PolicyWatch

Covering developments on policy responses, policy implementation and policy distortions on a quarterly basis. Comments are welcome.

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INSIDE THIS ISSUE

HIGHLIGHTS

"The reformer has enemies in all those who profit by the old order and only lukewarm defenders in all those who would profit by the new." **Machiavelli** in *The Prince*

FDI in Retail

On November 24, 2011, vide a Cabinet decision, the Union government liberalised domestic FDI Policy in the retail trading sector, opening the multi-brand sector to 51 percent foreign participation and opening up the single-brand sector completely, subject to foreign firms conforming to stipulated conditions.

It is to be noted that for the above Cabinet Decision to take effect, the Government of India has to notify it, which has yet to be done given the fierce opposition to the proposal, especially *vis-à-vis* the multi-brand retail (MBRT) liberalisation. One of the main reasons for the present standoff in this policy appears to be that of political opportunism and playing to the gallery of vested interests in an election cycle. However, in a recent statement, senior government functionaries have indicated that once the forthcoming Assembly elections in five states are over, the present proposal on MRBT will be 'tweaked' a bit to make it acceptable to all sections and implemented.

The government decision to allow FDI in MBRT has attracted a fresh round of animated debate in the country. It has been argued that the policy will result in greater benefits to consumers and farmers, though concerns have been raised that the outcomes will be the opposite. The main concerns are: (1) small retailers/*kirana* stores will be crowded out; (2) crowding out of the 'middlemen' will take away an important source of self-employment in the country; (3) the domestic manufacturing sector and even the small farmer will be adversely affected; (4) consumers will be harmed due to potential anticompetitive practices of large supermarket chains.

Even if one accepts the above concerns as legitimate and valid, one however cannot argue against the fact that large multinational MBRTs can invest large sums, and are also endowed with long term multi-country experience, technology and deep pockets. Globally, they have helped to build up integrated supply chains from the farm to the stores. While consumers have benefited, farmers have not benefited as expected. The reason being that neither the government nor the domestic players have been able to create the necessary back-end infrastructure which could provide a seamless flow of goods from the farm to the fork.

Prima facie, this failure can be attributed to inappropriate policy and regulatory frameworks, including wide variations and uncertainty amongst states, lack of APMC reforms and backlash in certain states against organised retailers. Furthermore, lack of relevant technology and experienced managerial capacity on part the domestic players, if not the capacity to invest on such a large scale, are other valid reasons.

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• COMMUNICATION •

Pricing for 2G Spectrum

In a blow to incumbent GSM mobile operators, the Department of Telecom's (DoT) internal committee accepted the formula suggested by the telecom regulator for pricing 2G spectrum.

The telecom regulator had proposed to fix ₹ 4,571 crore per Mhz for all spectrums beyond 6.2 Mhz. The DoT panel said that the one-time fee will be calculated on a pro rata basis from May 27, 2008 till the remaining period of the licence. The panel has proposed a uniform fee of eight percent. *(BL, 22.11.11)*

Radiation Norms Set

Concerned about impact on consumer health from excessive mobile usage, the government has finalised radiation emission guidelines for cellphones and towers. The new rules state that cellphones can be imported and sold in India only if the specific absorption rate (SAR) level is below 1.6 watts per kg (W/ kg). The guidelines are close to the norms followed in the US.

The guidelines state that SAR value, or the radiation emitted by the handset, must be specified on the device, its manual, the box as well as the websites of both the company and the Telecom Department. *(ET, 19.11.11)*

Consensus on Digitalisation

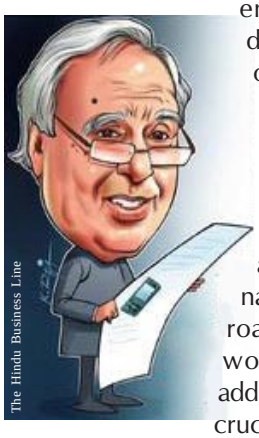
Broad consensus emerged among the broadcasters, cable distributors and the government on the way forward under the mandatory digitalisation drive. As a result, TRAI will bring in a consultation paper on proposed tariff regime and other related issues. The four-phase mandatory digitalisation drive initiated by the government starts with the four-metros whose 3.5-4 million cable homes need to become digitally addressable before June 30, 2012.

In the second CEO roundtable of broadcast and cable industry organised by the Confederation of Indian Industries (CII), both sector regulator and the government have given their assurance of facilitating the transition from analogue cable regime to digital addressable regime. *(FE, 15.12.11)*

Telecom Policy to be Delayed

The much-awaited National Telecom Policy (NTP) 2011 aimed at streamlining the telecom sector will get delayed by at least six months. The DoT released the draft NTP-2011 in October 2011, while the final policy was to be announced in January 2012. But the Ministry of Communications and IT said the new "policy is likely to be approved by June 2012."

The draft policy proposed several key initiatives, including simplification and rationalisation of the licensing regime, transparent system for allocation of spectrum and its efficient usage. It also envisaged discovery of price of spectrum through market-related processes and free nationwide roaming. It would also address other crucial issues being faced by the sector that included merger and acquisitions and sharing of spectrum.



(TH, 24.12.11)

Rejuvenating Postal Sector

The government has started the exercise to formulate the new National Postal Policy (NPP) 2012, to rejuvenate and bring the postal sector to the centre-stage of economic development.

The NPP 2012 will have clear goals, a defined role for various operators in the sector and a regulatory mechanism. The Department of Posts has included a proposal to convert over 1.5 lakh post-offices across the nation into full-fledged banks. The new policy should be in line with market dynamics and postal sector should contribute to social and economic development of the country. *(BL, 13.11.11)*

One Nation-One Licence

Seeking to eliminate the ambiguities of the past, the draft NTP 2011 will remove national roaming charges, make broadband available on demand, bring in an 'one-nation, one-licence' policy and allow mobile numbers to be ported to any part of the country.

Under the new draft policy, users will be allowed to port their mobile numbers, keeping the same number, even while switching service areas. It proposes to accord the telecom industry the status of an infrastructure sector, helping it get easy credit flow for funding rollout plans or expansion. With the policy aiming at an 'one-nation, one-licence' regime, the distinction between local and STD calls will vanish. *(TH, 09.10.11 & 11.09.11)*

Globally Competitive Electronics

Kapil Sibal unveiled the draft National Electronics Policy, 2011, aimed at achieving a turnover of US$400bn for the sector by 2020, which involved investment of about US$100bn, besides creating employment for 2.8 crore people. The final policy is likely to come by December 2011.

It envisions creating a globally competitive electronics systems design and manufacturing (ESDM) industry, including nano-electronics, to meet the country's needs and serve the international market. Another important objective of the policy was to augment post-graduate education and produce about 2,500 PhDs annually by 2020. *(TH, 04.10.11)*

More Teeth to TRAI

The government is planning to give more powers to the Telecom Regulatory Authority of India (TRAI). According to the new policy, the DoT will accord the regulator the right to impose financial penalties on erring service providers.

The DoT said that there is a need for a strong and independent regulator with comprehensive powers band clear authority to effectively perform its function. Currently, the DoT has the authority of imposing penalties on the companies, while TRAI can give its recommendations on penalties or termination of license. *(BS, 07.10.11)*

• TRANSPORT •

BOT Brought in Fiscal Prudence

The National Highways Authority of India (NHAI) claims that switchover to a build-operate-transfer (BOT) mode has brought in greater fiscal prudence in highway construction. The Central agency was previously executing such projects through turnkey contracts.

According to the Chief General Manager of NHAI, G Suresh, the State-owned organisation, had received higher bids for different road projects. The BOT system, he claimed, requires contractors with more financial stability and larger resources to bid for road projects. Under BOT, contractors need to ensure proper planning to ensure execution of projects.

NHAI is planning to strengthen its monitoring system as it was found that several smaller companies (contractors) have come up with better offers as compared to larger firms. Even larger road contractors were losing out on several bids. This has made the organisation aware of possible "speculative bids."

Some of the steps taken so far include strengthening the pre-qualifying criteria – which include going through the financial strength of prospective bidders like their capacity and net-worth requirements – and better ground level monitoring. Under the model, engineering procurement contracts (EPC); contractors with previous experience in road making could bid for similar projects. *(BL, 28.12.11)*

National Common Mobility Card

Minister of Urban Development Kamal Nath introduced the national common mobility card, which will enable people to travel seamlessly across different forms of transport.

The smartcard, named More, will help users make payments for travel by railways, metro rail, buses and taxis. They will also be able to use it to pay tolls and parking charges. It has been designed keeping in mind the tariffs set for different forms of transport through the country.

"The card will encourage the use of public transport and help decongest the urban areas," Nath said at the Urban Mobility India 2011 summit, where the card was introduced. State-run UTI Infrastructure Technology and Services Ltd has been signed on by the Urban Development Ministry to introduce the smart card and implement automatic fare collection systems. *(Livemint, 07.12.11)*

Aviation Policy in the Offing

The government will soon bring out a new aviation policy that will focus on airline sustainability – and hence safety in operations. For this purpose, the new policy will focus on ensuring that airline fares are reflective of their total costs to ensure that neither are fares so high that the consumer is fleeced, nor lowered by some carriers (predatory pricing) so much that others find it hard to survive.

The Ministry of Civil Aviation is working out a policy to factor in needs of the fast-growing sector over the next decade. It will look into issues of sustainability, viability and human resource of the sector.

(BL & ToI, 15.12.11)

Liability Period to Extend

Soon, a road construction contractor would be held liable for any defect that happens to his work within five years of its completion, going by a proposed addition to the norms regarding the defect liability period for EPC projects.

The consultation process is still on. The government plans to award road projects on EPC basis. Therefore, a model concession agreement had to be finalised soon. In the past couple of years, NHAI has not awarded any project on EPC. It has awarded projects on BOT (toll) and BOT (annuity). *(BS, 09.11.11)*

DIAL Charges on Arrival

Delhi airport wants to increase parking and navigation charges by nearly eight times, but also wants to ease some of this burden on the airlines by introducing new levies on both arriving and departing passengers.

Delhi International Airport Pvt. Ltd, (DIAL) has proposed a 775 percent increase in aeronautical charges to offset the cost of building the first phase of the Indira Gandhi International Airport at ₹11,801.66 crore in 2010.

Currently, only passengers flying out of Delhi pay airport development fees – ₹200 for domestic and ₹1,300 for international travel – to fund part of the airport's modernisation. The fee is not levied on arriving passengers. The airport does not collect user development fees either, which typically kicks in after an airport is built completely. *(Livemint, 23.11.11)*

Airlines Suffered Losses

The rising prices of jet fuel and lower fares have taken a toll on financial performance of the three listed air carriers in the second quarter of 2011. During the quarter, jet fuel prices have risen by 40 percent, compared to the same period in 2010. And, average domestic fares were 10 percent less than compared with the same period in 2010.

Of the three listed carriers, Jet Airways and SpiceJet ended the last quarter with a profit of ₹12 crore and ₹10 crore, respectively. They have combined losses of ₹950 crore in the current quarter, Jet making a loss of ₹713 crore and SpiceJet of ₹240 crore. Kingfisher Airlines increased its losses from ₹230 crore in the second quarter in 2010 to₹486 crore in 2011.

