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FROM THE RINGSIDE

Reform by stealth a no-no

The recent decision on disinvestment which envisages an Initial Public Offering (IPO) for 15 PSUs and fresh issues for another 20 listed ones must have brought some cheer to multiple stakeholders. The Planning Commission would see this as a new resource to finance its endless set of new initiatives, the Finance Minister as a possible source to meet many new obligations without compromising fiscal rectitude, the idealogues not finding it either labour-unfriendly or inconsistent with the Common Minimum Programme (CMP), and last but perhaps not the least rekindling the hope of busy merchant bankers seeking new business. On the face of it, it would appear that there is an equilibrium in the satisfaction level of all major partners.

Let us recount the history. It was to the credit of Manmohan Singh who, as finance minister in 1991, for the first time stated that ‘‘in order to raise resources, encourage wider public participation and promote greater accountability, up to 20 per cent of government equity in selected PSUs would be offered to mutual funds, investment institutions in public and also to workers in these firms’’. This led to bundling (later bungling) of shares, and over the next few years, only incremental disinvestment took place. Chidambaram thereafter in 1996-97 announced the establishment of a Disinvestment Commission. In the subsequent Budget, he committed to implementing the recommendations of the Disinvestment Commission. It was Yashwant Sinha who in 1998-99 stated that ‘‘in the generality of cases the Government shareholding in public sector enterprises would be brought down to 26 per cent’’ except for strategic considerations. This was repeated in some form or the other in the subsequent budgets of Yashwant and later by Jaswant Singh. For the first time, there was, therefore, a quantum shift from disinvestment to privatisation.

It took an energetic crusader like Arun Shourie, in the newly created Ministry of Disinvestment, to transfer management control in important enterprises like BALCO, VSNL, IPCL. In his single-minded, often inflexible, fixation, Arun encountered opposition from Cabinet colleagues, in Parliament, the Sangh Parivar and even from his friends. Enter the UPA Government. The CMP now prescribes that ‘‘generally, profit-making companies will not be privatised. However, PSUs and nationalised banks would be encouraged to enter the capital market to raise resources and offer new investment’’. The recent Cabinet decision on IPOs must be seen in this light. Thus, notwithstanding the progress achieved, the key issues relating to disinvestments still remain unresolved. These are:

• Should we disinvest incrementally, namely retain management control, or privatise in favour of a strategic partner? Clearly, privatisation is supposed to have the advantage that, with the prospect of management control, improved efficiency, the expectation of improved profitability is likely to yield higher prices. While these gains are hypothetical in a country where a credible social safety net has yet to evolve, labour apprehensions need to be fully allayed with credible prospect of alternative employment opportunities.

• Should profit-making undertakings be privatised at all? It can be argued that only these are likely to find willing buyers and while they may be profit-making, the firm could achieve even higher efficiency and profitability in the event of privatisation. On the other hand, PSUs have suffered from the absence of managerial autonomy, inadequacy in human resource development, non-restructuring of finances and lack of technological upgradation and ability to survive in different environments. There is also the connected issue that while the Government focused almost entirely on disinvestments or privatisation, a large number of other PSUs were completely neglected, with an uncertain future, a demoralised managerial cadre and dejected workers. There was neither an approved medium-term disinvestment/privatisation plan nor a restructuring/reorganisation plan for the PSUs.

• While everybody accepts that strategic companies need to be retained with the sovereign, the definition of what constitutes strategic varies with the prevalent ideological milieu. In an increasingly integrated world, with the elimination of Quantitative Restrictions (QRs), should tradables at all come in the category of strategic? Somehow, strategic also conjures up concerns of security. With increased globalisation and Information Technology eroding earlier conceptions, these become difficult to assess.

• What are the factors which should precede privatisation decisions? Clearly, restructuring the enterprises, sector policy reforms and a credible regulatory framework are conditions precedent for securing genuine international interest. While market outcomes are difficult to pre-judge, the absence of genuine competition apart from lower revenue realisation can end up strengthening domestic private monopolies or creating new oligopolies. Experience suggests that private oligopolies develop strong domestic lobbies, making it difficult to introduce greater competition or foster market efficiencies.

• Should there be a separate fund from the proceeds of disinvestment to finance social sector/infrastructure investment or retire public debt? In a sense this is fictional because all expenditure which is inescapable would need financing irrespective of whether it comes out of a separate fund or from the Consolidated Fund. However, optically it makes a difference if it is perceived that the sale of 'family silver' is being put to credible use, where the revenue generated and utilised can somehow be connected.

• The selection of financial advisors or merchant bankers is not much of an issue, even though we have cast ourselves in the 'CPWD mould', where other things being equal, the tender process prevails in the selection process. High-quality advice is more expensive but has multiple externalities. Because these are difficult to quantify, it is not sufficiently factored in the selection process. The Supreme Court in hearings relating to HPCL, BPCL had raised the issue that companies created by a separate Act of Parliament require parliamentary approval if management control was to be transferred to strategic partners. Going beyond the Supreme Court observations, some of the issues raised above remain inadequately addressed.

Privatisation is a continuous and a contentious process all over the world, particularly in emerging markets. It cannot be aggressively pursued as an economic strategy without a broader national consensus. The present will always have over-riding compulsions—the need for money, financing new expenditure initiatives or recounting new success stories on reforms. It is best if the Government of the day secures Legislative Approval in Parliament through a Disinvestment Bill that addresses all these issues in a broader framework. Ad hoc solutions or policy flip-flops depending on the changing hue and configurations of governments create investor uncertainty. This is one area where reform by stealth may have run out of its utility. A broad-based parliamentary debate can bridge the ‘consensus deficit’.

Disinvestment cannot be viewed as a mere ‘flavour of the season’. Economic imperatives need a policy to cover ‘All Seasons’. It does not matter if this takes time because these concerns will remain with us for a long time to come. In the meantime, the Government’s recent decision on the IPO route following the middle, or perhaps the ‘muddle’, path represents the only pragmatic response. While we must move with caution, we must not move backwards. ‘Whither disinvestment’ requires a predictable response because the alternative of ‘Whither disinvestments’ is not a viable option.

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