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Reforming Public Services in a High Growth State

The Case of Gujarat

ASEEMA SINHA

> History is opaque. You see what comes out, not the script that produces events, the generator of history. There is a fundamental incompleteness in your grasp of such events, since you do not see what's inside the box, how the mechanisms work. What I call the generator of historical events is different from the events themselves, much as the mind of the gods cannot be read just by witnessing their deeds. You are very likely to be fooled about their intentions. (Taleb 2007: 83)

Where do developmental reforms[1] come from and what combination of contingent and institutional factors ensures their persistence? The origins and persistence of economic reforms in diverse contexts deserve further scrutiny. It is also important to address a related question: Why and how do policy and institutional reforms work more effectively in some Indian states than in others?[2] I take up an analysis of Gujarat's economic reforms to answer these questions. Can we learn something replicable or generalizable from the analysis of one state within India?

The trajectory of economic reforms in Gujarat, the western Indian state, raises some interesting analytical and empirical issues.[3] Gujarat is an industrially advanced state and is considered to be both a high growth state and a leader in pursuing economic reforms. The state's gross domestic product (GDP) grew at 10.2 per cent per annum between 2002 and 2007, and the Planning Commission set it a target of reaching 11.2 per cent in the next plan period (Government of Gujarat 2008). It is considered to be one of the leaders in attracting domestic investments, even if its record on foreign investment is more indifferent. The transfer of Tata's Nano manufacturing plant, the world's cheapest car wooed by many states, to Sanand in Gujarat was an important achievement (Siddiqui 2009). Similarly, the Vibrant Gujarat summit of 2009, in its newsworthy aggregation of figures, looks impressive and gigantic.[4] Even so, Gujarat, faced with competition from other states, has slipped in its overall competitiveness index to rank three (after Maharashtra and Tamil Nadu), and even in the ranking accorded to administrative and bureaucratic efficiency.[5] What is, however, interesting is that Gujarat has been quite effective in pursuing economic reforms across many sectors: power reforms, fiscal reforms, some limited but notable education reforms, and private sector participation in infrastructural development, to name a few. These specific reforms are crucial in ensuring a sustainable model of public service delivery and are therefore deserving of analysis.

We do not, however, know how these reforms began or unfolded in the state. What combination of factors contributed to their initiation and implementation? Were reforms and effective public service delivery easier in Gujarat than in other states, given Gujarat's historical legacies of state and private sector strengths (Dholakia 2003; Sinha 2005)? State capacity in Gujarat—the ability to translate developmental goals into policy outcomes—has been historically stronger than in many other states, but state performance or capacity may be too blunt a concept to help us fully understand why and how reforms are initiated and implemented. For example, reforms have proceeded in fits and starts notwithstanding strong historical legacies of state strength. The Gujarat case, with its long history of effective state capacity across several policy domains, presents an opportunity for us to unpack and disaggregate those aspects of state capacity that persist across time and across diverse policy domains, and are crucial for the implementation of economic reforms. We also need to know about the institutional and historical *sources* of state capacity both for analytical and policy lessons. What mobilizes state capacity to respond to new challenges and crises? Can other states in India learn any lessons from the economic reform trajectory in Gujarat in order to undertake economic reforms suitable to their problems as well as mobilize their own states to ensure effective implementation? This set of questions makes a case study of Gujarat especially relevant and germane to larger debates on the origins of reforms and state capacity.

Underlying this empirical quest is a set of larger questions: How do institutional arrangements that underlie economic policy regimes, and may be forged in the distant past, 'actually make it to the present' (Thelen 2004: xii)? Alternatively, how do institutions underlying old developmental arrangements transform, decline, or gain power to deal with new challenges and compulsions? What is the balancing weight of historical state capacity, individual initiative, and learning processes in the working out of policy intentions and designs? How do external factors—international agencies or Central rules and institutions—and regional imperatives interact in pursuing developmental agendas at the sub-national level, specifically in Gujarat?

CASES AND METHODOLOGY

I answer these questions through case studies of four diverse yet related policy reforms: fiscal reform and privatization, port development, power reform, and education reform. These four cases are the embodiment of the growth potential in an economy but are also important for public service delivery. One of the salient goals of fiscal reform was to ensure the finances necessary for the development of infrastructure in the state. Port development is conceived as an instrument of regional industrialization, and services not only the private industry but also the people of Saurashtra and Kutch as well as the hinterland of Gujarat. Insofar as it is designed to aid in the larger development of Gujarat, and even the northern and western states of India, it has wider implications worth analysing. Power reform has a clear positive impact on the public good, with both urban and rural consumers benefiting from more stable access to electricity, tariff reform, and the curtailment of transmission and distribution losses. Education of girls has obvious impacts on social welfare and the economic opportunities for all citizens.

I adopt a historical approach to analyse policies and policy outputs as they unfold in time, without biasing our results based on final outcomes, howsoever good and beneficent. This reorientation gets away from the presentism of our conventional analysis and urges us to pay attention to accidental and non-linear factors at work, the contingent element in policy evolution, and the random factors that create success notwithstanding the contrary intentions of many actors. Developmental success has many fathers but the task of policy analysis must be to assess the causal mechanisms precisely and carefully, as they unfold in time, not with hindsight undertaking most of the analytical work. This focus on accidental and non-linear processes does not, however, mean that we cannot replicate good institutions elsewhere, but rather that accidental learning is only possible within a larger frame of smart capacity and innovative institutional features. It is a challenge to 'plan' for innovation and serendipitous learning but one that can be learnt by attending to the mechanisms of success underlying policy innovations in Gujarat (and elsewhere).

How was information gathered for this analysis? Most studies by economists rely on economic data, and some descriptive policy analysis, quite useful but also unsatisfying. I followed a slightly different strategy. I attempt to trace the origins and the evolution of policies and policy change. For this purpose, I followed an intensive strategy of meeting officials, retired and current, of each of the organizations associated with different types of state policy. Retired civil servants or those who had moved to different departments provided valuable and confidential information that was historically specific. I also accessed all relevant economic data as well as the annual reports of all relevant organizations. Careful documentation of data from 12–14 different newspapers yielded detailed and voluminous information that was invaluable in preparing for interviews. At each step, the focus was on comprehensive and accurate information derived from individuals who had taken the initiative or been at the centre of various decisions and events as they unfolded in time.

THE ARGUMENT

Why have reforms succeeded to a significant degree in Gujarat? Four major arguments emerge as salient. First, I suggest that one needs to rethink the timing and periodization of reforms in the state. Most observers focus on the current period of 2002–8 to be an active reform period, where we see crucial achievements. I, however, argue that the foundations of the current successes were laid in crisis and began much earlier in the early to mid-1990s. While many outcomes are visible now, the foundations of these innovations and outcomes were laid over a decade ago, and originated in fiscal and political crisis. Thus, in order to understand recent successes as well as failures, I present a longer time frame of periodization of economic reforms in the state. The story of reforms in the state originated in the early 1990s and can be divided into three stages. The first phase begins with fiscal crisis in 1990–4. The second crucial phase lasted from 1995–2003, and the third phase, where we see some of the outcomes, is 2003–9. Table 4.1 outlines how the reforms unfolded over time across the four policy cases and the rest of the chapter uses this periodization in each of the case studies.

Table 4.1 Timing and Periodization of Reforms in Gujarat

	Fiscal Reform	Privatization	Ports Development	Power Reform	Education Reform
1970–90 (Historical Trajectories)	Ok but Subsidies and Tax Giveaways	Strong	Weak	Weak	Weak
1990–4	Begins	Non-Existent	Begins	Non-Existent	Non-Existent
1995–2003	Continues	Begins	Significant Developments	Limited	Non-Existent
2003–9	Continues	Limited	Continues	Significant Developments	Begins

Second, Gujarat is blessed with advantageous initial structural conditions: a strong industrial base, private sector interest, and basic state capabilities, which are crucial to the trajectory of reform. Without them, the success of reform might, at the very least, have been slower. However, two cautionary variables deserve analysis. At crucial moments, severe crisis (fiscal) and external factors (international aid and Central government initiatives), exogenous to the state, played an important yet indirect role that cannot be underestimated. External factors were quite crucial. Such unpredictable external factors present new opportunities and threats, activating state responses, which may not otherwise have been possible. Second, individuals and leadership vision and initiative emerge as crucial across all policy domains. Even more interestingly, reform proceeds in fits-and-starts and through a trial-and-error process rather than as a blueprint imposed from the top.[6] Neither vision nor structural attributes are sufficient for successful reform, although they may be necessary. Thus, ideological inclinations, which may be termed 'vision', structural factors, and institutional preconditions are *catalysed and mobilized* by key individuals and accidental serendipity creating a powerful momentum in favour of reform despite challenges, some failures, and unpredictable events. Learning is important to the process of reform and can reinforce the more 'structural' variables underpinning reforms. This dynamic between contingent and structural factors suggests a nuanced yet optimistic tale of lessons for other states. Gujarat has learnt from its own history and other states can deploy valuable lessons from Gujarat's experience, but the lessons are not about powerful hubris but about putting key individuals in place and creating the institutions that will work in innovative and unpredictable ways (see the concluding section for lessons for other states).

Specifically, the origins of reforms in Gujarat lay in a fiscal crisis that demanded a local response and home-grown initiative combined with fortuitous external opportunities in the form of a loan from a multilateral development agency. The crisis drove home the necessity for reform of the state's finances in the early 1990s. Fortuitously, the loan to Gujarat created the external conditions for new ideas of reform, such as public–private partnerships (PPPs) for infrastructure or power reform, and created a small but crucial coalition that utilized the loan to compensate losers created by the reform process. It urged the state's leadership to sustain the agenda of politically difficult reforms notwithstanding false starts, delays, and failures.

Third, two primary causal variables working in a complementary tandem are the principal levers of reform success. State capacity and private sector incorporation into the policy process play a major role. Yet, Gujarat's reform experience urges us to think of state capacity in slightly different ways. Bureaucratic autonomy, a variable suggested by the larger theoretical debates on state capacity, while important, is not sufficient and needs a more dynamic and proactive push from political leaders at the top rung of the system. Chief ministers, heads of agencies, and heads of crucial departments such as industry and finance can play crucial leadership roles. When the finance department is proactive, as it was between 1995 and 1999, much can be achieved. There is an indisputable role for cognitive capacity—the ability to see and respond to the problems of the long term—and vision. Yet, institutional variables of monitoring and feedback mechanisms (the creation of overlapping institutions, for example) ensure that a large sprawling bureaucracy works effectively across diverse policy domains (for example, privatization, ports, power, and education). Yet, some dimensions of state capacity are fraying and decaying in Gujarat and new capacities relating to private sector contract negotiation and management need to be created anew to address the next generation challenges and in order to sustain past gains.

The second set of variables having to do with private sector pressure, both implicit and explicit, raise more complex questions and issues. The close historical interaction between private capital and the state in Gujarat ensures that state officials have internalized the requirements of capital in a way that may be impossible in most other states. Gujarat is fortuitous in benefiting from strong path dependence and historical experiences of reform; for example, the joint sector idea that allows it to implement the current model of private sector participation much more easily and without much conflict. Economic reforms give a renewed legitimacy to such interactions and imperatives. Many policies—port and privatization, especially—are shaped and energized by private sector needs and initiatives. This embeddedness or nestedness does raise problems relating to issues of public accountability and public delivery, which demand a more rule-driven rather than discretion-driven framework for the future.

Fourth, which of these variables can be replicated elsewhere? Institutional features make it easier to implement reforms, but strong institutions also face inertia and stasis, and require leaping vision, energetic mobilization, and new institutions that can create a new dynamic for reform. Thus, simple institutional innovations and leaps of effort can make a difference. Monitoring and review of institutions, both formal and informal, emerge as crucial. Many of these institutional features can be replicated in other states even if there is no visionary leadership or crisis at hand.