(BS, 16.11.11)

• OIL & GAS •

Iron Ore Utilisation Policy

The government is formulating an iron ore utilisation policy on the lines of a similar policy currently operating in the domestic gas sector. The move, fuelled by concerns over improper exploitation and wastage, coupled with huge exports of the major mineral out of the country, is likely to include prioritising consuming sectors.

The basic idea is to check the current huge exports out of the country and ensure conservation of the mineral by cutting wastage, especially of low-grade ore, in the absence of enough value-addition capacity. The overall blueprint of the policy is being prepared as part of the New National Steel Policy, currently being drafted by the Steel Ministry.

(BS, 30.11.11)

Gas Allocation in for Revamp

The Petroleum Ministry has suggested key changes in the natural gas allocation policy to cut supplies to specific power and fertiliser plants following a sharp decline in output from Reliance Industries' KG-D6 block.

The Ministry has proposed to the empowered group of ministers (EGoM) to stop gas supplies to power producers that do not sell electricity at regulated tariffs as well as to phosphates and potassium fertiliser manufacturers. It wants the EGoM to approve that "all existing and future allocations of New Exploration Licensing Policy (NELP) gas for power plants will be subject to the condition that the entire electricity produced from allocated gas shall only be sold to the distribution licensees at tariffs determined (or adopted) by the tariff regulator".

(FE, 23.12.11)

Dual Pricing Rules Out

The government will not price diesel differently for passenger cars, commercial vehicles and for other uses, as that will lead to abuse in the market place. Diesel is subsidised in India as it is used by farmers to run pumps and tractors. The subsidy – expected to be ₹67,000 crore in 2011-12 – applies at all fuel pumps where the fuel is sold.

Oil marketing companies are expected to lose a total of ₹1.22 trillion for selling fuel below cost in the current fiscal year, which includes diesel, kerosene and liquified petroleum gas (LPG). *(Mint, 20.10.11)*

Oilcos to Revise Petrol Prices

State-run oil firms will revise petrol prices every two weeks if domestic prices need to be aligned with international levels, as they prepare to replace the opaque pricing mechanism with a transparent and predictable system.

Oil companies also clarified that petrol prices in India are indexed to Singapore gasoline rates. Government and company officials had earlier justified fuel price hikes by linking domestic pump prices to international crude oil rates.

Oil is a sensitive commodity. The government has to keep a constant vigil. When petrol was decontrolled, it was decided that the government can step in any time if public interest is at stake. *(ET, 17.11.11)*

Green Cess on Petrol, Cars?

Buying and running cars and two-wheelers could soon become a costly affair with a Planning Commission working group suggesting a green surcharge of M2 on every litre of petrol, a green cess of three percent of the annual insured value of all private vehicles and a steep urban transport tax to be collected at the time of purchase of private vehicles.

The panel, headed by Delhi Metro chief E Sreedharan, has suggested urban transport tax on purchase of new cars and two-wheelers at 7.5 percent of the total cost of petrol vehicles and 20 percent in case of personal diesel cars.

The recommendations, which are guided by the "polluter pays principle", aim to discourage use of private vehicles by imposing higher taxes and also help generate resources to fund public transport projects.

It is estimated that the new surcharge and taxes will help the government generate M235,741 crore in the 12th five-year plan (2012-17) and M22,40,804 crore over 20 years.

It was decided not to impose the green surcharge on diesel considering the fuel's multiple uses and the problems in dual pricing. However, this was offset with the higher urban transport tax on new diesel cars at 20 percent compared to 7.5 percent for petrol-driven variants.

The annual green cess of three percent is proposed to be collected through insurance companies. These firms, which collect around four percent of the insured value of the vehicle as annual premium, will now collect seven percent and pass on the additional three percent to the government.

With huge investment needed in the urban transport sector which the Centre cannot meet from traditional budgetary sources, innovative financing mechanisms were being explored, an official said. Even public private partnership projects could only partially meet the funding needs, he added.

The resources mobilised from the new surcharge and taxes will be pooled in a dedicated national urban transport fund to meet the growing needs of urban transport.

The working group also suggested dedicated funds at the state and city level through resources like land monetisation, betterment levy, land value tax and hike in property tax. It also recommended imposing congestion tax, a cess on sales tax and hike in parking charges to generate resources for the fund. *(ToI, 14.12.11)*

• POWER •

Uncertainty Hit Projects

India is heading for a huge power deficit in three years as developers have slowed execution of projects worth about ₹1,50,000 crore due to uncertainty over availability of fuel, land and water.

Many of these projects are unable to progress because of regulatory and fuel-supply obstacles, while in other cases the developers have consciously slowed down project implementation because of uncertainties surrounding the sector.

Companies with allotted coal blocks plan to cash in on the opportunity by selling power in the open market. Finance minister Pranab Mukherjee expressed concern over slow progress on ₹1,74,000 crore infrastructure projects of which 90 percent belong to the power sector.

(ET, 22.11.11)

Safety in Concern

A call for establishing an independent statutory authority to ensure the safety and security of the nuclear plants in the country, outside the Government control, was made by D.R.Karthikeyan, former Director of Central Bureau of Investigation (CBI).

He stressed on the need for sharing of information and the necessity to give up excessive secrecy, to allay the apprehensions of the local population and build public confidence. He urged political parties not to politicise the issue.

Expressing his support for the project, he dwelt upon its necessity in the context of acute power shortage stalling the growth momentum in the State. There is need to tap all sources of energy, including nuclear power, he added. *(BL, 20.11.11)*

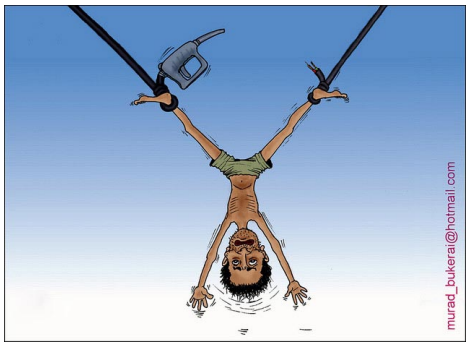
Watchdog for Civic Services

The government wants to set up an independent urban service regulator to ensure quality, time-bound and affordable delivery of civic services. The regulator would monitor provision of services as well as tariff regime and ensure transparency and efficiency.

The regulator would be set up at state or city level or for a cluster of cities to advise, regulate, monitor and adjudicate on wide range of issues like service delivery, quality, pricing, equitable access and roles and responsibilities of all utility providers.

(ToI, 27.12.11)

Power Tariffs to Rise



Consumers should prepare for a 15-20 percent increase in power tariffs every year for the sustenance of state distribution utilities that are struggling to stay afloat due to escalating losses and mounting debt, the Central Electricity Regulatory Commission (CERC) – the regulator for central government-owned utilities – said.

Pramod Deo, Chairman, CERC said that if a state has not increased tariffs for the last four-five years, they cannot double them in one go. With 2014 likely to be the year of national elections, we are looking at a tariff revision of around 25-30 percent every year in states where the revision has not been done on a regular basis. They will have to maintain that kind of hike every year, only then would they be able to make good the losses and bridge the gap. *(ET, 17.11.11)*

Coal Shifts to New Pricing

The Union Coal Ministry has given a go-ahead to gross calorific value-based (GCV) pricing of coal from January 01, 2012. The shift from heat value-based (UHV) pricing to GCV-based pricing is aimed at bringing Indian coal prices on par with international coal prices following the Planning Commission's recommendation of moving out from the discount regime.

The new pricing mechanism would be implemented on a pilot basis for three months to check the revenue impact on CIL, after which it could be permanently implemented. As of now, CIL follows a fixed pricing for seven grades of coal – A to G – based on UHV, but once pricing starts on the basis of GCV there would be multiple sub-bands in each grade with each sub-band having a different price.

(FE, 24.12.11)

Promoting Renewable Energy

The CERC has set up a Renewable Energy Fund (REF) to promote projects in India. This fund is aimed at compensating states if they fail to meet the target given under their schedule of renewable energy (RE) projects. All RE projects are required to provide a schedule of generation to CERC from 2012.

CERC allows 30 percent deviation in the supply commitments, beyond which penalties are levied or incentives offered. The Electricity Act, 2003, and the National Action Plan on Climate Change provide a roadmap for increasing the share of RE in total generation capacity. Under this plan, every state has to purchase five percent of total power requirement from renewable resources like wind, solar or water. *(BS, 26.11.11)*

Govt Revives Reforms in Power

In an attempt to force loss-making state utilities to undertake long-pending reforms, Power Finance Corp. Ltd (PFC) and Rural Electrification Corp. Ltd (REC) have made short-term loans conditional on them meeting criteria which could make electricity more expensive for consumers.

The lenders, controlled by the Union government, have introduced a new qualification system requiring the utilities to pledge their commitment to a preset reform agenda, including regular tariff increases, to be eligible for availing short-term loans. The first batch of states to accept these norms include Rajasthan, Punjab, Haryana, Uttar Pradesh and Delhi.

Consumers in each of these states will have to brace for hikes in power tariffs, especially given the rising cost of fuel. *(Mint, 28.12.11)*

• MIXED BAG •

Recapitalisation of Banks

Finance Minister Pranab Mukherjee said the government will provide adequate capital to the state-owned banks during the current financial year, a move that will help them to meet the international solvency norms.

The Hindu Business Line

He said he had earmarked ₹6,000 crore for recapitalisation of public sector banks in the budget for 2011-12 and if need be more would be provided. The government during 2010-11 provided capital support to the tune of ₹20,157 crore to public sector banks. The lenders which got funds from the government last fiscal include Punjab National Bank, Bank of Baroda, Union Bank of India, Oriental Bank of Commerce and UCO Bank. *(BS, 19.11.11)*

Focus on Policy Issues

The Union Finance Ministry asked board members of public sector banks to stop micro-managing functioning and, instead, focus on policy issues, a move seen at improving corporate governance practices in these institutions.

The directive comes after a spate of financial irregularities hit the financial sector in 2010. In November 2010, some public sector bank officials, including a board member, were arrested by the CBI for allegedly sanctioning loans in return for bribes.

The Reserve Bank of India (RBI) has also raised the issue of better corporate governance in banks. The regulator has already initiated a process and its supervisory department is to check how much time the bank's top management spend in their office, and is to review the governance structure. *(BS, 17.11.11)*

Outsourcing Core Business

The Securities and Exchange Board of India (SEBI) has directed market intermediaries not to outsource core business activities and compliance functions. The direction comes in the wake of instances wherein intermediaries resorted to outsourcing, to reduce costs and at times, for strategic reasons.

The regulator wants all market intermediaries to "have in place a comprehensive policy to guide the assessment of whether and how those activities can be appropriately outsourced". The board or the partners of the entity will be responsible for framing the outsourcing policy and related overall responsibility for activities undertaken under that policy.

(BS, 16.12.11)

Revamp Third Party Motor Pool

The Insurance Regulatory and Development Authority (IRDA) formed a sub-committee to examine the issue of reforms in the third party motor pool.

The Committee, which has representatives of both private and public sector general insurers, has been asked to submit its recommendations. Created in 2007 after opening up of the General Insurance Sector, the main purpose of the motor third-party pool was to ensure availability of motor third-party cover to commercial vehicle owners at reasonable prices. *(BL, 16.12.11)*

Insurers Allowed to 'Globalise'

In what could be the first step towards the globalisation of Indian insurers, the sector regulator is planning to allow domestic insurance companies and reinsurers to establish overseas joint venture firms and subsidiaries by buying stake in foreign insurers.

