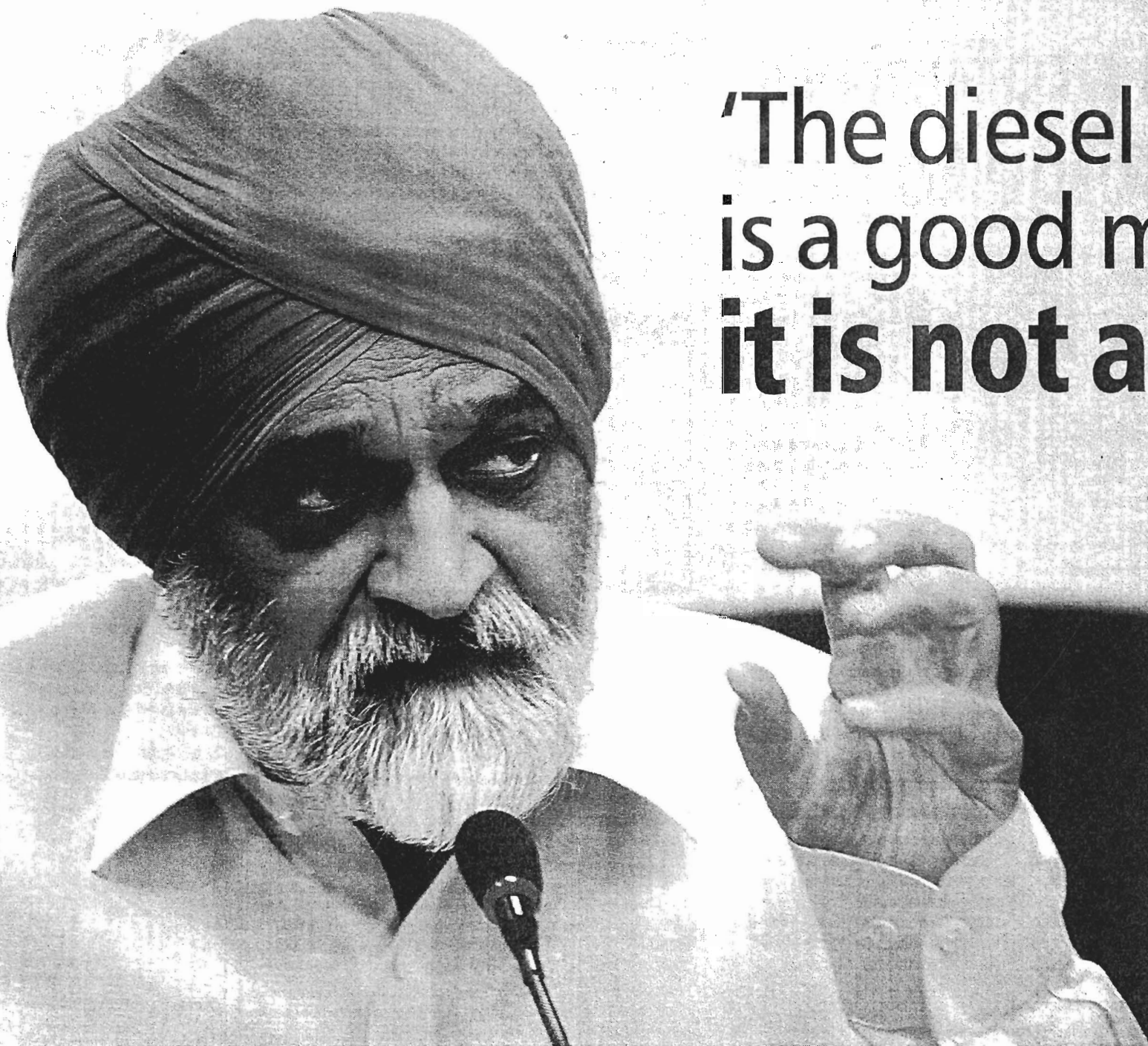


'The diesel price hike is a good move (but) it is not a reform'



In this Idea Exchange moderated by M K Venu, Managing Editor, *The Financial Express*, **Montek Singh Ahluwalia**, Deputy Chairman of the Planning Commission, speaks about reforms carried out by the UPA government and explains why every government action is not a 'reform'

MK VENU: Are the government's recent announcements and reforms aimed at lifting economic sentiments?