ECONOMIC REFORM IN GUJARAT: PERIODIZATION, CRISIS, AND SERENDIPITY

The foundations of economic reforms in Gujarat lie in the early to mid-1990s, when fiscal and institutional crises stimulated new thinking as well as new policies that were to have a consequential impact well into the mid-2000s. Internal (within the state) realization coincided with external assistance in the form of an Asian Development Bank (ADB) restructuring loan in 1996, and allowed the state to tie its own hands in favour of reforms and created the conditions for important innovations that followed in the late 1990s and 2000s (Rodrik 1998). In contrast to many Indian states, where crisis creates further crisis, necessity (fiscal and economic crises) and serendipity (the ADB loan) were the mother of important and crucial innovations and inventions in Gujarat.

Historical Legacies: 1960–90

Until recently, Gujarat's population and its leaders have benefited from institutions and policies put into place in the 1970s and 1980s. Gujarat state, since its inception in 1960, has focused on classical industrialization while providing some key support to those sectors that support agriculture, such as fertilizers[7] and irrigation (the early support for the Narmada Dam tribunal award in the late 1970s is one such example).

The national licensing system constrained the choice of policy instruments—backward area development, for example—but also provided specific advantages. State agencies in Gujarat took licences from the Central Ministry of Industry and then invited private parties as joint sector partners, facilitating a hybrid form of capitalist development (Sinha 2005). Interestingly, Central schemes were modified to suit local needs and enhance industrial development.[8]

Paradoxically, state agencies that provided credit, licences, and infrastructure (called industrial estates) gained in strength and vigour as they mediated as well as circumvented the national licensing framework. Some of the powerful and competent state agencies—Gujarat Industrial Development Corporation (GIDC), Gujarat Industrial Investment Corporation (GIIC), IndextB (Industrial Extension Bureau), the Industries Department, among many others—conceived of innovative schemes and implemented them relatively effectively. Equally importantly, many of the public sector units (PSUs) in Gujarat—Gujarat State Fertilizers Corporation, Gujarat Alkalies Chemical Limited, and others—ran efficiently and made profits. Private capital had a mutually synergetic relationship with the government, in which the state both provided for and anticipated its needs: the joint sector concept, where the state shares 26 per cent of equity while handing over managerial control to the private sector, created historical legacies of a complementary state–private capital relationship. Underlying this were also close relationships between key business houses and the state's leadership. Gujarat's state administration embodied a unique model of 'bureaucratic developmentalism' comparable to the East Asian developmental states with strong state capacity and micro-institutions that delivered well and where private capitalists both used the state and contributed to its development in full measure (Sinha 2005).

Fiscal Crisis: 1990–4

The national policy of economic reform in 1991 unleashed tectonic shifts for all states, arising out of the larger national/global context as well as local/regional developments, and generating fascinating changes both in policies and in the institutional structures underlying developmental strategies.[9] In the early 1990s, as path-breaking economic reforms were initiated at the national level, some senior leaders and officials in Gujarat were faced with a fiscal crisis of their own making. Moreover, the dismantling of the national policy framework raised new challenges for the regional states, especially Gujarat, that had derived advantages from the Central rules of the game. As the national policies of licensing and financing were vanishing, the state agencies' relevance and role in mediating Central rules and regulation faced a challenge. Second, Gujarat's finances began deteriorating with a rising revenue imbalance from 1985–6 onwards. The fiscal deficit widened to reach 7.37 per cent of net state domestic product (NSDP) in 1990–1, and to 4.15 per cent in 1996–7 (ADB 2007). In 2001, the fiscal deficit had reached 8.9 per cent and the then finance secretary of the state did not have money to pay salaries of the state employees; by 2002–3 fiscal reform was no longer an option.[10] The fiscal deficit was 5.44 per cent in 2003–4 (ADB 2007).

The aggressive and indiscriminate policy of subsidies and incentives to industry as well as the power subsidy created a fiscal strain on the state exchequer in the 1990s. The major industrial policy instruments used were sales tax deferrals and exemptions. During 1991–5, on an average, Rs 2.10 billion per annum were lost to the Gujarat government as a result of such subsidies; this amount increased manifold between 1998 and 1999 to Rs 13.43 billion, and then to Rs 41.2 billion during 2000–1.[11]

In the early 1990s, the then finance minister together with key state officials set up a State Finance Commission (SFC) to assess the state's financial situation. This committee aimed at re-evaluating the totality of the state's role in the new environment and was an early precursor to fiscal reforms that the Centre would recommend to the states in the late 1990s and early 2000s. The committee came out with its report in 1994 and recommended a serious re-assessment of state's role and urged fiscal reforms. It outlined a crisis situation for the state with its revenue base receding and the state's inability to continue to fulfil its erstwhile roles as an enhancer of Central rules.

Usually, such committee reports collect dust on government shelves but this report serendipitously resonated with a parallel ADB's reorientation of strategy. International developmental banks, such as the ADB, in the early to mid-1990s, were thinking of designing sub-national loan programmes. An ADB team visited a few states and found in the 1994 State Finance Report in Gujarat a sign of internal state commitment in favour of reforms.[12]

After many visits and negotiations with Gujarat state officials, the ADB approved a $250 million loan for public sector restructuring and fiscal reform in Gujarat, with a two-year implementation window. Three broad areas of reform were identified: fiscal reform and consolidation; public enterprise reform or privatization; and, in ADB's words, 'enabling private sector participation in infrastructure' (ADB 2007: 1). The loan was to be released in three stages with specific policy conditionalities associated with each stage, a restrictive and monitoring mechanism. In addition, the ADB authorized 'technical assistance' to build legal and non-legal capacity to implement some of the goals of the loan programme.

Notwithstanding delays in implementation and failure of implementation in certain key respects (power reforms), the ADB loan, by all accounts, played a major role in shaping the state's emergent economic reform strategy. In fact, the origins of many current policies are not purely internally driven but nudged in certain important and even unintended ways by this external loan granted to Gujarat in the late 1990s. To be sure, state officials used and deployed the ADB loan to enhance many of their own reform plans, thereby taking ownership for shaping the ADB loan to their ends. The State Finance Committee report of 1994 reveals that Gujarat had begun to think of reforms in a wide-ranging manner on its own. Many of ADB's suggested actions were the reforms envisaged in the 1994 report (Government of Gujarat 1995). Yet, without the ADB loan, which was supported by the leadership of that time, the trajectory of Gujarat's reform path might have been different.

As reiterated by many respondents, the loan enabled pro-reformers to mobilize political support on behalf of policies that were uncertain and unpopular in the mid-1990s. One civil servant noted:

> The ADB loan was very useful to nudge economic reform, to mobilize political support for ideas which were new even in India. It allowed us to use the money for compensation which was almost impossible otherwise. Remember this was 1996–7, early in the reform process even nationally, and privatization or private sector participation in infrastructure was not on the agenda even at the national level.[13]

The loan was monitored and carefully implemented through the establishment of new institutions and committees; this monitoring and feedback function enhanced pre-existing state capacity. The new institutions included: (i) a policy-level expenditure prioritization committee (chaired by the chief minister); (ii) the Gujarat Infrastructure Development Board (GIDB) (also chaired by the chief minister) to promote privatization of key infrastructure sectors; (iii) the State Public Finance Reform Committee (SPFRC) to provide advice on fiscal reforms, solicit private sector views, and generate public awareness of tax reforms; (iv) three working groups to support the SPFRC on tax reform, expenditure management and control, and computerization and training; (v) a cabinet sub-committee on public sector reform (chaired by the chief minister with the ministers of finance and industry as members) responsible for reviewing and approving details of modality, scope of divestment, pricing, and structuring of state owned enterprises (SOEs); and (vi) a technical secretariat within the finance department to service the SOE reform committee.

Some monitoring mechanisms, such as the SPFRC, set up in the Department of Finance, and an informal group of 'liberalizers' played a more crucial role than others in generating ideas for reform and, most crucially, in maintaining the pressure to undertake difficult reforms. The SPFRC committee prepared a paper entitled, 'Approach to Fiscal Consolidation in Gujarat' (SPFRC 2000), which identified the important fiscal weaknesses in the state and also suggested recommendations for their reform in the medium- and long-term. Many reform ideas—including reform of tax and non-tax administration as well as changes in procedures—were studied and recommended to the government.[14] The reports of the Committee were discussed in the cabinet although many of the recommendations could not be accepted for many years.[15]

Yet, these reports generated new ideas that were subsequently put to use. For example, the Committee reviewed the issue of power reforms and urged reform of the Gujarat Electricity Board (GEB) that was incurring a loss of Rs 1,350 crore at that time. It further recommended that power reforms are not only about agricultural subsidies but must also entail a restructuring of the GEB and induct competition within the power sector.[16] As discussed later in this chapter, restructuring of the GEB preceded any changes in the reform of agricultural subsidies, revealing that this idea found resonance in the sequencing of power reforms pursued by the state in 2003–5. It also reveals a longer time sequence than many of the other reforms in the state.

Another more informal monitoring mechanism was an implicit coalition of a few civil servants with common views on the need for serious fiscal changes, including privatization. They were the chief secretary at that time, the finance secretary, and key officials of Industries Department, among others. This group derived its authority directly from the chief minister and exercised significant autonomous powers to implement reforms and to fulfil the commitments accepted under the ADB loan. Thus, two *overlapping and monitoring institutions* worked to shape the agenda of economic reform in the state. This suggests that monitoring by new, informal institutions can bypass vested interests and mobilize reforms. The experience of privatization exemplifies some of these lessons and merits analysis.

Privatization and Disinvestment

A programme of privatization of state enterprises, envisaged under the ADB loan, was undertaken in the late 1990s. This process is a fascinating case study of state-level privatization with some success but also with notable failures. The Government of Gujarat (GoG) approved a PSU restructuring based on the SFC's recommendations as well as those of the C. Rangarajan Committee on disinvestment. The SFC recommended closure of 11 SOEs and divestment in another 21 PSUs, with only enterprises engaged in 'socially relevant' activities being retained under government ownership. The SFC proposed the establishment of a senior committee under the chief minister to pursue divestment transparently and professionally with a monitoring or feedback mechanism.

The goals of public restructuring were to 'reduce GoG's participation in the commercial sector, and increase private sector participation' and outlined a touchstone test: 'The question is to be asked: (1) whether the undertaking is contributing to the public good through its activities, and whether the same thing cannot be done in a more cost effective manner outside the government and (2) profitability alone of an SOE cannot be considered a justification for the existence of an SOE; such units should also be subjected to the same touch-stone test' (Public Sector Restructuring Programme (PSRP), Annex VI, p. 49; State Public Finance Reforms Committee 2000). This test for privatization was a very demanding criterion, firmly believed by a small group of key members of the Gujarat civil service.[17] In some senses this was one of the first few cases of 'committed privatizations' seen in India, much before the celebrated privatizations that would take place at the national level. It did not fully succeed but the successes and failures are worth documenting.

Five loss-making SOEs—Gujarat State Textile Corporation (1996), Gujarat State Construction Corporation (1997), Gujarat Fisheries Development Corporation (1997), Gujarat Small Industries Corporation (1999), and Gujarat Dairy Development Corporation (1999)—were closed down. The significant impact on the lives of their employees notwithstanding, there was little opposition to the closure of these corporations. The political leadership did not put any obstacles to their closure. Two factors played a role. These enterprises were a clear drag on the state finances, which was apparent for all to see. The decision to privatize and also the design for privatization were managed by a small group authorized to take decisions directly by the chief minister and industry minister. Both the chief minister and the industry minister had been convinced by the civil servants of the need to close these units which were a huge burden on the state budget. The chief minister at that time was regarded as a supreme leader and unlikely to face any protests within the cabinet.

