PolicyWatch

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

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National Competition Policy for India

There seems to be a consensus emerging that the competition regime of India ought to be two-pronged: comprising of a well structured competition policy and a modern competition law. Though the country possesses a law flowing from the Competition Act 2002, there is still need for a competition policy to iron out various ambiguities and discrepancies, and promote competition.

While competition law refers to rules and regulations designed to foster a competitive environment in an economy, competition policy refers to policies and guidelines for the governance of the entire economy aimed at promoting a spirit and culture of competition. Together, they form the backbone of the government's commitment for ensuring maximisation of economic efficiency and protection of consumer interest. The instruments of such a regime include restrictions on monopoly operators, checking abuse of dominance, curbing market capture through mergers, removal of barriers to entry and exit in an industry, etc.

India, at the time of independence, followed an industrial policy of planned development, with a focus on the dominance of the public sector. In the absence of any real competition in the economy at that time, there was not much need for a competition regime to regulate and maintain checks on the economic environment. The priority was industrial development to generate revenue for moving the growth agenda forward.

Although, the country had a competition legislation (MRTP Act, 1969) for a long period, the government only realised the need for a modern competition law after the deficiencies of the MRTP Act to deal with issues in the post-liberalisation era were revealed by various organisations including CUTS. An expert group was set up in 1997 to study issues relating to the interaction between trade and competition policy in the country. This led to the setting up of the 'Raghavan Committee' in 1999 to recommend a suitable legislative framework relating to competition. The Committee stressed on the need for harmonisation between competition policy, on the one hand, and others like trade policy, industrial policy, privatisation policy, consumer policy and environment policy etc., on the other.

The Raghavan Committee observed that the Monopolies & Restrictive Trade Practices Act (MRTPA) was no longer capable of handling the multifaceted issues of competition and recommended the enactment of a new and modern competition law.

As a result of the recommendations made by the 'Raghavan Committee' the 10th Five-Year Plan saw the enactment of the Competition Act, 2002. CUTS has played a significant rule in the continuing research and advocacy efforts that led

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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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to the enactment of this Act and its subsequent amendments. The Act set up the Competition Commission of India (CCI). Due to certain defects, the Act had to be amended in 2007. The Raghavan Committee had recommended that a Competition Policy needs to be formulated by the Government to supplement the Competition Act.

The need for this was recognised in the Mid-Term Appraisal of the Ninth Plan, for the protection of consumer's interest and society's welfare and improving competitiveness of domestic industry. But there was no progress on it. Following persistent advocacy by CUTS, the Planning Commission established a process to develop a competition policy for India. It now finds a place in the 11th Five Year Plan Policy Document as a part of the recommendation for 'Inclusive Growth'.

The objectives of the NCP are to preserve the competitive process and encourage competition in the domestic market so as to optimise efficiency; promote innovation and maximum welfare; promote, build and sustain strong competition culture within the country; achieve harmonisation in policies, laws and procedures regarding competition dimensions at all levels of governance; ensure competition in regulated sectors; and establish an institutional mechanism for synergising the relationship between the competition commission and sectoral regulators and strive for a single national market.

Similarly, the principles underlying the NCP entail effective control of anti-competitive conduct undermining competition in markets in India; competitive neutrality or level playing field among all players; institutional separation between policy making, operations and regulation; and availability of third party access to essential facilities on fair terms.

The NCP envisages that any deviation from these principles of competition should only be considered inexceptional cases to further desirable social, environmental, developmental or other national objectives, and should involve the least competition restricting effect. Further, the above principles of competition should be applicable across all sectors of the economy and be suitably incorporated in sectoral policies.

The relevance of a strong NCP for India cannot be overstressed. This is especially so because of the presence of various policies followed by different states of the country. Similarly, there is the complicating presence of different sectoral regulators with divergent objectives. If a unified competition culture is to be achieved in the midst of so much disparity, there is need for some harmonisation, with the CCI being adequately empowered and autonomous.

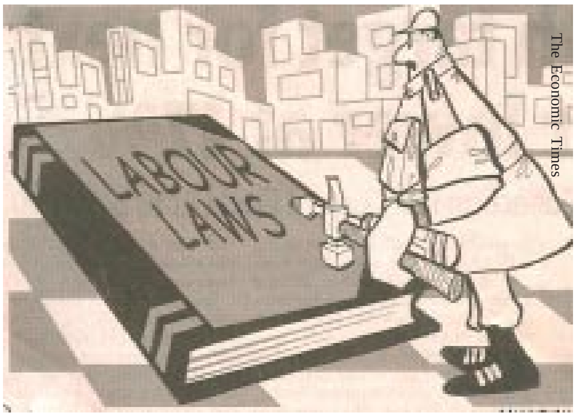
This would constitute a substantial step forward in the direction of establishing a strong and integrated competition regime for the country, and is certainly the need of the hour.

THEME – REFORMS

Blueprint to Make Labour Laws Flexible

Reforms back on track: labour and disinvestment move to the front-burner

With the political climate cooling in favour of the Manmohan Singh Government's reform agenda, work is set to begin on fixing one of the Prime Minister's pet laments in recent times – India's archaic labour laws. Nearly three years after the Prime Minister assigned the task of framing a blueprint for organised sector labour law reforms to the National Commission for Enterprises in the Unorganised Sector (NCEUS), it has finally completed its work.



"The rigidities of (our) labour legislations have created a situation where we have industry but it does not grow at a fast enough pace to create lot more jobs for our young. Problems of labour rigidity, labour flexibility… these are still hurdles in India realising its chosen destiny", Singh said.

In November 2005, the Ministry of Labour had mooted two reform measures that could have the maximum impact on creating employment. The first was changes in Chapter VB of the Industrial Disputes Act, 1947, that sets for industries stringent conditions for retrenching workers and elaborate procedures for winding up units. The second was a change in Section 10 of the Contract Labour Act that empowers the Government to notify the type of jobs contract labourers cannot be used for.

Apart from an easier 'hire and fire' policy, the report is expected to recommend a 'Labour law code' by simplifying and minimising the 43 labour laws. Also expected is a move away from the '*inspector raj*' to a regime where most compliance is voluntary.

