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Trying to Sell the Family Silver, Again

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Besides laying down unrealistic targets for receipts from sale, India's disinvestment strategy continues to prioritise liquidation of profitable PSUs, which converts recurring dividend income into one-time receipts, while governance reform and tax-base expansion remain politically unexamined.

India's Union Budget for 2026-27 sets a combined disinvestment and asset monetisation target of Rs. 80,000 crore-a 136% increase over the preceding year's revised estimate, announced when actual Financial Year 2025-26 (FY26) receipts stood at barely 26% of target. Three and a half decades of systematic shortfalls reveal these projections as instruments of fiscal arithmetic rather than credible transactional programmes.

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The government's flagship transactions-the privatisation of the Industrial Development Bank of India (IDBI) and further dilution of its Life Insurance Corporation of India (LIC) stake-have remained unclosed through multiple Budget cycles, even as every actual transaction in the first quarter of FY27 was a routine minority-stake Offer for Sale (OFS). This article examines the historical record, the efficiency claims, and the structural costs of a programme that converts a recurring public income into one-time capital receipts.

The FY27 Gambit

When Finance Minister Nirmala Sitharaman presented the Union Budget for 2026-27, the combined disinvestment and asset monetisation target of Rs. 80,000 crore commanded attention. The figure was a 136% increase over the preceding year's revised estimate. By the time the Budget was finalised, the government had managed just Rs. 8,800 crore-barely 26% of its Rs. 33,800 crore revised FY26 target. Full-year FY26 disinvestment receipts reached Rs. 16,886 crore, confined to six transactions: OFS operations in Mazagon Dock Shipbuilders, Bank of Maharashtra, Indian Overseas Bank, Bharat Heavy Electricals, and Indian Railway Finance Corporation, supplemented by Specified Undertaking of the Unit Trust of India (SUUTI) remittances.

The FY27 disinvestment programme rested on two flagship transactions: the proposed joint divestment of approximately 60.7% of the combined Government-LIC stake in IDBI Bank, and a further dilution of government equity in LIC through a secondary OFS. Of these, a two-day LIC OFS in early August 2026 sold a 6.5% stake, raising a record ?31,552 crore and cutting the government's holding from 96.5% to roughly 90%, while the IDBI Bank divestment remains pending.

The Economic Survey has recommended permitting government holdings in listed public sector enterprises (PSEs) to fall to 26%, with notional control retained through special voting rights. Running alongside is the National Monetisation Pipeline 2.0, targeting Rs. 16.72 lakh crore over FY26-30. This is not a technical revenue management exercise. It is a structural retreat of the state from productive and financial assets, undertaken at precisely the moment when its bargaining position as seller is demonstrably weakest.

Anatomy of a Chronic Shortfall

The National Institute of Public Finance and Policy's (NIPFP) authoritative survey of disinvestment history between 1991 and 2020 documents the pattern with precision. Phase I (1991-99) raised Rs. 16,809 crore against a target of Rs. 34,300 crore-an achievement rate under 50%, despite equity dilution in 39 central public sector enterprises (CPSEs).

Phase II (1999-2004) produced Rs. 24,619 crore against Rs. 58,500 crore. Phase III (2004-14) recorded Rs. 114,045 crore against Rs. 193,000 crore. Phase IV (2014-20) yielded Rs. 305,357 crore against Rs. 426,925 crore-but this includes Rs. 36,915 crore from the Oil and Natural Gas Corporation's (ONGC) government-directed acquisition of the state's Hindustan Petroleum Corporation Limited (HPCL) stake, better described as an intra-public-sector balance sheet rearrangement than a market-tested divestment.

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The post-2020 record is more instructive. FY21's Rs. 2.10 lakh crore target yielded Rs. 32,886 crore. FY22 produced Rs. 13,534 crore against a Budget projection of Rs. 1.75 lakh crore-7.7% of the estimate. FY23, FY24, and FY25 recorded Rs. 35,294 crore, Rs. 16,507 crore, and Rs. 10,163 crore respectively, each year falling materially short.

The FY27 projection of Rs. 80,000 crore is not a transactional forecast. It is the residual required to close the revenue-expenditure gap within the Fiscal Responsibility and Budget Management (FRBM)-mandated fiscal deficit trajectory-fiscal arithmetic performing the role that a credible divestment programme cannot. The Sixteenth Finance Commission under Arvind Panagariya has endorsed closure of inactive enterprises from a universe of 308 PSEs. This institutionalises an ideological position on public ownership through a body constituted for Centre-State fiscal relations-migrating it from executive policy, where it is subject to parliamentary scrutiny, into the quasi-constitutional architecture of intergovernmental finance.

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Historical Continuity

The C. Rangarajan Committee (1993) provided the conceptual scaffolding for Phase I: minority-stake dilution to discipline public sector undertaking (PSU) management, without any transfer of control. The term disinvestment was deliberately preferred over privatisation to avoid adverse political connotations-a distinction that reflected genuine policy intent, not semantics. The Disinvestment Commission of 1996 reviewed 58 enterprises and recommended strategic sales in 28-36 cases. The Atal Bihari Vajpayee government constituted a Department of Disinvestment in December 1999 and completed 10 privatisations-12 strategic sales in all, including two CPSE-to-CPSE transfers, by 2004.

