

# INNOVATING INDIA - ROAD MAP 2014-49



**FORUM**  
OF FREE ENTERPRISE

## ACKNOWLEDGEMENT

*"Free Enterprise was born with man and shall survive as long as man survives".*

- **A. D. Shroff**  
Founder-President  
Forum of Free Enterprise

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In view of the timely publication of the document, particularly the recommendations, it was felt that the contents should be widely publicized and debated in order to generate informed public opinion. Therefore, the Forum of Free Enterprise sought and obtained permission from the PIC to reproduce substantial portions of the document in the form of a booklet. The Forum is grateful to the PIC for the permission granted. As per the policy

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It is hoped that industry associations, chambers of commerce, educational institutions and others in the country will evince interest in the booklet and arrange seminars, debates etc., and thus create greater awareness among public and elected representatives on recommendations made in the interests of the future of India's economy.

22nd April, 2014

**Sunil S. Bhandare**  
Editor

## Introduction

The Forum since its inception has been engaged in the task of educating public opinion on issues of vital importance to the economy.

Indian economy is juxtaposed today at a very critical stage, as public attention is gazed primarily on the tasks before the new Government which will be formed shortly.

It is hence most opportune that Pune International Centre has produced a very perceptive and thought provoking policy document "Innovating India" inspired by two eminent thinkers and respectable stalwarts, Dr. R.A. Mashelkar and Dr. Vijay Kelkar, with rich experience of statecraft and policy formulation in the Government. They have also drawn extensively on very valuable insights of distinguished contributors.

On receiving a copy of this document, it immediately struck us that we should publish a substantial part of their very balanced and cogent analysis of the current state of the economy and more importantly prescriptions for the road ahead. This brief and very telling document, we feel would be, a most valuable guide, for the new Government to chalk their way forward. While doing so it may be imperative to calibrate their own promises and programmes enshrined in their manifestos. The revival of the Indian economy particularly in the manufacturing sector is so critical to generate a minimum of ten million jobs a year for providing the educated younger generation opportunities to realize the full benefits of the oft-acclaimed demographic dividend.

The diagnosis for reforms is precise and logical. The solutions offered are very doable, given the political will and single

mindful focus on putting the economy back on track, devoid of populism.

We do trust that the eminently sensible and implemental suggestions prescribed, devoid of ideological slants, will receive due attention of the new Government, Policy Makers, Members of Parliament and all concerned citizens.

Like most thinking Indians we in the Forum believe that this is no time for idle slogan mongering and finding faults. This is the time to act. India has demonstrated time and again that given resolute will and exemplary leadership we can overcome any problem. This is why recently India graduated into the G 20 Club of Global Leaders. Let us prove the cynics wrong and display to the world that India has the potential to be a Key-Player in the Global Fraternity in the years ahead.

Our sincere gratitude to the Pune International Centre and contributors to this outstanding document, to allow us, to reproduce substantial parts of the suitable excerpts.

**Minoo R. Shroff**  
President

21st April, 2014

Forum of Free Enterprise

## Foreword

In the summer of 2014, we are going to witness a game changing election in our country in which new generation leaders would take positions of responsibility at the Centre. Like every Indian citizen, we are keen that these elections are contested on issues that will make a difference.

As a 'think tank', we at Pune International Centre (PIC), are eager to contribute to this process by highlighting critical issues and making policy recommendations.

In this paper, our focus is on many 'Big Ideas' across various sectors that will yield positive, tangible and large development gains to the country. As you go through the paper, you will see the target is to promote rapid growth, equity and quality of life, eschewing competitive populism. Our policy proposals do not mean a diminished role for the State. On the contrary, the proposed reforms are towards fostering a governance system imbued with liberal values, committed to democratic decentralisation, capable of supplying of quality public goods and promoting competition with a regulatory architecture for better oversight of the private sector. Such governance would also provide an effective social safety net and justice for all.

Although we would have liked to cover some more key sectors, because of various constraints, our current report has centred on only some selected ones. We will continue to explore other key issues such as environment and women's empowerment through PIC programmes and policy papers in the near future.

The paper is in four sections.

Section I outlines India's development perspective and policy imperatives for the coming years.

# INNOVATING INDIA - ROAD MAP 2014-19

## AN AGENDA FOR A RESURGENT INDIA

The present document takes off from 'Reinventing India', a widely admired work of Raghunath Mashelkar, one of India's foremost scientists and President of the PIC. It sets out a vision for a resurgent India where education, entrepreneurship and empowerment will unleash the creative powers of our people to banish ignorance and poverty, ill-health and oppression, extremism and all other forms of debilitating social and political ills. It examines the complexities of each issue of concern to our citizens, suggests practical ways and means to overcome it and provides guidelines that would enable institutions, communities and individuals to realize their full potential to prosper without losing sight of the imperatives of social justice and cultural and spiritual wellness – in other words, to be at peace with themselves and with the world at large that is in the throes of a historically unprecedented churning process.

This churning process has been taking place in India as well. However, those who take more than a passing interest in public affairs tend to focus on events and personalities and that too from the prism of their professional interests and concerns. We need to examine the trends and processes that are at work beneath the surface of day-to-

Section II identifies 'Big ideas' and corresponding policy initiatives required in key sectors.

Section III examines, in depth, the electoral and political reforms essential for improving **governance** and strengthening democratic decentralisation.

The last section (IV) illustrates two possible participatory and consultative approaches for achieving speedy implementation of the new development policies. These approaches have drawn some lessons from recent successful experiments in Mexico and Malaysia.

This report draws upon valuable inputs from a number of distinguished contributors. We are grateful for their invaluable contributions and guidance.

Dr. Dileep Padgaonkar, Chairperson of Programmes Committee, led the PIC team consisting of Mr. Prashant Girbane, Honorary Director, and Dr. Sumita Kale to put together this report. Our founder member, Ms. **Falguni Gokhale**, has done the design of this report. We are **very** thankful to this team for their efforts. We owe our special thanks to Dr. **Nitin Desai** who assisted us in formulating the Macro-Economic as well as the Medium-Term Framework of the Report.

Finally, we want to end with the hope that 'Innovating India: Roadmap 2014-19' will be discussed and debated extensively in public. Hopefully, a consensus will be formed so that the new government will be able to work with these innovative policy proposals.

R A Mashelkar  
President, PIC

Vijay Kelkar  
Vice-president, PIC

day developments reported in the media and to do so from as broad a perspective as possible: political, economic, social and cultural.

Eight major changes have been shaping India and the lives of Indians over the past two decades and more. They relate to tectonic shifts of power and influence across the length and breadth of our country.

1. The first shift is from the state to the market. The dismantling of the license-permit raj, begun in earnest by PM Narasimha Rao and Manmohan Singh and carried forward by the BJP-led NDA, accounts for the phenomenal increase in our GDP. But it has also led to renewed debates about growth-vs- inclusive growth. All the same, no political party, not even the CPI(M), now contests the merits of an investment-friendly economic policy.
2. The second shift is from government to civil society. The latter, aided, and often abetted, by 24x7 TV news channels, has made its voice heard on a number of issues ranging from corruption to violence against women, from environmental protection to the rights of communities whose lands are sought for exploitation of forest and mineral resources, from the intimidation of minorities to the misuse of the powers of the police and the armed forces. But civil society would also need to address the grave deficit in the civic sense of our citizens.
3. The third shift of power and influence is from the Capital, New Delhi, to the Capitals of the States and further down to the level of sub-regions, districts and panchayats. The remarkable rise of regional and caste-based parties is evidence of this trend as is

the clamour for separate states in many parts of the country.

4. The fourth shift is from upper-caste domination of the system to the growing clout of those in the lower rungs of the ladder. The assertiveness of the latter to claim a place in the power structure is a fact of life that no one can afford to ignore.
5. The fifth shift is from the older generation to a younger one. No surprise here given the demographic nature of Indians today. In every walk of public life – from corporate to political parties – this trend is unmistakable. But this demographic advantage could lead to a catastrophe if the young aren't endowed with educational and vocational skills to provide them with the security of gainful employment.
6. The sixth shift is from a male-centric power structure to one that is more gender- balanced. This would be obvious from the way our women excel in just about every walk of endeavour. The 'moral policing' or variations of 'khap justice' are the flip side of this very coin.
7. The seventh shift is from a techno-phobic India to a techno-philic one. Indians today embrace, for the better or the worse, innovations in technology to improve the material conditions of their life more than ever before.
8. The eighth shift is from an India that wanted to be non-aligned to one that wants India to be multi-aligned. The credit to bring this about must go to Rajiv Gandhi, Narasimha Rao, Atal Bihari Vajpayee and Manmohan Singh.

