Disinvest, But With Right Interest

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To disinvest or not to disinvest is a Hamletian conundrum all governments face when drafting a budget. The choice is no longer binary as several ideologies can interfere with key policy decisions.

Disinvestment has been an option since the start of the reform process, though success has varied. Initially, the goal was to maintain GoI ownership above 51%. Now, there's discussion of reducing this threshold further to incentivise full private ownership and management of these enterprises. In the last decade, the disinvestment programme has progressed in the following trajectory:

- GoI has received ₹4.28 lakh cr from disinvestment.
- Between 2017-18 and 2018-19, there were rich harvests of about ₹1.85 lakh cr, primarily on account of the success of ETFs.

Otherwise, it has been a mixed bag for GoI, with targets not being met. There are three reasons for missing targets:

1 Easy targets When India embarked on its disinvestment journey, low-hanging fruits (non-controversial products or services) were picked for sale. But the truth is that it becomes progressively challenging to sell shares of these companies as the best ones were already out of the bag and taken.

2 Valuation targets Getting the right price is important, and since the market can never be gauged accurately, plans are often deferred for better times.

Careful what you privatise, Pandora

3 Ideological issues These disinvestment plans can often be at odds with other national goals.

Keeping this shifting background in mind, one option could be to exclude disinvestment proceeds from the coming budget. This way, the budget numbers would be free of this uncertainty. Else, given that past fulfilment has been low, the question often asked is whether the target will be met or not.

This also spooks the stock market repeatedly. However, once disinvestment takes place, the proceeds can go into a 'discretionary fund' and be drawn upon by GoI for any expenditure. Hence, any inclusion of disinvestment proceeds in the budget will be based on money already received.

There is also an argument that if companies are doing well, they can be run with less government interference and more like private companies. Interestingly, in the last decade, total dividend paid by PSUs to the government was higher than the amount divested — ₹4.66 lakh cr.

In 7 of the 10 years, dividend has exceeded the disinvestment amount. Hence, if companies are doing very well, there's no need to sell them because of dividend ideology. The ones in the red are not exciting for any potential buyer.

Another ideological factor comes into play when disinvestment decisions are made: GoI's social commitment. Today, financial inclusion is a top priority for GoI, and PSBs shoulder almost all the responsibility. For example, Jan Dhan Yojana, which involves opening a basic savings bank account for all, has PSBs accounting for 77-78% of the total balances and accounts in the system. This leverage will be diluted if the banks are sold.

A similar situation exists in the petroleum sector. Fuel continues to be the single-most sensitive commodity that can upset inflation. While the market is theoretically free, prices are controlled by statute, which is made possible because the major refiners are in the public sector. Hypothetically, the sale of these companies could make it difficult to control prices.

Therefore, it is unsurprising that the trade-offs are real and require careful deliberation. Observing GoI's preferences when budgets are announced in the coming years will be interesting.

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