The Labour Laws Amendment Bill 2005 was aimed at simplifying labour law compliance for small and very small firms by allowing them to electronically file returns. The Bill was in line with the National Common Minimum Programme (NCMP) that promised the small-scale industry that has suffered extensively in recent years 'will be freed from the *inspector raj*.'

(FE, 27.07.08)

COMMUNICATION

No Bar on Numbers

The Telecom Regulatory Authority of India (TRAI) has recommended that the Government would allow mobile virtual network operator (MVNO) in the country and that there should be no bar on the number of MVNOs to give consumers a much larger choice.

The introduction of MVNO is seen as a natural progression towards enhancing free market principles and contributing to the efficient use of existing telecommunication infrastructure.

If the Government accepts TRAI's suggestions, consumers could soon have as many as 20 mobile service providers with a wide choice of tariff packages and schemes targeted at a specific user base. While everyone acknowledges the benefits of permitting MVNOs, not all agree on the success of the business model. *(BL, 06.08.08)*

Single Licence on the Anvil

In yet another key telecom reform, the Government would end the multiple licence regime and converge all permits under a single licence, christened unified service licence (USL).

A USL would enable players to give all forms of telecom services, such as long distance and Internet services as well as mobile and landline services. Currently, such services come under multiple licences.

However, while merging all the licences, the Government would raise the pan-India USL fee from the current levels. While formulating USL, the Department of Telecommunications (DoT) would also take a final view on the need of de-linking start-up spectrum from licence fee. *(FE, 03.09.08)*

Change Without Changing

The Government has decided to grant licences to two mobile number portability (MNP) service providers in the country, which would allow mobile users to seamlessly change their operator without changing their number.

Portability services are expected to be launched in Delhi, Mumbai, Kolkata, Chennai and Tamil Nadu, by February or March 2009 and would be extended across all circles by August-September of 2009, within one year from granting the MNP licence.

The two MNP service providers will be neutral hosts connecting the operators and customers, functioning as a sort of interconnect exchange that will have the required infrastructure, including a database of numbers for porting calls. *(BS, 31.07.08)*

Review Termination Charges

The TRAI is examining the DoT's suggestion to review the termination charges, which are paid by the telecom operator on whose network the call originates to the operator on whose network it ends.

The TRAI is also considering the possibility of lowering termination charges, which will result in lower call charges for consumers.

DoT has proposed to bring the termination charges down from 30 paise per minute to 10 paise a minute. Termination charges are a function of traffic and as such high increase in traffic must translate into reduction in the charges. *(FE, 27.06.08)*

Offloading a Stake

The state-owned telecoms group *Bharat Sanchar Nigam Limited* (BSNL) which is all set for privatisation, plans to offload a stake of 5-10 percent in a deal that it claims would value the company at about US$100bn, making this transaction, India's biggest flotation.

Kunal Bajaj, a director at research firm BDA Connect, has cautioned that present market conditions did not favour such a large offering for India is the worst performing emerging market in the world in 2008. The benchmark Sensex Index, which has hit highs of 21,000 points, is hovering around the 15,000 mark.

Another question mark is over the company's valuation. BSNL's market position has been eroding fast – it was the number two mobile operator less than two years ago. *(FT, 08.08.08)*

Wireless Broadband Policy

A policy for deploying broadband wireless technologies, such as WiMax has been announced. The technology will offer high-speed data connectivity.

Operators will have to pay a minimum base price of about Rs 500 crore for a pan-Indian WiMax spectrum. In comparison, 3G operators will have to pay at least Rs 2,020 crore. Operators will also have to pay a spectrum charge of one percent of their annual revenues from the second year of their operation.

The Government plans to allocate 20 Mhz of spectrum for broadband wireless to each of the successful bidders. State-owned BSNL and MTNL will be given 20 Mhz without having to participate in the auction. However, they will have to pay an amount that is equal to the highest bidder. *(BL, 01.08.08)*

Fast-tracking Telecom Reforms

The UPA Government will now be fast-tracking what could be branded as the "second generation" telecom reforms, most of which have been lingering for quite some time.

Cleaning up the 2G spectrum space by levying an acquisition charge beyond 6.2 MHz, devising the mechanism for MVNO, spectrum trading, port charges for MNP, unbundling of start-up spectrum from telecom licences will form part of the reforms agenda.

However, the long-awaited carrier access code (CAC), which allows subscribers to choose their long distance operator, is likely to be dropped, as it is not being seen as relevant any more. The development would come as a big relief to the code division multiple access (CDMA) operators, who have been consistently urging the Government for doing so. *(FE, 31.07.08)*

TRANSPORT

Regulator for Aviation

The Associated Chambers of Commerce & Industry of India (ASSOCHAM) has urged the Government to set up an aviation economic regulator, citing the case of an unprecedented hike in non-aeronautical service charges at airports.

According to ASSOCHAM Civil Aviation Committee Chairman, Jagdish Gupta, there has been an unprecedented increase in non-aeronautical service charges since the privatisation of airports in the country, which has burdened the airlines that are already reeling under high aviation turbine fuel prices.

Seeking a review of handling charges like hanger space, parking charges, ticketing counter space and back-up office space, airport development fees, Gupta has urged the Government to set up an aviation economic regulator. *(FE, 27.06.08)*

Under One Umbrella

The proposal to have a Aeronautic Commission for promoting and integrating various organisations related to aviation and aeronautics sectors that are working under different ministries might see light of the day.

The Commission will have representatives from the government, industry and research organisations, and is expected to bring various scientific institutes and the industry involved in aeronautics sector under one umbrella. Apart from formulating policies for management of airspace, the Commission will also help in optimising resources in the aviation sector.

The Commission is expected to consolidate the talent within the country and focus on R&D efforts in aeronautics. *(BS, 29.06.08)*

More Teeth to Regulate

The Cabinet cleared 11 amendments to the Airport Economic Regulatory Authority (AERA) Bill, giving the regulator powers to determine charges for all airport related activities across the country and to slap penalties for non-compliance.

The regulator will now cover all airports across the country irrespective of their size or ownership. The Bill proposes a fine of up to Rs 1 lakh for non-compliance, with a provision to double it for subsequent offences.

AERA is also expected to monitor pre-set performance standards at all airports. The regulator would also determine the amount of development fees for major airports. *(FE, 29.08.08)*

The Only Buyers

The Railways have used its monopsony position as the only buyer of concrete sleepers used on rail tracks to make 75 small and medium enterprises of the product to bend to its terms.