Add to these shifts a trend that cuts across all our **fault-**lines. It demands performance, not promise, deliverables, not rhetoric, tangible benefits in **terms** of education, health care, jobs, inflation and security, not hollow references to identity politics or freebies. It also demands a horizontal, not a vertical, accountability. No one can take refuge any longer that he or she acted at the behest of a superior.

The way these trends and processes find public expression differs from state to state and even from region to region within a state. Those in power and authority are called upon to therefore address citizens in a calibrated form – with deeds, not words, with vision, not an emotive appeal to atavistic and populist urges.

At the end of the document we propose models that will allow the next government to assess the priority needs and concerns of citizens and ways to implement policies and programmes in an effective, accountable and **time-**bound manner. This would call for understanding and cooperation of all stake-holders. Indeed, following the spectacular success of experiments along these lines in Malaysia and Mexico, we urge political parties to reach a broad agreement on the policies and programmes and then compete on the basis of who has the better political will and governance skills to implement them.

**Dileep** Padgaonkar  
Chairperson,  
Programme Committee, PIC

## Section1

### AN AGENDA FOR DEVELOPMENT

India is at the cusp of a major transition. Within a generation a society predominantly of low income rural agriculturists will become one of middle income, urban, industrial and service workers. The absolute size of the rural population will start declining in a decade or so and a massive occupational and spatial shift will move a 100 million people from rural and agricultural work to factories and service establishments in cities.

There are other transitions that will accompany this. One is the so called demographic dividend - the bulge in working age population in the North. The South on the other hand will see a rising proportion of aged retirees from the work force and face labour shortages, which are already evident in current migration trends. All this will happen in a global environment where new technologies that replace skilled labour with computer controlled machines will dull the edge of comparative advantage of low cost labour.

The transition will be reflected in the macroeconomic numbers for sure. The already declining share of agriculture in GDP will fall even more, though the shift of population out of rural areas will help to maintain a reasonably healthy rate of increase in per worker income in agriculture. The share of industry and services will zoom up to 90% or so in a matter of a few decades and sustain a sharp rise in per worker incomes in urban areas. But the transition that will transform Indian society is better expressed in terms of people and their livelihood. For it is the change in the mind set from rural to urban, from the seasonal

variations of agricultural work to the de-seasonalised work in industry and services, from subsistence living to one where discretionary spending is possible. It is a transition that will affect not just the economy but also politics and social relations.

None of this is cast in stone. It does not have to happen. It depends on whether our economic policies are able to maintain growth at the 6-8% rate, which is the current potential, given the 33-34% investment rate. But to do that the present orientation of policies in several areas will require substantial changes and these are outlined in the agenda for development that follows.

### **Ensuring macro - economic stability**

The experience of East Asia has established that a long period of sustained high growth requires well managed fiscal systems, low inflation and buoyant public revenues to kick start infrastructure development. Unfortunately all three elements have been missing for the past several years. Fiscal profligacy for financing huge hand-outs in the name of inclusive growth are the rule at present and also the immediate prospect given the competitive populism between the parties vying for power in the States and at the Centre.

The transition outlined above will never take place if policies focus more on doles and subsidies rather than on the only thing that can truly reduce poverty which is constructive investments to raise the productivity of the few assets that the poor can command – their land and their skills. Nor will high rate of inflation help. Present policies are self-defeating and there must be a reversal to the sort of fiscal rectitude that prevailed in the 2003-08 high growth period.

The structural simplification of the tax system has already begun with the 10-20-30% tax bracket structure in the income tax surviving for a long time and the impending implementation of a general sales tax (GST). But much more needs to be done to rationalise the tax breaks, simplify tax codes and bring in greater accountability and probity in tax administration.

The rationalisation of the tax system should not lead to over centralisation of spending authority. Prudent fiscal management also requires a closer look at the present arrangements for revenue raising and revenue sharing between different levels of government. Fiscal resources should be available as fungible, untied resources to the entity that will make choices and spend the resources, whether it be a municipality, a district panchayat, a State government or the Centre. The present arrangement that requires large discretionary transfers downwards from the Central and State budgets does not encourage responsible approaches to revenue raising and spending. A closer look at how a substantial measure of fiscal autonomy can be granted to each level of government is very necessary.

### **Shifting the focus of growth to the North**

The South, West and the North-West have been the high growth regions so far. The States in the North and East have been left behind, though there are some signs of acceleration in agricultural growth in the past few years. However they are still at the periphery of the industry and services growth story. This will have to change.

Sustaining high growth in India over the next few decades does depend on making the most of the demographic dividend – the bulge in the working age population that will



arise as population growth slows down. The bulk of this dividend will accrue in five Northern States – UP, Bihar, Rajasthan, Madhya Pradesh and Jharkhand.

The demographic dividend can be an asset only if we shift the focus of job oriented non- agricultural growth decisively to the Northern states. This will require a concerted effort by the Centre and the concerned States. Revisiting the fiscal transfer arrangements, as demanded by Bihar, is but a small part of this. The real challenge is not just resources but effective planning and implementation at the ground level for logistical improvements in transport, communication, information linkages and credit flows. Though the big corporates will have to be tempted to go there, the initial boost will have to come from public enterprises in the region and from the promotion of small and medium enterprises which should get as much or more attention than corporate growth. The Centre can help by giving higher priority to developing infrastructure along the Gangetic corridor, for instance by duplicating with genuine vigour what they are attempting along the Delhi Mumbai corridor.

A successful effort at boosting non-agricultural growth in the North will affect the South and the West where growth will slow down as the flow of surplus labour from the North diminishes. This more than anything else will bring the private corporate sector to the North. Moreover the sort of tensions that we have seen in Mumbai lately about Biharis will become less frequent.

### **Ensuring high growth in industry and services**

Industry and services will be the primary source of jobs and income growth in the decades to come. Sustaining

high growth in these sectors will require three things – continued outward orientation so that we do not slip into stagnation behind protective walls, promoting a competitive environment locally so that successful companies outpace laggards and technological dynamism.

India is fortunate in the entrepreneurial base it has in the public and private sector. But it is less than fortunate in a policy system that, despite de-licensing and liberalisation, continues to constrain options for development. Political interference even in so-called deregulated sectors is rife and crony capitalism is the order of the day, both in the Centre and the States. This has to change. We need a genuine free enterprise system where the law and the regulatory authorities intervene in an objective and transparent manner when required to protect the public interest. This requires a change not just in the political class but also among corporate leaders who are as responsible for crony capitalism as the politicians.

One of the most potent ways of reducing crony capitalism is to promote professionalization of corporate management. This requires a process of gradual transformation of family owned and managed corporations to professionally managed corporations where the separation of ownership and management is clear and management accountability is to the whole share-holding body with boards that are truly independent from management. This is even more true of public enterprises where capricious political interference is rife. Some pressure of this sort has already surfaced from foreign institutional investors. If the domestic financial intermediaries who will handle the savings of a burgeoning middle class also join in instead of taking orders from

bureaucrats and politicians, this very necessary transition can be secured.

The key to corporate accountability is to make incumbent managements open to displacement. A transparent market for corporate control so that incumbent managements face real threats of takeovers will go a long way towards this. Of course it also needs better accounting and disclosure standards. A market for corporate control that is less concerned about protecting incumbent management will also go a long way towards the consolidation required in many sectors. There is no reason why public sector entities should not also be potential targets for takeovers, though the concerns of crony deals will have to be recognised and respected.

Within the manufacturing sector the greatest challenge is that of technological dynamism. Indian industry has established its competence at cost-cutting innovations and reverse engineering. But as a middle income country with a growing share of global markets and a growing global presence, it will have to compete with new products, processes and business models to hold its own. Supply driven technology development mainly in government labs is not enough. We need corporate research centres driven by market demands, a replication of the sort of development that has taken place partially in pharmaceuticals. This requires a change not just in official policies but also in the corporate mind-set. Public procurement, particularly for defence needs, can become a potent stimulus for corporate R & D and technological dynamism.

Technological dynamism requires more than money. It requires human resources of adequate quality. The assessments about the employability of Indian engineering

graduates are truly depressing. This has to change and this will not happen if we fail to address the quality of education and research in our universities and other teaching institutes.

The infrastructure sector is badly in need of liberalisation. A lot has taken place on paper, and also in reality in sectors like telecommunications. But much more can be done even when we recognise the inherently monopolistic characteristics imposed by available technologies. For instance, even if power transmission has to remain a monopoly we can allow consumers a choice of suppliers and encourage private or cooperative local mini-grids for distributing decentralised power generated in wind mills or solar farms. We also need more competition in primary energy supplying industries like coal and petroleum and if this means looking at the possibility of denationalisation we should do so. The big change is in the orientation of the public sector monoliths that run the power, energy supply, rail and road systems.

