PolicyWatch

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

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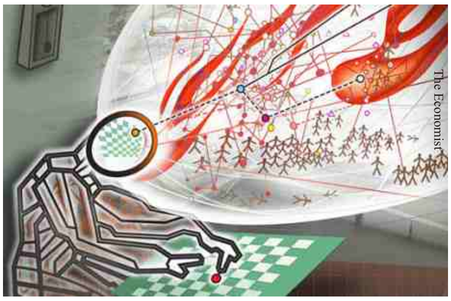
"The reformer has enemies in all those who profit by the old order and only lukewarm defenders in all those who would profit by the new." **Machiavelli** in *The Prince*

Equity is Good for Growth

Competition policy promotes economic equity and democracy, which is a building block for political democracy. While macro reforms have to be followed, micro reforms with effective meso-level institutions are as important to ensure that markets function well. In fact, the poor suffer more when markets do not function well. Businesses benefit from competition reform, so do the poor, as it leads to more equitable growth.


The Economist

The current buzzword for economic planning and management is 'inclusive growth'. It is a policymaker's dilemma on how to fund social sectors without the wherewithal. Today, the government is struggling with high deficit and inflation. The poor suffer more and are, thus, despondent.

What is worse is the diminishing trust of people in the government and the private sectors, aided by exposes of scams. The root cause of political economy differences related with 'policies and the need for change' lies in the way 'reform' is perceived. For the common man, reform in general stands for changing the *status quo* to facilitate corporate interest. They are unable to appreciate that such reforms can lead not only to creation of wealth, but also jobs, the equity agenda.

In terms of optimal regulation, we do need to unburden both businesses and consumers by maintaining minimalistic regulation, i.e. if one is applying for building permits, then the process should be swift with the caveat that violations will be dealt with strongly by demolitions and imprisonment.

In any event, if harshness is used against well-to-do violators, then the poor will feel that the government is doing something well and trust can be reinforced. On the other hand, there are many reforms happening in wider public interest, particularly benefiting the poor, but the message does not go out well. Such a strategy can also reinforce trust.

The problem is that there is growing perception that the government is not a neutral party and, therefore, it will be very difficult to strike a balance between the two. Parliamentary debates are useful to bridge this gap, but they too are polarised or have shifted to TV channels.

Apart from corporate vs. public interest, there is an additional dimension of domestic vs. foreign interest. Even though it is not as deep-rooted as it was some years ago, we still hear of the East India Co syndrome, and from mature people.

However, the corporate vs. public interest divide seems to have much more serious undercurrents in today's political economy, than domestic versus foreign. FDI in retail is being opposed in spite of the fact that big domestic business houses are already in organised retailing. Whether it is labour reforms or 2G spectrum or mining and coal or land acquisition, the inherent opposition is on the issue of corporate vs. public interest.

Clearly, the polity, government, business and civil society have a big agenda to speak to the people and also ensure that public interest is not sacrificed to private interest. People should be confident that equity remains at the core of governance, so that we can grow harmoniously.

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• COMMUNICATION •

A Comprehensive Media Policy

The Ministry of Information and Broadcasting's Sectoral Innovation Council has urged the government to formulate a comprehensive National Media Policy, which integrates all existing media segments and addresses the emergent issues.

The report says that the government should look at further liberalisation and reforms in the broadcasting sector. The Council also believes that a separate licencing model for niche channels will go a long way in encouraging content innovation in the radio sector. A national policy on films as well as one for animation, gaming and VFX is among the other key recommendations of the Council.

(TH, 27.07.12)

Attracting FDI in Electronics

The government will hard sell the proposed National Policy on Electronics to foreign investors to set up manufacturing facilities in India. As part of this, the government plans to conduct road shows abroad to get multinational companies interested.

It would create a marketing strategy soon, which would include road-shows, international seminars and visits to some of the major companies that have plans for India. The idea is to cover as much of the sector as possible by creating competencies. It would also help in defining a cluster for a particular type of products or components in the next five years.

(TH, 18.07.12)

Cable Digitisation Mandatory

The Cable and Broadcast Sector Regulator is all set to row between multi-service operators (MSOs) and broadcasters as it seeks to resolve outstanding issues threatening to derail the mandatory cable digitalisation in the four metros from November 01, 2012.

As mandated by the law, the 12 million cable homes in Delhi, Mumbai, Kolkata and Chennai have to turn digital before October 31, 2012. Also, as per the digitisation norms, no MSOs will have to carry a minimum of 500 channels on their network or indulge in transparent reporting of subscriber-base, revenue, carriage charges, among others.

The purpose of digitisation was to bring order in the prevailing industry practices and make it more transparent including offering consumer's better service and wider choices.

(FE, 08.08.12)

Concerns Over Radiation

Pitching in on the current debate on the possible danger of cellphone radiation, the Union Environment Ministry says a review of available scientific information by its panel of experts shows that "electromagnetic radiations interfere with the biological systems."

While the Ministry's advisory is directed towards the Central and state agencies and local bodies, the Ministry has special advice for the Department of Telecom (DoT).

"To prevent overlapping of high radiation fields, new towers should not be permitted within a radius of one kilometre of the existing towers. Sharing of passive infrastructure if made mandatory for Telecom Service Providers can minimise need of having additional towers," it said.

(TH, 12.08.12)

Media under PCI's Ambit

Terming broadcasters' attempts at self-regulation "futile and meaningless," the Press Council of India (PCI) has asked the government to amend law and bring the electronic media – both broadcast and social – under the ambit of an expanded and renamed Media Council.

Given the "prevailing circumstances of the country… there should not be any dilly-dallying in the matter by the government," said a PCI statement. Interestingly, the PCI resolution specifically refers to the social as well as the broadcast media.

The Council dismissed the assertion of the broadcast media that their own self-regulatory measures are sufficient, with any further governmental oversight amounting to an attack on the freedom of the press.

(TH, 29.08.12)

New Norms on Spectrum

The Telecom Regulatory Authority of India (TRAI) told the government that its recommendations on spectrum pricing will push up call charges on average by only 5-10 paise.

TRAI was asked by the government to assess the impact of the recommendations on the consumer, government finances and corporate profitability, after the regulator held that the reserve price for 5 MHz spectrum in the 1800 MHz band be fixed at ₹18,100 crore, compared to ₹1,650 crore charged by former Telecom Minister A Raja in 2008.

Besides new entrants, the reserve price will also be applicable to existing operators when they move for renewal of their licences.

(ToI, 13.07.12)

No Roaming Charges from 2013

Telecom Minister Kapil Sibal said that mobile phone subscribers will not have to pay roaming charges from 2013. National Telecom Policy 2012, approved in May, aims to abolish roaming charges and allow mobile phone subscribers to use same number across country without having to pay extra charges for services once they are outside their telecom circle.

Meanwhile, Telecom Secretary R Chandrashekhar said the DoT is working on Notice Inviting Applications for spectrum auction after which it will work on unified licence (UL) guidelines – also a part of the NTP 2012.

Rajan S Mathews, Director General Cellular Operators Association of India said he appreciated the concept of free roaming, but added that industry will have to work on details of implementation of 'One Nation - Free Roaming'.

(IE,29.09.12)

• TRANSPORT •

Air India to Pay Compensation

Not allowing a passenger to board and travel in a flight even after issuing a boarding pass amounts to unfair trade practices, a Consumer Forum ruled. It also ordered Air India to pay a compensation of ₹50,000 to a passenger.

Chinnadurai, a businessman from Chennai, booked a ticket with Air India for his return journey from Singapore to Chennai on October 31, 2009 and he was issued with a confirmed ticket. He reached Singapore Airport well in time on the same day. Though he was issued a boarding pass, he was not allowed to travel on the flight.

The airlines said the complainant being a frequent flyer, should be aware that the doors of the aircraft are closed 15 minutes before the scheduled departure time. The complainant feeling confident that he had got the boarding pass came late, by which time the doors of the flight were closed. So, the duty officer offered to send him by next available flight on the same day.

Rejecting the contention that the complainant failed to board the flight on time, the District Consumer Disputes Redressal Forum, Chennai said the airline failed to prove it by adducing evidence. *(TH, 21.09.12)*

Highway Projects Stalled

Over 30 highway development projects worth ₹8,800 are stuck for want of land. Land acquisition has been delayed by various government agencies including State administrations and the Environment Ministry as also because of the disagreements on the price to be paid to land owners.

The National Highways Authority of India depends on State governments to make land available. Delay in land acquisition for these projects has occurred because of various issues like cost of finance has gone up, annual input cost escalation of seven-eight percent, impact on the revenue earnings of companies, as they cannot start collecting tolls etc. which has to be sorted out.

(TH, 08.08.12)

FDI in Domestic Airlines

The government is looking at allowing foreign airlines to invest in domestic carriers but there would be no change in foreign direct investment (FDI) cap of 49 percent.

"FDI is already allowed in airlines up to 49 percent. Government is not changing that 49 percent, but what it is trying to do....right now other (foreign) airlines are not supposed to participate in the FDI (foreign airlines can't invest in Indian carriers)...they are trying to see if other airlines are also allowed to participate (in the FDI).

Ajit Singh, Civil Aviation Minister argued the airlines business is a complicated one and only airlines would be interested in investing in other carriers. "They have a proposal. Air India Board has considered it. We have made a proposal to the Cabinet," he said. *(TH, 17.07.12)*

Privatising Airport Operations

A Planning Commission Task Force has urged complete privatisation of operations and maintenance of Chennai and Kolkata airports. This includes both air and city-side facilities. The development of these airports should be through a private-public-partnership (PPP) concession.

The Task Force noted that while structuring this arrangement, it should be ensured that the interests of the Airports Authority of India (AAI) employees are fully protected. It was felt that if a PPP concessionaire was engaged, it could raise significant non-aeronautical revenues.

This will reduce the passenger fees and achieve the primary purpose of setting up the AAI to provide better passenger services at affordable fees.

(TH, 09.08.12)

Contractors to Maintain Roads

A new scheme of road contracting and construction approved by the Cabinet will make contractors responsible for the quality of roads for two years and structures like bridges and flyovers for five years after the construction is over. Though India has the second largest road network in the world totalling 4.2 million km, most of it is of poor quality.

Experts opined that poor quality construction and maintenance are the major reasons behind this. EPC (engineering, procurement and construction) is being seen as a model that will address many deficiencies in road construction, including delay in completion and cost overrun.

The EPC norms also fix responsibilities of government agencies. These agencies will pay daily damages for any delays in handing over the land, railways approvals, environment clearances and shifting of utilities. *(ToI, 20.08.12)*

Railways Raise Parcel Rates

The railways have increased the luggage and parcel rates by minimum 25 percent that would impact medicines, fish, tyre and newspapers, among other articles. After the increase in freight rates, the railways found themselves in an embarrassing position when consignors sought to even transport grains as parcel, cheap as the rates were. Thus, there was need for parity.

The transportation cost of these commodities, or those allowed as parcel, will depend on whether these are to be transported by the *Rajdhani* Express or the *Shatabdi* superfast trains and the general passenger trains.

It will affect the general public who book motorcycles or big articles for transportation. There is a plan to increase the lease rate for entire rakes and parcel vans, which are usually for an agreed period of three years. *(TH, 06.06.12)*

• OIL & GAS •

Roadmap for Cleaner Air

The Petroleum and Natural Gas Ministry has sought setting up of an inter-ministerial group to draw up a roadmap for reduction of pollution. The Ministry stated that with a time lag in implementation of sound vehicle inspection and maintenance, vehicle retro-fitment and retirement, garage certification and traffic management, mere improvement of fuel quality was not enough to achieve the desired results.

"It is time to evolve an appropriate roadmap and supervise implementation of measures to reduce the pollution levels," it stated in a note circulated among various stakeholders.