The IRDA recently circulated draft guidelines to allow all categories of insurers that have completed 10 years of operations in India to set up insurance joint venture companies, subsidiaries or branches overseas. The foreign partners in the joint venture firms will not be allowed to set up branches in India.

(Mint, 15.12.11)

Financial Sector Regulations

The SEBI plans to soon come out with specific regulations for financial advisors. Prashant Saran, Whole-Time Member, SEBI underscored the need for re-modelling the financial education efforts in such a manner that clear roles are made out for each player in the system.

He highlighted that manufacturers of financial products had huge role to play in financial education. The overall function of defining the content and strategy for bringing about financial literacy should be the job of the Financial Stability and Development Council. *(BL, 14.12.11)*

Deterioration in Asset Quality

The Reserve Bank of India (RBI) instituted its first Systemic Risk Survey to gauge perceptions of market participants and other stakeholders about the key sources of risk to the Indian financial system. The Survey will be a biannual exercise and the endeavour is expected to complement RBI's own assessment of risks to financial stability.

The majority of the respondents identified deterioration in the asset quality of banks as the most significant risk to the financial system followed by risks from heightened market volatility, including exchange rate volatility, global risks, risks from high inflation and high interest rates.

(BL, 22.12.11)

Water Audits for Cos. Likely

Water audits may become mandatory for companies in the coming days. Indications are that such audits may be mandated in the water management strategy that will form part of the Twelfth Five-Year Plan.

The Planning Commission is also likely to propose in the Twelfth Plan document the setting up of a National Water Commission. The main objective of the Commission would be to monitor compliance with the time investment clearances are given to water projects in India. *(BL, 20.12.11)*

Infrastructure Rating: Time for Reform

– Vinayak Chatterjee*

The 12th Five-Year Plan (2012-17) envisages investments worth US$1,000bn in infrastructure, 50 per cent of which would come from the private sector. So, about US$100bn would be required in the private space, in both equity and debt, every year from April 2012 onwards. Assuming that between promoters, foreign direct investment, private equity funds et al equity will be raised, the challenge is to mobilise about US$66bn of debt funds every year, or roughly ₹3,30,000 crore per annum – not counting the debt required by the public sector.

The oft-discussed "debt gap" in financing Indian infrastructure investments has not yet emerged because of the slower roll-out of infrastructure projects. However, it is expected to be an effective constraint soon. Various policy and institutional initiatives are being directed towards increasing financial intermediation. These include enabling policy and regulation for infrastructure finance companies, infrastructure debt funds, revised external commercial borrowing norms, buyback/refinancing of loans from commercial banks, take-out financing and credit enhancement/guarantees.

It is also recognised that capital markets do not participate much in financing infrastructure. Dedicated infrastructure debt funds would provide a way for investors to invest in bonds issued by operating infrastructure special purpose vehicles (SPVs). Both supply and demand sides have to find common ground for credit markets to work effectively for financing infrastructure projects. In the highways of capital markets all over the world, credit ratings provide the effective "signalling" system for capital traffic-flows to happen.

Infrastructure projects are traditionally considered "riskier" by rating agencies. This is because cash flows arise from a single asset, and carry higher political and regulatory risks. Assigned ratings are usually at Better Business Bureau (BBB) levels, which mean a default probability of around eight per cent in a year. The application of this typical BBB rating and the rationale for classifying infrastructure projects at this level are, however, not clear, since there is lack of adequate historical data to confirm this.

While project loans are supposed to be "non-recourse" (based only on SPV economics), in most cases they are actually backed by collaterals, debt servicing structures and other partial guarantees, which effectively reduce the extent of possible credit loss. Limited historical data and lack of institutional mechanisms to capture project default data lead to risk loading by rating agencies. For rating agencies, there is no commercial incentive to address this issue specifically. Financial investors, thus, have no choice but to adhere to conventional credit rating methods.

This leads to higher or mispriced loans for projects as well as greater capital requirements for banks and financial institutions. Access to bond markets remains constrained. This does not allow investment from longer-term sources such as pension and insurance, where the stipulated requirements are AAA- or AA-rated securities. Thus, lower conventional credit ratings lead to poor capital allocation for infrastructure in the economy.

It is time we review this reliance on conventional credit ratings for financing infrastructure and design or evaluate alternative yardsticks.

The following measures would help correct the existing failure in the credit market for infrastructure PPP investments in India.

- Credit Information companies like Credit Information Bureau of India Limited (CIBIL) are capturing retail and corporate credit information with respect to loan repayment defaults. A similar institutional initiative needs to be developed for infrastructure projects. This would help banks and financial
- The practice of relying on conventional credit ratings only for infrastructure projects needs to be supplemented with specifically tailored ratings.
- Facilitate capacity building in infrastructure project appraisal and risk assessment at commercial banks and non-banking financial companies through use of specialist independent infrastructure-project service specialists in the same manner as transaction advisers are being used by PPP implementing agencies.

Given that regulators, investors and sovereigns are raising questions on the efficacy and appropriateness of prevalent rating methods and scales, the time has come, certainly in infrastructure PPP financing, to examine this aspect afresh.

* *Chairman of Feedback Infrastructure. Abridged from an article that appeared in the* Business Standard, *on December 19, 2011.*

States Should Move to Specific Duties for Petrol

– Suman Billa*

Recent increases in the prices of petrol have resulted in an uproar, forcing both the Central and State governments to rethink their position on petroleum products. While the Centre can look at moderating the high incidence of Customs duty on the import of crude, there is merit in effecting a shift from an *ad valorem* to a specific tax regime on the sales tax that is imposed by the state governments.

The Government of India deregulated the price of petrol in June 2010. This policy envisages a shift from the earlier one of intervening to hold the price line and shielding the domestic market from the volatility in the international prices of crude.

Such an interventionist policy results in huge under-recoveries for the oil marketing companies and affects the economy by reallocating funds set apart for other programmes of the government and denies upstream PSUs funding for their expansion and acquisitions.

More importantly, it goes against the wisdom of making the polluter pay, where a higher price would necessarily moderate consumption. Critical areas such as agriculture are best handled by way of transfers and support programmes rather than subsidising all the users indiscriminately.

High under recoveries

The optimum method of managing the problem is by passing on the cost to consumers which would result in the burden being spread out evenly, rather than the government absorbing it all.

Recent figures of the Ministry of Petroleum indicate that the Oil Marketing Companies are expected to incur under recoveries to the tune of ₹1,21,571 crore on account of diesel alone during 2011-12. The indications, therefore, are that it is imperative that the price of diesel would also be deregulated at an early date.

By shifting from an ad valorem rate to a specific rate, the State government can insulate its revenues from the vagaries of the market

The price of crude currently is poised between the prospects of political instability in West Asia, which could drive prices up, and economic instability in Europe, which will lead to a drop in prices and, therefore, there is the possibility of a significant rise or fall in crude prices in the near term.

Shift in prices

Rising prices of petrol and diesel have in the recent past elicited spirited protests from the public. The Government of Kerala has four consecutive occasions, since May 2011, rolled down the rate of taxes on these commodities, foregoing the additional revenue that would have accrued from the hike. Even though the consumers in states with a high level of awareness such as Kerala realise that the government has no control on the pricing of these products, they rightly expect that the government should not impose an additional burden on them by way of tax.

The present system of *ad valorem* tax accentuates the effect of the shift in prices. When petroleum prices rise, the government gains by way of additional tax and imposes an additional burden on the consumer.

By shifting from an ad valorem rate to a specific rate, the state government can insulate its revenues from the vagaries of the market. A benchmark revenue neutral rate can be arrived at by taking into account the current yield from petrol and diesel.

Growth in revenues

Growth in tax revenue would come on account of increased consumption. Since petroleum pricing has an amplifying effect on inflation, a specific tax would moderate inflation to the extent of tax foregone. The Government of India has evolved from an *ad valorem* to a specific basis for imposing excise duty. Such a move by the States would make for good economics. An effective way of making the transition would be by way of levying tax on 50 percent of the value on a specific basis and the other 50 percent at an *ad valorem* rate for a fixed period of, say, three years, at the end of which a pure specific levy would come into effect.

* *Civil Servant. Abridged from an article that appeared in* The Hindu Business Line, *on November 29, 2011.*

Boost to GST

In a big boost to introducing the goods and services tax (GST) in the country, states will insist on permanent account number (PAN) at the time of registering dealers. This will not only create a national database, but the use of a single parameter such as PAN to link all indirect taxes levied across India will also help check tax evasion.

The implementation of GST, India's most ambitious tax reform, will lead to a common, unified market. Initially supposed to be launched on April 01, 2010, it has been delayed due to lack of consensus between the Centre and states. *(Mint, 14.11.11)*

Indian Growth Slows to 6.9%

India's economic growth prospects suffered a setback after government data showed Asia's third largest economy expanded at the slowest pace in nine quarters in the July-September 2011.

More worrying is that private consumption has been the growth driver, while investment levels in the economy contracted for the first time in two years. Consequently, private economists are now projecting growth of nearly seven percent for 2011-12, compared with the initial government projection of nine percent.

India's GDP grew at 6.9 percent in the second quarter of 2011-12. During the first half of the fiscal year, GDP growth averaged 7.3 percent compared with 8.6 percent a year ago. *(Mint, 01.12.11)*

Revamping Mining Sector

The Mines Ministry plans to revamp the Indian Bureau of Mines (IBM), which approves mining proposals and monitors operations, after exposes on illegal mining cut production, closed companies, and left thousands of workers jobless.

The revamp will include increasing the bureau's staff, providing better technology for its operations, and entrusting it with new tasks, such as offshoring mining and sustainable development of local communities.

The growth of environmental awareness and exposes by activists in the last two years have shown that companies mined more than they were permitted to and did not take care of environmental norms, as demand for key commodities such as iron ore rose. *(Mint, 28.11.11)*

Manufacturing Policy on Anvil

The government cleared the long-awaited National Manufacturing Policy (NMP) which seeks to set up mega industrial zones and create 100 million jobs by 2022.

The NMP seeks to enhance the share of manufacturing in the GDP to 25 percent within a decade and create 100 million jobs in manufacturing as part of the inclusive growth agenda of the UPA. To encourage the manufacturing sector, the government will provide fiscal incentives to the industry, particularly to the small and medium enterprises.

The NMP will ensure compliance of labour and environmental laws while introducing procedural simplifications and rationalisation so that the regulatory burden on the industry is reduced. *(FE, 25.10.11)*

Nurturing a Vibrant Farm Sector

Beginning with the promise of multiplying farmers' income in the coming years the Tamil Nadu government has committed itself to concerted efforts increasing agriculture output and supporting growers through market intervention measures.

The government has charted out a series of measures to strengthen rural infrastructure to enable moving produce to the markets. Against the backdrop of the limitations in natural resources such as land and water, the viable option to grow agriculture output is to increase productivity across the spectrum of agriculture crops. *(BL, 08.12.11)*

Rural Growth Cushions Cos

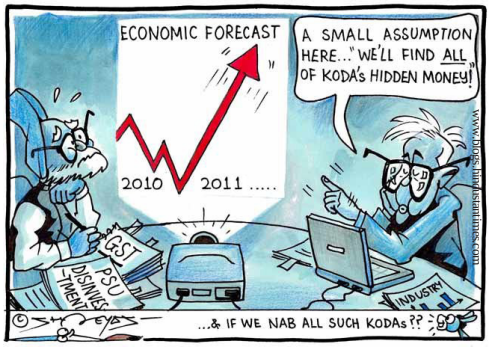
Despite high inflation hitting demand in urban areas, it's not an all-loss situation for FMCG, consumer durables and automobile companies. Most of the companies with significant presence in the semi-urban and rural India recorded decent growth in the second quarter ended September 30.

