Our Views

Time to Polish Our Public Sector Ratnas: Creating an Indian Sovereign Wealth Fund to Recast these Jewels

In May 2020, as part of the Atmanirbhar Bharat package, the Indian government unveiled a bold new Public Sector Enterprise (PSE) policy. Building on that announcement, the Union Budget of February 1, 2021, laid out a detailed blueprint, categorising sectors into two:

- Strategic sectors, where the government would retain only a bare minimum presence, and
- Non-strategic sectors, where all Central Public Sector Enterprises (CPSEs) would be privatised or closed.

This marked a tectonic shift in India's approach to public sector enterprises- a clear intent to significantly reduce the government's footprint in business. While implementation is underway, progress has been uneven. This note proposes a bold, agile framework to fast-track the reform.

Traditional Routes of Privatisation: Limited Success

For privatisation India has predominantly relied on strategic sales since the 1991 liberalisation era divesting 50% or more equity along with management control. However, another way of privatisation is public market offerings i.e. selling shares of CPSEs to retail and institutional investors. This method was famously deployed by Margaret Thatcher's UK government during its privatisation drive of British Telecom, British Gas, and British Steel.

In India, the strategic sale model has yielded mixed results. The successful sale of Air India came after years of delays. Meanwhile, marquee targets such as BPCL, Shipping Corporation, and IDBI Bank have faced hurdles. BPCL's disinvestment, announced in 2019, was shelved in 2022 as bidders withdrew, the government decided to hit pause to the disinvestment: a prudent decision prioritising value over timelines.

Strategic sales are often complex, politically sensitive, and time-consuming, limiting their effectiveness as the default path to reform.

Learning from Singapore: The Temasek Model

The third approach is Singapore's model: move the ownership to an SWF, then sell publicly.

Singapore faced a similar challenge as India in the 1970s, dozens of government-owned enterprises across critical sectors, struggling under state management. The solution was to create Temasek Holdings, the Sovereign Wealth Fund of Singapore. Which was established in 1974 as a professionally run, wholly government-owned investment company. Temasek operates with full autonomy, managed by an independent board of professionals and free from political interference. It holds and grows equity in state-owned enterprises on commercial principles. Many of these entities are now listed and globally competitive, contributing to a portfolio exceeding US$301 billion.

While India is not Singapore, the core principle of insulating commercial decisions from political control is powerful and relevant.

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A Case for India's Temasek: Transforming NIIF

India has attempted some separation by routing disinvestment decisions through DIPAM. However, this still functions within the government's bureaucratic framework. What India truly needs is a Sovereign Wealth Fund (SWF) that can own and manage public assets commercially.

This is where the National Investment and Infrastructure Fund (NIIF) enters: India's quasi-sovereign investment vehicle, created in 2015, where the government holds a 49% stake. With assets of over $5 billion across infrastructure, growth equity, and fund-of-funds, NIIF already has the structure to become India's Temasek.

Even Temasek saw potential in NIIF, investing $400 million in 2018. It now needs a wider mandate that would allow it to become the Indian Temasek.

The Model: Ownership Transfer, Commercial Management

The government could begin by transferring its stakes in select PSEs to NIIF, receiving fund units in exchange. The state would retain economic interest while stepping away from operational control.

These PSEs would then be run under professional governance standards, free from day-to-day political interference. Over time, NIIF could gradually dilute its stake in these enterprises in the market when conditions are favourable creating a steady revenue stream for the government, rather than volatile, one-time windfalls.

The government could begin with minority stakes transfer, building credibility and demonstrating value creation, and eventually reduce its holding below 51% as per Atmanirbhar Bharat package.

A Pragmatic, Politically Smart Path

This stealth-privatisation model i.e. first shifting ownership to NIIF, then progressively privatising which shields the process from political turbulence while ensuring the commercial interests of the state are protected.

It provides PSEs with the time, autonomy, and resources to restructure and become market-ready, aligning with the 2021 policy objective of one strategic PSE per sector.

As Thomas Jefferson aptly put it, "That government is best which governs least." It's time we let our Ratna shine with the polish of professionalism, and free them from the weight of the state's hand.

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