PolicyWatch

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

Volume 8, No. 2 April-June, 2007

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INSIDE THIS ISSUE

HIGHLIGHT

"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*

Dealing with Vested Interests that Mar Competition

Globally, economic liberalisation has brought many policy changes, with reliance on market forces. Alongside these policy changes, several developing and transition economies, including India have adopted competition laws as a follow-up to their market-oriented reforms. Further, most of these countries have deregulated several sectors and adopted regulatory regimes for their healthy growth.

In developing countries, adoption and implementation of competition and regulatory laws are politically charged, as its objective is to constrain concentrated political and economic power while helping the more diffuse interests of ordinary, often poor, consumers and producers. The vested interests, which dominate political power, limit economic growth by curtailing economic opportunities which help in growth and poverty reduction.


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Competition policy must align with those political forces for change through economic growth while supporting the political stability on which sustainable growth dynamics depend. The political governance approach to competition policy suggests that it must be judged not by economic efficiency gains alone, but by the greater aim of breaking the monopolies of economic and political power that currently prevent poverty reduction.

This pursuit of political equity and fairness, as well as economic efficiency, requires that competition policy must build a culture of competition by gradually confronting vested interests that are well embedded in the system.

The competition authority should focus on cases with strong vested interest element so as to build the credibility of the agency, rather than focus on economic impacts. Competition policy should be judged explicitly against its contribution to tackling the dominance of vested interests for better growth and poverty reduction outcomes. For this, a vibrant civil society and an active public interest law practice are crucial. Civil society demand can help, through consumer organisations undertaking competition advocacy on behalf of the poor and vulnerable.

Political will and consumer advocacy are extremely important for the success of competition and regulation regimes in developing countries. The new challenge for fair competition is on how to make governments around the country more capable, more accountable and more responsible to deliver growth and welfare in a fair manner to common people.

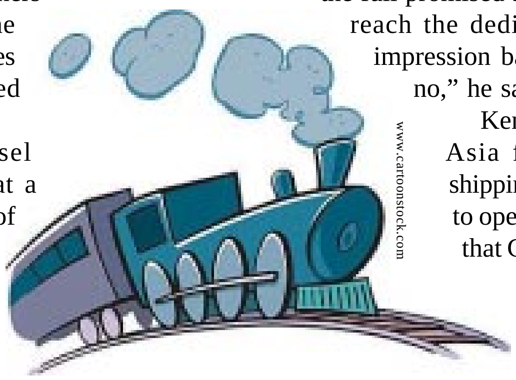
Published by **Consumer Unity & Trust Society (CUTS)**, D-217, Bhaskar Marg, Bani Park, Jaipur 302 016, India
Phone: 91.141.228 2821, Fax: 91.141.228 2485 Email: cuts@cuts.org, Website: www.cuts-international.org
Printed by: Jaipur Printers P. Ltd., M.I. Road, Jaipur 302 001, India. Annual Subscription Rs. 150 p.a./US$30

Railways: Slow Journey to Reform

– Robert Wright

The freight trains heading towards north India through the state of Maharashtra live in a curious half-world between the modern, fast-growing India and the chaotic, slow-paced India of which the British-built railways have been a key part for more than 150 years.

The trains are loaded with containers carrying the names of some of the world's largest container shipping lines and full of the latest manufactured goods or parts to make them.



But, pulled by ageing diesel locomotives, they trundle along at a leisurely pace – the average speed of an intermodal (container-carrying) train in India is 25kph, against 60kph in many other countries. Impatient motorcyclists have plenty of time to dodge across in front of trains even after level crossing barriers have closed.

The challenge for state-owned Indian Railways – by some measures the world's largest enterprise by worker numbers, with 1.4 million employees – is to make far more of its operations resemble the modern, efficient India.

The railways' passenger services, which carry five billionn passengers annually but face competition from India's growing network of low-cost air carriers, face the most obvious problems. But for India's economy, where the main alternative is heavily regulated trucking services on mostly abysmal roads, and for Indian Railways, which receives two-thirds of its revenue from freight, improvements to freight are just as important.

One answer to the challenges has been to launch a cautious liberalisation process in the intermodal market, with private companies which have bought licences allowed to own their own container wagons and organise their own timetables.

On the infrastructure side, a new, dedicated freight line is under construction from Jawaharlal Nehru Port, near Mumbai, to Dadri, near Delhi. Work on the 1,469km line – which will cost Rs114bn (US$2.77bn) – began in October. A later section will link Dadri to Kolkata and, when he was at the ceremony to mark the start of work India's Prime Minister, Dr Manmahan Singh, called for the network to be expanded eventually to southern India.

The new lines should free up capacity on the existing main lines for passenger services and prevent conflicts between the two. Shipping containers will be carried stacked two high on the new routes, rather than in single stacks as at present, transforming efficiency. Double-stacking – which is extensively used in North America – is impossible on existing routes because many sections are electrified, with the wires too low.

The question remains whether the new corridors will be built fast enough to handle the surge in traffic growth and the liberalisation will be effective enough, given that state-owned Concor, jointly owned by Indian Railways and the central government, will still haul the trains.

CS Verma, Chief Executive of Gateway Distriparks, an operator of container distribution centres, asks whether the full promised sums of government money will reach the dedicated freight corridors. "The impression based on historical precedents is no," he says.

Kenneth Glenn, president of South Asia for APL, a Singapore-based shipping line which has gained a licence to operate intermodal trains, points out that Concor will still haul the trains.

The approach is a contrast with the handling of rail liberalisation in Europe, where state railways have been forced to allow privately operated freight trains – complete with privately owned locomotives – to run over their tracks.

"The service will still very much be dependent on Indian Railways as the underlying service provider," Mr Glenn says. "Our ability to differentiate ourselves in service will have a lot to do with how efficiently we structure ourselves and organise the trains."

Mr Glenn is also concerned about the rail lines. "Capacity is already heavily utilised," he says.

Many observers believe the rail sector would change far faster if it were open, like some other parts of India's infrastructure, to private foreign investment and expertise. It remains far more firmly closed to outsiders than any other parts of the country's transport infrastructure.

Yet there remains an optimism about India's railways. That is partly because of the remarkable record of Lalu Prasad Yadav, the controversial but apparently successful railways minister. Under Mr Yadav, the railways have boosted profitability by lengthening and speeding up trains, rather than taking the more obvious steps of raising ticket prices or freight fees. The improvements have, according to some analyses of Indian Railways' impenetrable accounts, pushed the system's returns above its cost of capital. As a result, investments should be far easier to finance.

There is also, simply, a feeling that with the railways having only narrowly escaped near-bankruptcy five years ago and efficiency levels so low, almost any effort at improvement is likely to show some success.

Mr Glenn says APL obtained its train operating licence partly because the system contained so many inefficiencies. "Having run trains in the US for many, many years, we believe we can bring that expertise into India and run a much more efficient operation than the market has had available prior to this," he says.

Abridged from an Article that appeared in the Financial Times, May 8, 2007.

Telecommunications Success Story Faces the Rural Challenge

– Amy Yee

India's telecoms industry is aggressively making up for lost time. Telephone penetration grew at a glacial pace from 0.2 percent in 1947 to two percent in 1998. Since reform of the telecoms industry the following year, growth has jumped dramatically. Penetration reached 18 percent this February and continues to gain momentum.

To sustain growth, telecom operators are striving to broaden their reach into rural areas. In India's villages telephone penetration is as low as two percent compared with 40 to 50 percent in big cities.

However, rural expansion is easier said than done. More than two-thirds of India's population of 1.1 billion lives in rural areas that are often inaccessible because of poor roads, limited electricity and security threats.

Setting up mobile phone towers is no easy task in the hinterland. Crude roads and shaky bridges can be washed away in torrential monsoon rains. Lack of electricity makes it a challenge to run telecom equipment in phone towers: diesel-guzzling generators are used to run air conditioners necessary to cool sensitive electronics. And there is also the problem of security when Naxalites, the Maoist rebels, besiege and terrorise entire villages. These factors add to the already burdensome costs of setting up tens of thousands of phone towers.

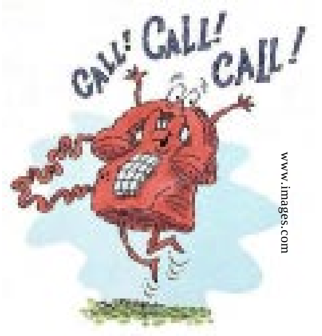
The Telecom Regulatory Authority of India (TRAI) estimates that India will require about 330,000 towers by 2010, more than triple the current count of 100,000, as the country tries to meet government targets of 500m phone subscribers by 2010. The physical structure of towers, power lines and other equipment – so-called "passive infrastructure" – alone costs roughly US$65,000-108,000 per unit, says Nripendra Misra, chairman of TRAI. Operational and maintenance cost roughly another US$11,000 per year.

"Apart from huge investments needed, the time taken in roll-out could be a major bottleneck," said TRAI in its announcement of the policy guidelines.

Bharti Airtel and Reliance Communications, India's two largest mobile phone operators, both expect to spend US$2.5bn each on capital expenditure. Both have also moved to spin off their towers businesses into separate subsidiaries to help finance infrastructure and remove costs from the core group.

Legislation in the works could help relieve the burden of infrastructure costs.

In April, TRAI released long-awaited proposals that would allow companies to share mobile phone towers and other infrastructure. Its recommendations have been submitted for approval to the Department of Telecommunications (DoT).



If finalised, as expected, the telecom infrastructure policy would allow operators to share infrastructure, ease financial strain and speed the roll-out of new phone networks across India.

The benefits of infrastructure sharing are expected to be "passed on to subscribers in terms of faster roll-out of services and greater affordability of services," says TRAI.

The regulator has proposed not only "passive" infrastructure sharing of physical space, towers, power supply, batteries and shelters, but also more sensitive "active" infrastructure. The latter includes operations such as transmission systems, antennae and cables.

To skirt the problem of lack of electricity in remote areas, TRAI has emphasised the development of solar power and alternative fuel to run towers. It recommended government subsidies for operators which use non-conventional energy. Although Ericsson is developing a solar-operated tower, some scoff at the idea, saying solar panels cannot generate enough power to run air conditioners to cool telecom equipment.

Telecom providers say sharing infrastructure would help not hurt competition. Reducing capital expenditure and operational costs would in theory allow operators to offer cheaper rates to consumers and increase numbers of subscribers in remote areas.

Driving costs down is critical to the expansion of rural telecom, but how India's historic telecom expansion is carried out cannot be overlooked.

To get the infrastructure in place "you need a lot of investment and organisation," emphasises Olivier Baujard, chief technology officer of French telecoms group Alcatel-Lucent.

Alcatel-Lucent has made significant investments in the CDOT Alcatel Research Centre in Chennai, a joint-venture with the Indian government's telecom technology development centre. The centre employs 4,000 people to design and develop broadband wireless products. Alcatel is confident that tens of thousands of villages in India will gain voice and internet connectivity in the near future.

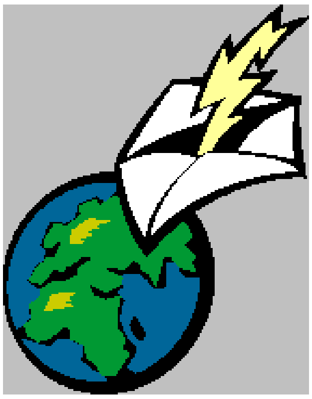
Yet "roll-out to villages will need a lot of programme management and parallel investment," Mr Baujard cautions. "Implementation needs to be carefully managed."

Abridged from an Article that appeared in the Financial Times, May 8, 2007.

Many Lost Letters and One Bad Bill

– Sucheta Dalal

India's rapid economic growth has mainly been due to the dismantling of government controls. An attempt to reintroduce monopolistic pricing must be strongly opposed.



The Indian Post Office (Amendment) Bill 2007 is one of the UPA's regressive actions that is bound to trigger needless protests before the government pays attention to those who will be worst affected by its actions—the people. It is true that the postal system desperately needs a revamp and struggles valiantly with a bloated workforce, a clutch of underpriced services, restrictive red tape and a growing population and economy. But the solution is worse than the problem.

The starting point of the amendment itself is bizarre. All mail weighing under 300 gm is already a monopoly of the postal department; yet the government watched silently for nearly two decades as the private courier business grew illegally and took over a large chunk of this market. Instead of letting the postal system leverage its infrastructure and grasp new opportunities, the government is tinkering with the failed monopoly regulation and trying to pass it off as liberalisation.