Corporate growth will be the primary engine of industrial growth. But both industry and services require a vibrant non-corporate sector. From the point of view of the economy they are crucial for two reasons - the jobs that they provide and their role as start-ups that experiment with new products, processes or business methods. The challenge is to allow the successful ones to flourish and grow to scale. Our existing policies of reservations for small industries are barriers that can be removed by making all such concessions time bound (not exceeding FY 2018-19) for each entity so that it has to develop to a point at which it can compete without the concession. For this we need better institutions for early stage financing to

incubate new ventures and enterprising funds that focus on taking promising ones to scale.

The link between agriculture and organised services will become much stronger than at present.

By 2050 the number of persons dependent on agriculture will be less than one per hectare of gross cropped area as against the present worker area ratio of 1.5 with a consequent increase in average farm size as well as an increase in mechanisation. Given how demand is evolving there will have to be a shift from food-grain oriented farms to more complex enterprises that grow a variety of high value products like fruits and vegetables and animal husbandry products. This cannot be driven by technology extension and the driving force will come from the marketing end as was the case with milk cooperatives. This will not happen without major changes in the regulatory environment for agricultural marketing which tie farms to local mandis.

### **Promoting an energy transition**

India is not a fossil fuel rich country, despite its large coal reserves. The key deficiency is in the availability of petroleum resources as it is central to the development of a motorised urban economy and is the preferred source of household cooking fuel. India's energy policy will inevitably be driven by the need to expand access to modern energy, ensuring security of supplies from overseas and, increasingly, by environmental concerns about local air quality and, globally, about carbon emissions and the risks of climate change.

At present our energy policy is living in the past and addressing yesterday's challenges. The central challenge looking at the decades ahead is to develop a mix of primary

energy that promotes access, ensures security of supplies and protects the environment. Coal and nuclear may offer a measure of security of supply. But they are suitable only for power generation and have their own environmental challenges. Moreover coal has a huge carbon price unless there are major breakthroughs in clean coal technology and carbon capture and storage. Petroleum and natural gas have a lower carbon footprint and are the preferred fuel for mobility and household use. But they mean a high degree of import dependence. For all of these reasons India must look to a much larger contribution from renewables like hydel, solar and wind power. Along with ambitious demand management, they must become the centre piece of a low carbon energy strategy that can help to widen access, ensure energy security and reconcile energy use and environmental protection. Given this perspective, energy technologies, particularly for energy efficiency, nuclear power, renewables and clean coal may be far more important in determining a country's place in the world power structure than ownership or control over oil.

Such changes in primary energy mix will imply that a much larger proportion of energy use will be mediated through electricity for example by the replacement of liquid fuel based vehicles by electric or fuel cell based cars. But the electricity system will have to be very different from the centralised monolithic systems of today. Open access, already permitted by law, must become a reality so that consumers have a choice of suppliers. Decentralised mini grids run privately or cooperatively should be encouraged to ensure better use of decentralised renewable energy resources. Smart grids that involve two way communication

between using appliances and electricity supply sources so that adjustments to cope with demand and supply balances at both ends will be essential.

### Coping with the urban challenge

The challenge of rapid urbanisation is perhaps the one we are least equipped to meet. Between 2010 and 2050 India is expected to add about 500 million to its 2011 urban population of 377 million. Our development priorities are dominated by the demands for rural infrastructure and rural poverty alleviation. Looking ahead, these priorities will have to change with vastly larger sums being made available for urban infrastructure and affordable housing and a start made on poverty alleviation schemes in urban areas.

Resources for urban investment are important. But the central challenge is more about urban institutions than about money. Three major changes are required to cope with the challenge- radical reform of the urban land market, comprehensive reconsideration of building codes and planning restrictions, and decentralisation and empowerment of city administrations.

Our urban land markets do not encourage the optimal use of land. Planning restrictions often work against urban forms that are more compact and less energy and transport intensive. Land transactions are mired in corruption because so much of the value of the land depends on planning restrictions and how they are interpreted or, for suitable sums, modified by the local authorities. In major metros much of the vacant or underused land is held by urban authorities or some public sector entity like the railways, the port trust or the defence ministry. Private

developers are forced to move beyond city limits into peri-urban areas, where, with the connivance of corrupt politicians and bureaucrats, they make a fortune by buying at the agricultural rate and securing a change in land use that allows them to get the rates that prevail for urban residential and commercial space. They too often sit on land banks, so that new entrants move even further out. We end up with high housing costs, a patchwork of sprawling development with vast vacant areas in between, leading to unnecessary costs for infrastructure and transport.

The key lies in unfreezing the developmental uses of publicly controlled land. Innovative ways of doing this in partnership with the private sector can be developed if the process can be put at arm's length from politics, made open, transparent and accountable.

At present our city administrations are virtually powerless and the ministries at the State capitals take all the crucial decisions on finance, spending and planning. State level politicians are unwilling to let go of the huge opportunities for money making that arise from planning decisions. This has to change. We need fully empowered local governments with full authority over planning and spending and the fiscal capacity to finance this spending - an entrepreneurial mayor (possibly directly elected), local committees to give a more direct voice to citizens at the community level, transparency in decisions about land use changes that alter values, open information on contracts and so on.

Establishing a **structured social security** system

Rapid growth will lead to a reduction in the incidence of poverty. But there are regions that get left behind and

individuals who, if not assisted by the State will remain mired in poverty. Of course the challenge of reaching left out regions can be addressed much more easily if the focus of growth shifts towards the Northern states where the bulk of poverty is concentrated.

An important question that we have to face is whether poverty is a group phenomenon or an individual one. At present we have designed many policies on the assumption that a whole group, defined on caste or religious lines, needs special treatment with positive discrimination. It could be argued that such a group orientation will not reach the poor as benefits may be captured largely by the creamier layers in the group. Hence positive discrimination in favour of such groups may be justified on grounds of historical injustice, but is not necessarily the best way of tackling the core goal of poverty reduction.

Many of the schemes designed in this fashion have another failing – they do not address the core challenge of raising the productivity of the poor and often just hand out doles that corrupt intermediaries can capture. Hence we will require policies that bring the poor into the high growth economy by raising the productivity of the few assets they have, improving their access to acquiring new assets and enhancing their skills to allow them to profit from new opportunities offered by a fast growing economy.

Along with this, we will need safety nets to protect people near the poverty line (on both sides of it) from vulnerability to sudden demands like catastrophic health expenditures or recovery from disaster.

Social security in an urbanised India will have to look beyond anti-poverty programmes as traditional structures

of support in times of adversity break down. India will need a system of social insurance covering health care, unemployment and old age needs. Schemes for low cost or subsidised health insurance, education scholarships, old age pensions and even some form of unemployment protection have been put in place in a piecemeal and ad hoc manner. We now need to work towards a structured family support system that brings together all welfare entitlements under one umbrella using the Aadhaar system as the base for doing this. A unified social security administration can be set up to deliver all such entitlements.

Health insurance is a more complex challenge. At present less than 20% of the population has such coverage and most of them are in the public or organised private sector. Catastrophic health expenditures are one of the major factors leading to families falling into poverty. We still have a great deal of work ahead of us in terms of establishing a geographically dispersed health care system. But assuming this is done we will also have to make a start on a health insurance system that, in time, ensures universal coverage, at least for major illnesses.

### **Conserving the environment**

The pollution load and resource pressures we will experience with growth are directly related to material throughput and energy use in the economy. With 6-8% growth this will be six to ten times larger than at present. Considering the fact that we already face major environmental and resource pressures, managing these pressures has to be an integral part of development.

Indian planners have shown some sensitivity to what could be described as rural environmental problems with

special schemes for ecologically **stressed** areas. With the stabilisation of rural population by the middle of the next decade and the subsequent absolute decline, the focus of environmental concerns will **shift** to the consequences of a more rapid pace of industrialisation and urbanisation. Thus the management of urban air pollution, congestion, chemical hazards, sound pollution will become increasingly important.

The management of urbanisation and industrialisation related pollution problems will pose major challenges for public administration and create yet another window for collusion between corrupt politicians and bureaucrats and irresponsible private sector managers. We need an independent environmental agency charged with implementing the law and, at the other end, engage city administrations more fully in the enforcement of the law.

On the resources front the two big issues will be freshwater and forests. India is blessed with ample rainfall. However 50% of the annual precipitation falls on just 15 days and 90% of the country's rivers only **carry** water for four months in the year. A substantial part of North and East India falls in the Ganga-Brahmaputra basin and the **Indus** basin that originate in the Himalayas and are partly snow fed. The big challenge however is that this supply will not go up with rising population and growing urban and industrial demands. We are already facing ground water stress in many areas and most of our big cities face water shortages. The only way to manage this growing mismatch between demand and supply is water conservation on a scale and urgency that we sometimes see in **energy** conservation.

Forest protection will remain a major source of friction between growth advocates and environmentalists and

between local communities and **corporates**. In fact the accelerated pace of urbanisation and industrialisation will aggravate these pressures. There is no easy answer except to say that, like other densely populated countries, India too should seek to obtain minerals and other resources from the more sparsely populated **resource-exporting** countries and conserve its own forest base even if it means leaving some valuable mineral resources lying beneath the forests unutilised.

