

# Subnational reforms in India: some lessons

# Gujarat's port reforms-1.

- Major ports under Central control. Only one major port in Gujarat, Kandla.
- Minor ports with states. “Minor” not defined. So Gujarat expands minor ports to become larger than major ports! Autonomous Gujarat Maritime Board to run minor ports.
- Largest port in India is Sikka, minor port. Gujarat has 97 m.t. out of total of 127 m.t. for all minor ports. Gujarat's minor ports beat major ports in every state. Tamil Nadu does 70 m.t.
- Helps make Gujarat India's fastest growing state, 7.77% growth in 1993-04.

# Gujarat's port reforms-2

- GMB experiments with range of privatization: stevedoring, tugboats, lighterage, dredging.
- Private, captive jetties for user industries.
- Private berths within GMB ports.
- Joint venture ports
- Totally private ports.
- Linking new ports to Special Economic Zones.
- Special purpose vehicles (GMB, port owners and Railways) to finance rail links.

# Lessons for donors

- No World Bank loans or ESW for minor ports!  
Poor vision.
- Gujarat always business-friendly, trade oriented.  
Case for cultivating such states.
- Subnational reformers can change national mind-set. New Delhi winked at “minor” ports.
- Other states wake up, create Maritime Boards, private/JV ports. Lending potential for donors.
- Local champions of reform are vital. Back their ideas rather than foist conditionality.

# Aim for distant but important goals

- 1% vote swing loses elections. Politicians hate to create any losers at all.
- Reforms with distant horizon create no instant losers, yet can institutionalize change.
- FRBM Acts in Indian states. Progress slow, yet aim is internalized in every budget speech.
- VAT reform. Get all states on board, let them work out reforms. Move over a decade to GST.
- Move toward ASEAN tariffs. Starts in 1997, may happen by 2009.

# Know when to step back

- Power reform: not worked after 15 years
- Political competition drives farm tariffs to zero.
- Theft is major issue. Not recognized.
- Unbundling by itself achieves nothing.
- Privatizing power distribution monopolies not worked well.
- Wait till internal dynamics create climate for reform. May be a long wait.

# What new internal dynamics?

- Bankruptcy concentrates minds. Debt restructuring yields some positives.
- Electricity Act delicensures power. Competition rather than negotiated prices. But States try to sabotage it.
- Ways to check theft. Billing and collection agents, Karnataka: revenue up 50%.
- Rural electricity: 25,000 franchisees. NGOs, co-ops, firms. Panchayat involvement.
- Future still unclear. Role for donors unclear.

# Ratings for subnational competition in doing business

- Create subnational competition for innovation.
- Credible rankings are good incentives..
- Doing Business series: rank states, cities. Let Opposition politicians, media, use ratings as tool to beat govts.
- Economic Freedom Index for States already. Local think tanks have expertise.
- Can also use local rating agencies: CRISIL, ICRA, CARE, M-CRIL. Will improve credibility, build local capacity.

# Global awards are good incentives

- Gyandoot, G2C, won Stockholm Award.
- Access to govt, market info, for 0.5 m. tribals.  
Uses local entrepreneurs for e-kiosks.
- Online access to land records, govt certificates.  
Less corruption, harassment; saves time, money
- Market price info, weather info
- Inspired e-governance in other states: Bhoomi.
- Have awards for subnational innovation?

# Development Marketplace for cities

Magsaysay award changes water harvesting from criminal to heroic activity

- Development Marketplace. Award for Same Language Subtitling, boosts adult literacy.
- Award for Boats of Hope: reforms medical services in Assam.
- Why not a Development Marketplace for cities? Prizes of \$ 2 m? Create competition for municipal innovation.

# Improving the business climate

- Politically risky to create any losers at all. Smallest swing loses elections.
- Need local champions to take risks.
- Local champions need fertile soil of ideas. Disseminate best practices, ideas that can win elections. Back local innovations.
- Engage with academia, media, Opposition parties. Journalism workshops for budget reporting in regional media in India had positive results.
- Encourage or hire local researchers, think tanks, for ESW. Local research has high credibility.