Taking a hit on their margins, the concrete sleepers manufacturers across the country have temporarily agreed to end their pricing row with the Ministry and will continue to supply sleepers at Rs 1,132 per sleeper for a period of three months, after which a new tender will be floated by the Ministry.

Owing to the increasing input cost, mainly steel, the manufacturers had demanded an increase in the price. The Ministry had also toyed with the idea of cancelling their contracts and asking the companies to vacate the lands. *(FE, 08.09.08)*

Declining Air Passengers

For the second time in two years the number of passengers travelling by air has fallen to below 30 lakhs in one month. The Director General of Civil Aviation (DGCA) data showed that that only 29.22 lakh passengers flew in August 2008 as compared to the 2008's high of 41.16 lakh in May 2008 showing a fall of almost 30 percent.

According to an official from Jet Airways, it is a scary situation for all the carriers as with the high operating cost and expected delivery of aircraft among other payments to be made, falling passengers indicate falling revenue.

Analysts opine that the data shows that going into the peak festive season, air passenger traffic is rationalising and the volatility in the numbers is coming significantly down. *(FE, 12.09.08)*

POWER

Increasing Power Capacity

Despite its dismal record at adhering to power capacity addition targets, the Centre has announced a scaling up of its power capacity addition target for the 11th Five-Year Plan period (2007-12) to 90,000 MW, up from the earlier estimate of 78,577 MW.

Out of the earlier target of 78,577 MW of capacity, projects totalling 63,312 MW are under implementation, of which 18,177 MW are in the private sector.

The Union Minister of Power Sushilkumar Shinde said that the work on 32 coal blocks having total extractable reserves of 9,916 million tonnes was in progress. *(BL, 11.09.08)*

Increasing Railway Profit

The profits earned by the railways would cross the Rs one lakh crore mark in 2009. Railway minister Lalu Prasad Yadav announced this after laying the foundation stone of the Rs 1417.23 crore train wheel factory at Bela, marking the beginning of the construction work on the project.

Trashing the opposition's charge of giving preferential treatment to Bihar in granting railway projects, the minister said he had never ignored the genuine claims of other states.

"From Chapra to Rae Bareli to Kerala, I have sanctioned railway projects without any bias", he asserted. *(FE, 29.07.08)*

Setback to Reforms

In yet another setback to the distribution reforms in the power sector, the Government's Accelerated Power Development & Reforms Programme (APDRP) may fail to meet the deadline yet again.

The APDRP scheme aims to reduce aggregate technical and commercial (AT&C) losses of utilities to 15 percent within five years. Sharp inter-ministerial differences over extending budgetary support to state utilities has resulted in the Government deferring a decision on the matter and constituting a group of ministers (GoM) to evolve a consensus.

It is estimated that with every one percent fall in losses, an additional capacity of 800 MW is released in the grid system. With Government targeting to provide power to all by 2012, distribution sector reforms hold the key. *(ET, 30.07.08)*

First Electricity Bourse

The country's first electricity bourse – the Indian Energy Exchange Ltd (IEX) – commenced operations on June 27, 2008. IEX is jointly promoted by Financial Technologies (India) Ltd and Power Trading Corporation (India) Ltd.

IEX is an online national platform for spot trading of electricity that connects power-deficient consumers with power-surplus entities in the country.

The exchange received bids for 13,176 Mwh of power when operation commenced and the transaction took place in the price range between Rs 6.46/kwh and Rs 8.01/kwh for the different hours of the market. *(BL, 27.06.08)*

Power Import on the Cards

The Centre is working on a power import policy to step up hydropower development in the Himalayan-rim countries for facilitating electricity inflows into India, besides ensuring a greater play for private sector firms.

The policy would aim at broad-basing India's energy security by securing hydropower resources in the neighbouring countries and wheeling back bulk of the generated power as a means of tiding over peaking shortages at home.

PM Hails NSG Waiver

The Prime Minister of India, Manmohan Singh hailed the Nuclear Suppliers Group's (NSG) move to 'adjust its guidelines' to enable full civil nuclear cooperation with India, describing it as a 'forward looking and momentous decision'.

"It marks the end of India's long isolation from the nuclear mainstream and of technology denial regime", he said.

Singh while thanking the US and other member countries for the role they have played in the waiver said that it is recognition of India's impeccable non-proliferation credentials and its status as a State with advanced nuclear technology. *(BL, 07.09.08)*

The policy is expected to give Indian firms, including private sector companies, a larger role in harnessing energy resources across the region. *(BL, 24.08.08)*

Push for Solar Energy

With electricity yet to reach 50 percent villages in the country, solar lanterns could be the answer to lighting needs of our villages.

Union Minister for New and Renewable Energy Vilas Muttemwar has mooted a plan by which a massive subsidy of Rs 39,000 crore on kerosene can be saved by switching over to solar lamps.

Latest technological developments have made solar power generation less expensive. The per MW cost of generation which was high as 40,000 crore has now come down to Rs 18,000 crore. Each state by shifting to solar power to the tune of 200 MW can also earn carbon credits of Rs 32 crore. *(www.20twentytwo.blogspot.com, 09.07.08)*

SC Allows Tata's Power

The Supreme Court's order on power supply allows Tata Power Company (TPC) to offer electricity to both retail and bulk consumers across Mumbai. This ends the monopoly of Reliance Energy Limited (REL) in the suburbs and BEST in the island city in power supply and allows consumers to choose their electricity supplier.

Maharashtra Electricity Regulatory Commission said TPC would have to present a detailed roll-out plan to the regulator before starting supply.

Power sector experts said TPC could also use the REL network to supply power to retail consumers in the suburbs by paying "wheeling charges'' under the Open-Access Policy. But it will not be able to use the BEST network in the island city as Open-Access Policy is not applicable in areas served by government undertakings. *(www.20twentytwo.blogspot.com, 09.07.08)*

OIL & GAS

Autocracy?

Virtually all the members of the Petroleum and Natural Gas Regulatory Board (PNGRB) have openly revolted against Chairman L Mansingh, condemning his 'autocratic' functioning and demanded a say in framing of regulations.

PNGRB is a recent government creation to regulate the petroleum refining, marketing and gas business where the private sector has a strong presence.