What if private courier operations continue to flout the law after the Bill is passed? There is no clarity on enforcement or how a monopoly at the bottom of the pyramid will make the postal system more profitable. In its current form, the Bill only hurts consumers by banning private courier operators from carrying articles weighing less than 150 gm except at five-times the current fee.

In fact, the mandatory 500 percent price hike will benefit courier companies by allowing them to grab the cream of the business and thrive under a government mandate to charge extortionist fees. At a time when hiring and retaining labour is increasingly more difficult, the rule could benefit large operators; that is probably why their opposition to the Bill is so muted.

The entire process of amending the Postal Bill completely ignores users. Interestingly, most of us admire the Indian postal service, despite the occasional horror stories about lost and delayed letters. I have missed meetings because a Speed Post from a government office reached after the meeting. But these are rare blips in a large network.

A dipstick survey conducted among acquaintances and activists reveals a surprisingly high level of dissatisfaction with courier services as well. I once faced the embarrassment of a courier delivery-boy stealing a visitor's footwear. Identifying the culprit only caused us to tighten entry norms to the building. Many people complain about the security hazard from unknown delivery boys ringing doorbells at all hours of the day to demand signatures and acknowledgement for what often turns out to be junk mail.

There are many complaints about officious and rude demands for identification by those delivering credit cards and even cheque-books and bank statements. All this is a growing irritant, and ironically, bigger companies such as Blue Dart are the worst offenders. In their zeal to ensure the best service to their corporate customers, they have no qualms about offending recipients—it is something that companies who use courier services would do well to remember. They also hassle working persons by delaying deliveries only because they insist on disregarding even written delivery instructions.

Clearly, private couriers could do with some rules and regulation too. But the statutory amendment can hardly ensure the monitoring of millions of letters going out everyday. In fact, the restrictions and price-fixing by the government will create a profitable business opportunity for hundreds of tiny and unreliable courier operations that will fly below any regulatory radar.

Moreover, large companies can sidestep the rules by entering into annual contracts with courier companies where the pricing is not based on individual letters. If that happens, the price hike will only hurt small businesses or individuals who will have to pay five times more if they want faster and more reliable delivery. What is worse, any attempt at rigorous enforcement of the postal monopoly is bound to open the doors to bribes, corruption, raids and fines.

The postal department does indeed undertake a lot of thankless work and is forced to provide services below cost for bookpost and the like. The answer may lie in some form of a universal service obligation fund, not price-fixing. The postal department is well placed to use its geographical reach very profitably, provided the government allows it to function freely instead of smothering it further.

Those who mooted the amendments have cited examples of Australia and Germany where differential tariffs were introduced when the postal department gave up its monopoly.

But the comparisons are irrelevant without taking into account demographics, per capita income and the fact that the government turned a blind eye to a whole illegal industry flourishing for so long, thanks to the postal department's sloth. After all, no business will pay more if the postal department is doing its job, ensuring swift deliveries with a reliable audit trail.

The article appeared in the Financial Express, May 7, 2007.

COMMUNICATION

Broadband Free for All

By 2009, the government proposes to offer free, high-speed broadband connectivity to all Indian residents through Bharat Snchar Nigam Ltd (BSNL) and Mahanagar Telephone Nigam Ltd (MTNL) – state owned telephone service providers. While consumers will cheer the move, it holds the potential to kill the telecom business.

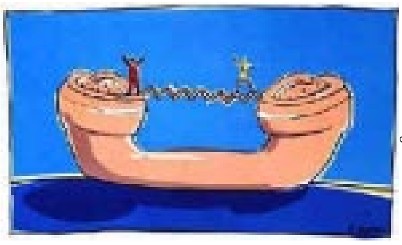
The idea is to boost economic activity in general. The government of India plans to achieve free broadband activity at a speed of 2 MB per second across the country, with a similar goal.

Senior government officials expect to be able to achieve this goal spending only a portion of burgeoning corpus of the Universal Service Obligation Fund, to which all telecom operators contribute five percent of their revenues every year.

(ET, 26.04.07)

Sharing Telecom Infrastructure

In a step that could help faster growth of mobile services in rural and remote areas, the TRAI has recommended sharing of telecom infrastructure among service providers.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The regulatory body has emphasised the need for "cooperative efforts among telecom service providers with least regulatory intervention,'' as being followed internationally, for faster rollout and better quality of services.

Infrastructure sharing would help in reducing the cost of service provisioning, making mobile services better and cheaper, it observed.

(TH, 12.04.07)

Relief from Unwanted Calls

In a step that could provide major relief to a large number of telephone subscribers across the country from unsolicited telemarketing calls, the TRAI has proposed setting up of a "National Do Not Call" (NDNC) registry.

To avoid such calls on behalf of various banks, insurance companies, mobile operators, and other service providers, telephone subscribers will be required to register their phone numbers in the NDNC registry – a national database containing telephone numbers of the subscribers opting not to receive "unsolicited commercial communication".

The proposed regulation will become effective only after the Ministry of Communications and Information Technology and Reserve Bank of India (RBI) clear some of the specific provisions. The latter has already issued guidelines to banks on the "do not call" registry.

(TH, 25.04.07)

Fine for Failing to Verify

As per a government official, private and state-run mobile service providers are likely to be charged with a penalty totalling Rs 4,200 crore for failing to verify users according to the data available on March 31, 2007.

On most counts, the official said that the companies had failed to meet the norms laid down by the Department of Telecommunications (DoT).

Data shows that operators could verify only 74 percent users on an all-India basis. This, when samples numbering only 50, 000 connections, is sought to be verified. *(BS, 09.06.07)*

3-Tier Redressal Plan

The TRAI has directed operators to set up a three-tier grievance redressal structure which will include call centres, nodal officers, and an appellate authority.

The move is to address growing customer complaints on service quality against telecom operators.

Putting in clear deadlines for redressal, complaints pertaining to fault repair, service disruption, and disconnection of service have to be attended by operators within a maximum period of three days and other complaints in seven days.

Customers can approach nodal officers, if unsatisfied. If the grievances are still not addressed, they can appeal to the appellate authority, which has to adjudicate within a maximum period of three months.

(BS, 04.05.07)

TRAI for Regulated Pricing

The Telecom Disputes Settlement and Appellate Tribunal (TDSAT) has reiterated its request to the TRAI to implement a regulated pricing formula for the direct-to-home sector to put an end to the rising number of conflicts between operators and content providers.

In the past, the Tribunal had asked the regulator several times to fix channel prices under the DTH service.

The TDSAT's earlier requests had been turned down by TRAI as it opposed the move on the grounds that it was not the right time for such a mechanism, as DTH in the country was still nascent. *(FE, 12.05.07)*

POWER

Increase in Ceiling Rate

In view of the deteriorating frequency regime in the regional grids and its impact on overall grid security, the Central Electricity Regulatory Commission (CERC) has proposed an increase in the ceiling rate for Unscheduled Interchange charges at the Inter-State level from the present rate of Rs 5.70 per unit to Rs 7.45 per unit.

The increase in UI ceiling rate — penal charges to be paid by a grid constituent if it indulges in overdrawing power — has been proposed after considering a proposal made earlier by Regional Load Despatch Centres (RLDCs), though the quantum of hike is lower than the increase in the UI ceiling rate to Rs 9.30 per unit sought by the RLDCs.

(BL, 07.04.07)

Power Reforms Fund

Setting up of a power sector reform fund (PSRF) – which will be funded by the states and the centre – is being considered by the government.

Such a fund, it is argued would help kickstart the reform process at the state level. The fund will be used to help states meet the costs of restructuring as well as protect them from the financial impact of restructuring.

This fund, it is hoped, will make states more amenable to restructuring their state electricity boards (SEBs).

The PSRF would be used to meet specified expenses such as providing consultancy support to new companies for institutional strengthening capacity building and exceptional assistance to meet situations arising out of natural calamities etc. *(ET, 04.05.07)*

Rural Electrification

The Centre's much-touted Rural Electrification Policy, aimed at providing access to electricity to all households over the next two years, appears to be a non-starter due to lack of response from states.

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According to the policy, notified on August 23 last year, all State Governments were required to prepare and notify a rural electrification plan to achieve the goal of providing access to all households within six months of the policy being notified.

Not even a single state had, however, forwarded its plans to the centre by the stipulated deadline. According to official sources, states have been dawdling on preparing their respective rural electrification plans, which is an essential prerequisite. The lacklustre response from states is despite the Power Ministry having written to the Chief Secretaries of all states to expedite the preparation of their respective plans. *(BI, 07.06.07)*

Disinvestment Policy

The Standing Committee on finance has expressed concern over the government's decision to sell stake in three power companies despite its public stand of keeping all disinvestment related decisions on hold till the policy on this aspect is clearly defined.

The government has recently cleared divestment of 10 percent in Rural Electrification Corporation and five percent each in Power Grid Corporation and National Hydroelectric Power Corporation (NHPC).

"In spite of the assurance given and reiteration of the committee's recommendation for bringing out a policy document spelling out the disinvestment policy's approach, goals and objectives, the government has been unable to come out with the same till date," the Committee said in a report tabled in Parliament recently.

The committee said a clear stand on this issue was of immense national importance in terms of utilising proceeds for funding social welfare projects and capital investment requirement of profitable PSUs was not being enunciated by the government. *(ET, 30.04.07)*

OIL & GAS

Policy on Petrochemical

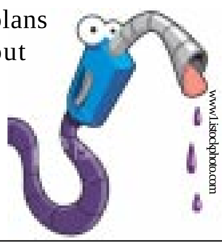
The Cabinet has approved a national policy on petrochemicals aimed at giving a big boost to India's US$8.8bn petrochem industry.

The policy outlines measures to attract more investments in the sector and to enable it to capture a larger slice of the Asian demand for polymers. For this, the government would provide natural gas - the feedstock — at globally competitive prices, create infrastructure and further rationalise tariffs and taxes.

The policy will also provide for modernising the downstream plastic processing industry to enhance its capacity and competitiveness. By 2011, the per capita consumption of plastic products and synthetic fibre would go up three-fold from the current 4 kg and 1.6 kg respectively. *(ET, 13.04.07)*

Energy a Top Priority

Energy security is India's top priority. The government plans to spend about Rs 270, 000 crore in oil and gas sector during the 11th Plan (2007-12), a 160 percent jump from the 10th Plan's outlay of Rs 104, 000 crore.



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The prime focus of public sector oil companies is on exploration and production (E & P) of hydrocarbon, besides acquiring more oil and gas assets abroad.

On the downstream side, government would focus on "upgrading, modernising and expanding refineries". An official said that upgradation of existing refineries are a must as future availability of crude would have high sulphur content. *(ET, 12.06.07)*

Classifying Sectors

The country's coal distribution system is set for an overhaul as it is likely to be based on the needs of 'regulated and non-regulated sectors'. This new classification of sectors will replace the present system based on coal procurement by the core and non-core sectors.

The Coal Ministry wants to bring sectors, where the government or a statutory body determines prices, under the framework of the regulated sector.

Such sectors are likely to meet 90 percent of their coal requirements through fuel supply agreements at notified prices. The remaining 10 percent is likely to be met through e-marketing and imports. *(FE, 17.04.07)*

Promoting Gas Distribution

The petroleum ministry's initiative to promote city gas distribution (CGD) all over the country has received a major boost with the Petroleum Regulatory Board observing that CGD can help address the issue of burgeoning LPG subsidy, adulteration, import dependence.

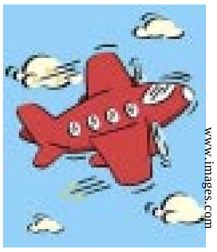
The petroleum regulator called for a comprehensive policy to prioritise categories of end users in CGD networks.

City gas distribution networks exist in Delhi, Mumbai, and some cities of Gujarat. The regulator feels with a comprehensive policy in place, the selection criteria and regulatory consideration for authorising entities for developing city gas distribution networks would become more transparent. *(FE, 17.04.07)*

TRANSPORT

Private Airlines to Gulf

The government ban on private sector airlines operating flights to the Gulf region including United Arab Emirates (UAE), Qatar, Oman, Bahrain, Kuwait and Saudi Arabia could be lifted by the end of the year.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If that happens, the monopoly of Air India and Indian to fly to the lucrative Gulf regions would end.

The lifting of the ban would pave the way for Jet Airways and Air Sahara to look at operating to the Gulf region also. At the moment, these are the two private sector airlines allowed international operations. *(BL, 05.04.07)*

Regulating Port Tariffs

The government plans to regulate port tariffs due to capacity crunch. It plans to set an upper and a lower tariff limit, allowing port operators to charge tariff within the band.