It stated that measures like retro-fitment of pollution control devices in old vehicles, phasing out of old vehicles, mandatory periodical inspections and maintenance requirements are also requirement to be taken up simultaneously.

(TH, 09.08.12)

All Cars to Switch to Gas

In an order which would impact lakhs of people owning cars, the Gujarat High Court directed the state government to pass necessary laws to make it compulsory for all four-wheelers registered in Gujarat to convert to natural gas within one year.

Further, the court gave two months to the state government to issue necessary orders to impose stringent restrictions to reduce pollution by fixing levels of emission to the minimum, at par with international norms. The order applies to both public and private vehicles running on petrol and diesel.

The order, passed by Chief Justice Bhaskar Bhattacharya and Justice J B Pardiwala, came in response to directions sought by DhrangadhraPrakrutiMandal, through its vice-president DevjibhaiDhamecha, to the state and Centre as well as all gas and petrol companies operating in Gujarat.

The judges suggested gas prices be cheaper for public vehicles and higher for privately owned vehicles. Also, fares of public transport should be fixed at reasonable rates so that the end benefit goes to the public.

(ToI, 26.07.12)

Gas Pipeline Network Down

The ambitious plan of the Petroleum Ministry to connect over 300 towns in the city gas distribution (CGD) network is facing an uncertain future due to acute shortage in gas supply and regulatory constraints in laying of pipelines.

Regulatory challenges in the transmission and supply of piped natural gas for cooking and CNG for the transport sector and infrastructural bottleneck to bring more gas from abroad is threatening to derail the expansion of the CGD network.

While the Petroleum Ministry, through the Petroleum and Natural Gas Regulatory Board (PNGRB), is set to conduct competitive bidding to cover the 300 towns and cities soon, experts said implementing the project will be a tough task. Currently, only around 50 cities and towns are connected under the CGD network.

Though the government has laid out ambitious plans, the regulatory challenges faced by the sector would come in the way of achieving the target, experts said. Currently, around 13,000 km of the cross-India pipeline network excludes a large part of the country, especially the southern and eastern regions.

(IE, 04.09.12)

Investment in Oil Abroad

With energy security intrinsically linked to economic growth, there was a need for increased investments in oil and gas fields abroad by both private and public sectors, a senior official, Ministry of External Affairs (MEA) said.

Sanjay Sinha, Secretary (East) in MEA, said, India require uninterrupted energy supply at affordable prices and there was a need for developing renewable and unconventional sources of energy to increase energy efficiency.

He emphasised the need for reducing the widening demand-supply gap and batted for increased investments in oil and gas fields abroad by both the private and the public sector.

"We also need to develop renewable and unconventional sources of energy to increase energy efficiency. Safety of energy transport routes should also be ensured," he said.

Providing policy suggestions to improve energy efficiency and conservation, the book, Bhaskar said, also elucidates the geopolitical dynamics and underpins the role of energy diplomacy in achieving energy security.

(PTI, 01.09.12)

LPG Price Hiked

Cooking gas (LPG) price was hiked by ₹11.42 per cylinder following the government's decision to raise commission paid to the dealers. Petrol and diesel prices too may go up marginally as the Oil Ministry considers raising dealers' commission by at least 23 paisa and 10 paisa a litre respectively.

The Ministry issued orders raising commission paid to LPG dealers from ₹25.83 per 14.2-kg cylinder to ₹37.25. The 44 percent or ₹11.42 per cylinder increase in the commission on the subsidised cooking fuel is being passed on to consumers, they said.

The hike comes within weeks of the government deciding to restrict supply of subsidised cooking gas to 6 cylinders of 14.2-kg size per household in a year.The remaining supplies would have to be sourced at market rates.

(ToI, 06.10.12)

• POWER •

Restructuring of Discoms

The bailout plan for power sector by way of debt restructuring of power distribution companies (Discoms) with total losses of ₹ 1.9 lakh crore is a welcome step but mandatory conditions linked with it may not yield desired results.

Support under the scheme will be available for all participating state owned Discoms on fulfilling certain mandatory conditions. The state governments will have to convert all their loans to equity. All outstanding energy bills of the state departments as on March 31, 2012 are to be paid by November 30, 2012.

Although the scheme is not mandatory for all states, but it requires that the states which agree on adopting the package will have to pass the State Electricity Distribution Responsibility Bill in their respective states following which the package will be made effective and the government grants will start flowing in.

(www.indianpowersector.com; 29.09.12)

Power Sales under Lens

Private power producers using coal from government mines cannot sell electricity in the merchant market. The Coal Ministry is insisting that power companies sell electricity through competitive bidding.

The Ministry has issued the directive after it came to light that some power producers were selling electricity at a much higher rate and were not participating in the bidding.

The government is of the view that benefits of electricity produced from cheaper coal sourced from captive mines must be passed on to the consumer. At present, Discoms seal power purchase agreements with producers selected after tariff-based competitive bidding. *(TH, 06.07.12)*

Fine on Overdrawing Power

The Central Electricity Regulatory Commission (CERC) has decided to penalise several states in north India, including Rajasthan for overdrawing power from the northern grid. CERC in its order on Northern Regional Load Dispatch Centre (NRLDC) has filed the petition before CERC over the continued overdrawl by the constituents of the Northern Region risking the grid stability.

It was agreed that all states would implement automatic demand disconnection schemes according to the grid code. NRLDC will instruct the state load dispatch centre (SLDC) to open the identified feeders and within five minutes SLDC would give compliance report to NRLDC.CERC has accepted this arrangement, but was of the view that the time margin was too much.

(HT, 24.08.12)

Power Hike worries People

The Rajasthan government has increased power tariff in the state by as much as 18 percent. High end domestic consumers are the worst it as they will have to pay the maximum. The revision has been made for every category but the government promises to bear the cost of revisions through subsidy for connections meant for agriculture and the poor.

Discoms in the power sector will earn additional ₹1800 crore through this tariff revision. They are facing a severe fund crisis with losses adding to ₹46000 crores so far.

Local media attacked the government for revising rates for the second time within a year without making efforts to check power theft.

(HT, 09.08.12)

Coal Policy Help Power Plants

In a deviation from the existing policy barring domestic coal linkage for power projects bid out on the basis of fully imported coal use, the government is set to clear domestic coal allocations for six such projects totalling a 4,650 MW capacity. Of these six projects belonging to the 11th Plan period, four have already been commissioned but are constrained not to utilise full capacity due to non-availability of indigenous coal.

However, for the 12th Plan projects, the Power Ministry will insist on the policy that imported fuel-based projects should not be given domestic coal linkage. While production shortfall by Coal India forced the Coal Ministry to withdraw domestic coal linkage for these projects, volatility in international coal market where prices have shot up by over 100 percent over the last two years and export regulation by countries like Indonesia has made import option even more expensive preventing companies from honouring commitments under power purchase agreements with state governments. *(FE, 20.08.12)*

CERC to Regulate Power Tariffs

Attorney General of India said the power regulator can regulate and revise electricity tariffs irrespective of the contracts signed by power producers with distribution companies. It will provide some relief to private power producers like Tata Power, Reliance Power and Adani Power that own 12,000 mw of capacity which use imported coal.

After the attorney general's opinion, the power producers have got a forum to agitate and convince the adjudicating body to look at revising power tariffs under concluded contracts. The forum of regulators mainly sought legal opinion on a few tariff-related issues, including the appropriate regulator to settle issues for companies that have inked power purchase agreements (PPAs) with multiple states. *(ET & LM, 28.08.12)*

• MIXED BAG •

Babus to Guide Banks

The RBI Governor Duvvuri Subbarao signalled to bureaucrats in the Finance Ministry that they would serve banks better by pushing their decisions through the board of directors than other means.

The role of Mittal, who is the Finance Ministry's representative on the boards of many public sector banks, including the State Bank of India, is being seen by some as interfering in the day-to-day affairs of banks which should be left to the management. But some say that his 'activism' is warranted with many state-run banks not really being pro-active.

There are other instances such as the government forcing Coal India to sign fuel supply agreements with power producers which is opposed by institutional shareholders.

(ET, 13.07.12)

Indirect Tax Ombudsman Set Up

Indirect tax ombudsmen, set up for faster disposal of complaints, have been languishing in their offices, with few aggrieved taxpayers approaching them for grievance redressal. The indirect tax ombudsmen will take time to gather steam, as direct tax ombudsmen have also seen good response only in their second year.

The indirect tax ombudsman has powers to receive complaints from tax payers relating to customs, excise and service tax and facilitate their satisfaction or settlement by agreement through conciliation and mediation between the revenue department and the aggrieved parties or by passing an 'award'.

It can handle complaints relating to any delays in the issue of refund, rebate, adjudication, registration of tax payers, effecting appellate orders or release of seized books of account and assets, among others.

(BS, 14.08.12)

Redressal Mechanism in Place

The Securities & Exchange Board of India (SEBI) released a fresh set of information for new investors on redressal mechanism for complaints related to price manipulation, insider trading and other issues.

According to the fresh set of information, if an investor has grievances against a listed company or intermediary registered with SEBI, he should first approach the concerned company or intermediary against whom he has complaints. In case the person is not satisfied with their response, he may approach SEBI for grievances such as price manipulation, insider trading, mutual funds, depository and depository participants.

The information is part of the revised instruction form book issued by depository participants to investors. Depository is an organisation where the securities of a shareholder are held in the electronic form and depository participant is an investor's representative in the depository system who maintains securities account balances.

(FE, 21.09.12)

NBFC-MFIs Norms to Relax

Microfinance institutions (MFIs) operating as non-banking finance companies (NBFCs) may soon be able to breathe a bit easier. The RBI will relax some prudential norms governing the NBFC-MFIs. MFIs also want a level playing field *vis-à-vis* banks. While banks are neither subject to any interest rate cap nor margin cap on lending, MFIs are subject to a margin cap of 12 percent and an interest rate cap of 26 percent on individual loans.

Since loan repayments are not forthcoming due to moral hazard, this is nothing but financial vandalism and should be made punishable under the Indian Penal Code. A moral hazard is a situation where the actions of one party may change to the detriment of another after a transaction has taken place.

(BL, 25.07.12)

Insurance Lacking

The Chairman of Insurance Regulatory and Development Authority (IRDA) rapped various aspects of the sector's functioning, saying companies needed to review many things. He said technology use was lagging, distribution channels needed a relook and agents did not seem to be paid or motivated enough.

Customer satisfaction was not getting enough attention. Persistency on products was unsatisfactory and pensioners were often being taken for granted.

On pension products, Narayan said the current ones before the regulator for approval were mutual fund products and not pension products. A pension product, invariably, should lead to some kind of an annuity and unless these are structured accordingly, they will not be approved," he warned.

(BS, 25.09.12)

RBI Paints a Grim Growth Picture

The Reserve Bank of India (RBI) has painted a grim picture of the economy with concerns over inflation looming large due to a shortfall in the monsoon and rising government spending while reiterating that an interest rate cut cannot be a booster without prudent governance that accelerates investments.

To address this risk, fiscal space needs to be created by curtailing subsidies and significantly boosting government capital expenditures to provide an investment stimulus to the economy, which would help crowd in private investment. In addition to the impact on inflation, the below-average rainfall may hamper efforts towards fiscal consolidation, by boosting demand for welfare schemes such as National Rural Employment Guarantee Act (NREGA). *(ET, 31.07.12)*

No Reform, No Power

Arvind Panagariya*

The power failure in India on July 30-31, 2012 was big news in US media. When the radio and TV stations began calling with the question whether this spelt the end to India's claims to global-power status, my first reaction was to remind them that a similar failure of the grid in 2003 had drowned the entire Northeast and Midwest in the US and Ontario in Canada into darkness.

