PRIMUS
PARTNERS

POLICY NOTES

February 2021

Monthly Policy Update

A good budget.. So what next?

Even the most critical commentators were muted in their response to the Budget 2021. Besides the obvious – increase in capital expenditure, the headline for us was the deliberate use of the word 'privatization', including in the Banking sector and FDI of 74% in Insurance (albeit with some riders). This communicates to the investor community (domestic but most importantly foreign) that India is committed to reform, even in the face of stiff opposition to farm reforms. Most agree that these farm reforms are good for the country, even if they disagreed with the manner, it was brought about or the potential challenges in the implementation.

Recently, my colleague Shravan Shetty, along with DEA Secretary Atanu Chakraborty, wrote for **the Financial Express**, where they have argued that this is a budget where the baton has been handed over to the private sector for implementation. As one very senior Investor recently said in one of our private conversations, India does not have a problem of intent. In fact, India should have been a US$5 trillion economy long-time back, given how many policies, programs, and announcement India makes. The challenge remains in serious governance, wherein the private sector is not said to be a partner but is treated as one.

We need to seize the opportunity, with GDP growth finally coming in the positive, as we witnessed a positive growth last quarter. With a strong growth outlook, low-interest rates and progress with China, it is the right time for the Governments – Centre and State, to have a roadmap for implementation and definitive timelines, allowing the private sector to make its plans. For example, it would be immensely helpful for all to know the disinvestment target, likely date for closures, upfront so that we can create interest and allow the private sector to plan its resources. Caution is essential, as poor implementation of good intent could erode our credibility.

Financial markets focus on attracting foreign capital and driving innovation

The increase in FDI to 74% in the insurance sector will lead to inflow of foreign capital of about INR 200-250 billion. Such inflow will be much required to provide impetus to the sector.

The RBI is gunning for growth by keeping the repo rates intact, adopting an accommodative stance together with OMO operations of about 3 Lakh crores.

SEBI has re-launched the Innovation Sandbox which will help development of innovative investment products tailored to Indian requirements.

Time to support medium-term CSR projects to create impact

The Companies (Corporate Social Responsibility Policy) Amendment Rules, 2021 make independent impact assessments mandatory for companies with an average CSR obligation of at least INR 10 crore in the previous three years for projects with budgets of INR 1 crore or more. This amendment is likely to increase companies' emphasis on designing and implementing projects to create impact. The recognition of multi-year projects of up to three-year duration would help companies plan for the medium-term, which is particularly important in areas such as education quality. These steps are expected to amplify the achievement of SDGs with their 2030 targets.

Can US bring back multilaterism?

The Congressional mandated report on the assassination of Jamal Khashoggi was released last week. The release of the account where the US intelligence report on the murder of Jamal Khashoggi says that Saudi Arabia's Crown Prince Mohammad bin Salman approved the operation to capture or kill the Saudi journalist did not reveal anything new but was strong on symbolism. The US would want the world to know that "America is Back" (as said by President Biden), and it wants the world to believe that going forward, a larger global agenda will drive its foreign policy to bring peace, human rights and faith. People are asking the question, did the release of the report do that, or was it good enough? Most people think no. There are many reasons for the same.

1. The world now recognizes how deeply divided the US is, and there are limits to what a US President can do in such a political environment; this divide now goes beyond domestic politics to foreign policy;
2. Even in the release of the symbolic report of the killing of Jamal Khashoggi, it becomes apparent that the US does not have an appetite for real action against an ally who still holds considerable clout - economically and religiously speaking and commercial interest will always trump!
3. Iran has turned down direct talks with the US and EU until sanctions are in place. Even if this is posturing for negotiation, it does reflect a massive change;

The raucous democracy (often said about India) currently in play in the US is unlikely to allow multilateralism to become mainstream anytime soon. The trend of the last 4-years, where nations will drive economic and foreign policy based upon shorter-term local ideology-driven mandates, will be the norm. The question is, will this impact longer-term economic growth and social cohesion, especially in the G20.