Burgeoning sales in these regions may not have completely offset the impact of rising prices, but it has acted as a cushion. FMCG companies expect rural areas will account for more than 50 percent of sales in the next five years. Experts say that rising prices of food have benefited farmers in these areas, who are loosening their purse strings.

The FMCG segment in particular has registered good growth in rural areas, and in some segments it has been even better than in the urban areas. *(ToI, 02.12.11)*

Brighter side to the Indian Economy

The overall mood about the Indian economy is gloomy as we are about to leave 2011 behind us and enter 2012. The sense of gloom is not difficult to appreciate as the progress on important second-generation reforms has been tardy, investors have lost tonnes of money in the stock market, external sector sustainability issues have resurfaced after a long gap, strains are observed in government finances and the growth prospects for the global economy have worsened.



However, seen from a different perspective, the challenges faced in 2011 could well be paving the way for opportunities for the Indian economy to tap in 2012. For instance, the depreciation of the rupee by around 20 percent, which made imports substantially costlier in the second half of 2011, would help in improving the price competitiveness of Indian exports in 2012. *(BL, 28.12.11)*

The Big Bulge: The Myth of Prosperity

– Ruchir Sharma*

US senator and former ambassador to India, Daniel Patrick Moynihan once quipped that there are some mistakes only someone with a Ph.D. can make. Well, it does not require a doctorate to know that Chinas economic boom has been disinflationary with its inflation rate averaging a mere two percent over the past decade. Yet, it is amazing to watch how India's top policymakers, despite their great academic credentials, keep propagating the line that the country's inflation problem is a sign of growing prosperity.


The Economic Times

China's low inflation experience is not just an exception; it is the broad rule for the high growth cases in post-World War II history. In the three high growth decades since 1950 the 1960s,1970s and the past decade a dozen developing countries have managed to expand at an average pace of more than seven percent. East Asian nations have featured most prominently on the top economic league tables and, of late, countries from Africa and central Asia have enjoyed similar success. Back in the 1960s and 1970s, some Middle Eastern states too grew at a robust pace. Low inflation is a hallmark of boom periods and when prices do begin to rise meaningfully, it is often a sign that the good times are ending.

No evidence supports the claim that rising inflation is a sign of growing prosperity. Most economic booms tend to be disinflationary in nature

India too, it appeared, was following the east Asian path for much of the past decade. The country's investment as a share of GDP accelerated from below 25 percent in 2003 to over 35 percent in 2007, spurred on by the easy money flows and the emerging market boom during that stretch. Economic growth then rapidly rose to average nine percent while inflation was quiescent and tracked around five percent. The robust investment rates gave policymakers and many economists a false sense of comfort that India could sustain high rates of non-inflationary growth as many of its east Asian peers did for at least a couple of decades.

India's relative outperformance on the growth front in 2008 and 2009, at a time when the global impulse had weakened compared to the 2003-07 period, was due to large government spending that propped up both consumption and investment. With Indian policymakers in the post-financial crisis environment relying on fiscal and monetary policy stimulus to meet the lofty growth targets of the 2003-07 phase, the stage was set for a pick-up in inflation.

Just like China, a large increase in savings of the corporate sector funded the acceleration in India's investment rates in the 2000s with household savings remaining stable at around 20 percent. The one difference has been the divergent performance of the governments' finances: in China, the government saves a lot more than in India.

India's poor inflation performance of the past few years, where the pace of price increases have on average been nearly twice that of emerging markets in general, is a sign of the investment malaise that has plagued the country rather than a reflection of prosperity.

Attributing rising inflation to greater intake of protein-rich foods by more affluent consumers is a tough sell, as the sketchy data on this topic shows hardly any change in volumetric measures of per-capita protein consumption. Prices of items such as milk too have been soaring despite no shortages as the cost of production has risen. Even if food prices were indeed increasing due to higher incomes, such pressures on overall consumer prices should normally be offset by lower inflation in other categories due to the high investment rates, as was the case in the miracle economies of east Asia. There is just no historical relationship between rising levels of development and higher consumer prices, and to suggest otherwise is a rather basic mistake.

* *Head, Emerging Markets at Morgan Stanley Investment Management. Abridged from an article that appeared in* The Economic Times, *on December 12, 2011.*

India Improves on Bribery

Chinese and Russian firms are the most likely to pay bribes while operating abroad, and the most corrupt sectors are public works contracts and construction, according to Transparency International's latest 'Bribe Payers' index'. India's score has improved the most in a global index.

India's score improved the most, but it still remains near the bottom of the table. Despite the improvement, India continues to be ranked near the bottom of the global Bribe Payers Index – 19th in a list of 28 countries – as there was a high likelihood of Indian companies paying bribes abroad. *(FE, 03.11.11)*

Farmers Suicide Rises Sharply

The country has seen over a quarter of a million farmers' suicides between 1995 and 2010. The National Crime Records Bureau's (NCRB) latest report on 'Accidental Deaths & Suicides in India' places the number for 2010 at 15,964.

The cumulative 16-year total from 1995 – when the NCRB started recording farm suicide data – to 2,56,913, the worst-ever recorded wave of suicides of this kind in human history. Close to two-thirds of all farm suicides have occurred in five States: Maharashtra, Karnataka, Andhra Pradesh, Madhya Pradesh and Chhattisgarh. *(TH, 29.10.11)*

India Slips on Corruption

India's image on tackling graft seems to have gone from bad to worse in the perception of people dealing with the system, with its rank slipping to a low 95 among 183 countries in Transparency International's Corruption Perception Index.

While the debate continues in India over an anti-graft ombudsman, the study by the international watchdog shows the country's image declining consistently over the past three years. This year, the country scores 3.1 on 10, with 10 being the highest score.

Since 2007, when India was ranked 72 among 180 countries with a score of 3.5, the score has declined, so have the rankings. In 2010, India was placed 87. *(FE, 02.12.11)*

Manufacturing Growth to Moderate

Rising raw material costs and lower order books are expected to affect the growth of the manufacturing sector during the third quarter of the current fiscal, a Federation of Indian Chambers of Commerce and Industry (FICCI) survey said.

The survey noted that demand conditions have worsened for the manufacturing sector in the third quarter compared to the previous quarters. The survey also said the growth of manufacturing exports is expected to moderate in the third quarter. Further it stated that sectors which are expected to witness low growth during the quarter include cement, steel, textiles, chemicals, capital goods and electricals. *(ET, 12.12.11)*

Politicians Cops Most Corrupt

While the political establishment is busy arguing the Lok Pal Bill in the Parliament, the Transparency International India (TII), in a survey, has found that 74 percent Indians believe that the level of corruption has gone up in the last three years and 55 percent felt that the Union government was ineffective to curb the menace.

During the survey of 7,500 people, the anti-corruption organisation also found out that majority of the respondents believed that politicians and police are the two most corrupt institutions in the country, and they have to be bribed to speed up paper work, avoid problems with authorities or simply access basic services. *(BS, 22.12.11)*

MICRO - FINANCE INSTITUTIONS

MFIs Introduced as NBFC's

India's central bank is introducing microfinance institutions (MFIs) as a new category of non-banking financial companies (NBFCs) following the recommendations made by the Malegam committee that submitted its report in January.

The Malegam committee was constituted as a panel of the RBI as announced in the November 2010 policy to study issues and concerns of the MFI sector, which has been hurt by a state legislation in Andhra Pradesh, its biggest market.

All NBFC MFIs shall maintain an aggregate margin cap of not more than 12 percent and interest on individual loans will not exceed 26 percent per annum and calculated on a reducing balance basis. *(Mint, 03.12.11)*

MFIs Require 'Patient Money'

Experts taking part in the annual micro-finance summit here have stressed the need for evolving a corpus of funds for sourcing domestic equity capital in MFIs. It has to be 'patient money' that can stay invested for eight to 10 years against the two to three-year 'window' that a Venture Capital/ Private Equity tends to look at, before exiting the venture.

N Srinivasan, an independent consultant said that it is better that the funds evolve locally within the country. "Given that MFIs are going to be increasingly regulated at the apex level with strict capital adequacy norms, we should be looking at a minimum corpus of ₹1,000 crore," he said.

But it could as well go up to ₹3,000 to ₹4,000 crore, depending on the risk perception. It is up to the government at the Central or state or level to take the initiative. He was of the view that even the corporate sector, including companies and high-networth individuals could be roped in to this exercise by devising imaginative schemes. *(BL, 13.12.11)*

Growth Inclusive, Poverty Fall Faster Since 04

– Devika Banerji*

Research by JNU profs, however, shows inequality has increased in both rural & urban areas

Poverty in India has reduced at an accelerated pace from 2004-05 onwards at 4.3 percent per year, compared to 2.1 percent average annual decline in the decade from 1993-94 to 2003-04.


Times of India

Not only poverty has reduced at a higher pace than before, the rate of decline has managed to reach those social groups that had been excluded from the growth process even as inequality has marginally increased in both the rural and urban areas.

A research paper entitled, 'How Inclusive Growth' prepared during 1993-94 and 2009-10 by two professors, Sukhadeo Thorat and Amaresh Dubey at the Jawarharlal Nehru University, shows that the ongoing 11th five-year plan (2007-12) delivered its objective of laying the foundations of an inclusive growth strategy in India.

It has also noted that taking the nature of income distribution and poverty incidence in urban and rural areas, "a particular poverty line" is not likely to affect the changes in poverty incidence overtime. This comes a month after the Planning Commission, in a joint statement with the Rural Development Ministry, said that its state poverty line will not be used for capping benefits to the poor under various government schemes. The paper is set to be used by the Planning Commission to formulate its strategy for the 12th five year plan (2012-17).

For rural areas, the rate of decline in poverty has accelerated from 2.2 percent in the period 1993-94 and 2004-05 to 4.4 percent in the period 2004-05 and 2009-10.For the same period in urban areas, the rate of annual reduction in poverty gathered pace from 1.9 to 3.9 percent.

The study has concluded that government policies in the farm sector from 2004-05 onwards has helped reduce poverty among small and marginalised farmers. It has suggested that since agricultural growth has poverty reducing potential, there is need to strengthen the present pattern of growth.

Among the livelihood categories, the paper has found that the farm and non-farm wage labourers are the most poor. In 2009-10, about 35 percent of farm wage labour households and 26 percent of non-farm labour households were poor. By comparison, the poverty rate for self-employed in the agriculture sector and non-agriculture sector was about 17 percent.

Agricultural growth lacks potential to reduce farm wage labourers poverty in equal measure, the study notes.

Distribution of gains from increased farm income is shared unequally by poor farmers and poor farm wage labour households engaged in agriculture, the study adds.

During the overall period, the rate of decline in poverty has been relatively higher for the self-employed in agriculture (2.8 percent) and non-agriculture (2.9 percent) but less for farm (2.26 percent) and non-farm wage labour (2.47 percent).Thus self-employed households have done better in poverty reduction than wage labour households. Among the wage labour, the non-farm wage labour households perform better than farm labour households, the study adds.