But, alas, the similarity between the failures in North America and India ended there. In the US, ageing equipment and poor management by local distribution companies result in outages that can sometimes last for days. But residential and industrial customers can generally count on regular flow of electricity.

In my 38 years in the country, not once have I experienced scheduled power cuts. Nor do most customers maintain backup generators. Except when a storm knocks down power lines, electricity flows continuously at a steady voltage.

In contrast, the blackout in India is but one manifestation of fundamental weaknesses in the electricity sector. As per 2011 census, one-third of Indian households still do not use electricity.

Electricity reform had gathered momentum under the National Democratic Alliance (NDA) government. Had that been maintained, considerable respite would have come, just as has been the case in telecommunications.

But whereas telecommunications reform was completed during the NDA tenure, at its exit in 2004, electricity reform remained work-in-progress. Unfortunately, the successor United Progressive Alliance (UPA) government turned indifferent towards the reform.

Electricity generation was opened to the central government in 1975 and to private operators, both domestic and foreign, in 1991. While centrally-owned National Thermal Power Corporation (NTPC) soon emerged as a major player in generation, the private sector was slow to oblige.

SEBs had monopoly over distribution and were, therefore, the sole buyers of electricity. But since they were also financially bankrupt due to years of losses, potential private entrants into generation did not see them as credible buyers, as is illustrated by the sordid episode of Enron.

The reforms initiated in the late 1990s sought to introduce transparency by unbundling the SEBs into three separate companies entrusted with generation, transmission and distribution.

A central objective of subsequent reforms, initiated through the landmark Electricity Act of 2003, was to restore the financial health of distribution companies, which could serve as credible buyers of electricity. To this end, the Act provided for several measures. They included possible privatisation of state distribution company and licence to additional distribution companies in any given area.

Reforms, competition in distribution and end to coal monopoly only antidotes to power failures

Large customers were to be given open access to the distribution grid so that they could buy electricity from the seller of their choice. Each state was to also appoint an independent State Electricity Regulatory Commission (SERC) empowered to set the electricity price.

Cross-subsidy from commercial buyers to households was to be ended in a time-bound fashion. To cut losses, the Act provided for metering of all customers, made stealing electricity a criminal offence and required regular energy audits with the view to cut losses. Unfortunately, these reforms have been implemented sporadically.

Adding to these woes is India's coal policy that hampers electricity generation. As a part of her socialist agenda, Prime Minister Indira Gandhi nationalised coal mines, establishing the monopoly of Coal India over all coal mining in 1975.

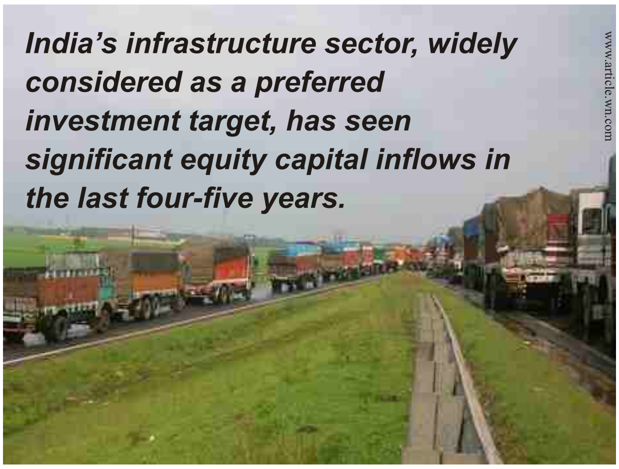
If India is to bring uninterrupted electricity supply 24 hours a day and seven days a week to all its citizens, including the one-third who still rely on other energy sources to light their houses, there is no alternative to reforms. Distribution companies must be turned into commercial entities subject to usual market pressures and the government monopoly on coal mines must be ended.

* *Professor, Columbia University. Abridged from an article that appeared in the* Economic Times*, on August 22, 2012*

The Road Ahead for M&As

Seshan Balakrishnan*

In the highway space alone, there were more than ten large private equity transactions, worth over US$1.3bn, during this period.



The trend of equity funds chasing growth portfolios, to some extent, triggered an incremental appetite among developers for highway projects in the build, operate and transfer (BOT) mode.

Since these projects buoyed up the engineering, procurement and construction (EPC) divisions of the developers, it increased their appetite for winning highway BOT bids. This triggered an aggressive bidding trend in the highways space — in 2011-12, almost 65 percent of the projects were awarded on a premium basis, compared to a mere 25 percent in 2008-09. In some cases, the premium amount even exceeded total project cost.

However, the situation has since deteriorated in the infrastructure sector with bidders battling slowing order books, higher interest rates, liquidity and cash flow issues, project delays in BOT projects, mismatch in traffic projections and capital providers tightening funding (equity and debt) of BOT projects. Specifically on financial closure of BOT highway projects, lenders have turned extremely cautious, and tying up debt for new projects has become an uncertainty.

Recently, two projects were cancelled by the National Highways Authority of India for slow/no progress in financial closure. The funds are drying up even at the equity front for existing under construction projects and new bids. A weak IPO market and the low investor interest in secondary trades have made it difficult for developers to raise incremental equity. The situation exacerbated as exit has become nearly impossible for already invested PE investors.

Constraints in conventional fund raising is driving developers/EPC companies to explore mergers & acquisitions (M&As) or stake sale to reduce their funding requirement. Monetisation of existing assets is expected to provide funds for new projects and also ease liquidity at construction companies. Further, companies that hold only one or two highway assets are also thinking of exiting this capital-intensive segment.

In the midst of the mad rush for highway projects during the 2008-11 period, it appears that a few developers, foreign strategic players and select EPC companies that followed a systematic bidding approach did miss the Indian highway story. These players are now becoming potential buyers of stake in existing BOT projects. A majority of the investors/buyers are particularly evaluating operating assets for the obvious reasons of avoiding land acquisition/construction risks and the advantage of clear visibility on traffic.

A slowdown in the EPC space is also incentivising well-off EPC companies to acquire stakes in early stage projects that will significantly add to their order book. A few developers are also exploring acquisition of projects adjacent to their existing projects for operational synergies.

However, there are challenges to consolidation in the highway sector on parameters such as identifying serious counter-parties to initiate discussions, mismatches in valuation expectations, consensus on traffic projection, low success ratios post-due diligence, regulatory restrictions like equity lock-in conditions by NHAI, and the like.

Most issues on counter-party, valuations gaps and mechanisms for traffic projections are now getting narrowed through the learning curve. On the regulatory issue, which is a key hurdle, the industry anticipates that NHAI may relax the equity lock-in conditions and also favourably facilitate quicker approvals, in the interest of the sector as it would lead to liquidity and active participation in future bids.

It is expected that transactions with equity value of more than US$500-750mn have the potential to conclude in a year or so. Liquidity issues, easing of bandwidth for new bids, and re-distribution of risk-reward from EPC players to developers are expected once some M&A transactions have successful closure, leading the way to a revival of capital interest in this sector.

* *Director, Infrastructure Practice, Ernst & Young. Sunil Kumar Pareek of Ernst & Young contributed to the article. Abridged from an article that appeared in the* Financial Express *on August 22, 2012*

Govt to Redefine SMEs

The government is seriously considering tweaking the definition of small and medium enterprises (SMEs) for giving a boost to single brand retail in the country.

Aiming at bringing in more foreign investments in the country, the government wants to remove hurdles in way of such investments from across the sectors, including single brand retail.

Anand Sharma, Commerce & Industry Minister said "Policy evolution is a continuous process. Once the Indian SMEs are engaged with (foreign players), the definition will require a change because you have a SME performing well and you cannot punish it for that. Global majors are already sourcing from them… When you are selling this kind of material (30 percent) to a global major, you may not remain a SME under the present definition".

(FE, 04.08.12)

National Manufacturing Policy

Nine months since the National Manufacturing Policy was cleared by the Cabinet, the policy is yet to come into effect. The Department of Industrial Policy and Promotion (DIPP), in March 2010, proposed to establish National Investment and Manufacturing Zones (NIMZs) to encourage manufacturing with an aim to increase the share of manufacturing in GDP from around 16 percent now to 25 percent over a period of 10 years.

The policy proposed to significantly liberalise the labour and environmental laws for faster clearance for industries. Ajay Dua, former DIPP Secretary, said the Manufacturing Policy needs to be quickly finalised to convey the government's seriousness.

(LM, 24.07.12)

Much Depends on GST Rollout

The Goods and Services Tax (GST) rollout will depend on the Centre's ability to show leadership in bringing the political parties together on this tax reform and how far the states' concerns are addressed in the relevant Constitutional Amendment Bill, Sushil Kumar Modi, Chairman of the Empowered Committee of State Finance Ministers said.

Modi listed steps needed to usher in the tax reform that has missed several dates: Give equal say to the Centre and states in the proposed GST Council, empower it to deal with disputes and decide on rates, deviation etc.; drop the plan to set up Dispute Settlement Authority; allow the states the flexibility to raise rates by up to 10 percent over the "floor rates".

(FE, 19.07.12)

SEZ Reforms Opposed

Major differences have cropped up between commerce and finance ministries over reforms in the Special Economic Zones (SEZ) Act.

While the Commerce Ministry wants to announce the revised SEZ policy, which substantially liberalises land requirement and other norms, immediately after the Presidential elections, the Revenue Department, under the Finance Ministry, has opposed a majority of the proposals.

It also insisted that the Commerce Ministry get the approval from the Cabinet for the amendments. The new proposals aim to bring down the minimum land requirement from 1,000 hectares in case of multi-product SEZ to 250 hectares, and to 40 hectares from 100 hectares in multi-service and sector specific SEZ.

According to the Commerce Ministry proposal, the social infrastructure in the Non Processing Area may be opened to others and in case the SEZ is located in backward location it may be allowed duty concessions.

(IE, 20.07.12)

Bar GM Food Crops

A Parliamentary Committee has recommended halting all field trials of genetically modified (GM) seeds and sought an independent probe into how the government had accorded approval to Bt brinjal, a seed that was developed by Maharashtra Hybrid Seeds Co. Ltd (Mahyco).

Basudeb Acharya, Chairman, Standing Committee on Agriculture said, "In India, where 82 percent of the agriculture industry is of small farmers and where there is huge biodiversity, we should not go for GM foods. Even if we take the argument that we have to increase our food production according to the demands, we should look into indigenous ways to enhance it."

The Committee also pointed out that Ayurvedic medical practitioners have complained it had an adverse impact on the medicinal plants grown in the area. It indicates the larger public demand not to allow GM crops into our food and farming systems.

(LM, 10.08.12)

51% FDI in Multi-brand Retail

After battling stiff opposition, Indian government allowed 51 percent foreign investment in multi-brand retail but left it to the states to permit global retailers open stores. It has also tweaked the sourcing norms for FDI exceeding 50 percent in single brand retail, requiring foreign firms, which want a relaxation of the 30 percent procurement norms, to set up manufacturing facilities in the country.

India's Commerce and Industry Minister Anand Sharma reiterated that foreign retailers planning to enter the multi-brand segment would have to invest a minimum of US$100mn with 50 percent of it in rural areas.

Under the norms, 50 percent of total investment will have to be invested in 'backend infrastructure' within three years of the induction of FDI.

As far as the urban areas are concerned, they will be allowed to open stores only in cities with a population of more than one million, while in the case of hilly states, it will be up to the respective state governments.

(PTI, 14.09.12)

Wanted: A New Social Contract Between Business and Politics

Swaminathan S Anklesaria Aiyar*

Politics is supposedly public service, but it has become the biggest business of all. Controls imposed in supposed pursuit of high ideals are routinely used to extract enormous sums from all business actors

Gross domestic product (GDP) growth in the January-March quarter slumped to 5.3 percent, the lowest for nine years. The quarterly debacle dragged down annual GDP growth to 6.5 percent in 2011-12, lower even than the 6.9 percent achieved in the great recession year of 2008-09.