India will also face global pressures to contain its carbon emissions. It has so far avoided this on the grounds of the historical culpability of the developed world for causing the global warming problem and the necessity of energy for development. However there is growing pressure, not just on India but also on other large developing countries like China to do the same on the ground that without that the global goal of containing climate risks cannot be attained even if the developed world were to roll back their emissions drastically. Moreover **concerns** about the impact on competitive **strength** reinforce the pressure from the developed countries. India has to see this as an opportunity and **try** and gain a first mover advantage in energy efficiency and renewable energy technologies that will be the growth element in the world energy economy.

### Reforming politics

The reform of public administration is something that the Government attempts and abandons at regular intervals. This reflects the persisting dissatisfaction with the efficiency and integrity of public services. Lately the issue of **corruption** has acquired political salience. There is also some evidence to suggest that the electorate rewards performance. But the emphasis on public administration

misses the point. The core problem of governance is the way our political system has evolved to encourage corruption and even criminalisation. That in turn is a product of deeper social forces that have shaped the party system.

Today our parliamentary democracy is dominated by regional and caste interests and the national parties that try to rise above them are yielding ground. The tenor of our polity is very rural with panchayat politics stretching all the way from the village to the regional and national level. One major political challenge is to ensure that the delimitation of constituencies keeps pace with urbanisation and ensures that rural areas are not over represented in the Central and State legislatures.

An urbanising and industrialising India requires a different type of politics, one based on class and economic interests rather than on inherited identities of region or caste. Right wing parties that reflect the interests of the propertied classes exist in embryo. What we are missing is a true social democratic party that can speak for the industrial proletariat that will rise rapidly in numbers. The present left parties have become marginalised into being just regional entities. A diverse and sprawling country like ours needs a left force that is less rigid ideologically, more capable of absorbing diversity of views and that provides an avenue of upward political mobility to young men in a hurry. It must also keep a significant proportion of the middle class on its side and that means that it must be far less prone to corruption than our present parties. Can this political transition be secured?

In the last quarter of the nineteenth century USA had a high growth economy which rested on an alliance

between Robber Baron industrialists, land speculators and pliable and corrupt politicians who preserved privilege by exploiting ethnic vote banks. If this sounds familiar it is because the India of today has a lot in common with America in the Gilded Age when great fortunes were made and venal politicians reigned. Land transactions, resource concessions and their version of what could be called public-private partnerships for infrastructure were the route to quick riches and at the root of the rot in the political system. In India today they are a part of the corrupt politics of exploitation that combines high growth and civic decay.

In the US it changed when a wave of public anger brought a couple of reforming Presidents to power who promised 'a square deal' for ordinary citizens and started the process of breaking the power of the cartels. Can this happen here even though we do not have a presidential system and the public voice is articulated largely through political parties? Will mounting street protests see the emergence of a political leader who can articulate forcefully the political transformation that a rapidly growing, urbanising economy needs? Or will we go the British and Continental route of a trade union movement spawning the birth of a social democratic alternative?

Only time will tell how our polity evolves, but evolve it will as the mind-set of people changes with urbanisation and industrialisation. Hence one seeks comfort in the poet Seamus Heaney's view:

"History says, Don't hope  
On this side of the grave.  
But then, once in a lifetime  
The longed for tidal wave  
Of justice will rise up,  
And hope and history rhyme."

In order to give the transitions ahead a positive **orientation**, in the following section we present a **roadmap** of **sector-wise** recommendations. While the issues taken up in this section have been dealt with in detail, there are some crucial areas highlighted here such as natural resource management that have not been included, but will be taken up in subsequent papers. The specific recommendations aim to guide the next government towards setting India on a smooth path for high **growth** and inclusive development.

**Nitin Desai**

## Section 2

### **POLICY RECOMMENDATIONS: ROAD MAP 2014-19**

#### **FISCAL CONSOLIDATION**

*India* finds itself in a precarious fiscal position that calls for corrective measures aimed at quick fiscal consolidation that will remain sustained over the long run. High fiscal deficits cause imbalances in the macro-economic environment, affecting inflation, external sector investment, growth and employment. The impact of a deteriorating fiscal balance leaves little space for policy measures in the event of a global crisis, leaving the economy vulnerable to external shocks. While the Fiscal Responsibility and Budget Management Act (FRBMA) was enacted in 2003, deviations in the road map here have led to a deepening fiscal crisis that needs to be urgently addressed. It is crucial that competitive populism is eschewed; better distributive outcomes can be achieved by programmes that promote access to employable skills, improve productivity and lead to efficient governance. The most essential policy interventions include the following:

#### **Sustainable fiscal consolidation:**

It necessitates a return to the highs of Tax-to-GDP ratio achieved in 2007-08; the tax-GDP ratio target of 20% can be achieved in the medium term. The measures here include

1. Expediting the implementation of the Goods and Services Tax (GST) as per the model GST



as recommended by the Thirteenth Finance Commission.

2. Reform of the Union Excise Duties and Service Tax to prepare for the smooth integration of these levies into a single rate GST.
3. Improving the efficiency of the tax administration by establishing a data-warehousing and data-mining infrastructure within the tax administration.
4. Mandating the PAN or the UID in all financial transactions including all immovable property transactions.
5. Moving towards full cost-pricing of publicly supplied goods and services.
6. Setting up a separate Directorate of Risk Management for designing a robust risk management system which will improve the efficiency of the tax administration and enhance transparency through leveraging of Information Technology or 'Information Raj', replacing the present 'Inspector Raj' of the Revenue Administration.

### **Accelerating the privatisation program:**

The key is to enhance competition in various sectors – air, rail, banking etc. – by fostering growth of widely held professionally managed companies. Essentially, privatization aims at introducing a level playing field to promote competition and also at restructuring of the public sector balance sheet where the public sector now shifts towards financing the new needs of the economy such as protection of environment, provision of urban infrastructure, cleaning of rivers, better water management, etc. and exits from the activities such as transportation, hospitality,

manufacturing sectors such as steel, aircrafts, refining etc., where the private sector now can play a more efficient role.

The privatization or disinvestment programme should address two policy concerns:

1. Getting the fair sale price to the government; and
2. Reducing risks for retail investors

These can be achieved through various means such as listing, follow on secondary sale, the call option model and the Exchange Traded Fund model which have been recommended by the committee constituted in 2012 on 'the Roadmap for Fiscal Consolidation'.

### **Efficient subsidy management:**

It requires not just reduction in the quantum through various measures such as deregulation of fuel prices, revision in price of urea etc., but also more efficient delivery of subsidies, for instance, 'food grain management' to curtail leakages. Here the role of Aadhaar as a tool to enhance efficiency of delivery should be encouraged by all stakeholders.

### **Control plan expenditure:**

Significant savings can be achieved through proper prioritization and efficient use of available resources. Better design and targeting of schemes can improve outcomes while reducing expenditure at the same time. For this, the Planning Commission's monitoring and supervision mechanisms must be strengthened. All state Governments should be encouraged to set up an 'Independent Evaluation Office'

so as to improve expenditure efficiency and development outcomes.

## **REJUVENATING INDIA'S MANUFACTURING SECTOR AND EMPLOYMENT GROWTH**

One of the significant reasons for the slowdown in economic growth in recent years has been the 'investment famine' since 2007-08, with the steady decline in the investment/GDP ratio. Revival of investments, especially FDI, is key to the long term growth and rapid employment expansion strategy of the country, helping us to reap demographic dividends. There is an urgent need to rekindle the investor's animal spirits by creating and nurturing a conducive economic and policy environment. In particular, the manufacturing sector needs special focus; while liberalisation since the eighties have targeted industry, this sector has failed to live up to its potential. While there are many aspects that contribute to a vibrant manufacturing sector, this section takes up certain specific reforms that are essential to achieve the goal of manufacturing sector contributing a quarter of India's GDP from the present levels of 16%.

### **Clear commitment towards execution of big ticket FDI projects:**

For reviving FDI in India, there should be clear commitment to fast-track implementation/execution of the big ticket FDI projects in power, steel, oil and gas and other crucial sectors. Further, the approach for FDI should change from 'country' to 'company'. In other words, big MNCs such as Fortune 500 Companies should be targeted through concerted and combined efforts by India's business

community and policy-makers, rather than targeting only countries and overseas delegations.

### **Reducing cost of doing business:**

Improving the ease of doing business is crucial for both domestic and foreign investors. The cost of doing business should be measured and monitored and reported periodically to the legislature on progress made, aiming to reduce this by half over the medium term. This calls for measures related to simplifying procedures e.g. single window clearance, reforming the prevalent "Inspector Raj" including introduction of Voluntary Certification Scheme and reduction in the number of registers required to be maintained and permitting electronic record-keeping etc.