Mansingh did not recognise oil ministry's letter that Indraprastha Gas Ltd. (IGL) had been authorised for operations in Delhi, Noida, Gurgaon and Faridabad before the appointment of PNGRB, and asked the company to freeze its activities. *(BS, 11.07.08)*

Overcoming Gas Shortages

The Government took state-run oil firms to task for reported shortages in fuel supplies in some parts of the country and asked them to clear the waitlist for new liquefied petroleum gas (LPG) connections in 60 days.

Petroleum Minister Murli Deora reviewed the supply and distribution of essential petroleum products in the country and issued instructions for ensuring adequate supplies in the coming time.

The oil industry had taken some measures including supplying only costlier branded fuel at select petrol pumps and stopping new LPG connections to tide over huge revenue losses resulting from Government's decision not to raise petrol, diesel, LPG and kerosene prices in line with cost. *(BS, 19.08.08)*

Decontrol Coal Prices

The Government is set to decontrol pricing of coal, including coal from captive mines. The Prime Minister Manmohan Singh has approved the draft of the Coal Regulatory Authority Bill that entrusts responsibility of coal pricing to the regulator.

The Bill holds the regulator responsible for determining "the price of coal, including coal from captive mines". The Bill is expected to be introduced in the coming session of Parliament.

The proposed regulatory authority will put in place a reasonable and transparent coal pricing mechanism and promote competition in the sector. It will also determine transfer pricing in respect of captive coal and lignite mines. *(ET, 23.08.08)*

'Metro Extra' Tax

The high-level Chaturvedi Committee has recommended raising petrol prices by Rs 2.50 a litre per month till March 2009 and diesel prices by Rs 0.75 per litre till 2010 to eliminate subsidies on the two fuels.

The Committee also suggested levying a 'Metro Extra' tax of Rs 2 per litre on diesel, in four installments in large cities where the fuel was being used in expensive cars.

The Committee, besides suggesting freeing auto fuel pricing from Government control, also recommended changes in distribution of domestic LPG by restricting only six refills per connection a year. The report is yet to be accepted by the Government. *(BS, 11.08.08)*

MIXED BAG

Waiving Penalty

In order to insulate home loan customers from rising interest rates, banks are beginning to encourage customers to partly pre-pay their loans. Such pre-payments will help banks to access cheap funds from consumers that can be redeployed to high interest earning segments like personal and corporate loans.

This move by banks follows increases in the rate at which the central bank lends money to banks, and the cash reserve ratio, the percentage of deposits banks must keep with the central bank.

Banks are not, however, following this penalty waiver indiscriminately. If the customer has taken another loan to prepay the home loan, a fee is charged from them. *(BS, 03.07.08)*

New Rules

The Reserve Bank of India (RBI) has announced that bank customers who do not operate their accounts regularly will continue to earn interest rate of 3.5 percent on savings bank accounts and on fixed deposits after the maturity period.

The RBI has also barred banks from charging any fee on activation of inoperative accounts. Savings as well as current account will be treated as inoperative/dormant if there is no transaction in the account for over two years. Service charges levied by banks, however, will not make an inoperative account operative.

The RBI has asked banks to contact customers in case accounts have remained inoperative for more than a year and transfer the balance in the new accounts wherever they are available. *(TH, 23.08.08)*

High Interest on Credit Cards

Nearly all banks from public and private sector have raised interest rates to as high as 50 percent per annum for their credit card customers.

These rates are charged on credit card users for payments made after the credit-free period, which ranges from 15 days to two months, are more than three times the current benchmark prime lending rates of less than 15 percent at most banks.

The National Consumer Disputes Redressal Commission (NCDRC) came out with a ruling that "charging of interest at rates in excess of 30 percent per annum from the credit card holders by banks for the formers' failure to make full payment on the due date or paying the minimum amount due is an unfair trade practice". *(BS, 24.08.08)*

Cap on Insurance

To prevent insurance companies from paying more commission to agents and brokers than what guidelines allow, the Insurance Regulatory Development Authority of India (IRDA) has banned payment of any charges to intermediaries who bring business.

The regulator has also rationalised various slabs of insurance commissions with new rates becoming effective from October 01, 2008. A major change in the new regime is that there is no separate restriction on paying commission to large companies based on their paid-up capital.

However, for mega risks with a large sum insured, the commission has been capped at 6.5 percent. Earlier, the cap was applicable to companies with a small sum insured if the company had a paid up a capital of over Rs 20 crore. *(ET, 28.08.08)*

New Wine from an Old Bottle

– Nitin Desai*

The finance ministry's tenancy rights to the RBI governorship distort policy and regulation.

The 22nd Governor of the RBI has just been named. Since 1977, all incumbents, other than Dr C Rangarajan, have served as secretaries in the Ministry of Finance. The new governor continues this tradition. The real problem is not about quality. The unquestioning acceptance of bureaucratic progression from the Finance Ministry to the RBI distorts policy and regulation.

How will a Finance Ministry mandarin turned RBI governor fulfill his dharma of countering the fiscal profligacy for which he was at least partly responsible? How will he take a disinterested view of banking regulation when the greater part of the sector was under his ownership control till recently?

We need a firewall between the finance ministry and the RBI. On monetary policy, with the Fiscal Responsibility and Budget Management (FRBM Act), the new debt management office and the Rangarajan reforms on how the deficit is financed, some progress has been made. Even here the need to contain the government's borrowing cost may clash with the interest rate that the macro situation demands.

But when it comes to banking we have a long way to go. We do not have an independent regulator for the banking system akin to what we have for the capital market in the Securities and Exchange Board of India (SEBI). This function is exercised by the RBI, with a heavy hand, according to many bankers.

The regulator cannot be the owner of the entities being regulated and we must separate public ownership from the public responsibility for prudential regulation. Equally the regulator should not become a policy maker and take positions on matters like the role of private sector or foreign banks. The new governor must leave all ownership functions to the finance ministry. His job is the regulation, hopefully with a light hand, of banking as an industry to protect the interests of bank users and the general public.

The other problem is the lack of variety in the services on offer. The two rounds of nationalisation put more than 80 percent of commercial banking under single ownership. The Government and the RBI have a relatively fixed view of what "good banking" means and have enforced this "Identikit" approach to banking development leaving limited flexibility for the managers of banks. In addition to this the short tenure of most public sector heads leave no room for innovations.