As an illustration, the Gujarat State Textile Corporation was sustaining mounting financial losses of around Rs 611 crore in November 1996.[18] The ADB loan allowed government officials to make a strong case for speedy closure and divestment.[19] While the government made a concerted effort at persuading and building consensus through many meetings with the employees of the various corporations, it was eventually a top-down decision taken by a handful of people and then implemented with authority and speed. As noted by one of the principal actors at the centre of this process: 'The ADB loan allowed us to both provide carrots and a stick. We could argue that there was no option as well as compensate the losers.'[20]

The ADB loan was used to institute a generous voluntary retirement scheme (VRS) for around 14,000 employees, especially those of the Gujarat State Textile Corporation. The ADB loan was used to ensure a relatively pain-free process: the terms of the VRS were so generous that there was no serious protest or challenge to the process of disinvestment. The Gujarat government constituted a 'State Renewal Fund' under the direct control of finance department in September 1996, the principal aim of which was to fund the PSUs for VRS-related expenses. Budgetary procedures were simplified for speedy distribution of VRS funds, a form of discretionary transparency for this specific case. A total of 18,100 employees were affected and the Gujarat government unburdened itself of 17,702 employees at a cost of Rs 324.53 crore. In addition, some state enterprises relieved 3,040 employees at the cost of Rs 96 crore. The government also protected itself by seeking the approval of the Textile Labour Association (TLA) (one of the trade unions at the textile mills) for the VRS and subsequent closure. Some workers did challenge the government decision, but the court found that 90 per cent of the workers had accepted the government settlement and that it was advisable to close down the units in the 'public interest'.[21] Thus, a generous VRS and extensive consultation ensured a relatively smooth and protest-free closure of a large company.

Paradoxically, the role of the private sector during the privatization process was problematic. The government privatized Gujarat Tractor Corporation Ltd (GTCL) by selling its equity to a leading tractor manufacturer in 1999. Fifty-one per cent of the government's shares along with management control were transferred to the company, followed by transfer of 9 per cent at a later date. This, however, proved unviable in the longer term. In September 2004, the company was referred to the Board of Industrial and Financial Reconstruction, which declared GTCL a 'sick' company, its net worth having been completely eroded due to accumulated losses. Overall, the performance of the government in ensuring a just and fair settlement for its employees was far superior to the role of the private sector, which sought to capture government companies at low prices, and in some cases did not fulfil its commitment to reviving the companies concerned, as in the case of the GTCL.

The proposed privatization of Gujarat Communication & Electronics Ltd (GCEL) ran into difficulties. The managing director of the corporation 'fought tooth and nail'[22] to prevent disinvestment, arguing that he could revive the company. The Public Restructuring Committee met with the officials and workers many times, and tried to convince the managing director. Given such opposition, the government made two attempts of privatization but failed. The government eventually closed down GCEL and provided VRS to all its employees.[23] It is interesting that the government chose to close down rather than continue with production operations; this was in line with the strong ideological belief of some key actors who felt that privatization should be undertaken for intrinsic reasons rather than used as a second best option to address fiscal and budgetary problems.[24] This also speaks of the ability of this 'reform coalition' to get its way.

Thus, in the mid- to late-1990s, Gujarat's privatization was relatively successful in that it was implemented with speed and vigour but with some partial but important failures. Commitment at the top levels, an ideological belief shared by a small group of key officials, bureaucratic monitoring capacity, and the ability to use the ADB loan (an external factor) to leverage political support for the disinvestment programme as well as compensate the losers, the workers, played a role in this partial but definite success. Part of the failure to privatize fully and to ensure expected gains for the state arose from the tendency of the private sector to try to capture the offered assets at below market prices. Interestingly, in this case, too much transparency had the negative effect of encouraging capture by the private sector and derailing the process in some instances.

Economic Reform and Governance as Intra-State Power Struggles

Such radical changes both at the Central and regional levels, I suggest, unleashed changes within the state, a form of state re-formation, in the course of which parts of the state faced sudden and precipitous decline while others were renewed and created anew.[25] Policy innovation was undertaken and new institutions were also created. Bureaucratic politics, a struggle not only about the outcomes of policy but also a struggle within the state, was in evidence.[26] As state bureaucrats began thinking about how they should respond to the national policy of economic reforms, they also set in motion crucial power struggles within organizations as well as between state organizations. The attempt to reform or re-tool state agencies, as a response to the incoming policies of liberalization, did not succeed and some agencies suffered a definite death or decline (GIIC, GSFC, IndextB[27]) while new ones were born (GIDB).

The process of privatization was combined with reframing numerous and separate policies for energy, industry, and ports, all in 1995 (Government of Gujarat, Industries and Mines Department 1995). New institutions (GIDB) were set up (1995) and new frameworks articulated between 1995 and 1999: the BOOT (Build, Own, Operate, and Transfer) principles (1997) and a PPP law (1999). This seemed to precede developments at the Central level and in other states; the Central level set up the Expert Group on Commercialization of Infrastructure Projects in October 1994, known as the Rakesh Mohan Committee that submitted its report in 1996. One of the most path-breaking developments of that time was the formulation of a port policy (1995) and the reorganization of the state agency that was to oversee the implementation of port policy: the Gujarat Maritime Board (GMB) (see later for more details on port development in Gujarat). The mid-1990s, thus, represent a constellation of state activism on industrial and development issues. State leaders declared, 'The most distinctive feature of the new industrial policy is that for the first time the industrial policy talks about the industrial development in its totality. So far industrial policy meant just two things: sales tax benefit, and subsidies' (*The Economic Times* 1995a). Economic reform seemed to demand more comprehensive policies, to which the state responded.

However, combined with new policies and institutions, some organizations saw a precipitous decline. Gujarat State Finance Commission (GSFC) virtually died. GIIC, GIDC, and, to a lesser extent, IndextB had to reinvent themselves but lost prestige, power, and functions in the process. As noted by L. Mansingh who was the managing director of GIIC in the mid- and late-1990s, 'GIIC has had to change its role in the post-liberalization era. … So far our initiative was routed through the central government securing licences and the like. With the relaxation of restrictions, it is time we revived ourselves.'[28] That attempt at the revival of GIIC did not succeed.

Initially, in order to re-invent itself, GIIC was responsible for implementing new infrastructure projects, but lost that authority and power to GIDB over time (*The Economic Times* 1995b). In 1996, GIIC was at the forefront of providing finances for a whole range of industrial activities including infrastructural development and yet, by 1998–9 GIDB had emerged stronger. In 1996, the MD of GIIC said, 'The Corporation is now in the process of tying up a line of credit from the Asian Development Bank for infrastructure-related project-promotion activities. For this purpose, the government had decided, in principle, to privatize GIIC by disinvesting 51 per cent of its equity by December 1997' (*The Economic Times* 1996). Even so, by the late 2000s GIIC was a pale shadow of itself and most of the power had shifted to GIDB. This apparent struggle within the state, a form of bureaucratic politics, suggests that we reframe our understanding of governance as 'governance in motion', which is as much a process of institutional change and reform as it is a matter of institutional struggles and realignment within the state. Economic restructuring, thus, created shifts in power balances between state agencies in Gujarat.

INFRASTRUCTURAL DEVELOPMENT: PORTS AND PPP IN GUJARAT

The Rakesh Mohan Committee on Infrastructure (1996) noted that the principal problem in India was building the right framework for private participation in infrastructure (Rakesh Mohan Committee 1996). Port development in Gujarat has proceeded rapidly with numerous ports and capacity expansion with the potential to divert traffic from ports in Mumbai managed by the Jawaharlal Nehru Port Trust (JNPT). In addition, and strikingly, new policies, laws, and new institutions have been created to facilitate a unique model of PPP for infrastructure. By 2009, Gujarat had implemented competitive bidding for two ports and also undertaken significant port modernization and development based on these frameworks. Underlying these policy changes are crucial reforms in institution creation as well as the creation of new regulatory frameworks for privatization. These developments offer certain important lessons about the processes of policymaking the intimate role of the private sector in shaping policy goals as well as the institutions that govern policy in Gujarat, and insights about how state capacity is mobilized and created in a new policy arena like ports. By starting early, through accidental learning, and random trial and error, Gujarat's model of infrastructural (port) development emerges as a relative success. However, an analysis of the origins and sources of policy development yields fascinating stories of learning, trial and error, and a movement from informal public–private deals to a more stable and a transparent rule-based framework. In addition, external influence in the form of technical inputs from port experts from the Government of the Netherlands had definite consequences for the development of ports in the state.

Port development has proceeded at a remarkable pace in Gujarat.[29] While the Central government visualized 'encouraging private sector investment in select port activities' (Rakesh Mohan Committee 1996), the Gujarat government has given complete control of two ports to the private sector. Forty-one minor (state-run) ports are planned along the 1,600 km coastline to be managed by a state-level autonomous body: the GMB. The state has implemented competitive bidding for ports (Hazira) and jetties, and many port projects are under implementation. A senior official noted, 'GMB is the second largest revenue earner for the state.'[30] Gujarat houses India's only chemical handling port (at Dahej), two of the three liquefied natural gas (LNG) terminals (at Dahej and Mundra), and India's largest private port (at Mundra). Currently, Gujarat handles about 28 per cent of India's cargo traffic and about two-thirds of non-major (minor) port traffic (see Table 4.2).

Table 4.2 Traffic in Ports (million tonnes): India and Gujarat

	1981–2	1994–5	2004–5	2005–6	2006–7	2007–8
Major ports	87.98	195.89	383.60	423.53	463.84	519.24
Gujarat ports	3.18	17.50	97.10	108.26	132.44	147.60
Other non-major ports	3.83	5.13	30.0	37.17	52.56	48.77
Total national cargo	94.99	218.17	510.70	568.96	648.84	715.61
Share of Gujarat in all non-major ports traffic (per cent)	45.36	76.97	76.39	74.44	71.58	75.16

Source: H.K Dash, principal secretary, Ports and Transport Department, Government of Gujarat, 'A Presentation on Gujarat Port Sector to the taskforce of Center–State Relations Commission', 2008. Available with the author.

Notes: 'Major ports' refers to all major port traffic in India, including Kandla in Gujarat (capacity 50 mmt). 'Gujarat ports' refers to all non-major ports in the state; 'other non-major ports' refers to ports in other states.

Even more interestingly, Gujarat has implemented a public–private model with clear examples for such partnership for other states and for the Central government. Many private sector infrastructural companies, such as L&T, Essar group, Haryana-based SRF Limited, DLF, Central Warehousing Corporation, Simplex Infrastructure, Gulf Omkar Petro and Refinery, Gammon India, Zoom Developers, Consortium IL&FS, Sea King Infrastructure, Gremach group, Chennai-based IMC, and Shell, have projects or have shown interest in the port projects in the state. What are the emergent institutional frameworks that make port development so successful in the state? How did port policy evolve in the state?

Port and Infrastructural Policy

Although, Gujarat's industrial infrastructure was historically quite good,[31] by the 1990s the demands of rapid industrialization combined with lack of finances contributed to a decline in its quantity and quality. In 1993, the chief minister at that time proposed setting up an infrastructure development corporation 'to provide basic amenities like roads, water, bridges and drinking water pipeline, which were essential for the development of the state. The idea behind the creation of the corporation was to lessen the burden of expenses on the state as an independent corporation would be able to borrow from the market' (*Hindustan Times* 1993). Interviews reveal that state officials realized then that infrastructure would be very crucial in the liberalized scenario but the state's ability to provide the resources for this was diminishing, thus necessitating different forms of financing or private sector incorporation.[32] This realization emerged not as a faith in markets or the private sector but out of the constraints imposed by the diminishing fiscal basis of the liberalized sub-national state. The chief minister noted that this proposal was:

> part of the overall policy adopted by the state to encourage privatization in various fields, and the idea behind setting up of the corporation in the joint sector was to attract private parties to participate in infrastructure development. He further stated that the response of the private parties was not encouraging and the setting up of an independent corporation with equity participation from the government would hopefully egg them on to invest in this prime sector (*Hindustan Times* 1993).

