PolicyWatch

This special issue is a 12 page Memorandum to the Finance & Company Affairs Minister for being considered in the Budget Speech for 2003-2004

Special Issue

कटस CUTS
1984 to 2003 Twenty Years of Social Change

January 2003

Consumers are the *raison d'etre* of all economic activity. If the consumer interest suffers, it is the national interest which suffers. Thus the consumer is the imperative for all economic management issues.

8% Growth?, Why not 12.3%?

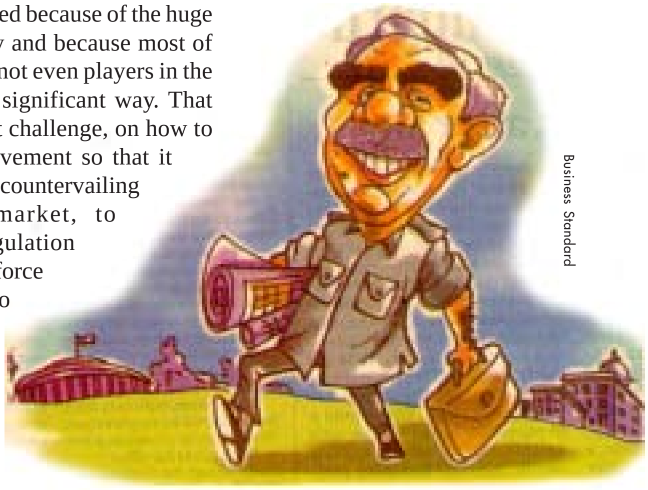
Dear Jaswant Singh Ji,

Season's Greetings and A Very Productive and Growthful Year under your able stewardship.The biggest challenge before the whole nation is to achieve 8% growth, so that more jobs (and consumers) and wealth can be created, and we wish to join the government in meeting these challenges through innovative means. You feel 10% is possible. But, we propose an achieveable figure of 12.3%, if the government can act on expanding the cake, and simultaneously cutting wastage and losses.

Firstly, heartiest congratulations on many splendid achievements in your term as the Finance Minister: the securitisation bill, innovative approaches for tax reforms through the two Kelkar Committees, and among others getting the new competition bill through the winter session of the Parliament.

You have broken with the tradition of interface consultations with various interest groups for pre-budget consultations. There is no harm in that, and thank you for the invitation to write to you. Moreover, your note that such interaction should be on a continuing basis is also very welcome. One good way to do this with consumer interests is through periodic consumer meetings whose closing session you could address, while your officers could participate in the whole deliberations. The same could be done with other interest groups too.

The consumer movement in India is not so well organized because of the huge size of our country and because most of the consumers are not even players in the market place in a significant way. That by itself is the first challenge, on how to strengthen the movement so that it can be an effective countervailing power in the market, to support better regulation and be a proactive force in the economy to buttress the national efforts of moving forward.



Business Standard

While the Ministry is deeply engaged in fiscal reforms and finding ways and means to expand the cake, and on this, much has been said in the media and through other means of communication, but much less is spoken about flanking measures which can aid the growth target.

I would like to flag a few random issues which need to be looked into, which can help in curbing wastage and thus contribute to the gross domestic product. Some of them may sound repetitive, but need to be reiterated. Surely there are many more, but space restrictions exist. Tackling some of the measures suggested herein will at least arrest the slide back and, hopefully, push matters forward.

NON-MERIT SUBISIDIES

Government after government have promised to curtail non-merit subsidies but one hardly sees anything happening. Indeed the last NDC meeting spoke about it, but will the cat be belled! The subsidies on non-merit goods and services (such as in agriculture, irrigation, power, industries, transport etc) amounted to 10.7% of GDP (2001-2002), or Rs. 20,600 crores. Today, just around a tenth of the cost of goods is recovered from consumers. If these were raised to fifty percent, it would help save 4.7% of the GDP or Rs. 60,000 crores.

HIGHLIGHTS

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

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REFORMS IN GOVERNANCE

The promises of the government after the 5th Pay Commission to reduce our bloated bureaucracy have not been moving forward as promised. Further, the 10th Plan Approach Paper has proposed that no retired judge or civil servant be appointed to posts, which should be used to engage serving officers. But this recommendation is flouted with impunity again and again. Retired judges and civil servants continue to be appointed to plum posts. This breeds corruption and goes against the whole spirit of good governance and reforms.

As regards judges, there is already a huge shortage in the country, and many don't even work properly. The overload in our courts causes a huge waste of resources. There should be some productivity norms for judges (and all civil servants) and the archaic system of holidays in courts should be closed. More judges in courts and myriad tribunals are required, and the government should ensure that vacancies do not exist at all.

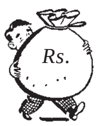
In any case, please get rid of Article 311 from the Constitution, which provides for unreal job security to government servants, whether they work or not. It is discriminatory too, as good civil servants are penalized for the sins of the poor performers.

Surely, there will be huge economic gains that the country will obtain from implementing a lean and efficient government.

ACCOUNTABILITY

Secondly, ensuring accountability in project delays and huge cost over runs. It is estimated that the government loses atleast Rs 41,000 crores due to delays in more than 300 projects, which are all above Rs 20 crores. Imagine the total cost of delays if all projects were examined at both the centre and State level. What concrete steps does the government propose to fix responsibility. Few ways forward include real transparency and social audit. Even if we are not able to recover the lost amount, if we are able to introduce a proper system the gains will exceed Rs.41,000 crores.

CORRUPTION

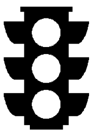


It is estimated by Transparency International (India) that Rs 26,728 crores is wasted every year due to corruption, and it is the poor who suffer the most. How will the government attack corruption? Not just by appointing a Vigilance Commission, but by making such structures effective by various measures, such as privatization of many services, incentives to the anti-corruption squads etc.

ADULTERATION AND COUNTERFEITING

Action on adulteration and counterfeiting is rather poor. It is not only the consumer who loses, but industry and the exchequer. One estimate for counterfeiting says that while the industry loses Rs 4000 crores annually, the exchequer loses over Rs 2000 crores. The loss to the consumer will far exceed the sum total. The problem is widespread and prevalent in almost every industry.

ROAD SAFETY



India tops the developing world in both absolute number of accidents and deaths due to them, but also on a per capita basis. 85 percent of all road accident deaths occur in developing countries and nearly half in the Asia-Pacific region. India accounts for about 10 percent of road accident fatalities world over. An estimated 1,275,000 persons are grievously injured on the road every year. Social cost of annual accidents in India has been estimated at Rs 540,000 per person. The total social cost therefore comes to about Rs 68,850 crores.

The situation is worsening, as liberalisation in the automobile industry has released larger number of vehicles, without expanding the road network in our towns and cities. The Prime Minister's dream project of a quadrilateral highway network is good, but attention also needs to be given to other road networks.

