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# Reforms in Governance and Administration

**(An approach paper of the Second Administrative Reforms Commission)**

In the words of Kofi Annan: “Good governance is perhaps the single most important factor in eradicating poverty and promoting development”

Governance is the exercise of economic, political and administrative authority to manage a country’s affairs at all levels. It consists of the mechanisms, processes and institutions through which citizens and groups articulate their interests, exercise their legal rights, meet their obligations and mediate their differences. Without good governance, no amount of developmental schemes can bring in improvements in the quality of life of the citizens. On the contrary, if the power of the state is abused, or exercised in weak or improper ways, those with the least power in the society – the poor- are most likely to suffer. In that sense, poor governance generates and reinforces poverty and subverts efforts to reduce it. Strengthening governance is an essential precondition to improving the lives of the poor.

The Tenth Plan document identified good governance as the single most important factor in ensuring that the Plan objectives are achieved. Among other things, decentralization of power and citizens’ empowerment, effective people’s participation through state and non-state mechanisms, greater synergy and consolidation among various agencies and programmes of government, civil service reforms, transparency, rationalization of government schemes and mode of financial assistance to states, improved access to formal justice system to enforce rights, reforms and strengthening of land administration and harnessing the

power of technology for governance have been identified as the key priorities.

Over the past three years several significant initiatives have been launched to improve the quality of governance. A series of political reforms have been enacted by Parliament by unanimous consent. These include the electoral funding reforms promoting transparency and fairness and creating tax incentives to donors, disclosure of antecedents of candidates contesting for public office, and the 97<sup>th</sup> Constitutional Amendment limiting the size of the Council of Ministers to 15 per cent of the strength of the Lower House and considerably strengthening anti-defection provisions. A new value added tax (VAT) regime has been introduced recently, which is seen as the most ambitious tax reform after Independence. The path-breaking Right to Information Act has come into effect recently. This new law applies to union and state agencies, local governments and even societies and trusts which receive public funds. This far-reaching law also provides for independent information commissioners, proactive disclosures and reporting mechanisms and has the potential to impact our governance process in a profound and positive way by empowering citizens.

These welcome initiatives indicate that our political system is willing to respond to the growing challenges of governance. The reasonably swift and efficient response of our administration to a series of major natural calamities – the Tsunami of December 2004, the Mumbai floods of July, 2005, and the recent earthquake in Jammu & Kashmir - demonstrates that in times of crisis we are able to marshal our resources effectively. All these and competent election management show that we have an impressive administrative infrastructure and it responds well when objectives are clearly defined, resources are made available and accountability is surely enforced.

However, a lot more remains to be done. There is increasing lawlessness in several pockets of the country, and armed groups are resorting to violence with impunity for sectarian or ideological reasons. The state apparatus is generally perceived to be largely inefficient, with most functionaries serving no useful purpose. The bureaucracy is generally seen to be tardy, inefficient, and unresponsive. Corruption is all-pervasive, eating into the vitals of our system, undermining economic growth, distorting competition, and disproportionately hurting the poor and marginalized citizens. Criminalization of politics continues unchecked, with money and muscle power playing a large role in elections. In general there is high degree of volatility in society on account of unfulfilled expectations and poor delivery.

Abuse of authority at all levels in all organs of state has become the bane of our democracy. The perception that every political party and politician is corrupt needs to be seriously addressed, and restructuring the systems in all sectors – political, bureaucratic and judicial – is of paramount importance. There is a need to restructure our political and governance institutions and rejuvenate our Republic. Otherwise, the growing cynicism and despair among large sections may shatter public confidence in democratic institutions.

Globalization in an interconnected world is inevitable, but it should not be at the cost of the people. The institutions of state – legislative, executive, and judicial – will have to be strengthened to meet the challenges of globalization. The aspirations of the younger generations, uninhibited by past baggage, and emerging from institutions of higher learning and frontier technologies, will have to be fulfilled as they become the torchbearers of the new century.

In general, the positive power to promote public good seems to be severely restricted, making it difficult for even the most conscientious and competent functionaries to deliver optimal results. The systemic rigidities, needless complexity and over centralization have made most elected politicians and appointed public servants ineffective and helpless. But the negative power of abuse of authority in pursuit of pelf, privilege and patronage, or harassment of public through flagrant violation of law, petty tyranny and nuisance value is virtually unchecked. This imbalance in the exercise of power is at the heart of the crisis of governance. As a result most agencies of government are functioning sub-optimally, and government programmes have not yielded the desired results. At most levels authority is divorced from accountability, leading to a system of realistic and plausible alibis for non-performance. Most functionaries are thus caught in a vicious cycle.