Analogous with this development, the idea of proposing private ports was mooted in a nascent form in 1993 by Chimanbhai Patel, the then chief minister.[33]

By 1995 these ideas started to coalesce together. Political initiative and vision were quite crucial. The then chief minister Keshubhai Patel played a major role in these developments, as did the bureaucrats associated with the Industries Department. As a study of privatization in ports undertaken in 1994 noted:

> Sometimes, however, the innovativeness demonstrated [in ports] has directly come from the political leaders rather than the top management of the GMB. While this lends itself to flexibility in decision-making of sorts, the flipside is that the strategic role of the GMB top management would be in question. Evidence of this often appears in the feeling of non-involvement exhibited by the GMB executives and staff. There is a sense of role erosion in the organization. Often management systems and responsiveness to operational problems are weak. The high traffic growth would seem to have happened in spite of the management of the GMB. For further sustained growth, of which there is ample potential, a top management with a visionary and strategic view and a middle management with a professional outlook would be imperative, even to usher in more privatization (Raguram 1994: Preface; available with the author).

In 1995 the state government took numerous policy and institutional initiatives: that very year a new industrial policy, a new energy policy, and a new IT policy were announced. The GIDB, a nodal agency for infrastructure development, was set up in 1995 through a government resolution. The chief minister stressed the need for the state to focus on ports, and in 1995 took some initiative in appointing two senior Indian Administrative Service (IAS) officials to head the GMB.[34] Till then, the GMB was a small body led by engineers, with a limited scope and no vision for expansion and development. Gujarat ports were tiny, mostly fishing ports with a total volume of mere 2 million tonnes. The two high-level civil servants' task was to generate new ideas for a port policy. The chief minister from Saurashtra himself saw the need to develop the interior districts in Gujarat as well as the potential of the long Gujarat coastline for industrial development and to satisfy the urgent power needs of the state. Power generation required cheap coal, which could to be imported but this required ports.[35]

It is thus clear that the leadership recognized the larger developmental implications of a port policy. The GMB Act of 1981 was modified in 1996 to ensure that a generalist chairman was able to manage the organization (Government of Gujarat 1998). This institutional change was a significant development and highlighted a visionary sense of purpose capable of visualizing both that ports could play a role in overall development of the state and could best be designed by a high-level commitment of a generalist kind. Besides, this institutional change considerably enhanced the power and authority of the organization (GMB).

The port policy of 1995 is remarkable for its vision and ability to see well into the future. It noted that India's external liberalization, entailing both imports and exports, could allow Gujarat to take the Government of India's policy of liberalization 'through a process of globalization' (Government of Gujarat and Ports and Fisheries Department 1995). The policy thus visualized Gujarat to be an important gateway of external openness for the country as a whole. In addition, the notion of ports servicing not only the state but the larger western Indian hinterland, with Rajasthan, Madhya Pradesh, western Uttar Pradesh, Delhi, Haryana, Punjab, Himachal Pradesh, and Jammu and Kashmir as 'potential customers of Gujarat ports', saw port development as an ambitious, far-reaching policy instrument for the overall development of the region. In laying out this second goal, the authors of port policy were leveraging Gujarat's role as an alternative port route to Mumbai ports and competing with Mumbai's unchallenged domination as the gateway to the world. Competition from Mumbai has always been an important feature of developments in Gujarat (Sinha 2005). From the then minuscule traffic of 2 million tonnes, the policy envisaged that by 2000, Gujarat ports would handle 100 mt of cargo. This figure of 100 mt seemed impossible to achieve at that time and had to be justified to the cabinet, but was calculated quite carefully by the authors to be an achievable figure.[36] By 2000, Gujarat's ports were able to reach a figure of around 71 mt, no mean achievement, and 97 mt by 2004–05 (GMB Annual Report, various years).

Simultaneously, the pressure to enhance Gujarat's ports came from a very different quarter, the private sector, and the two impulses (state design and private capital's interests) coalesced. Private investment was seen to be an important route for such development, albeit under the control of the government; the government was conceived as an owner-landlord who would oversee and share rights with the private sector over some parts of the ports. Gujarat's historical strengths in the joint sector led to an easy transition to PPPs in the port sector, even against the then prevailing international practice. For example, the Netherlands, the country that had provided GMB with consultancy in the early years, was surprised at Gujarat's early involvement of the private sector in ports.[37] In the Netherlands, ports were completely controlled by the state, and even now complete privatization of ports remains rare at the international level. The Pipavav port was initiated in 1989 and designated to be a joint sector project in 1992. Later this project ran into serious difficulties and by the mid-2000s, after many changes of ownership, came to be in the private sector.

In the mid- to late-1990s, state administrators had begun to recognize that investments seemed to converge at port sites. As noted by a senior civil servant: 'Once we announced a port, we were amazed at the rapidity with which investments and MoUs [memoranda of understanding] were signed in and around that site; we, then, knew that port development could be a impetus for further investments. The importance of ports was brought home to us by investors themselves. We decided to leverage this further.'[38] The GMB internal study in 1998 confirms this private sector role at the formulation stage:

> Our State is experiencing a phenomenal developmental trend in investment both from mega and industrial sector within the country and also from Multinational companies overseas. An investment of 30 billion US dollars is already in (the) pipeline. Around Rs 1,600 crores investment is taking place at Hazira, Rs 15,000 crores planned in Vagra, Bharuch and Rs 20,000 crores planned around Pipavav and Jamnagar regions, obviously taking advantage of ports in their vicinity. The logic behind locating these industries is very clear that large business houses always wanted an access to national/international market through the sea route, which is the only viable mode of transport. The port infrastructure is the hub of industries without which it cannot survive. (Gujarat Maritime Board 1998)

The private sector played a formative role in port development. Port development initially began when private companies requested that they be given control over some captive jetties in the early to mid-1990s. Many of the early private sector initiatives in the port sector were negotiated through the MoU route without much analysis, supervision, negotiation, or regulatory oversight. This MoU route of privatization was superseded by the passage of the 1999 Gujarat Infrastructure Development Act. The government's environment agency, the Gujarat Ecology Commission, expressed concern about the implications of the pace of port development (*The Economic Times* 2000; *Business Standard* 2000).

Again, the ADB loan negotiated during 1996–7 proved crucial for the emergence of public–private framework in the state, and especially for the development of new institutional mechanisms to facilitate such policies. One of the stated objectives of the ADB loan was to augment private sector participation in the infrastructure sectors, which came to be called PPP.[39] Specifically, the ADB contributed to the specific institutional design that emerged. It gave a technical assistance loan for 'institutional strengthening of GIDB' as part of the fiscal reform loan of 1996 (Asian Development Bank 2007). This included: (a) preparation of BOOT principles and procedures manual completed in 1997, (b) a scheme on sectoral development in Gujarat, (c) preparation of a Model

'Concession Agreement' (an agreement between the government and the private sector party laying out the terms of lease and port development),[40] and (d) a provision for technical training of GMB officials.[41] A senior official of the GMB admitted, 'We did a lot of reforms in infrastructural development under the pretext of ADB.'[42] The ADB consultant to the GIDB recommended that the latter work on a PPP law, and consonant with ADB experience, the Philippine law was used as a model for its Gujarat counterpart passed in 1999, the Gujarat Infrastructure Development (GID) Act (also referred to as the BOT law). A 'PPP Cell' was set up in the GIDB as a monitoring department to develop and monitor project implementation.

The GIDB's role, functions, and powers have changed over time. From a small, irrelevant body that appeared to duplicate the functions of other organizations and was therefore largely bypassed, it became the nodal and pre-eminent agency engaging in policymaking and 'project development', besides monitoring project implementation by other infrastructural agencies such as the GMB and the GIDC.

The passage of the 1999 GID law is an interesting story of how circumstantial factors and individuals play a role in the process of accidental policy formulation. The then industry minister was visiting the US around the time the law was being framed. In a case of pre-emptive policy formulation, the industry department's civil servants accompanying him advised him to announce a law, the GID Act, on US soil as a way of attracting private sector participation.

In 1997–9 the relevant actors concerned had no idea that they were designing what would later be termed a 'path-breaking model of private sector participation in infrastructure'; they had no such grandiose ambitions or plans at the time. They were just hoping to survive and make relevant an organization that seemed to have gone nowhere. Subsequently, institutional power accretion became necessary. As other state agencies resented or failed to see the relevance of GIDB, it was felt that it would have to be made the arbiter of infrastructure decision-making. Thus, in 1999, a separate GID Act was passed to designate GIDB as a nodal agency for infrastructure development. This implied that other agencies, namely, the GIDC, GIIC, and infrastructure departments would have to go through GIDB for approval of major projects. The GIDB also acquired a monitoring or feedback function; in the event of any obstacle or delay, it had the authority to resolve problems. This Act was an attempt to mollify other organizations' fears that they would lose their power by delineating precisely what GIDB could do. However, in an unintended way, by becoming the agency of policy formulation and monitoring, GIDB's power was substantially enhanced.

Evolution of the Port Framework

Prior to 1982, the director of ports, appointed by the Government of Gujarat, dealt mainly with small fishing jetties and shallow draft ports. In the early 1980s, a committee headed by H.M. Trivedi recommended the formation of an autonomous body for the commercialization of ports. The Gujarat Maritime Board was constituted under the Gujarat Maritime Board Act, 1981, which is a replica of the Major Port Trusts Act, 1963, under which the major ports have been notified. GMB built and operated its own ports, called minor ports. In its initial years, it drew its budgetary support from the Government of Gujarat, but by the late 1990s it paid off most of its loans and is perceived to be a pre-eminent revenue earner for the state.[43]

Over time, and not necessarily in a planned manner, but stimulated by ad hoc demands and policy dilemmas, some policies and a legal framework were put in place to regulate the port sector. Initially, the notion of captive jetties was introduced for port-based industries, and these jetties were allotted to some private parties. The port policy of 1995 outlined the basic objectives of growth and expansion, the development of 10 separate port sites, and the possibility of privatization. It became the founding orientation document. In 1998, a more detailed plan vision for GMB and ports was prepared: 'Identification of Infrastructure Requirements for the Year 2010'.[44] Interestingly, an external source provided the formative input for the evolution of port policy, though, as in the past, Gujarat officials deployed the input received in locally specific ways. The Netherlands government provided GMB with technical assistance in the form of a 'Cooperation Agreement', covering transport economics and planning, port planning and development, and institutional strengthening of GMB. The Dutch technical assistance was in the form of two Dutch high-level experts available for regular consultations and advice as members of a joint Gujarat–Netherlands Core Group of experts. There were also two resident experts based in Gujarat for several months.[45] Thus, external impetus has always been a crucial source of local reforms.

Initially, in line with the widespread prevalence of a joint sector in Gujarat, the idea of joint sector ports was mooted as a venture between the GMB and some select private sector parties. In 1989, Pipavav was to be built as a joint sector project, and in the early 1990s, Mundra Port was also conceived as such. In 1997, a set of BOOT principles was set out through a government resolution encouraging competitive bidding and private investment in port projects. Around that time, many of the joint sector ports were further privatized, with GMB selling off its equity. What is striking about the port policies is the implicit guarantee by the state for the facilitation of 'operational freedom' to private parties and the assurance of a commercial and market-driven environment that would encourage competition and efficiency. Even so, the GMB was to be the owner or landlord, leasing out the land around the ports and other assets based on what came to be called a 'Concession Agreement'. Interestingly, tariff flexibility was promised to the developer.[46]

In 1999, with the formulation of the GID Act, a further strengthening of the legal framework was achieved, as well as the formal articulation of a PPP framework. These legal and policy innovations—BOOT principles, the design of a Model 'Concession Agreement', and the PPP framework set out in the GID Act of 1999—were attempts to make transparent the process of port development that had till then proceeded randomly. This institutional architecture was an attempt to impose order over chaos and give legitimacy to deals that were being consummated, but it set into motion a process of expansion of new projects, which may not have fructified if Gujarat had not passed these legal changes.

The process of competitive bidding for infrastructure projects began in early 2000s (Dahej and Hazira), but what is interesting is that the GID 1999 Act was amended in 2006 to incorporate projects awarded through 'Direct Negotiation'. (Section 10A of GID Act was inserted in 2006.)[47] Thus, there are three routes for the selection of projects: (i) competitive bidding through an open competitive bidding process that yields more than one developer; (ii) comparative bidding or what is known as the 'Swiss Challenge Route', when there is only one project developer and for which competitive bids are solicited from other prospective bidders and the original proponents are given an opportunity to match their bids; or (iii) direct negotiation.