CIVIC DISCIPLINE

The value of discipline cannot be overstated. It is one of the keys for success as both a nation and as an individual. Often many of the road accidents are caused by poor civic discipline. Every other day one hears about incidents of road rage when some one pulls out a revolver and shoots at the other. That transcends all our activities; people just won't even stand in queues. See any counter, whether at banks or airlines or railways, and we crowd around it like a swarm of bees rather than make a line like ants. Our people have no value for the virtues of patience and are teaching our younger generation the same indiscipline.

I wonder whether any good economist has done any study on the economic losses due to this ugly phenomenon, but it will surely run into several thousands of crores, if one takes its direct and indirect effects. This matter requires urgent attention at the highest level and comprehensive action by all.

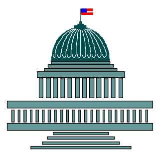
AN EFFECTIVE COMPETITION LAW

As the minister for company affairs, you have the direct responsibility to give us an effective competition law.

First, congratulations, once again, for having got a most modern competition law in the winter session of the parliament. The value of an effectively implemented competition law is immense for proper economic management of the country. But the law will be a non-starter, unless the new agency is provided with adequate resources and manned with young and active professionals, which the law permits. Give it the required freedoms, and it will do wonders to many of our economic ills, and contribute to economic development in no small measure.

For instance, a study carried out for the Australian economy estimates the benefits to be expected from a package of competition promoting and deregulatory reforms (including extension and revision of competition rules) to incur an annual gain in real GDP of about 5.5 per cent, or $23bn where consumers would gain by almost $9bn and there would be increase in real wages, employment and government revenue.

INSTITUTIONALISE THE NDC



At the last meeting with the Finance Minister, CUTS had suggested that the National Development Council should be institutionalized. It is not enough to say that a strong centre needs strong states, but to adopt innovative steps which can help attain it. Due to increasing regionalisation and coalition politics, it is necessary to involve the states upfront in national efforts. And to do this, a permanent secretariat should be set up or the Rajya Sabha secretariat be empowered to host it.

At the last meeting, the NDC has set up an empowered committee headed by the Prime Minister to deal with barriers to internal trade. Further, three other standing/sub-committees have been set up for governance; investment promotion and panchayati raj. However these sub-committees will be chaired by union ministers. If we have to involve states in this Herculean effort, why not get dynamic chief ministers, especially from non-NDA ruled states, to chair them? That's a better way to accelerate reforms, as they will feel more committed due to their role in steering the consensual process.

COMMUNICATING WITH PEOPLE

Lastly, and the most crucial one, is that the government does not communicate effectively with people. Most of our bureaucracy do not even bother to think of ways to do so, as it is not in their psyche, which has its foundations in the "Collector" (Mai-Baap) syndrome.

An effective communication strategy will convince people of the benefits of reforms, which will also counter negative and false campaigns. If only figures are related to jobs gained or lost, it will enable people to understand the need for the policy measures. For example, when the government speaks about the dire need of 8% growth, it should tell people how it relates to the number of jobs which will be created, as against the number of people without jobs. Or what every 1% of growth means to job creation.

CONCLUSION

In conclusion, let me add up the amount gained by the economy, if only few of the above mathematical measures are implemented. The wastage and losses are approximately 13.6% of our GDP or Rs. 281,000 crores. Our GDP in absolute terms was Rs.2060 thousand crores in 2001-2002. If the economy grows at 5.5% this year, and we add the above cost saving figure, the economy will grow at 19.1% over the last year. Assuming that to be a difficult target, even if we are able to cut wastage and losses by half, it would mean a growth of 12.3%.

The above calculation, even if it is simplistic and not rigorous, will show how we can achieve much higher growth most easily, iff we pay equal attention to curbing wastage and losses, and instilling some discipline in our society.

Yours sincerely,

Pradeep S Mehta and the CUTS Team of Social Change Activists.

ISSUES	POLICY RESPONSES REQUIRED
Reduction in Bureaucracy	• Fix productivity norms for judges and discontinue the archaic system of holidays in courts. • The government also needs to appoint judges in courts and myriad tribunals and ensure that vacancies do not exist at all. • Do away with unnecessary job security, which fails to punish the *babus* and reward the good civil servants. • Since expenditure on staff has increased to an unsustainable level, seriously consider changing the service conditions at least for new government recruitment, and link job security and reward systems to performance. • If the government staff has to be reduced by 10 percent in four years, as announced by the Prime Minister, the government needs to stop all recruitment, rationalise various Ministries, and redeploy additional requirements. Such measure should cover all levels of the civil service.
Accountability	• Ensure accountability through better project management. These need to be tackled by addressing issues of institutional design and governance. • Replicate the stick-carrot system adopted in few recent projects of roads and highways. Penalise contractors – both private and government, for delay in completion of projects. • Initiate change in the approach of government functionaries from hampering and hindering smooth implementation of projects, which bring in critical investment and contribute to economic growth. • Modernise oppressive laws, rules and regulations that impose an enormous cost on productive activity. Introduce modern systems of incentives and accountability to increase efficiency and stimulate investment.
Civic Discipline & Road Safety	• The Central and State governments should engineer and educate people to improve safety on the roads. Co-ordination with State governments has to be strengthened to enforce and modernise various laws in this regard. • Central and State governments need to adopt a carrot-stick approach for local bodies to be vigilant on law-breakers. Rewards for effectively disciplining the citizens, and penalties for unimpressive results. • Public and private investment in National and State highways should include widening and strengthening, reconstruction of weak and narrow bridges, construction of bypasses, geometric improvement, provision of parking lots, junction improvement, provision of retro-reflective road signs and thermoplastic road markings. • Therefore, stricter implementation of laws is required with vigilant watchdogs around to penalise the lawbreakers. Some innovative and effective measures such as confiscating driving licences after breaking laws three consecutive times, rigorous imprisonment, etc., that truly shake the 'values' of citizens. Delhi Police has decided to punch license of drivers every time they violate a traffic rule. Such measures need to be strictly implemented throughout the country.
Non-merit Subsidies	• The Government needs to do away with a long list of goods/services where continued subsidies is not warranted. There are hidden subsidies not captured by explicit subsidies and national estimates of subsidies. Government subsidies are large relative to resources and depend heavily on borrowing. Much of subsidies actually subsidise only governmental operational inefficiencies. • In education and health the level of per capita subsidies may be increased, while the degree of subsidisation may be lowered except for well-identified poor segments of population.