Tariff regulation, will, however, be a temporary phenomenon. Once port infrastructure is improved to accommodate the growing traffic, tariffs will be de-regulated. Thereafter, as per an official, market forces would determine tariffs. *(ET, 14.05.07)*

Missing Target

The ambitious rural road connectivity programme of the UPA government recorded a dismal performance in 2006-07, falling short of the target by nearly 54 percent.

According to the targets under the *Bharat Nirman* programme, nearly 35,182 km roads were to be constructed during the year.

The total sanctioned amount for the *Pradhan Mantri Gram Sadak Yojana* (PMGSY) for 2006-07 was Rs 38,569 crore, of which the value of work done was less than half, at Rs 18,886 crore.

A look at the progress of the PMGSY reveals that only 16,328 km of new roads were laid till February 2007.

In addition, work on the upgrade and renewal of the existing roads fell 34 percent short of the target. As against the target of 54,669 km for 2006-07, only 36,590 km of roads were completed. *(BS, 01.04.07)*

Railways for More PPP

The railways are trying to expand the list of public-private partnership (PPP) models. It plans to soon invite bids from private parcel and cargo movers for running trains between Delhi, Mumbai, Chennai, Bangalore and Howrah.

The players can also suggest convenient routes for running cargo express trains, originating and terminating on routes covered by the South Central Railway.

According to senior Rail Bhawan officials, the move would boost parcel revenue in a big way. The railways would fix the minimum base price per tonne of cargo. *(ET, 05.05.07)*

MIXED BAG

Violating RBI Rules

The investigative arm of the country's anti-monopoly watchdog has recommended action against two multinational banks for making false promises to their credit card customers and violating the Reserve Bank of India (RBI) guidelines.

In its preliminary report submitted to the monopolies and restrictive trade practises commission, the Director General of Investigation and Registration (DGIR) said that Citibank and HSBC have violated the rules framed by the RBI and caused loss to the general public.

DGIR had found that both banks were allegedly delaying delivery of bills and realisation of cheques toward payment just to charge increased interest rate, late fee and fine etc.

(BS, 25.04.07)

Accountable for Loss

India Post and private couriers will soon be made accountable for any lost letter or parcel, under a proposed law.


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In order that consumers' interests are protected, amendment is in the offing to the Indian Post Office Act 1898 for applying the Consumer Protection Act to these services.

Awaiting Cabinet sanction is a new draft bill containing measures to regulate the courier industry. The new bill will make it mandatory for courier operators to get their companies registered at a requisite fee.

(HT, 05.05.07)

Govt Moots Bank Merger

The government is considering a proposal to merge financially sound urban co-operative banks with private sector banks. Since private sector banks are finding it difficult to grow organically through the expansion of branches, it is felt that this is one way to ensure a good growth.

According to the RBI licensing policy, new-generation private banks should be well spread out with a presence in urban, semi urban and rural areas.

But except for a few, most smaller new-generation private sector banks are finding it difficult to grow and have restricted themselves to urban areas.

Urban co-operative banks, on the other hand, have limited presence and are too localised. *(BS, 19.05.07)*

Refusing Claim is Illegal

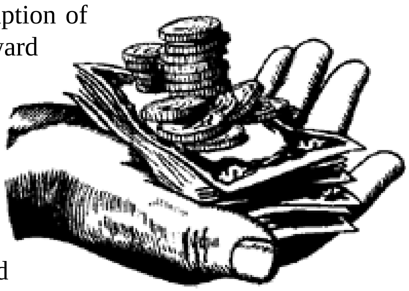
It may soon become illegal for a life insurance company to refuse to honour a claim on the ground that the policy-holder had misstated facts while buying the policy.

Insurance firms will be given five years to verify the details in a proposal form and repudiate a policy in case there is any false information provided. The Department of Economic Affairs (DEA) has proposed to amend the existing provisions of the Insurance Act, 1938 to bring "a finality to the contract and remove uncertainty".

If the proposed amendments go through, the insurer cannot question the validity of the policy after the deadline even on the ground that wrong statements were made "knowingly" or "fraudulently". This change would be a major relief for the beneficiary (dependant) in the event of death of the policy-holder.

(ET, 18.04.07)

Victims to Get Compensation



Patients who suffer due to consumption of spurious drugs can now look forward to compensation.

The government is planning to compensate victims of the spurious drug trade using the monetary penalty levied on the guilty. The penalty would not go to the government's coffers and it would instead be used for compensating victims.

A Cabinet note proposing this has been circulated among various ministries for comments. The Drugs and Cosmetics Amendment Bill, 2007, is likely to be introduced in Parliament in the next session.

The Bill seeks to empower the government to enhance the fine heavily. The government's thinking is that counterfeiting is an economic offence (not a criminal one) and that law should provide for swift chastisement of the offenders.

(ET, 16.05.07)

Pharma Firms to Face Inquiry

Seeking to crack down on pharma companies that are trying to beat price regulations by making cosmetic changes to drug formulations while retaining brand names, the investigative arm of the Monopolies and Restrictive Trade Practices Commission (MRTPC) has asked state drug controllers to list firms that indulge in such practices.

According to sources, the Director General of Investigation and Registration (DGIR) has sent letters to various state drug controllers seeking details of companies, whose drugs have escaped the purview of Drug Control Order (DGO) due to tinkering in formulations, sources said.

The Commission had received complaints that some pharma companies were making minor changes in formulation to keep their drugs out of the purview of price control order. According to the sources, despite changes in their drug formulation, pharma companies retained their respective brand names of the drugs. *(BS, 01.05.07)*

Under Parliamentary Lens

The finance ministry and the Planning Commission have come in support of a proposal to bring the regulators of various sectors under Parliamentary scrutiny.

If implemented, this would mean the regulators of telecom, power and other key sectors will be accountable to an exclusive Parliamentary Standing Committee.

The Finance Ministry has, however, stressed that the regulator must be fully empowered and delinked from any governmental influence before being made accountable to Parliament.

After initial consultations on the issue, the government is now considering establishment of a standing committee on independent regulators.

The Planning Commission's view is that regulators could be asked to submit an annual report to Parliament, listing out the regulatory approach for the coming year and its targeted outcome. Besides, a report on the performance could be submitted at the end of each year. *(ET, 07.05.07)*

Ministry Changes Name

From being a Department of Company Affairs to a full-fledged Ministry of Company Affairs and now to a Ministry of Corporate Affairs, the name change derives vision and approach.

The Ministry has, during the last three years, re-oriented itself to meet the expectations of a vibrant corporate sector in its march towards the globally competitive environment, an official release said.

During the tenure of earlier Governments at the Centre, Company Affairs was just a department, which used to, off and on, be under either the Finance Ministry or the Law Ministry. Things changed with arrival of Prem Chand Gupta of the Rashtriya Janata Dal (RJD). Thus, the Ministry of Company Affairs was born.

The new name not merely reflects a change in the form but also in the vision and approach that drives the initiatives of the Ministry said official sources. *(Bl, 17.05.07)*

Seeking More Accountability

The Centre wants various departments and ministries to be more accountable while preparing policies. From now on, every proposal will have to come with a detailed plan and clear identifiable deadline.

Government departments have been urged that any policy, when brought before the Cabinet for consideration, should accompany an action plan for implementation.

This will also help in effective monitoring of its implementation, the directive said.

The move would help the government to monitor the implementation of these policies. There have been instances, where various policies have been cleared by the Cabinet, but implementations have lagged. A proper timetable, along with milestones, will help in effective monitoring of these policies," a government official said.

(FE, 03.04.07)

Radio Regulatory Authority

The government is planning to set up a regulatory authority for the private radio industry, including FM as well as satellite radio.

The authority would be set up by the end of 2007. However it remained to be seen if the body would be formed by an Act of Parliament or would report to the I&B Ministry as a separate department.

Currently, the TRAI is the only independent regulator looking after issues pertaining to both telecom as well as broadcasting sector.

By September 2007, there will be 280 private FM stations on air and the process for the bidding of another 400 frequencies will begin under the third phase of opening up the sector. In light of the above, the move assumes significant bearing *(BS, 16.04.07)*

CAG Findings Have No Takers

Crores of taxpayers' money that are used every year to compile the Comptroller and Auditor General (CAG) report goes down the drain as the Central and State governments have not replied to its recommendations for years.

"A whopping Rs 12,782 crore was spent on preparing CAG report for the year 2005-06 alone. While Rs 4,371.21 crore was spent on the report for the Union Government, state governments and Union Territories (UTs) accounted for Rs 8,410.71 crore," the Performance Report of Indian Audit and Accounts Department 2005-06 says.

The volume of work involved was also massive. In spite of undertaking such a voluminous task for the country's benefit, the administration is not responsive.

The Central and State governments have not replied to the CAG recommendations for years. It won't be any different this year too.

(BS, 16.05.07)

Report Debunks Claims

Notwithstanding tall claims made by the Orissa Government on sweeping reforms in PSUs, the functioning of government companies and statutory corporations has shown no sign of improvement. In fact, due to faulty and delayed decisions, PSUs have suffered financial losses of over Rs 200 crore.

"There were 13 cases of loss amounting to Rs 73.47 crore on account of faulty planning; inadequate provisions in the contract for safeguarding financial interest; undue benefit to buyers, sellers and contractors; failure to discharge contractual obligations; non-collection of entry tax and poor recovery action", according to the latest report of the CAG laid in the Orissa Assembly.

"There were instances of avoidable and wasteful expenditure amounting to Rs 5.41 crore in three cases dues to injudicious procurement of iron ore, conductors and vacuum interrupters and avoidable payment of interest", it added.

The CAG report has virtually debunked the Orissa Government's assertion that it was restructuring and revamping public sector undertakings by inculcating professionalism in management under the Orissa Public Sector Enterprise Reforms Programme. *(FE, 02.04.07)*

Stinking Railway Sanitation

Pouring cold water on the Railway Ministry's claims about increased passenger amenities, cleanliness and beautification drives at stations, besides provision of various modern facilities for travel comfort, CAG in its latest performance audit report has made some scathing observations regarding the dismal state of cleanliness and sanitation on trains and stations across the country.

Pulling up the Indian Railways for shoddy and unplanned management of the task, CAG in its report has deplored that cleanliness and hygiene were not getting due importance and were secondary to other activities in railways.

According to CAG, the system was plagued by a total lack of coordination between the several bodies engaged in cleaning activities besides the absence of a proper waste management policy or mechanism to asses or control expenditure on the task in stations and trains.

During the audit, it was found that passenger amenities such as toilets and urinals, drinking water, seating arrangements and waiting halls were not commensurate with the number of passengers using them and were "poorly maintained" *(HT, 16.05.07)*

Chink in the Armour

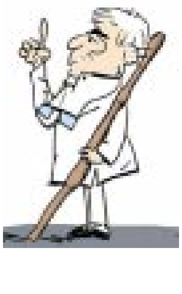
Considering that the military, in survey after survey, has been voted India's most honest institution, it is a paradox that the public consciousness also sees defence deals as murky, opaque and possibly corrupt transactions.

This popular perception could be reinforced by the CAG audit into defence procurement, Report No 4 of 2007 that was tabled in Parliament.

The CAG's performance audit reaches sharply critical conclusions about an acquisition process that functions on an unplanned basis, creates prolonged delays, does little to fulfil the army's expectations, formulates its equipment requirements poorly, chooses its purchases improperly, and confines its custom to a small number of vendors who consequently have the leverage to demand higher prices.

The reason for all this, concludes the CAG, is the mod's failure to implement a Group of Ministers' instructions to put in place a functionally specialised acquisition organisation that can efficiently handle a task that is beyond the capabilities of the current organisation. *(BS, 19.05.07)*

Safety Last in Lalu's School



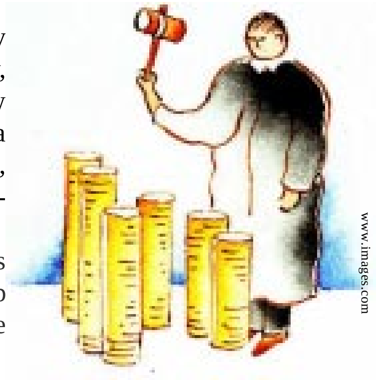
Lalu Prasad Yadav may be patting himself on the back for effecting a turnaround of the Indian Railways, but a CAG report threatens to sully his track record by rapping the ministry on its knuckles for enhancing the limit on freight-loading without precaution, which has put rolling stock, bridges and tracks under threat. A steep increase in freight-earnings has been one of the primary sources of revenue earned by the railways in recent years. And this could be attained by allowing the wagons to carry more freight.

The carrying capacity (CC) of a wagon is based upon the load that its axles can carry. In May, 2005, with the objective of increasing freight rates, the railways introduced a pilot project system by which wagons were permitted to be loaded beyond the marked carrying capacity by 10 tonnes in the case of iron ore and eight tonnes in the case of coal.

