Industry alone cannot drive growth

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THE newly elected President of the Confederation of Indian Industries (CII), Mr Anand Mahindra, is reported to have coined the slogan: "Let us drive growth and not wait for it to happen". Put simply, this could mean that industry does not have any expectations from the Government and that it can drive growth on its own.

All along in the past, various industry bodies, including the CII, have complained about a host of external constraints — most of these created by the Government — coming in the way of stepped-up growth.

The CII may have its reasons for the sudden change of stance. However, the president's statement has catapulted the issue of roadblocks to the centrestage.

What are the roadblocks? Some of the prominent ones are:

- Inadequate availability of power, its poor quality and high price;
- Inadequate and poor quality infrastructure viz., roads, rails, ports and bridges;
- Inadequate availability of finance and its high cost; and
- Continued regulation of all economic activities — directly or indirectly — by the state.

The Government plays a key role in all the above areas. In this context, mere recognition of the inadequacies and limitations, and a pledge to overcome them — as is done religiously in all public pronouncements — is not enough. Nor, will it be prudent to brush these aside, which the CII seems to be doing now.

In the power sector, during the 1990s, the Government visualised inadequate generation capacity as a major constraint and encouraged the private sector to invest by giving all kinds of incentives. But this policy failed miserably even as the capacity build up in both the Eighth and the Ninth Plan periods fell substantially short of the target. And even the limited capacity creation was only in the public sector.

At the dawn of the 21st Century, the Government recognised that the transmission and distribution sector was in mess. This led to a situation where the proceeds from the sale of electricity were substantially less than the cost of supply. The persisting imbalances have rendered State electricity boards (SEBs) virtually bankrupt. According to an estimate, they are losing about Rs 30,000 crore annually.

Until the recent amendment of the Indian Electricity Act, Indian laws did not provide for the direct sale of electricity by the generating companies to the consumers. They could sell it only to the SEBs. And since the SEBs are not in a position to pay, this led to pile up of huge outstandings with the public utilities, such as NTPC and NHPC, on the one hand, and affected setting up of projects by the IPPs (independent power producers), on the other.

Apparently, the Government is fully seized of the urgent need to reform the SEBs. But what has it done? And what are its plans for the future? Recently, based on the recommendations of the Ahulwalia Committee, it implemented a Rs 40,000-crore rescue package, which is tantamount to condoning the past wrongs of the SEBs. The public sector undertakings (PSUs) and the taxpayers have been made to pay the heavy price for this bailout!

Under the amended Electricity Act, the bulk consumers can buy power directly from the generating company or its distribution licensee. But a close look at the fine print reveals that the transition cannot be smooth. The consumers will have to pay a price for the continued subsidised sale to farmers and for the inefficiencies in the system. Besides, the power thieves may also not be treated as sternly as originally contemplated!

The Government is also implementing the Accelerated Power Development Programme (APDP), under which it will spend a staggering Rs 40,000 crore by way of assistance/incentives to the State governments that undertake SEB reforms.

The Government has argued that if this expenditure is not incurred, the SEBs will remain unreformed and their losses will increase from existing Rs 30,000 crore to Rs 100,000 crore.

A reform exercise in which the Government has to spend money to stop power thefts (accounting for the bulk of T&D losses) is very unusual. While some amount may have to be spent on carrying out repairs and maintenance or putting up additional infrastructure, this will pay for itself by way of substantial improvement in collections and reduction in purely technical loss. So, where is the need for extending any financial assistance?