The trend is however reversed in the urban areas where the rate of decline in poverty is lowest for that of self-employed while being highest for those with regular income or salary.

The report has suggested that to accelerate the reduction in poverty, the growth in urban production and business sector particularly for the poor small producer and business is necessary.

The study further dissects the data into social groups to show that rate of poverty reduction for scheduled castes and scheduled tribes that have traditionally been excluded from the growth process has managed to pick up faster than the overall averages.

The rate of annual poverty reduction for scheduled castes and scheduled tribes was two and 1.1 percent respectively in the 1993-04 to 2004-05 period which accelerated to 5.1 and 4 percent from 2004-05 onwards.

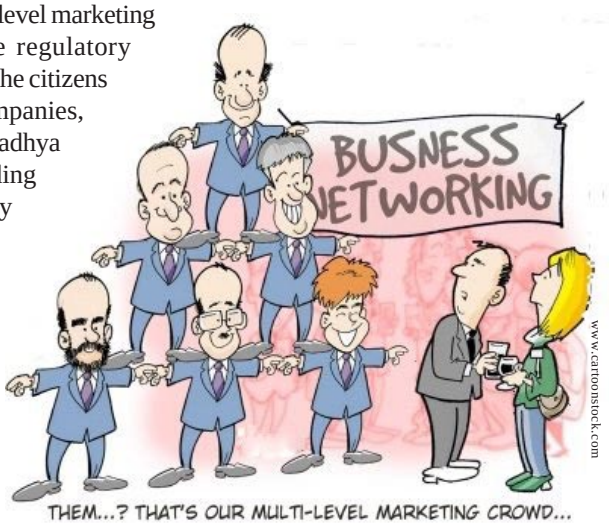
However, despite the accelerated fall, it continues to be low in relative to upper classes with the incidence of poverty continuing to be highest among backward classes like the SCs and STs.

* *The article appeared in* The Economic Times *on October 25, 2011.*

Multi-level Marketing – In Need of Cognate Regulation?

– Pradeep S Mehta*

The country has been periodically rocked by scams of multi-level marketing (MLM)companies and such frequent frauds indicate regulatory circumvention. Recently, two such frauds came to light where the citizens lost an estimated ₹500 crore when two MLM investment companies, Gold Sukh and Eve Miracle, duped people of Rajasthan and Madhya Pradesh. The modus operandi of both was similar - spreading their schemes amongst gullible investors and running away when new joining stopped.



These companies offered high returns on investment - even 300 per cent in one year!

Earlier, the Ministry of Corporate Affairs had initiated a probe into six MLM companies including Speak Asia Online. The Reserve Bank of India (RBI), too, had flashed a red signal to banks in respect of MLM companies advising caution in opening of accounts, etc.

MLM involves a strategy whereby the sales team earns not only for sales they generate themselves, but also for the sales of others they recruit , creating a cascade of distributors with multiple levels of compensation. MLM has been referred to as pyramid selling, network and referral marketing.

As per extant laws, if any company is desirous of engaging in any business activity, it needs to register itself under the Companies Act, 1956. These companies are then regulated by a regulator or by the state government concerned.

For banking and non-banking financial services, RBI is the regulator and for stock markets, the regulator is the Securities and Exchange Board of India (SEBI). However, there are certain companies that do not fall under the purview of either of these regulators and it is in such grey areas where companies like Gold Sukh (using members ' deposit to purchase gold) take advantage.

The state governments, too, have been slow to react to MLM frauds. However, Kerala became the first state to set guidelines in September 2011 for MLM companies triggered by the Tycoon Empire International scam of about ₹1000 crore.

The guidelines include refund of money to a customer not satisfied by the product within 30 days; banning of membership fee; freedom to customer to examine samples prior to purchase; necessity for the company representative to carry a photo identity issued by a government agency; availability of a permanent grievance redressal mechanism; proper accounting; transparency, etc.

State-wise set of guidelines , even when adopted by all states, would have their own drawbacks, such as lack of uniformity which the MLM companies would be able to exploit to their advantage. The MLM case strengthens the argument for having one regulator for the financial sector in India, i.e. cognate sectors, such as banking, non-banking financial services, stock markets, etc. clubbed under the rubric of 'financial sector'.

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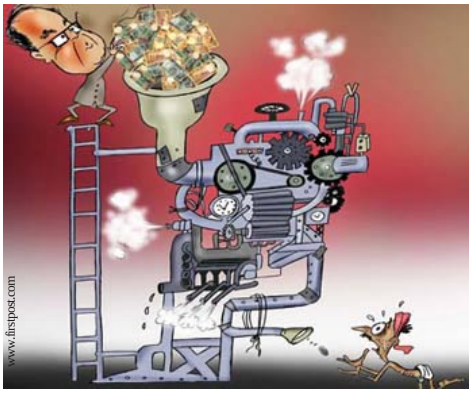
* *Secretary General, CUTS. Abridged from an article that appeared in* The Times of India, *on December 30¸ 2011.*

Poor to Get Affordable 3-in-1 Security

The Finance Ministry is putting shape to a new social security scheme for unorganised sector workers, creating for the first time a safety net for millions of underpaid and overworked people, many of whom living in abject poverty.

The Ministry discussed with the Life Insurance Corporation (LIC) and the four state run non-life insurance companies the contours of this scheme that will provide life insurance, health cover and retirement pension to some 15 crore unorganised sector workers for a nominal amount.

This three-in-one protection, the cost of which will be mostly funded by the Central and state governments, is aimed at taking care of workers and their families' medical needs, support the family in the event of death of the main breadwinner and provide some income during retirement. The scheme envisages Central and state governments bearing 75 percent of the cost, with the remaining amount to be paid by the policyholder. *(ET, 16.11.11)*



Misleading Ads to Face Music

Following a directive from the Prime Minister's Office, the Consumer Affairs Ministry is working on a set of proposals aimed at reining in misleading ads. The move comes in the wake of attempts by the government to address the needs of consumers who feel cheated after buying products based on exaggerated or misleading claims made by advertisers.

Whilst the Advertising Standards Council of India does have a code that prescribes the norms for advertising, this is voluntary. Barring television, where the code can be enforced, since it is part of the rules under the Cable TV Act, the code does not have a legal back-stop for media such as print and outdoor. *(BS, 10.10.11)*

Helpline to Take on Corruption

For victims of graft who have suffered at the hands of corrupt public officials, there would soon be a helpline where they can seek free of cost legal advice on remedies and how to pursue their complaints.

The initiative aims at giving recourse to the common man, who lacks the knowledge to take on corruption in public bodies. The phone helpline is part of an initiative by anti-graft watchdog Transparency International's advocacy wing, the Advocacy and Legal Advice Centre, which is making three full-time centres operational in India. Such centres operate in 50 countries. *(ToI, 02.12.11)*

EXPERT VOICE

Labour Reforms with Consensus

Prime Minister Manmohan Singh indicated the government's plan to introduce labour reforms with "consensus." Singh, presenting the Labour Ministry's Shram Awards for 2008, 2009 and 2010 to workers for their "contributions to increasing production and productivity, enhancing efficiency and promoting innovation," reaffirmed the government's commitment to do "everything possible to ensure good industry-labour relations."

Singh also highlighted the government's plans to increase skill development programmes and expand the workers' health insurance scheme such as the *Rashtriya Swasthya Bima Yojana*, which was already benefiting about 25 million labourers.

The objectives of maximum utilisation of resources, quantum increase in productivity and efficiency could not be achieved unless the managements, workers and trade unions came together and helped evolve an ethos and work culture. *(TH, 15.10.11)*

Review of RTI Act

Prime Minister Manmohan Singh has called for a review of the Right to Information (RTI) Act, one of the UPA's trophy legislations, potentially exposing the government to a fresh stand-off with civil society. Addressing a two-day annual convention of the Central Information Commission here, Singh said the transparency law should not adversely affect deliberative processes in the government and discourage honest, well-meaning public servants from voicing their views.

He asked the participating information commissioners to come up with concrete suggestions in the area of exemption clauses in the RTI Act. The timing of the statement is significant as it comes in the midst of RTI-triggered political convulsions experienced by the government. *(ET, 15.10.11)*

Honesty in Governance

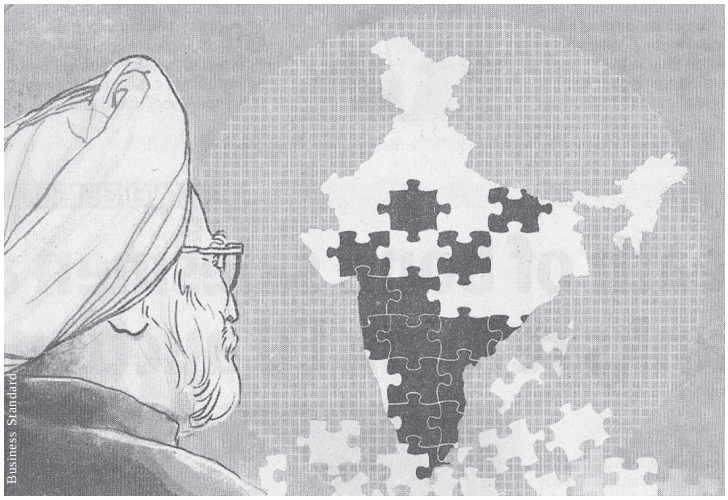
Prime Minister Manmohan Singh acknowledged that concern about corruption has moved to the centre stage and vowed to personally work to provide an "honest and more efficient government". In his New Year message to the nation, he noted that corruption was a serious problem that needs multi-dimensional response, of which lokpal and lokayuktas are an important part.

He said the year that has just ended was a very difficult year for the world whileciting economic crisis, socio-economic tensions, "political upheavals in many developing countries" and "a revolution of rising expectations fostered by the extraordinary reach of the electronic media and the connectivity provided by new social networking platforms".

He identified five key challenges – livelihood security, economic security, energy security, ecological security and national security and said "we must work together as a nation" to address these. *(FE, 31.12.11)*

A Government Without Statecraft

– Devesh Kapur*



When India became independent, its institutional inheritance included the British Indian army, at the time one of the best-organised armies in the world, and which had proved its mettle in numerous campaigns in the preceding decades. Yet, within 15 years, that same army was humiliated and Nehru's reputation was shattered. The inevitable hand-wringing and finger-pointing that ensued did not, however, squarely address the basic question: No matter what the causes of that war, when it did occur, why did an army that was one of the world's finest just a few years before perform so abjectly?

Through its inaction and bumbling, this government has managed to delegitimise economic reform

While there is much to commend in Nehru's role in building the institutions of independent India, on this score his responsibility has been underplayed. In those 15 years, the institution of the Indian army was severely undermined – and, if we believe Napoleon Bonaparte's dictum that "there are no bad soldiers, only bad officers", Nehru bears much responsibility.

If 15 years were enough to undermine a well-organised institution – and shatter Nehru's towering reputation – two decades after he launched India's economic reforms, the Prime Minister appears to be doing the same to the market and capitalism.