Indian banking is entering a period of structural change with consolidation and globalisation. This needs less of regulation and more of entrepreneurship in the form of innovative and dynamic CEOs who get more than the usual 1-2 year tenure. Hence, in the broader interest of financial development the finance ministry must leave all supervisory responsibilities to the boards of the public sector banks and limit its own role solely to the constitution of these boards.

A more entrepreneurial and heterogeneous banking system will be better for all customers, particularly those at the bottom of the pyramid. This happened in capital market services after the government stepped back.

The slew of microfinance institutions that have come up in recent years on private initiative are an example of what is possible. But their impact is limited. They cannot provide deposit or money transfer services, for instance, even though they may be better positioned to do this at an acceptable cost.

Do all banks have to be cast from the same mould? Can we not contemplate a class of private banks mandated to provide only some services, capitalised at a lower level than the Rs 300 crore required by current regulations but restricted in their range of risk taking activities?

At the other end of the service spectrum we need to move fast to provide the corporate sector with domestic options for the financial services that they now have to buy abroad. The recent start of the currency futures market and the promise of interest rate futures are examples. But for these new markets and products to develop, domestic banks and other financial service providers must be allowed to operate as freely as their foreign counterparts.

The new governor, like all RBI heads, has to keep growth without inflation as his primary goal. But one hopes that he will also nudge the financial system closer towards more open competition that serves the needs of all deserving demanders of credit, depository or investment services.

* *Former Under-Secretary General of the UN. The article appeared in Business Standard, September 09, 2008.*

Investors are there for Infrastructure, but we've not Given them Enough Projects

Efforts are on to bridge India's embarrassing infrastructure deficit. Gajendra Haldea, Adviser to Deputy Chairman of the Planning Commission, is one of the designers of the policies related to the inevitable commercialisation of many infrastructure sectors.

Have the curbs on capital flows in the high-inflation situation and the global slowdown begun to adversely impact availability of funds for infrastructure projects in India?

Infrastructure sectors in India may not remain totally unaffected by the global slow down. It can have a marginal (adverse) impact. However, the overall (private) investor interest in India's infrastructure sector is now so robust that even a global slowdown would not resulting an inadequate flow (of funds). The bids received for certain projects, for example, the Hyderabad metro rail bear testimony to this.

Infrastructure deficit in the country is huge and the demand, largely pent-up, is very high. With most of the policy issues having been resolve, the whole scenario is very encouraging and expectations are running high. In the next few years, India will be witnessing a big expansion of infrastructure investment and growth.

But there are hardly enough projects on the cards for these investments to materialise. Among other things, dismal off-take of the government's viability gap funds also shows this.

The amount of viability gap funding sanctioned by the central government is merely an indicator of the number of projects proposed by the state governments. The problem is that rollout of projects has been rather slow. This is a governance issue. Except the Hyderabad metro all other metro projects in the offing, including Chennai, Kolkata, Bangalore and Kochi, are being envisaged to be built in the public sector by the respective state governments. That would mean an average investment of Rs 10,000 crore by each state.

How successful has been the government in addressing issues pertaining to user charges and universal service obligation, which are critical to attracting private investment?

Most of these policy-related problems have been resolved. Competitive bidding in sectors such as roads, ports and metro rail are now based on tolls and fares fixed upfront. In the port sector cost plus tariff system has been recently done away with. The new system allows normative upfront fixation of tariffs, which will not only be investor-friendly but also bring down the cost of services to the users.

The PPP model should not be seen as the government negating its responsibility of providing affordable infrastructure services to the people. The idea is that private sector efficiencies would bring down the cost to the user and also improve the efficiency of services.

As far as policy corrections are concerned, perhaps one area that is left behind is the power sector. Even though open access was provided for by the Electricity Act 2003, five years down the line we do not have a single consumer of electricity enjoying this benefit. The problem is that states have not framed the requisite rules and regulations to implement open access.

But is it always true that private investment will bring efficiency? Consumers in Delhi & Orissa where distribution is privatised are not exactly content with the quality of services they receive.

That is because international best practices were not followed by both these states when they opted for privatisation. In both the states public monopolies were replaced by private monopolies. Naturally these models would lead to sub- optimal results.

The Government is talking of some US$500bn investment in infrastructure over the next few years. The ADB pegs the figure at an even higher US$700-800bn. Are we realistically going to have this kind of money?

The 11th Five-Year plan envisages about Rs 602 lakh crore of private in infrastructure. So far as public funds are concerned about Rs 8 lakh crore would need to be raised by public sector entities through internal generation and market borrowings. The balance Rs 6.45 lakh crore would have to be provided out of budgetary resources and a bulk of this would be earmarked for rural infrastructure.

Of some US$150bn private investment being envisaged, how much will be foreign funds?

Our projections and policies are neutral to foreign investments as selection is based on open competitive bidding. However 20 to 30 percent of the total private investment could actually turn out to be foreign investment, depending on how the respective sectors unfold.

Do you have evidence to suggest that foreign investors are actually coming in? Except the US$5bn Citigroup – IDFC fund, we have not heard of any big commitment.

Of course various kinds of foreign investors – firms, individual investors, equity funds, MFs, pension funds etc. are showing a lot of interest in India's infrastructure sector. They have big plans. The constraint is that we have not yet offered a sufficient number of projects to absorb this potential investment.

Excerpts from an interview with Gajendra Haldea, Adviser to Deputy Chairman of the Planning Commission by K G Narendranath that appeared in the Economic Times, August 04, 2008.

Rating Agencies Under Lens

With the role of rating agencies under the lens across the globe, Indian financial sector regulators too have decided to review their functioning and explore the possibility of strengthening regulation. The SEBI has been asked to come out with a paper on it.

According to sources, the review is due to the global developments. The paper will be more like a discussion paper. At present, rating agencies in India do not fall within the purview of any regulator.

An issue under discussion is the possible conflict of interest between an agency's rating role and the consulting activity undertaken by it.

(BS, 01.08.08)

Credit in 24 Hours

The National Consumer Disputes Redressal Commission (NCDRC) has directed 88 commercial banks, including foreign banks operating in India to issue credit the same day or at the most the next day for local cheques deposited for clearance.