### **The Cluster Approach is key to industrial rejuvenation:**

Rather than the latest policy of large National Investment and Manufacturing Zones (NIMZs), smaller NIMZs or clusters should be set up to enhance existing manufacturing centres. These clusters should be given uninterrupted power supply at international rates, abundant water supply, world class connectivity to international airports, ports, one-window-processing for all export-import related work, facilities such as Common Effluent Treatment Plant, a government supported Common Facilities Centre (CFC) for design, testing and prototype manufacturing, an ITI established within the zone that will impart cluster specific training etc.

Labour law reforms are a critical area for providing productive employment through boosting manufacturing

investment, as the current regulation framework can be described as outdated, inflexible and complicated. Reform here will include the following:

1. Commitment for a timebound programme for more decentralisation as subjects related to labour should be transferred from Concurrent List to State List in terms of Article 246 of Indian Constitution. States, then, can experiment with incentives and simplifications in Labour laws that in consonance with their environment could boost employment opportunities. A healthy competition between the States would serve as a tonic to employment growth.
2. Necessary flexibility to the employer to adjust his workforce due to evolving economic situations, as is practiced in China. In such cases, adequate retrenchment compensation should be provided for, as is followed in Gujarat where retrenchment of workers necessitates payout of 45 days salary for every year worked.
3. Hiring of Contract Workers should be permitted subject to their getting all the benefits of regular workers like minimum wages, P.F., canteen and medical benefits etc. Further, companies should be allowed to appoint the workers on "fixed term" basis – different from Contract Workers- to satisfy work needed to be done for short period.
4. The-Factories Act should not be applicable to small industries in order to allow growth of the small-scale firms.

## **TOWARDS NEW AGRICULTURE**

Endowed with 11.2% of the world's arable land and with 20.5% of the world's economically active population who work in agriculture, India has the potential to be a world leader in agriculture. Indeed, it is already the largest producer of pulses, jute and milk while ranking among the top 3 in production of wheat, rice, groundnut, rapeseed, vegetables, fruits, sugarcane, tea, cotton, tobacco and eggs. From the perspective of international trade too the timing for corrective action and transformation of Indian agriculture cannot be better. A gradual shift in the epi-centre of agricultural production, consumption and trade is likely to take place from the OECD to developing countries. In fact, an increase in India's world market share from 16% to 20% by 2015 is foreseen as irrigated area and yields increase. Thus, India has the potential to be the world leader in agriculture. The new agriculture policy will also provide greater employment opportunities and more balanced regional development. Realization of this potential hinges on quick and effective action by the government. Some key measures have been suggested here that will address the critical issues.

### **Expand irrigation:**

Raising irrigation infrastructure is key to removing Indian agriculture's dependence on the monsoons. Trend analysis over the past 30 years shows that net area under irrigation has stagnated for at least 10 years before there has been any appreciable increase, this trend should be reversed at the earliest.

### **Focus on Dry Land Farming:**

While efforts are being made to bring more area under irrigated agriculture, and increase cropping intensity, unless focused attention is paid to develop improved technology and adopt appropriate package of practices designed especially for dry land agriculture, it will not be possible for farmers to cultivate crops in such areas on a profitable and sustainable basis. The Dry Land Mission needs to be revamped, re-staffed and energised with a mandate to take the tasks relating to research, technology and forward extension in such areas in a mission mode.

### **Legalise land leasing:**

An active land lease market will bring with it increased production efficiency due to greater security of tenure, increased long-term farm investment and better utilisation of land, labour and other resources. It will also facilitate the occupational mobility of the rural people, reduce the pressure of population on land and increase the income of the poor from diverse economic activities. The state government should immediately set up of an apex Land Lease Authority to frame supportive regulations, oversee the process of implementation, settle such disputes as may arise and act as an overall Ombudsman.

### **Review counter-productive subsidies:**

The ever increasing subsidies have been counter-productive and have suppressed investments in agriculture. During the first seven years of this decade, subsidies increased by CAGR of 9.8% whereas capital expenditure increased by a CAGR of 3.7%. Blanket subsidies are leading to misallocation of agricultural resources. The imbalance in the use of nitrogen – phosphorus – potassium

(NPK) fertilizers brought about by distortions in prices due to subsidies for nitrogenous fertilizer is creating serious problem of soil degradation and is adversely affecting productivity.

### **Review policy on GM technology:**

As noted by Dr. M.S. Swaminathan, "GM foods have the potential to solve many of the world's hunger and malnutrition problems and to help, protect and preserve the environment by increasing yield and reducing reliance upon chemical pesticides. Yet there are many challenges ahead for governments, especially in the areas of safety testing, regulation, industrial policy and food labelling." These issues should be resolved in consultation with a credible independent authority such that the potential of the new technology is exploited with appropriate safeguards.

### **NEXT GENERATION TRADE REFORMS**

The sharp increase in the current account deficit (CAD) is ringing alarm bells. However, this is a mere reflection of the postponement of the next generation trade reforms that have held India back from emerging as a major player in the global economy, with the shares of trade and investment far below its true potential. India has not kept pace with the changes in the global trade scene with increasing emphasis on linking with global and regional supply chains, and diversification into new areas of services trade. These call for a robust set of reforms in services trade, trade facilitation and a strategic focus on regionalism. Drastic reduction in transaction costs through trade facilitation reforms is also essential to improve the business environment to attract larger and steadier inflows

of FDI to supplement the needed investment for a high and sustained growth.

An even more active foreign policy would also accelerate India's export performance. Growth in exports is now sine qua non for the expansion of employment and incomes. Given our gigantic challenges of the demographic transition, the promotion of exports should have a very high priority.

### **Trade facilitation and reducing transaction costs:**

It involves the following measures:

1. Comprehensive move towards paperless environment for the import-export process;
2. Drastic reduction in bureaucratic discretion and ensuring greater transparency in all regulatory aspects governing trade and manufacturing;
3. Harmonisation of key regulations governing manufacturing across states, starting with the implementation of an effective GST; and
4. Strong governance and monitoring mechanism related to transaction costs at the highest level of government.

### **Firm mandate towards reform oriented regulation of professional services:**

Indian trade policy in services has to move away from being IT-centric with an over-emphasis in its trade negotiation priorities on Mode 4 (or liberalisation of the movement of people), a critical demand of the Indian IT lobby.

It should also focus on the barriers preventing the take-off of other services such as behind the border regulatory

restrictions on accounting, legal, engineering, architecture, or health related professional services in partner countries.

### **Strategic regionalism:**

It would require India to focus on Asia, especially greater Southern Asia that includes most of the ASEAN member states. The Trans-Pacific Partnership (TPP) offers the best opportunity for India. The ultimate objective would be to integrate product, services, financial, and energy markets of Southern Asia, creating opportunities for competitive production networks, integrated energy grids and creation of a consumer market with over 600 million middle-class consumers by 2020.

The road to such integration lies through innovative trade policy that focuses on essentials such as physical connectivity between markets, addressing non-tariff barriers and complete eradication of tariff barriers- all leading to strong regional supply chains with full Indian participation.

### **Trade Policy Council:**

In all developed and successful economies, strategic trade decisions are taken at the highest political level, and not left to the narrow focus of the line ministries, whose task in fact, should be the detailed implementation of these strategic decisions.

In order to separate the strategic decision making process related to trade and industrial policy from day to day operational issues, a new, independent Trade Policy Council (TPC) needs to be developed outside the line ministries that reports directly to the Prime Minister.

It's role could include strategic decisions on multilateral, bilateral and regional trade policy, policy related to FDI, policies related to trade facilitation and reducing transaction costs of trade, policies related to domestic regulatory reform in various sectors to reduce the costs of doing business in India, strategic policy making on improving India's competitiveness, policies to improve India's logistical capacity and connectivity with rest of the world and policies to make India ready for the structural changes in global production focusing on skilling and technological acquisition.

The TPC would have three offices--- Office of the Chief Trade Negotiator (OCTN), Office of the Chief Economist (OCE) and Director-General of National Trade Facilitation Council (DGNTFC).

### **CREATING A ROBUST INNOVATION ECOSYSTEM**

Even as India understands the importance of innovation led growth, innovation led recovery, innovation led competitiveness, etc. it lacks a robust national innovation eco system. The Global Innovation Index 2013 places India at 66th amongst 142 nations, slipping lower over the past two years. At the same time, over 760 multinational companies have set up their R&D centres in India, employing over 160,000 Indian scientists, engineers and technologists, thus Indian IQ is creating intellectual property for these companies. Harnessing this exceptional competitive advantage of talent is crucial for India's long term growth strategy and the following points can work towards achieving this goal:

### **Investment in Science, Technology and Innovation:**

In order to create a strong base for innovation, this investment should increase from current 1% of GDP to at least 2 % of GDP as promised by former Prime Ministers Shri Rajiv Gandhi, Shri Atal Bihari Vajpayee and current Prime Minister Shri Manmohan Singh.