I am glad you made this distinction between announcement and reforms. I think we have got into a situation where people want to interpret whatever the government does as reforms. There are many things that are really pretty obvious and that need to be done but which you don't call a reform. That's just functioning.

vestment up to the framework of 51 per cent is not a reform. I am not saying it's not a good move. Let's do it.

SUNIL JAIN: What's the most important reform?

The most important thing that the PM has said which can be done, and I hope it gets done as it was discussed in the Planning Commission, is the large number of infrastructure projects which are held up. Because our processes are such, (a) it takes very long, and (b) I think the sensitivity to these clearances have

file system and taking collective decisions and minuting them as speaking orders. The group of ministers should do that so that the bureaucracy feels protected because the file system is extremely damaging—you write something and you don't know what the next fellow is going to write or what consideration he is going to bring to say that you are wrong. One should have a free-flowing discussion and record minutes which then says that all of these views were taken into account and this is the right thing to do. Every-



NIAB look into these also?

If the statutory power for clearance of projects is entrusted to the Board, then any project which has not got a clearance will come under NIAB.

ARUN S: Will NIAB be like an E-GoM or the Cabinet?

It would replace E-GoMs in many ways. The present term, E-GoM, is a misnomer because it is not empowered to give statutory clearances. NIAB will be exactly like the Cabinet. Most important, it is to avoid a system where the

tion agreement (MCA). That is the key contribution of the Planning Commission. We must have PPP but do it on the basis of a good MCA that assigns risk and players are subjected to a competitive bidding process to choose the companies. Problems will arise when the private sector has taken an implicit risk and is hit by a curve ball or a googly. Elsewhere, renegotiation of PPP is not uncommon. There should be renegotiation because you can't let the private guys get away with everything.

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SUNIL JAIN: What would you call the diesel price hike? And what about the FDI in multi-brand retail?

The diesel price hike is a good move. It is not a reform. It's a price adjustment which is entirely in line with what we have said. Reform is a big structural thing. FDI (in multi-brand retail) is extending the logic of what we are doing in the last few years to a particular sector.

I think there is lot on the agenda. Some of these will be reforms and others just actions. What has already been done—diesel price hike, FDI in aviation and retail—are necessary and I think they will have a good long-run effect. Other important steps being taken are on provisions in the Budget, like on GAAR that led to a lot of negative reaction, even questions on whether the Government of India is really interested in having a positive investor sentiment and interested in foreign investment. On those, we got catapulted into a negative perception space. The previous finance minister (Pranab Mukherjee) postponed the implementation of GAAR by one whole year. I would call that a sensitive response having seen what the reaction was.

What would be a reform? There are two committees, one under Parthasarathi Shome (on GAAR) and the other under N Rangachary (looking at taxation of development centres and IT sector). The agenda of these two committees constitute a set of clarifications, which, if actually introduced, will represent a substantial reform. I don't take the view many people take that we are just going back to where you were before the Budget. When a step is taken and it may have been misread or may have led to an exaggerated response, and the government steps back and in a considered way tries to set the ball game right, I would call that a serious tax clarification reform.

In the case of the Shome committee, I have absolutely no doubt that it is a first set of reforms. In the case of the Rangachary committee, if he has addressed the issues that address private investors' concern, it will be a major step forward. I hope the government accepts them.

SUNIL JAIN: Is disinvestment a reform?

No, not at all. It's not a reform. Disin-

SUNIL JAIN: What's the most important reform?

The most important thing that the PM has said which can be done, and I hope it gets done as it was discussed in the Planning Commission, is the large number of infrastructure projects which are held up. Because our processes are such, (a) it takes very long, and (b) I think the sensitivity to these clearances have hugely increased because in the public mind, it is somehow felt that these projects are leading to the damage of the environment. Obviously, you need to protect the environment. But if you create an atmosphere in which a highly non-transparent mechanism is at work in giving clearances and every official knows that the only thing that will be controversial is giving clearances, you should not be surprised if they don't give clearances. We have laid down some tough targets and the Planning Commission has been asked to monitor them. At the end of the first six months, PM has said that he will personally review the infrastructure projects with the ministers concerned. That review will trigger greater accountability both from the minister's point of view and below.

