

Privatisation: Strategy to avoid accident along the execution line

Recently, Prime Minister Narendra Modi openly and rightly acknowledged the contribution of wealth creation in growth and reduction of poverty. He pointed out “India’s ethos of respecting wealth creators”. I must say that this ethos is not new for us as a society – even 5000 years ago, Lord Krishna treated ‘wealth creation’ as one of the main four ‘Purusharthas’, the duties of a human being. He himself created the very opulent and new city of Dwarka, which was comparable only with Amravati of Kubera.

With Prime Minister Modi first taking charge of the government in 2014, many of us were convinced that it was India’s moment – there were high expectations of growth through policy liberalization, reduced government involvement, a big push towards privatization and a more stable policy framework. Indeed, later there was disappointment on many of these fronts, not because of the resolve to make the change but due to the complexity of the situation at hand. However, over the last six months, I observe a sea change in the approach of the government which augurs well for future economic reforms in India. The most obvious example is the Budget 2021 itself: the government has reestablished the importance of economic growth as its top priority and accepted the need to put the private sector at the heart of the growth agenda. Less and less involvement of the government in running businesses will also aid growth.

The willingness to take on the holy cows - public sector undertakings (PSUs) and banks - during the farm law tussle was indeed gutsy and shows complete buy-in on privatization at the topmost levels in the government. The government’s approach to withdraw from all sectors of the economy except a handful, is a significant U-turn from the earlier view. The PSUs are now no longer being viewed as critical to drive the economic and social agenda of the country.

The government seems committed to divest hundreds of PSUs using strategic sale as the primary route. Additionally, there are plans to recycle some of the assets through Invits/ Reits structures and through assets monetization such as real estate monetization. Apart from the enormous release of government resources and improved productivity of capital across the economy, this will throw up large opportunities for the private sector to better use these assets.

However, as they say, devil lies in the details and timely implementation is the key. The execution of this privatization will be a gigantic challenge for the government. The vibrancy of our democracy allows people to take legal route which has the potential to delay or stall the process. It would therefore be crucial to design the right strategy to achieve a time bound execution – this should be done before the game starts, else critical time will be lost.

Several years ago, we faced with a similar situation when B. Ramalinga Raju, the founder chairman of Satyam Computers yanked the lid off a can of worms, admitting to India’s biggest corporate fraud. The government-appointed new board of directors had an unenviable task of finding a suitor for the company in shortest possible time, and failure was not an option. As an advisor to the Board for the sale process, in my earlier assignment, we had outlined a strict timebound program and any delay would have impacted the clientele of the company and eroded business value. Time was not a luxury and transparency was of paramount importance. The media frenzy around it also ensured that the process was going to be closely scrutinized and hotly debated at every step of the way. Also, given that Satyam was a US listed company with stringent regulatory oversight, and the nature of the fraud, there were high chances of litigation and concerns being raised against the process itself.

Our Views

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The Board, along with the advisory team, countered this challenge through a very creative solution. To ensure transparency, former chief justice of India Shri S.P. Bharucha was invited to provide a third person's view on the entire process and to advise the Board in the selection of a strategic investor from amongst the bidders. His involvement and oversight at every step of the process, right from designing the bidding strategy to finally receiving and opening of the bids, ensured that the entire process not only went through very transparently but also avoided any delay and litigation.

The Government could think of a similar out-of-the-box solution to make sure that we do not lose precious time on execution and also maintain proper oversight of the process. The track-record of the present government in dealing with complex issues is well appreciated: the case in point is when the Aadhar program was challenged in the Supreme Court – I think the government representatives did a brilliant job of explaining the benefits of the program for the citizens and for the country to the court. We all would appreciate the connectivity of citizens aided by Aadhar during the pandemic. It gives us the confidence that they would handle the privatization with due transparency and timeliness.

This is one time all stars are aligned – there is political leadership support, bureaucratic buy-in, availability of long-term capital from global pension funds and sovereign wealth funds and markets are in the green – and we should not miss the chance! We just need to avoid any accident along the execution line!

<https://economictimes.indiatimes.com/markets/stocks/news/privatisation-drive-strategy-to-avoid-accident-along-the-execution-line/articleshow/81375883.cms>

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