**NEWS LETTER**

# Chinese Chequers and Indian Makeovers

## Dr. Jayaprakash Narayan

Many political observers believe China will be the next economic superpower. On the other hand, they see India as an under-performer. Many analysts are tempted to blame democracy for India's woes and attribute China's progress to dictatorial policies. But the success of China in areas such as accessibility of school education to all, effective healthcare delivery system, and technology transfer to rural areas, in fact have nothing to do with dictatorship but are the products of sound and sensible policies. But today even in China, we are seeing symptoms of greater democratisation such as choice and competition, removal of entry and exit barriers, highly decentralised decision-making, and in recent days, the experiment of deliberative democracy at local level. Decision-making in democratic India though is still highly centralised.

China's average long-term growth since the 80's has been about 9%, compared to India's 6%. The question then arises if it is possible for India to match or surpass China's growth rate. Given our financial constraints as a nation, are there any low-cost solutions available to us? Fortunately, there are at least four ways to speed up growth.

First, the delivery of education must be improved at both school and university level. Our focus until now has been merely on enrolment and retention, and not on quality. With the exception of a few elite schools and colleges, and a small proportion of gifted children who have made their mark, most of our initiatives in education are unproductive. Millions of unemployable school and college graduates are churned out every year. The emphasis on education should thus be on functional literacy, communication skills, conceptual clarity, skill promotion, and creation of meaningful knowledge and its application, for even the poor are willing to spend considerable sums for such quality education. Implementation of sensible policies and non-monetary inputs based on best practices, are needed to improve the quality of human power, and enhance our growth rate by at least 1%.

Second, our healthcare system is in shambles. The government's record in public health care and management is appalling. Avoidable hospital costs and sickness are among the chief causes of poverty, indebtedness and low productivity in the nation. Decentralised management, accountability to the community, integration of various health programmes and nutrition, water supply and sanitation, and most of all, alternative options to patients for healthcare and performance linked incentives (in terms of number of patients supported) in hospital management are needed. If there is genuine change, even modest enhancements in allocations for public health will ease suffering, raise productivity, and substantially accelerate growth.

Third, rule of law and independent judiciary is the bedrock of market economy. Figuratively, we may have an independent judiciary and institutions of rule of law, but in reality, these are moribund and ineffective. As a result, the demand for criminals in society is growing. Mafia and musclemen dispense rough and ready justice for a price. Reports of a few foreign banks hiring musclemen for recovery of dues are now doing the rounds. Such a climate inhibits economic activity. There are many low cost, politically acceptable mechanisms to improve justice delivery and rule of law. This alone can enhance growth by at least 1%.

Fourth, there is a need for transparent, industry-friendly procedures to stimulate growth. Corruption akin to extortion and arbitrariness in tax departments are sapping the energies of small and medium enterprises, and eroding our manufacturing competitiveness. Indirect tax administration is largely discretionary and makes rent-seeking behaviour common among officials. This by itself diverts and consumes the precious time and energy of entrepreneurs that could otherwise have been deployed for the productive gain of industry.

It is feasible to promote growth through the above four reforms and create win-win solutions for all in

the society. But this requires bureaucratic accountability, sound and sustainable policies, and political skill to build consensus and mobilise public opinion. These processes constitute good governance; something we lack. Sound politics is about making democracy and growth compatible,

not finding alibis for non-performance. India can, and should, overtake China. But the need is to first set our house in order.

*(This article is based on Dr. Narayan's op-ed column in the Financial Express on 3 June)*

# Bothersome Big Brother
## *AP state's municipal elections saga*

Andhra Pradesh has municipal councils in 112 towns and municipal corporations in 12 cities. These local governments impact people's lives on a daily basis. They are meant to deliver basic services such as roads, water supply and drainage, sanitation, primary schooling and health care.

In the recent past, municipalities in Andhra Pradesh have been facing serious hurdles, some of which affect their performance while others affect their very legitimacy and existence. First was the long-standing and serious issue of municipalities not being genuinely empowered to carry out their mandated duties. Since 1993, successive state governments have not devolved the necessary funds, powers and officials to municipalities and not surprisingly, the latter's performance has been much below people's expectations.