Instead, the government has lurched from one crisis to another, with the most recent fiasco on changes in retail polices symptomatic, perhaps more than anything else, of a lack of any understanding of statecraft. If the government really was convinced that this was good for the country, did it really believe that the Bharatiya Janata Party would sit still given that traders are one of its principal constituencies? Of the key constituencies likely to gain – consumers and farmers – the former are too scattered to engage in collective action. The latter, at least the ones large enough to have enough surplus output to sell to the market, are, however, politically critical.

At the very least, the government should have first mobilised the farmer constituency to create a policy demand. Then, in response to farmer rallies, with farmers railing against middlemen, it could have presented itself as a responsible government riding to the rescue with a policy package in which retail foreign direct investment (FDI) was one additional arrow in the policy quiver, but by no means the only one. Because the reality is that of the numerous policy challenges facing India, retail sector liberalisation is hardly the most pressing.

But perhaps the intention was very different. With India's global reputation slipping badly, the Prime Minister and his advisers perhaps thought that they needed to signal the country's commitment to reform with a bold move. But if there is one lesson in policy reform worldwide, it is that if a country's leadership does not first address the policy needs of its own citizens and instead caters to the wants of the outside world, it should either be very well-prepared, or expect swift political retribution.

And if restoring India's reputation was the main reason behind the policy measure, why did the government think that FDI in retail was more important than, say, addressing the continuing widespread perceptions of impropriety in key ministries? This, after India has become a byword in corruption amongst major economies. It is surprising that Manmohan Singh learnt so little from the person who helped make his reputation.

* *Director, Centre for Advanced Study of India at the University of Pennsylvania. Abridged from an article that appeared in the* Business Standard, *on December 12, 2011.*

Anti-corruption Bills gets Nod

The Union Cabinet cleared three crucial anti-graft Bills aimed at making judges and public utilities more accountable and protecting whistleblowers. The three bills – Judicial Standards and Accountability Bill, 2010; Public Interest Disclosure and Protection to Persons Making the Disclosures Bill, 2010, widely known as the Whistleblower's Protection Bill; and Citizen's Charter and Grievance Redressal Bill, 2011 – are expected to be introduced in Parliament shortly. The clearing of the Bills is a "cosmetic exercise" by the UPA government

(Mint, 14.12.11)

Boost for Small Screen Content

A bill aimed at digitalisation of cable TV was passed by the Parliament with the government assuring that the move would be beneficial for viewers and lead to better and more meaningful content. The Bill was a major step towards reform that would enable digitalisation of the analog TV network and bring India on a par with other countries like the US, the UK, Korea and Taiwan. It would end the fight for more TRPs among channels. The bill also gives the government the right to cancel licences of cable operators who flout rules.

(BL, ToI & Mint, 14.12.11)

Consensus on Pension Bill

The Pension Fund Regulatory and Development Authority Bill, which was stalled for years, will be cleared by the Parliament. The amended legislation will now fix the ceiling of 26 percent FDI in the bill itself, besides making provisions for guaranteed returns and easy withdrawal norms. It be recalled that these three amendments were vetoed by the Cabinet. The government decided to go ahead with the PFRDA Bill after its key ally, Trinamool Congress, assured support in Parliament. *(ET, 20.12.11)*

Real Estate Reforms

The draft Real Estate Bill seems to have touched a chord with the home buyers and consumer forums, even though builders have labelled its provisions as being 'too harsh'. The draft Bill, prescribes up to three years imprisonment or a fine up to 10 percent of the project cost, if a builder constructs projects without first registering it with the proposed sector regulator. Pradeep S Mehta, Secretary General, CUTS International, feels that the Bill will strengthen the hands of consumers, who are not in a bargaining position while entering into a sales agreement with builders.

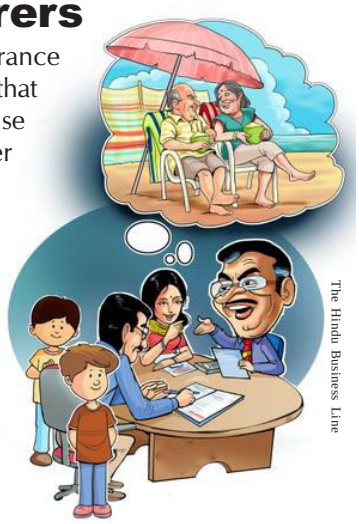
(BL, 13.11.11)

Mining Law to get Delayed

The Mines and Minerals (Development and Regulation) (MMDR) Bill, which seeks to replace a decades-old mining law, was introduced in the Parliament but may become law only by 2012. The draft Bill seeks to empower the Central and state governments to enable better regulation of the sector and to combat illegal miners and Maoist insurgents impeding its development. Concomitantly it seeks to establish a district mineral fund that will have representatives from mining companies, government officials and local residents, who will manage the funds and decide where they must be spent. *(Mint, 13.12.11)*

LIC on Par with Insurers

The Parliament passed the Life Insurance Corporation (Amendment) Bill, 2009, that will replace a 55-year-old Act, aiming to raise the equity base of the state-owned insurer by 20 times. The Bill seeks to raise the capital base of LIC from ₹5 crore to ₹100 crore besides capping the sovereign guarantee provided by the government and reducing the amount of surplus from any investments made by LIC to be available for policyholders.


The Hindu Business Line

The new law will not affect existing policyholders. The government will continue to provide sovereign guarantee to the policies sold by LIC. The Act will bring LIC on par with private insurers – both in life and non-life segments, as far as the capital base is concerned. *(Mint, 13.12.11)*

Packaging Leads to Price Hike

Rising inflation, coupled with a new packaging legislation, will make price hikes of packaged foods inevitable. On one hand the costs of inputs such as raw material, furnace oil and packaging material and even logistics have gone up, while on the other, the new packaging law that bans producers from reducing the quantity inside the packet, will leave them with no choice but to raise prices. This new Legal Metrology Act is likely to come into force July 2012. The new Act will make the price-point concept impossible. *(BL, 07.12.11)*

Bill Aims at Accountability

The Companies Bill 2011, introduced in Parliament, has strict expenditure and disclosure guidelines for CSR activities of companies though it falls short of punishing non-compliance. The Bill makes disclosure of CSR spend mandatory for companies with a net worth of ₹500 crore or more, or turnover of ₹1,000 crore or more, or a net profit of ₹5 crore or more during any fiscal. It asks these companies to earmark two percent of their three years' average profit for CSR and disclose the manner in which it was carried out. *(BS, 15.12.11)*

E-delivery of services on Anvil

The government has approved the Electronic Delivery of Services Bill (EDS), 2011, which will help it provide driving licence and other such permits electronically, bringing in transparency in public dealings and checking corruption. The bill aims at reducing interface between the public and government officials to save time and costs as well as to enhance transparency to check corruption, they added. *(ET, 22.12.11)*

Whither Public Accountability?

– CP Bhambhri

Legal institutions for governance are a necessary but not sufficient condition to ensure that an 'accountable' functionary of the state implements the rule of law. India has an elaborate structure for holding every public-decision maker accountable, but the reality is that a majority of 'insiders' are generally able to subvert the formally laid down governance procedures.

Public servants are pillars of the democratic system to ensure that procedures are followed in government. There is an internal chain of command among them. They are duty-bound to take decisions while dealing with the problems of citizens. However, this system, with a water-tight, built-in structure of control and supervision, has not yielded proper accountability of decision-makers in India.

Why has the formal system of accountability become so dysfunctional that its violators feel confident and subvert the whole system of checks and balances? The key reason is that the system is not foolproof. First, only internal mechanisms of public accountability have been defined.

However, the 'external' dimension of accountability was never integrally linked to the first. An open democracy and open government has never actually operated in India because every activity and decision of the government was 'open' only to powerful strata of society. But it was 'secret' for a vast majority of citizens, who had to knock at the doors of decision-makers to resolve their problems.

The Right to Information Act, 2005 and the setting up of Central and state-level information commissions has opened the mysterious gates of the offices of decision-makers. This law has extended, to a great extent, the boundaries of accountability in public service.

Economic Times

Corruption crusader Anna Hazare's movement elicited public response because people have developed hatred against public functionaries. They perceive them as violators of laws of the land. Every democratic system has an elaborate system of checks and balances to ensure public accountability. India is not an exception. A complex system of institutions has been created to ensure that every public functionary is held accountable

Second, a democratic political system should guarantee that citizens will be served by functionaries of the state as a matter of 'right'.

The Grievance Redressal Bill along with a Citizens Charter, such as the RTI Act, will make public servants more accountable. As some social activists have observed, 'getting his *bijli, sadak* or *paani*' is far more important for the common man. The Grievance Bill, and not the *Lokpal*, will empower them to get these basic necessities.

The real innovation in enacting a Public Grievances Bill or Citizen's Charter is that a grievance redressal officer will 'be responsible for redressal of citizens' grievances within 30 days. Else, penal action will be taken against the errant officer.

India is a country that has several laws, including on very complex issues such as anti -corruption. Despite this, citizens often feel helpless while dealing with an 'all powerful bureaucracy' and its consequence is that only powerful and influential persons can get their job done by a willing, compliant and obliging bureaucracy.

Ordinary citizens do not have any mechanism to hold non-performing bureaucrats accountable to any citizen-body that can oversee the actual functioning of public service.

Hence, the process of decision-making by public authorities should be exposed to public scrutiny. Citizens must have a right to get their job done. The existing system of public accountability is dysfunctional.

It can be 'restored' only if offices of the government are 'open', not for powerful lobbyists or touts or middlemen, but for any citizen. The Official Secrecy Act should be replaced with a Citizens' Rights Act. This will ensure real public accountability.

* *Abridged from an article that appeared in* The Economic Times, *on December 31, 2011.*

Measures to Rein in Inflation

The Chief Economic Adviser to the Union Finance Ministry, Dr Kaushik Basu said that the government is doing its best to rein-in inflation and the inflation rate would have been much higher if it were not for its endeavours.

Asked if importing foods, (the shortage of foods is believed to be the biggest cause of inflation today) could be an answer to inflation, even at the cost of swelling the fiscal deficit, Dr Basu said that in a situation where there is a minimum support price for food products, importing may not work out quite well.

This is because if importing foods brings down the market prices of goods, then the minimum support price would turn out to be so attractive to the farmers that almost all the farm produce would end up in the public distribution system. *(BL, 19.11.11)*

CAG REPORTS

Loss in Import of Pulses

State agencies recorded a loss of ₹1,201.32 crore from 2006 to 2011 due to serious deficiencies in the design, implementation and monitoring of schemes for import of pulses, according to the Comptroller and Auditor General (CAG) report tabled in the Parliament. To bridge the demand-supply gap of 10-50 lakh tonnes during 2002-03, the government introduced two schemes for import and distribution of pulses through four agencies.

In the first scheme, the agencies were to import pulses on government account, subject to reimbursement of losses, if any, up to 15 per cent of the landed cost by the government. The CAG in its audit found that the Ministry of Consumer Affairs, Food and Public Distribution did not conduct any survey for assessing the demand for the different types of pulses. *(BS, 27.12.11)*

Shoddy Work at Youth Games

The CAG said several rules and regulations were openly flouted in the awarding of contracts during the Commonwealth Youth Games (CYG) held in 2008 at Pune. The amount involved in the alleged irregularities, on construction and refurbishment of the sports complex and procurement of equipment, was found to exceed ₹200 crore.