This will be good as ministers are publicly held responsible.

M K VENU: Even if you are considering fast-tracking of projects, how can you ensure

they are cleared at all levels? Half the time the problem is we could not achieve the target because we could not get clearances. Essentially, what happens is that a project may be important and contribute massively, let's say, to meet the shortfall in power, which in turn will lead to more development in rural areas, more extension of electricity, more GDP, etc. But when it needs a particular clearance, these are not the issues before the officer at all. That officer follows his own silo mentality. The finance minister made an excellent suggestion. He said that for projects above a critical size, presumably in the infrastructure space, the rules of business should be amended so that the permission that has to be given is given. This will involve the National Investment Approval Board (NIAB). The finance minister said the NIAB should be chaired by the prime minister. Now, such a board will not take arbitrary decisions.

We are working with 19th century file-based procedures which require every individual to pronounce sequentially on a file. All of that becomes open to questioning—Under Secretary wrote this, why did the Deputy Secretary write that, etc—and it is absolutely impossible to fix responsibility in the system.

You can do that by abandoning the

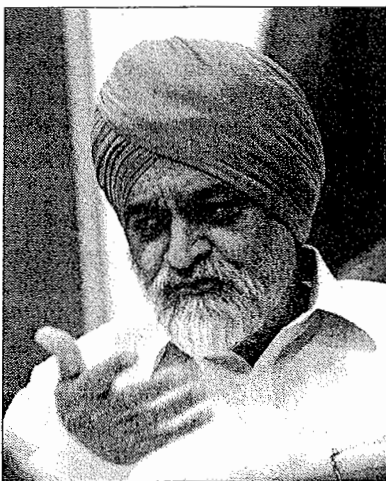
protected because the the system is extremely damaging—you write something and you don't know what the next fellow is going to write or what consideration he is going to bring to say that you are wrong. One should have a free-flowing discussion and record minutes which then says that all of these views were taken into account and this is the right thing to do. Everyone takes collective decisions. If you do that a lot of what you call administrative paralysis will end.

SUNIL JAIN: Why are we facing so much trouble over forest clearances?

It's my personal view that the method of clearances for environment and forest is arbitrary, non-scientific and non-transparent. I have discussed this with the ministry and I don't blame them. This (method) is what we have had for years. What has happened is that all of a sudden the concerns have become heightened that this is damaging the environment. If the procedures are non-transparent, it is not easy to argue for or against. There is a very elaborate procedure for giving environment clearance for whatever is declared a forest area. Now we know half of the declared forest area is actually degraded forest where hardly a blade of grass grows. The procedures for degraded forest area should be simpler because what you are doing is imposing the same compensatory forestry requirement but the sensitivity you have to show is much lower when you see the forest is degraded than if it is a dense forest. But there is no such procedure.

We have not taken forest clearances seriously. Because we have not taken it seriously, the only expertise and only acknowledged ones are those of activists who are actually protecting the forests. I am glad we have them. But we don't have neutral experts. Until you make the system subject to scientific criteria, why would neutral experts emerge?

ARUN S: How will the proposed NIAB help in faster project clearance?



PHOTOS: AMIT MEHRA



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NIAB will have a focused attention, force the senior-most levels in government to make a conscious decision on why we are doing what we are doing. I think if we make the NIAB operational in a year-and-a-half, normal clearance procedures will hugely speed up because the board will actually set the precedent.

ARUN S: Will the PM, as head of NIAB, personally take responsibility if something goes wrong?

If NIAB takes a decision as a group, they should be able to defend what they have done. Suppose a case comes up where someone falsifies documents and does not fulfill the eligibility criteria, then the bureaucratic system which is responsible for checking them, should be responsible. You can't blame 12 Cabinet ministers for the bribery.

