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"Administrative reform at heart of success for economic policies of Modi Government" by S L Rao

The Finance Minister said, quite rightly that pro-business policies are also pro-poor. That is on the assumption that there is no favouritism to crony businessmen, no scams, or corruption. It also assumes that pro-poor schemes actually deliver welfare to the identified poor and are not diverted to others or stolen by the delivery mechanisms. For this assumption to work in practise, requires considerable administrative reform to fix individual accountability. There is no sign that something is being done about this. Until there is that reform, there is only rhetorical promise, not implementation.

Recommendations of Administrative Reforms and of Police Commissions must be implemented. There must be individual accountability and not as now, group accountability of government servants. Their performance must be measured in terms of outputs, not whether budgeted expenditures have been made. They must be independently evaluated on agreed performance targets. Rewards and penalties must depend on performance. Investigations into misbehaviour must be quick and there must be drastic punishment for wrong doings. Assets disproportionate to income must be confiscated. Postings and transfers of government servants must be subject to strict rules and independent bodies like the Public Service Commissions should be the decision makers. Any posting in government must be subject to minimum tenure, of at least three years.

Similar rules must apply to state owned enterprises. A recent newspaper report compared the compensations paid to the Chairman-cum-Managing Directors of nationalized banks with those paid in other Indian banks. The differences between the two are as much as thirty times or more. The term of office of these appointees in state owned banks is usually two years and might be extended by another two. Both these present policies are certain to give poor quality of top management. In private Indian banks the trm of office goes well beyond five years, The C.M.D. is paid a lot more. No wonder that there has been such revenue and profit growth in private but not in government bans. State owned banks show high levels of loan defaults, stressed and non-performing assets. The interference by politicians and administrators in bank decision-making is widespread and has adverse effects on bank performance. The recent arrest of the CMD of the Syndicate Bank on charges of accepting bribes is perhaps the tip of the iceberg. Boards are packed with nonentities or busy celebrities. They offer no governance or direction.

There is poor governance and regulation in India of almost all institutions, whether owned by government or private sector. State owned banks and other enterprises are no better. Privately owned enterprises are motivated to operate with increasing efficiency. Revenue and profit growth are key performance indicators for these enterprises and their managers. Non-corporate enterprises, as wellas for or not-for profit, institutions when they are private, are also subject to such performance motivations. Of course there is theft and malfeasance in some privately run corporate and non-corporate enterprises. But many more are run well in comparison to government owned or controlled ones. To a great extent this is because the statutory regulatory frameworks in the country is packed with aged retired bureaucrats (Information commissions, ERCs, etc). Government's own departmental regulatory mechanisms are slow and ineffective. Penalties imposed by regulators are weak and the laws do not allow more severe penalties (except in the case of the Competition Commission of India).

The amended Companies Act has improved the composition of Boards fo Directors and laid down strong rules for improved corporate governance. However here is still a long way to go. Appointment of relatives and yes-men is common. It has to change. It is much worse in government owned enterprises. A recent listing of independent directors in nationalized banks shows the most peculiar appointees, unqualified friends, relatives and hangers-on. They make no contribution to the banks' governance. Indeed many do not know what they are supposed to do. This is as true of other state run undertakings.

Government appointments must not be confined to governemtn servants. An infusion of outside blood as in the USA would improve matters. Similarly governemtn officers must be allowed to take sabbaticals and work in private enterprises. Mr Narasimha Rao suggested this but entrenched interests did not agree.

The abolition of the Planning Commission, a haven for out-of-favour bureaucrats and intellectuals was overdue. Its duties must go to a Prime Minister's Advisory Council, the Finance Commisison, a constitutional body, and the Ministries. The number of statutory regulatory bodies must be reduced by amalgamating related ones (e.g., electricity, renewable energy, atomic energy, coal, oil and gas). Appointments to them must be by an independent selection process, not by politicians and bureaucrats.

Some years ago, newspapers reported that prospective candidates to head the State Bank of India, were interviewed by a top government functionary close to the Prime Minister. The man who was selected was stone deaf and a two year term. Such appointments show the irresponsibility of governments in filling important positions.

Mr Modi has the opportunity to transform Athis country by giving it a government that is responsive, with responsible administrators anAd regulators, a strong investigation and penal system, good corporate and non-corporate governance, and the will to translate impressive rhetoric into reality. For this he must get into the details of governance and administrative structures, systems, and staff with necessary skills. Given his record, he can do this. But he must move more quickly especially when these actions require no legislative approvals.

(920)