CAG said that because of serious deficiencies in the planning for sports infrastructure, the cost of the main work increased by 85 percent. Also, only half the equipment required by the city's commissioner of police was received before the event. Planning and work on city infrastructure by both the Pune Municipal Corporation and Pimpri-Chinchwad Municipal Corporation were not effective. *(BS, 25.12.11)*

Misjudged Moderation of Inflation

Spiralling inflation has harmed the government's credibility, Planning Commission Deputy Chairman Montek Singh Ahluwalia admitted, while conceding that he went wrong in projecting moderation in inflation which remains above the double digit mark.

"It is true inflationary pressure is higher than we had thought it would be... It is absolutely true we have been hoping that this would happen earlier and to that extent our credibility becomes questioned," Ahluwalia said.

However, he said that the government was still hoping that inflationary pressure would ease from the beginning of 2012. *(ToI, 21.11.11)*

Red Tapism Leading to Delays

Nobel laureate Amartya Sen blamed "bureaucratic barrier" as a major hurdle for the delay in starting of the Nalanda University, which is being established in Bihar, close to the ancient historic institution of learning.

"The reason for delay is the bureaucratic control. We are having some problem in getting the sanctioned funds released but we should be able to deal with it," Professor Sen, who also chairs the Governing Board of the University, said.

Explanations for bureaucratic queries take a lot of time, he said, while speaking at an open session on "Nalanda University: A 21st Century University: (Re) Calling the Past". *(TH, 08.10.10)*

Growth 'Not Disappointing'

Warning that hard days are coming, Union Finance Minister Pranab Mukherjee termed the 6.9 percent gross domestic product (GDP) growth, recorded in the second quarter, as 'not disappointing', especially in view of global developments, and asserted that the government would continue to adjust its policies to maintain growth.

Mukherjee said the higher nine percent growth projected in the budget would be difficult to achieve as GDP growth stood at only 7.3 percent in the first half. He said that even though the second quarter growth had declined, there were some encouraging signs in the form of a rise in exports. Some key sectors such as power and steel had also shown stronger growth. *(TH, 01.12.11)*

Inflation to Decline Soon

The Reserve Bank of India (RBI) Governor D Subbarao said inflation would "certainly" decline by the end of 2011, to an extent that "will provide relief to the common men". He said RBI's effort was to bring down inflation to seven percent (wholesale price index) by 2012.

When asked why it was not able to tame inflation despite tightening monetary policies, Subbarao said: "Had we not risen to the occasion, had RBI not acted, inflation would have been more by now."

The governor said food and petroleum prices were the driving force, at present, behind inflation. Adding: "Inflation is a much bigger problem in Assam and the northeast than in the rest of the country, as these states heavily depend on importing goods from outside via roadways." *(BS, 01.12.11)*

Pharma Industry Gets Away Lightly

– S Srinivasan*

Times of India

Most retail pharmacies do not keep cheaper versions of medicines because of lower margins; so, all lower priced brands will move towards the higher ceiling price

The draft National Pharmaceuticals Pricing Policy (NPPP-2011) declares that all 348 essential medicines (as per the new National List of Essential Medicines, NLEM 2011) will be under price regulation. The shift in focus from market share to whether medicines are essential is to be welcomed. However, the policy still leaves scope for non-essential and irrational medicines to be made. It also has made calculating ceiling prices of the many medicines not in NLEM a tedious, if not impossible, exercise.

In addition to the NLEM 2011, top selling 300 medicines of the IMS could have been covered. The draft policy delinks the ceiling prices of formulations from the price of bulk medicines. Indeed, the arguments given in the draft policy for removing price control of bulk medicines do not make sense. The government should have kept the option of price control on bulk medicines in the event of cartelisation or abnormal increases in price of bulk medicines.

The latter may result in the scarcity of a particular essential medicine formulation unless it is already overpriced relative to the cost of the bulk medicine used. Worse, this may result in the bulk medicine or the formulation not being made within the country.

Secondly, using the Wholesale Price Index (WPI) to revise prices is not a good idea. It adds an inflationary element to the ceiling price automatically every year. The WPI (100 for base year 2004-05) for 2010-11 is 143.3.

Reliance on Market

The arguments for totally relying on market-based pricing (MBP) of formulations apparently do not recognise the fact that there exists a wide range of prices in the market of the same formulation and that prescribers, and therefore patients, tend to place more value on the costlier brands of the same formulation.

The key para in the draft policy is para 4.7: "The Ceiling Price would be fixed on the basis of Weighted Average Price (WAP) of the top three brands by value (MAT value) of a single ingredient formulation medicine from the NLEM on per standard dosage basis."

The WAP idea means that it will end up legitimising high prices, especially if the top three brands are overpriced: top selling brands would be the costliest. The WAP formula has, in effect, no relation with the cost of raw material, let alone the cost of other inputs. The MRP to raw material ratio is about 3000-5000 percent in quite a few essential medicines.

Medicines Outside NLEM

The draft policy gives a formula to discourage non-standard dosages. The same thinking could have been applied to discourage irrational and unscientific medicines outside the NLEM. The draft policy lists certain exemptions which, again, are inexplicable: all medicines costing less than ₹3 per unit are to be exempt. This again legitimises overpricing of medicines which cost 10-20 paise, and begs them to be priced near ₹3.

An example is cetrizine, which costs less than 15 paise per tablet to make, but the brand leaders are available near ₹3. Why should this be condoned? Should much-needed iron plus folic acid tablets, which cost less than 10 paise per tablet to produce, be given leeway to sell at or near ₹3? Most retailers will give only a strip of 10, even when one needs a couple of tablets only.

The Alternative

So, what is a better pricing policy? That will be one that brings down the prices of overpriced medicines; that has some linkage to the actual cost of production, and therefore to the cost of the raw material; and does not legitimise overpricing of medicines. Nominally reducing the price of the top-selling brand is tokenism.

The draft policy gives the impression of a policy cobbled to satisfy perfunctorily the Supreme Court Orders of March 2003 and October 2011, one that will leave major players mostly unaffected. A policy with some bark and a little bite.

* *All-India Drug Action Network and LOCOST, Vadodara. Abridged from an article that appeared in* The Hindu Business Line, *on November 08, 2011.*

Curtail Profiteering in Education

In a bid to prevent educational institutions from demanding capitation fee for admission, the government wants to double the proposed penalty to ₹1 crore.

The Union Cabinet approved amendments to the Prohibition of Unfair Practices in Technical Educational Institutions, Medical Educational Institutions and Universities Bill, 2010, as per the recommendations made by the Parliament Standing Committee on Human Resource Development earlier in 2011.

To start with, the name of the Bill has been changed to Higher Educational Institutions Bill, 2011. *(TH, 17.11.11)*

Vital Reforms for Education

India is credited with having the world's second largest population and with more than 50 percent below 35 years of age, the country has the potential to become a hub of trained manpower provided this young population is given the right education and training.

It is predicted that the participation of the private sector in higher education will increase in the future. The private education sector suffers from drawbacks on issues like quality, fee structure, governance models; affordability etc. there is also a need for the private sector to take the right steps to reduce these drawbacks.

As a whole, Indian higher education is riddled with challenges like the need for better institutes, faculty, more research intensive institutes and employability. *(TH, 30.11.11)*

Umbrella Body for Higher Studies

After a two year delay, the Union Cabinet has cleared the creation of the National Council for Higher Education and Research (NCHER) which will pave the way for an umbrella body in higher education that will subsume in it agencies like the University Grants Commission (UGC), Medical Council of India (MCI) and the All-India Council for Technical Education (AICTE).

The basic objective of the NCHER is to give autonomy to universities to innovate and experiment besides breaking the barriers between different branches of education. The NCHER will include general, technical and professional education but not agricultural and medical institutes. *(FE, 21.12.11)*

Lessons to be Learnt

–Sanjaya Sharma*

I doubt anyone can deny the significance of education to a nation's growth. The information gathered from the latest census shows India's literacy levels have increased significantly and effective literacy rate has jumped by 9.2 to reach 74.04 percent. This data is not the best indicator of India's educated human power because what they lack are skills sets. In a nutshell, literacy becomes relevant if it leads to employability.

Literacy is relevant only if it leads to employability

Some recent reports have shed light on a number of alarming facts that highlight significant shortcomings in our education system. This brings us back to the fundamental question: "Is India's education system efficient?" The answer is an obvious "No". While most tier-1 cities have adopted world-class methods of education right from the primary education, many tier-2 and tier-3 cities, semi-urban and rural areas are severely lagging behind. This puts India in a difficult spot as the next phase of growth and opportunity will emerge from regions outside of metros and other big cities and, hence, will also be fed by talent from these regions.

The situation can be improved at two levels, one, standardisation of primary education with newer methods of teaching that aid teachers and deliver world-class education that is interesting for the students and, two, e-learning for enabling our talent pool to catch up with their global counterparts.

What India needs is to invest and build digital classrooms right from the grassroots. Schools in metros as well as in rural areas need to create digital platforms for educative content. This will enable young students to enhance their analytical and other requisite skill sets. And this will make education more interactive.

Harnessing technology's prowess to improve the employability quotient of this generation is another area to focus on. E-learning has the ability do wonders to the training sector, the same way BPO industry helped shape the IT industry. That's what we need to eventually create a line of young leaders and that will go a long way in defining our country's growth and progress in the longer term.

* *Chief Executive Officer, Tata Interactive Systems. Abridged from an article that appeared in* The Financial Express, *on December 12, 2011.*

OK to Bail Out PSUs?

Given that the government has agreed to infuse ₹6,500 crore of equity in the chronically sick Air India (accumulated losses are ₹13,300 crore and debt ₹43,777 crore), presumably this has satisfied the bankers who've agreed to restructure its loans.

Though the restructuring has RBI's approval, the question is whether this is enough, and more so for an airline that is deeply political and suffers from rampant indiscipline – its effective merger with Indian Airlines has been held up for years due to union rivalries and pilots are once again threatening a strike.

Also the "competitive" character of the bailout is disputed keeping in mind that the equity infusion is actually what the government got "free" from tax-payers.It is now for the Competition Commission of India (CCI) to see if the bailout anti-competitive. *(FE, 30.11.11)*

Rockstar Co-producer Moves CCI

Just two days before the scheduled release of the Ranbir Kapoor-starrer Rockstar, one of the films co-producers filed a case with the country's anti-competition watchdog accusing a group of distributors of boycotting the film.

Shree Ashtavinayak Cine Vision, co-producer of film Rockstar, accused a group of 18 distributors in north India of forming a cartel to boycott the film unless it pays a bank guarantee before the release. It asked the CCI to look into the matter under Sections 3 and 4 of the Competition Act, 2002. These sections relate to anticompetitive agreements and abuse of dominant position. *(ET, 11.11.11)*

SAIL Receives Clean Chit

Two years after the CCI initiated an investigation into the exclusive agreement between the Indian Railways and Steel Authority of India (SAIL) for alleged breach of the competition law, the anti-trust regulator is set to close the matter giving SAIL a clean chit.

However, it is also learnt that one of the four members present has also proposed that the exclusive arrangement should end by early 2012 and the Indian Railways should start inviting tenders for rail steel from April 01, 2012. The rationale being that by March 31, 2012, SAIL would have recovered the entire ₹711 crore it had invested (at the behest of the railways) for setting up a separate manufacturing facility at Bhilai to produce rail steel. *(FE, 28.12.11)*

CCI to Probe Coal India

The CCI plans to probe whether state-run coal miners have thwarted competition in the sector, robbing it of growth despite the country holding record reserves of the fuel.