The United Progressive Alliance (UPA) governments of 2004-14 returned to minority-stake sales, earmarking proceeds for the National Investment Fund and introducing OFS-through-stock-exchange and exchange-traded funds as lower-friction instruments. The post-2014 period added the Department of Investment and Public Asset Management's (DIPAM) enlarged mandate, the NITI Aayog's advisory role, and an embrace of CPSE-to-CPSE transactions that blurs the line between disinvestment and intra-public-sector restructuring.

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The National Monetisation Pipeline introduces a distinct but convergent instrument. Rather than transferring equity, it surrenders operational rights over public infrastructure-roads, railways, power transmission, airports-to private concessionaires for defined periods. Assets nominally remain on the government's balance sheet; their revenue-generating capacity is transferred to the private sector.

In FY26, asset monetisation receipts of Rs. 28,420 crore exceeded disinvestment receipts for the first time. The NMP 2.0's Rs. 16.72 lakh crore target over FY26-30 institutionalises the same logic-converting public productive capacity into private operational profit-through an instrument that additionally escapes the parliamentary accountability that equity sales attract.

Efficiency Argument

The standard case for privatisation presupposes a dispersed-shareholder corporate model that does not characterise Indian capitalism. Both PSUs and large private enterprises are controlled by a single dominant owner-the government in one case, the promoter family in the other. The agency problem is structurally identical in both.

The market for corporate control barely functions in India: institutional shareholders are passive and promoters hold dominant stakes. As T.T. Ram Mohan argued in The India Forum of 10 February 2021, the claim that private sector governance confers superior discipline is, for these structural reasons, suspect on its own terms.

The empirical record offers limited comfort. Martin and Parker's study of 11 British privatisations-British Airways, British Gas, and others from the Margaret Thatcher programme-found no systematic improvement in firm performance attributable to ownership change. Megginson and Netter conclude that privatisation works as a global proposition, but the result is overwhelmingly driven by developedeconomy evidence; for developing economies, it does not hold consistently.

> Under private ownership, priority sector lending obligations will be met at minimum regulatory thresholds, and directed credit functions to infrastructure, agriculture, and small enterprise will not survive the restructuring of ownership incentives.

Post-privatisation improvements typically reflect three factors unrelated to ownership quality: capital infusion previously denied to resource-starved enterprises; a demoralisation-and-recovery effect as workforce uncertainty lifts; and labour cost reduction-a transfer from workers to shareholders, not a productivity gain.

On valuation, the National Institute of Public Finance and Policy (NIPFP) documents that in the cases of Bharat Aluminium Company (BALCO), Hindustan Zinc Limited (HZL), and Indian Petrochemicals Corporation Limited (IPCL), Comptroller and Auditor General (CAG) observations and legal challenges arose not from malfeasance but because the conditions for an efficient strategic auction-multiplicity of genuine bidders, an undisputed reserve price, absence of collusion-are rarely met for large enterprises in oligopolistic sectors. Setting a reserve price during PSU underperformance invites systematic underpricing, a structural problem the current phase has not addressed.

The post-privatisation performance of BALCO and Hindustan Zinc, widely cited as Phase II success cases, is better read through these lenses: both received capital infusions from their acquirers that constrained public ownership had been unable to provide. The efficiency gain is the gain from funding, not from ownership.

What Is Being Sold?

IDBI Bank has been formally identified for strategic disinvestment since 2021-22. The government and the LIC propose to divest approximately 60.7% of their combined holding-sufficient to transfer management control, not merely equity. Expressions of interest were received by early FY23. The transaction has since been deferred through multiple Budget cycles.

The bank's balance sheet was restored at considerable public cost during the Non-Performing Asset (NPA) resolution cycle; the benefits of that restoration are now available for private appropriation. Under private ownership, priority sector lending obligations will be met at minimum regulatory thresholds, and directed credit functions to infrastructure, agriculture, and small enterprise will not survive the restructuring of ownership incentives.

The LIC presents a structurally distinct case. As a mandatory large holder of government securities, it has historically provided a structural bid for Government Securities (G-Sec) issuances that supports yield management-a stabilisation function the government's own debt management depends on. It has also served as buyer of last resort for undersubscribed CPSE OFS tranches that the market alone would not have absorbed.

> The erosion of formal, unionised banking employment removes not merely jobs but the institutional infrastructure of defined-benefit social protection.

The 3.5% initial public offering (IPO) in FY23 yielded Rs. 20,516 crore; further dilution will shift governance pressures on the LIC's investment portfolio towards short-run financial return expectations. The channelling of household savings into long-term commitments at stable administered returns-the social security function the Corporation was built to serve-is not compatible with the market orientation that private shareholders impose.