### **The Research and Innovation Bill, 2012:**

Academic institutions should be supported to promote creation of wealth from their research in science. This Bill needs to be passed with due debate as the proposals with respect to Intellectual Property in this bill are far more balanced and nuanced compared to the earlier bill. In particular, the chapter on 'The Protection and Utilization of Intellectual Property emerging from public funded research' is important.

### **Inclusive innovation led accelerated inclusive growth:**

Research and innovation should aim at providing for the hundreds of millions of resource poor Indians, who are excluded from access to the essential necessities of life. The Government needs to launch a big movement on 'inclusive innovation led accelerated inclusive growth' that will make more funding available for:

- 1. Grand challenges: e.g. ultra-low cost rural electrification, ultra-low cost internet access, extremely affordable drugs, ultra-low cost vaccines and diagnostics, etc.
2. Special instruments to provide early stage financing to support innovative breakthroughs in 'inclusive innovation'.

3. Prototyping, scaling up and wide scale deployment of proven technologies (including grass root innovations) belonging to the 'inclusive innovation' class.
4. High technology acquisition for inclusion: acquiring a cluster of unencumbered patents or technology at an early stage and developing these further for 'Inclusive Innovation'.

### **Research and Technology Parks:**

It is important to create an enabling environment for stimulating innovation. For this, 'Research or Technology Parks' should be funded by the government as well as through innovative Public- Private Partnership. China has 300 Research Parks, India's Research Parks cannot be counted beyond a single digit.

### **BUILDING INDIA'S HUMAN RESOURCES**

The entire spectrum of education, from kindergarten to primary to secondary to higher secondary and higher education, in the domains of basic skills and professional education, are critically important for the social and economic development of a nation. With little progress in access to quality education at all levels, India's famous demographic dividend is not yielding the requisite impact on growth. The challenge lies in creating and nurturing policies and operating procedures that give every citizen an opportunity to acquire skills that are aligned with the needs of the economy.

The following measures suggest the way forward in human resources development:

#### **1. Access to employable skill vouchers:**

Vocational skills after secondary school could be imparted through special purpose vouchers that

enable the individual to choose specific skills that could alone empower them through productive employment. These vouchers would be redeemed by the service provider (public or private) in two stages, first on entry to the course and second after passing the requisite skill grade. These skill vouchers will ensure that every Indian youth shall have an access to employable skills.

#### **2. Concerted efforts in a mission mode for vulnerable groups such as tribal people, poor women and minorities:**

- i. Apart from public sector efforts, there is a need to certify and galvanize the NGO sector which can come up with out of box solutions especially for children of migrant labourers.
- ii. Streamline and standardize the quality of educational outcomes without freezing the detailed syllabus so that locally specific idioms and montages could be leveraged as relevant.
- iii. Higher education commission: Such new commission to be created should bring together the regulatory role of various commissions and councils.

#### **3. Empowered autonomous institutions:**

Such institutions should be permitted with power to give degrees.

#### **4. For-profit educational institutions:**

The participation of private sector in education would enhance growth and bring competitiveness. The creation of appropriate 'financing mechanism' funded

by both government and private sector will maintain the needed balance between accessibility, social equity and quality. It will also help government retain its 'public good' identity while incentivising the private institutions to earn fair- returns on their investment.

## 5. Go Global:

There should be an open and progressive policy of taking Indian education to the world market by (i) attracting students from abroad and (ii) enabling Indian educational institutions to open their branches overseas.

## BOOSTING INDIA'S INFRASTRUCTURE

India's infrastructure deficit and slowed growth in recent years calls for an urgent attention. It is important to focus on processes and measures that will not only kick- start investment in the short run, but that will yield a consistent approach towards a long term goal of ensuring adequate and requisite infrastructure that serves the need of the country.

Infrastructure investments should be guided by clear 'service level agreement' (SLA) type of objectives, for greater economic efficiency and greater convenience for the citizenry. This will guide infrastructure investments, for example:

1. A citizen should be able to reach by surface travel (road+rail) from any point in the country to any other in no more than 24 hours. This would guide investment towards high speed rail and highways.
2. A citizen in any urban area should be able to travel to any point in the same urban area in no more than

one hour at a reasonable price. This would guide investment towards metro rail and Bus Rapid Transit systems.

3. A citizen anywhere in India should be able to make a telephone call across the country at the same cost as a local call and access the internet at affordable rates.
4. Every citizen should have access to electricity at any time of the day anywhere in India at a reasonable price.
5. At least two ports, one on each coast should be capable of handling the largest container ships that ply global routes with a maximum port turnaround time of 24 hours in any season.

The populace and the administration need to be galvanised by landmark projects which are multi- state medium-to-long gestation projects that benefit large sections of the society. For example:

1. **KICK or Kanha-Krishna Corridor:** It is a combined high-way, rail and oil-and gas pipelines transport to and from ports to bring about higher levels of growth in the large landlocked Gangetic-Plains-states of UP, Bihar, Jharkhand and Chattisgarh. These states need this corridor to bring their growth rates up to those of the coastal states of Tamilnadu, Maharashtra or Gujarat.
2. **Coastal Expressways on the Peninsula :** These are envisaged as the main North-South transportation routes for all the ports of the peninsula to each other and the population centres on the peninsula.
3. **Akshansh Marg Expressway (13 Degree, 25 Degree and 17 Degree connector):** They will provide a close connection to either coast for industrial locations and



population centers on the peninsula. 13 Degree parallel expressway will connect Mangalore and Ennore, 15 Degree parallel expressway will connect Mormugao and Krishnapatanam, 17 Degree parallel expressway will connect Ratnagiri and Kakinada.

4. The Central India Power Hub: Central part of India with dense forests, many major rivers and mineral resources makes an ideal location for 100 GW of electric power generation. It needs transmission 'highways' connecting these power sources to the various population centers in the country.
5. The Nagpur Distribution hub: As the logistics distribution hub (e.g. for packaged goods for the organised retail sector) and an electricity distribution hub based on development of six lane expressway in both directions towards Delhi and Chennai, a strong, redundant HVDC High-Voltage Electricity Grid and MIHAN airport as an international cargo and passenger transportation Hub.

### **ENSURING INDIA'S ENERGY SECURITY**

India is already the 4th largest energy consumer in the world, but its energy needs will further increase five times by 2030 in order to sustain average 7 % economic growth to meet the aspirations of its billion-plus population. At the same time, India is the 4th largest contributor to global warming which will affect India more severely than most other nations. India therefore must take leadership role in mitigating climate change. As over 70% of India's energy needs are dependent on foreign sources with about 80% of its foreign exchange reserves locked-in for energy imports, this is a serious

vulnerability for energy security. India thus needs to find innovative solutions to enhance 'Energy Independence', while balancing its growing demand for energy with the need to limit its carbon footprint in real-time. The priority solutions must include the following measures:

1. India must engage proactively in the International negotiations on Climate Change to ensure speedy global mitigation action for limiting climate change and negotiate for International funds as well as technology inputs for adaptation efforts in developing countries.
2. At the international forum, India must protect its national interest in terms availing larger share of energy usage during its challenging development phase of next 10-15 years.
3. India must integrate policy priorities of National Security with Environment and Energy security and also pay special attention to water and food security that will pose serious problems due to adverse effects of climate change in the regions of interest to India.

### **'Integrated Energy Policy' approach:**

It is a 'must do' to reduce overlap and friction among various ministries and departments. This will enable consistent and timely implementation of policy.

In the medium term framework, it is the coal sector that will play an important role in providing energy security. Currently, the monopoly of Coal India has become an 'albatross' around our energy security. Hence, one of the first acts of the new Government will have to ensure that the entry of private sector is allowed by reversing the

earlier policy of Coal nationalization. This will need to be accompanied by setting up an independent regulator for the coal sector. It will promote competition, good mining practices and infuse new technology in this vital sector. In the long run, of course, solar energy and nuclear energy will be the 'game changers'.

Goals should be set to promote solar and wind electricity for providing about 30 % of India's requirement by 2030 and to consolidate hydro and nuclear power to provide over 20 % of requirements by 2020.

Provide stable investment climate through:

- a) Enforcement of Renewable Purchase Obligations (RPOs) by strengthening regulatory action on timely compliance, if needed through amendments in the Electricity Act 2003; and
- b) Guarantee DISCOM payments on the solar PPAs against any state defaults and adjust such amounts against disbursements to states. The central government's risk will be diversified against 25 states.

This stable investment climate would lead to significantly higher investments in the renewable sector (estimated at Rs. 1,80,00 crores for generation in the 12th Plan and Rs. 40,000 crores in transmission over a slightly longer time frame) and associated jobs in manufacturing, installation and allied services.