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Enabling regulatory environment needed to support growth of E-commerce

In past decade, Indian E-commerce has transformed the way business is done in the country. The E-commerce market in India is expected to grow to US$ 200 billion by 2026 from US$ 38.5 billion as of 2017. The DPIIT had in December last year asked the Reserve Bank of India and Enforcement Directorate to take necessary action following CAIT's allegations regarding FDI and FEMA violations by global e-commerce platform. But as per MoS commerce and Industry Minister Shri Som Prakash, "no such investigation has been initiated by RBI or ED on the matter," in a written reply to a question in the Rajya Sabha on 12 February 2021.

E-commerce sales in India are estimated to have risen by only 7-8% in 2020, compared to almost 20% in China and the US. They are already reeling under the pressures of the pandemic and need the Government's support to compete globally.

Private sector participation will facilitate Aatmanirbharta in defence

The defence sector in India has witnessed fast tracked policy liberalizations and execution intent in the last few years – but much more is required. Aatmanirbhar Bharat is the main theme with indigenous content being the engine driving it. Private sector participation is the thrust that will drive the entire machinery forward. Transparency, Predictability, De-regulation and Ease of Doing Business are the four pillars that should form the core of the policy in the sector. The negative list for imports will become the avenue for indigenous development of the ecosystem and will also fuel potential exports in the years to come. Hence, while procurement from domestic defence companies is critical and has been aptly included in the budget as a separate line item, it is imperative that the private industry in collaboration with the public entities concertedly focus on R&D so that imports can be reduced significantly.

Dis-investment of the holdings in DPSUs/PSUs is a positive step, which would not only generate finances for the much-needed modernisation projects, but also lead to their greater synergy with private sector by their entry into erstwhile closed domain areas. It also opens up additional avenues for Strategic Partnership models. Privatization/GOCO models of OFBs could be considered as the next step leading to creation of areas of private-public production platforms. This, when coupled with the DPSUs/OFBs privatization and DRDO contribution, can lead to a multiplier effect in realisation of State of Art equipment/weapon systems, along with enablement and absorption of foreign niche technology.

POSHAN 2.0 – a comprehensive mission to solve India's severe nutrition challenge

The Ministry of Women and Child Development is renewing its emphasis on nutrition with the launch of POSHAN 2.0, revamping the POSHAN Abhiyan (National Nutrition Mission) launched in 2018 with its aim of achieving a malnutrition free India. Despite efforts and improvements over time, the level of malnutrition, as evidenced by stunting and wasting of children, as well as levels of anaemia and deficiency of micronutrients such as vitamins A and D, remain high as highlighted by the first phase of the National Family Health Survey 5 published in December 2020.

POSHAN 2.0 together with the Saksham Anganwadi scheme takes an integrated approach to achieving nutrition goals for children, adolescent girls and women by consolidating four pre-existing schemes (Integrated Child Development Scheme - Anganwadi Services, Poshan Abhiyan, Scheme for Adolescent Girls and National Creche Scheme). The re-energised mission emphasises improved nutritional content, for instance, through the adoption of AYUSH practices which would help manage micronutrient deficiencies.

POSHAN Abhiyaan
PM's Overarching Scheme for Holistic Nourishment
सही पोषण - देश रोशन

Capacity building of Anganwadi staff as the last-mile delivery agents will remain core to change. At the same time, enhanced delivery and outreach would be driven by targeted tracking of outcomes through a technology-based POSHAN tracker. POSHAN Panchayats that were advocated last year to provide greater local oversight and community ownership, are also expected to get a push now.

By redefining its approach and interventions, and strengthening implementation and monitoring methods, POSHAN 2.0 has the potential to pave the way for solving India's severe nutrition challenge.

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Accelerating NIP can boost India’s economic growth

In the recent past, COVID-19 has heavily impacted various sectors such as infrastructure, energy and transport. Impacts range from existing projects and their cash flows, to delays in new projects. This has led to unavoidable delays in the NIP program, and there is a need to push the plan since it has a potential of becoming major driver for boosting India’s economic growth.

"India needs an ambitious strategy in this regard. The setting up of new Asset Reconstruction Company backed by a “Bad Bank”, as announced in the Budget 21, is a particularly good start. This can be followed up with appropriate re-capitalisation of projects that were stalled over the last year. These steps will accelerate NIP to its original timelines.

Expert view

How should Sitharaman sell PSU banks in style?

The government should resolve all outstanding legal issues and capitalise PSU banks to the extent of regulatory requirements via market to make them “sellable”, India’s former Divestment and Economic Affairs Secretary Atanu Chakraborty told ETCFO in an exclusive interview.