A Bench consisting of Chairman M B Shah and members Rajyalakshmi Rao and K S Gupta, was disposing of a complaint by Atul Nanda, a Supreme Court lawyer, who alleged that the banks were earning nearly Rs 621 crore in interest every day due to delay in crediting cheques sent for clearance.

The Bench asked the banks to publish on the notice board in each of their branches the salient features of the policy on collection period of outstation cheques and the interest payable in case of delay. *(TH, 31.08.08)*

Encourage Private Participation

Uttar Pradesh Government is all set to push core sectors such as power, roads, transport, industry, health, education, irrigation and drinking water, as major private sector investment would be welcomed.

The State Government has been pursuing the goal of attracting the private sector for a long time, and even though the industry has shown some interest, it has failed to usher in a wave of industrialisation in the State.

As a result, the Government would try to break the misconceptions that the industry may be having about the state and its business environment.

(FE, 08.07.08)

Buyers on the Sidelines

The global credit crunch and the US economic downturn could restrict big-ticket financial buyer activity in the second half of 2008, says a PriceWaterhouseCoopers report.

Though the total deal volume would be more or less the same as in 2007 at over 500, in 2008, trade buyers would primarily drive the global automotive mergers and acquisition (M&A) activity, and financial buyers will continue to remain on the sidelines as in the first half of 2008.

Private equity investments in 2008 have come down to 13 from 25 percent in 2007. However, experts opine that a certain amount of domestic consolidation along with inbound deals is also expected going ahead.

(FE, 09.08.08 & 15.09.08)

BoP Deficit

After eight years the country recorded a deficit in its fourth quarter current account in the country's balance of payment (BoP). This is attributed to the spiraling oil prices, a sliding stock market and a major slowdown in debt offerings.

According to the latest provisional data released by the RBI, the current account deficit was US$1,041mn during the quarter ended March' 08 compared with a surplus of US$2,563mn in the same period of 2007.

This is despite a 36 percent rise in income from services and remittances from Indian abroad. The overall BoP for the quarter ended in a surplus of US$24.99bn (US$20.45bn).

(ET, 17.08.08)

Feeling the Heat

Domestic cement companies including ACC, Ambuja Cements and Grasim are losing their market share in Punjab to cheaper cement imports from Pakistan. The State has a monthly cement consumption of 560,000 tonnes and about 10 percent of this demand is now being met through imports.

The landed cost of Pakistani cement in Punjab is Rs 35 less than the average price of the domestic companies. Pakistan is able to supply cheaper cement mainly because it is coming duty-free while the price in India includes an excise duty of 12 percent and a value added tax of 4 percent.

In 2007, the Government announced zero duty on cement imports. It scrapped the 16 percent countervailing duty and also withdrew the 4 percent special additional customs duty. *(BS, 08.09.08)*

Singur's Effect on FDI

Vince Cable, Deputy Leader of Liberal Democrats Party and MP, UK said unless the turmoil in Singur (West Bengal) is resolved it will impact the flow of foreign investment in India. He said that the problem faced by Tatas in Singur have a wider international ramification since the Tata group is looked upon as the face of corporate India.

Foreign investors will be sceptical about their investment in India, fearing they will face hard times. He said that the problem would not only tarnish West Bengal's image but eventually hit India's efforts in maintaining its position as an investment 'hotspot'.

(ET, 06.09.08)

Growth May Slow Down

The Prime Minister's Economic Advisory Council (EAC) projected a gross domestic product (GDP) growth rate of 7.7 percent in 2008-09, ending three years of growth in 9 percent range.

The EAC' attributed its growth forecast to a sharp slowdown in agriculture and a moderation in industry growth. The Finance Minister P Chidambaram said he is confident the GDP growth will be close to 8 percent in 2008.

C Rangarajan, Chairman of EAC is of the opinion that GDP growth may moderate to 7.5-8 percent in the current fiscal. He said that the economy is likely to slow down due to various external and domestic factors.

(FE, 15.09.08; 02.08.08 & BS 13.08.08)

Exemption to PSUs

The Government is planning to exempt Public Sector Undertakings (PSUs) from the price control blanket for 2-3 years. The Government is considering the proposal to help PSU tide over the increase in cost of raw material and also secure the manpower already invested in these companies.

PSU manufacture only the scheduled drugs and supply to institutions at a pre fixed price. According to sources, the Chemicals Ministry is expected to send the proposal to the law Ministry for vetting. This is the latest in a series of revival plans worked out by the government to save these ailing companies.

However, it remains to be seen how the pharma industry reacts to the Government's move for exclusive exemption for PSUs as the industry has been complaining of excessive price control. *(ET, 22.07.08)*

Governance Bodies for SEZs

Large special economic zones (SEZs) are likely to have their own local governance bodies on the lines of municipal corporations. Governance bodies will be established only in large SEZs especially the ones, which are multi-product zones as a minimum area of 1,000 hectors, is required to establish such zone.

According to sources, these bodies may either be modelled on the lines of townships developed by State Industrial Development Authorities like the New Okhla Industrial Development Authority (Noida) in Uttar Pradesh, or follow a Jamshedpur-like model, where a corporate house takes care of civic infrastructure. The Commerce Ministry will prepare the guidelines but it is for the State Government to adopt them.

(BS, 07.09.08)

Privatising Sugar Sector

The Uttar Pradesh Government is fast taking steps for total privatisation of the sugar sector in the State. In this regard, the Government has invited request for qualification-cum-request for proposal from advisers for transferring the assets and liabilities of 25 of the 28 cooperative sugar mills in the state.

This move is aimed at ushering in operational efficiency, improve production, reduce non-performing assets (NPAs) and mitigate non-productive overheads running into several crore of rupees annually.

However, the Government had to relax the terms and conditions and allow the change in land use for these corporation mills to attract the private players after the earlier lukewarm response. *(BS, 21.07.08)*

Unified Goods & Services Tax

The Centre has pitched for a unified goods & services tax (GST) model as opposed to the position taken by the states. The empowered committee, which represents the states had suggested separate goods and services taxes.

The Centre is understood to have differed with the states on certain operational aspects of the GST such as threshold of taxation and inter-state services. However, the Centre feels the power to collect tax on inter-state services should lie with it to keep disputes at the minimum level and to prevent evasion.