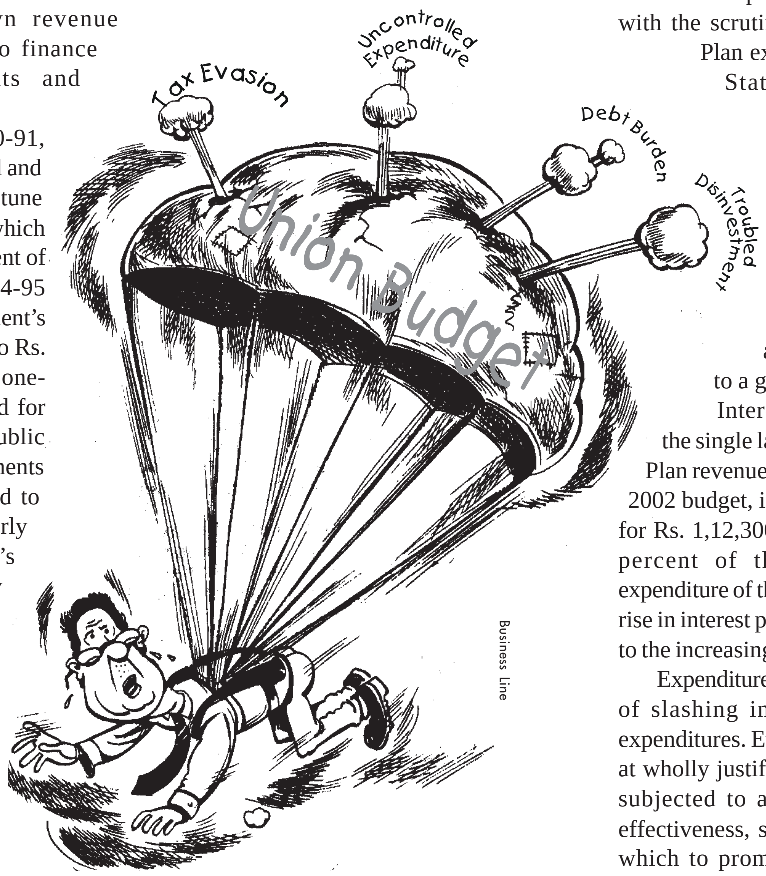
What to do?

Believe it or not, its true! In the 1980s, our economy was doing well with 8 percent industrial growth and 6 percent national income growth per annum. However, India's financial and balance of payments situation had turned extremely uncomfortable by the end of 1988 and the economy plunged into a major crisis in 1991. One of the main reasons for this was the erosion in public savings and the inability of the public sector to generate profits. Most of the public enterprises have been running in losses since the very beginning. Consequently, the public sector became a consumer of public savings instead of generating resources for the other sectors of the economy. The pinch was acutely felt in 1989-90 when the fiscal deficit reached to 8.4 percent of the Gross Domestic Product (GDP). By then, the Government had begun to borrow not only to meet its own revenue expenditure but also to finance public sector deficits and investments.

By the end of 1990-91, India's combined internal and external debt was to the tune of Rs. 3,26,120 crores, which was a massive 62.9 percent of the GDP. The year 1994-95 saw the Central Government's total internal debt close to Rs. 5,00,000 crore. Nearly one-third of it was accounted for by assets held in the public sector. The interest payments on public debt amounted to Rs. 40,000 crore or nearly 70 percent of the Centre's fiscal deficit. In effect, by 1994-95, one-third of the interest payments were on account of the Government's past investments in the public sector. By 1999-2000, the Centre's internal debt almost doubled to Rs. 9,70,000 crore. This sharp increase in internal debt was partly accounted for by the need to borrow higher and higher amounts to service the past debt. A vicious debt circle had thus been formed.

Further, a poorly conceived and administered tax system with overlapping and sometimes excessive taxes, an overly narrow tax base and well-entrenched traditions of tax evasion compounded the problem. In the given scenario, a realisation dawned that macro-policy reforms by themselves could neither be sustainable nor yield permanent results unless the fiscal house is put in order.

Expenditure reform is not just a matter of slashing infructuous government expenditures. Even expenditures targeted at wholly justified objectives need to be subjected to an examination of their effectiveness, so as to identify ways by which to promote productive use and eliminate waste.



WHAT IS REQUIRED?

In a nutshell, the following decisions have to be made and suitable action taken in order to achieve the fiscal corrections needed at the Centre:

- Reduction in Non-Plan expenditure
- Reduction in the number of government employees
- Achievement of higher tax revenue through buoyancy and expansion of the tax base.
- Imposition of indirect taxes on the services by practising value added tax on all sectors of the economy.
- Acceleration in the disinvestment process.

CONTROL OF PUBLIC EXPENDITURE

Fiscal imbalances have to be phased out mainly by compressing expenditures. Fiscal reforms at the state level need to examine the usefulness of every item of expenditure and revenue and take corrective measures to eliminate unproductive expenditures. At the same time, it is important to ensure that the revenues are raised in the least distortionary manner.

Public expenditure policy has to deal with the scrutiny and pruning of Non-Plan expenditure of Central and State governments. The Government has realised it should act more as a facilitator rather than a supervisor or regulator. This will lead to the curbing of growth of Government's administrative expenditure to a great extent in the future.

Interest payments constitute the single largest component of Non-Plan revenue expenditure. In the 2001-2002 budget, interest payments account for Rs. 1,12,300 crore, constituting 44.8 percent of the Non-Plan revenue expenditure of the Government. The sharp rise in interest payments is directly linked to the increasing reliance on borrowings.

Expenditure reform is not just a matter of slashing infructuous government expenditures. Even expenditures targeted at wholly justified objectives need to be subjected to an examination of their effectiveness, so as to identify ways by which to promote productive use and eliminate waste.

Government is resorting to reduction in the interest rates to arrest its rising debt servicing obligations particularly because 50 percent of the outstanding debts of States are loans from the Government of India. However, cuts in interest rates will provide only short-lived relief. For a long-term solution of the problem, the borrowed funds must be used for productive purposes and for projects, which ensure reasonable rates of return.

Under expenditure control, two areas need special focus. First is subsidies, both direct and implicit which are estimated to form a substantial proportion of GDP. Second is the pension liability of the Government, which is the fastest growing component of current expenditures. At present, these represent a claim on the general revenues.

The collective borrowings by the states are slated to come down by at least Rs. 1,000 crore, on account of a reduction in interest payment obligations. The reduction in the States' fiscal deficit would ease the pressure on interest rates arising from public sector pre-emption of household savings.

The tendency of the State governments to readily extend guarantee to the borrowings of their public enterprises and financial corporations is, perhaps, speeding up the deteriorations of their already adverse fiscal situation. These guarantees will sooner or later devolve on the State governments as the financial health of many of these enterprises is far from sound. It is important that such borrowings through Public Sector Units and financial corporations, unless linked with implementation of fiscal reforms, should not be encouraged.

RIGHTSIZING

The Fifth Pay Commission very rightly recommended the reduction of government staff by one-third. In the absence of this step, all talk of fiscal reforms is meaningless.

Surplus staff is a serious problem and corrective steps should not be postponed. One should identify surplus staff, set up an effective redeployment plan and a liberal system for exit. For the time being, recruitment should only take place for functional posts, and vacant secretarial and clerical posts should not be allowed to be filled. There is also a suggestion to shift to a contributory pension system for the new set of employees and consider changing the service conditions at least for the new government recruitments.

