and mark a new beginning. To take the process forward, the government has asked the NITI Aayog to prepare a list of companies for strategic disinvestment. The stated policy will have multiple benefits. It is important to recognise that the presence of state-owned companies in different sectors often creates distortions and affects private sector firms, which have to deal with more stringent financial constraints.

Further, a large number of public-sector firms make losses and are a drag on government finances. For instance, a 2019 report of the Comptroller and Auditor General of India showed that in the year ended March 2018, 184 government companies had accumulated losses worth over ₹1.4 trillion and the net-worth of 77 companies was completely eroded. The problem also is that even the profit-making CPSEs are faring worse than their private sector counterparts on most operational metrics. So, given the financial position of a large number of CPSEs, it is sensible for the government to either privatise or close them. Since the government finances are also under pressure, the proceeds from disinvestment can be used to fund investment in areas such as infrastructure. It is worth noting that most of the CPSE profits come from sectors such as petroleum and coal, where competition is relatively restricted. The PSEs find it difficult to compete with the private sector. Thus, privatisation and transfer of management can lead to overall efficiency gains and boost output. Besides, instead of diverting time, energy and financial resources to run a large number of weak commercial enterprises, the government will be able to focus more on policy issues and delivering public goods.

Although the benefits of strategic disinvestment are clear, proper implementation will be important as the past record is not very encouraging. Further, the idea of large-scale privatisation, particularly of PSBs, is bound to face opposition from different sections. The government will need to be politically prepared to handle such issues. Moreover, the government would be well advised to tread carefully with maximum transparency. Disinvestment decisions in the past have been the subject of controversies and investigation. Such an outcome must be avoided as it can easily derail the privatisation process and the policy at large.