The reports cautioned the ministry that though the Railway Board was allowed to book additional freight, "there would be an adverse impact on track, bridges, and rolling stock unless the railways takes urgent action to upgrade the tracks and monitor the parameters closely". *(ET, 15.05.07)*

Long Hand of Law to Nab Cartels

The Finance Minister P Chidambaram said the problem of cartelisation in certain industries, such as cement and tyre, needs to be arrested by urgently putting in place a competition law.



"If any law requires to be urgently amended, it is the competition law. Today, the most important task is to get the law amended and bring it into force. There is a huge vacuum in the absence of the law and, thus, one is not able to deal with anti-competitive practices," the minister said.

He hoped that before Indian companies give into the temptation to cartelise and reap the gains, the competition law will be brought into force.

Emphasising the necessity for such a law in the current environment of consolidation, Chidambaram said: "Consolidation will take place and is desirable, but if it leads to restrictive practices then it is equally desirable that a competent authority looks at these restrictive practices." *(ET, 25.04.07)*

No Cup of Tea

Despite the thrust on globalisation, India has failed to improve its ranking in a world competitiveness index, owing to poor performance on the parameters of government and business efficiencies and inadequate infrastructure, as China upped its standing, Switzerland-based International Institute for Management Development (IMD) said in its report.

According to the World Competitiveness Yearbook (WCY) 2007, prepared by IMD, India has failed to improve its 2006 ranking of 27, in the latest ranking of 55 countries.

"Though the overall competitiveness ranking remained the same for 2006 and 2007, the individual factor rankings declined in 2007. For example, in case of economic performance, India declined three positions compared with 2006 as it slipped from 7 to 10. Similarly, government efficiency slipped from 30 in 2006 to 33 in 2007 and business efficiency from 18th to 19th.", the report said. *(FE, 09.05.07)*

Competition Panel for Reforms

Large scale policy reforms in agriculture, labour industry and infrastructure have been proposed by the working group on competition policy.

The group headed by Vinod Dhall, member, Competition Commission of India (CCI) was constituted by the Planning Commisison of India to suggest ways to promote competition and hence, induce efficiency and quality across sectors. The report suggests changes in labour laws and de-reservation of the products reserved for the small scale industry category.

In addition, the group has said that a policy of uniform road tax across the country is required to speed up the movement of goods between states. It has also suggested reforms in softer infrastructure such as healthcare, education and drinking water to induce competition on these sectors.

For reforms in the labour laws the group has advocated flexibility in hiring and retrenching of workers. *(ET, 03.04.07)*

CCI Faces Overhaul

The Competition Commission of India (CCI) may be in for another major overhaul. The government is likely to increase the number of professionals and experts on the commission to ensure higher efficiency, greater research, alertness about market practices and confidentiality of information.

The proposal says that the professionals-staff ratio should be 3:1 for the first five years and then increase gradually. The proposed move is in step with the framework of other regulatory bodies that are represented mostly by professionals. The proposal is part of a report submitted by the Indian Institute of Management (IIM), Bangalore for modifying the organisational structure and the staffing pattern of the CCI.

The report has also recommended increasing the staff strength of the commission as well as outsourcing of all non-core and non-confidential activities.

At present, the commission is headed by a chairman and has six other full-time members. The amendment proposes that the chairman should be the chief justice of India or his nominee. *(FE, 01.04.07)*

EXPERT VOICE

Consultant for Energy Sector

Montek Singh Ahluwalia, Planning Commission Deputy Chairman, has suggested appointment of an independent consultant with the necessary knowledge of international practice, to weigh up the current status of technology in Coal India Limited (CIL) and other such energy producing PSUs.

Such an appointment would, in all likelihood, help achieve the energy goal of providing power for all by creating additional capacity of 70, 000mw in the 11th Plan.

The consultant should benchmark the PSUs against the best practices followed by other energy producers in other countries.

Focus should be on relevance and availability of state of the art energy technologies in different segments of the unit, extent and effectiveness of application, strength of organisational capacities and processes to continuously source, adapt and enhance modern technologies under the Indian condition and technology roadmap for the units to achieve global benchmarks along with an action plan for implementation. *(FE, 05.05.07)*

Making Organised Retail Work

– Sunil Jain

If the government is serious about improving the lot of farmers, it is obvious it has to develop organised retail. And it is equally obvious that just one or two chains will not do the trick, an entire retail eco-system will have to be created.

While the government has begun work on implementing the CPI(M)'s proposal to restrict the spread of organised retail in the country by strict licensing norms which go back to the old licence-permit-raj days the retail industry itself appears in more than a bit of a mess. French retailer Carrefour, which is among the biggest in the world, and was supposed to be coming into the country within "two to three weeks" (to quote Commerce Minister Kamal Nath) in February, has postponed its India plans indefinitely given the political uncertainties associated with large retail. ITC, similarly, plans to wait it out for the next six months, according to a statement in the Press by S Sivakumar, the CEO of ITC's agri-business division, and probably won't set up its *Choupal* Fresh stores this year in several cities it had planned to earlier.

Among the others, Bharti Wal-Mart is now talking about opening its stores towards the middle of next year, a delay of 8-10 months already from what earlier reported launch dates were, and Reliance's plans appear in a flux as well. While the company had talked of setting up nearly 1,000 (2,000-5,000 sq ft) stores by March 2007, it has achieved just 15-20 percent of its target.

The government is still hopeful that the few players who are already in will slowly transform the country's retail sector. That once they start sourcing cheaper fruits and vegetables, they will win over the common man; and once they set up linkages with farmers and assure them higher prices through reduction in the number of middlemen and in the 20-25 per cent wastage that takes place today in most staples and unprocessed fruits and vegetables, they will win them over as well. In other words, the pace may be slower than the government initially wanted, but if it delivers the goods, what's the problem?

In the retail context, the amount of work, and investment, required to develop the supply chain is too big for any single player, and until this supply chain is built up fully, even the single player cannot do well. In other countries, specialised supply chains do this work, leaving the retailers to concentrate just on setting up their shops and selling things, but such specialised players will not come into the country until there are enough retailers who can be their clients. According to Arvind Singhal of retail consulting firm Technopak, Snowman Foods tried to set up specialised supply chain services along with Mitsubishi, but had to shut shop as there weren't enough retail firms doing good business.

Some numbers should help make this clearer, as well as clarify the extent of the loss by not allowing organised retail to take off. According to a recent report by credit rating firm Crisil's research arm, the total market for staples and unprocessed fruits and vegetables is around Rs 4.7 trillion (US$115bn). And on this base, thanks to huge wastages and high storage costs and commissions to various middlemen, according to Crisil, there is an annual loss of Rs one trillion (US$24bn). Since farmers earn around Rs 1.8 trillion (US$44bn), from food grains and fresh grocery, Crisil tries to estimate what they would earn if wastage levels fell dramatically thanks to organised retailing and if, once the number of middlemen declined, they got higher margins. This would increase farm incomes to Rs 2.5 trillion (37 percent).

So, can a handful of organised retailers, growing at a curtailed pace, achieve these savings? Clearly not. To achieve the cost savings of US$24 bn, organised retailers will have to capture the entire sales of around US$115bn. Which means, given a rule of thumb sales-to-investment ratio of around 3.5, organised retailers will need to invest around US$33bn in just this end of the business. Given that, say, a Reliance plans to invest a total of $6bn, of which just around $1.5-2bn will be in the foodgrains and fresh grocery business, it is obvious its efforts will be minuscule compared to what is required.

In order to appeal to customers, Reliance Fresh needs to get foodgrains and fruits and vegetables from various parts of the country. Since the company only has access to just so much capital, and in so much time, it will naturally choose to put up its cold chain network only in some parts of the country. Let's assume this is north India, for the moment. Which means that, if the company needs to bring in some goods from other parts of the country, it will not be able to do so as it does not have a cold chain there. And if it does bring in food from other areas, it won't be as fresh, or cheap. And, over a period of time, customers will move away.

If the government is serious about improving the lot of farmers, it is obvious it has to develop organised retail. And it is equally obvious that just one or two chains will not do the trick, an entire retail eco-system will have to be created. If not, get prepared to hear India's retail giants announce further rollbacks in their ambitious plans.

Abridged from an article that appeared in the Business Standard, June 25, 2007.

Doing Business in India

– A V Rajwade

The World Bank periodically publishes studies titled "Doing Business" which rank different countries in terms of the difficulties in doing business. Last year we ranked 116 out of 155 countries covered; in the latest report, we have slipped to 134 out of 175 - China is 41 places ahead of us, and Singapore is number 1.

Clearly, despite all the liberalisation, doing business in India is not becoming much easier. Quite apart from bureaucratic hassles, procedures and corruption, the want of stability, consistency, and completeness in policies and regulations, also add to the difficulties.

Take the case of special economic zones (SEZs). The act was passed back in 2005 and the rules framed in 2006. There is a "National Policy on Resettlement and Rehabilitation for Project-Affected Families" since 2003. A couple of weeks back, the 'empowered Group of Ministers' came out with new norms on some of the basic issues, when a few hundred SEZs are at various stages, but not one is functioning.

The area earmarked for processing (that is, actual manufacture) has been increased to 50 percent (Why? Why not 60? Or, the earlier 35?). The size has been limited to 5,000 hectares. This would mean that we would have, *Inshaallah*, a large number of small zones.

Our policy does not seem to take into consideration the administrative cost, hassles and inefficiencies. One positive feature is that state governments should not acquire lands on behalf of private developers who should directly negotiate with the landowners.

A letter from Sonia Gandhi, questioning the use of agricultural land for SEZs, was the provocation for the appointment of the eGOM. Shouldn't somebody have pointed out to Gandhi that the total farmland in the country is in excess of 1.5 million sq km, and that only 1750 sq km (or just about 0.1 percent) is required for the SEZs? Take, again, the question of Vodafone's takeover of Hutch. There are questions whether HTIL, the holding company, had contravened existing guidelines limiting foreign investments in telecom companies to 74 per cent.

Why were the questions not raised at the point of time at which the shareholding pattern was established and became known, which was more than a year back? Will the FIPB cleared investment of Malaysia's Maxis in Aircel be reopened on the same ground? What signal do such decision making processes send to foreign investors?

As it is, Moody's has warned that risks associated with lengthy and uncertain land acquisitions and delays in environmental clearances would dissuade much needed infrastructure investments.

Take, again, the question of quotas in educational institutions for Other Backward Castes (OBCs), based on a 1931 census, which should go into history, not current policy making. As Sunil Jain analysed in the *Business Standard* (April 5), the average OBC family is no different from the average Indian family in terms of its income and other parameters, as evidenced by an NCAER study.

But coming back to political governance, overall, one wonders whether data and analysis and principles have become pass, too 'elitist' for today's political economy? Are populist measures to satisfy, at least in the short term, the aspirations and demands of vote banks, howsoever divisive their effect in the long run, the only politically and economically correct policies?

If we achieve nine percent growth with such involved and time-consuming decision making processes (that too based on little data or analysis), which still leave many loose ends to be tied later, just imagine what we could do with more efficient governance!

Abridged from an article that appeared in the Business Standard, April 24, 2007.

NEWS DIGEST

Comply with Competition Law

Mega mergers between companies incorporated outside India will soon have to comply with India's competition law, if they have a market presence here.

The government is planning to introduce a clause in the proposed competition amendment Bill to make it mandatory for companies that are merging globally to seek the CCI's approval if they have a minimum prescribed turnover in India. Sources indicated that the turnover for the combined entity in order to establish territorial nexus could be the same threshold prescribed for notifying a merger between two domestic companies.

Therefore, if the merging overseas companies have a minimum combined turnover of Rs 3,000 crore in India, they have to get CCI's clearance. *(ET, 10.04.07)*

Impact of FDI

The Department of Industrial Policy and Promotion (DIPP) has asked the National Council of Applied Economic Research (NCAER), New Delhi to conduct a study on the impact of foreign direct investment (FDI) on the rural economy.

The impact of allowing FDI in agricultural products such as tobacco will be captured in the report. FDI up to 100 percent with prior government approval is allowed in the tobacco sector for manufacturing cigars and cigarettes.

During 2005-06 and 2006-07, however, all three FDI proposals in the sector were rejected by the government.

The proposals included one from Swedish Viking Swed-Ind Products for manufacture of snuff and two from the US-based Universal Leaf Tobacco Company for processing raw tobacco.

(ET, 11.05.07)

A Trillion-Dollar Economy

India has become the 12th country in the world to become a trillion-dollar economy, said a report from Swiss investment firm Credit Suisse.