Second issue is related to the expiration of the term of the elected municipal councils and corporations on 27 March this year. According to our Constitution, elections were supposed to be held on or before that date to enable the formation of the next municipal governments. But, the state government not only postponed their elections (by six months) but also took over their day-to-day functioning (it has been challenged in court).

More recently, the AP state cabinet decided formally, on 17 June to (i) 'rob' its citizens of their traditional right to vote for their municipal chairpersons and corporation mayors and (ii) to give MLAs and MPs the right to vote during these indirect elections. It has to be emphasized that these issues are not partisan or even political ones. They concern the very core of our electoral democracy. But, do they really matter? Let us examine carefully:

Local governments in Andhra Pradesh consist of rural and urban governments, with the latter comprising Municipal Councils in towns and Corporations in cities (see graphic). Traditionally, the voters in urban areas had two votes: one for electing their councillors (or corporators) and the other, for electing their chairpersons (or mayors). Now, the government took away from the voters and handed over to the councillors (or corporators) the power to elect a chairperson (or mayor). Interestingly, our MLAs and MPs are explicitly not permitted

to vote during the indirect elections for chairpersons at the Mandal and District local governments. Therefore, it becomes all the more difficult to comprehend, why they should be permitted at the Municipal Council and Corporation levels.
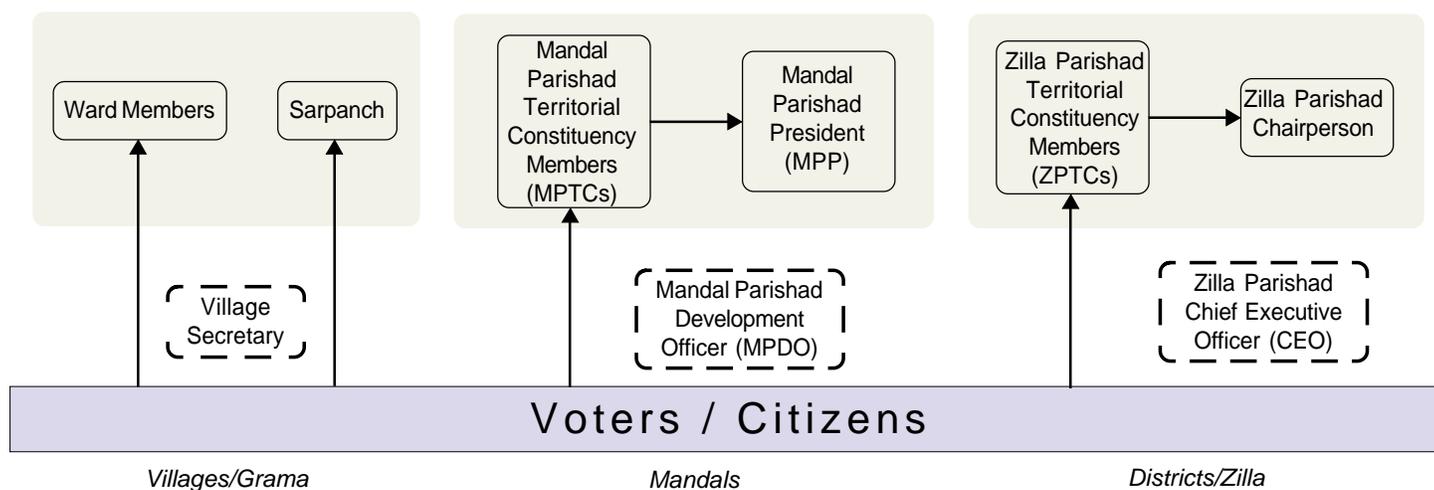
State governments have the constitution-granted power to decide the manner of election to their municipal governments. Therefore, the scrapping of direct elections may not be an unconstitutional decision. It is just a bad one, with serious, negative consequences in the longer run.

