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Evaluating the Disinvestment Programme

What is the issue?

- The public sector disinvestment programme has met its ambitious targets for the second year.
- But the Centre has resorted to multiple shortcuts that undermine the basic objectives of disinvestment.

What is the new development?

- The government, in the Union Budget for 2018-19, fixed for itself a disinvestment target of Rs 800-billion.
- Disinvestments had raised only Rs. 56,473 crore by end-February 2019.
- But the government managed to end the Financial Year 2018-19 with Rs. 85,000 crore from disinvestments.
- The government making it above the disinvestment target is certainly good news for the fiscal condition.
- Notably, the Centre has been grappling with excess expenditure.
- So an overflowing disinvestment kitty certainly helps restrain the deficit number.

What were the modes adopted?

- Of the total proceeds of Rs. 85,000 crore, only about two-thirds has been contributed by actual dilution of the Centre's ownership stakes in PSUs.
- This has been achieved through Exchange Traded Funds (ETFs), IPOs and offers for sale.
- This has been liberally supplemented by requiring capital-intensive PSUs such as ONGC, IOC and BHEL to announce share buybacks.
- This has supported the disinvestment figure by about Rs. 10,000 crore.
- In a last-minute effort to bridge the shortfall in the disinvestment target, the Centre has also brokered the transfer of its controlling stake in REC to PFC to raise Rs. 14,500 crore.
- [REC - Rural Electrification Corporation, PFC - Power Finance Corporation]

What are the concerns?

- In a haste to showcase a healthy fund-raise, the government has resorted to multiple shortcuts in the disinvestment process.
- It has compromised both the long-term interests of profitable PSUs, and the basic objectives of the disinvestment programme.
- It is contentious if buybacks can even be counted as disinvestment as there has been no material change in the ownership of these PSUs.
- To deal with the ailing Air India, the government has put through a couple of strategic sales too.
- Here, it has opted for deals with pre-decided suitors, instead of open auctions to identify the best acquirers.
- Also, REC and PFC are both financiers with highly leveraged balance sheets who have been hit hard by India's power sector distress.
- There are worries that a combination of these two firms may not improve their borrowing capacity.
- Moreover, it may, in fact, prompt institutional investors to curtail their aggregate exposure.
- Such forced inter-PSU deals are justified on the grounds that they unlock better efficiencies and synergies.
- But such benefits often remain on paper due to turf wars and integration issues.

What does this imply?

- When it comes to the public sector disinvestment programme in India, the means are far more important than the ends.
- Of the various methods experimented by the government for disinvestment, the ETF route has proved the most successful.
- Notably, Bharat-22 and CPSE ETFs raised over Rs. 45,000 crore.
- The new government must stick to this route instead of resorting to expedient shortcuts for disinvestment.
- More importantly, for disinvestment to count as a reform, it is critical to take up the long-pending privatisation of loss-making PSUs.

Source: BusinessLine

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