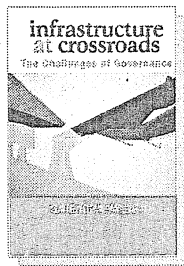


Five billion-dollar man

That's what a former cabinet secretary says Gajendra Haldea cost the nation. Did he?



**INFRASTRUCTURE
AT CROSSROADS:
THE CHALLENGES
OF GOVERNANCE**
G Haldea
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Sunil Jain

COMPARED TO just a year ago when the National Highways Authority of India (NHAI) couldn't seem to award too many road contracts and looked like it was going bust with the viability gap funding (VGF) rising dramatically, it is today awarding 20 km a day and is actually getting bids where contractors are willing to pay it (negative VGFs!) in order to build roads and collect toll for 20-30 years.

With the power ministry finally passing an order, three years overdue, to allow 'open access', large consumers (and eventually even smaller ones) will be able to buy power from different suppliers instead of just their current ones, injecting a healthy dose of competition in a sector that, despite all the 'reform' and 'unbundling' of SEBs, had really just substituted private monopolies for public ones.

What's common to both these developments is the author of this book, Gajendra Haldea, a career bureaucrat, currently the advisor to the Deputy Chairman of the Planning Commission. At various points in his life, Haldea wrote up model concession agreements, the Electricity Act 2003 and even concession agreements for privatisation of airports and metro rails—after a great deal of study and wide-ranging consultations, these have by and large laid down the ground rules by which India's infrastructure is to be developed. Like his models or not, there's little you can do in the infrastructure sector without running into, or across, Haldea. When the Lok Sabha passed the Electricity Act he had drafted but left out the period by which 'open access' would be mandated, Haldea lobbied hard and the Act got passed in the Rajya Sabha only after the minister promised he would bring in this vital amendment in the next session—it actually took three, but it got done.

It's not always been an easy victory, but Haldea's biggest strength—and that's why you have to read this book even though it is essentially a collection of articles he's written for newspapers/journals—is that he has had a vantage point in this industry that no one else has had. In the finance ministry when both the prime minister's office and the power ministry were exerting enormous amounts of pressure to clear the 'fast track power projects', Haldea figured the costs of power were so exorbitant (plus at that time, theft levels were so high, half the electricity sold was not billed for), he ensured the

projects would have to be renegotiated if they wanted a counter-guarantee from GoI. In the case of Enron, where the pressure was even greater, he managed to ensure the GoI's liability was limited—the final call had to be that of the Maharashtra SEB since it was signing the agreement with Enron. This, by the way, is why former Cabinet Secretary TSR Subramanian said India would have been better off paying Haldea a billion dollars so that the infrastructure sector could move on without his interference—"towards the end of my tenure, I found that he was in fact worth five billion dollars!", Subramanian wrote in his autobiography.

Those opposing Haldea, and there are many, argue that while he tries to lower costs, he ends up delaying projects so much that the actual costs to India are much higher—there's no power more costly than no power, was the common line you heard in the fast-track power days. The book is replete with examples/arguments—disbursed through various articles rather than in one place, though a wonderful epilogue and a chapter written for a festschrift for Montek Singh Ahluwalia in 2010 brings much of the infra story together—to show this is not true. The get-the-power-at-all-costs model for electricity, without the 'open access' reforms, has meant power sector losses have risen from ₹27,000 crore in 2006-07 to ₹63,548 crore in 2009-10 and outstandings of state electricity boards were

up to a whopping ₹3.1 lakh crore in 2010—banks have stopped lending to new power projects and Crisil estimates power sector NPAs could even total ₹58,000 crore in 18 months if appropriate reforms are not carried out. The Orissa privatisation, done in a hurry, has been a complete disaster and even today, the Delhi government is dishing out equity support to one of the privately-owned power distribution companies. 'Open access', however, has the power to change things by competition in this sector—look at how competition has completely changed things in the telecom sector.

But why does privatisation work only in capitalist societies, to paraphrase Hernando de Soto's path-breaking *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else*? The epilogue deals with precisely these sort of questions, sketching out the state of play in each infrastructure sector, the reforms done and those left undone. One, Haldea's emphatic, private initiative is the only way forward; public investment is only a stepping stone till such time that this is achieved. But this private initiative will lead to disaster if it is not accompanied by competition (think telecom) and a regulatory system that is alert and functioning—else, licence raj will only give way, as it has in many places, to the contract raj where bidders are even encouraged to stay away to benefit others and contract values are

often fixed before the 'competitive bidding' takes place.

Though Haldea's opposed to the contract raj, a considerable part of the book, and his life, has been devoted to the benefits of following another kind of contracts—those written up by him! Seriously though, contracts help even the private sector. If, in the case of telecom privatisation, the DoT didn't have certain contracted obligations, the chances of it fulfilling them were low since it meant the beginning of the end of the DoT's hegemony. Similarly, without strong regulators, privatisation will never happen. In telecom, no private telco would ever have got subscribers if the Trai hadn't mandated interconnect agreements—why would anyone become a Bharti Airtel subscriber if she couldn't call MTNL/BSNL landlines (they were the only phones in the early 1990s). Sadly, as Haldea points out, independent regulators have tended not to be independent, and the fact that the government can easily dismiss them is surely a factor, though not a comprehensive one. The book, in fact, refers to a Planning Commission approach paper on how to fix the regulatory system, on how to transfer licensing powers from ministries to independent regulators who report directly to Parliament and function within the policy framework laid out by the ministry—interestingly, no one in Team Anna thought of this as a corruption beater but just think, could you have had the 2G scam if A Raja wasn't disbursing the telecom licences? The book is an important read not just for those interested in infrastructure. It is important for all those looking at ways to make governance more effective.



SHYAM