At the State level, the proposals include reducing staff strength and privatisation of State public sector units (particularly those making losses and do not serve any social or economic goals). Reduction of staff strength could be done through the adoption of a policy of net attrition and constituting a pension and amortisation fund to make committed payments such as terminal benefits and debt servicing self-financing.

Further, curtailment of pay and allowances bill of the Government must be pursued vigorously in the wake of implementation of the Fifth Pay Commission recommendations.

TAX REFORMS

Starting from the revenue position of the Central Government, the need for wide-ranging tax reforms implies strengthening the income tax regime. Despite reforms of the income tax schedule and tax base since 1991, relatively little effort has been made so far in improving the nature of the tax administration. Large-scale tax evasion has led to a poor revenue performance in India as compared to other developing countries.

A poor information system; poor allocation and organisation of manpower in the tax administration; an increase in the workload with limited manpower that leads to a fall in time allotted to tax assessments; and the tendency to punish 'rather technical violations' rather than serious tax evasions can be counted among the weaknesses of the Indian income tax administration.

Debt, as a percentage of the gross domestic product, has nearly halved since the early 1990s, yet, there are enough areas of concern which should prevent complacency and persuade the Government to go slow on capital account convertibility.

What is suggested is to emphasise better income tax information and service to taxpayers; raising penalties for large evasions rather than minor offences and giving better salaries, work incentives and training to employees of the tax administration.

Focus in the area of tax reform has to be on broadening the revenue base, firstly by increasing the number of taxpayers through improved tax administration measures; secondly by decreasing exemptions, allowances, incentives, and ensuring that taxable entities make a minimum contribution through appropriate design of the tax structure; and thirdly expanding the coverage of services in the tax net.

DISINVESTMENT

Privatisation of India's state-owned enterprises is critical as many of them are loss-making thus rendering themselves inefficient. An end to state monopolisation of these sectors is crucial to permit new, privately owned firms to introduce competition and higher productivity into these sectors.

The Government has so far disinvested only 1.13 percent of its total equity holding in the PSUs from which it has realised around Rs. 11,000 crore. Though the process has slowed down considerably, the potential of the resource mobilisation through disinvestment if given the go ahead is around Rs. 9-11 lakh crore.

Disinvestment need not be seen as an anti-people measure. For example, the 1,000 odd employees of Madras Fertiliser Ltd, a loss making PSU, have not just agreed to see disinvestment go through but have also pledged to help the company turn around and even give up some of their legitimate perks. Being stakeholders in the company, they want good return for money.

Going by a number of indicators, India's debt situation is far better today than it was during the balance of payments crisis in 1991. This improvement should be attributed to a cautious policy on foreign borrowings and to the steady growth in current receipts in BoP. Debt, as a percentage of the gross domestic product, has nearly halved since the early 1990s, yet, there are enough areas of concern which should prevent complacency and persuade the Government to go slow on capital account convertibility.

It is largely understood and accepted now that for being able to define a proper set of policies to bring about their desired results, especially in large and complex countries such as India, there must be the right institutional and political underpinnings to these policies; otherwise, reforms will only be partially successful, or entirely fail or it is even possible that they lead to outcomes that are worse than the initial situation.

The Tenth Plan Approach Paper has spelt out policy imperatives and programmatic initiatives in greater detail. On the economy-wide policy measures, efforts must be made to simplify laws and procedures for investment, eliminate inter-State barriers to trade and commerce, reform development financial institutions for long-term financing of small and medium enterprises and removal of Government and RBI restrictions of stocking and trading. Other measures proposed include the need to calibrate the cost of borrowed funds for enhancing competitiveness, reform laws and strengthening of bankruptcy and foreclosure laws to facilitate transfer of assets.

Facilitating FDI in Utility Sectors

"Danger lights are flashing because of the slow pace of reforms in the power sector and there is a need for thorough reforms and the removal of bottlenecks in the energy-transport-water infrastructure," Atal Behari Vajpayee, Prime Minister of India.

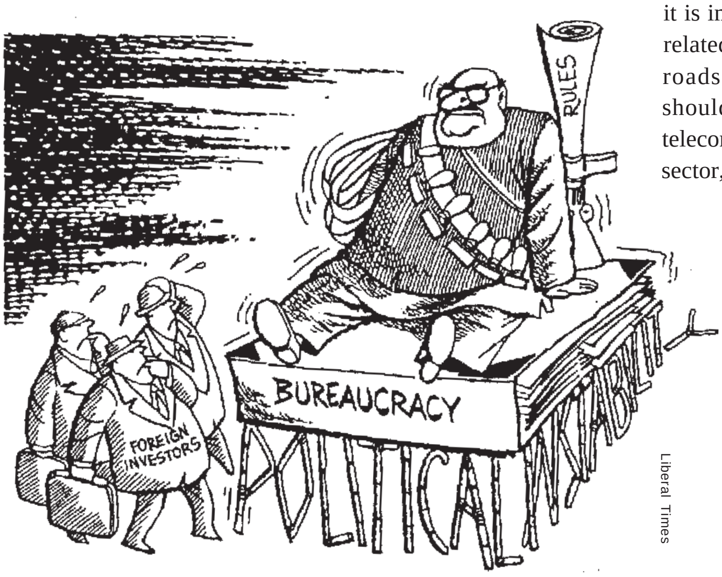
Foreign direct investment (FDI) is closely associated with economic reforms in India. It would play an important role in relation to utility sector reforms such as power, water and transport sector reforms. A country, which has to invest more than it saves, has no other alternative but to utilise foreign investment to fill the gap in resources. Today, foreign investors have a choice to invest in various countries and states (in case of India). Incentives and expected returns, risks and securities, the procedural time taken in clearances, and regulatory controls in a host country are important determinants of attracting FDI. Normally, foreign investors would not like to tie down expensive skilled human resources for long periods, waiting for the project to be awarded, contracts to be signed and other procedures to be completed before they can achieve financial closure. A number of foreign investors have pulled out from India in recent years because of procedural difficulties.

GENERAL CONCERNS

In 2001-02, India attracted US$4.06bn of FDI and it is expected that it will attract FDI worth US$8bn in the next few years. Given India's size and potential, such low figures are a disappointment.

This is corroborated by the results of an ongoing project of CUTS, entitled "Investment for Development". The project studies investment, especially FDI regimes in India, Bangladesh, Hungary, Zambia, Tanzania, South Africa and Brazil. Some of the findings on India's FDI performance are:

- FDI inflow has been concentrated mainly in a few sectors such as telecom, soft drink bottling, etc;
- In these sectors, FDI serves mainly the domestic market;
- Most of these are "low technology" sectors; and
- Whether FDI had any positive external effects on the Indian economy through technology spillovers and enhanced export performance in the past decade is not very clear.