With the Gross Domestic Product (GDP) at Rs 41 trillion and the rupee appreciating to below 41 against the US dollar, the Indian economy has become a trillion dollar economy, the report said.

Going by history, stock markets in eight out of ten countries had risen in a one-year period after they first crossed the US$1rn mark in GDP, said the report.

(BL, 27.04.07)

Escaping Price Control

The Ministry of Chemicals and Fertilisers, which had earlier proposed to control prices of 354 essential medicines, is now understood to have excluded hospital supplies and medicines that are sold below Re one from the list.

With this, the list of medicines proposed to be brought under price control would reduce to 200.

The industry argues that price control would prove to be "counter-productive" and would hamper the growth of the sunrise sector.

Let the competition decide the prices, the industry argues, adding, that the government should monitor the prices of essential drugs instead of controlling it.

Besides the pharma industry, ministries of finance, health and commerce had also opposed the chemical department's proposal to bring 354 drugs under price control, following which the Prime Minister constituted a group of ministers to look into the matter.

The ministry has been proposing to bring essential drugs under price control, after the Supreme Court, in 2003, directed the government to consider and formulate appropriate criteria for ensuring that essential and life saving drugs do not fall out of price control. *(FE, 28.06.07)*

Surge in 'Hot Money'

A surge in capital inflows that has pushed the Indian rupee to a near eight-year high against the US dollar and boosted foreign exchange reserves to US$200bn will prompt India's conservative central bank to delay further moves towards the full convertibility of the rupee.

Non-foreign direct investment inflows have accounted for 75 percent of the increase in reserves, leading to fears India could be vulnerable to herd-like exit of foreign investors.

Such capital flight could trigger sharp falls in asset prices, with potentially severe corrections in the stock market and property prices.

As a legacy of past balance of payments crisis, India manages its foreign exchange, allowing its currency to be freely convertible only for trade and for business expenses. Unless they secure special permission, Indian businesses are limited to US$500mn in external commercial borrowings per year.

The RBI has been under pressure from the business community to liberalise controls governing how much Indian companies can borrow overseas each year. It had been contemplating a decision to lift the aggregate ceiling this year, but now appears likely to delay any such move. *(FT, 10.04.07)*

Direct Subsidisation of Farmers

Tata Consultancy Services (TCS), which conducted a study of the existing system of reimbursement of fertiliser subsidy and suggested alternative measures at the behest of the Fertiliser Association of India (FAI), is learnt to have recommended direct subsidisation of farmers instead of routing it through the fertiliser companies.

According to a source from the fertiliser industry, TCS has recommended provision of smart cards with in-built subsidy component to farmers.

The company has submitted the study report to the FAI. The fertiliser sector feels that the third phase of the pricing policy has not been encouraging, as it has resulted in a further drop in the profitability of the industry. *(BS, 18.05.07)*

Wasteland for Investor

The environment ministry has proposed to offer wasteland available with it to investors through multi-stakeholder partnership.

The move, which has been keenly promoted by the paper industry but opposed by environment groups, will, according to the ministry, help it increase the country's forest cover to 33 percent from the present 23 percent at no cost.

The ministry needed an investment of Rs 60,000 crore (US$14.7bn) to meet the target of extending the forest cover to 33 percent, sources said. The private investment is expected to meet this need.

The scheme is expected principally to benefit the Rs 20,000 crore (US$4.9bn) paper industry, which has been dependent on contract farming to get the timber for manufacturing paper. *(BS, 26.04.07)*

Trade-Distorting Subsidies

According to the commerce and agriculture ministries, India has been advocating the removal of trade-distorting subsidies provided by the developed countries.

The ministries have added that apart from resource constraints, subsidies would result in sectoral imbalances and trade distortions within the country, which may not be in long-term interest of farmers.

The Parliamentary Standing Committee on agriculture has recommended the trial of an alternative mechanism for the delivery of subsidies, to provide cost-effective income transfers to needy farmers.

As per the Committee's recommendation, food subsidy should not be treated as agriculture subsidy, as the beneficiaries are mainly consumers and not producers. Besides, agriculture subsidy should be given directly to farmers by providing them with seeds, fertilisers, soil nutrients, diesel or electricity for tube-wells at cheaper rates compared to prevalent market rates. *(FE, 15.05.07)*

Corruption Blocks Global Financing

www.hindubusinessline.com

India lacks sufficient cash reserves to finance its infrastructure wish-list while high corruption levels and bureaucratic hurdles have made international financing hard to come by, a study says.

"Unlike China, India does not have enough cash to self-finance its considerable infrastructure wish-list, although the country boasts of US$190bn in foreign exchange reserves to leverage project funding," global professional services firm Ernst and Young (E&Y) said in its latest report.

The report, which examines trends in infrastructure and finance, said these hurdles could block India's transformation from a third world country into a 'global powerhouse'. Though India welcomes private investments through PPP allowing up to 100 percent of foreign equity in projects, loopholes like weak regulatory controls and bureaucracy create delays and uncertainties besides adding to costs.

"Corruption in India has made international financing for infrastructure hard to come by; without it, India's infrastructure will remain stuck in the previous era," the report titled *'Infrastructure 2007:A Global Perspective'* said. *(FE, 03.06.07)*

Lost in Transmission

As per a survey, about Rs 270, 000 crore, one-third of the total investment of Rs 810, 000 crore earmarked for the power sector in the 11th plan, will go down the drain if immediate and effective steps are not taken to check transmission and distribution (T&D) losses.

Also, the increasing T&D losses may act as major deterrent to private as well as global investments in the sector, which may lead to an underachievement of the ambitious target of adding 78, 000mw of power generation capacity during the 11th plan. According to the Assocham Eco Pulse (AEP) study on T&D losses, India would not be able to come out of the power crisis if the T&D losses of 30-40 percent are not controlled, as these losses would result in the deteriorating financial health of the power utilities.

However, the country could overcome the power shortage if T&D losses are reduced by 50 percent. The losses, the study said, could be reduced by stoppage of theft and an upgrade of the T&D syatem.

India has a power generation capacity of about 130,000 mw – of which about 40,000mw is lost because of T&D related losses. *(BS, 28.06.07)*

Reforms to Sustain Growth

As per the World Trade Organisation's (WTO's) review of India's trade policy, the country's high economic growth rate can be sustained only if reforms are deepened with particular focus on removing infrastructure bottlenecks such as transport and electricity.

The review added that further structural reforms are needed in agriculture, to address the sector's relatively low productivity and the problems faced by marginal farmers.

Despite a gradual increase in the total tax revenue since the previous review, the country's tax to GDP ratio is relatively low and seemingly insufficient to meet its developmental needs.

The WTO has also said that India's fiscal deficit, while declining, remains significant, and public expenditure on infrastructure and human capital development is constrained by the relatively low level of taxes to GDP as well as by spending on subsidies.

Hence, continued structural reform and greater investment in physical and human capital would assist in generating productive employment for new entrants to the labour force. *(FE, 24.05.07)*

CORPORATE GOVERNANCE

SEBI Signs MoUs

The SEBI signed bilateral Memoranda of Understanding (MoU) with two securities markets regulatory authorities — the Securities and Exchange Commission of Thailand (SEC, Thailand) and the Securities and Exchange Commission of Nigeria (SEC, Nigeria).

The MoUs will help in regulatory co-operation, mutual assistance and sharing of information with these exchanges.

"India is one of the early signatories of the multilateral MoUs with regulators of various countries. We have signed bilateral MoUs with countries which are not signatories of the multilateral MoU, to enhance the flow of information on either side and increase regulatory co-operation," said M Damodaran.

Recently, SEBI had signed bilateral MoUs with the regulators of the UAE, China and Hong Kong.

The MoUs were signed at the 32nd International Organisation of Securities Commissions (IOSCO) Annual Conference hosted by SEBI in Mumbai, where regulatory authorities from across the world are meeting to deliberate on securities market regulations. *(BL, 10.04.07)*

Strict Norms for CAs

The Institute of Chartered Accountants of India (ICAI) has made it mandatory for all CA firms engaged to statutory audit of listed companies to undergo a rigorous peer review.

Peer review by professionals appointed by ICAI is a quality certification similar to ISO certification. As per the ICAI governing council's decision recent, those who do not get a certificate by the institute's peer review board will not be qualified for statutory audit of listed companies. The institute empanels CAs with at least 15 years experience for the exercise.

Accounting experts confirmed that some big listed companies with many subsidiaries engage CA firms that do not have internal controls to get compliance certification.

(ET, 10.05.07)

Upgrading IT Network

The Central Board of Excise and Customs (CBEC) is revamping its information technology infrastructure in all the three departments (Customs, Central Excise and Service Tax) at a cost of over Rs 500 crore, according to a department official.

Under the 'Consolidation of Server Project,' it is proposed that all computing resources and application software of CBEC would operate out of a National Data Centre and would be reached to users through a nation wide area network (WAN).

There will be a disaster recovery site to ensure availability of services in the event of failure of the National Data Centre.

The project was initiated to help CBEC provide world-class services in the changing technology environment to clients such as exporters, importers and passengers, said the official source *(BL, 06.05.07)*

Saving through e-Procurement

The Central Government is expected to save at least five percent through electronic procurement (e-procurement) process that came into effect in the beginning of this month.

"Our estimate is that through e-procurement, the central government would save five percent of the total procurement done by various stores," an official of Director General of Supplies and Disposals (DGS&D). He added this would quicken the tendering processes.

Another significant gain of e-procurement is that it will limit the influence of "tender mafia", which does not allow smaller players to submit their bids for road and railway projects.

At the state level, Andhra Pradesh procurement transaction on the e-procurement platform has crossed Rs 40,000 crore in 2004-06. The government has saved over Rs 2,500 crore on procurements through this platform. *(BS, 19.04.07)*

Award for Accountability

The e-procurement project being implemented by the Andhra Pradesh Government has been selected for the United Nations Public Service Award, 2007. The award is given in the category of improving transparency, accountability and responsiveness in public services.

According to an official release here, the award will be presented at a function to be held in Vienna, Austria, on June 26-29. Suresh Chandra, Secretary, IT&C and Commissioner EDS of the State, will receive the award on behalf of the State Government.

(BL, 05.06.07)

e-Toll Plazas Soon

The government is in the process of finalising a uniform tolling technology for electronic toll collection (ETC). It may soon finalise either microwave technology or infrared technology as standardised tool for electronic toll collection (ETC) throughout the country.

The National Highways Authority of India (NHAI) would be commissioning consultants for conducting studies, and the technology is likely to cover the whole network by 2010.

Microwave technology, commonly used throughout the world, is based on radio frequency waves to pass on information from the vehicle to the toll collection plaza. This kind of technology is used in mobile phones. Infrared technology, like the kind used in remote controls, is a relatively new technology for toll collection.

This technology is more versatile since it can also be used for road safety, traveller information systems, fleet management, advanced traffic management system etc. ETC systems use vehicle-to-roadside communication technologies to perform an electronic monetary transaction between a vehicle passing through a toll plaza and the toll collection agency. *(ET, 12.04.07)*

E-STATE BRIEFS

Bridging Digital Divide

The West Bengal Government is believed to have roped in telephony service provider Reliance Communications for its e-governance project, an attempt to bridge the digital divide between rural and urban areas in the state.

The Anil Ambani Group company would help the state in setting up communication infrastructure, including providing of bandwidth and Internet connectivity, said sources close to the development.

The company would also look at setting up payment gateways that would help citizens to remit taxes and like electricity and water among others over online or through specially developed kiosks.

The state was also planning to set up e-governance counters where the high-population density was not backed up by proper information infrastructure, and a number of information kiosks, under its government-to-citizen (G2C) interface. *(BS, 17.04.07)*

Open Source Software

The IT Department of West Bengal has planned to set up a centre for Open Source Software Development and Training. A budgetary allocation of Rs two crore has already been made for the purpose.

Sources state that the proposed centre would be engaged in development and training in open source software. School and college teachers and government employees would be trained with a view to making them conversant with open source software and platforms.

The State Government's e-governance programmes would be focussed on deployment of software that run on open source platforms. Tenders for the proposed chip design centre here would be floated soon.

(BL, 09.06.07)

Globalisation and Plight of the Poor

A humanist with an academic's shirt on Dr David Hulme speaks of the plight of chronic poor and interplay of market dynamics that make the poor poorer across the globe.


The Economic Times

Dr Hulme says globalisation has widened the divide between the haves and the have-nots, and more importantly the pace at which the rich were getting richer was way ahead of the poor's attempt to make a mere living.

