Disinvestment needs a different approach

The sale of Air India earlier this year was undoubtedly a big achievement for the government and it must be commended for having accomplished this despite several obstacles, though the final transfer has got a bit delayed. But the same cannot be said for the disinvestment programme in general. Even as the third quarter of the ongoing fiscal year draws to an end, the government has raised only about ₹9,300 crore compared to the target of ₹1.75 trillion. The final number for the year to a large extent will depend on the Life Insurance Corporation's listing. It's not clear at the moment if this will happen by March-end.

REAL TERMS

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The overall performance on the disinvestment front this year is particularly disappointing because of two important reasons. First, despite higher tax collection, higher receipts from disinvestment would have helped push up capital expenditure, enabling faster and more durable economic recovery. Second, market conditions were extremely favourable. The private sector has raised record sums, and the momentum is likely to continue in the near term. However, the government's underperformance on this front is not new. It raised ₹32,845 crore compared to the target of ₹2.1 trillion last year, for instance. It is intriguing why, despite being on the agenda for decades, disinvestment has not been approached more systematically over the years. In fact, the government has made one public sector enterprise (PSE) buy another to meet disinvestment targets in the past. In a recent report, the Comptroller and Auditor General (CAG) objected to such an exercise and noted that it defeats the spirit of disinvestment.

This stream of receipts has essentially been used to lower the fiscal deficit. But this should change because the government now has a clear policy for PSEs. Accordingly, the government will only maintain a minimal presence in strategic sectors — such as atomic energy, power and petroleum, transport and telecommunications, and financial services — and either sell or shut down PSEs in other areas. The implementation of the policy, however, has not got the kind of start some were expecting. Progress on this account will be critical in shaping the post-pandemic economic recovery.

There is no reason why the government should run large numbers of enterprises. Many of them are a drag on government finances and impose high costs. According to a 2019 CAG report, which reviewed over 600 central government PSEs for the financial year ending 2018, over 70 per cent of profits earned by state-owned firms were contributed by 52 companies in sectors such as petroleum, coal and lignite. This underscores that PSEs tend to do well in areas where competition is limited. This should not be surprising as adapting to a rapidly changing business environment and handling competition is inherently difficult in the public sector with all its constraints. This is one of the main reasons why public sector firms lost in sectors such as telecom and aviation despite massive financial and other support from the government. In the CAG's sample, 184 companies had accumulated losses of over ₹1.42 trillion. Further, the net worth of 77 companies had been fully eroded by their accrued losses. Clearly, holding these companies is not benefiting the country.

Since the government now has a clear policy for PSEs, it should recalibrate the disinvestment programme. It will be critical that disinvestment is not approached only as a source of revenue to bridge the fiscal gap in a particular year. Here are three things that the government can do in this context. First, it should announce a medium-term target for attaining the stated policy objective of reducing its presence, except in a select few firms in strategic areas — this selected list should also be made public to provide more certainty. In the absence of a clear target or plan, the disinvestment programme will remain trapped with the same set of problems.

Second, the government should have a rolling list of PSEs to be disinvested/privatised, at least over the next three years. Finding firms/shares to sell depending on budgetary needs will not help. Every company/sector has its own set of issues that will need to be addressed—and the process will take time. The government, for instance, announced in this year's budget that two public sector banks (PSBs) will be taken up for privatisation in the current financial year. However, so far, the names of the PSBs to be put on the block have not been announced. Privatising PSBs, to be sure, will not be easy. The government will need to keep several regulatory issues in mind besides getting the relevant laws amended.

Third, the government should declare the yearly fiscal deficit number, both with and without accounting for disinvestment proceeds. This will be important in this structure because proceeds in some years could be much higher depending on the disinvestment candidates and market conditions. Thus, the focus of the government should be on managing the deficit without disinvestment receipts. The government can identify large projects that can be financed with disinvestment funds. It can clearly show in the budget documents where the proceeds are going. This would also help convince sceptics that the government is not only selling assets but also building new ones and, in the process, it is helping to improve the growth potential of the economy. Wider acceptance of this programme will be important for its success. India's post-pandemic medium-term growth trajectory to a large extent will depend on how government finances are managed, and the disinvestment programme will be critical in this context.