Liberal Times

The project study shows that despite substantial liberalisation in its investment regime, compared to other developing countries such as Brazil, India has not fared well in attracting FDI. Various investor concerns impede FDI inflows to India and it is important that these are addressed to improve the situation.

Foreign investors in India request that private sector development and investment be underpinned by the rule of law. Uniformity in investment rules is needed to provide this confidence to the actors in the development process that they will receive justice and fair terms.

Another concern is the risk of adverse legislative or political change, such as an imposition of discriminatory taxes or treatment, political upheaval in Indian states or a war with Pakistan. The complexity of tax laws is by itself an impediment to investment. Foreign investors are more concerned about the threat of adverse changes over the long-term period than about the attractiveness of short-term incentives.

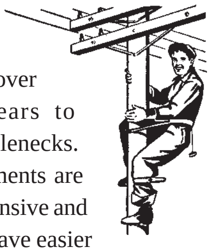
More specifically, a major concern is poor infrastructure, which raises the cost of doing business in the country. While the telecom sector is showing good results, it is imperative that other sectors related to infrastructure such as roads and bridges, ports, etc should emulate the success of telecom sector. The infrastructure sector, which requires immediate restructuring, is power supply. Water supply is another vital sector, which could pose a problem for the country if it does not receive attention immediately.

It is not surprising that the World Economic Forum ranked India last amongst the 53 countries surveyed for the quality of their infrastructure. Since the sector is not receiving much domestic investment, it seems logical enough to facilitate FDI in this sector.

INVESTING IN INFRASTRUCTURE

Infrastructure is a high-risk area requiring large investment and long gestation period. There is no assurance that return will justify investment. For example, on highways many vehicles will use existing roads and avoid paying toll tax. Investment in infrastructure will be feasible only if the government assures a fixed return to the investor irrespective of the utility. However, government has to be careful so as not to offer a high return, which is not feasible.

POWER SECTOR

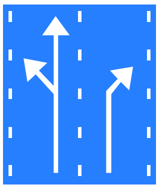


A substantial amount of investment in the sector is required over the next few years to overcome the bottlenecks. Since such investments are usually capital-intensive and foreign investors have easier access to global capital market, foreign investment could be encouraged in the sector. To achieve this, an enabling framework should be developed for facilitating FDI into the sector.

The peak demand and electrical energy requirement is expected to be about 85,000 MWs and 529 billion units respectively by 2001-02 and would grow to about 157,000 MWs and 975 billion units by 2001-02. This calls for a massive investment of the order of Rs. 700,000 crore for generating additional capacity and matching transmission and distribution system, including the funds required for Renovation, Modernisation and Life Extension.

In addition to generation, opportunities expected to develop in the near future include transmission projects for power supply and distribution. These are being identified by the PowerGrid Corporation of India Ltd and (SEBs/grind corporations and should be available on competitive bidding. Out of the Rs. 8,00,000 crore required for doubling the power capacity to 2,00,000 MWs by the year 2012, about Rs. 2,00,000 crore would be required for the associated transmission system including creation of a National Grid.

ROAD NETWORK



India has the second largest road network in the world totalling more than 3.3 million km. Of the total road network, National highways measure 57,737 km, which is less than two percent of the total road length but carries 40 percent of the total road traffic. There has been a rapid increase in the demand for road infrastructure as freight traffic increased 180 times and passenger traffic increased 132 times between 1951 and 2000. Total length of road has gone up by just eight times for the same time period. However, now the awareness on increasing the percentage expenditure on improvement and maintenance of roads is growing day by day.

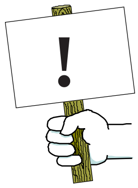
WATER SUPPLY

Shortage of water supply is a big problem for the country and a large-scale investment is required in this sector. It is primarily government's job to make provision for the water supply.

However, given the scale of investment and the type of technology required, facilitating FDI in this sector could be beneficial. The first water project in India with private sector participation had taken eight years to complete and the second project is expected to take only one year.

Government should make efforts to create a facilitative environment and, a capable and independent regulatory body to reap benefits from FDI in the sector.

CONCLUSION



India needs massive investment in the utility sectors for higher economic growth. Both public and private investment is required in these sectors in larger quantities. Facilitating FDI with advanced technology and techniques could be beneficial for the country.

Only a permissive foreign investment policy will not automatically trigger an FDI flood. India must learn from the South East Asian countries and frame its FDI policy to suit its developmental needs.

The Central and state governments should:

- Frame policies on utility sector investment and implement them effectively.
- Ensure a fixed return on investment in utilities.
- Create an efficient regulatory framework and independent regulatory bodies.
- Resource and empower consumer groups to participate in the reforms process.
- Provide financial and fiscal incentives to domestic and foreign investors.
- Increase public investment in the infrastructure sector.
- Effectively restructure the public sector units in utility sectors such as state electricity boards.

Exit of Foreign Investors, Why?

The inability of the state electricity boards (SEBs) to provide adequate payment security cover and delay in getting clearances are the primary reasons for exit of several high-profile foreign players from the power generation sector over the past few years.

As many as eight major foreign promoters or collaborators have exited power projects during recent times because the projects failed to make a headway out of the maze of approvals. The reasons for the withdrawal vary from inordinate delay in getting clearances from various authorities, high coal process sought by the coal supplier, lack of commitment to escrow arrangements, internal restructuring to changed business focus.

(Business Standard, 23.09.02)

Foreign Investor	Project	Reasons for Withdrawal
Electricite de France	1082-MW Bhadrawati Project	Delay in clearance, high coal price, lack of escrow
Cogentrix Energy Inc.	1013.2-MW Mangalore Thermal Project	No reason given
Bayerwerk View & Ogden Energy	400-MW Maheshwar Hydel	Both non-project specific reasons
Daewoo Power	1070-MW Korba East Thermal	Payment Security
Ogden Energy	420-MW Bakreshwar Thermal	Joint Venture project between West Bengal Government and Ogden wound up
Mirant Asia Pacific	4000-MW Hirma	Delay in firming up payment security, fuel supply and transmission arrangement

Measures for Good Governance

'Good Governance' has become buzzword these days. Effective and good governance – one that is 'of the people, by the people and for the people' is central to human development and thus is indispensable for a nation's development.

Good Governance entails that institutions and power are structured and distributed in a way that gives real voice and space to poor people and creates mechanisms through which the power wielders can be held accountable for their actions.

According to the World Bank, good governance is characterised by predictable, open and enlightened policy making; a bureaucracy imbued with a professional ethos; an executive arm of government accountable for its actions; a strong civil society participating in public affairs; and all behaving under the rule of law.

Good governance and not just resource allocation is essential for tackling problems of poverty, and low human development and thus help in reaching the goal of 8 percent growth targeted in the Tenth five-year plan.

The issue of reform in governance has acquired critical dimensions in poor states in the light of low economic growth and fiscal crisis. Weak governance, manifesting itself in poor service delivery, excessive regulation, and uncoordinated and wasteful public expenditure, is seen as one of the key factors impinging on growth and development.