This situation is further aggravated by the phenomenal asymmetry of power in our society. Only about 8 percent of our work force is employed in the organized sector with a secure monthly wage and attendant privileges, and over 70 percent of these workers are employed in government at various levels and public sector undertakings. Such a privileged position gives even the lowliest of public servants enormous power over most of the citizens, given the abject poverty, illiteracy, excessive centralization of power, a culture of exaggerated deference to authority, hierarchical tradition in society, and the legacy of colonial traditions and practices. Any serious effort to make our governance apparatus an instrument of service to the people and a powerful tool to achieve national objectives needs to take into account these two cardinal factors plaguing our polity – the imbalance in the exercise of power, and asymmetry in the wielding of power.

There are two fundamental, interrelated objectives, which need to be achieved in the coming decades. The first is the fulfillment of human potential, prevention of avoidable suffering and ensuring human dignity, access to justice and opportunity to all Indians so that every citizen is a fulfilled and productive human being. The second is the rapid economic growth realizing the nation's potential and allowing India to play her rightful role in the global arena in order to protect the vital interests of present and future generations, and become an important actor in promoting global peace, stability and prosperity. We need to sharply focus the state's role and fashion instruments of governance as effective tools in our quest for these national goals.

The economic reform process initiated in 1991 has posed fresh challenges of governance. In the light of the changing domestic and global situation, the role of the Indian state in the coming decade has to be clearly defined. The assumption that market is the answer to all our challenges is a dangerous and irrational one. The state needs to focus on the irreducible role of government that is required to fulfill human potential and promote rapid economic growth. Abdication of the state or its inefficiency in these critical sectors will spell disaster to our future.

The non-negotiable role of the state in four broad areas needs to be clearly recognized and reemphasized. The first is in the area of public order, justice and rule of law. Deficiencies on this front have led to decline in trust in the state's capacity to protect life and liberty and enforce rights. This in turn has aggravated the tendency to resort to violence and crime to obtain rough and ready justice, promote sectarian interests, or achieve ideological goals. Ensuring access to speedy and efficient justice, protecting rights of citizens, enforcing rule of law, and maintaining public order are all inseparable and they form the bedrock of a civilized society and sound liberal democracy. The deficiencies in this vital area need to be

plugged through judicial and police reforms, better citizen participation in governance, transparency and more effective and integrated approach to public order maintenance.

The alacrity with which we constitute various committees and commissions of enquiry is matched only by the inaction on the voluminous reports laboriously produced. Public trust and confidence is shaken by such ritualism and tokenism. We need to institutionalize mechanisms for independent enquiry and mandatory implementation so that public confidence and social cohesion are strengthened. Governance at all levels must ensure orderly justice and peaceful resolution of conflicts in a complex and dynamic society.

The second area is human development through access to good quality education and healthcare to make every citizen productive and fulfilled. Despite our long-standing commitment to these goals, the results are uneven and far from satisfactory. Allocation of resources is undoubtedly inadequate leading to huge unmet demand. Even what is spent not very productive in outcomes. Yet even private sector is not delivering effectively because of systemic inadequacies. We need to reorient public finances in order to direct resources to human development. But even more vitally, we need to redesign our delivery mechanisms in an innovative manner based on past experience and best practices and deploy the nation's finest talent in these sectors. Most of the nation's gene pool is wasted because of inadequate and poor quality of school education. Higher education too is not very successful in promoting excellence of producing service providers, leaders, managers and wealth creators, for the future. There are other clear danger signals, which need to be acknowledged and addressed immediately. For instance as public health system has been unsatisfactory and inadequate, private health expenditure, which already accounts for about 80% of total

expenditure, is growing (14% per annum) much faster than GDP. The resultant high cost and poor access would seriously undermine our human development and perpetuate misery and poverty. The governance system should be geared to address these fundamental challenges through sensible and innovative policy, effective and competent delivery, and meaningful incentives and accountability mechanisms.

The third broad area is infrastructure and sustainable natural resource development. While the economic aspects of these are well-recognized, the governance challenges are not adequately addressed. For instance, effective land administration is crucial to capital formation in agriculture and soil conservation. Energy plantation and biofuel production would require great administrative innovation and grassroots coordination. Urban management involves much more than resource allocation for infrastructure and poses formidable challenges of governance. Power distribution management through local people's involvement and ownership in a consumer-friendly way is more a governance issue than an economic or tariff problem. We need to create innovative modes of governance in dealing with many such growing challenges.