Placing the onus on governments to further the cause of the poor, Dr Hulme says it is not beyond nations such as India to make things easier for the downtrodden. "If a turnaround could happen in the Indian Railways, I don't see why a similar thing can't happen in poverty mitigation".

Liberalisation does not mean leaving everything to the private sector. "You can maximise economic growth that will improve the lives of many but also spoil the lives of some or you may go for an aggregate growth rate that is a little bit lower which will benefit many people at the bottom — primarily through health and education". *(BL, 01.05.07)*

Plugging the Loopholes

Housing Development Finance Corporation (HDFC) chairman Deepak Parekh has raised serious doubts over the dubious manner in which foreign investments are coming into Indian real estate projects.

Parekh said though the policy to allow 100 percent FDI in real estate projects was taken with positive intentions, "it is not as simple as it is made out to be."

"Several companies not willing to meet these FDI project conditions have resorted to the foreign institutional investor (FII) route to bring in foreign investment," said Parekh in the chairman's note in the HDFC annual report for FY07.

According to Parekh, the regulators have now rightfully attempted to plug this loophole.

"While FDI guidelines are meant for long-term foreign equity markets investors, there are numerous instances of investments in real estate being routed through mezzanine structures. This is debt masquerading as equity," he pointed out.

(FE, 30.05.07)

Demand-Supply Mismatch

The Finance Minister P Chidambaram has asked industry to desist from arbitrary hikes in prices by exploiting the prevailing demand-supply mismatch. Instead, it should help the Government in reining in the high inflation, he said.

In an appeal to corporates, while addressing the captains of industry at the Confederation of Indian Industry (CII) annual session, Chidambaram said, "Industry is working with near full capacity utilisation. Pricing power has returned to industry and pricing power is being exercised by industry... We appeal to industry not to exercise pricing power arbitrarily."

As it is, the global increase in the prices of metals and commodities such as crude oil, the supply-demand mismatch in essential food items such as wheat and pulses, higher public expenditure on social sector programmes and the increase in per capita income had already put pressure on prices, he said.

Supplies had not risen as fast to match the rising demand, he said, while noting that there would be a time lag in this regard. *(TH, 25.05.07)*

PM Questions 'Crony Capitalism'

Raising questions over the creeping trend of "crony capitalism", Prime Minister Dr Manmohan Singh said industrialisation could not depend only on large corporate groups and the country needed small and medium units for both growth and employment.

"We cannot depend only on a few large industrial houses and capitalists for driving our industrialisation process. The employment intensive nature and the greater regional spread of small and medium size enterprises (SMEs) makes them an attractive option for industrial growth," Singh said.

Referring to media reports that India's top business leaders operate in "oligopolistic" market and in sectors where the government had conferred special privileges on a few, Singh said "This sounds like crony (monopolistic) capitalism."

"Are we encouraging crony capitalism? Is this a necessary but transient phase in the development of modern capitalism? Are we doing enough to protect consumers and small businesses from the consequences of crony capitalism," Singh asked. *(BS, 01.05.07)*

Growth @ Nine Percent

The UN Economic and Social Commission for Asia and the Pacific (ESCAP) has said the Indian economy is expected to grow around nine percent this year.

In its 2007 annual report, released here by the Union Commerce & Industry Minister, Kamal Nath, the Bangkok-based UN body said that India maintained its growth momentum in 2006 with GDP growing at 9.2 percent.

Stating that strong economic performance has generated growing private sector demand for transport, communications, financial services and trade-related activities, the report said this coupled with the rapid increase in spending on public administration, social services, rural extension service and defence has pushed up the share of services in GDP to 55.1 percent in 2006.

Mr Nath said this year's survey drew particular attention to the ascendancy of India's economic powerhouse. India's contribution to global growth has nearly doubled in the last two decades and this was mostly powered by high export growth in recent years. *(BL, 18.04.07)*

The Long and Winding Road

– **Vinayak Chatterjee**

India's hunt for independent regulatory authorities for infrastructure appears to be going nowhere

August 24, 2004: Soon after the UPA government was sworn in, the Prime Minister announced a slew of measures including "revamping the regulatory framework and a PM-chaired committee to monitor infrastructure projects". He talked about "a regulatory framework that is transparent, independent, autonomous, world class, independent of government and provides an impartial balance between public sector and private suppliers".

August 25, 2004: The Planning Commission was asked by the PM to prepare a paper on 'regulatory structures' for different sectors.

August 30, 2004: The government set up a high level committee, headed by the Prime Minister to monitor the implementation of infrastructure projects. The Deputy Chairman of the Planning Commission, Montek Singh Ahluwalia, was appointed as the Member-Secretary.

August 31, 2004: Montek Singh Ahluwalia said, "We want to do a comprehensive review of the regulatory structure for each of the major infrastructure areas where PPP is to be encouraged. We will first lay down the general principles that the regulatory structure must meet, and then review each sector and indicate what are the gaps".

September 1, 2004: Ahluwalia declared that a paper on infrastructure regulation would be ready by 2004 end.

December 23, 2004: CII, through its Infrastructure Council, made its first presentation to Ahluwalia and his team at the Planning Commission on "Infrastructure and Regulation: Key Issues and Recommendations". The Planning Commission, and after an extended period of deliberations with regulators and various stakeholders, submitted a formal report titled "Recommended Framework to Improve Regulatory Effectiveness in the Indian Infrastructure Sector" on February 22, 2007.)

This report, supported by the Public-Private Infrastructure Advisory Facility, called for an umbrella legislation that could possibly be called the 'Infrastructure Regulatory Framework Act'. This Act was expected to foster a fresh approach in the areas of regulatory autonomy, empowerment and accountability. It hoped to secure transparency in regulatory functioning and jurisdictional clarity between a sector regulator and the CCI. It also proposed setting up a National Infrastructure Appellate Tribunal for adjudication of disputes and building regulatory capacity by having a National Institute for Regulators under the auspices of the Planning Commission.

2005-06: Serious attention was given to this area by three institutions - NCAER, CUTS and CII. A series of seminars, workshops and position papers attempted to focus attention and provide direction.

August 18, 2006: The Planning Commission came out with its own consultation paper titled "*Approach to Regulation: Issues and Options*". This well argued paper suggested "...an Act of Parliament laying down the overarching principles of regulation cutting across different sectors".

A survey of the provisions of the existing statutory and institutional framework suggests the absence of a common regulatory philosophy guiding the evolution of regulatory institutions in infrastructure sectors. The regulator needs to be directly responsible to the legislature. Regulation should aim at removing barriers to competition and eliminating the abuse of market power. To focus on regulatory reform and governance, a separate Department of Regulatory Affairs may be created within the ministry of personnel and administrative reforms.

October 7, 2006: Prime Minister Manmohan Singh, speaking at the Conference on 'Building Infrastructure: Challenges and Opportunities' in New Delhi, said, "...All this requires the establishment of independent regulatory bodies with an appeal mechanism. These are difficult but relevant issues and we must flex our minds to arrive at arrangements that suit our requirements."

December 17, 2006: Speaking at the Golden Jubilee Celebrations of the NCAER, the Prime Minister said, "...We have made a clear national commitment to encourage public-private sector partnership in our infrastructure sector. Such investments will only materialise if there is confidence in the independence and stability of the regulatory regime; we have made a start in this direction, but establishing a credible regulatory culture will take more effort and time."

February 3, 2007: From a lead in The Economist, "India Overheats": "Private investors are hesitant about putting money in infrastructure because the regulators are not independent enough of populist politicians to guarantee a decent return."

It may be apt to reflect on a song from the sixties:

But still they lead me back
To the long winding road
You left me standing here
A long-long time ago
Don't leave me waiting here
Lead me to your door
(Beatles' lyrics)

Vinayak Chatterjee is the Chairman of Feedback Ventures. He is also the Chairman of CII's National Council on Infrastructure. The views expressed are personal. The article appeard in the Business Standard, May 21, 2007.

Has the UPA Delivered in Its Three Years?

A less than ordinary performance

Not withstanding the best possible team at the top, the report card of the Dr Manmohan Singh government for the last three years indicates less than ordinary performance. Judged from the point of economic growth, this government has got rid of the Hindu rate of growth and is likely to end its five-year tenure with an average GDP growth of over 8.5 percent, compared with the 5.9 percent growth rate of the previous government. Also, it has to its credit the passage of the pro-poor laws like the National Rural Employment Guarantee Act and the Right to Information (RTI) Act.

With the above achievements of the UPA government, it should be understood that the full credit for the growth of the economy does not go to this government; it has its stimulus from the past as well. Also, it has not been 'inclusive growth', disproportionately benefiting a small section of the society. Major reforms that were on the agenda of the government have not been implemented so far. When the UPA government came to the power under the leadership of Dr Manmohan Singh it was expected that it would have a 'New Deal' for *Bharat Nirman*. It was hoping to improve the infrastructure in rural India, doubling the education spending as percentage of GDP, overhauling all central government schemes including centrally sponsored schemes, and the national rural employment guarantee scheme. Unfortunately, on most of these fronts the progress has been unimpressive. Its policies towards SEZ also need necessary homework.

It should be understood that the full credit for the growth of the economy does not go to this government; it has its stimulus from the past as well. Also, it has not been 'inclusive growth', disproportionately benefiting a small section of the society. Major reforms that were on the agenda of the government have not been implemented so far.

While fiscal-reforms have been slow, many of the proposals were in fact a step backward. In addition, failure to push reforms in labour laws, e-governance, banking laws, power sector, etc., due to the opposition from the Left parties indicates that the UPA government must learn how to manage coalition in a better way. There is still a chance for the Dr Manmohan Singh government to take corrective action over the next two years. This calls for making the coalition parties understand the urgency of these reforms that will benefit the masses. All the reforms that help removing procedures that lead to corrupt practices will help the UPA government make its report card a better one.

Mahesh Purohit
Director
Foundation for Public Economics and Policy Research, New Delhi

Yes, but not for the *aam aadmi*

For an independent observer, the three years of the UPA have been interesting in many ways. When it formed the government, the grouping hardly looked a coalition. It looked more like an alliance forced by circumstances. In fact, each of the constituents was rather more eager to tell us as to how reluctant it was to accept this alliance. The Congress was keen on expanding and accelerating the reform process.

The Left was waiting for an opportune moment to withdraw its support. For the opportunistic allies like DMK and RJD, it was too good a time to miss. Many believed that the UPA was a divided house. But look at what has happened. Over the last three years, this coalition of the unwilling has transformed into a working alliance — and a relatively stable government bound together not just by the compulsions of power, but also by shared objectives. This is a significant record in this era of political instability.

The coalition has been able to sustain the pace of economic reforms and extend it to more sectors of the economy. A number of policy initiatives aimed at higher rural employment, inclusive higher education and restoration of tribal land were taken. There was a high degree of interaction between the political class and the knowledge society.

The period has also been marked by a decline of the politics of the primordial and hate campaigns. Well beyond the electoral as well as organisational decline of the BJP, it appears that communal rhetoric is fast losing its appeal. By keeping the development agenda alive, the UPA has been able to remove, to a fair extent, the air of vicious sectarian sentiments that hovered over the political landscape.

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One cannot, however, evaluate the government's performance only on these grounds. When it is judged on the impact it had on the livelihood of wider sections of the society, the achievements seem to pale. It is alarming that the government, despite a massive mandate from rural India, let the agrarian crisis to escalate, leading to a spate of suicides. The so-called achievements of the UPA lack credibility when seen from the eyes of the underprivileged sections of the society.

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Abridged from an article that appeared in The Economic Times, May 23, 2007.

www.images.com

Power: Switching on to Progress

– Amy Yee

The idle Dabhol power plant not far from Mumbai serves as a stark reminder of how investments in India's power sector can go awry. The US$2.9bn plant can generate 2,184 MW of power but was shut down in 2001 when a local state-owned utility refused to pay what it said were excessive tariffs charged by Enron, the infamous US energy trader which set up the plant before going bankrupt.

The high-profile failure "left a bad taste in everyone's mouth," said Bishal Thapa, managing director of energy consultancy ICF International based in New Delhi.

Critics blame the project's lack of a competitive bidding process, poor pricing and flawed operations as reasons for the plant's downfall.

As India's demand for power becomes more urgent, ways of providing more electricity, more reliably, are still far from clear. Yet the power sector, an early pioneer of reform a decade ago, has learned through trial and plenty of error and is showing signs of progress.

There are recent positive signs. They include independent regulation; separation of power generation, transmission and distribution into different businesses; and competitive bidding for projects and greater transparency to woo private-company investment.

India's government planning commission projects that the country will need to raise generating capacity to 778,000 megawatts by 2032 from 127,400MW to maintain 8 percent annual economic growth.