Sundry businessmen have urged the government to come out with a revival package. Sorry, but the current malaise cannot be tackled by a tax cut here or an interest rate cut there. There's a deep structural problem.

The supposed economic liberalisation of the last two decades freed only a few sectors. In other sectors, controls galore continue. Businessmen say it has steadily become impossible to do business honestly in many sectors. But it has been possible to do business with pay-offs. That, say businessmen, has constituted an unwritten "social contract" between politics and business.

But no more. Public anger at corruption has exploded, upsetting old equations. The comptroller and auditor general has become a public hero. Anna Hazare's stature as an anti-corruption crusader may have been diminished, but the anger he once represented remains great. The DMK spent unprecedented sums in the Tamil Nadu state election but was decimated because of its association with the 2G scam.

Suddenly politicians are running scared. In New Delhi, no minister wants to take the responsibility for a decision, and forwards every proposal to an empowered Group of Ministers. Even honest ministers fear accusations will bring them down. Instead of demanding money for favourable decisions, crooked ministers would rather take no decision at all.

This has killed the old social contract. Industrial growth in a miracle economy should be in double digits. But in 2011-12, it fell to an annual rate of 3.4 percent, and in the last quarter was a wretched 1.7 percent.

This cannot be blamed just on Eurozone woes or a slowing global economy. Nor it can be blamed just on high inflation, fiscal deficits and interest rates — all three were high in 2009-10 and 2010-11, which were boom years. One new factor has been the uproar over corruption. The uproar has not ended corruption. But it has ended the social contract.

While this has led to an industrial slowdown, it is nevertheless a welcome development. We can hope for a substantial reduction of corruption and crony capitalism. This will benefit the economy as well as honest businessmen at the expense of crooks.

However, for faster growth we need not only less corruption but a total overhaul of rules to make clearances more automatic. Call it neo-illiberalism. We must end a neo-illiberal system that makes honest business impossible, makes entrepreneurs dependent on favours from above, and rewards crookedness over honesty.

Strong evidence of illiberalism comes from the annual Doing Business reports of the IFC/World Bank. In the 2011 report, India was a lowly 132nd of 183 countries in overall ease of doing business. In these circumstances, the wonder is not that India's GDP has slowed down to 6.5 percent, but that it ever touched 9.5 percent. Cynics will say this is proof that the social contract produced fast growth. I disagree: growth would have been even faster with better governance.

What is the way forward? The UPA needs to come out with a purposive programme to slash hurdles for business, make clearance automatic, and demonstrate that honest business can thrive. Many of the permits required are at the state government level. The UPA must move ahead with aggressive reforms in the states it rules, and make them showpiece states (instead of letting Narendra Modi corner kudos on this count).

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* *Consulting Editor, The Economic Times. Abridged from an article that appeared in* The Times of India*, on June 03, 2012*

To Make a 'Leap' Forward

Vidya Mahambare*

What you discover in running these companies is that there are limits that are not cash. There are limits of recruiting, limits of real estate, regulatory limits…. There are many, many such limits. And anything that we can do to reduce those limits is a good idea. That was Google Chairman Eric Schmidt's response recently to a query on why his company was hoarding US$50bn in cash, instead of investing it into long-term innovation projects.

Taking forward what Schmidt says, if the Indian economy, especially corporate investment, has to take a giant leap forward in the medium term, it has to overcome numerous such limits. The most critical of them, in addition to regulatory clarity and certainty on issues such as taxation and land acquisitions, are those related to India's LEAP – labour market, education, agriculture, and physical infrastructure. Reforms in these areas will improve our growth prospects and make it more inclusive by raising job creation, lowering inflation and fiscal deficit, and reducing volatility in interest rates.

The Hindu Business Line

Labour, education, agriculture and physical infrastructure are critical factors in India's economy

Labour Reforms

The 'L' in LEAP refers to the labour market. A flexible labour market is of fundamental importance in any economy not only for employment generation, but also for the quality of jobs. To put it crudely, workers are the sellers in the labour market and employers are the buyers. Employers hire workers only if they are expected to bring in more than they cost.

One of the lessons in economics is never to judge a policy by its intentions, but rather by the results it produces. The laws that hinder labour market flexibility such as restrictions on layoffs are a good example of this. When the costs of employing a new worker are higher than the benefits, employers choose to hire lesser number of workers or replace workers with machines. This is especially true in India's manufacturing sector.

Only in situations where skilled workers are in short supply will employers find it worthwhile to offer wages higher than those justified by worker productivity. This appears to be the case in India's high-skill sectors such as certain segments of financial and information technology services. We also have a shortage of sufficiently skilled vocational trained workers.

High wages of skilled labour and unavailability of sufficient jobs for low-skilled workers will only increase social tensions, going forward, and, in turn, strengthen the dependence on public income transfer schemes to the relatively poor to avoid such a backlash.

Farm Productivity

The average productivity of people has to, clearly, go up and that requires an appreciable jump in the teaching quality of average schools and colleges. As soon as the economy begins to recover from the current slowdown, these limits would again become visible and raise wages in sectors facing skill shortages. So, sorting out E – education – in LEAP should become one of the top priorities.

If issues relating to the labour market and education are sorted out, improving A – agriculture productivity – in LEAP will become easier. With fewer people dependent on agriculture and moving into truly sustainable jobs in manufacturing, it would be easier to integrate small landholdings and increase mechanisation of farms.

This is the fastest way to enhance farm productivity, along with an improvement in irrigation facilities. Sustainable job creation will free government resources from social sector schemes to productive investments in areas such as agriculture.

Infrastructure Deficit

The 'P' in LEAP stands for physical and fuel infrastructure, and its importance in ensuring sustainable corporate investment, especially manufacturing, need not be repeated here. Solving the LEAP issues will go a long way towards reviving private sector growth, which will determine India's economic success in the medium term. If we don't succeed in carrying out such an ambitious reform process, then we should be prepared for more volatile and relatively low growth in the coming years.

Needless to say, fixing India's LEAP is easier said than done. Enduring short-term pain, which is inevitable when a series of major reforms are undertaken, for long-term gain is not what most of us prefer.

* *Principal Economist, Credit Rating and Information Services of India Ltd.. Abridged from an article that appeared in* The Hindu Business Line, *on August 28, 2012*

Time Calls PM 'Underachiever'

Time magazine, has lobbed another blow, calling Singh the "underachiever". In a cover story, the magazine ticks him off for appearing "unwilling to stick his neck out" on reforms that will put the country back on the growth path. The story runs on familiar lines – that there were things the UPA government could have done to keep the reforms going, but that Singh was too hesitant or unwilling to step out and take those decisions.

The magazine said at a time when India cannot afford a slowdown in economic growth, "laws that could help create growth and jobs are stuck in Parliament, sparking concerns that politicians have lost the plot in their focus on shorter-term, populist measures that will win votes". *(ToI, 09.07.12)*

Bharat Spends more than India

Consumption in rural India is growing at a faster pace than in cities and towns for the first time in two decades, a new report by Credit Rating and Information Services of India Ltd (CRISIL) said. It attributed the growth to a rise in household incomes due to greater non-farm job opportunities and government-initiated employment generation schemes.

The CRISIL study also noted a shift in spending patterns in rural areas, with consumers moving beyond necessities such as toothpaste and soap to so-called discretionary products such as televisions and mobile phones (although some would argue that the last are necessities, too).

About one in every two rural households now has a mobile phone. Even in India's poorest states such as Bihar and Orissa, one in three rural households has a mobile phone.

(LM, 30.08.12)

IMF Cuts India's Growth

The International Monetary Fund (IMF) cut India's economic growth estimate from 6.8 to 6.1 percent in 2012, as external demand slowed down and domestic demand decelerated. It attributed the slow domestic demand to capacity constraints and monetary tightening by the RBI.

The conditions are not expected to become favourable substantially in 2013, this prompted the Fund to scale down the 2013 gross domestic product (GDP) growth as well to 6.5 from 7.2 percent estimated earlier.

IMF said downside risks to growth in emerging markets and developing economies seem primarily related to external factors in the near term. *(BS, 16.07.12)*

Indian Elite Stashed in Havens

At least US$72.7bn (₹4,06,900 crore) of wealth has moved from India to secretive offshore jurisdictions between 1976 and 2010, according to research conducted by campaign group Tax Justice Network.

The report 'The Price of Offshore Revisited' estimates the total figure hidden globally is at least US$21tn, and could be as high as US$32tn. The figures do not include non-financial assets such as real estate, yachts, or art collections.

The reason the India figure is likely to be an underestimate is because of the issue of transfer mispricing – the underpricing of goods exports or overpricing of goods imports to minimise firms' income in high tax jurisdictions and shift profits abroad. *(TH, 24.07.12)*

Govt Land at Affordable Rates

A report by property consultant Knight Frank has called for governments to formulate transparent policies to help release land under their control at affordable rates.

The report notes that while land is the most significant input for property development the argument of cheap historical land cost to justify the expectation for lower home rates does not command merit, as the current market price of land determines replacement cost.

Land prices now constitute almost one-third of the property prices in most cases. While there has been a lot of debate about the standoff between a home buyer and developer, little has been discussed about the relationship of the developer with the suppliers of factor inputs. *(TH, 27.07.12)*

Case for Labour Reforms

Findings of the Labour Bureau's latest survey of job trends across states have challenged the conventional wisdom that stronger pro-worker policies will protect jobs and ensure higher employment, reinforcing the case for changes in labour laws.

The survey showed that states that have actively carried out labour reforms – Haryana, Himachal Pradesh and Gujarat are examples – had less unemployment than those perceived to pursue pro-labour policies such as Kerala and West Bengal.

The findings come as a surprise given that the Labour Ministry had staunchly resisted the Commerce and Industry Ministry's proposal for more liberalised labour laws within the proposed National Manufacturing and Investment Zones. *(LM, 24.07.12)*

Food Inflation Hitting Hard

Majority of households' real spending power on non-food articles fell by over 65 percent in the current financial year with steep rise in prices of fruit, vegetables and essential commodities, according to an Associated Chambers of Commerce and Industry of India (Assocham) survey.

Over 88 percent of middle and lower income groups find it difficult to manage their household budgets and squeeze their finances to the lowest level. The fear of bad monsoon has suddenly hiked the prices of vegetables and fruit by 300 percent from the farm to dining table.

Over 5,000 employees took part in the "Rising prices widen gap between the rich and the poor" survey. *(TH, 23.08.12)*

Coalgate: CAG Reports Slam UPA Government

The much-awaited CAG report on coal block allotment said private firms are likely to gain ₹1.86 lakh crore from coal blocks that were allocated to them on nomination basis instead of competitive bidding.

The audit report on Delhi airport slams the levy of development fee on passengers and says the Civil Aviation Ministry violated the bid conditions for the benefit of GMR-led DIAL to the tune of over ₹3,415 crore.

The third CAG report flays post-bid concessions to Reliance Power and says the Anil Ambani-led firm got undue benefit of ₹29,033 crore when the government allowed use of surplus coal from blocks alloted to Sasan power plant for its other projects.

Government is badly exposed by the three CAG reports on power, coal and Delhi airport. The magnitude of these scams, according to the CAG report, is between ₹1.6 and 1.86 lakh crore.

CAG's Coal Report

The CAG in its report, tabled in the Parliament, names 25 companies including Essar Power, Hindalco, Tata Steel, Tata Power and Jindal Steel and Power which have got the blocks in various states.