In 2007 the government also added the Viability Gap-Funding Scheme (VGF), an enhancement of a similar scheme outlined by the Ministry of Finance, Government of India, which had been proposed to the Thirteenth Finance Commission.[48] Both the 'Swiss Challenge Route' and the 'Direct Negotiation Route' are an attempt to write into law direct, one-to-one deals with the private sector, albeit with some regulatory oversight built in. In addition, captive jetty expansion has also proceeded: Reliance—Sikka and Essar—Hazira, as well as the expansion of the already developed Greenfield ports (Mundra, Pipavav, Dahej, and Hazira). The GMB also envisaged revival of old ports like Okha, Navalakhi, Porbander, and Magdhalla. By 2009, many such projects with the participation of the private sector have been implemented with a total private investment of Rs 1,86,878 crore (GMB Annual Report, various years).

Notwithstanding an apparent accretion of power and capacity, the process of capacity building in the port sector proceeded through 'incremental change' (Thelen 2000) and was not linear. In contrast, it was marked by crucial failures in the early stages, delays, and random trial-and-error learning. Policies and institutional frameworks were evolved post facto to justify on-the-ground changes and developments; institutions and governance sometimes followed rather than preceded success. Even so, in the second phase, the creation of new institutional frameworks—BOOT principles, the GID Act, and GIDB— had a clear impact. Slowly yet surely, this 'two steps forward, and one step backward process' although marked by some false starts, court cases, and societal challenges, nonetheless led to some notable successes in port development.

Problems and Dilemmas

Notwithstanding these notable successes, is the Gujarat government's port model worth emulating? Alternatively, to express it differently, have these new frameworks and innovations created the requisite capacities not only to initiate but also manage and ensure broader public interest in implementing PPP initiatives? I argue that critical problems and dilemmas have been generated by the implementation of PPP in Gujarat. First, and foremost, PPP requires new state capacities and expertise, such as legal expertise and the skills to manage and monitor private projects. The projects are extremely complex and technical in nature, requiring new skill sets and management techniques. Even at the negotiation stage, many pitfalls could affect how much the state benefits from the project for at least 30 years as many of the 'Concession Agreements' are for that duration. As many officials noted, the private parties come with an army of lawyers, while the government negotiates with one or two bureaucrats with no legal expertise and often very little experience.

In addition to legal expertise, many new sets of skills are required by the state: technical and technological skills relating to the particular sector, the skills to manage and draw up the contracts with private parties, financial accounting, and oversight of the various aspects of managing and implementing the contracts, as well as monitoring skills to ensure that the terms of the contract are fulfilled. Thus, it is clear that state agencies in charge of managing the new environment need to become stronger and more capable. They need to refurbish the basic capabilities of the organization and enhance their legal expertise. In this scenario, the GMB, notwithstanding its notable successes is, in the words of a senior official using an evocative metaphor, 'like an Ambassador [a old somewhat clunky car in India] in Manhattan (New York City)'.[49]

The government has failed to refurbish internal state capacities by re-training or re-skilling its employees[50] or even permitting the hiring of new expertise. Unfortunately, the impetus to liberalize has meant the privatization of the state, as the state tends to outsource even basic functions to private consultants. Therefore, now, many years after the institution of economic reforms, the policies of economic reform have become a real constraint on effective privatization and economic reform. As reiterated by a senior official of the GMB, 'Policies and ideological dogmas about market-oriented reforms—the state shrinking for example—are undermining the real purposes of private–public partnerships, which is [intended] to service the citizens better and more productively.'[51]

Port reform highlights several crucial counter-intuitive insights about the preconditions and origins of effective reform. First, the process of policymaking and policy change can be energized by political vision and leadership at the top of the system. Chief ministers and their individual commitments and abilities, as well as senior bureaucratic functionaries play an indisputable role in energizing states, even those with strong state capacities. Second, the process of policymaking and institutional emergence and consolidation proceeded through an iterative process with failures and ad hoc learning. Also, similar to other policy domains, new monitoring institutions that supersede and coordinate other state agencies emerge as crucial to an effective state. Third, the private sector plays a major role at all stages of policy formulation and implementation in Gujarat and at crucial moments, policy and legal frameworks have merely formalized already existing state–private sector relationships at the ground level. State–capital interactions play a hidden and yet powerful role in Gujarat's port sector.

REFORM OF THE GUJARAT ELECTRICITY BOARD

The unbundling of the state electricity board without privatization in Gujarat is regarded as a case of successful reform.[52] R. Joshi wrote a case study of this turnaround, which was published in *Smart Manager* (February–March 2008), arguing that 'the case study demonstrates how strong commitment at the highest political level in Gujarat led to the transformation of a loss-making utility into one of the best public utilities in the country' (Joshi 2008: 1). This account resonates with the self-projection of the state, which argues that crucial state actors designed and framed an innovative strategy of power reform. My empirical analysis and argument throw up an alternative, more contingency-driven story where different kinds of individuals and external actors matter more, and their actions are stimulated by crisis and accidents. It is a story where, similar to fiscal reform and port development, external actors—in this case the Central government, the ADB, and a regulatory oversight body (Gujarat Electricity Regulatory Commission [GERC])—play a largely unrecognized role.

Between 2003 and 2009, many changes were evident in the power sector in Gujarat. In May 2003, the government passed the Gujarat Electricity Industry Act and subsequently unbundled the Gujarat Electricity Board (GEB) but without privatizing or firing any employees. The GEB was transformed into six corporate entities, but all held by a holding government company, the Gujarat Urja Vikas Nigam Limited (GUVNL), which acts as a nodal planning and coordinating company. From a loss of Rs 1,932 crore in the early 2000s, the GEB showed a profit of Rs 220 crore in 2006–7 and a significant reduction in transmission and distribution losses (Ibid.). How was this achieved? The real story of power reforms in Gujarat is longer-in-the-making, non-linear, and a fascinating story of individuals and chance-specific factors, not visionary 'political will'[53] or state design. It begins in failure and a serious crisis, not in the superhuman vision of its political leaders.

Gujarat thought of reforming its power sector in the mid-1990s. Some reforms were introduced in 1995–6 but not in the right sequence. The government seemed too eager to initiate private power participation and issue policy statements on captive power use and independent power projects by providing state guarantees against demand risks and losses without addressing the internal inefficiencies of the GEB (Dholakia 2003: 309). The state negotiated adverse 'Power Purchase Agreements (PPAs)' with private power producers, with high tariff rates affecting the future viability of the GEB. While the supply of power to the state increased, GEB's financial situation began deteriorating rapidly because it had to buy power at relatively high prices from the private power producers and could neither force tariff revisions nor remove inefficiencies in transmission and distribution, which were as high as 34 per cent. Thus, quick and early privatization added to the woes of the GEB.

The ADB loan had urged power reform of agricultural tariffs in 1996, but this remained a dead letter. Then, in 1998–9 or thereabouts, negotiations commenced with the ADB for a separate power reform loan of $350 million. In 2000, the government at the time committed the state to power reforms to both the Central government and the ADB (Asian Development Bank 2000). In line with national trends, the state had set up a regulatory body, the GERC, in 1999. Simultaneously, the Government of Gujarat signed an MoU with the Government of India in which the former committed itself to time-bound power reforms. Some of the reforms included an energy audit, the reduction of transmission and distribution losses, metering all consumers, as well as the passage of a reform bill in the state legislature. Despite these external pressures, the financial losses of the GEB continued to mount and the government was unable to find any momentum towards reform.

Repeated failures in the power sector in the late 1990s underlined the importance of reform. The involvement of the ADB provided an opportunity to continually keep a discussion of power reforms in the air. Gujarat's officials used the state's failure to implement these provisions as a shaming device. In fact, many internal cost-cutting reforms were begun in 2002–3 when it was clear that the political leadership was unwilling and unable to give the go ahead for a full and thorough reform of power tariffs and reforms. In April 2002, the cabinet discussed the necessity of unbundling of GEB.[54] The reform plan faced hostility and derision from all members of the cabinet and there was no consensus on whether any kind of reforms of the electricity sector should be undertaken.[55] The cabinet merely told the GEB to 'become more efficient'. In actual fact, the GEB was on its own at that time with no political support from the government and no reform agenda in 2003–4. Besides, there was no 'political will at the highest level for power reforms'.[56]

Officials of the GEB were dealing with urgent crises as it was running a huge loss and was unable to pay for many of its day-to-day procurement orders for essential technology or meters. There was no money for coal, the transformers were in trouble, every item or equipment of the GEB was old and inefficient, and staff morale was at its lowest ebb. The GEB in 2002 was completely bankrupt with a huge debt, 'with no money for salaries',[57] creditors at its doors, and with no political backing for reform. In the late 1990s the GEB had signed very high tariff PPAs with private power suppliers and that angered the workers because the corporation was paying large amounts to the private suppliers at a time when there were insufficient resources for salaries. Also, the GEB had taken high interest loans in the mid- to late-1990s. As an erstwhile chairman of GEB put it, 'At that time, we had no time to figure out what to do, or to think or to plan a reform plan; we were dealing with crisis after crisis on a daily basis.'[58]

The GEB decided to start small and address the inefficiencies that were the easiest to cut; no other option was open to them. At this juncture the vast and detailed experience of the then chairperson of the GEB as a member (administration) of the GEB in the late 1980s helped her to design effective cost-cutting measures after 2002. Initially, all procurement procedures were regularized and the GEB began monitoring tender conditions for procurement to prevent corruption, as well as ensure quality in procurement. Tender specifications were made detailed and specific. The Board, under her supervision, insisted on high-quality equipment being procured with a careful testing of meters. Some small changes in the procurement procedures and quality increased some GEB revenues. The GEB also became stringent in collecting the revenues due to it, especially from the high-tension consumers, largely industries and other trading merchants, and ensured that the revenues were paid on time.

In an innovative move, in 2002–3 the GEB approached the various financial institutions and asked that they re-finance the various high-interest loans that were pending payment or in default. In lieu of the waiver of interest and penalty payment with reference to some loans, and some payment, the loans were re-negotiated at much lower interest rates, which began affecting GEB's profitability positively. Loans worth Rs 4,130 crore were restructured, contributing to a savings of about Rs 351 crore for GEB.[59] It immediately freed up resources that could then be used to buy new equipment and thereby plug the transmission and distribution losses.

The GEB also decided to tighten the transmission and distribution losses. Here, the chief minister signalled to the political establishment that no power theft case would be overlooked and strict punishment enforced. In many places, the GEB conducted power raids to check transmission and distribution losses. Since 2001, five police stations under the GEB were set up and the police and GEB engineers conducted raids and monitored power theft. It was a comprehensive effort, the goal of which was to increase revenues. From a loss of Rs 1932 crore in 2003–4, in 2004–5 the losses were reduced to Rs 927 crore in a single year through these various cost-cutting measures.

Then the GEB management addressed the problems on the generation side. The generation of power was handled by the Gujarat State

Electricity Corporation Ltd which incurred a fixed capital cost of Rs 494 crore a year. This notwithstanding, it paid a very high cost for power through PPAs which were bleeding the GEB. The GEB decided to address the variable costs, re-negotiating the supply of gas at a cheaper rate from GAIL to reduce the input costs. In addition, GEB decided to use washed coal, which was cheaper, and also began using imported coal which in some cases proved cheaper. The GEB also negotiated a cheaper price for low sulphur heavy stock (LSHS), a widely used furnace oil, from Indian Oil Corporation, which amounted to a saving of Rs 28 crore.[60]

What was more difficult was the re-negotiation of the PPAs that had onerous power tariffs built into them. The chairperson of GEB knew that unless she was able to re-negotiate the PPAs, she would not be able to make a major dent in the overall lack of profitability of the GEB. A committee was therefore set up to initiate talks with GERC and the private power suppliers with whom the GEB had signed PPAs. This was a very difficult process as it faced strong opposition from the private suppliers and the GERC, which feared that re-negotiating the PPA contracts could set a negative precedent for future privatization of the power sector. The private suppliers argued that the sanctity of the contract would be challenged if this re-negotiation became a reality. The dialogue took almost a year, with the informal GEB committee meeting the GERC and the companies with whom they had signed the PPAs. They consulted their own lawyers in re-negotiating with the private suppliers.