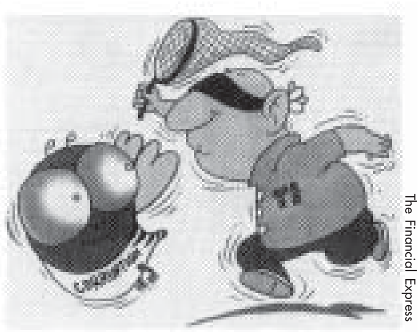
However, all is not lost. Certain measures can be taken by the Government to propel development measures and regain the withering confidence of the masses.

An independent agency or committee comprising of general public, experts, academia, media persons and civil society representatives should annually assess departments, which have more public dealing. This committee should look at the policies and performance of these departments, and suggest constructive steps for their improvement. A follow-up mechanism should be put in place to ensure that these suggestions are implemented in true spirit.

There should be an obligation for policy makers to be accountable to the public for their decisions and use of public resources. Providing access to information, to give petitions to Government and seek redressal through impartial administrative and judicial mechanisms are some other ways of ensuring accountability.

As corruption is on the rise even in higher echelons of bureaucracy, the fear in the minds of lower level officials has declined and corruption at all levels has become a 'low risk and high reward' activity.

Furthermore, concepts like globalisation, economic liberalisation, and reforms *per se* arouse apprehension in the minds of most of the people. This is further fuelled by certain civil society organisations, which present a one-sided picture of these issues causing more confusion among the masses. Similarly, most people do not realise that the government is only in the business of governance and not in the business of business.



The Financial Express

Hence, the issue of Governance needs to be addressed by the Government urgently and effectively. It has to open up communication channels with the common man. One possible way could be the involvement of NGOs and civil society groups in organising mass programmes. These organisations should be strengthened with the necessary resources in order to work towards disseminating knowledge to the common man. This would help to settle certain xenophobic reactions, which dampen people's participation and thereby slow down the reform process.

One of the major problems that the Indian economy faces today is the lack of coherence of economic policies among the various states. Often there is a case where the centre goes hammer and tongs in favour of reforms, while the states oppose it, creating a situation wherein the development takes one step forward and three backwards. Power sector reform is one such example, and devolution of powers to PRIs (Panchayati Raj Institutions) is another. While states like Karnataka and Andhra Pradesh have marched ahead with power sector reforms, states like Bihar have not, as yet, constituted the electricity regulatory commission, and states like Punjab continue to contemplate providing free power to farmers.

This calls for an urgent need to look into centre-state co-ordination. The National Development Council (NDC) was constituted essentially keeping this in mind. However, it could not meet the desired objectives due to it not being institutionalised.

Given this, it is suggested that the NDC is institutionalised with the establishment of a strong secretariat. The NDC would continue to meet at regular intervals as it is doing now, but the secretariat would function throughout the year to ensure that the decisions taken at the NDC are properly implemented through regular monitoring and follow-up with the state governments. Furthermore, we suggest that NGOs should also be involved in the NDC functioning. To secure independence of secretariat, one way perhaps could be to bring it under the Rajya Sabha Secretariat.

ACTION POINTS

- Fix tenure of officers who implement development projects.
- Introduce civil service reforms by encouraging innovation and performance.
- Abolish post-retirement bonanzas.
- Review the Official Secrets Act and supplement it by the Right to Information Act.
- Conduct social audit in departments dealing with the public.
- Increase accountability by providing access to information on resource allocation and utilise and right to question the same.
- Weed out corruption through greater openness, and by reducing complexity in systems.
- Devolve Powers to Panchayati Raj Institutions.
- Open communication channels with the public on issues like globalisation and liberalisation.
- Enhance Centre-State co-ordination.
- Computer based information systems should be developed so that there is an increase in transparency and reduction in discretion and delay.
- Each Department of the Government should develop a Citizen's Charter establishing clearly enforceable norms of performance and accountability.

Caveat Emptor to Caveat Venditor:
Need for an Effective Competition law

People of the same trade seldom gather together, whether for merriment or diversion, but the conversation ends in a conspiracy against the public or some contrivance to raise prices – Adam Smith in The Wealth of Nations, 1879.

The above statement continues to have relevance (may be more) even today. It is extremely important to check such collusive behaviour of firms not only for promoting healthy competition in the market but also for the overall development of any economy. The question is how to achieve this in a continuously changing market scenario.

The introduction of competition requires the removal of many regulations that hinder entry and exit in different segments of the economy. It is in this context that the role of a competition law and policy becomes important.

A good competition law and policy is a prerequisite for any market-based reforms. But, it is one thing to have a competition law and another to have an effective competition law. The effectiveness of a law depends on several factors:

- drafting;
- budget;
- personnel;
- autonomy; and
- political will, etc.

The Benefits of Competition Policy and Law

Competition policy can have significant advantagess to consumers as well as businesses. It helps to:

- enhance consumer welfare;
- promote fair trading;
- achieve economic efficiency;
- check concentration of economic power; and
- promote innovation.

In a country like India, the benefits of a comprehensive competition policy (CP) are manifold. As the economy starts relying more on market forces, the question of ensuring competition and keeping markets efficiently functioning assumes increasing importance. Further, in instances like international cartels, we may be hit doubly: on the one hand, we may end up paying unreasonably more for certain inputs and, on the other, our efforts to build a competitive industrial sector may be stifled. An effective CP can help us to prevent such anti-competitive behaviour.

Aren't they Spine Chilling?

Vitamins: whose health has improved?

Several leading and sophisticated drug manufacturers of the world were involved in a global conspiracy to fix prices of vitamins, allocate markets, supply contracts and sales volume, apart from bid-rigging at various times. The cartel was investigated in the US, Australia and Canada but not in India, despite the fact that the conspiracy had led to artificial increase in prices faced by hundreds of food and beverage makers, inflating the overall costs. The overcharges from this cartel cost India around US$25.71mn during the 1990s, which is around US$133.58mn on the purchasing power parity basis (PPP conversion factor is 5.19 for 2000).

The Monopolies and Restrictive Trade Practices Commission of India did not show much interest in investigating the matter further, even after CUTS submitted all the preliminary information.

Cementing ties or ripping the consumers!

For many years, many Indian cement manufacturers have been constantly raising the prices of their products without any justification. Over the past two decades, cement production in India increased five folds, while its demand slackened. To meet this glut in the market, manufacturers formed a cartel and stopped dispatch all over India from 27th November 2002 to 3rd December 2002. Dispatch was resumed but with a uniform price hike all over the country. The prices were increased by as much as Rs. 12 per 50 kg bag from the level of Rs. 133 per bag. In 2001, the prices were in the neighbourhood of Rs. 170 per bag and recently the prices have shot up by upto 15 percent in the months of October-November 2002.