"Delay in introduction of the process of competitive bidding has rendered the existing process beneficial to the private companies. Audit has estimated financial gains to the tune of ₹1.86 lakh crore likely to accrue to private coal block allottees," CAG said in a report on allocation of coal blocks. The CAG said it has arrived at the estimates based on the average cost of production and average sale price of opencast mines of Coal India in the year 2010-11.

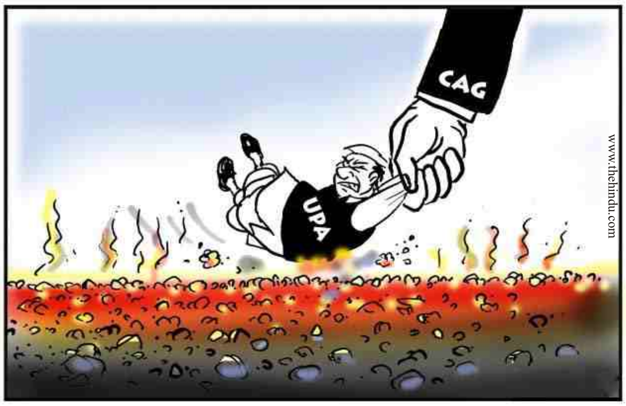
"A part of this financial gain could have accrued to the national exchequer by operationalising the decision taken years earlier to introduce competitive bidding for allocation of coal blocks," CAG said.

The auditing body said it is "of strong opinion that there is a need for strict regulatory and monitoring mechanism to ensure that benefit of cheaper coal is passed on consumers".

The concept of allocation of captive coal blocks through competitive bidding was announced in 2004. However, government is yet to finalise the *modus operandi* of competitive bidding.

CIL in Loss due to Delays in Projects

The world's largest miner Coal India (CIL) suffered production losses to the tune of 116 million tonnes (MT) on account of delays in execution of new projects, CAG said.



Three key CAG reports were tabled in the Parliament indicting the government of causing a combined loss of crores of rupees to the national exchequer.

Delays ranging from "one to 12 years" in execution of 32 projects under different subsidiaries of CIL entailed "loss of production by 115.95 MT," CAG said in its report on "Allocation of Coal Blocks and Augmentation of Coal Production".

The delays, pertained to "problems of land acquisition, forest clearance, adverse geo-mining condition, tender finalisation for equipment of and construction of Coal Handling Plant and railway siding.

CAG observed that delays took place despite an expert committee emphasising way back in 2005 the need for setting up of a permanent special task force to monitor progress of clearances and project implementation of schemes to be completed by the end of 11th Five Year Plan.

Noting that CIL could not match with the rate of increase in coal production due to delays in execution of augmentation of projects on account of "lack of coordinated and planned approach by various government agencies involved in statutory clearances and land execution," CAG asked CIL to fix output targets in line with the targets by the Planning Commission.

State-run Coal India is the largest domestic producer of dry-fuel and accounts for over 80 percent of the total domestic production.

CAG's Report on Delhi Airport

CAG in its audit report on Indira Gandhi International Airport that was tabled in the Parliament, said DIAL can potentially earn ₹1,63,557 crore over a 60-year period from the land given to it on a lease of ₹100 per annum.

Allowing DIAL to levy development fee vitiated the sanctity of bidding process and led to undue benefit of ₹3,415.35 crore to the private firm, it said.

– *The news item appeared in the* Times of India *on August 17, 2012*

India's Microgovernance Failures

Gulzar Natarajan*

Live Mint

If the reasons for micro-governance failures are not adequately addressed, all the macro-governance reforms will invariably come to naught. The aforementioned minimum agenda will be a good place to start for improving micro-governance.

India's implementation deficit is a micro-governance failure – an inability to successfully execute even apparently well-conceived development initiatives due to multiple weaknesses and deficiencies at the last mile of implementation. An acknowledgement of this is essential if we are to make progress in the resolution of development challenges.

A typical illustration of micro-governance failure is the alleged National Rural Health Mission scam in Uttar Pradesh. As part of the mission, each district undertakes large-scale procurement of drugs and equipments, construction of health facilities, and contractual recruitment of doctors and paramedical staff. At the primary health centre (PHC) level, incentive payments are made for family planning, institutional deliveries, and ensuring cashless maternal care.

All these activities, especially when done on scale, require that the public functionaries execute and monitor numerous instructions that form part of the guidelines for each intervention. For example, drugs procurement involves state-level standardisation of a list of essential drugs and guidelines for its procurement; district-level bid process management and quality monitoring of drugs supplies, and their distribution to PHCs; and PHC-level periodic drug indents placement and updating of stock balances. And all these separate processes have to be carefully documented, so as to complete the accounting and auditing formalities. The scam revealed egregious governance failings in these activities at all levels.

This example clearly underscores the point that policy guidelines, even those which align the incentives of all stakeholders and howsoever comprehensive, does not address the formidable implementation challenges. The commonplace governance failures result from the enforcement of the small details of the implementation guidelines. So what are these micro-governance challenges?

There are at least eight everyday examples of such micro-governance failures. First, inadequate and ineffectual supervisory oversight is arguably the biggest obstacle to effective programme implementation in India. Second, the widespread lack of basic competence and motivation among field functionaries, especially at intermediate levels. Third, the quality of documentation that underlies all these processes is extremely poor, most often verging on the fraudulent. Fourth, there is a strongly institutionalised rent-seeking chain within every department, controlling which is extremely difficult.

Fifth, the local political pressures faced by field functionaries are overwhelming. Sixth, indiscipline is rampant at the lower levels. The breakdown of the regular administrative disciplinary mechanisms has seriously eroded the strength and credibility of the bureaucratic chain of command. Seventh, the two decades of fiscal adjustment driven government recruitment freezes has left the field level bureaucracy across departments severely depleted. Finally, there is the sheer enormity of the task entrusted to a field functionary.

Resolving these problems require action at multiple levels and with varying time horizons. The solutions to some of them are self-explanatory. However, a few fundamental reforms are essential. One, there has to be a decisive focus on outcomes, with extensive use of data to measure them. Two, technology should be deployed extensively to capture data, track outputs, assist officials, and inform all stakeholders. Three, strengthening and revamping the supervisory machinery should be the primary focus. Accountability has to be fixed and rigorously enforced.

Four, administrative reforms should focus on depoliticisation and restoring discipline and institutional credibility. Five, a phased decentralisation of funds, functions, and functionaries, coupled with adequate capacity building, is essential to bring in transparency and accountability. Six, given the vast scope of work, some form of data-driven prioritisation is necessary at all levels.

* *Civil Servant. Abridged from an article that appeared in the* Live Mint *on June 25, 2012*

Govt. to Cut Red Tapism

Prime Minister Manmohan Singh identified in an interview that controlling the fiscal deficit, achieving clarity on tax matters, reviving the mutual funds and insurance industries, clearing a backlog of foreign investment proposals, and boosting infrastructure as his focus areas in the short term.

Foreign investors and the markets have been spooked by a proposal to tax transactions retrospectively, after the government lost a legal battle with Vodafone Group Plc over a tax dispute, and the planned introduction of general anti-avoidance rules targeting deals structured in such a way as to avoid paying tax.

A lot of investment avenues are opening up in railways, roads, ports and civil aviation. The doors are open for the world to strengthen hands and contribute to these vital sectors, which will give a further push to the economy.

He denied that corruption was rampant in the government, which has battled several charges of malfeasance, including in the allotment of 2G spectrum and the organisation of the Commonwealth Games. *(LM, 06.07.12)*

Special Commission to fix MSP

The government has decided to appoint a Special Commission for fixing Minimum Support Price (MSP) for minor forest produce like bamboo, mahua and tendu leaves. The Commission is expected to be appointed by January 2013 under the Tribal Cooperative Marketing Development Federation (Trifed).

At present, the government has fixed MSPs only for main agricultural crops and there has been a long-pending demand for a similar minimum procurement price level for products like tendu leaves, mahua, or sal seed, which provide livelihood to millions of forest dwellers across the country. *(FE, 07.08.12)*

Word Limit on RTI Pleas

The government has put a word limit of 500 words for filing an application under the Right to Information (RTI) Act. A new format has been devised for filing an appeal to the Central Information Commission (CIC) under the transparency law.

The government has also made it mandatory for an appellant or his authorised representative to appear before the CIC either in person or through video-conferencing, according to new rules notified on July 31, 2012.

However, the rules said that "no application shall be rejected on the ground that it contains more than 500 words". An appeal may be returned to the appellant, if it is not accompanied by the necessary documents. The transparency watchdog can dismiss an appeal after hearing the appellant or recording its reason in case it is not satisfactory as a fit case to proceed with. *(ET, 13.08.12)*

Index to Track Corporate Pulse

The government is set to come up with a new yardstick to measure its health – a proposed National Business Index that would serve as a reference point on ground-level business performance of the corporate sector to make sense out of the economy's ups and downs amid charges of a policy paralysis.

The planned index would capture relevant business yardsticks including turnovers, net profit, market capitalisation, sanctions and disbursements by lenders among other things.

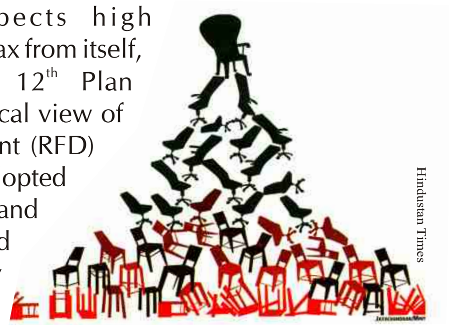
One of the main parameters would also be the companies' ability to generate employment. The idea now is to measure both performance and their linkages to government policies."We should be ready with it in the next few months. It is important to have an index since we have a lot of assessment-based on perceptions rather than real parameters," M Veerappa Moily, Minister, Corporate Affairs, said. *(HT, 05.07.12)*

UPA Scheme: 'A Phone for All'

In what could turn out to be its calling card for the 2014 general polls, the UPA government is finalising a ₹7,000 crore scheme to give one mobile phone to every BPL family. The scheme, *Har Hath Mein Phone*, expected to be announced by Prime Minister Manmohan Singh on August 15, will not only aim to give away mobiles to around six million BPL households, it would also provide 200 minutes of free local talktime.

The scheme is likely to be funded from Telecom Department's Universal Service Obligation (USO) funds. According to a source, 50 percent of the cost is likely to come from the bidder who gets the right to provide service and the remaining from the USO fund. According to estimates, the scheme will involve a monthly expenditure of ₹100 per cellphone. *(ToI, 08.08.12)*

Babus Must Set High Standards for Themselves



Indian bureaucracy expects high performance from others and lax from itself, the Planning Commission's 12th Plan document claims. Taking a critical view of the Result Framework Document (RFD) on yearly performance targets adopted by different Central ministries and departments, the plan panel said the targets are often kept at very moderate levels by ministries.

The plan panel, which reviewed performance of several ministries against RFD targets, believes that the bureaucrats deliberately keep targets at low or moderate levels, so there is no difficulty in achieving them.

The panel has cautioned against the approach and had asked the departments to make realistic RFDs. It also wants the RFDs to reflect the outcome in true sense and should make bureaucrats get incentives to meet the targets.

Another key element missing from RFD, the panel said, was the outcomes from citizens' and stakeholders perspective. *(HT, 17.09.12)*

Watch Out for the Fake!

A Parliamentary Panel has proposed changes in the National Academic Depository Bill that would check faking of academic degrees and certificates.

The provisions of the proposed Bill provide for the establishment of a national database of academic awards in electronic format, which can be verified and authenticated. It provides for the appointment of a National Academic Depository to establish and maintain the national database.