Notwithstanding initial opposition,[61] the GEB made a persistent case that for genuine 'public interest' it was necessary to re-negotiate the PPAs. Moreover, the GEB agreed to pay certain dues (interest penalty) owed to the companies in one go and assured the PPA holders that the GEB would be able to begin paying its outstanding dues to the companies on time. Through this long process of consultation and negotiation, the GEB was able to convince the various suppliers that re-negotiation was necessary for both sides and would also be more profitable for the private companies. This successful negotiation led to a saving of Rs 495 crore towards fixed costs in the first phase and Rs 64 crore in the second. In return, the GEB promised to pay its dues on time and also earned a rebate of Rs 150 crore annually between 2003 and 2006.

A crucial, completely accidental institutional coincidence that made possible such actions on multiple fronts was the fact that the officer driving power reforms held three posts simultaneously: GEB chairperson, the Energy Department's secretary, and chairman of the PSUs of the energy sector (Manjula Subramaniam). This centralization of power in one individual—who happened to be a competent and honest civil servant with great experience of failure in the same organization in the 1980s, when she was a member of the GEB Board, and failed then, as she put it, 'to achieve even a bit of reform within the organization'—was crucial and determinative. It was a case of having the right person (right both in terms of integrity and experience in the power sector) at the right time (when reform could no longer be avoided) and the right place (all three positions held by the same individual), when the state was faced with a large-scale fiscal crisis that extended across all departments.

I thus argue that the eventual reform of GEB was more an unintended outcome of several factors rather than designed or conceived as such. None of the actors in the process knew that they were driving a successful reform model, but they were dealing with a wide-ranging crisis in the Gujarat's power sector as they knew best. The success after 2002 was built on the grave of earlier failures, especially in the mid- to late-1990s; these earlier failures provided crucial learning processes. From the maze of many unintended consequences, individual initiative, and accidental learning processes, as well as incentives and ideas provided by the ADB and the Central government, and effective monitoring by an independent regulatory body (GERC), emerged a 'successful reform model'.

EDUCATION REFORM: ENROLMENT OF GIRL CHILDREN IN GUJARAT

Education of girls is the soft underbelly of an otherwise successful industrial state: the literacy rate of females, and correspondingly the enrolment and retention rates of girls in Gujarat, is much lower than in other states and the gender gap in education is quite stark. Only 58.60 per cent of women are literate in the state compared to 80.50 per cent men (2001 census data). Since 2003–4, the state administration has focused with vigour and commitment on the enrolment of girls, and clear gains are visible as the result of its campaigns.

The Kanya Kelavani Nidhi has been created with a long-term goal that no girl in Gujarat remain illiterate, and the efforts have started yielding results. In 2006–7, the drop-out rate of the girl child dwindled to 3.68 per cent from 20.81 per cent in 2000–1 for Classes I to V, and to 11.64 per cent from as high as 36.30 per cent for Classes I to VII. The dwindling drop-out rates are equally supported by new enrolments through Kanya Kelavani Rath Yatra (girl child enrolment drive), a unique initiative in Gujarat. Since 2003, every year June, the chief minister along with his team travels to remote villages to encourage parents to enrol their children in schools. It is a three-day long state-wide drive covering all the villages and the urban areas in scorching summer heat. An atmosphere of festivity and celebration is created. The young children now wait keenly to get themselves enrolled into schools.[62]

What are the sources and reasons for policy innovation for the education of girls, which was ignored for a number of years, if not decades? Here again similar to the other case studies in this chapter, the focus is on origins and sources of policy change as well as institutional features that make a difference to policy outcomes. Here, we see a state strongly *mobilized* for action. This mobilization of state capacity is possible when new ideas for change—a focus on the girl child—combine with civil society's attention on the theme of the negative situation of girls in Gujarat, and most important, the structure of a Centrally sponsored scheme (Sarva Shikhsha Abhiyan [SSA]). Specifically, SSA's careful and specific guidelines, along with effective implementation and monitoring in Gujarat, are the key to the success of the scheme in the state.[63] The sources of policy innovation in the field of education originated in external sources, acquired momentum through the efforts of Central structures and institutions, and were then reinforced by strong implementation by the state government. Important Gujarat-specific innovations, such as a massive mobilization effort, relied on and utilized the larger Central structure and expectations, thus ensuring a powerful complementarity between a Centrally rooted and funded project and the state's own attempts to improve its education statistics. The SSA structure with the possibility of innovation built in, but closely monitored by the Central and state governments, was the institutional causal mechanism that enabled definite change. These factors, in turn, were combined with the initiative of the education minister and chief minister, who energized the entire state administration into campaign mode.

While Kanya Kelavani Nidhi began in 2003, the International Development Agency (IDA) with financial aid from the Government of the Netherlands had selected the state of Gujarat for the implementation of the District Primary Education Programme (DPEP) much earlier. Gujarat was chosen in Phase II of the programme for the period 1995–2002. The DPEP was a programme consciously targeted at the gender gap in education. The implementation of DPEP Phase II in Gujarat envisaged the selection of the three most backward districts—Banaskantha, Panchmahals, and Dangs—where the female literacy rate was below the national average. The aim of the programme was to support a replicable, sustainable, transparent, and cost-effective means to (i) reduce the differences in enrolment, drop-out, and learning achievement among gender and deprived social groups like Scheduled Castes, Scheduled Tribes, minority children to less than 5 per cent; (ii) reduce the overall primary drop-out rate for all students to less than 10 per cent; (ii) raise achievement levels by 25 per cent above the measured baseline levels, and (v) provide access to all children of primary education or its equivalent. However, gender equity in education was the principal goal as the districts had been selected on the basis of gender disparities.

An internal evaluation of the DPEP noted that Gujarat had witnessed a substantial rise in enrolment from 619,756 to 948,532 between 1996–7 and 2002–3.[64] The average formal school enrolment in three districts increased from 73.25 to 108.04 per cent in Panchmahals and to 114.37 per cent in Banaskantha during the same period. Interestingly, it was the early experience of literacy enhancement in the DPEP programme that brought home the issue of school infrastructure. Due to the enrolment drive and other promotional measures, enrolment in the districts increased dramatically, which led to overcrowding and showed up the paucity of the existing school infrastructure. This led to a demand for the construction of new schools, additional classrooms, toilets for girls, and the provision of drinking water and a strong provision for 'civil works' in the follow-up programme: SSA, launched by the Central government in 2002. It appears that Gujarat was the first state to propose undertaking school repairs through Village Civil Works Committees (VCWC), which was later adopted as a national norm and replicated in other DPEP states. In addition, the repairs by VCWC have been completed satisfactorily in the project districts.[65] In Phase IV of the programme, three more districts in Gujarat were selected: Kutch, Sabarkantha, and Surendernagar; the Government of Gujarat, on its own initiative and funds, added three more: Bhavnagar, Jamnagar, and Junagadh. Interestingly, the basic structure of the DPEP programme relied on strict and clear guidelines about the goals to be achieved with specific goalposts set, but as important was local, or what came to be called, community mobilization or responsibility in fulfilling those goals.

The SSA initiated in 2002 adopted the combination of local monitoring bodies first introduced under the World Bank DPEP Programme, but for all districts in the state. Learning from the DPEP structure, Village Education Committees (VEC), Mother–Teacher Associations (MTA), and Parent–Teacher Associations (PTA) were formed in all districts. In addition, a detailed management structure was evolved, right from the 'State Project Office' in Gandhinagar to VECs at the grassroots levels. There were regular meetings of the various organizational committees, and the focus was on the continual updating of rules and regulations, and approving and monitoring work plans and reviewing outputs. This continual feedback and monitoring yielded results and these ideas and practices were carried over to the state's management of later education programmes. An overarching structure and close monitoring enabled regular diffusion and sharing of knowledge about what was working and what was not. For example, the officials of the new districts in Gujarat observed the actual functioning of the block resource coordinators (BRC) in the three old districts and learnt from positive practices. There were regular meetings both in other states and at the Central level, especially in the SSA. Underlying all this was a huge infusion of human capital: hiring a vast array of new staff to implement the programme and, even more important, capacity-building through the infusion of infrastructure (computers) and training. Capacity building and continual diffusion of knowledge and information sharing were very strong components.

Partly stimulated by the success of DPEP in the backward districts, the national debate also moved towards universalization of education and the expansion of basic education in the late 1990s and early 2000s.[66] The Central government launched the Sarva Shiksha Abhiyan Mission in 2002 along with the 86th Constitutional Amendment that guaranteed as a fundamental right free and compulsory education to children in the 6–14 years age group. SSA was to be implemented in partnership with state governments to cover the entire country and address the needs of 192 million children in 1.1 million habitations. The programme seeks to open new schools in those habitations which do not have schooling facilities and also strengthen existing school infrastructure through provision of additional classrooms, toilets, drinking water, a maintenance grant, and school improvement grants. Existing schools with inadequate teacher strength are provided with additional teachers, while the capacity of existing teachers is being strengthened through extensive training, grants to develop teaching-learning materials, and strengthening the academic support structure at cluster, block, and district levels. SSA seeks to provide quality elementary education including life skills. It has a special focus on girls' education and children with special needs, and also seeks to provide computer education to bridge the digital divide. The SSA was to cover all districts in all states but with a strong continuing focus on gender equality in education.

What is important about this programme is that it has been conceived as a 'convergent framework', not a set of guidelines, and much attention has been devoted to putting into place a delivery system and institutional mechanisms in each district to implement the goals. Central funding was provided to every aspect of the programme, with an explicit monitoring mechanism built in, yet providing significant autonomy in how the targets were to be achieved.

In Gujarat, the initial success of the DPEP project was noted first by the Minister of Education when she visited some of the schools in one of the backward districts in the state in the late 1990s. She was struck by the impact of the mission, especially on girl children.[67] Aware of Gujarat's poor statistics in education, she decided to expand the project and extend state support to it. Thus, in later iterations of the programme, the state provided resources for three additional districts from its own funds. The chief minister in turn made the education of girls part of a broader developmental plank in the state.

Thus, the idea of a focus on girls' education was the contribution of the DPEP and the SSA mission, and was widened by the state government. The Department of Education, Government of Gujarat, began sending bureaucrats to the districts under the Kanya Kelavani Rath Yatra to attract students to the school system and motivate parents of children who had never been to school to enrol their girl children. In 2004, the chief minister harnessed this issue and transformed it into an aggressive political campaign by mobilizing the strength of his government behind it. His enrolment campaign began in 2004 but gathered momentum by 2006 when it was planned for 18,000 villages. In 2004, processions of the Kanya Kelavani Rath Yatra—led by cabinet ministers, the chief secretary, and 268 senior officers—were taken to 2,082 villages with a female literacy rate of under 20 per cent. After 2004, a state-wide drive for greater enrolment occurred during the first day of school. The chief minister, ministers, and civil servants—district collectors, IAS officers, Indian Police Service (IPS) officers—adopted five villages and moved from village to village in the scorching heat of the summer for three days. In accordance with the strategy adopted, every minister and officer visited five such villages a day. Within three days each of them managed to visit 15 villages. In 2006–7, the campaign was planned for each of Gujarat's 18,000 villages.In 2003–4, 75,847 girls were enrolled, and in 2006 the numbers rose to 307,280 as the campaign gradually began attracting greater interest (see Table 4.3).