Even before the government took a formal decision, Lok Satta had directly approached the citizens to learn their preference on municipal election system. The citizens' response was unequivocal. In the 'People's Ballot' exercise carried out across AP, over 93% of the nearly 1.5 lakh citizens covered, clearly rejected the indirect method of electing chairpersons. Previously, direct elections used to ensure a degree of clear and visible relationship of accountability between these officeholders and the public. The citizens were concerned that introducing indirect elections that would be held between a handful of councillors plus the MLAs and MPs, would engender manipulative and money bag politics. These fears were unfortunately confirmed during the actual conduct of the municipal elections in September, where money power, divisive politics along with a good measure of 'polls-related violence' ruled the roost. Reports indicate that in the 94 municipalities and 9 corporations that went for elections, an excess of Rs. 200-300 crores was spent. That numbers add up to around 500 rupees per vote that was cast. Quite possibly, these are the costliest elections ever held!
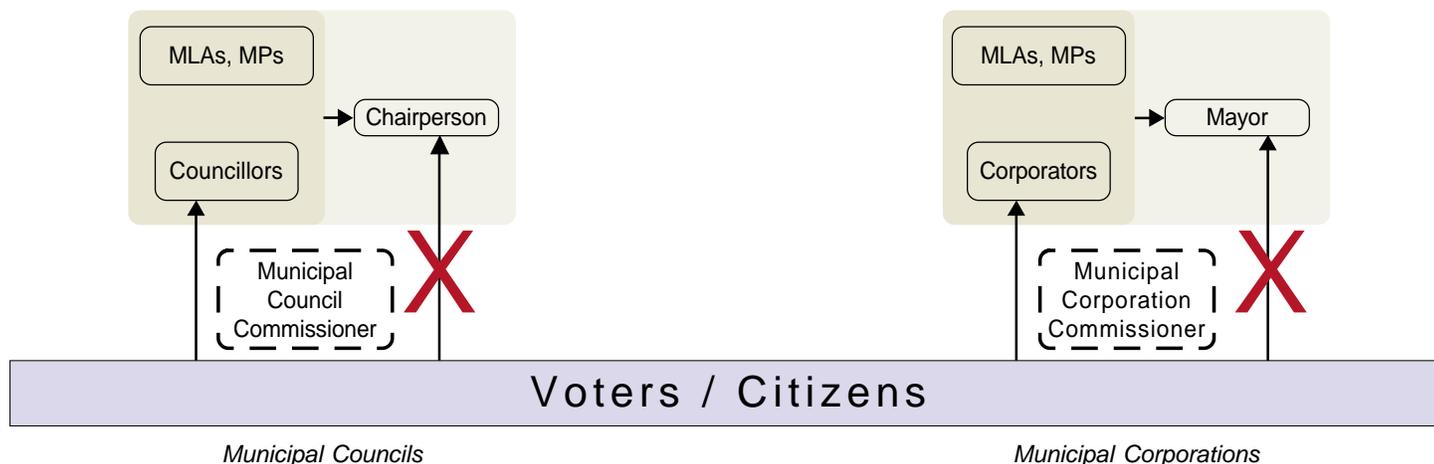
Still, given that the newly elected councils are now in place, it is time to bring the focus back on to governance issues. Towards this objective, a series of non-partisan, people-centered programs involving the newly-elected municipal councillors and chairpersons have been taken up by Lok Satta and civil society across the state that focus on innovative and non-monetary measures for improved service delivery, implementing the newly enacted Right to Information regime, enhancing Citizen's Charters, empowerment of local governments and likewise. It is time urban local governments are made to form a part of the solution.

# Local Governments in Andhra Pradesh

## Rural Local Governments

**Villages/Grama**

- Ward Members
- Sarpanch
- Village Secretary

**Mandals**

- Mandal Parishad Territorial Constituency Members (MPTCs) → Mandal Parishad President (MPP)
- Mandal Parishad Development Officer (MPDO)

**Districts/Zilla**

- Zilla Parishad Territorial Constituency Members (ZPTCs) → Zilla Parishad Chairperson
- Zilla Parishad Chief Executive Officer (CEO)

**Voters / Citizens**

## Urban Local Governments

**Municipal Councils**

- MLAs, MPs
- Councillors
- Chairperson
- Municipal Council Commissioner

**Municipal Corporations**

- MLAs, MPs
- Corporators
- Mayor
- Municipal Corporation Commissioner

**Voters / Citizens**

This graphic outlines the structure of local governments in AP; the arrows indicate who elects whom. At the village level, the citizens directly elect their ward members and Sarpanch. At the Mandal and District levels, the voters elect their MPTCs and ZPTCs who in turn elect their President and Chairperson respectively. In urban areas of AP, the voters elected their Councillors and Corporators as well as the Chairperson and Mayor - directly. This was the picture, until recently.

