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From the ringside

Illusion of public sector autonomy making a beginning

Disinvestment, much less privatisation, is clearly out of fashion. Chidambaram, irrespective of what he privately believes, has ruled out strategic sales. In fact, he reiterated what was decided in February. Incremental disinvestment may yield much needed resources either for a dedicated corpus or to support social outlays but inhibits multiplier productivity gains of deeper action. Disinvestment has been on a roller-coaster ride; commencing by bundling of shares to nominal disinvestment to aggressive (some times mindless) privatisation now followed by incremental dilution.

The approach represents the prevalent ideological predilections not necessarily the dictates of economic logic. Whenever disinvestment is on the backburner, the autonomy of public enterprises becomes the frontrunner. However, PSU autonomy is intrinsically important for sustaining growth momentum irrespective of privatisation. The previous Government in its zest for privatisation somewhat ignored PSU strengthening, and while only some companies were contemplated for privatisation, there was persistent uncertainty in respect of others. Privatisation is not an all-embracing panacea nor can all public undertakings, both Central and states, be privatised in the foreseeable future. Public undertakings are in a broad category, ranging from commercial operations to provision of social goods; their improvement creates gainful virtuous circles.

So how do they improve?

The Cabinet last month took some important decisions to increase the flexibility and autonomy of public undertakings by raising the cap on financial exposure for Navratna or Mini-Ratna companies, either for greenfield investments or in joint ventures. The decision followed the recommendations of the Adhoc Group of Experts on Empowerment of Public Sector Enterprises, headed by Dr Arjun Sengupta.

By the mid-1990s, with increased liberalisation, it was generally recognised that public enterprises could not compete effectively with private entrepreneurs without freedom to function and operate commercially. The lowering of tariffs and dismantling of Quantitative Restrictions enhanced their competition from efficient large global players. Thus, in July and October, 1997, the concept of Navratna and Mini-Ratna was introduced with greater delegated authority, both financial and managerial. The Arjun Sengupta report, in line with the National Common Minimum Programme, makes wide-ranging recommendations. However, what are the key concerns?

First, the notion of autonomy to public undertakings is linked with improved governance. Genuine autonomy could make many ministers jobless. Several ministries are almost exclusively engaged in dabbling in what should be left to the corporates; sometimes inventing, if not reinventing, work under the garb of improved supervision. Think of a coal minister who cannot favour the raw material linkage to a preferred industrialist or help a contractor of Coal India to extinguish past favours or a civil aviation minister unable to nudge a bilateral air agreement and remain oblivious of large fleet acquisition or a petroleum minister unconcerned about the selection of a joint venture partner by oil companies.

Sometimes the distinction on what constitutes a policy issue making ministerial engagement legitimate and those which are dominantly in the commercial domain remain opaque. Discretion about what would be appropriate will remain a judgemental issue and depend on the good sense of the dramatic personae at the helm of affairs.

The truth is that for several decades public undertakings have been increasingly used by successive ministers to exercise power and patronage which the ministries themselves neither have nor can confer. The CVC rightly put a brake in some instances. Coalition politics limits flexibility to reform the Government and yet PSU reforms are embedded in governance reform. Inculcation of a mindset necessitated by competitive market economics is not easy.

Second, some important suggestions by the Sengupta Committee on what the Government must abstain from doing (a kind of negative list) includes pricing and distribution, export and import, award of contracts and selection of joint venture partners. These are far-reaching. Their implementation is not in sight. Needless to say, autonomy is meaningless without enabling corporates to take tariff and pricing decisions in their best commercial judgement. Any subsidy for broader welfare considerations must be borne by the budget, not by the company. The present controversy on price increase in petroleum products is a telling example of what must not happen. Cross-subsidies on petroleum, railway tariff, coal and issue price of foodgrains are distortionary and strike at the root of commercial autonomy. On award of contracts — transparency of the process, the best international practice, the evolving market trends and objective data analysis are critical in resisting political interference.

Third, the decision making processes of public undertakings — notwithstanding change in respect of Navratna and Mini-Ratna — remain complex. The role of Finance Ministry (Public Investment Board), Planning Commission and Cabinet Committee on Economic Affairs (CCEA) needs to be redefined to impart genuine autonomy and suit the needs of our times.

Fourth, on appointment of the Chairman and the Board of Directors, a radical change is needed. Since the Government remains the principal shareholder, it must appoint the Chairman. However, appointment of Directors can be left to the Board of Directors. Further, the practice of non-official Directors being shuffled around and chosen from men of indifferent quality, depending on the political preference of the Government in office, must be discontinued. Non-official Directors must add value to the company. Guidelines should be issued by the Government but the search and selection left to the Board. There is one more aspect in selecting a suitable Chairman or Directors. If Navratnas and Mini-Ratnas are to compete with the best from the private sector, they must choose quality talent; searching insiders or those with prior government experience may not be adequate. Government salary structures and conditions of work inhibit choice since the search net cannot be cast wide enough, nor can it attract the best talent. Within the framework of

Government retaining the 51 per cent share, the issue of securing the best talent for public companies needs an innovative solution.

Fifth, excessive administrative control through elaborate layers of supervision, within the framework of parliamentary accountability, must be eased. The Expert Group has made numerous suggestions on redefining parliamentary accountability but their implementation will remain daunting.

Finally, there is one suggestion made by the Committee which is clearly bad. The suggestion to create six over-arching supervisory boards will only add a new administrative layer and kindle fresh passion for bureaucratic and political interference. It will result in dis-empowerment instead of empowerment.

A credible beginning on imparting autonomy to public undertakings has commenced. The Government must divest itself of obligations to determine prices, fix tariffs, meddle in contracts and micro-manage appointments. The advocacy by the Chairman of the Expert Group with coalition partners and his friends among the allies will enable consensus building. His recent election to the House of Elders multiplies the onerousness of his obligations. Autonomy so far has remained an illusion. Only these tangible actions can make it a reality.

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