Meanwhile, the 13th Finance Commission has also sought details of the proposed model being worked out by the Centre and the states. GST is proposed to be introduced from April 01, 2010, to integrate all indirect taxes on goods and services at the state and the central level. *(ET, 28.08.08)*

Disinvestment of Stakes

The Finance Ministry hopes to push through a series of non-legislative reforms, chief among them disinvestment of minority stakes in around 10 central PSUs by listing them on the stock market.

The Government is expected to take advantage of the exit of the Left to push through various legislative reforms in insurance, telecom and pensions. But given that these will take time to pass through Parliament, the Government is betting on several non-legislative reforms that can be pushed earlier.

A meeting to discuss the disinvestment through public issues was held and the details like the number of companies, the issue size and the timing will be finalised soon.

(BS, 16.07.08)

Impact of Climate Change

The United Nations Industrial Development Organisation (UNIDO) said that climate change was likely to have a greater impact on India compared to many other countries.

The dependence on fossil fuels was exceptionally high, and this could lead to heavy environmental, social and regulatory costs causing a drain on the nation's resources as a direct impact of climate change over the next century.

Other impacts could be a higher increase in temperature as predicted by the UN's Intergovernmental Panel on Climate Change (IPCC), rapidly changing and increasingly unpredictable patterns of monsoon and rainfall, and decline in crop yields up to 30 percent by 2080.

(TH, 05.09.08)

Even After 3 Years

Even after about three years of the Right to Information (RTI) Act coming into effect, people face innumerable difficulties in accessing information, according to a survey conducted by Society for Participatory Research in Asia (PRIA) in 2008.

The main bottleneck in the implementation of the Act is the Second Appellate Authority or State Information Commissions. Commissions in Bihar, Gujarat, Jharkhand, Orissa, Madhya Pradesh and Kerala have poor disposal rates of appeals and complaints, and people have to wait for several months before their appeals are heard.

In Orissa, Bihar and Uttar Pradesh, there are widespread complaints of poor decisions (one-line orders without explaining the facts of the appeal) and a reluctance to impose penalties on Public Information Officers (PIOs). Commissions in Uttar Pradesh, Rajasthan and Madhya Pradesh, even after dealing with several thousand appeals and complaints, have penalised only a few PIOs. *(TH, 09.09.08)*

Corruption Still High

India has been ranked a lowly 74, two steps down since 2007, among 180 countries of the world on the worldwide Corruption Perceptions Index (CPI), prepared by Transparency International.

Corruption in Pakistan is higher at 140th place. Iran, Libya and Nepal are ranked 133, 134 and 135, respectively. Among other Asian countries, China is ranked 73, Russia 145, while Sri Lanka occupies the 96th position and Maldives is ranked 90. Bhutan is the least corrupt and is ranked 41st.

Denmark, Finland, New Zealand, Singapore and Sweden retain the top five spots as the least corrupt nations of the world, while bottom of table is occupied by Myanmar and Somalia.

(FE, 23.09.08)

Services Sector to Grow

The services sector is expected to grow at more than 9.5 percent during the current fiscal. The major impediments to services growth were global economic slowdown, deceleration in the economy and shortage of talent and skills.

The CEOs revealed that 97 percent of them would continue with their expansion plans in their own companies and also expected 90 percent of the firms in their area of business to continue to expand during 2008.

Majority of the participating CEOs expected employment to increase in 2008. 86 percent of them revealed that profits would be under pressure, due to the high interest rates and stiff domestic competition and increase in staff costs. *(FE, 07.09.08)*

Forecast on Growth

According to survey of professional forecasters conducted by the RBI, growth rate is expected to slow to 7.9 percent in 2008-09, a notch lower than the central bank's estimate of around 8 percent.

Profit growth of the corporate sector is expected to slow to 16 percent, lower than 25 percent expected in the previous survey, reflecting the aggressive spate of monetary tightening by RBI.

About 31 forecasters were surveyed out of which 20 participants responded and parts of this survey were used in RBI's policy statement. Annual money supply growth is expected at 19.5 percent in 2008-09. The trade deficit is expected to widen to US$126.2bn, a 50 percent increase from US$80.4bn in 2007-08, reflecting a increasing oil import bill.

(ET, 01.08.08)

Business-friendly Government

According to a PricewaterhouseCoopers Annual Global CEO Survey, India is one of the top three nations globally where the company's chief executives believe their Government is both business-friendly and reducing the regulatory burden.

The priorities that figured in the CEOs' list for government action include labour laws, tax regime, education, law and enforcement, environmental legislation, healthcare, product safety regulation among others.

Around 34 percent of corporate honchos in India believe that the Government is creating a business-friendly environment and 20 percent said the country has reduced the regulatory burden on corporations.

(ET, 11.07.08)

Price Hike for Drugs

The Government is considering liberalising the 10 percent mandatory cap on price hike for drugs outside price control. At present, non-scheduled drugs or drugs that are outside the direct price control of the government accounts for about 75 percent of Rs 33,000 crore drug retail market.

According to existing drug pricing laws, companies cannot increase the price of their drugs beyond 10 percent within 12 months. The Chemicals Ministry is looking at the possibility of modifying the 10 percent ceiling in view of the sharp rise in input costs and inflationary pressures.

The drug industry will soon submit a derailed proposal to the Government explaining why the cap should be reversed to the earlier 20 percent. *(ET, 20.08.08)*

Better Risk Management

The Raghuram Committee on Financial Sector Reforms has warned that vulnerabilities may be building up in India and pitched for a well-developed corporate debt market that is open to foreign investors.

The report has also urged for better risk management systems in public sector banks so that they do not become a 'destabilising' factor.

The report said that strict regulations and underdeveloped markets are no guarantee that risks are contained and in fact may create additional sources of risk, a forewarning of which may come from recent reports of substantial losses incurred by corporations on currency bets. *(FE, 17.09.08)*

New Lessons

D Subbarao, the new RBI Governor says the Bank is keenly aware of the need for financial sector reforms, including a review of opening up the banking sector to foreign competition.

A comprehensive report of the committee on financial sector assessment will soon be issued by the Government and RBI. He added that liberalisation and development of the financial sector over the last few years has been a key factor in financing our 9 percent growth.

Subbarao made it clear that RBI would draw lessons from current issues gripping global financial markets, yet to "sustain and accelerate India's growth story, financial sector reform aimed at improved efficiency and financial stability will remain important". *(FT, 09.09.08)*

Tea Regulator

Quality control of Indian tea is becoming an issue in international markets India could soon have a regulator for the tea industry to check the quality of the tea exported.

