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The spirit of disinvestment

Govt should not force one PSU to buy another

The government's ambition on disinvestment hit a high in the 2021-22 Union Budget, with a target of ₹1.75 trillion set for receipts. So far this year — as in many previous years — the disinvestment programme has gotten off to a sluggish start. Too much has been left to the final quarter to deliver. In fact, entering December, only 5 per cent or so of the target had been achieved. In any case, disinvestment is not real privatisation if control of the enterprise does not pass out of the state's hands. But even otherwise, arguments could be made from both a revenue and a market discipline perspective for a higher private share in ownership. Yet if one public sector unit buys another, then not even these weak arguments apply. This has been the case with many deals in the past, such as the one in which ONGC took over HPCL. This can hardly be counted as disinvestment, although it added to the government's receipts to the tune of ₹90,000 crore. The loser was ONGC, which was forced into a very adverse cash situation. The upstream oil company has also complained that it has few of the benefits of ownership that should come with this massive payout, as the government continues to appoint the senior management of HPCL.

The Comptroller and Auditor General (CAG) of India has raised questions in a recent report on a smaller deal, involving the purchase by Chennai Port Trust (ChPT) in March 2020 of the government's two-thirds stake in Kamarajar Port Ltd (KPL). ONGC at least had some cash in hand for the payout to the government. ChPT had to borrow a large part of the ₹2,400-crore it had to pay for acquiring KPL. This had to be borrowed from the market at 8 per cent interest, according to the auditor. Given that ChPT is a Central public sector unit, it is hard to see how this is different from the government borrowing the same sum from the market — except that the government could have borrowed at a much lower interest rate than ChPT did. The purchaser is burdened by further debt and an additional interest burden of ₹142 crore a year, reducing its ability to invest and operate; the purchased company does not experience the productivity bump that would be associated with privatisation or market discipline; and the overall drag of public sector borrowing on India's financial savings increases.

The only advantage is that the borrowing involved in this particular deal will have been driven off budget, and thus will not show up in the fiscal deficit numbers. This is precisely the opposite of the promise to clean up the borrowing numbers made by the Union finance minister, a promise which has in many other cases been fulfilled. The CAG is right to point out this and other similar deals "defeat the spirit of disinvestment". It is understandable that, faced with a stressed fisc — and having postponed its disinvestment programme longer than was wise — the government may be tempted to look for other similar short-cuts to try and make a dent in the 95 per cent that remains of its disinvestment target. But it should resist that temptation. Taking such a route will not help.