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Instead of piecemeal announcements, a plan for privatisation and reform of PSUs should now be in place

How to Air India the Rest

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With the sale of Air India, the government has passed the litmus test — that it is, indeed, serious about privatisation. It must now take the next step and make the prime minister's words, 'The business of government is not business,' a reality. In a 2017 National Institute of Public Finance and Policy (NIPFP) study (bit.ly/30uuOBT) on India's public sector undertakings (PSUs), Swati Gupta and I argued that India needs a long-term plan for privatisation and reform of PSUs, instead of piecemeal annual announcements of closure, privatisation and divestiture followed so far. For this, a separate disinvestment ministry, which succeeded in privatising a slew of PSUs under the Atal Bihari Vajpayee government, may be needed.

The maharatnas, the total assets of which are about one-third of the total PSU assets, could, for now, at least stay in State hands. The maharatnas — Bharat Heavy Electricals (Bhel), Coal India (CIL), Gail (India) (formerly Gas Authority of India), Indian Oil Corporation (IOC), NTPC (formerly National Thermal Power Corporation), Oil and Natural Gas Corporation (ONGC) and Steel Authority of India (SAIL) — are collectively doing as well as private companies of similar size. SAIL, Bhel, CIL and IOC need serious restructuring and better leadership to make them world-class companies.

The remaining two-thirds of State assets are in the 17 navratnas, 73 miniratnas and 120-odd companies that are not given a ratna status. The performance of the navratnas is consistently worse than that of comparable private companies, with return on capital roughly 2% lower. Many of the companies in this group could be privatised quickly, especially Bharat Electronics (BEL), Mahanagar Telephone Nigam (MTNL), National Mineral Development Corporation (NMDC) and Oil India (OIL).

The miniratna companies are the ones ripest for strategic disinvestment. A plan to sell most of these companies should be developed, with those in manufacturing and the services sector high on the list for immediate sale, as these are the worst performers. There seems to be no reason to run these as public companies, except to provide employment to a small number of people and managerial positions to party members once any government comes into power. Those with no ratna status should be liquidated.

Get Ready, We're Shifting

It is often argued that PSUs should be prepared for privatisation through restructuring prior to the sale. But it is not evident that such restructurings are helpful, or get higher valuations. The buyer may or may not value any of these restructurings, and may have very different ideas of how to improve the company. So, operational restructuring is often not advisable. On the other hand, financial restructuring may be needed for many PSUs, as they often have a web of complicated financial relationships — or, like Air India, are saddled with large debt.

At the state level, more than half state-level public enterprises (SLPEs), numbering over 1,200, should be shut down. In fact, over 300 of the registered companies are 'non-working' and should be wound down immediately. As recommended by the comptroller and auditor general, a centralised account should be created to know the full financial picture of all the remaining SLPEs, just as has been done for PSUs.

A dividend policy should be enforced so that profit-making SLPEs provide a return to the taxpayer. Privatisation should be pushed for those in the mining and manufacturing sector, and much greater commercialisation for the service PSUs in water, electricity distribution and transport.

There is a case also for keeping some of the power and oil companies in public hands. For example, the Power Grid Corporation could remain public until complete unbundling has occurred in the sector. Some of the oil companies could also for now remain in government control until fuel prices are liberalised and brought under the goods and services tax.

There was a case earlier for defence-related PSUs on security grounds, such as Hindustan Aeronautics (HAL). With GoI opening the sector to private investment and encouraging the private sector to enter, the case for defence PSUs becomes weaker. It may, in any case, help bring in private partners into these companies to upgrade their technology and make them more cost-conscious.

How and to whom these companies are sold does matter. Russian-style privatisation, where most State assets were sold to 'oligarchs', must be avoided. There is a strong risk that large corporate interests may be allowed to grab these assets. Air India's sale back to the Tatas does not fall in this category. Transparent processes, competitive bidding and ensuring that some of the funds are set aside for worker compensation are vital for strategic disinvestment to succeed.

Have your cake and eat it too

This Pie Is for Everyone

Strategic sales are considered the optimal way to get the best returns from privatisation. But this needn't be so. In democracies with reasonably developed capital markets, open market sales could be designed to widen ownership and create a greater public stake for the sales. India now has many large private companies with professional management and that are not family-owned. Employees could also be provided shares — employee stock option plans (Esops) — in companies when they come under private management, so that they are not resistant to the sale and share in the upside of privatisation.

To avoid the charge that GoI is selling the family silver to pay the grocer's bill, the proceeds from privatisation and sales of assets of closed firms should not go back into the budget but be put into the National Investment and Infrastructure Fund (NIIF), and used to pay worker compensation so that the people can visibly identify how the proceeds are being utilised.

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