In June, the state cabinet formally decided to take away from its urban citizens their traditional right to elect chairpersons and mayors (marked 'X' in red colour, in the graphic). What is more, the government has decided to give MLAs and MPs the right to vote during the election of chairpersons and mayors. In a world moving towards greater democratisation, these decisions are a retrograde step because they seriously undermine the direct accountability relationship between citizens and their municipalities.

The dotted boxes in the graphic represent unelected, executive offices. In theory, officers to these positions are appointed by the state government only to assist the functioning of the various tiers of local governments. In practice, these appointed executives often lord over the very elected governments themselves! Therefore, genuine empowerment of elected governments has been a more fundamental and long-standing issue of concern.

# Good for the goose, good for the gander

*First-of-its-kind initiative for reforming indirect taxes holds promise for both government and the industry*

> "The art of taxation consists in so plucking the goose as to obtain the largest possible amount of feathers with the smallest possible amount of hissing."
>
> *- Jean Baptiste Colbert* ca.*1665*

Small and medium enterprises are subjected to enormous harassment and extortion in the name of tax administration. Vast amounts of time and energy is wasted dealing with such problems, which invariably affects production, productivity and competitiveness. Improvement of tax administration alone could boost the economic growth rate of India by about one percent per annum. This is why VOTEINDIA has launched the nation-wide campaign for Procedural Improvements in Indirect Taxes, under the banner 'Plucking feathers without hissing', in the spirit of Jean Colbert.


▲ The CVC of India P. Shankar at the inauguration

Formally launched in Hyderabad and Mumbai in June 2005, this campaign for bringing transparent and industry-friendly reforms in 'Central Excise and Customs' has been taken up in collaboration with the Central Vigilance Commission (CVC) and the Central Board of Excise and Customs (CBEC). The campaign will endeavour to simplify taxation procedures, reduce arbitrariness and unbridled discretion in order to minimize corruption, while enhancing the effectiveness of the Customs and Central Excise departments. Chief Vigilance Commissioner P. Shankar, who inaugurated the event, encouraged the participants to make full use of this unique opportunity to generate worthwhile solutions to the existing challenges in indirect taxation procedures.


▲ The members of Vigilance Commission, CBEC, Industry and civil society deliberating on procedural reforms

The workshops witnessed open and cordial deliberations between the industry and the CBEC officials, with participation from taxation experts and the civil society. These deliberations saw the evolution of genuine consensus among participants and a 'can-do' sense of optimism among the CBEC officials, on key proposals and reform measures specific to streamlining the CBEC organization and structure, enhancing accountability, and simplifying excise and customs procedures. Lok Satta had drafted these recommendations on CVC's suggestion. Once implemented, these recommendations would result in simple and transparent procedures, improved trust between department and industry, encouragement for voluntary compliance, improved accountability and reduced litigation, better service quality to the industry while enhancing the position and image of the department. The CBEC has already taken tangible steps in this direction.

Reforming procedures in tax administration is an extremely complex task, even in the best of circumstances. But when these taxes are the biggest revenue earners for the government, such a reform becomes all the more difficult. But any such reforms would, greatly benefit the industry too. For when it comes to reforming procedures in indirect taxes, what's good for the goose is most certainly good for the gander. ●

## Indirect Taxes: A Primer

◆ Broadly speaking, taxes are of two kinds: direct and indirect. Direct taxes are levied on the incomes of individuals and corporations. Salaried employees and entrepreneurs, are familiar with income and corporate taxes, which constitute most of the direct taxes collected by the union government. Indirect taxes are levied on goods and services and are mostly made up of excise and customs duties, sales tax or VAT.