The Bill also proposed to make it mandatory for every academic institution to lodge every academic award with the depository. The Standing Committee in its report has suggested certain modifications in the Bill before it is passed. *(TH, 23.08.12)*

Bill on Manual Scavenging

The Cabinet had cleared the Prohibition of Employment as Manual Scavengers and their Rehabilitation Bill, 2012. The Supreme Court pulled up the government for its callousness in not enacting a law to ban manual scavenging despite repeated assurances that it would come out with law to eliminate this heinous practice.

The Court wanted Additional Solicitor General (ASG) Harin Raval to take instructions and inform it whether the Bill would be introduced in this session of Parliament. The ASG said that as per Article 117(1), the Bill had to be introduced in Parliament on the President's recommendation. *(TH, 27.08.12)*

Right to Hearing Act Soon

The Rajasthan government is set to implement Right to Hearing Act, which provides right of hearing to people on any grievance or complaint related to governance within stipulated time limits, from August 01, 2012.

The government has issued directives to all the district collectors and other officers to ensure effective implementation of the Act. They have also been directed to read all the provisions carefully and function accordingly in order to redress grievances of people in a time-bound manner.

The complaint would be heard in a time limit of 15 days. If the hearing is not done in the fixed time period or if the complainant is not satisfied with the decision of the public hearing officer, a provision has been made to file an appeal. *(HT, 31.07.12)*

Education Reforms Bill

Cornered in the face of unrelenting opposition to his education Bills, Human Resource Development Minister Kapil Sibal is lining up the Bill before the Union Cabinet to bring in amendments.

The Bill mandates that every higher education institute and academic programmes it runs must be accredited for quality by an accreditation agency.

The Bill calls for setting up a National Accreditation Regulatory Authority for Higher Education that will monitor the accreditation agencies. Many questions have been raised on this Bill alleging that it amounted to infringement of the states' autonomy to establish and run institutes. *(IE, 20.08.12)*

Amendments to Metro Railway

The Urban Development Ministry is planning to make amendments in the existing Metro Railway Act, 2009, to include the PPP model into the legislation and also to provide greater autonomy to states planning to create metro transit system in their cities.

Presently, the PPP model does not come under the ambit of the Act. The first PPP in the metro transit system was between the Delhi Metro Rail Corporation (DMRC) and Reliance Infrastructure for the Airport Express line, which was shut down in July indefinitely for repair works, through a concessionaire agreement.

After the shutdown of the airport line, the first PPP project built at a cost of ₹5,700 crore, the Ministry has been pushing to incorporate the PPP Model into the Act.

(FE, 30.08.12)

Street Vendors Bill Introduced

The government introduced a bill to protect the rights of street vendors and regulate road-side businesses in the Lok Sabha. The proposed law seeks to earmark vending zones where hawkers would be allowed to sell their wares and carry out a digitalised photo census and survey of existing vendors.

The law, if passed by the Parliament, will permit local authorities to relocate or remove street vendors at seven days' notice, a provision that has not gone down well with civil society that was advocating the bill.

One of the key suggestions of the council included in the Bill is planning for future spaces in new areas. The Bill has provisions to impose a fine for failing to relocate or face eviction after the expiry of seven days. *(LM, 07.09.12)*

Whistleblowers Need Protection

The Whistleblowers' Protection Bill, 2011, which is aimed at putting in place a mechanism to encourage persons to disclose information on corruption or wilful misuse of power by public servants, including ministers, was introduced in the Rajya Sabha by Minister of State for Personnel, Public Grievances an Pension V Narayansamy.

The Minister said the government had accepted some suggestions and appropriate amendments had been moved. Narayansamy said matters related to corruption and human rights violations in the defence forces and intelligence agencies would also be covered by the Bill. The Special Protection Group has been exempted from the Bill in view of the sensitive security matters. *(IE, 15.08.12)*

Food Security is a Basic Right

Brinda Karat*

The present food Bill legalises the injustices of a targeted distribution system

A national campaign on issues related to food security and against rising prices culminated in a five-day sit-in protest in Delhi. These are issues fundamental to the well-being of the majority of our people and therefore deserve national support.

With the spectre of drought haunting the countryside, speculators, hoarders and blackmarketeers are back in business. Prices of essential commodities like pulses, edible oil, sugar and salt are going through the roof. Vegetables are out of reach of the average family with the price of a kilo of potatoes increasing by over 100 percent. The majority of Indians earn their living in the unorganised sector marked by low and fluctuating incomes with no dearness allowance. Any rise in prices causes havoc in the lives of millions of families.

According to earlier data, an Indian, on average, spent as much as 53 percent of total expenditure on food requirements. But the UPA government, preoccupied with its internal squabbles, cares little for the insecurity rising prices and consequent food deprivation causes Indian families. For the government this is collateral damage in its mission to implement pro-corporate reform (PCR) and cut food subsidy.

This started in the initial period of PCR in the 1990s by the introduction of the targeted system through the categorisation of people as poor and non-poor, with only the former being eligible for subsidised grain. This is the bizarre logic of targeting.

The sham estimates of poverty by the Planning Commission became the basis on which to exclude people. In spite of national outrage against the present poverty line figures of ₹ 26 a day for an adult in rural India and ₹32 for an adult in urban India (at 2010-11 prices) these still continue as the basis for access to the public distribution system.

The critical issue here is to reverse targeting and ensure a universal public distribution system. This is estimated to cost the exchequer an additional ₹25,000 to ₹30,000 crore, a small price to pay for a country, which has the largest malnourished population in the world. But this is too much for the UPA government, which prefers to give tax concessions worth ₹5 lakh crore in a single year to the rich.

This approach is now reflected in its policy regarding the surplus foodgrain stocks it holds. Most of the exported foodgrain will be ultimately used as feed for livestock converted to animal products in developed countries.

The government sees nothing unethical about subsidising grains for foreign cattle but not for its own people. The decision to export is influenced by agribusiness lobbies, which want to take advantage of rising wheat prices in the international market driven upwards by reported crop damage in major wheat growing areas across the globe.

The right to food must be recognised as a basic right of people and must be backed by legislation. However, the Food Security Bill presently before the Parliamentary Standing Committee makes a mockery of food security by legalising the present injustices of the targeted system.

The Left parties have opposed the Bill in its present form. Not only does the Bill retain the APL and BPL categories, it centralises all powers in the hands of the central government and thus undermines any positive measures for food security taken by some of the state governments.

There are utter absurdities in definitions in the Bill. For example, in the section on special groups, a differentiation is made between those in starvation and those in destitution with the former being eligible to two free meals while the latter can get only one.

Can any sane person find any difference between a person in starvation defined as "prolonged deprivation of food threatening survival", and destitution defined as those who "have no support for food and nutrition enabling their survival?"

But World Bank indoctrinated economists can find the subtle difference between equally hungry people to decide who will get two free meals and who only one.

* *Rajya Sabha MP. Abridged from an article that appeared in* The Times of India *on July 30, 2012*

MNC Drug Brands Face Heat

Imported medicines may soon come under the scanner of drug price regulator National Pharmaceutical Pricing Authority (NPPA). The authority is working on a new mechanism that would prevent multinational companies such as GlaxoSmithKline, Roche, Eli Lilly and Pfizer from selling branded drugs at a huge premium over local substitutes.

Though NPPA directly regulates the prices of 74 scheduled bulk drugs and their formulations, imported brands circumvent price control norms, as the regulator has to depend on the data provided by these companies. It has no means to verify the data on its own.

The government is, therefore, working on a mechanism that would allow negotiation with MNCs in deciding the prices of their products.

(BS, 01.07.12)

Free Drugs for India's Poor

Health activists in India have welcomed an ambitious government scheme to provide free medicine to more than half of the country's 1.2 billion people. The new plan provides a central pool that will procure generic drugs for most diseases and distribute them through government public health centres.

It will also dramatically increase the scope of India's healthcare programme by covering the urban poor. The programme, if implemented well, could alleviate some of the suffering illness causes to India's poor. The challenge is partly one of supply.

Less than 30 essential medicines are available in India's public hospitals and often they are out of stock. The other problem is corruption – the direct result of a decentralised drug procurement process at the district level.

(FT, 05.07.12)

Piramal Eyes More Deals

The Piramal Healthcare Ltd, which sold its pharmaceutical formulations business for ₹17,000 crore to the US drug maker Abbott Laboratories in 2010, has set up a mergers and acquisitions (M&A) team to buy pharma companies, led by chief operating officer Vijay Shah, considered a business turn-around expert.

Many big pharma companies are closing down their own plants in the US and Europe due to high cost and environmental issues, and the best alternative for them is to outsource the manufacturing to custom manufacturers who operate from low-cost locations.

The company recently made two other pharma-related acquisitions, including a research compound for brain cancer detection from Bayer HealthCare AG, and the US-based Decision Resources LLC, a pharma market analytics company.

(LM, 05.06.12)

Medicines for Common Man

Protecting the interest of the common man, the Supreme Court told the government not to disturb the existing retail price mechanism of drugs under the price control order while finalising the list of essential medicines.

The prices of drugs were so high that it left the patient with the option of either to die or buy medicines by selling one's land or ornaments. They said this while chiding the government for taking long in increasing the number of important medicines under the National List of Essential Medicines.

The court wondered why things had not unmoved for nine years and told the government to bring more essential medicines within the reach of the common man. *(IANS, 03.10.12)*

Escorts to Pay for Negligence

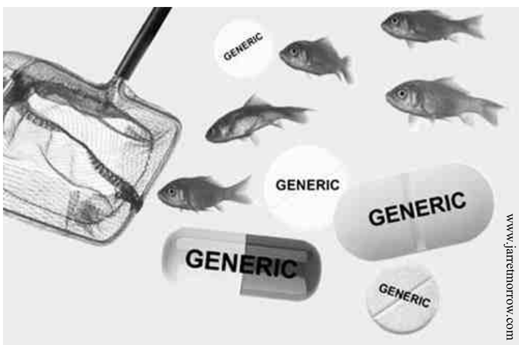
The Escorts Heart Institute and Research Centre (Escorts) has been ordered by the National Consumer Disputes Redressal Commission to pay ₹50,000 to a woman who had contracted Hepatitis-B due to blood transfusion during her cardiac surgery.

The judgment came on an appeal by the Escorts against an order of the State Consumer Commission of Delhi which had held the hospital guilty of negligence and rendering deficient service. In her complaint, Chandigarh resident Chawla said she had undergone cardiac surgery at Escorts on January 30, 1995 when she was administered four units of blood.

A couple of months later, she began experiencing loss of appetite along with drowsiness and giddiness and developed fever on March 29, 1995, she said adding that on undergoing tests at PGI, Chandigarh it was found she had contracted Hepatitis-B due to transfusion of blood during surgery. *(PTI, 22.09.12)*

Worldwide Generics to Double

Annual global spending on prescription drugs will rise 25 percent by 2016 to US$1.2tn, as surging growth in emerging markets eclipses weak gains in developed markets such as the US, according to healthcare information provider IMS Health.



Worldwide sales of generics, a mainstay in poorer countries, will almost double to between US$400bn and US$430bn by 2016, driving overall spending growth on pharmaceuticals. In the next five years, the maturation, the evolution, of emerging markets – which are heavily generic and driven by volumes primarily rising from very low-income people that have become more affluent or are otherwise getting better access to medical care.

The most important emerging markets include China, Brazil, Russia and India. But even their sales growth rates, although sizzling, are beginning to wane as the nation's progress into mature markets, Kleinrock said.

(LM, 13.07.12)

The Malaise in Drug Regulation

Khomba Singh*

In May, when a Parliamentary panel, during a routine examination of healthcare regulatory bodies, alleged corruption in the approval of new drugs, it was merely pointing out one symptom. Such symptoms pervade the entire drug regulation landscape, which is made up of many entities, each one with its own set of shortcomings and conflicts.

