



Tribhuvan Tiwari/*outlook*

## Bridging The Gap

Though AAP may not have overreached on poll promises, its next few steps will decide if the Delhi govt can afford its generous subsidies

### [Parth J Shah](#)

The newly-elected Aam Aadmi Party (AAP) has fulfilled two of its most talked about promises — it has cut tariff rates for power by half up to 400 units of consumption and given 20,000 litres of free water to each household, waiving off sewage charges as well. The Delhi government says that the power subsidy would cost taxpayers Rs 1,427 crore and water subsidy Rs 250 crore per year. Given that its annual budget is around Rs 36,766 crore, most commentators argue that the new subsidies are small and manageable for the government —

the power subsidy is about 3.9% of the Delhi budget and the water subsidy 0.7%. But is this the right comparison?

In 2014-15, the Delhi government's water budget was Rs 596 crore and power budget Rs 885 crore. Adding the old subsidy amount of Rs 260 crore, we get a total figure of Rs 1,145 crore. So, the water subsidy works out to about 42% of the water budget from last year and power subsidy 125% of the total power budget from last year. After all the competing needs were debated and taken into account, the Delhi government was able to allocate Rs 596 crore for water and Rs 1,145 crore for power within the Rs 36,766-crore budget last year. However, the new AAP government does not have the freedom to re-allocate the entire Rs 36,766 crore budget for Delhi — it has to deal with several other competing demands.

### ***Pehle AAP***

The larger question is whether these subsidies represent a one-time cost or a perpetual burden on taxpayers. The government claims that once the CAG audit is done and the cost padding by power companies is taken into account, the power tariff would be re-adjusted downwards. Moreover, if the electricity market in Delhi is restructured to allow more choices for bulk and retail consumers and to make power companies compete against each other in the city, the tariff is likely to reduce further. There is a lot of scope for better power market design and improvement in the efficiency and quality of service. 24x7 power supply at a stable voltage would reduce or remove the need for generators and voltage stabilisers, leading to huge savings for consumers. A rough estimate pegs the cost of purchase and running of generators, inverters and stabilisers at Rs 600 crore.

Innovations, investments and implementation of the right strategy can help the government improve productivity and efficiency. This would also lower costs for the government and power companies and directly benefit consumers. The Delhi government's claim that these improvements and savings are feasible is legitimate. The question, however, is whether these improvements would actually be implemented. Now that the voters are satisfied with the subsidy announcement and the AAP government is being applauded, who will worry about innovations, investments and implementation — in or outside the government — over the next five years? In the private sector, the gains of efficiency and productivity improvements are awarded after they are achieved. In the political sector, the gains of improvements are awarded before any work has even started. Who will now work to make those potential gains a reality?

This is the fundamental challenge of incentive compatibility and time consistency in the political market.

## Subsidy On Tap

Which brings us back to the subsidies on offer, especially water. The biggest hurdle in the water sector is metering consumption. Water is so central to life that people refuse to think of it as a scarce commodity. Different countries have tried different mechanisms to get people used to the idea of water use being metered and to the habit of receiving monthly water bills like those for electricity use. Once this is done with water, the market incentives and disincentives will help optimise water consumption and conservation. Despite advances in behavioural economics, no formula explains how to change people's behaviour when it comes to some issues. If the judgment call of a political party is that the offer of free water will encourage each household to install a meter, then no science can dispute this logic. Such judgment calls are the prerogative of political parties.

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The real issue is how to structure the free water offer so that you do not destroy the basic market incentives for optimising consumption and conservation. Less than half of the households have piped water supply — where would the investments required to connect the rest of the households come from? A large number of households in Sangam Vihar, a poorer neighbourhood in south Delhi,

have piped water supply that is provided by private operators. The media has highlighted private water tanker suppliers but has completely missed the phenomenon of private piped water supply in the slums of Delhi; households pay about Rs 400-800 per month depending on their consumption. So, the poor who have access to piped water already pay the market rate.

This phenomenon suggests a way to structure the subsidy to bring about equity in access and raise investment money to expand the piped water network. In my opinion, until all Delhi households get piped water supply, I would give them 10,000 litres per month for free (so that meters are installed and operated), charge Rs 1 per 50 litres for the next 10,000 litres and, if the usage is more than 20,000 litres, charge the full rate on the whole amount. If a household consumes 20,000 litres, it will pay Rs 200 per month, which can be earmarked for expanding the piped water network to other households, bringing in equity

in access. While the idea of subsidised water to change people's behaviour is defensible, the government also needs to analyse how private piped-water providers can help it achieve the goal of water supply to everyone.

### **An Important Lesson**

Then, in the field of education, AAP promises to build 500 schools and hire 17,000 'competent' teachers. As per ministry guidelines, the average cost of a new school is Rs 47 lakh, without taking into account the land cost. Just the establishment cost of these schools would be close to Rs 234 crore, forget the annual maintenance costs. The Delhi government's budget last year for elementary education was about Rs 428 crore. The 17,000 new teachers alone would cost the government Rs 714 crore annually, as per the 6th Pay Commission scale. Most of these teachers would be in secondary schools, for which the salary budget of the government last year was Rs 950 crore. The AAP's most important promise in school education is to improve the quality of government schools to match that of private schools. Would building more government schools improve quality? The government needs to figure out how to improve the quality first.

And the first step is to get good quality data. Here, the AAP could rely on its vast volunteer base and voter support to gather data from each school every day. The volunteer or school management committee member can feed the data into a smartphone app and send it to a common server; data about mid-day meals and teacher attendance can be filled in by the principals at the end of each school day. This data could then be used to decide the improvements needed to achieve quality standards. By last count, there were more than 100 quantifiable and time-bound promises in AAP's 70-point manifesto. Commentators have taken two opposite positions on these promises: one, declare them populist freebies and oppose them or two, hail them all as pro-poor and champion them. The truth lies in understanding and judging each of the promises separately. And AAP needs to be open to discussing them with the public and following new paths if ideas and evidences suggest a different course. There awaits them the promised land.

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