He also said that the government’s consideration to hive off NPAs to make PSU assets lucrative cannot be used as a common strategy. On the proposal of large industrial houses owning banks, he said, that is fraught with systemic risks. The former finance ministry official also stressed it’s time that bureaucrats handling disinvestments get protected by law. Edited Excerpts.

Bank privatization is one of the boldest political decisions on the economic front in recent times. There are multiple steps that the government can take to ensure the smooth sale of Public Sector Banks.

First, it must aim to resolve all outstanding legal issues. Otherwise, the privatization would run into legal hurdles, as had happened in case of oil PSUs almost two decades back. This would call for certain amendments in the Bank Nationalization Act as well as the Banking Regulation Act and some other related legislations.

PSU Banks are best sold in a company structure as the governance structure remains regulated and predictable. This would entail converting the selected banks into companies under the Company Act and then sell.

Second, to attract best buyers, these banks will have to be fully capitalized to the extent of requirements of the regulator. However, such capital should be raised from the market. Otherwise, it will lead to ballooning of Government equity.

DIPAM’s present policy regarding manpower is fairly acceptable to buyers in the corporate sector and is very balanced between unions and buyers. Further, manpower is already reduced in Banks. So, manpower in itself is not a deal- breaker.

Shifting of the workforce from PSU’s to be privatised to more strategic and efficient PSU’s will be of little help. It is actually counter-productive.

To ensure a successful and smooth privatisation process, the government must engage with all relevant stakeholders. This includes banking employees’ unions as well as potential bidders for PSUs to layout all rules as well as providing full clarity on the process of privatisation.

There is a temptation to hold some equity for the government in the new entity post sale. That needs to be eschewed.

The government must also ensure that Post-sale, PSU banks and private banks are treated alike and regulation & supervision for both should be the same. If this is not done, it will be difficult for the Government to attract investors for other PSU sales.

To attract more foreign bidders, there should not be any differentiation between Indian and foreign investors, as long as they meet the prequalification criterion.

Atanu Chakraborty
Former DEA Secretary

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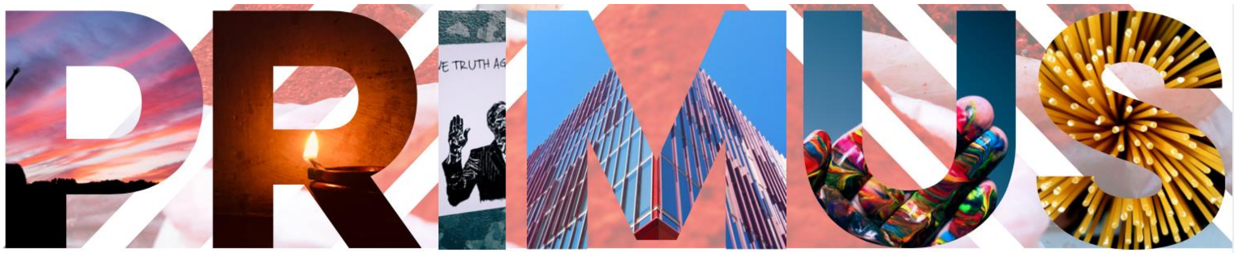
About Primus Partners

Primus Partners has been set up to partner with clients in ‘navigating’ India, by experts with decades of experience in doing so for large global firms. Set up on the principle of ‘Idea Realization’, it brings to bear ‘experience in action’. ‘Idea Realization’— a unique approach to examine futuristic ideas required for the growth of an organization or a sector or geography, from the perspective of assured on ground implementability.

Our core strength comes from our founding partners, who are goal-oriented, with extensive hands-on experience and subject-matter expertise, which is well recognized in the industry. Our core founders form a diverse cohort of leaders from both genders with experience across industries (Public Sector, Healthcare, Transport, Education, etc), and with varied specialization (engineers, lawyers, tax professionals, management, etc).



PASSION
for providing solutions to help clients achieve their goals

RESPECT
For all and alternate viewpoints

INTEGRITY
of thoughts and actions

MASTERY
of our chosen subject to drive innovative and insightful solutions

US
Representing the Primus collective, where each individual matters

STEWARDSHIP
for building a better tomorrow

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