As industry expands and rising incomes create greater power demand from consumers, energy consumption will steadily grow. With about 70 percent of India's population based in rural areas – much of which is without electricity – per capita energy consumption was just 594 kilowatts in 2003, according to the UN Development Programme, against 14,057 kW in the US.

But even with relatively low energy consumption, India faces chronic power shortages. Demand for electricity in India exceeded supply by 7.3 percent in fiscal year 2005, said the Central Electricity Authority. Power cuts, already common in many cities in India, typically worsen during the summer when people switch on air conditioners and fans.

India's government has launched various initiatives to reform the inefficient sector. The Electricity Act of 2003 unbundled state electricity boards into separate generation, transmission and distribution companies to break up government monopolies and foster a competitive market.

Distribution is one of the biggest problems bedeviling the sector. Nearly half of power generated in India is "lost" due to poor maintenance and operations, rampant electricity theft and corruption. Power is inefficiently billed to consumers and collection is haphazard, undermining confidence that plant owners will get paid.

While the Electricity Act "created a base for the sector's growth", more reforms are needed, the World Bank emphasised in a report last year. Lack of internal accounting, annual financial statements and common information systems underscore the need for stronger professional and financial management, corporate governance and heightened government scrutiny.

India's central government has created what has become a strong power regulator, but each state in India must have its own regulator because the sector falls under both national and local jurisdictions.

The quality of local regulators varies widely from state to state, though. And this regulatory environment poses a particular challenge for foreign companies.

"An Indian company will always feels more confident about managing the grey areas of policy," says Arvind Mahajan, head of KPMG's infrastructure practice.

But Mahajan predicted that more foreign companies would come in as the sector works through teething problems. "They will come in at the next stage, as it happened with telecom."

A government push to create "ultra mega power plants" across India with capacity of 4,000 MW each could add significant power capacity. But while the first projects were awarded via open tenders, some are now stumbling into persistent bureaucratic hurdles such as acquiring land rights and gaining government clearances.

Power remains a highly political issue in India because much electricity to rural areas and farmers is supposed to be free (even if supply does not reach its intended destination because of mismanagement).

That leaves fewer options for some state-owned power companies to operate like incentive-driven private companies.

Until that happens, the leading players in many industries will continue to sidestep the problem by building their own private power stations.

Ultimately, the poor in cities and villages who have no such alternative suffer the most from lack of power.

"It's a question of access. Industries are savvy about building their own power plants," said Thapa. "But India can't effectively deliver power to the poor or to agriculture – those who perhaps need it the most. That makes our ability to deal with poverty all the more difficult."

Aside from operational risk, plants risk running aground because of the basic lack of fuel to run them. Because of the shortage of natural gas in the country, even existing gas-based stations are generating only 60 percent of capacity. And abundant domestic coal supplies cannot keep pace with demand.

"This is key to the power sector," said Thapa. "If there isn't a deregulated fuel market, nothing will happen."

(The article appeared in The Financial Times, May 8, 2007)

Central Policy can Promote or Chill Competition

– Vinod Dhall

Economic theory tells us that competition in the market is good both for the consumer and the economy. It maximises consumer welfare and offers wider choice, better products and services. Competition enhances productive and allocative efficiencies and, as Michael Porter has repeatedly emphasised in The Competitive Advantage of Nations, it sharpens the competitive edge of the national economy.

There is an enormous body of empirical studies that have quantified the benefits of competition in different countries. For example, in Australia, the average household income is said to be higher by Australian dollar 7,000 (US$5,778) per annum due to its competition policy. William Lewis has emphasised that competition enabled American productivity to grow by four percent per annum in mid-1990s. Pro-competition policies in the UK and Ireland are said to have added 2.5 percent to their employment rate from 1978 to 1998.

Since the economic reforms in 1991, the winds of competition have been blowing across various sectors in India, leading to perceptible gains for the consumer in terms of greater choice, lower real prices and better quality in automobiles, consumer electronics and durables, telecommunication and even toys, milk and newspapers.

There are several government policies where liberalisation can increase the role of market forces. Reform of trade policy by reducing physical barriers and import duties can provide powerful competition to domestic players, except in non-tradable goods and low-value, high-volume products.

On the other hand, anti-dumping measures, if used indiscriminately, can dampen competition from abroad; that may be good for the domestic industry but not for the Indian consumer. At one time, our industrial policy, comprising of licences, quotas and locational preferences, stifled competition by creating entry barriers, inefficiencies and rentier incomes for incumbents. Competition has also been affected by excessive reservation for Small Scale Industries (SSIs) and PSUs.

Government procurement at the level of states was, at one time, skewed in favour of local enterprises and SSIs. The labour policy, particularly as reflected in the Industrial Disputes Act, has created exit barriers by compelling industries to seek permission before closing down a unit, a permission which was rarely given.

Even the lengthy procedures prescribed in the Companies Act relating to winding up/strike off of registered firms create formidable exit barriers and therefore are a disincentive to investment and entry into the market.

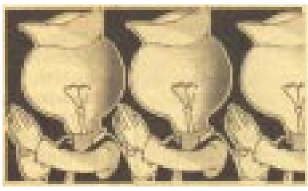
There is an intensive debate between the votaries of industrial policy and competition policy, with the former seeking a larger government role in influencing investments and backing national champions while the latter regards these as distortionary and efficiency decreasing.

Building, or backing, national champions is an emotive issue but Michael Porter has asserted that it is difficult to visualise a national champion emerging in a situation where it does not have to face competition at home. Simon Evenett has cautioned about the return of industrial policy and the threat it presents to competition law and policy.

The author is Member, The Competition Commission of India. The article appeared in the Economic Times, March 20, 2007.

Consumers Need Quality Power

– Samir K Srivastava



The Financial Express

The Electricity Act, 2003 consolidated and replaced a number of older pieces of legislation that prevailed in the country till then and in the process led to a more flexible regulatory regime and stricter penal provisions for dishonest use of electricity. The recent introduction of a system of penalties for some of the most problematic areas for electricity consumers — outages, wrong billing and meter testing — by the Delhi Electricity Regulatory Commission (DERC) is another step in this direction.

This system of penalties of up to Rs 200 per day (subject to pre-defined time-limits for various services) will provide some respite to harried power consumers. Such a system is being introduced for the first time in India. DERC has set a time-limit of 90 days for the distribution companies (Discoms) to credit the dues to the consumers in their next bill of the two-month billing cycle.

This brings us to the basic question about what electricity consumers actually want! Previously it was thought that the major issues are generally related either to the reliability and availability of electricity or to the workmanship and integrity of utility company's staff. In today's age of customer-centricity, the next logical step is the provision of value-added premium-quality electricity. Presently, a system of cross-subsidisation is practised based on the principle of 'the consumer's ability to pay'. In general, the industrial and commercial consumers subsidise the domestic and agricultural consumers.

The success of the telecom sector in providing value-added premium services presents an opportunity to adapt the same model in the electricity sector. The value could be added in terms of reliability, availability, voltage and frequency stability, pre-paid billing, broadband services, maintenance and repair service levels, etc. The only prerequisite for this is the consumers' 'willingness to pay' for premium quality electricity. Issues related to delivering premium quality electricity and its pricing have not received the attention of either the Discoms or the policy makers so far.

The Author is an associate professor at the Indian Institute of Management, Lucknow). The article appeared in The Economic Times, May 10, 2007.

http://media.nasaexplores.com

Towards World-class Airports

– **Atreyee Dev Roy**

The robust annual growth of over 40 percent in air traffic has once again brought to the center stage the country's highly nadequate infrastructure. The inadequacy of the airport infrastructure has been acknowledged by no less a person that civil aviation minister Praful Patel who maintains that the growth in traffic will necessitate rapid development of world-class infrastructure.

According to estimates, the development of the country's airport infrastructure, including the metro, non-metro, green field airports and cargo hubs, would require Rs 40,000 crore. In the last two years some initiatives have been taken in this direction, the notable one being the modernisation of Delhi and Mumbai airports.

Take Delhi airport for example. The project managed by Delhi International Airport (P) Limited (DIAL), a joint venture between the GMR Group, Airports Authority of India (AAI), Fraport, Malaysian Airport and India Development Fund. The JV took charge of the Indira Gandhi International (IGI) Airport in early May last year. It is estimated that almost Rs 8,000 crore will be required for the modernisation of the airport spanning 20 years in four stages.

With the new terminal and runway, which is expected to be completed before the commencement of the Commonwealth Games in 2010, Delhi Airport will be able to cater to 37 million passengers per annum (mppa) and handle 75 aircraft movements per hour. The master plan has been drafted with an ultimate design capacity of 100 million passengers per annum. Code F runway, which would be able to handle A380, is at present under construction and will be completed by 2008.

The Mumbai International Airport Limited (MIAL) has taken up the difficult task of modernisation of the busiest airport in the country. MIAL is a joint venture between GVK-led consortium and the Airports Authority of India. The consortium comprises GVK, Airports Company South Africa Ltd and Bidvest Group Ltd.

The Airports Authority of India has undertaken the modernisation of Kolkata airport and the work is likely to begin within a few months. According to Patel, the work on designing the master plan has already begun. The airport will be developed in three phases. In the first phase, which is likely to be completed by 2010, investment of Rs 1,542 crore will be required. The first phase would concentrate on construction of a new terminal building, up-gradation of runways and the communication and the navigational systems.

A final decision, on whether the state will modernise the Chennai airport or a public-private partnership model will be followed, is yet to be taken. The Tamil Nadu government has provided some 700-800 acre of land, but it is not very clear as to how to use the land to extend the facilities and expand the present airport. Green field airports are being developed in Bangalore and Hyderabad, following the operation of the greenfield airport at Cochin.

Four other new green field airports will come up near Navi Mumbai, Goa, Pune and Ludhiana. Other airports at various stages of approval and construction include Mopa in Goa and Chakan near Pune. A Greenfield airport near Ludhiana is also being proposed.

The Airports Authority has decided to modernise 35 tentatively selected non-metro airports to world-class standards in phases with focus on airside and city side development and enhancement of non-aeronautical revenues with an estimated cost of Rs. 5,000-5,500 crore, excluding the landside development. Then the Nagpur airport is being developed into a multi-modal cargo and passenger hub.

The article appeared in the Financial Express, May 08, 2007.

Aviation Gets Healthier: But Watch Out for Collusion

The 26 percent equity acquisition in the low-cost carrier Air Deccan by United Breweries Holdings, the company that runs Kingfisher Airline, has the potential to transform the industry and return it to profitability.

Aviation consumers are, however, likely to face pricier tickets with indications that the new investor appears keen on returning Air Deccan to profits. The rapid consolidation in the airline industry, Jet Airway's acquisition of Air Sahara, merger of Air-India and Indian, and now a strategic relationship between Kingfisher Airline and Air Deccan, has handed over nearly 85 percent of the market to the top three.

Notably, all the three combines are controlled by full-service carriers, which would like to see an end of the loss-making competition in domestic aviation market. With the largest low-cost carrier Air Deccan now set to dump unsustainable pricing under Kingfisher's stewardship, that goal looks a lot easier.

The remaining low-cost carriers, Spice Jet, Indigo and Go Air, lack, at least immediately, the capacity to move the market. The development may seem anti-consumer, but not in the long run. India needs healthy and competing airlines to meet the demands of the explosively growing market. A whole lot of loss-making airlines would quickly lead to a situation of airlines going bust, leaving only a couple of players with huge pricing power.

That said, there is a need for the competition authority to quickly ensure that mergers do not encourage collusion. The government should also allow higher FDI, including from foreign airlines, in aviation to ensure that the smaller airlines are able to attract investment and scale up, to compete with the emerging big players.

It should also help ramp up the inadequate aviation infrastructure, which acts as an entry barrier to new competition. Together with lower levies on aviation fuel, better infrastructure would also help lower the unduly high cost structure of the industry. This would ensure profitability at even the current low fares.

The Article appeared as Editorial in the Economic Times, June 04, 2007.

The Other Uprising

– Sunil Jain

In the 150th year of the great uprising, another small mutiny is taking place: A mutiny against poor-quality and expensive government education. Whether the mutiny will spread across the country like the soldiers' one did remains to be seen, but posterity demands the event be recorded at least.

