Get disinvestment right for meaningful capex push

Need to protect civil servants working on disinvestment transactions, cash in on stock-market rallies

THE DISINVESTMENT TARGET of ₹65,000 for FY23 has been viewed as somewhat underwhelming coming as it does on the back of a ₹1.75 lakh crore target for the current year. With the benefit of hindsight, the ₹1.75 lakh crore does seem to have been a bit of a stretch although if the LIC IPO goes through by March-end, that shortfall wouldn't look so bad. Indeed, it is heartening to hear from Tuhin Kanta Pandey, the DIPAM secretary, that the IPO should go through by the end of the fiscal year.

To be fair to the government, while plain vanilla stake sales are not so difficult, a strategic sale or divestment can be a lot more complicated. Indeed, it would be pertinent to listen to and take note of what the revenue secretary Tarun Bajaj had to say on Wednesday. Bajaj observed that these transactions are difficult because 'ten years down the line the decisions could come back to haunt us'. Although, the processes are robust, as Pandey pointed out, there is no doubt that privatising units or making strategic sales are becoming harder to do. That bureaucrats involved in these complex processes should fear penal action or harassment, at some point in the future, is unfortunate. Perhaps provisions need to be built into the laws to protect the civil servants working on these transactions because even though the sales take place through transparent bidding processes, there is clearly some anxiety that needs to be addressed.

To that end, the government must be congratulated for the sale of Air India; while the proceeds from the sale may have been negligible, the savings from repeated capital infusions by the government are enormous. This government has done well to say that it will exit most sectors and stay invested in just a handful. It must follow this strategy so as to save taxpayer money; for instance, the government proposes to infuse close to ₹45,000 crore in BSNL in FY23. That is not a sum to be sneezed at and the government must find a way to spare the taxpayer this burden. Any solution that limits the government's financial commitments would be welcome.

Bajaj also pointed out that it makes sense to have a smaller disinvestment target and over-achieve it, much like it has happened with the revenue collections in the current year. Indeed, given the kind of criticism the government has faced for not achieving disinvestment targets, that sounds like a good approach. While the sale of BPCL seems to be taking an inordinately long time, it could not be an easy exercise given the sheer size of the transaction. As Pandey pointed out, the SCI deal is dragging on simply because the ships are not always available for inspection by prospective buyers.

However, the government must strive to out-perform the disinvestment target and attempt to cash in on rallies in the stock markets. Pandey's point that the government needs to be mindful of the interests of minority shareholders, so as not to create a supply overhang in a stock, is well taken. Nonetheless, stake sales must be carried out as frequently as possible.

The point is that, together with tax collections, non-tax avenues must fetch the government meaningful sums; else, with the tax collections target modest, there is limited fiscal space for the government to spend on capex. For FY23, the government has increased the capex outlay by 25% over the revised estimates for FY22. Lower revenues force the government to rely on market borrowings to fund expenditure, which is not desirable. Indeed, unless the government is able to mobilise the necessary resources, it would be unable to continue with the capex push. While at some point the private sector must do the heavylifting in terms of investments, the government must have the resources to be able to complement that effort.