◆ Of the total tax received by the union government, around 62% comes from indirect taxes and the rest from direct taxes (Source: Reserve Bank of India). Until the advent of economic liberalization, this figure used to be well over 70-75%.

◆ Until the nineties, our country used to have a highly irrational and even counterproductive direct taxation system. Under this system, the tax rates were very high and not surprisingly, tax evasion too was staggeringly high. But, over the past fifteen years, the tax rates have been rationalized and tax laws and procedures have been simplified to significant extent. This resulted in better compliance and a consistent increase in the direct taxes collected by the Indian Union

◆ Though a similar effort has been made to reform the indirect taxation tariff structure, full benefits are not realized because procedural bottlenecks and excessive discretion still remain. These difficulties create a sense of harassment among the industries. They also adversely affect the competitiveness of our industry in the global market and thereby, affecting economic and job growth in our country. Indirect taxation procedural bull has not been grabbed by its horns. Not until now, at least.

# Saving our Cities

*Improving urban governance using Mumbai as a model*

The Asian continent has witnessed unusually severe natural calamities in the past 10 months. The tsunami of December 2004, the Mumbai floods of July this year, and the recent Muzaffarabad earthquake have caused great devastation. But these disasters have a silver lining for India. The Indian administration responded with some vigour and alacrity compared with the littoral states of the Indian ocean, the US authorities in the wake of hurricane Katrina, and Pakistan officials now. The moribund governance apparatus, often accused of long periods of slumber interspersed only with regular extortion activity, has shown signs of life and utility.

However, this show of vigour by administrative response is mostly short-lived and limited to temporary relief and at times rehabilitation. Historically, natural disasters spurred human progress through technological and institutional innovation. But in India we seem to treat these calamities with our customary fatalism and quickly revert to business as usual. But such an attitude is the real tragedy. Let us take the example of Mumbai city. It is true that 1000mm rainfall on one day was quite extraordinary. But Mumbai being above sea level should not have been under water, no matter what the rainfall. Clearly, the city planners and rulers have bungled for decades. Until now, most Mumbaikars were not even aware that river Meithi flows through the city! The heavy floods washed off the filth and sewage for the first time in decades, and the river started flowing. With 63 percent of the city's population living in appalling conditions in slums and criminal neglect of city planning and regulation- allowing choking of drains and water courses- led to this wholly preventable disaster.

Mumbai's challenges, in numerous ways are a reflection of India's crisis. Abject poverty and despair in remote rural areas is causing people to flee to Mumbai. Now the problems of land management, housing, drainage, transport and civic amenities have become so gargantuan that sometimes it is easy to give up all hope. Politicians who see people as vote banks, and not as living, pulsating human beings with dreams and aspirations, are always ready to resort to cheap populism. These problems become crises, and eventually turn into mighty disasters.

Though Mumbai faces probably the greatest urban challenge, east of Suez, its problem is not unique. Most of our cities are bursting at the seams. Despite the cliche that India lives in her villages, a quiet demographic revolution is transforming the urban landscape. Over 300 million people  larger than US population, live in our cities and towns. In states like Tamil Nadu, where in situ urbanization (villages and small towns growing, instead of large migration to big cities) is predominant, urbanization now is close to 50%. The whole of Kerala is urbanized. Elsewhere cities are growing fast with some small and medium towns recording 8-10% annual population growth. We can no longer ignore our cities. The villages and towns are organically connected, and have to be seen as a whole.

The answers to our urban challenges are self-evident. The need for massive investments in infrastructure, transport, water, drainage, sewerage and housing  is well-recognized. President Kalam rightly talks of creating urban amenities in rural areas to promote value addition, wealth creation and employment generation locally. Technocrats like Himanshu Parikh have been advocating comprehensive survey of natural water courses, and redesigning water supply, sewerage, drainage and roads to follow them. Biman Patel and his colleagues argue for better urban planning and low cost transport solutions. Konkan railways has been developing better technologies for urban mass transport. Swathi and Ramesh Ramanathan of Janaagraha have been championing people's participation and urban governance reform. All these approaches are vital and need to be integrated.