By now, most of us know that government schools are a lot more costly than private ones (Geeta Kingdon found, in Uttar Pradesh, for instance, that expenditure per student in private unaided schools was less than half that in government schools, primarily on account of the much lower wages private teachers get). There is also enough evidence about their poor performance. Localised field studies like those by James Tooley found that, in Hyderabad, students in unrecognised private schools scored 59 percent more marks their counterparts in government schools did, while for English it was 1.4 times; in Delhi, Tooley's study found the differences were 72 percent and 2.5 times, respectively. An all-India study for rural areas by *Pratham* last year found that in class three, for instance, children in private schools had learning levels that were higher than those in government schools by around 50 percent —while just 18.1 percent of class three children in government schools could read a full story, this figure was 28.4. percent in private schools; for the ability to divide in the same age group, the figures were 14 and 21.3 percent, respectively. Which, by the way, is why the *Pratham* study showed, the proportion of children enrolled in private schools in rural areas showed a huge hike, from 16.3 per cent in 2005 to 18.8 percent in 2006.

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Though there are no comparable data to show movement to private schools in urban areas, a limited exercise done by the Centre for Civil Society (whose motto is Free Choice) shows even the generally poor and poorly educated parents of children in government schools want to move out, though they do not because they lack the necessary funds to do so. Starting April this year, a group of 52 CCS volunteers fanned across 68 of the poorest of Delhi's 272 municipal wards and tried to preach the virtues of making parents free to send their children to private schools.

They did this on a shoe-string budget, but with imagination, using rickshaws with loudspeakers and catchy skits to put across their message. So there was one involving Munnabhai and Circuit which got everyone all charged up; in another, a wife is telling her husband, a school teacher, that they now need to find a school for their growing son … "but I don't want him to go to your school", the wife is clear.

The CCS is offering a voucher of Rs 300 per month, enough to pay the fees in primary school, for a period of three years. Such is the frustration with government schools, for the 400 such vouchers that are being given, that the CCS has got 100,000 applications! Imagine the number they'd have got if this was done across all 272 wards, with a sizeable number of volunteers to cover the wards intensively, and for more than just the 4-5 weeks the CCS volunteers put in. That's not all. The scholarships were only for people in the very low-income groups and whose children were in classes three to six in government schools—but the CCS got another 300,000 parents (whose children were younger/older and did not qualify for the voucher) to sign a letter to the government saying they wanted a voucher system that allowed them to decide if they wanted to send their children to government or private schools. Once parents decide which school gets their money, they will be in a better position to control the education outcomes—they'll insist, for instance, that teachers come to teach.

The CCS is planning several such exercises to show just how deep the groundswell is, and its teams have begun campaigning on the subject in Orissa, Jharkhand, and Bihar, and will soon start working in Maharashtra, Tamil Nadu and Uttar Pradesh. A similar campaign by the government would have cost many times more, but the CCS is working with other NGOs to come up with more cost-effective campaigns—a campaign in six districts in Tamil Nadu, for instance, has been handed over to a group of Dalit women who've come up with a budget of just Rs 24 lakh for a year's campaigning.

While these projects are aimed at letting the political class know just how many citizens want to escape the tyranny of poorly-run schools, another project plans to estimate the actual difference that private schools are making. On the face of it, there is enough evidence, both from India and abroad, to show this is the case, but some argue incomparables are being compared—the reason, it is said, that private schools have better results is because the children there come from better off families. In a large enough sample this can be checked by controlling for incomes, but there is no such data available for the country —the unit records of the Pratham survey have not been released as yet. What the CCS plans is to select a town and track the education outcomes of 1,500 children over a period of five years: 500 who remain in the government system, 500 who are in the private-school system, and 500 who have migrated from government schools to private ones.

Since school teachers are a powerful vote-bank and therefore a huge lobby, it is unlikely the government will take them on. But if enough parents put on pressure for change, it is unlikely things will remain the same for long.

The article appeared in the Business Standard, May 14, 2007.

Speak to the People

– Pradeep S Mehta

The uproar on SEZs and the like is *inter alia*, most likely the result of a massive communication failure. Both the government and the investors do not have any strategy to address the information asymmetries, which only compound the problem and thus affect progress.

Here let me share a personal experience. On February 01, 2006, I landed at a rather tense airport in Delhi amidst agitations against the handing over of the airport to a private party. Getting into a taxi, I asked the driver why everyone was protesting against something that might be good for all.

"The sarkar is selling sarkari property to a businessman" was the prompt response. Adding, that soon many will be thrown out of their jobs and that he too may not be able to run his taxi on this lucrative route any longer as the new company will run its own taxi service!

The GMR Group that had won the bid for running the Delhi airport in a PPP would build and operate the new airport with a guaranteed revenue share to the government, I tried explaining to the driver. The property will revert to the state after 30 years. The ownership of the airport will remain that of the nation, i.e. of yours and mine, I added. But he was not too convinced!

Over the past few years, several private airlines flying the Indian skies have led to a phenomenal growth in traffic and cargo. But, the existing infrastructure at our airports is not capable of handling the resulting congestion and saturation.

With an expanded and modern airport at least in Delhi, passengers will be able to move in and out smoothly. This will mean a faster turnaround not only for the industry but also for people like the taxi diver. Apparently, neither the government nor the private developer speak to people about the process. Thus confusion reigns.

A cursory look across, would suggest that weak communication and a lack of public understanding and consensus about reforms have been the key impediments to successful economic reforms in many countries. The privatisation programme of Senegal came to a halt because of a complete absence of consensus in favour of the reforms. Even industrialised countries are not immune to the negative impact of poor communication strategies. New Zealand's disaffection with privatisation is a revealing case in point in this context.

Back home, the multi-purpose Narmada Valley project highlights how lack of proper attention, resources, and seriousness to public communication about the benefits significantly impair a reform process. The Narmada dam, which has remained a subject of controversy and protest since the late 1980s, is a good example in this context.

In the midst of this gloom, the contribution communication can make to reform programmes, brings in the much required ray of hope. The reform process in the telecommunications sector of Malawi is a case in point, where the agitating workers were educated about the objectives and rationale of the reform.

Through concerted efforts to institutionalise dissemination of information and systematic stakeholder consultations, it was ensured that the employees acquired a stake in the process. This led to the success of the telecommunications reform in the country. Labour unrest has often resulted due to workers not being involved in the reform process.

Another good model followed in 'speaking to people' in the reform process comes from the water sector reforms implemented in Zambia. From the beginning of reforms, particular emphasis was put by the government on stakeholder participation to make them aware of reforms and its principles.

Coming back to the Indian context, of late everyone in the policy matrix is speaking about the need of raising US$350bn or so to finance infrastructure projects to meet with the targets set in the 11th Five Year Plan. Substantial amount of this money will have to come from the private sector, whether as a sole investor or in PPPs mode.

As in the Delhi airport case, PPPs are certainly one way forward to garner scarce capital, but are people properly aware of what this entails? They are not. In any event, people are unable to distinguish between private capital coming in as the sole investor or as a partner.

> **The key to success is realising the importance of right flow of information and listening to people. In a nutshell, irrespective of the canvas of a reform and its importance to a country's economy, what is crucial is to: speak to the people!**

The Singur agitation over the Tata Motors setting up a factory in West Bengal is a good example. Rather than speaking to people and ensuring that they get a fair compensation for their acquired land and a long-term return, politicos are more bothered about their vote banks.

Effective communication is crucial and is indeed the missing link in all forms of reform programmes, be it pension reforms, privatisation of a large state-owned enterprise, government decision to do away with subsidies, or introduction of a new tax regime (such as VAT).

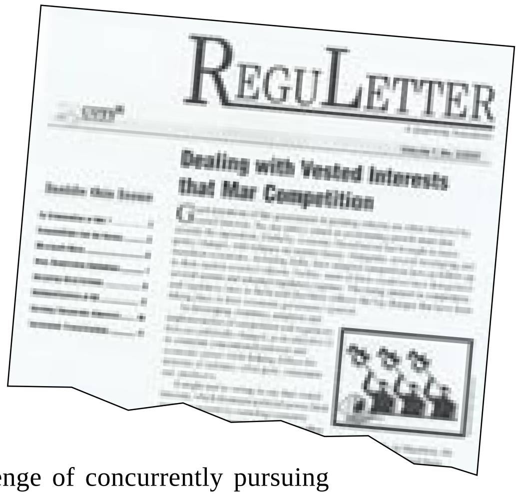
By informing the public about the proposed reform, its effects on their lives, on the country's economy, advance awareness campaigns help build confidence in the proposed measures and create a positive environment so that the reform succeeds.

The key to success is realising the importance of right flow of information and listening to people. In a nutshell, irrespective of the canvas of a reform and its importance to a country's economy, what is crucial is to: speak to the people!

The author is Secretary General, CUTS International. Abridged and edited from an article that appeared in The Economic Times, April 14, 2007.

ReguLetter

The April-June issue of the CUTS C-CIER newsletter ReguLetter encapsulates the "Dealing with Vested Interests that Mar Competition" in its cover story. It advocates for a competition policy which should be judged explicitly against its contribution to tackling the dominance of vested interests for better growth and poverty reduction outcomes.


ReguLetter

Dealing with Vested Interests that Mar Competition

The lead story is followed by regular sections focusing on news, views and policies related to corporate restructuring, regulations of utilities and finances, corporate governance etc. of different countries in particular, the developing nations. Besides, annual roundup of competition laws, mergers & acquisitions, corporate issues etc is another highlight of the edition.

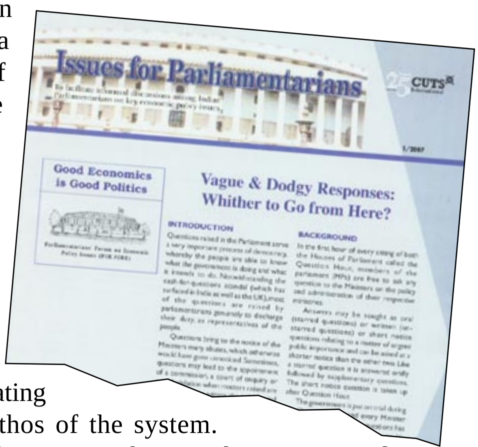
A special article by DeCourcey Eversley discusses the challenge of concurrently pursuing regulation and competition enforcement against the backdrop of the overall Barbadian experience.

About a Competition Law dwells on the competition scenario in Mongolia, the institutions of competition law in the country and the scope of improvement in the law.

Vague & Dodgy Responses

Whither to go from Here?

Questions raised in the Parliament serve a very important process of democracy, whereby the people are able to know what the government is doing and what it intends to do. Alas, often the way these questions are responded to by the Minister concerned, appear to be lackadaisical and/or incomplete, thus negating the very purpose and ethos of the system.


Issues for Parliamentarians

CUTS

Good Economics is Good Politics

Vague & Dodgy Responses: Whither to Go from Here?

INTRODUCTION

BACKGROUND

This Issue Note is the latest one in the series being generated by CUTS to assist parliamentarians in discharging their solemn duty to the nation. In the present context, this Isuue Note assumes a greater significance, in particular, with the Right to Information (RTI) Act coming into effect, whose main purpose is to promote greater transparency. The Note focuses on whether Right to Information is more apt or Right to correct Information.

www.cuts-international.org/pdf/PAR-FORE-1-2007.pdf

IN MIRTH

"Those Donkeys Deducted Rs 30 in Taxes ... "

A little boy wanted Rs 50 very badly and prayed for weeks, but nothing happened. Finally he decided to write God a letter requesting the Rs 50.

When the postal authorities received the letter addressed to God, India, they decided to forward it to the President of the India as a joke.

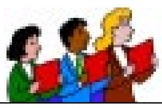
The President was so amused, that he instructed his secretary to send the little boy Rs 20.

The President thought this would appear to be a lot of money (Rs 50) to a little boy, and he did not want to spoil the kid.

The little boy was delighted with Rs 20, and decided to write a thank you note to God, which read:

"Dear God: Thank you very much for sending the money. However, I noticed that you sent it through the Rashtrapati Bhavan in New Delhi, and those donkeys deducted Rs 30 in taxes ... "

We want to hear from you...



Please e-mail your comments and suggestions to **outreach@ccier.cuts.org**

We put a lot of time and effort in taking out this newsletter and it would mean a lot to us if we could know how far this effort is paying off in terms of utility to the readers. Please take a few seconds off to grade the newsletter on the following parameters on a scale of one to ten (ten being the best). Try to be honest and please suggest ways for improvement.

- Content
- Number of pages devoted to short news stories
- Number of special articles
- Use as an information base
- Readability (colour, illustrations & layout)

Eagerly waiting to hear from you!

SOURCES

ET: The Economic Times, **BS:** Business Standard, **TH:** The Hindu, **BL:** Business Line, **FE:** The Financial Express, **HT:** Hindustan Times, **FT:** The Financial Times

The news/stories in this Newsletter are compressed from several newspapers. The sources given are to be used as a reference for further information and do not indicate the literal transcript of a particular news/story.