Domestic coal reserves rose 37 percent in two years to 74 million tonne in 2011, but this could not be matched with a faster pace of production. Coal production growth in fact slowed to 0.19 in 2011 from 7.9 percent in 2010, delaying industrial projects and causing rolling blackouts as coal-based power generators sat idle.

The CCI is now considering a *suo moto* investigation into whether the state's virtual monopoly in the sector is responsible for this slowdown. The regulator will be probing abuse of dominant position by the state-run monopoly, which has the backing of the Coal Ministry, under sections 3 and 4 of the Competition Act, 2002. *(ET, 22.12.11)*

TRAI to Consult CCI on M&As

With telecom regulator recommending liberal norms for mergers and acquisitions (M&As), the CCI has asked TRAI to keep it on board before finalising norms in the sector, to avoid any jurisdictional conflict.

In a letter to the DoT and TRAI, CCI Chairman Ashok Chawla said the anti-trust body would be able to give valuable inputs as one of its mandates is to look into combinations which could have adverse impact on competition in the market.

This may be the appropriate time to consider suggestions of the CCI when norms are being finalised on M&As for the telecom sector so as to avoid any potential jurisdictional conflict and uncertainty for the industry. He also suggested that a suitable consultation mechanism should be developed between the CCI and the DoT or TRAI. *(ET, 02.12.11)*

CUTS Promotes Second World Competition Day

Members of the antitrust community from several countries observed the second World Competition Day (WCD) on December 05, 2011, an initiative promoted by CUTS International. In 2011, CUTS identified cartels as the target of World Competition Day. The organisation gathered support among competition authorities around the world to raise awareness about the harmful effects of cartels on consumers.

Like other international days, the WCD would help garner public support in favour of competitive markets, which in turn would have positive impacts on the countries. This is particularly important in case of developing countries, which have to deal with considerable challenges that impede the process of competition reforms.

Antitrust enforcers from countries including Armenia, Namibia, Zimbabwe, Pakistan, Russia and the UK expressed their support for the event. CUTS is working to submit the proposal of a WCD to the General Assembly of the United Nations. *(GCR, 07.12.11)*

(To know more about the day, follow us on facebook at: www.facebook.com/WorldCompetitionDay)

Making the World Round Again

– Arun Maira*

India's capacity for building consensus must catch up with the complexity of its reform agenda

Two ideas, with increasing strengths, have been contending in the last 25 years to shape the structure of societies and economies. One is the idea of democracy and human rights. The other is the idea of global markets and free trade. In practice, they are not always compatible.

Advocates of unrestricted flows of finance and trade across national boundaries rail against democratically elected governments who prodded by domestic concerns, resist the prying open of their markets to foreign investors. These trade evangelists say that free trade will improve efficiencies and global output because each country will produce only what it can most efficiently and buy the rest of its needs from other countries that produces those. With all resources being used most productively, global output will increase. The problem is how to get to this ideal from where we are, with people employed in activities they should stop because someone in another country can perform them more efficiently.

Actions by national and local governments to adjust economists solutions to their social conditions create various local rules. Free traders do not like such local rules because they increase transaction costs at the borders. They dismiss countries that impose local rules on trade as protectionist and anachronistic.

The concern now is that ideas of the world as an economy and society as a set of economic transactions have been carried too far since the 1980s.According to these ideas, the goodness of governments actions must be gauged by the effect they have on investors sentiments and by what the stock market thinks of them.

Democracy is government for the people and by the people. Governments must be accountable to people, not international investors. They must respond to peoples' concerns which will depend on the condition of the society. There cannot be a universal solution when conditions vary. Practical solutions must be developed locally. Good governance requires national governments; and in large countries, federal structures; and strong local governments too.

A point that globalisers and flat-worlders seemed to miss is that a boundary-less world can become ungovernable with risks sloshing through it uncontrollably: a lesson brought home with the recent global financial contagions. There must be boundaries to slow down the sloshing, albeit permeable boundaries.

Good governance requires many governments, each close to their own people and accountable to them. Whereas the thrust of integration movements, such as the EU and WTO, has been to reduce the policy space of national governments, Rodrik explains that good governance requires that national and local governments are given more policy space, not less. Undoubtedly, there are many benefits from common standards and from reduced transaction costs. On the other hand, local governments must be given adequate freedom too. Countries and states have different conditions and are at different stages of development. The Indian states are vociferous that the Planning Commission must appreciate that one size cannot fit all. The European Union is suffering because it may have homogenised too fast.

Global trade and climate change discussions are stalled by demands for differentiation amongst countries. Economists often lament that politics comes in the way of implementation of technically correct solutions. Implementation of change must always be a political process because to obtain the overall gain, there will be some shuffling around of incomes within the system: thus winners and losers in the interim. The story of FDI in Indian retail is an illustration of such adjustments.

Therefore, stakeholder support must be obtained. Whereas economists describe the future in numbers, good political leaders speak to people in stories of fear and hope, because people see their futures through narratives of change. Investors' demands and economists' arguments will not be sufficient to carry people along .Informed political debates are necessary too. Reforms have stalled in democratic India, with its freedoms of representation and speech, may be because its capacity for consensus-building has not caught up with the complexity of its reform agenda.

* *Member, Planning Commission. Abridged from an article that appeared in* The Times of India, *on December 12, 2011.*

Cut Fuel Sops to Pay Food Bills

Coined in 1979, poverty line remains a critical monitoring tool, says Planning Commission Deputy Chairman Montek Singh Alhuwalia while clarifying that the government's primary focus has been on bringing more and more people out of poverty. Montek also speaks of India facing more uncertainty due to EU crisis than it confronted in the global recession in 2008 as it does not have fiscal space and growth is slowing down

What is the relevance of poverty line, especially, since we are moving to macro concept to determine poverty

It is true that the poverty line will not be used to limit benefits under the Food Security Act because the draft Food Security Bill proposes a broader category of priority sector, which is more than the BPL population. Nevertheless, the poverty line is relevant as a monitoring tool to see whether growth is bringing more and more people above the poverty line. We need a fixed poverty line for that purpose.

How important is the monitoring function

It is very important. We have had poverty line since 1979 and targeted PDS came up only in the second half of 90s. Incidentally, our new poverty line, which is being criticised at home, is slightly higher than the global poverty line if we convert at purchasing power parity, which is what we should do. A fixed poverty line also enables us to monitor progress in reducing poverty across States and to see which State is doing better on reducing poverty.

There is some criticism about the government trying to suppress poverty and running a campaign like India Shining...

When UPA I came to power in 2004 we recognised that there were complaints about the poverty line being too low, so we set up an expert committee under the late Professor Suresh Tendulkar, an outstanding authority in the field, to look into this issue. This committee said the urban poverty line is broadly alright, but the rural poverty line has got misaligned and should be raised. We accepted the recommendation and the net effect of the change was to raise total poverty from 27.5 to 37.2 percent. This is not the action of a government trying to suppress poverty numbers.

Will the new methodology help in better targeting of government resources

The UPA strategy has been to have a combination of sector initiatives and specific schemes. The sector initiatives include accelerating reforms in agriculture and modernising agriculture to increase production and also to build economic infrastructure for economic regeneration of rural areas. Many of these policies are not specifically targeted at the poor, but they will create conditions in which poverty will go down. Similarly we have to accelerate industrial growth and make it more employment focussed.

Since resources are limited, should not we focus more on creation of infrastructure and pull people out of poverty instead of giving cheap food and encouraging current consumption

It is true that when resources are limited we have to choose how much to spend on helping poor people earn more income and how much o direct subsidy. We have many schemes aimed at increasing income earning capacity, especially in agriculture. But there is a legitimate role for acting directly on food security for the poor vulnerable category.

Sentiments are weak in the country. People feel governance is poor. What measures can be taken to instill confidence to spur investments

Sentiment has indeed weakened, but governance has note been deteriorated. The government has a special responsibility in a down turn, to overcome negative sentiment. It must do this by getting its act together fast, to prevent private investments from slowing down. In my view, the most important thing the government can do is remove the roadblocks for infrastructure projects. Many other reforms are also very important, particularly in the financial sector.

* *Excerpts from an interview of Montek Singh Ahluwalia, Deputy Chairman, Planning Commission of India that appeared in* The Economic Times, *on October 07, 2011.*

ReguLetter

The October-December 2011 issue of ReguLetter encapsulates 'Consumers – Unite and Say 'No More' to Cartels' in its cover story. As the international competition community once again observed the second World Competition Day, in response to a global call by CUTS, on December 05, 2011 (dedicated to the theme, Cartels and their harmful effects on consumer), there is still a need to protect consumers from cartels. This would not only shake up businesses that have flagrantly engaged in exploitative practices, but would also bring the average consumer closer to the process of competition reforms in the developing world, including India.

A special feature by Dithapelo Keorapetse states that the objective of competition law is to discourage detrimental practices of this kind and ensure that competition is protected in Botswana markets.

Another special article by Trudi Makhaya & Simon Roberts says that competition in a market economy is generally conceptualised as a rivalrous, information-generative process that seeks to produce the best ideas and mechanisms of production and distribution. The importance of the competitive process is enshrined in various schools of thought about the workings of market economies.


ReguLetter
A Quarterly Newsletter
Volume 12, No. 4/2011
Consumers – Unite and Say 'No More' to Cartels
Inside this Issue
Special Articles

This newsletter can be accessed at: www.cuts-ccier.org/reguletter.htm

Economiquity

The quarterly flagship newsletter of CUTS Centre for International Trade, Economics & Environment (CUTS CITEE) encapsulates an article entitled, 'The Global South Needs a Multilateral Approach' in its cover story which states that the real challenge that the world faces today is to develop modalities of strengthening international cooperation and build common minimum commitments.

A special article by Grant Aldonas states that the multilateral trading system under the aegis of the WTO, once again, at a crossroad. Given that the Doha Development Round did not reach its conclusion even after a decade of costly negotiations makes us think what do we do to restore the credibility of the WTO as an institution.

A wide range of news articles relevant to WTO and Doha Round and International trade are covered under section on world economic updates. Subsequent sections highlight news item around the world focusing upon climate change, migration, remittances, and development economics and economic literature covering research documents pertinent to development and international trade issues.

Besides, back page provides a brief overview of the publications of the Centre.

This newsletter can be accessed at: www.economiquity.org/

Regulation of Higher Education in India

Higher education in India is at a crucial juncture with the regulatory system having failed to maintain standards in vocational education on the one hand and having erected formidable competition and quality-diminishing entry barriers to the sector on the other.

Despite its expansion, the system is characterised by a demand-supply imbalance as it is unable to convert the abundance of youth into adequate supplies of quality human capital thereby creating a situation where demand for skilled personnel in many sectors coexists with unemployed graduates with no employable skills.

The objective of this paper is to evaluate the quality of regulation and competition in the higher education sector in India as addressing these problems constitute at least a partial solution to the problems of inadequate quantity, mediocre or poor quality and incomplete access.

SOURCES

BL: The Hindu Business Line, **BS:** Business Standard, **ET:** The Economic Times, **FE:** The Financial Express, **GCR:** Global Competition Review, **HT:** Hindustan Times, **PTI:** Press Trust of India; **TH:** The Hindu, **ToI:** Times of India