#### **Make available low-interest loans for Solar Power:**

Facilitate availability of low cost debt through bilateral/multilateral agencies. However exchange rate risk should be passed on to the project promoters.

#### **Inclusive Development:**

Establish a benefit sharing mechanism with local populace/community for truly inclusive development and making the community a partner in development of renewable energy projects. One could consider a share of 2-4% of revenue sharing with the community as is common in many nations. Additionally we propose leasing of land for renewable energy projects to sustain a long term income for land owners.

#### **Least cost procurement:**

By firmly establishing a policy of competitive bidding based tariff discovery all across India and for all resources, we would ensure renewable energy procurement at the cheapest price allowing for even further deployment. This policy has yielded significant benefits for solar PV where in last 3-4 years, costs have come down from Rs 18/kWh to Rs 6-7/kWh.

#### **Effective utilization of National Clean Energy Fund (NCEF) funds:**

It (-3500 cr/yr, estimated at 10,000 cr over last 3 yrs) should be used towards facilitating reduction in cost of solar through low interest financing options and incentivizing uptake of various pilot projects on newer cutting edge technologies. This will spur innovation and applied research in the solar/renewable sector.

#### **Promote solar parks:**

Government should set up very large scale projects (-1,000-4,000 MW) in a planned manner in a single location, reducing costs from economies of scale.

Government should also provide enabling environment for 'private players to invest in setting up solar parks (10 MW+). Where possible, government could make available 'unutilized government land' on lease basis.

### **Encourage distributed solar PV generation through-**

- a) 'Net Metering' to encourage distributed solar PV generation: In urban areas, grid connected rooftop PV without batteries should be promoted in a balanced manner by adopting a national policy of 'net-metering' to encourage in-situ generation primarily for self-consumption; and
- b) Village level mini-grids: In remote rural areas (- 20,000 - 30,000 villages/hamlets) distributed off-grid PV mini-grids should be strongly encouraged based on performance based incentives while at the same time ensuring equitable consumer tariffs by leveraging utility finances under their Universal Service Obligation.

### **INDIA'S URBAN CHALLENGE**

The latest Census of 2011 showed the growing trend of urbanisation in India. With more than a third of our population now in urban areas, the growth and development agenda must respond to the demographic transition. Urban spaces in India are currently poorly managed, in terms of basic public-amenities and services and as **attractors** of investments and hence are not optimising **their rule** as drivers of economic growth and development. The following recommendations set out the basics needed to address the pressing issues and challenges in urban governance.

### **Strengthen Urban Local Bodies (ULBs):**

It should be done in the true spirit of the 74th Amendment. The sanctity of 3Fs principle i.e. Finance, Functions and Functionaries must be maintained, so that devolution, delegation and decongestion happens fully.

### **Handover Revenue Handles to ULBs:**

This should be done possible every where. A certain fixed percentage of the proposed GST should devolve to the third tier of government including ULBs, thus treating them on par with the second tier (comprising State Governments). The present 14th Finance Commission should continue the earlier trend and at least treble the resources (in a formulaic manner) that are devolved to ULBs.

### **Give State Finance Commissions the same status as Central Finance Commissions:**

As the mechanism for devolution of resources (untied revenue transfers), the award of the SFC should be accepted as in the case of the Central Finance Commission. For this purpose an appropriate amendment to the constitution may be called for.

### **Empowered City Mayor:**

It should be done as in New York or London, to be an elected executive, with all the trappings of accountability and concomitant accountability, hence ensuring efficiency of delivery. This will require a constitutional amendment; however this is a crucial piece in managing urban resources. The nature of urbanization in India has the characteristic that economic concentrations are assuming the form of metropolitan agglomerations. This will bring forth the issue

of Metropolitan management and governance and the concomitant issue of one more layer of government at this level.

Raise resources **by** monetizing select Public Lands:

Limited land resources in the urban areas must be efficiently utilised. This would require a rethink of policies such as Development Control Rules, Rent Control Act, FSI, TDR etc. to work towards raising the efficiency of land markets. Along with land market reforms that lead to well-functioning land markets, monetization of public lands would go a long way in raising resources so necessary for providing critical infrastructure such as affordable housing, mass transit systems etc.

A recent study of the India Development Foundation (IDF) has estimated that for Ahmedabad city alone, it is possible to raise \$ 3 to 4 billion by monetising select public lands.

## HEALTH CARE FOR ALL

The challenge of providing health care to 120 crore people is a formidable one that calls for an overhaul of our delivery systems. Since good health is not just a precondition for economic growth, but a goal of economic growth, the following recommendations put together the measures needed to provide quality health care to every Indian.

Implement Universal Health Coverage:

A programme of Universal Health Coverage (UHC) must be implemented such that every citizen is assured of a cashless access to essential health care. In addition to UHC, the individuals will be free to directly seek private health care if they

choose and pay for it. The programme should build on the existing primary health care system and should be comprehensive, of good quality encompassing prevention, promotion, cure and rehabilitation.

The measures include:

1. Every community (approximately 1,000 people) to be served by two full-time community health workers - 'Asha' (female) and 'Ashok' (male).
2. Increase in the number of doctors to one for every 1,000 people and introduction of a three year Bachelor's degree course- B.Sc. in Community Health.
3. Health sub-centres, PHCs, CHCs, and district hospitals to be upgraded so that the 95% of necessary health care is available in the vicinity, at the most, in the district.
4. The upgraded district hospitals should be associated with a District Health Knowledge Institute to train the required human resource. This will include, for an average district with 25 lakh population, one medical college, one nursing college, one ANM (Auxiliary Nurse Mid-wife ) training school and one training school for B.Sc in Community Health. In addition, for training the community health workers (200-300 per Taluka) one CHW (Community Health Workers) training centre per two talukas will be necessary.

Increase financing **on** health:

Upto 70% of the UHC budget should focus on primary health care and financing should come from taxes, whose share of GDP should rise till the level of 3% by 2022.

### **Community participation:**

There must be active involvement of communities in planning and grievance redressalsuch that the programme stays aligned to the needs of the communities.

### **Focus on key states and districts:**

While a national rollout of Universal Health Coverage will be the long term goal, the first steps could include the following:

1. Introducing the programme in States that are financially better prepared (Maharashtra, Tamil Nadu, Delhi, Goa, Himachal Pradesh, Haryana, Mizoram, Arunachal Pradesh)
2. Targeting 100 districts with worst health indices
3. Using Aadhaar card for enrolment
4. Ensuring free medicines through rational procurement and drug guidelines
5. Encouraging companies to adopt districts under CSR activities
6. Directing government policies on tobacco, pollution and safe drinking water for better health.

### **USING TECHNOLOGY FOR GOOD GOVERNANCE**

Good governance is the cornerstone of sustained effective policy reform. There are various facets to improve governance that will usher in a stable macro-economic climate and encourage investment across all sectors, taking India onto the double-digit growth path. Improvements in governance will also impact poverty alleviation, such that

the fruits of growth are shared with all segments of the society.

**Transparency** forms the template for good governance. The measures to be taken to increase transparency include:

1. E-tendering for all government licences/contracts to discourage corruption. Data on contracts awarded should be provided through comparative search across cities, states and central government by common words.
2. Publication of the work flow of all government processes, the status of various applications and the ability to drill data online, for example in case of civic services like building permissions.
3. All government data with financial implications should be published on a dedicated website like the US and other OECD countries. For example, The United States has launched [www.USASpending.gov](http://www.USASpending.gov) to make publicly available information on spending relating to all federal contracts and [www.Recovery.gov](http://www.Recovery.gov) to provide information specifically on stimulus spending.
4. A simplified version of government budgets (Central, State and Local) should be set up online for citizens to better understand how their tax money is being spent. It will allow for all sorts of analysis including comparative analysis.
5. All corruption related information should be provided online as was done by Mr. N. Vittal, the former CVC, regarding civil servants whose integrity was suspect.

6. There should be a strong check against arbitrary use of powers by the government and administration, a law on the lines of the section 297, 299, 300 and 301 of Companies act should be enacted mandating disclosure of interest by the elected representatives and civil servants in specific transactions.
7. All members of the Parliament, State Assemblies and local bodies should disclose the source of business income for self and family members and this information should be available on the website of Election Commission.

**Accountability is another key ingredient for good governance.**

1. Outcome budgeting process should be started at all levels of government in keeping with internationally accepted norms.
2. Key performance indicators and systems for performance measurement for political and administrative personnel should be set up, with the information made available on a dedicated website.

**Participation** by the community, the ultimate stakeholders for good governance needs to be assured in an effective and democratic manner.

1. A minimum of 10% of the budget should be set aside towards participatory budgeting for urban local bodies across the country. There should be transparency in the decision making in accepting proposals for implementation.
2. The Right to Information should be made more effective and easily accessible to all by launching mass scale

awareness campaigns and making it easier for people to file RTI applications online.