SUNIL JAIN: A lot of private projects like that of POSCO are stuck. Will

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...ance will come under NIAB.

ARUN S: Will NIAB be like an E-GoM or the Cabinet?

It would replace E-GoMs in many ways. The present term, E-GoM, is a misnomer because it is not empowered to give statutory clearances. NIAB will be exactly like the Cabinet. Most important, it is to avoid a system where the bureaucracy has an incentive to say no.

SUNIL JAIN: What reforms have been made in the last few years and what is on the anvil?

In the matter of GST, which will be a key game-changer, there is absolutely no doubt that a lot of progress has been made although a deal hasn't been clinched. It needs a constitutional amendment.

Two, the experiment of rolling out Aadhaar. We are saying, why don't we have a declaration that by the end of the 12th Plan, all major subsidies be transferred through Aadhaar? All disbursement of money like NREGA and scholarship will go to the bank account. It is feasible, not politically controversial and could be done by the end of the 12th Plan. In the 11th Plan, the change we have demonstrated to the people is that the private investors willing to come in public-private partnership projects (PPP) is very important. In the 10th Plan, PPP was only 10 per cent of the total investment. In the 11th Plan, it was 37 per cent. I think, World Bank and ADB have said that India had the largest number of PPP projects—not just for the Centre but also in the states. We have been encouraging states to do it and some of them have done a very good job. What the 12th Plan says is, you can get 9 per cent growth if the fixed investment ratio rises to 34 per cent. Out of the 34 per cent, the share of public investment is only 8.5 per cent so most of it will be private. Since most of the government spending is on health and education, the infrastructure better be done as much as possible by PPP because the government does not have so much money.

M K VENU: But some of the PPP projects got into problems and had to be reworked. The terms were changed in power or airport projects. How do you address that problem?

I am not saying that PPP does not have a problem. If you have the mistaken impression that public sector projects are not reviewed, please remember that most of the public sector projects end up with costs that are 4-5 times higher than the original estimates. The problem is when these come up, you don't call it a scam—you say it's just a delay. I am not surprised if a PPP runs into a problem. You have to ask whether they are governed by a good model conces-

and players are subjected to a competitive bidding process to choose the companies. Problems will arise when the private sector has taken an implicit risk and is hit by a curve ball or a googly. Elsewhere, renegotiation of PPP is not uncommon. There should be renegotiation because you can't let the private guys get away with everything.

K G NARENDRANATH: In the 12th Plan, are you proposing a greater role for states in using central funds?

My view is that there should be flexibility in how these guidelines work. This is the reform I am talking about in implementation. While there is a general guideline (on Centrally-sponsored schemes), we will sit with the states and identify state-specific flexibilities that are needed. The general guideline can be modified for each state. We are saying that 10-20 per cent of the money should be available to states to pursue the objectives of the scheme without adhering to the guidelines.

DILIP BOBB: Is good economics becoming bad politics?

I hope not. We are running an active and participatory democratic system. This is a political challenge—how do you persuade people that things have worked better with reforms? If you compare the performance after 2004 with that before 2004, there is absolutely no doubt that on every matrix, the performance after 2004 is better. The growth rate is much higher—from 6.2 per cent to 8 per cent plus. If you look at the growth rate of per capita rural real consumption, it has almost doubled since 2004. There has been poverty reduction and agriculture growth has improved to an average annual 3.3 per cent in the 11th Plan from 2.4 per cent. All this is the result of reforms. I think we are confused by the following: the gap between expectations and performance has actually widened because expectations have exploded. That's a good thing. But it's simply not true that levels of living have not improved.

All the people who are concerned to meet these expectations are now under pressure and that pressure is good. I think we are being carried away by what I call the fashions of industrialised countries. The industrialised countries are undeniably in a terrible mess—Europe is witnessing zero growth, United States has got a huge fiscal deficit and debt ratio and is unable to generate growth. So, there is a backlash to modern economics, you have people saying markets don't work. Discussing what went wrong in the West is a larger debate, but there is little doubt markets have worked well for us.

Transcribed by Rajkumar