However, the real answer to these issues lies in governance. If you take Shanghai city as an example, the local government controls everything from transport and water supply to policing and the international airport. London city Mayor Livingstone, elected as an independent when Tony Blair denied him Labour nomination, controls all facets of the city including fire services and police. The awesome power and responsibilities of Mayor Giuliani  and his successor Bloomberg in New York are well-known.  Even in Pakistan, not a day passes without the national papers reporting decisions of the Nazim of a city and his council.  Urban governments are empowered and integrated all across the world, in all countries rich or poor, democracies or authoritarian states.

Except in India. What is the name of our Mayor? Who in our city stands for the whole city, instead of a small territory? Which agency really is responsible for the whole city's future? Few know the responses to these. Each activity - water supply, sewerage, transport, housing, roads, urban planning etc  is parcelled out to a separate parastatal in most of our great cities.  There results are predictable.  The right hand does not know what the left hand does, and we have a classic system of alibis, with everybody having power to make our lives miserable, and none being accountable.  The taxpayers and citizens have been relegated to the role of victims of

> Direct Election of Mayor
>
> Constitution of Metropolitan Planning Committees
>
> Setting up of Ward Committees
>
> Instruments of Accountability: Ombudsman, Citizen's Charters, effective right to information

extortion and long-suffering subjects in all this.

Maybe the July devastation of Mumbai would serve as a wake-up call, and lead to urban governance reforms. But first, let us have direct election of Mayors to represent all and exercise the authority derived from the whole city. And such elected Mayor and the city council should be truly empowered to take all decisions, not the unelected officials. Second, ensure the creation of the elected Metropolitan Planning Committees in each city, with Mayor as chairperson and having effective powers, and responsibilities, which are now exercised by myriad agencies. Article 243-ZE of the Constitution mandates it, but this is observed in the breach. Third, create a ward committee for each corporator's division under the corporator's chairmanship, with members elected from each polling station area. Entrust the ward committee with local tasks like garbage clearance, street lighting, local roads and drains, schools and health centers, and transfer

the relevant personnel and a share of the local taxes collected. The poorer areas can get to keep all the local taxes raised, and the richer localities will share a part of the revenue, thus establishing a link between taxes and services, and giving power to stake-holders. Finally, create instruments of accountability including an independent ombudsman, citizen's charters with penalties for non-delivery, effective right to information, and a fund-based accounting system. Our cities will then be transformed into glorious centers of civilization and prosperity.

Cultivated status quoism, fatalism, feigned shock and horror when disaster strikes, and getting back to business as usual thereafter, have become our natural responses. It is time to wake up and save our cities from the clutches of urban chaos.

*(This article is based on Dr. Narayan's op-ed column in the Financial Express on 21 October)*

# RECENT EVENTS

### Dr. Jayaprakash Narayan becomes member of India's Second Administrative Reform Commission

In the mid 60's, Moraji Desai headed the Administrative Reform Commission of India. Now after four decades, the Government of India has notified the constitution of the Second Administrative Reforms Commission. Mandated to prepare a detailed blueprint for the revamp and reform of the public administration system, the Commission will suggest measures to achieve a pro-active, responsive, accountable, sustainable and efficient administration for the country at all levels of the Government. The commission will comprise of Shri Veerappa Moily as Chairperson, Shri V. Ramachandran, Dr. A.P. Mukherjee, Dr. A.H. Kalro and Dr. Jayaprakash Narayan as Members, and Smt. Vineeta Rai as Member-Secretary.

### Pakistan's elections and Indian perspective

PILDAT -Pakistan Institute of Legislative Development and Transparency- held a Regional Dialogue on Free, Fair and Credible Elections on 29-30 June 2005 at Islamabad. Election Commissions of Pakistan, India and Bangladesh participated in the dialogue alongside experts and representatives of civil society organizations active in the field of elections regionally and internationally.

Dr. Jayaprakash Narayan, spoke during the session on 'Credibility of Elections: A comparison of Experiences of Countries in the Region'. He elucidated on the four measures of truly competitive elections, universal political freedom, peaceful transition of power, and real power being vested with the government- as processes that ensure free and fair elections in any nation. While praising the Election Commission of India as a strong and independent institution, he pointed out that though there were some anomalies in India during elections, there have been many improvements in the electoral process on an ongoing basis. But what India needed most, asserted Dr. Jayaprakash, was genuine democratisation of its political parties.