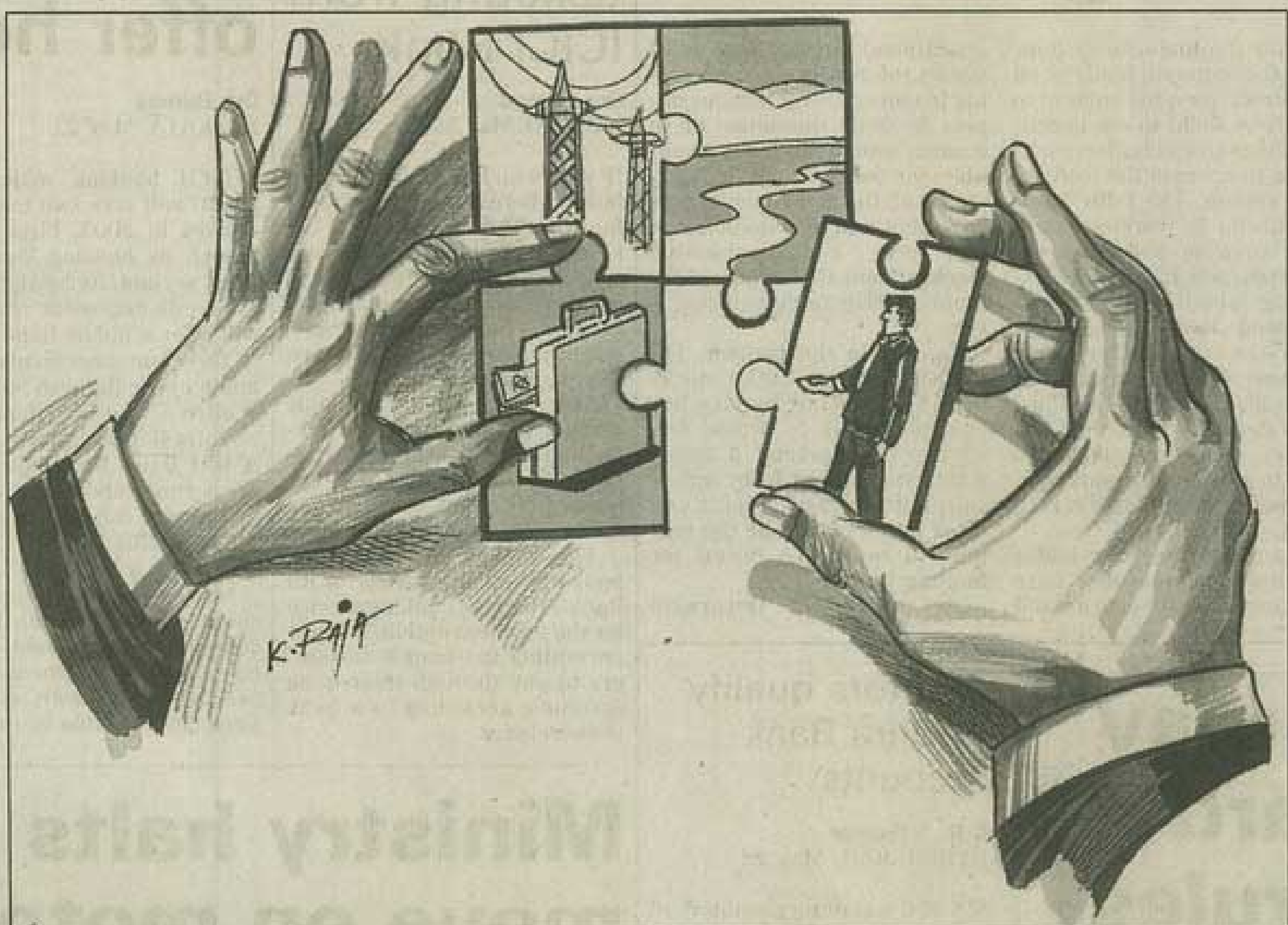
In the infrastructure sector, the Government has announced — through the 2003-04 Budget — a major initiative to develop roads (including rural roads), seaports, airports and railways. Under this, it proposes to execute projects on the premise of public-private partnership involving an expenditure of about Rs 60,000 crore.

The National Highway Development Project (NHDP), currently under implementation, also relies heavily on this concept.

The viability of the projects will depend critically on the cooperation of the users by way of payment of the toll charges for the facilities thus created. But there are serious apprehensions, as amply demonstrated by the demand of AIMTC — during the recent truckers strike — for exemption from payment of toll tax. The Government is doing little to cultivate the habit of payment for services by the users.

In the Budget, it was stated that private promoters undertaking such projects would be fully compensated for the shortfall in the actual return *vis-à-vis* the target rate of return. This pre-supposes that the users will not pay the toll charges. In essence, this really means that the political establishment does not have the determination to make them pay. In this backdrop, it will be no surprise if these projects also meet the same fate as those in the power sector.

Coning to the financial constraints, there was a time (in the early 1990s) when demand was growing. But capital was scarce, and priced high. Now, capital is in plenty and available at low cost but there is little demand. And wherever demand is not a constraint — power, water, roads, and so on — there are uncertainties in regard to payment.



In these circumstances, the banks look for viable projects for deployment of their funds but find very few. The implication for growth is pretty obvious.

Agriculture holds the key to rapid and sustained growth of the economy. But the banks lend money to farmers at high interest rates. Currently, the interest on loans given to them works out to almost twice the rate charged from a company with good track record. The Government has done little to remove this blatant discrimination. Nor has it bothered to reverse the declining trend in public investment.

The low interest on bank deposits (currently, time deposits of up to three years fetch a meagre 4-6 per cent) has seriously affected pensioners and widows — in fact, all those whose livelihood depends on interest income.

And now that the current inflation rate is even higher than the interest on deposit, this could have a serious debilitating effect on household savings and, in turn, growth.

The Government claims that it has assumed the role of a facilitator. But the facts on the ground suggest that it continues to be a regulator. Ironically, the sectors most critical to rapid growth — power, roads, ports, pipelines, etc — also happen to be the sectors that are the most regulated. The promoters spend several years securing the required approvals. And invariably, the time spent on these exceeds the time required to actually execute the project.

Any meaningful analysis of the constraints to growth will not be complete without reference to the effect of corruption. This is the single most important factor contributing to a colossal loss of resources. Some of the better-known sources of loss are mentioned below:

- Leakages in the implementation of anti-poverty programmes;
- Misuse of various incentive/concession schemes (scandals in the export sector);
- Loss incurred by banks and financial institutions on account of various irregularities;
- Loss by way of taxes forgone due to unrecorded transactions or under-declaration of income/value of goods; and
- Loss due to irregularities in the running of the public distribution system (PDS) for foodgrains and other essential commodities.

As the adage goes, there is no such thing as a free lunch. Thus, if the exchequer loses thousands of crores every year, someone has to pay for it. And it is none other than the common man. He is made to bear the brunt of the taxes and duties, high cost of various utilities and services, rail freight, high interest rate, and so on. Incidentally, he happens to be the central figure in the growth process. Now, if he is crippled, how do you drive growth?

Industry should avoid being euphoric about what it can do. It should clearly recognise that the Government's actions have a profound bearing on growth prospects. The CII and other industry associations, including FICCI, ASSOCHAM and PHDCCI, should engage in a constructive dialogue with the Centre and the States and evolve strategies for removing the above constraints.

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