Social security is a relatively new and growing area of state activity to which the administrative system must respond with alacrity, sensitivity and efficacy. The recent enactment of the employment guarantee law, the efforts in the pipeline to provide a measure of social security to the unorganized sector workers, and many healthcare risk-pooling mechanisms contemplated require effective delivery system, which can address the special challenges posed in this emerging sector of state activity.

All these and other governance and administrative challenges have to be addressed in the context of serious resource constraints. The Fiscal

Responsibility and Budget Maintenance Act enacted in 2001 is a useful measure, but has obviously not fulfilled the expectations. Laws alone cannot address fundamental fiscal problems. We need to raise resources, reduce unproductive subsidies, and get better outcomes for every rupee utilized. Past experience shows that revenue cannot be increased by enhancing tax rates in a centralized administration. There has to be an increasingly transparent link between taxes and services rendered, and better tax administration to ensure greater compliance. Subsidy reduction is politically painful, and the people have to see an alternative and better application of the resources saved in order to accept de-subsidization. And the administration must become far more accountable and effective in delivering results with the same expenditure. In order to accomplish these goals, there should be conscious efforts to establish the links between the citizen's vote and public good, and taxes and services, and fuse authority with accountability at every level. Therefore, effective empowerment of local governments and stakeholders, and reform to ensure effective and sufficient delegation with accountability at every level to deliver should be the cornerstone of governance reform.

One emerging area which needs special attention is the changing nature of federalism. The last decade has witnessed significant maturing of our federalism. The states are increasingly empowered to determine their own policies and programmes, and the union is evermore sensitive to local needs. However, the role of the Union is expanding in a substantial measure in recent years in new ways. Education, healthcare, rural and urban development and social security are either state subjects, or largely under state jurisdiction. And yet, the services are increasingly driven by union policies and funds. Paucity of resources at state level, need for standardization of services, compulsions of reducing regional disparities, and the imperatives of meeting the challenges of a growing economy in

the modern world have necessarily enlarged the Union's role in these sectors.

Such a shift in the Union's role in a federal democracy is quite in keeping with the evolution of other large federal states like the US. But large Union funding with state control could easily erode accountability. We need to carefully design mechanisms to monitor these programmes and enforce accountability, even as the desired outcomes are achieved, and the constitutional scheme of division of powers is fully respected. Poor implementation will only lead to waste, corruption, lack of accountability, and growing regional disparities. At the same time, if non-performing states are punished by withdrawal of the programmes, the poor and disadvantaged, who need preferential support, suffer even more, and regional inequalities are further accentuated. Therefore innovative, viable and effective mechanisms need to be put in place to protect public money, guarantee intended outcomes, and enforce accountability.

In any system, the quality of public servants is critical in determining outcomes. We have well-established procedures for initial recruitment of civil servants in India. However, there is growing concern that our civil services and administration in general have become wooden, inflexible, self-perpetuating, and inward-looking. While the bureaucracy responds to crisis situations with efficacy, colossal tardiness and failure to deal with 'normal' situations is evident in most cases. Effective horizontal delegation and a clear system of accountability at every level should be at the heart of our administrative reform. At the same time, we also need to recognize the complex challenges of modern administration in critical sectors like policing, justice delivery, education, healthcare, transportation, land management, infrastructure, skill promotion, employment generation, and urban management. All these are intricate issues, which need domain expertise, long experience in the sector, and deep insights.

Processes of civil service recruitment, periodic training, promotion and posting strategies and career management have to be reformed urgently. We need to foster excellence in the public system, and attract continuously the best talent and expertise. The barrier between government and the rest of the economy and society must be lowered, allowing free movement based on competence and leadership qualities.

Propensity to centralize has been the dominant feature of our administration. We need to truly redesign government on the basis of the principle of subsidiary. A task which can be performed by a small unit should never be entrusted to a large unit. Only when economies of scale and technical complexity demand entrustment to the larger tier should it be done so. All the financial devolution and personnel transfer should match functional domain determined on this basis. Only then will the citizen see the link between his vote and public good, and monies can be traced to services delivered. The structure of local governments envisaged in the 73<sup>rd</sup> and 74<sup>th</sup> Constitutional amendments is now in place, but the soul of self-governance and empowerment is largely missing. As a result of the economic reform process, the states have come into their own, and yet the Union has in recent years discovered a more meaningful and strategic role for itself. Similarly, local government empowerment need not mean weakening of states. States must be enabled to discover their vital role in providing strategic inputs and leadership even as local governments deliver most of the basic services. Wherever a community of stakeholders can be clearly identified, responsibility for services must be transferred to them, so that the stakeholders wield authority and are directly in control of their lives.