Table 4.3 State Mobilization in Action: Visits of the State Functionaries for the Enrolment of Children, 2003–8

Year	Ministers on Visit	Officers on Visit	Village Wards Visited
2003	14	All district officers	NA
2004	14	182	7,765
2005	19	291	5,750
2006	27	537	18,113
2007	28	516	20,494
2008*	18	620	20,203

Source: Unpublished government data available with the author.
Note: * Data for 2008 had not been collated by 2009 and is an underestimation of the visits and extent of coverage.

This programme exemplifies the process of mobilization and galvanization of a state. The entire state machinery is mobilized to generate a festive or *mela* atmosphere, which has the effect of attracting all the families living there in a show of solidarity and support, and correspondingly shaming those absenting themselves. It is widely reported that children and parents came dressed up for the occasion, and were greeted by teachers and officials. By 2008 enthusiastic participation was reported from everywhere and the local community even donated funds for the provision of school bags, slates, pens, pencils, textbooks, notebooks, and uniforms. Around Rs 4.63 crore was collected as donations in 2006 as compared to Rs 2.15 crore in 2003 (Saral Communications 2006: 19). Chhotubhai Bamania, officer-in-charge of teacher training in Dahod, said:

> The project is a shot in the arm for girl's education. We celebrate the enrollment of a girl child in primary school as a social function. Earlier, when the parent used to come to admit his or her child, nobody knew. But, now things have changed. Enrolment is celebrated like a marriage, or birth of a child. People are happy that their children's admission is celebrated by the entire village like this. It is due to the impact of gender awareness created by Kanya Kelavani Rath Yatra, that about 50 per cent of mothers are coming to enroll their daughters, now, while earlier only their father used to come for admission. (Ibid.)

Notwithstanding this focus on Kanya Kelavani, without the DPEP and the structure of the SSA, the state-specific programme could not have been conceived or even implemented. This specific state campaign is wholly reliant on the institutional architecture of the SSA, and the mission officials are those who organize the melas, visits of the ministers, and the like. It is thus an example of a rare complementarity between state-level initiatives, benefited by the larger concept provided by DPEP, SSA, and the framework of a Central government scheme. Without these external elements, such improvement in the drop-out results would not have been possible.

Is Gujarat a Developmental South Asian Tiger?

What does this analysis across diverse sectors and policies tell us about the larger comparative model that has emerged in Gujarat? In comparison with the classic developmental states—the economies of East Asia and their miracle growth rates—India was perceived to be a 'failed developmental state' (Herring 1999). From 1960–85, India grew slowly, at 3.5 per cent per annum, which amounted to 1.5 per cent per capita (GoI, *Economic Survey*, various years). The theory of a developmental state argued that states are not hindrances or incidental but necessary for rapid economic growth. States can identify winning sectors and industries as well as facilitate learning and flexible innovations (Johnson 1982; Amsden 1989; Wade 1990), provide a managed financial regime that redirects industrial policy to its best uses, subsidize credit, provide incentives, and deploy technological innovation for the service of the nation-state.

An analysis of Gujarat (and other sub-national states within India) shows that faced with the reality of a restrictive central regime during the license raj, state leaders devised a system that enhanced state objectives and facilitated private (domestic) investment. Thus in India, sub-national developmental states flourished even as the national state floundered in comparison with the East Asian tigers prior to the unleashing of reforms from 1991 onwards (Sinha 2005).

Strikingly, the motivations and elements of a developmental state in Gujarat mirror the dimensions that were crucial in Japan and South Korea. Johnson (1982) argued that the Japanese state was neither socialist nor free market but a 'plan-rational capitalist state' conjoining state guidance with private initiative. He outlined how the Ministry of International Trade and Industry (MITI) exemplified strategic bureaucratic capacity, as it designed and shaped industrial policy with remarkable abilities and technical skill. Interestingly, and I would argue in a manner parallel to Gujarat, Johnson highlights the role of nationalism as a catalyst in fuelling a 'will to develop'. Gujarat's location and proximity to Mumbai, and the implicit competition with the state of Maharashtra together with the rise of linguistic sub-nationalism in the 1950s and 1960s, created a parallel impetus for the rise of Gujarat as a developmental state. The political and bureaucratic leadership was keen to see Gujarat rise as a state that could develop rapidly in competition with Maharashtra (Sinha 2005).

Johnson confirms the high position of the economic bureaucrats in the Japanese government where civil servants in the priority ministries of finance, industry, and trade are selected with care and attention. A similar process of informal selection was practised in Gujarat where the best bureaucrats were chosen for finance, industry, and the various corporations linked to industry. In a similar vein, Amsden (1989), in a now famous study of South Korea, highlights the role of learning and innovation by copying that characterizes late developer countries like South Korea and Taiwan. Gujarat's state agencies display some of these capacities of turning crisis into opportunities and using developmental achievements to mobilize society into a unified agenda for development.

However, Gujarat must also learn from the East Asian tigers. The East Asian tigers combined growth with equity, even using industrial policy as a means of social protection for workers in the small-scale sector, farmers, and declining sectors, and ensuring a system of lifetime employment and systematic insurance of its workers, alongside strong institutions furthering literacy to raise the skill level of the population at large (Chang 2002; Estevez-Abe 2008). Even more interestingly, the South Korean state provided subsides, credits, and regulatory access to big business, the *Chaebol*, but also extracted performance from them. Amsden shows how the state disciplined private capital in the service of development through diverse means such as export targets (1989: 16–18). Gujarat's rush to attract investment has tended to give free rein to the private sector and faces a declining capacity to manage the power of private initiative for sustainable development of the state and its citizens.

Second, when faced with the financial crisis of 1997–8, South Korea expanded the welfare state to larger sections of the population (Kuhnle 2004). Third, developmental states such as Japan and South Korea have faced challenges of renewing the state, and have suffered mixed results in re-tooling the state to respond to the new challenges of the global economy. Gujarat faces similar dilemmas across all three fronts and needs to derive the correct lessons from the developmental states if it is to replicate their successes.

The experience of economic reforms in Gujarat also reveals insights about the role of the private sector in economic development. First, the private sector is clearly seen as a partner in the growth process by the state's political leadership. This pro-private sector orientation goes back to the joint sector concept that prevailed in the 1970s and 1980s. Second, both formal, institutionalized mechanisms of public–private interaction—for example, the presence of private sector actors on the Board of State Public enterprises—and informal consultations with key private sector actors embody this orientation. Formal mechanisms can help nudge state actors to promote greater efficiency and growth in economic policy, while informal channels can contribute to key policy innovations adopted by the state. Other states should adopt and create mechanisms to allow for greater interaction between governments and the private sectors. The state should also incorporate research and policy expertise in its policymaking process, as was done in the case of tax and fiscal reforms in Gujarat. Local universities and research institutions should be used more for such purposes.

Additionally, as the private sector becomes more complex, refurbishing technical capacity to manage contracts and public–private sector partnerships becomes a key priority, and demands new kinds of expertise within the state. State officials should be provided with mid-career training in business schools and in technical subjects related to their fields of operations. It should be noted that key organizations, such as the Gujarat Maritime Board and the Gujarat Infrastructure Development Board, have come a long way in recasting their skill profile to deal with increasingly sophisticated counterparts to address the twin challenges of contracting and monitoring implementation. A challenge for the future is the need to strengthen public oversight to ensure greater accountability and transparency in the working of the private sector more generally in the state.

CONCLUSION: IMPLICATIONS AND LESSONS

Gujarat has given birth to crucial and admirable developmental achievements and instituted crucial changes in governance over the past 10–15 years. The state benefited from a long history of strong state capacity and the innovative and flexible abilities of its leadership to leverage historical strengths. Gujarat succeeded in good governance before that idea became a fashionable slogan. How and why have reforms been at the forefront of developments in Gujarat in the face of enormous internal and external challenges? What can other states learn from Gujarat's successes and failures, and the processes of economic reform in the state? What common lessons can be drawn from the four different case studies of fiscal reform and privatization, ports, power reform, and education enrolment?

First, at each stage, far-sighted vision and plans have paved the way for future developments and helped to transform crises into opportunities. Gujarat's visionary and competent civil servants modelled the state after East and South-East Asia much before those countries had emerged as models on the national stage. In 1994, L. Mansingh, the then managing director of GIIC, noted: 'I want to emphasize that we are not competing with any state. We are now deliberately benchmarking ourselves with the newly industrializing countries so that we know how far we lag behind. … We believe that we must compare ourselves with the Asian Tigers.'[68] The leadership in recent times also hopes to emulate some of the successes of South Korea and Japan.[69]

This, however, raises the issue of the sustainability of the gains in Gujarat. For Gujarat to become a real Japan or South Korea, the state must make the current rhetoric of social development and social sector infrastructure a concrete reality rather than a mere media campaign and slogan. As an illustration, it must be as ambitious for its social goals as for industrial development, perhaps even more so.

Notwithstanding a state commitment towards the social sector, these goals are not integrated into any of the policies towards infrastructure or industrial development. Vis-à-vis education of the girl child, it must enhance the Centre's initiatives through the SSA and focus on retention, access, equity, and quality of education, and not only on formal enrolment alone. To put a human face to its development is no longer an option but the demand of the new century, and in line with the goals of a new developmental state that every state in India must achieve.

Second, severe economic and political crises have provided the urgency and threats necessary to energize pending reform strategies at crucial moments in the state's history. In fact, crises have been deployed by state officials to create new opportunities for unpopular reforms, which might not have otherwise have been possible. Fiscal crisis in the mid-1990s and in the early 2000s was so utilized. In this deployment, external factors exerted valuable pressure (on power reform and universalization of education) and were also adapted by the state for local and regionally specific goals.

State capacity emerges as a crucial independent variable that enables the state to mediate crisis or external opportunities as well as threats. What specific aspects of state capacity are important? Three elements emerge as crucial. One is accidental learning in the course of policy-making, fiscal reform, and privatization, as well as in port and power policy. Flexible, innovative, and independent officials are the key to such serendipitous learning. Yes-men and status-quo officials are incapable of institutionalizing change and random innovations. Second, it is essential to have institutions to monitor and overlapping ones to coordinate the effective translation of vision and goals into actual outcomes (for example, fiscal reform [informal group, and ADB committee], port reform [GIDB], education reform [SSA], and power reform [GERC]). Similarly, at the governmental level, the weekly meetings of the current chief minister with all the secretaries to review policies, the necessity of reporting how many state officials have visited the villages during the enrolment drive are important monitoring devices. Another key governance reform is the refusal to nominate party members as chairpersons of most economic corporations, which has positively impacted the performance of many government agencies. These mechanisms institute a feedback and cross-checking feature and prevent the growth of inertia and vested interests that could derail reform even in strong states.

Third, the state in Gujarat is energetic and mobilized, and is able to go into a campaign mode at the instance of innovative leadership. Strong complementarity between the Central government and the state initiatives is also exploited for the benefit of citizens of the state (for example, power and education reforms). Yet, this harnessing of the state in a campaign mode can have some deleterious consequences. As an illustration, the current administration has directed all profit-making autonomous corporations to deposit 30 per cent of their tax before profit into a separate state agency; this is harmful to the autonomy and incentives in many state agencies. Two of these three dimensions of state capacity—monitoring mechanisms and an energetic and mobilized state—can be replicated in other states, while flexibility and non-linear innovative ability are more difficult to emulate. Even so, encouraging autonomous civil servants and corporations and rewarding new policy initiatives could facilitate such non-linear accretions of state capacity.