This cartel has been investigated, but could not be prosecuted due to a strict evidence requirement. Cement is consumed by all consumers, even the poor, and one can imagine the impact of costs on their consumption.

Implementation of Competition Law

India has recently adopted a new competition law. Before this comes into being, it is very important to know the drawbacks of the existing regime to ensure that these are taken care of. But, the Government did not consider it 'too relevant' and provisions have been made without looking at the experience with the old law. Are we not hitting in the dark, again?

To enlighten the way to an extent, CUTS has done a study to examine the existing competition law and draw out some lessons for the new regime. The study, under the "7-Up Project", has taken into consideration comparative analyses of the competition regimes of seven developing countries of the Commonwealth.

The findings show that the problems with the Monopolies and Restrictive Trade Practices Act (the existing competition law, which has been scrapped) have been as much in the implementation as in the 'letter of the law'. For instance, the Act has failed to keep a check on the abuse of market dominance. Furthermore, since the Act does not declare monopolistic, restrictive and unfair trade practices illegal and ipso facto void, its ability to promote competition, consumer welfare and industrial growth is limited.

To give an example, Article 40 of the WTO (World Trade Organisation) Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPs) says that the Agreement does not prevent countries from specifying in their legislation such licensing practices or conditions that may in practice constitute an abuse of IPRs and have an adverse effect on competition in the relevant market. Further, one of the conditions, on which compulsory licensing can be granted, is to correct anti-competitive practices. In this regard, the competition law seems to be the best suited enactment as the competition authority is better placed to decide whether there is an adverse effect on competition and to determine the prevalence of any anti-competitive practice.

After much representation, IPR provisions have finally 'found a place' in the new law. However, the question is, to what advantage? The language has been diluted so much that it would hardly be effective!

Institution and Capacity Building

The review of the Monopolies & Restrictive Trade Practices Commission shows that very little resources were provided for enforcement and that little concern was shown for the efficient use of these meagre resources.

Firstly, budget has been the biggest constraint against the effective functioning of the Commission. The following table gives a comparison of the budget of the competition authority (CA) of India, with other select countries. India is far behind the other countries and the ratio provides an indication of the political will to develop an effective competition regime. In USA, the most competitive economy, the Federal Trade Commission's and the Department of Justice's Antitrust Division's combined budget is US$236mn, which is 0.0139 percent of its government budget. This should be taken as the ideal budget for any CA and attempts should be made to reach this ratio in India.

Secondly, the CA needs to attract and retain competent and qualified staff, especially professionals. At present, the staff is mainly composed of support category, which absorbs about 85 percent of the budget available for salaries, etc. Of the seven members of the professional staff, three have technical backgrounds in economics/commerce/finance, two have backgrounds in law and the rest are from general administration.

One of the most important reasons why the CA has difficulties in attracting and retaining qualified professionals is the lack of funds, which prevents it from paying attractive salaries that can compete with those paid in the non-government sector.

Thirdly, the Commission has a rudimentary infrastructure for the management of information and knowledge. This leads to inefficient functioning and, as such, delays in decision-making. The library occupies only 450 sq.ft., out of the total office space of 16,000 sq.ft. There is no facility for news scanning/clipping in the library or maintaining a database of industries. It has 17 telephone lines and ten computers with printers – peanuts for a large economy occupying the fourth position in the world on PPP basis.

The Way Ahead

The finance section of the new law provides for an escalating budget of Rs. 12 crores for the first three years. It is a pittance and will not allow the new law to be translated into an effective competition regime. In fact, the first year budget, which stands at Rs. 140.78 lacs, should be higher for start up costs. Secondly, the chairman and commissioners need to be professional and young. We need well-qualified personnel to serve as commissioners and as research staff.

Country	Existing Budget of CA in US$mn	Annual Budget of Government in US$mn	CA Budget as % of Government Budget
India	0.7236	81307	0.0009
Pakistan	0.3259	13560	0.0024
Sri Lanka	0.0979	3395	0.0029
Kenya	0.2359	3230	0.0073
South Africa	7.7427	23270	0.0333
Tanzania	0.1621	1010	0.0160
Zambia	0.193	340	0.0562

The above data is for the year 2000.

It is fortunate that the new law provides avenues for competition advocacy. But the would-be Competition Commission of India also needs to do awareness generation and training programmes for all stakeholders including state government officials. Capacity building of the members and staff is equally important and best training can come from other competition authorities, particularly from the developing countries, having experience of dealing with similar situations.

Thus, the following steps need to be taken immediately:

- improve the budget substantially;
- provide better infrastructural facilities;
- employ more professionals and not treat it as the resting ground for retirees;
- regular training programmes for the staff;
- provide strong independence of the CA from government interventions;
- maintain proper databases for better economic analyses;
- competition issues should be made part and parcel of both the law and economics curriculum at universities and other institutions of higher education to create a broader base of professionals
- create a 'competition culture' through a broad multi-stakeholder advocacy programme; and
- ensure international co-operation for training as well as for dealing with cases.

National Competition Policy Council

It is also recommended that a National Competition Policy Council be constituted under the chairmanship of the Finance Minister in the department of economic affairs. Such a participatory structure can immensely help the performance of the Competition Commission as well as a part of the economic management of the country. The Council should:

- include representatives of consumer organizations, business chambers, trade unions, research institutions, universities, business schools, media, parliament, relevant ministries, state governments etc.;
- meet at least once every six months to discuss a whole range of issues covering industrial organisation, market regulation, competitiveness, and their relationship with trade, investment, consumer welfare, growth and development, and
- set up working groups on specific issues to prepare the necessary reports and recommendations to the government.

Standards and Regulatory Mechanism for the Services Sector

The economic development of any country is associated with consumer welfare besides the increase in per capita income. Hence, augmenting consumer welfare naturally becomes one of the objectives of the Government's economic policies. The UN Guidelines for Consumer Protection adopted in 1985 has recognised consumers' right to be heard, and recommended to the governments to implement the same through appropriate policies and legislations. Pursuant to this, most countries have enacted consumer protection laws.

India is virtually the leader among the Third World Countries, as far as the growth of consumer movement is concerned. In India, a large number of consumer action groups are active in supporting consumers against fraud, cheating and various kind of exploitation. The Consumer Protection Act (COPRA), 1986 has emerged as a strong tool for consumer redressal, benefiting a large number of consumers. However, the prime focus has been mainly on consumer products with a very little focus on the services. Even in the case of certain services, which have certain governing standards, there has been very little done in the implementation of such standards. What needs to be done:

- Identifying specific needs for standardisation of services offered by the private sector and recommend the implementation process through active participation of the consumers as well as the service providers.
- Formulating a code of standards, in case these are non-existent.
- Formulating a new approach for effective and time-bound implementation of the standardisation process for the specific sectors, which could act as a model for other sectors.
- Evolving a strategy for according recognition and acceptance of the standards.
- Creating general awareness on the issue, ensure active participation of consumers and the service providers alike.
- Establishment of a consumer support and grievance redressal system, within easy reach of the consumers
- Creation of an in-built monitoring and evaluation process
- Creation of statutory provisions for the implementation of these codes.