By July 2026, FY27 disinvestment receipts of Rs. 20,272 crore had been raised through seven transactions: OFS operations in Coal India, National Hydroelectric Power Corporation (NHPC), General Insurance Corporation of India (GIC), Indian Railway Finance Corporation (IRFC), Central Bank of India, NLC India Limited (NLC India), and Cochin Shipyard. Every transaction was a minority-stake OFS in an already-listed PSU. None involved a strategic sale or change of management control. The government's actual behaviour replicates the Phase III and Phase IV pattern of incremental equity dilution. The flagship transactions remain unclosed; the achievable ones continue to provide the bulk of actual receipts.

Political Economy of 26%

The Economic Survey's proposal to permit government stakes in listed PSEs to fall to 26% represents a conceptual departure from every previous formulation of the acceptable boundary of public ownership in India. The concept draws on golden share instruments employed in European privatisations during the 1980s and 1990s. The international experience is not encouraging: such provisions have been repeatedly challenged under competition and investment law, diluted through renegotiation, and proved ineffective at preventing the reorientation of privatised firms towards short-run financial returns.

With private shareholders holding over 70% of equity, governance pressures on management operate on the time horizon of quarterly earnings-incentive structures incompatible with the developmental mandates that constitute the economic rationale for public sector existence. Special rights are a legal instrument. The conflict between public purpose and private return is an economic one, and the law cannot resolve it.

Labour and Invisible Balance Sheet

No accounting confined to revenue receipts captures what the programme costs. Workforce rationalisation following privatisation operates through voluntary retirement schemes that are less voluntary in practice than in name, and through the non-renewal of contractual engagements that leaves no trace in formal labour statistics. The public sector's share in formal employment contracts as closures accumulate and fresh public hiring remains constrained by fiscal consolidation-an accelerating informalisation with no entry in the fiscal accounts.

For public sector banking, the IDBI's privatisation would set a system-wide precedent. Public sector banks have been the primary instrument of priority sector lending, the Jan Dhan programme, and directed agricultural credit. Their present balance sheet health was rebuilt at public expense. The erosion of formal, unionised banking employment removes not merely jobs but the institutional infrastructure of defined-benefit social protection.

Road Not Taken

The premise that asset liquidation is the government's only fiscal option rests on two questionable foundations: that the direct tax base cannot be expanded, and that the fiscal deficit ceiling is a binding constraint rather than a policy choice. India's direct tax-to-gross domestic product (GDP) ratio remains below levels achieved by economies at comparable stages of development. Revenue forgone through the corporate income tax reduction of 2019-estimated at approximately Rs. 1.45 lakh crore annually-has not demonstrably generated the intended investment stimulus, while foreclosing fiscal space that would dwarf any credible disinvestment pipeline.

> A government that sells its stake in a profit-making PSU to meet a single year's fiscal deficit converts recurring income into a one-time receipt-contracting its own future fiscal capacity.

The elimination of the dividend distribution tax in 2020, shifting incidence to individual recipients in ways that increased the effective rate for high-income shareholders, was a further concession to concentrated capital. Neither measure faces serious policy reconsideration, while asset sales are presented as unavoidable. That is a political economy observation, not a fiscal one.

PSU governance reform without ownership transfer is the alternative that receives least attention-precisely because it challenges the ideological premise of the privatisation programme rather than merely its pace. The fiscal logic is quantifiable. PSU dividends totalled Rs. 64,030 crore in FY24, Rs. 74,129 crore in FY25, and Rs. 78,438 crore in FY26-a rising trend driven by petroleum and natural gas (Rs. 25,798 crore), power (Rs. 13,213 crore), coal (Rs. 10,867 crore), defence (Rs. 4,449 crore), and railways (Rs. 4,308 crore).

These are recurring annual inflows from enterprises whose productive capacity is preserved intact. Governance reform extending the commercial autonomy of profitable PSUs would generate sustained and growing returns without any diminution of the public sector's productive base.

Whose Fiscal Consolidation?

In FY26, the government collected Rs. 78,438 crore in PSU dividends-exceeding disinvestment receipts by a factor of nearly five. These dividends are a recurring, annually growing revenue stream from enterprises whose assets remain intact. Disinvestment receipts are one-time capital proceeds that permanently extinguish the government's claim on the future dividend stream of the divested entity. A government that sells its stake in a profit-making PSU to meet a single year's fiscal deficit converts recurring income into a one-time receipt-contracting its own future fiscal capacity.

The FY27 target of Rs. 80,000 crore reflects not a maturing privatisation pipeline but the residual arithmetic of a fiscal framework with no other source large enough to fill it. With the IDBI Bank unclosed after four years of preparation and First Quarter (Q1) FY27 confirming a revealed preference for minority OFS dilution, a fourth consecutive year of substantial shortfall is the most probable outcome.

The deeper stakes are not quarterly. The disinvestment discourse systematically obscures one structural logic: converting a recurring annual income into a one-time capital receipt permanently contracts the state's future fiscal capacity. Public sector enterprises built over seven decades represent a productive inheritance whose value is realised recurringly through the dividend stream.

A fiscal strategy that liquidates this inheritance to meet annually recurring deficits-while refusing to expand the tax base or reconsider the FRBM ceiling's economic rationale-systematically advantages concentrated private capital at the cost of the state's future capacity to serve the public interest. That is the political economy of India's disinvestment programme, and no amount of Budget arithmetic changes it.

These are the personal views of the author.

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