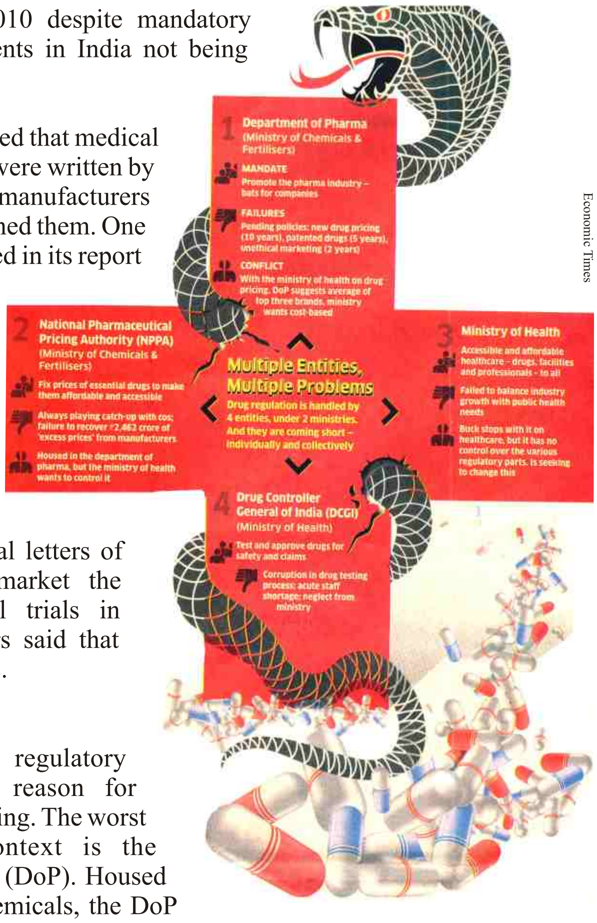
Here is a small sample. The drug regulator stands accused of colluding with pharma companies to allow medicines to enter the market untested. It has not had a permanent head for the last eight months, and has just 125 drug inspectors against its need of 1,375. Another department has been unable to craft a new policy for pricing drugs for nine years now. The Medical Council of India, which regulates the country's 700,000 doctors, has not cancelled a single licence for unethical practices.

At the heart of this declining condition is control. The healthcare landscape is divided between two central ministries: health and, chemicals and fertilisers. If the Health Ministry's mandate is affordable healthcare, the chemicals and fertilisers one essentially deals with industry issues. Both ministries further house entities that look after some sub-set of drug regulation; and since each entity essentially works alone and is characterised by bureaucratic sloth, conflict is an inevitable side-effect.

Corruption and Callousness

Matters became ugly when the Parliamentary Standing Committee on Health and Family Welfare said there was a nexus between drug companies and regulatory officials in clearing new drugs. It said the Drug Controller General of India (DCGI) approved 31 new drugs between January 2008 and October 2010 despite mandatory clinical trials on patients in India not being conducted.

The Panel further alleged that medical opinions on the drugs were written by the invisible hands of manufacturers and experts merely signed them. One of the examples outlined in its report was that of a drug called Clevudine, made by Pharmasset, a subsidiary of the US$8.1bn Gilead Sciences. The report points out how three experts in Delhi, Gulbarga and Kolkata wrote identical letters of recommendation to market the drug without clinical trials in India. Industry players said that there are many nuances.



Economic Times

Controlling Prices

Differences between regulatory entities are another reason for delays in decision making. The worst offender in this context is the department of pharma (DoP). Housed in the Ministry of Chemicals, the DoP essentially takes up issues relevant to the pharma industry.

The most important of these is the new drug pricing policy, called the National Pharmaceutical Pricing Policy, 2011. The current policy, formulated in 1995, is implemented by the National Pharmaceutical Pricing Authority of India (NPPA), which comes under the DoP.

The NPPA essentially does two things. One, it fixes the prices of essential drugs in this case, defined as medicines made using 74 listed chemical ingredients, making up 18-20 percent of the ₹62,000 crore market for retail drugs so that they are affordable to the masses. Two, it ensures companies don't increase prices of drugs that are outside the ambit of price control beyond 10 percent in 12 months.

Conflict of Interest

The DoP started work on this new policy in 2002. Till 2009, the policy was bounced around in consultations and government panels. The DoP, under the Ministry of Chemicals proposed the maximum retail price of a drug under price control should be the average of the top three brands in that segment.

The Ministry of Health rejected DoPs pricing mechanism, saying it was against consumer interests. Instead, it recommended a cost-plus approach to pricing. The Health Ministry also wants the NPPA, which is currently under the DoP, to come under its ambit. DoP going to the extent of pricing essential drugs is in direct conflict with its other mandate. The DoP too favours a unified regulator, but it wants that to be that entity.

* *Pharmaceutical Expert and Correspondent, Times of India Group. Abridged from an article that appeared in the* Economic Times*, on July 10, 2012*

Agriculture Sector's Bad Loans Rose

Bad loans from the agriculture sector have grown by 47 percent in the fiscal year 2011-12, higher than the 40 percent growth in such loans from non-agricultural sectors, the RBI Governor D. Subbarao said.

He said that a system-wide identification of non-performing assets (NPAs) has also contributed to the rise in bad loans from the sector. Rising NPAs from agriculture is major concern to banks, which are already witnessing a sharp surge in their overall NPAs in the last few years.

The Central Bank is also worried about the financial health of the rural credit institutions which had deteriorated in the recent past, raising questions about their sustainability. *(LM, 13.07.12)*

Blueprint to Combat Corruption

The Chief Economic Adviser Kaushik Basu said that while total eradication of corruption was not possible, vast decrease in level of corruption is possible. "I like civil society pressure because the pressure becomes a useful rallying point even for those within the government to do something. But blueprint (to combat) needs a lot of professionalism," he said.

Total eradication of corruption, he said, was not possible' but 'vast decrease in level of corruption is possible' and we have to work towards that.

On black money stashed abroad, Basu said that the government has to be careful because lot of Indians are keeping funds in foreign companies for legitimate activities. *(ZN, 31.07.12)*

Growth Rate of 8-9% Possible

The Chairman of the Economic Advisory Council to the Prime Minister, C Ranagarajan, said that it was possible to achieve a growth rate of 8-9 percent by containing inflation, reducing fiscal deficit and focusing on agriculture production and infrastructure.

The country needs to address key issues of taming inflation, bringing down fiscal deficit and containing current account deficit to a reasonable level. Sectors such as agriculture and infrastructure, where power is a key aspect, play a major role in bringing down the inflation. Increased farm produce automatically brings down inflation, he said.

Citing the power sector, he said that China adds capacity in one year which is equivalent to what India plans to add during a Five Year Plan. *(TH, 11.08.12)*

'Hassle-Free' Business Climate

The Corporate Affairs Minister, M Veerappa Moily hinted at creating a 'hassle-free' business environment for ensuring economic turnaround. A hassle-free business environment coupled with various reform measures being undertaken by the Prime Minister, Manmohan Singh, will help restore investment climate in two-three months, he said.

The Ministry plans to put in place a 'business index', which will rate corporates based on their performance, in order to promote competitiveness. "We need to have a national corporate governance policy customised to our business environment. We can draw lessons from other countries as well," he said.

The second version of MCA-21 would be in place once the earlier version expires in March 2013. MCA-21 is a comprehensive e-governance solution which has helped improve transparency and efficiency in corporate regulation sector. *(TH, 24.07.12)*

EDUCATION SECTOR

Sibal Focussing on Vocational Education

Favouring a change in the education structure, HRD Minister Kapil Sibal asked parents to change their mindset and focus on vocational education for their children. Launching a pilot project on 'National Vocational Education Qualifications Framework' Sibal said, India is a country of youth. There is need to give them such education, which may get them good employment in future.

He said, parents will have to change their mindset in this regard and instead of normal education, they should see that their children get

Emphasising on the need to change the structure of education in the country, he said that 100 community colleges will be launched soon. *(FE, 03.09.12)*

Colleges for Skill Development

The government will set up 10 community colleges in collaboration with Canadian educational institutes to educate illiterate adults and provide skill-based training for employment, Sibal said.

Under the adult literacy programme of the HRD ministry, as many as 70 million people need to be literate and their capacity enhanced to enable them to acquire the skills required to perform jobs.

Of the illiterate 70 million, 60 million are women who need education and skill training close to where they live. And for this, the government would launch 100 community colleges in 2012. He called for a roadmap for focused international collaboration on developing skill-sets that would be needed to service the world community.

The minister said that if we can collaborate and set up community colleges or skill development centres in the context of National Skill Development Corporation and the Sector Skill Council then what we will be able to do is develop skills and human resources.

(http://digitallearning.eletsonline.com, 07.09.12)

Mitsui Acquires Arch Pharma

The CCI has approved Japanese firm Mitsui's proposed takeover of 26.71 percent stake in domestic biopharmaceutical firm Arch Pharmalabs – making it the first pharma sector deal cleared by the fair trade regulator.

The proposed acquisition "is not likely to create any adverse competition concern". Once the deal is complete, Mitsui's total stake in biopharmaceutical firm will increase to 31.96 percent, from its existing holding of 5.25 percent. Mitsui and Arch were represented before the CCI by leading law firm Amarchand Mangaldas.

CCI noted that Mitsui and Arch are not engaged in production, supply, distribution, storage, sale or trade of similar or identical or substitutable goods or provision of similar or identical or substitutable services in India. *(BS, 22.09.12)*

CCI Notice to Carmakers

Even as the CCI has shot off showcause notices to 17 automobile manufacturers on an alleged anticompetitive practice of selling spare parts at higher prices to consumers, sources indicated foreign car makers are more susceptible to being held accountable on the said charges than home-grown auto majors.

Home-grown companies such as Maruti Suzuki, Tata Motors and Mahindra and Mahindra sell spares in the open market except for a few models. Hyundai, too, has started making parts available in retail. It is mostly the foreign companies that have been insisting that their customers go to authorised dealers for repairs which lead to an increase in service and maintenance costs of vehicles.

CCI would take a final decision on the alleged anticompetitive practice after taking into account the explanations of car makers as well as the report of the Director General of the Commission.

(BS, 21.09.12)

Cable Cos. Penalised

The CCI slapped a penalty of ₹8.04 crore on a Punjab-based cable distributor Fast Way Group, guilty of violation of the provisions of Competition Act, 2002. CCI held that the Fast Way Group is having more than 85 percent of the total subscribers in Punjab and Chandigarh and consequently, not only every broadcaster including the informant is dependent upon their network, the viewers of cable TV in Punjab and Chandigarh are also dependent on the Fast Way Group.

"They do not have any effective substitute to switch over to the other network. Abusing market power, the Fast Way Group had denied the informant the opportunity for transmission of it channel on its network and thereby has effectively denied it access to the market," CCI statement said. *(IE, 04.07.12)*

TAM Media Probed

The CCI is likely to investigate business practices of TAM Media. The probe will aim at ascertaining whether the company's India operations abused its monopoly position to favour certain companies in its market research.

The move follows a lawsuit filed by TV network New Delhi Television Ltd (NDTV) in New York earlier, charging the ratings agency of unfair practices.

Public service broadcaster Prasar Bharti and Hyderabad Media House's TV channel, HMTV, are also contemplating legal recourse over the rating agency's methodology and business practices. *(ET, 28.08.12)*

Google under CCI Lens

Google is being investigated by the CCI, to see if the company has abused its dominance by adopting anticompetitive practices in the country. The concerns are largely about opacity, or at least the perception of it, that shrouds the methodology that the Mountain View, California-based search giant uses to rank search results.

Further, the company's dominance in internet advertising makes for potential conflicts of interest, said senior executives leading internet and e-commerce companies. Online businesses fear Google's potential power to indulge in anticompetitive and discriminatory search practices will affect a business ability to reach out to customers in a neutral manner.