3. A Public Service Delivery Guarantee Act should be made mandatory for all State governments and Urban Local Bodies. The Act will ensure delivery of time bound services to the public. If the officer responsible for the service fails to provide the service in time he will have to pay a fine.
4. All functions that legitimately belong to the Panchayats and Urban Local Bodies under the 73rd and the 74th constitutional amendments should be transferred to them and institutional capacities should be built-up to perform the functions effectively.

### Section 3

## IMPERATIVES OF IMPLEMENTATION

While setting out the recommendations for getting India on the path of sustainable high growth and inclusive development is an important first step, implementing these recommendations is the more crucial task for any government. There are many recommendations in the lists of the previous section that have been oft repeated and long overdue; whether it is the Goods and Services Tax or Police reforms, the crux lies in a consensus towards speedy implementation. Given India's federal polity, arriving at such a consensus can be a challenge, yet, there are many countries whose experiences can guide India towards making progress on the ground. In this section, two instances have been highlighted, the Pact for Mexico and the Performance Management and Delivering Unit (PEMANDU) in Malaysia, to illustrate possible models for overcoming the challenges for implementing these reforms.

The Pacto por Mexico, or Pact for Mexico is an agreement signed by three major political parties in December 2012. The ruling Institutional Revolutionary Party (PRI), the leftist Party of the Democratic Revolution (PRD) and the conservative National Action Party (PAN) came together on 95 common goals, ranging from a tax regime to changes in the school system. They were joined in January 2013 by the Green Party. With support from all levels of government and across all political parties, the agreement aims to break the deadlock on reforms that has been in force since the nineties, due to political wrangling.

The pact has three central themes: the strengthening of the Mexican state, political and economic democratization and the application and expansion of social rights. The 95 goals fall within five categories:

1. Democratic governance.
2. Transparency, accountability and combating corruption.
3. Rights and liberties.
4. Security and justice.
5. Economic growth, employment and competitiveness.

The actual implementation of these reforms is conducted through a governing council that oversees negotiations, working groups as well as laws to be submitted to Congress. This council consists of representatives from all parties and the presidency is rotated monthly among the three national party leaders. There is a committee in charge of technical coordination of the pact that is responsible for following up on the agreements of the governing council and working groups, as well as sharing communication with the public about progress and achievements gained via the pact. This body also has members from all parties. In addition, the pact's coordinators involve stakeholders from civil society at critical points during the implementation of the reforms. According to the pact, all reforms must be completed by mid-2018, and there has been considerable progress on all fronts so far. After successfully implementing reforms in education, banking, telecom and taxation in 2013, the year ended with allowing foreign and private investment into the oil sector for the first time in 70 years.

While the Mexico model brings a wave of optimism to a country by giving a political consensus on major reforms,

Malaysia has put in place another model for implementing the agenda for change. Here, the responsibility for ensuring that the reforms take place rests with the Performance Management & Delivery Unit (PEMANDU), a unit under the Prime Minister's Department. This unit, that comprises people from the civil service and the private sector, aims at facilitating and driving the progress of the Government Transformation Programme and the Economic Transformation Programme. While the responsibility for end-to-end delivery of National Key Results Areas and Ministerial Key Results Areas outcomes ultimately rests with the respective ministries and the success of the National Key Economic Areas rests with the private sector, PEMANDU works to catalyse changes in public and private sector delivery, support the ministries in the delivery planning process and provide an independent view of performance and progress to the government.

The Government Transformation Programme, whose aim is to transform the very functioning of the government to achieve Big Fast Results, comprises the National Key Results Areas and the Ministerial Key Results Areas. What is interesting about the Malaysian model is that the National Key Results Areas were identified through seeking public opinion to ensure that the priorities are set by the people. Further each of the seven key results areas are detailed to specific ministries, and the progress under each is placed online for the people to scrutinise themselves. The Economic Transformation Programme aims to ensure that Malaysia is transformed into a high-income nation by 2020; towards this 12 National Key Economic Areas were identified through intensive consultations with representatives of the private sector. These sectors offer

maximum potential to contribute to national income and create multiplier effects across the economy.

While the model in Mexico seems appropriate at the national level, local governments may adopt the Malaysian model, keeping them in sync with the needs and aspirations of the people. With the national elections ahead of us this year, it is clear that the political parties sense the need for change as well as the mood amongst the people for increased participation in the process of change. There are various models being used successfully across the globe, what is crucial now is the political will to get the reforms going for an overall transformation of India's polity and economy.

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*The views expressed in this booklet are not necessarily those of the Forum of Free Enterprise.*



## CODE OF CONDUCT

Published by Forum in 1957

This code of conduct for Free Enterprise has been prepared by the Forum of Free Enterprise and is now placed before industrialists, businessmen and those belonging to different professions and vocations in India in the belief that they will find it worthy of acceptance and of application in their daily activities. The Forum pledges itself to do all it can to create a widespread awareness in the ranks of Free Enterprise of the obligations that are continued in this Code. We feel that Free Enterprise, which has been tested and proved by time and experience of all democratic societies, should maintain its reputation of insisting on high standards of integrity which are dictated by social purpose. Honesty, hard work, courtesy and continuous initiative are the foundations on which the edifice of Free Enterprise rests.

PRODUCERS and distributors owe it to the consumers of their products that they shall always be of the highest quality and available at reasonable cost. They shall maintain fair measure and guard against adulteration. Consumers are entitled to courtesy, promptness and good service and every endeavour shall be made to see that they receive them.

EMPLOYERS owe it to labour to recognise that welfare is not conceived in terms of philanthropy, but as a social obligation. Men and Women engaged in production shall do so with dignity, honour and a sense of security. Fair wages should be paid for work done. Working conditions shall be as pleasant as possible. Opportunities should be made available for the worker to gain technical skills and better

his economic prospects and social status. Procedures should be instituted for the removal of legitimate grievances so that the employee is satisfied that he gets a fair deal. The employees should welcome the existence of stable and democratic trade unions. They should recognize that in the sphere of employee-management relations, as in other spheres, checks and balances are essential for the working out of rational and democratic solutions. They should recognise the role of labour as one of creative cooperation and recognise the need for providing increasing opportunities for consultation of employees and their progressive association with Management to help in the promotion of increased productivity from which all will benefit.

MANAGEMENT owes it to those who invest in their enterprise that they receive a fair return on their investments; commensurate with the risk they take. At the same time, reserves must be created for expansion and modernization of the plant and machinery and in their utilization the Management remains accountable to the investor. Money must also be provided for research. The earning by the shareholder of a fair return or profit by the entrepreneur under competitive conditions and after payment of fair wages must be regarded as a legitimate reward for the risk and the work of promotion and development which the community urgently needs. Certain malpractices have crept into the system of company management. They are to be condemned and should be removed. Hoarding, black-marketing and profiteering are anti-social and evil. Honest business practices can be promoted and encouraged by an honest and efficient administration in a democratic State.

PROFESSIONAL MEN – lawyers, teachers, doctors, auditors, or writers – owe it to those who avail themselves of their services or maintain the highest standards and traditions. They should discharge their duties truly and faithfully, and should always subordinate considerations of personal gain to the larger objective of service.

WE ALL owe it to the community that we accept our obligations as good citizens. We shall bear our share of taxation honestly. We condemn unequivocally any attempt at tax evasion. We shall actively participate in the promotion of social, cultural and civic improvements. Wealth or power shall not be a justification for vainglory or ostentatious display, but an opportunity for rendering service to the community.

*"People must come to accept private enterprise not as a necessary evil, but as an affirmative good".*

**- Eugene Black**  
*Former President,  
World Bank*

# FORUM

## OF FREE ENTERPRISE

The Forum of Free Enterprise is a non-political and non-partisan organisation started in 1956, to educate public opinion in India on free enterprise and its close relationship with the democratic way of life. The Forum seeks to stimulate public thinking on vital economic problems through booklets, meetings, and other means as befit a democratic society.

In recent years the Forum has also been focusing on the youth with a view to developing good and well-informed citizenship. Essay and elocution contests and leadership training camps are organised every year towards this goal.

Membership of the Forum : Annual Membership fee is Rs.250/- (entrance fee Rs. 100/-). Associate Membership fee Rs. 150/- (entrance fee Rs. 40/-). Students (Graduate and Master's degree course students, full-time Management students, students pursuing Chartered Accountancy, Company Secretaries, Cost and Works Accountants and Banking courses) may enrol as Student Associates on payment of Rs. 50/- per year. Please write for details to : Forum of Free Enterprise, Peninsula House, 2nd Floor, 235, Dr. D. N. Road, Mumbai 400 001. Tel.: 022-22614253, E-mail: ffe@vsnl.net

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