The Tenth Plan document emphasized the role of civil society in improving delivery. Conscious efforts have since been made to make citizens partners in policymaking and implementation of various

programmes. However, despite long debate, two serious lacunae remain. First, cooperatives, which are citizens' enterprises for collective benefit, are still largely state-controlled, despite the constitutional freedoms guaranteed in Article 19. A clear and unambiguous inclusion of the right to form and run cooperatives in the Fundamental Rights chapter of our Constitution would liberate them from state fetters, and release the energies and enterprise of millions of ordinary citizens. Societies are largely free, thanks to the protection afforded under Article 19 (1) (c). But most voluntary organizations are excessively dependant on state funding or foreign donor organizations. A culture of self-reliance needs to be fostered among the vibrant civil society and community-based organizations. For this, private, indigenous charities need to be encouraged and incentivized. The current law allows tax exemption to a tune of 50% to most contributions to charitable activities. A full tax exemption on such contributions will promote self-help and reduce over dependence on state or foreign donors.

Pervasive corruption is the most disturbing element of our governance. Happily, recent years witnessed encouraging trends in certain sectors. Wherever competition, choice, transparency and technology have been introduced, corruption has dramatically declined. However, in other core sectors where the state's role is critical, corruption continues unchecked. There are signs of growing corruption in some of these state-controlled sectors, indicating a shift from the traditional forms of corruption. Police, criminal justice system, healthcare delivery, public procurement and contracting, transfers and postings of officials, tax collection and land administration are areas, which are by nature fully or substantially state-controlled. Corruption is either continuing or growing in these sectors, as the inexhaustible demand for illegitimate funds in our governance system continues unabated. Clearly far-reaching political and

electoral reforms to transform our political culture and alter the nature of incentives in public life are the need of the hour.

In addition, real decentralization of power with effective institutional checks will give citizens greater control and curb the rapacity of state functionaries. Judicial and police reforms ensuring speedy, efficient and accessible justice and swift, sure and severe punishment for abuse of office will increase risks of unacceptable behaviour. Self-regulatory mechanisms to uphold standards in professional groups are another area that requires urgent attention in the changing context. Finally, measures of accountability including the recently enacted Right to Information, well-designed citizen's charters with penalties for non-performance, independent, empowered and effective anti corruption agencies, innovative tools to involve citizens in the fight against graft and leakages will surely expose corruption much more easily, minimize wrong incentives, and enforce compliance with acceptable norms of public conduct. A comprehensive approach involving political, electoral, judicial, and police reforms coupled with decentralization and accountability must be the essence of an all out assault on corruption. In the wake of economic liberalization, changing forms of corruption, and technological sophistication in economic offences, there is a need for pan-Indian institutional framework for effective enforcement of criminal justice with focus on speed and dexterity.

One weakness in our governance is the incapacity to institutionalize the best practices from our own country and elsewhere. A conscious effort not only to identify and document best practices but also build policy and create new structures and institutions to allow mass replication needs to be made. The communications revolution sweeping across India offers us a great opportunity to innovate and replicate. Many models of improved use of technology for better governance are now available to us. But again

convergence of many services at the citizen's doorstep, with greater citizen power and local control are critical for the future. The impressive postal network with its high efficiency and citizen-friendly approach, and the railways with their vast reach and proven track record offer us great opportunities for convergence of a variety of services in the next decade. Our scientists and technologists have the proven ability to meet the challenges of a modern economy. We need to harness their skills to make real improvements in governance possible in real time.

Governance is admittedly a weak link in our quest for prosperity and equity. We have an impressive governance infrastructure and significant successes to our credit. But we need to refashion the instruments to suit the emerging challenges. Unemployment and discrimination are two malignant factors afflicting our society, and militating against the principles of equality of opportunity enshrined in our Constitution. Our governance process must be redesigned to combat these two scourges, so that the productive potential of our people is liberated. The political system has the resilience and capacity to mobilize public opinion and transform our governance. What we need is the will and painstaking effort and energy to innovate, design and reform.