(ET, 21.08.12)

Nestle-Pfizer Deal Approved

The CCI has given the green signal to the proposed acquisition of the nutrition business of Pfizer by the fast moving consumer goods (FMCG) major, Nestle SA. None of the acquired companies of Pfizer have operations in India, but as Nestle has various subsidiaries in the country, the proposal was up for scrutiny by the CCI.

The nutrition business deals with infant and toddler supplements as well as maternal and adult nutrition products. Nestle explained that the businesses of the Pfizer India subsidiaries and their shareholding will remain unaffected as a result of the proposed acquisition. However concerns remained regarding whether in future Pfizer nutrition might have business plans in India.

(ET, 10.08.12)

OMCs under CCI Scanner

The Competition Commission of India (CCI) may soon ask its investigation wing to carry out a detailed investigation into the alleged cartel-like behaviour of oil marketing companies increasing and decreasing prices of petrol in unison.

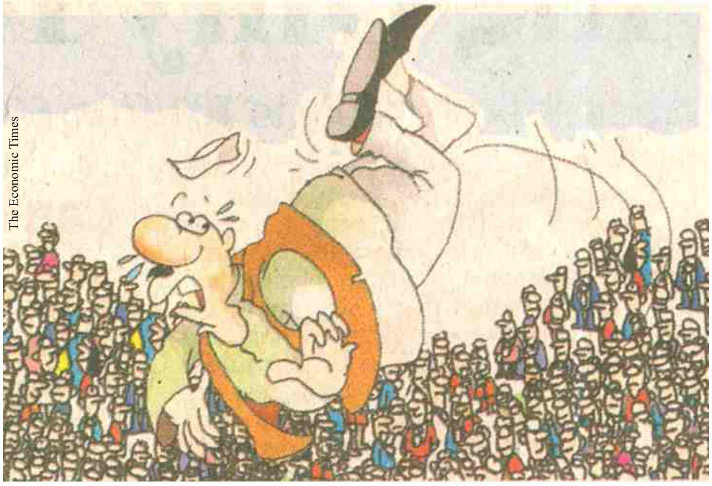
www.firstpost.com

After carrying out an initial enquiry on the matter, the CCI found that 'there was no valid reason why OMCs – Indian Oil, Hindustan Petroleum and Bharat Petroleum – were increasing and decreasing price of petrol in unison, as the product was already decontrolled'.

The CCI is studying the case *suo moto* and is considering it under Section 3 of the Competition Act, which pertains to anticompetitive agreements. *(PTI, 23.09.12)*

Do Your bit to Fight Corruption

Sumant Sinha*



To anyone who visits the US or China, it is clear what a long road India still has to travel. There are those who would argue that we are still doing well in a relative sense. But given the absolute level of poverty in India, and the wide gap between the quality of life of an ordinary Indian compared to that an ordinary American or even a Chinese, we cannot satisfy ourselves merely with relative constructs.

Only rapid, sustained economic growth can take millions of our fellow Indians out of poverty.

Faced with such widespread misery, there simply cannot be any other alternative. Yet, too often we find apologists and contrarian thinkers. There are those who still believe that we are doing enough on growth, that somehow miraculously growth will resume its higher trajectory. They delude themselves into believing that redistributive economics is more just and noble. This also of course wins elections. Such redistribution can arise only out of faster growth and hence higher tax collections. Therefore, it is this side of the equation that needs to be fostered and encouraged.

> ***All of us have the responsibility to do our bit to take our country back from the corrupt who have taken control***

Then there are those who believe that our growth is skewed to benefit only a few, and that we are turning into a land of oligarchs and crony capitalists. This is certainly true to an extent. We must circumscribe economic power but this must be done through the implementation of fair and transparent policies, and policies to encourage the broad basing of economic growth, rather than limiting the capacity of those few who have a capability to exploit the system.

By following even more restrictive policies, we will just cut off whatever limited growth we have. Instead, the attempt should be to get more participants to join the economic mainstream by allowing and actively encouraging entrepreneurial energies to flow more freely.

Now is the time for us to give back to India as otherwise we would let down our country and our fellow Indians. Many of us go overseas and settle down to find better opportunities and lifestyles for our children, but equally many of us stay back and there is certainly now a critical mass of such people who can make a meaningful difference.

The time has come for us to take our country back. Take it back from those who are either incompetent, or corrupt, from those who only think about furthering their own vested interest, from those who do not understand what it means to lead this great nation with its great culture and people, from the corrupt bureaucrats who have submitted themselves willingly to the corruption around them, from the corruption-inducing businessmen in India for whom making money at the expense of everything else is the only mantra, from the petty civil servant who has long back lost the concept of civil service, and so on.

So what can we do. First, we must be more assertive. This is our country that is being taken away from us by all that is happening around us. By quietly acquiescing, we become party to the corruption and moral degradation.

We must vote more often, we must write more to make our views heard, we must take part in local elections for our communities, we must support those who try to stand and fight such corruption. We must move the country to a more transparent way of governance, we must get the government out of areas it has no business being in, and we must individually oppose corruption wherever we find it.

We must rise and do our bit for the country to pull it out of the morass that we have got ourselves into 60 years from our Independence. And the rest of the world even with warts and all shows just how far we still lag behind.

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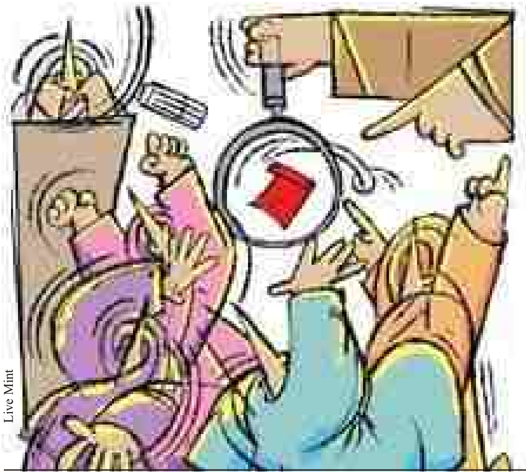
* *Chairman & Chief Executive Officer, ReNew Power Ventures Pvt. Ltd. Abridged from an article that appeared in the* Economic Times*, on July 30, 2012*

Pay the Price of Honesty

Shubhashis Gangopadhyay*

Anna Hazare is in town and so it is inevitable that at any conference or event you go to and are given the microphone, everyone feels that you must tell the audience how to tackle the evil of corruption engulfing India. As it is, economists are blamed for everything; what is worse is that they have filled reams of papers on the topic of corruption. So, it is difficult for them to avoid questions on corruption. The only silver lining with Annaji coming to town is that economists get a respite from having to answer questions on inflation.



Targeted welfare, rather than universal benefits, is what perpetuates corruption

I remember that when I first came to Delhi, I needed a ration card to get a gas connection, apply for a phone connection and even for a passport. I was a poor lecturer then, but really not a poor person and I still was entitled to a ration card. I remember that all of my senior colleagues, some of whom had cars and, hence, could be considered less poor than I, also had a ration card. And, indeed, so did everyone I knew and came to know. All of us complained about the quality of food in the ration shops and their irregularity of supply.

A group of people who did not have ration cards in Delhi were the people who worked as domestic help and were in Delhi as migrant labourers. However, they all had ration cards in their native places. Most of us who did not want to buy the low quality rations and could afford to buy the higher priced, higher quality cereals in grocery stores did so. And the ration cards of the non-poor were used by their domestic help, who did not have any cards of their own in Delhi.

There were two outcomes of this. First, the poor domestic help was assured of enough food in their jhuggis because they lifted our rations. Second, the price of domestic help was lower than it would otherwise have been because part of their wages was implicit in the food subsidy they enjoyed because of the non-poor's ration card.

But then we came up with the bright idea that the non-poor do not need ration cards. So, the concept of ration cards changed from one of food security and an identification card to that of a food subsidy for the poor. And now we know that the public distribution system has become one of the most corrupt institutions in the country.

Given that we are very knowledgeable, we know everything about what happens abroad. There is another thing that we need to keep in mind about the corruption in our public distribution system or in the system of getting driver licences. It is not just the officials who are corrupt but we, the common citizens, who trigger this corruption. In other words, the cost of getting a licence through correct procedures is very costly compared to getting it through a tout. Well, if honesty came at no price, everyone would love to be honest; the cost of honesty is not an excuse for dishonesty.

Finally, recall the discussion in the early part of the 1980s when every government office was busy setting up vigilance cells. The promise was that they would weed out corruption. But Annaji is on a fast and there are many who sympathise with him, suggesting that the weeds of corruption have actually grown bigger.

So, now it is time for the *Lok Pal*. Till some Bapuji comes along 25 years from now and suggests that the weeds have now choked up everything. My only fear is that the future Bapuji, instead of fasting, may decide to wield a gun.

* *Research Director, IDF and Director, School of Humanities and Social Sciences, SNU. Abridged from an article that appeared in the* Business Standard *on July 28, 2012*

ReguLetter

The July-September 2012 issue of ReguLetter encapsulates 'When even bread-makers are cartelising' in its cover story. Bread manufacturers in South Africa in the recent past gathered together to fix prices and allocate territories to the disadvantage of the public. The fixing of a price of a product harms the whole society. The bread cases are living examples of how an unjust economy can further impoverish poor consumers, and destroy opportunities for small businesses especially those that serve the poor.

A special feature by Mihe Gaomab II states that competition is defined in a market driven economy such as Namibia as the struggle among supplying firms to obtain buyers' support for their goods and services.

Another special article by Martin Wolf argues that the Libor scandal has nailed the coffin of the banks' reputations shut. After a huge financial crisis and a long list of scandals, banks are now viewed as incompetent profiteers run by spivs. He provides seven suggestions of how best to respond.

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


ReguLetter

When even bread-makers are cartelising


Economiquity

Is Multilateralism in Crisis?:
A possible way forward on trade multilateralism

Economiquity

The July-September 2012 issue if Economiquity carries an article entitled, 'Is Multilateralism in Crisis?: *A possible way forward on trade multilateralism'* in its cover story which states that for trade multilateralism to work better and gain strength, the Doha Round should be concluded by the next WTO Ministerial Conference to be held in Bali, Indonesia in December 2013. The emerging powers will have to take more leadership role in raising their ambitions from trade multilateralism.

A special article by Alan Beattie states that One of the most important battles in trade is not between the US and China. It is between arbitrary import restrictions and the set of global rules and judgments that restrain them. Free traders should be hoping fervently that the latter prevail.

Another special article by Vidya Ram says that *a consensus around a financial transactions tax is slowly coming into being.*

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

Issues for Parliamentarians

From Charity to Better Business Behaviour in India

Is the current understanding of Corporate Social Responsibility (CSR) in India relevant and adequate? What are the different delivery systems for CSR programmes in India? What are the differences between CSR and Business Responsibility/Responsible Business Conduct? How can a supporting policy environment for its operation be developed in the country?

These are some questions that need to be addressed in order to take discussions on the subject forward, and enhance clarity among key stakeholders. This Issue Note attempts to address some of these questions to help policymakers and key opinion leaders to have an informed discussion on the subject.

This note can be accessed at: www.cuts-ccier.org/BRCC/pdf/5-2012-From_Charity_to_Better_Business_Behaviour_in_India.pdf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SOURCES

BL: The Hindu Business Line, **BS:** Business Standard, **ET:** The Economic Times, **FE:** The Financial Express, **FT:** Financial Times
HT: Hindustan Times, **IE:** Indian Express; **IANS:** Indo-Asian News Service; **LM:** Live Mint; **PTI:** Press Trust of India; **TH:** The Hindu, **ToI:** Times of India; **ZN:** Zee News

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