### Lok Satta at TiEcon 2005

TiEcon 2005 Energizing the Global Entrepreneurial Spirit, was a two-day event held from 13-15 May at the Santa Clara Convention Center & Westin Hotel, California. TiE a global not-for-profit network of entrepreneurs and professionals dedicated to fostering entrepreneurship, organized the event which was attended by over 3000 individuals with prominent speakers like Vinod Khosla, General Partner, Kleiner Perkins Caufield & Byers; Thomas L. Friedman, Columnist, The New York Times; Dr. Eric Schmidt, CEO, Google. Dr. JP was a Panelist during the session on 'Democracy & Sustained Economic growth: Freedom & Empowerment'.

The Indus Entrepreneurs, (TiE) founded by a group of South Asians is an open and inclusive organization having more than forty chapters in nine countries. The focus of the conference was on discussing the big issues facing industry and entrepreneurs today.

# Judicial Reforms

Prime Minister Dr. Manmohan Singh had recently visited Hyderabad in August. During the inauguration of the national seminar on "Press and the Nation" organised by *Prajasakti*, a well-known Telugu daily, he stated that denial of speedy justice was the root cause of problems such as naxalism. The Prime Minister emphasized the need for reforms in governance to make it humane and just, and proposed a plan to establish local courts to dispense cost-effective and speedy justice. This comes soon after the decision of the government to extend the term of the 1,562 Fast Track Courts (FTCs) to another five years up to 31 March 2010.

The National Advisory Council (NAC) has in recent months sent a communication to the government with proposals for reforms in the existing system. Early constitution of an All India Judicial Service under Article 312 of the Indian Constitution has been proposed. This would be common to the Union and the States as the competence, calibre and integrity of Judges in the Trial Courts and the quality of the personnel recruited to the Subordinate Judiciary in the States, are critical to the credibility of the judicial system as a whole.

The NAC has also recommended a significant increase in the number of Trial Courts at the subordinate levels, through the adoption of simpler procedures for adjudication and also forwarded a draft of the Local Courts Bill to the Government. The Local Courts Bill is meant to provide for the speedy administration of civil and criminal justice all over India and matters connected or incidental to it. As you are aware, fundamental judicial reforms are at the core of Lok Satta's reform agenda and the government too has paid much attention to them, in recent times. What remains to be seen, is the will and speed with which the above are implemented.

## FAST FACTS: Courts' Progress Report

As on 1 January 2005, there are over 2.68 *crore* cases pending in the courts of our country. Here is a look at the number of cases pending at each level:

■ Supreme Court - 30,151  ■ High courts - 33,79,033  ■ Subordinate courts - 2,33,98,070

So, how do we address this problem?

Key steps towards ensuring expedited justice delivery include:

● Establishing local courts to deliver speedy, low-cost and effective justice for local problems.

● Increasing the number of judges in trial courts.

## Acting on our Right to Information

The right to information regime was ushered in on 12 October 2005. With the RTI Act in force, the focus now shifts to its implementation and effective utilization.

● Lok Satta along with print and electronic media is leading a massive campaign for improving citizens' awareness so that they can demand and obtain information that helps improve their lives. Civil servants too are being suitably supported so that they are able to provide information under the RTI regime.

● Nearly 1.75 lakh publicity material including booklets, posters and pamphlets have been distributed and are being displayed across the state.

● The AP State Road Transport Corporation (APSRTC) is collaborating with Lok Satta in this endeavour and is prominently displaying RTI posters in nearly 10,000 of their buses. With this, we hope to take the message even to the remotest village.

● Television channels too are airing, at absolutely no charge, the public service messages created by Lok Satta.

This campaign is being conducted across the AP State, in collaboration with the Centre for Good Governance (CGG), AP Press Academy (APPA) and AP Union of Working Journalists (APUWJ).

**Governance information is people's property.
Spread the word and demand what is rightfully yours.**

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