Building Social Infrastructure

It may sound like a tall order but its imperative to ensure elementary education and health care for all children if we are to secure their future and ours, as well. A country's development can be gauged by important social indicators like the education and health status of its people. Suitable social infrastructures need to be in place to be able to achieve the goals set by the nation in this regard. Herein, we focus on two important constituents of social infrastructure: education and health.

EDUCATE CHILDREN

Education is important in its own right and has strong positive spill-over effects on mortality rate, income and even social cohesion. Despite this, our country's performance in the field of elementary education has been quite dismal. Out of approximately 200 million children in the age group of 6-14 years, only 120 million are in schools and net attendance in the primary level is only 66 percent of enrolment. Enrolling children in primary school is only half the battle won, because it is meaningful only if they complete it – which requires that they and their families be able to resist the pressures of forgone income and work at the home front.

Investing in education is a concerted effort with serious budgetary implications. Though from 1974-75 to 1999-2000, education did appear in several budget speeches and every year higher amounts were allocated to the sector, but even after 55 years of independence, we are still far away from meeting the goal of education for all children up to the age of 14 years.

One of the most important debates regarding the 83rd Constitution Amendment Bill that proposes to make elementary education a fundamental right has been on its cost implications. Endless debates and postponement of the deadline for meeting the age-old promise of universal and free education for all children have been going on for some time now. What should have been achieved by 1960, as per the constitutional mandate, is now to be achieved by the year 2010.

Another point of concern is the under-utilisation of the available funds under the externally aided schemes. Where the external aid is in the form of a loan, under-utilisation of resources implies an increase in interest payments and, hence, an increase in debt burden. Even though external aid for social sector programmes comes in the form of soft loans, it does not justify reliance on external aid for the education of our children.

Budgetary Ground Realities

- Out of every 100 rupees spent in the Union Budget between 1990-91 to 1998-99, an average of 60 paise has been spent on elementary education
- On an average only 0.6 percent of the Union Budget was spent on elementary education between the years 1990-91 to 1998-99.
- Presently, the total amount spent on education is Rs. 36,000 crore , which constitutes 3.6 percent of the GDP (this includes Union as well as state budgets on education).
- Expenditure on elementary education amounts to 13 percent of the total social sector spending.
- Despite an increase in the budget allocation for elementary education over the years, 45 percent children in the age group of 6-14 years continue to remain out of school.
- On an average, 13.6 percent of the expenditure on elementary education between the years 1990-91 and 1998-99 was externally aided.
- Some of the very important elementary education schemes, like the District Primary Education Programme, are running through 85 percent external aid in the form of loans.
- Out of the total expenditure on education, about 50 percent is on elementary education, and the spending on elementary education amounts to about 1.5 percent of the GDP.

In 1997, the Saikia Committee pointed out that the annual expenditure on education for every child is Rs. 948. Given this estimate, we require an additional amount of Rs. 78,684mn to ensure education for all 83 million children in the age group of 6-14 years who continue to remain out of school. The Saikia Committee further estimated an additional investment of Rs. 40,000 crore in the next five years for all children out of school, implying an annual requirement of Rs. 8,000 crore. The Tapas Majumdar Committee in 1999 estimated an additional requirement of Rs. 136,000 crore in the next ten years to ensure desired quality. This entails an additional requirement of Rs. 13,600 crore per year on elementary education itself. The Tapas Majumdar Committee recommended an additional requirement of about 1.3 percent of the GDP in order to meet the goal of education for all children up to the age of 14 years.

Points for Action

- Increase budgetary provision for elementary education to at least 3 percent and take stringent measures for monitoring judicious use of the same.
- Improve basic school infrastructure by increasing allocation for building infrastructure like constructing schools in the Plan expenditure.
- Reduce teacher-student ratio to at least 1 per 40.
- Ensure optimum usage of resources allocated for education.
- Open primary schools within a radius of 1 km for every village/ habitation.
- Provide free textbooks and uniforms to all children of economically weaker sections.
- Provide free education to girls up to the age of 14 years.
- Effective management and prompt repair of school buildings.
- Delegate and entrust planning, supervision and management of education through PRIs (as per the 73rd amendment).

All is not grim in the education scene. While many states have failed to utilise the available resources optimally, there are also some that have set a good example. Karnataka is one, which spends 52 percent of its budget for education on elementary education, amounting to Rs. 1777 crore, whereas the all-India average is only 49 percent. It is an example worth following.

The *Sarva Shiksha Abhiyan* (education for all), which has been launched recently, indicates a strong reiteration of India's resolve to give the highest priority to education so as to ensure that all the 195 million children in the age group of 6-14 years are in school. Coupled with this, the government should also try to make education system compatible with the economic needs of the people.

HEALTH FOR ALL

The other important constituent of social infrastructure is health. The Government recognised the importance of child health only in the 1980s and then made it a part of planned development. Prior to the 1980s, the Government concentrated on maternal and child health more in terms of family planning and immunisation. In 1979, the Government's family planning programme came to be renamed 'Family Welfare Programme' and specific initiatives were taken to improve the health and nutritional status of women and children.

Every child must be ensured the basic right to life and survival and the provision of adequate health care is fundamental to this. Over the years, due to the expansion of health services and facilities, there has been some improvement in the health status, which is reflected in reduction in infant mortality and child mortality rates.

Budgetary Ground Realities

- Over the last decade, the percentage expenditure on child health has been an average of 0.2 percent of the total Union Budget. In other words, of every Rs. 100 spent in the Union Budget, only 20 paise was spent on children's health.
- Expenditure on health has almost halved since 1996-97, when it was 4.5 percent of the Union Budget with respect to expenditure in the overall social sector.
- Dependence on external aid is high and in 2000-01 the Government was expected to spend as little as Rs. 17.30 from its own resources.
- Of every Rs. 100 spent on Social Sector needs in the Union Budget, an average of Rs. 3.26 goes for the health of children.
- The maximum expenditure on health of children in the Social Sector was Rs. 4.50 in 1996-97.
- Despite the introduction of the Reproductive and Child Health Programme (RCH) in 1997-98, there has been no significant change in the total child health budget.

The Child Survival and Safe Motherhood Programme (CSSM), which was in existence until 1997-98, was merged with the RCH programme. The RCH programme became popular and took off in a big way in 1998-99. However, the overall budget for child health, in fact, declined during that year.

Though the population growth has to be curbed, the Government has to be very clear in its objective of providing health care to all children and has to take conscious steps to achieve the same.

Points for Action

- Universal access to primary health.
- Increase health care expenditure to at least 4 percent of the GDP.
- Re-structure existing health care infrastructure.
- Delegate powers to Panchayati Raj Institutions so that there is local accountability of public health care providers and education.