However, a cautionary note needs to be heeded by other states regarding the decay of state capacity. State strengths take a long time to build but can rapidly decay. Notwithstanding historical strengths and crucial innovations, the state institutions in Gujarat are in decline and losing their historical capabilities. New expertise and knowledge are demanded by the new challenges of economic reform, which should be embodied in new and reformed state institutions. Today the industries department has less than half its staff deployed in monitoring and implementation, notwithstanding a political obsession with numbers and aggressive claims about Gujarat's ability to implement MoUs. Since the early 1990s, the industries department has stopped hiring new staff, and as people periodically retire, the size of the state apparatus is declining at a time when Gujarat is attracting more and more investments. The GMB lacks the capacity to effectively negotiate with private partners or to manage and ensure that PPP projects serve the public good without denying the private interest. The SSA, with its strong focus on external infusion of capacity through a Centrally sponsored scheme, provides a counter-example of high capacity. This erosion of technical and non-technical state capacity within the state runs across many departments and sectors, and will affect the ability of the state to respond to new challenges and to oversee the public–private model of development that the state hopes to implement. As noted by a senior civil servant of the industries department, the current challenge is to 'create new professionals of facilitators, and new expertise and knowledge that can make current developments in the state sustainable for many years in the future'.[70]

As an illustration, state governments, including Gujarat, rely heavily on private consultants for simple functions and roles. These consultants are, however, over-used and strain scarce state revenue and further erode its capacity to perform effectively. Most general consultants have become glorified presentation producers; their glossy brochures more in evidence than actual policy expertise. Besides, they seal themselves off from public scrutiny and transparency while recommending transparency to the state. In most states, the problem is not the lack of funds but the courage and vision to think outside the box, to reorient their priorities, and renew their capacities.

Finally, the role of the private sector provides crucial lessons. The political leadership of the state thinks of the interests of private capital to be tied to the progress in the state; at face value there does not seem to be a zero-sum relationship between the state and the private accumulation of wealth. It generates both remarkably conflict-free prosperity and some betrayals of the public interest, as in the case of privatization, and to some degree port development. The challenge for the state is to ensure continuing investment and growth-oriented initiatives while instituting some checks on the unbridled capture of public assets for narrow ends by the private sector. 'Guiding markets',[71] a task that the Gujarat state has done relatively well so far, is as necessary after liberalization as earlier, if not more so. It is a lesson which other states also need to pay heed to.

NOTES

1. Economic reform is an amorphous term with many meanings. I define it as a combination of fiscal, policy, and governance changes that re-allocate the relative weight of state power and market forces in an economy. In this chapter, I study fiscal reforms, disinvestment of public enterprises, public–private partnership in the port sector, and enrolment of girl children.

2. For a sampling of studies that focus on states within India, see Jenkins (1999); Sinha (1999; 2004); Bajpai and Sachs (1999); Paul (2000); and Kennedy (2004). Also, see the special issue devoted to economic reforms in Andhra Pradesh, *Economic and Political Weekly*, 22, 8 March–4 April 2003.

3. While excellent studies on Gujarat exist, none of them analyse the pathways of economic reform in the state, especially for the period 1990–2009. For important studies on Gujarat, see Hirway et al. (2002); Shah et al. (2002); Shinoda (2002); Yagnik and Sheth (2005); and Menon (2009).

4. The 'Vibrant Gujarat' concept is the continuation of a very similar meet organized in March 2001, entitled 'Resurgent Gujarat'. See CII (2001). Also see, *Business Line* (2002).

5. Srinivas (2009). In *Business Today* surveys in the late 1990s, Gujarat would consistently rank second and first on many parameters. See, for the older surveys, 'A Business Today–Gallup-MBA Survey: Best States to Invest In', *Business Today*, 7–21 June, 1996; 'A BT–Gallup Research Project: The Best States to Invest In', *Business Today*, 22 December–6 January 1998; and 'The Best States to Invest In: A Business Today–Gallup Organization Research Project', *Business Today*, 22 December 1999–6 January 2000.

6. For a perspective that stresses contingent factors in the making of policy, see Pierson (2000a) and (2000b).

7. The Gujarat State Fertilizers Corporation was the public sector enterprise set up for that purpose.

8. As an illustration, Gujarat's industry secretary and other officials were required to give a list of backward districts for the central capital subsidy scheme in the early 1980s. The officials realized that even with incentives, no development will be possible in absolutely backward districts where even the basic infrastructure was missing. Thus, they gave a list of second-best backward districts, with some proximity to large metropolitan areas and some infrastructure. Bharuch was designated as a 'backward district' for the purpose of this scheme and developed rapidly in consequence. Interview, retired industry secretary, Ahmedabad, 19 March 2009.

9. For an argument that emphasizes the role of fiscal crisis in sub-national reforms in India, see Howes et al. (2003).

10. A former finance secretary noted that the fiscal situation in Gujarat by 2001–2 was so dire that urgent reforms were not an option any longer.

11. These figures are from Dholakia (2003).

12. ADB (2007). In an interview with some ADB functionaries, they noted that the SFC report of 1995 played a crucial role in their decision as they realized

that the key state officials were thinking along similar lines, and this would ensure internal credibility to the reform process and their loan.

13. Interview with Author, Gandhinagar, 13 February 2009.

14. See 'Institutional Reform: Budgetary Procedures, and Management', in State Public Finance Reforms Committee (2000). Many of these recommendations were never adopted, although an internal report on the extent of the subsidies given by the state, to be kept confidential, was taken up each year.

15. Interviews with author, February–March 2009, Ahmedabad.

16. State Public Finance Reforms Committee (2000). Also see Asian Development Bank (1999); Operations Research Group (1999).

17. Interviews with the concerned officials confirmed this; there was a strong ideological belief that the government should undertake only those activities to which it was best suited. It was a small group of people (names withheld for reasons of confidentiality) who firmly held this view.

18. Judgment on the *Civil Application on Gujarat Trade Union Manch* v. *Gujarat State Textile Corporation*, available at http://www.vakilno1.com/judgements/companiesact/2000-099compcas0461guj.htm, accessed on 26 March 2010.

19. 'State Government to Partially Privatize GSFC, GMDC', *The Economic Times*, 30 November 1997: 'The Gujarat Government is all set to fully or partially privatize certain public sector units and merge several others in keeping with guidelines laid down by the Asian Development Bank (ADB). This will enable the state to secure the $350 million loan offered by the bank for developing infrastructure in the state.'

20. Confidential interview, Ahmedabad, 26 February 2009.

21. http://www.vakilno1.com/judgements/companiesact/2000-099compcas0461guj.htm, accessed on 26 March 2010.

22. Interview with Author, Ahmedabad, March 2009.

23. Interview with Author, Ahmedabad, March 2009.

24. Interviews with Author. One member of the group that implemented disinvestment told me that initially he also believed that only loss-making PSUs should be privatized; but as the group began discussions, he was gradually convinced that most PSUs should be disinvested.

25. The counter-intuitive result that liberalization demands state formation or regulation, or state-building has been confirmed by empirical evidence from a wide set of cases: Mexico (Snyder 1999); Chile and Britain (Schamis 2002); financial sector reform in UK, USA, and Japan (Moran 1991); and Brazil (Pereira 1999). Also see, Solimano et al. (1994) and Wise (2003).

26. For a perspective that focuses on bureaucratic politics, see Allison and Zelikow (1999).

27. Gujarat Industrial Investment Corporation, Gujarat State Finance Corporation, Industrial Extension Bureau.

28. Interview with L. Mansingh, MD, GIIC, 'BS State Survey on Gujarat', *Business Standard*, 1998.

29. India has 12 major ports and 139 operable minor ports. While the primary responsibility for the development and management of major ports lies with the Central government, the intermediate and minor ports are under the control of the state governments.

30. Interview, Chief Minister's Office, Gandhinagar, 15 March 2009.

31. Gujarat is ranked first in terms of an 'Infrastructure Index' constructed by a study conducted by the National Council of Applied Economic Research (NCAER). See Venkatesan and Varma (1998: 57, Table 31).

32. I interviewed around five to six key officials who were shaping the industrial and infrastructure policies of the state in the early- to mid-1990s.

33. The government began examining the feasibility of establishing a port in Gujarat in line with those in Rotterdam and Singapore. See *The Economic Times* (1993).

34. Kailashanathan and A.D. Desai were given this responsibility.

35. Interview, Keshubhai Patel, Ex-Chief Minister March 2009, Gandhinagar. Interview, Suresh Mehta, Ex-CM and ex-Industry Minister, March 2009.

36. Interview with one of the authors of the port policy, Gandhinagar, March 2009. See, for those calculations, Gujarat Maritime Board (1998).

37. Author's Interview with GMB officials who went to Holland for training.

38. Author's Interview with a retired senior civil servant, New Delhi, February 2009.

39. For the emerging issues in implementing public–private partnerships, see 3i Network (2008: Chapter 2).

40. While the GMB formulated a Model Concession Agreement with the help of ADB, such an initiative stalled at the Centre. While the Prime Minister's Office asked the cabinet secretariat to prepare such an agreement, differences emerged between the Planning Commission and the shipping ministry, with the result that such an agreement is yet to be finalized. See 3i Network, *India Infrastructure Report, 2008*, p. 18.

41. 'Public–Private Partnership Initiatives in the State of Gujarat', A presentation by the Gujarat Infrastructure Development Board, 2 September 2006.

42. Interview with a senior GMB official, Gandhinagar, March 2000.

43. In 2009, it is one of the richest corporations in the state. This has, in turn, led to conflict with the Central government, which wants to tax its earnings, and the state government, which wants to use its revenues for the general functions of the state. This has given rise to an interesting tussle.

44. Gujarat Maritime Board, Internal Document, September 1998 (available with the author).

45. Gujarat Maritime Board, Internal Document, September 1998, pp. 48–9 (available with the author).

46. Government of Gujarat, Ports and Fisheries Department, Resolution No. WKS-1097-G-213-GH, Annexure B. Available with the author.

47. Direct negotiation is for the following projects: (1) a project, which is innovative or involves proprietary technology or franchise, exclusively available globally with the individual; (2) a project in which competitive public bidding, as provided in Section 9, has failed to select the developer; (3) a project to provide social services to the people; and (4) an infrastructure project, which is an essential link for another larger infrastructure project, owned or operated by the same individual. A copy of the Act is available at http://gidb.org/Act_2006_.pdf, accessed on 12 May 2009.

48. The Government of India will defray 15 per cent of project cost as a VGF. It has designated Rs 4,840 crore for providing VGF in infrastructure projects.

49. Interview with Author, Gandhinagar, March 2009.

50. Interestingly, the GEB did re-train its officials, a fact that contributed to its success in restructuring.

51. Author's Interview with GMB's CEO, March 2009.

52. In contrast to the Orissa model, which is considered to be a failure.

53. State agencies as well as journalistic accounts attribute to political will much causal power. I have shown in this chapter that political will is generated by specific features of state capacity, such as monitoring and mobilization. Political support for reformers undertaking difficult reforms is crucial, but that support is made possible by pre-existing state traditions and activated bureaucratic leadership and skills. At crucial moments, political leaders are also found wanting, as in the case of the power reforms, and bureaucratic micro successes precede the stepping stone for larger and macro success without state design from the top. Thus, 'political will' needs to be unpacked and its historical antecedents delineated more carefully than is usually the case in easy celebrations of political will.

54. Interview with Author, March 2009.

55. Interview with Author, March 2009.

56. Political leaders have taken credit for the power reforms in Gujarat after the GEB had already been reformed and achieved success through a very painful process.

57. The GEB in 2001–2 was selling its own scrap and using that money to pay some of the salaries of its employees.

58. Interview with Author, February–March 2009.

59. Author's Interview with ex-GEB Chairman, who re-negotiated these loans.

60. Author's Interview with ex-GEB Chairman, who re-negotiated these agreements.

61. In the first two dialogues with the companies, it seemed impossible to achieve.

62. See: http://www.gujaratindia.com/Initiatives/Initiative2(3).htm, accessed on 15 May 2009.

63. See Rustagi (2009) for an analysis of the central schemes for the universalization of education.

64. This covers the initial three DPEP districts as well as three more added to the programme by the state government.

65. Gujarat Council of Primary Education, DPEP and SSA, Implementation Completion Report. Available with the author.

66. See Rustagi (2009).

67. Author's interviews with the education officers of the state, February–March 2009.

68. *Business Standard* interview with L. Mansingh, MD, GIIC.

69. Author's interview with Narendra Modi, Chief Minister, Gujarat, March 2009.

70. Interview with Author, Gandhinagar, March 2009.

71. Robert Wade (1990) used this concept in his analysis of South Korea and Taiwan.

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