The proposal had been made by the Tea Board, an autonomous body under the Commerce Ministry.

Meanwhile, raising questions over the low returns to tea growers despite high prices, Minister of State for Commerce Jairam Ramesh said only 40 percent of the price paid by the consumer reaches the producer and bridging this gap between price paid by consumers and that earned by the primary producer is a huge challenge.

Measures like e-auction would reduce the gap between primary producers and consumers.

(FE, 07.07.08)

Corruption Reduced by Half

"Corruption cases in public sector banks have reduced by half in the past one year as a result of systemic changes in banks", said E M Sudarsana Natchiappan, Chairman of the Parliamentary Standing Committee on Personnel, Public Grievances, Law and Justice.

He further added that Banks, however, need to put in place proper systems and procedures to contain cyber crime, which could take place as a result of banks going in for e-transactions in a big way.

There is also a reduction in corruption cases related to settlement of non-performing assets (NPAs), and this is because all decisions related to NPAs are taken by a group of officers and not a single officer. *(FE, 10.09.08)*

Policy Framework for Tourism

Tourism industry in the country has asked the Government to formulate a regulatory policy framework to promote responsible tourism, stressing that more coordinated efforts are needed to develop the sector.

Noting that success of the industry depends on the management of "support" sectors, players in the sector also asked policy makers and stakeholders to get their act together to introspect and articulate what more needs to be done.

An appropriate regulatory policy framework is imperative. There is a need to introspect and articulate what needs to be done to make India Incredible for which effective coordination across sectors is required to address infrastructure, culture, environment, heritage and nature.

(BL, 11.09.08)

Generational Changes

The National Knowledge Commission Chairman (NKC), Sam Pitroda called for 'generational changes' to meet the deepening crisis of expansion, excellence and access in Indian education system.

Addressing a seminar on 'Building India's knowledge economy' organised by Federation of Indian Chambers of Commerce and Industry (FICCI) and NKC, he said, "We need to meet the shortage of teachers and transform them from deliverers of content to that of mentors".

He said the 11th Five Year Plan outlay on education was significant but the sector was still plagued with stifling controls and lack of public-private-partnership (PPP) initiatives to set up a large number of universities of excellence. *(BL, 13.08.08)*

Single Window for GM

Teething problems which may pose difficulties for the birth of the proposed National Biotechnology Regulatory Authority (NBRA) have begun to surface.

Experts have begun questioning the need for setting up of such an authority when existing regulator, the Genetic Engineering Approval Committee (GEAC), is already acting as a single-window clearance for genetically modified (GM) food products.

The draft National Biotechnology Regulatory Bill of 2008 did not contain a substantive portion for promising effective regulation. Experts opine that the Government should make the GEAC more accountable than contemplate on setting up the NBRA.

(FE, 29.06.08)

Ex-judges for Lucrative Posts!

Should judges retired from the Supreme Court accept or be given gubernatorial positions or such assignments that are monetarily lucrative?

Justice MN Venkatachaliah at the time of his retirement in 1994 said that since it is the conscious decision taken by an eligible person to become a judge, he must retire as that without accepting or aspiring for a lucrative post retirement assignment. He has not accepted any except that he headed a parliamentary panel set up to review the Constitution and to ascertain whether 'we failed the Constitution or the Constitution failed us'.

One of his successors, Justice JS Verma has now echoed the same concern. Similar concerns have been expressed by Parliamentary Standing Committee on Law and Justice EMS Natchiappan.

Jawaharlal Nehru, First Prime Minister of India had said, "We require top men in the administrative services. Nevertheless, the type of work that a judge does is somewhat different". *(DNA, 14.07.08)*

Governing by Committee

— Vikram S Mehta

Professionals and bureaucrats cannot sit in judgment of what are political issues.

The appointment of high powered committees comprised of professionals and bureaucrats to study the petroleum sector and in particular petroleum pricing are a time-tested vehicle for political procrastination. This is not surprising. Petroleum is a political subject and a committee comprised of professionals cannot dig the government out of what is essentially a political hole.

Over the past decade or so, the government has set up many committees to advise on the steps that need to be taken to place the oil companies on a firm financial footing. Four of these committees are notable because of the eminence of their chairman and the quality of their reports.

The 'R' group committee headed by Vijay Kelkar, currently chairman of the Finance Commission but formerly the petroleum secretary; Arjun Sengupta, former ambassador to the European Union and member of the Planning Commission; C Rangarajan, former governor of the Reserve Bank of India and until recently the chairman of the Prime Minister's Economic Advisory Council, and BK Chaturvedi, currently member of the Planning Commission but earlier the cabinet secretary and also petroleum secretary.

Each of their reports were marked by solid economic logic, analytic rigor and dispassionate clarity. Despite this, all of theicr efforts have essentially come to naught.

The simple reason why the government consistently ignores the findings of such high profile committees is because they come up with a singularly unpalatable recommendation of aligning the price of petroleum products with international prices.

The key question here is, why does the government persist in appointing committees comprised of professionals to address what is essentially a political subject. My suggestion is that the next committee on petroleum should be comprised of politicians and that it should come up with bold and practical suggestions on 'how' to implement what everyone knows must be done.

Petroleum sits at the nub of every politician's deepest dilemmas. The dilemma of equity versus efficiency: the poor cannot afford high prices and equity dictates that key commodities like kerosene and LPG should be provided to them at subsidised rates. But subsidies encourage smuggling, the black market and product adulteration. It is a major reason for financial and operational inefficiency. The dilemma of good economics versus tactical politics: the 'under recoveries' of the oil companies will deepen the fiscal deficit. The consequential pressure on interest rates will slow industrial growth and the economy. But what is the alternative?

A hike in the retail price of transportation fuels and the containment of subsidies to LPG and kerosene. The consequence could be a sharp electoral rebuff. The dilemma of control versus competition: petroleum is a sector of strategic significance. It cannot be left to the vagaries of the market. Government must have overarching control. But it cannot be denied that state controlled 'dirigism' has been the bane of the public sector; that competition is a major driver of technical innovation and breakthrough performance; and that our petroleum companies will not achieve world-class standards if shackled to bureaucratic control.

These are political dilemmas that can only be resolved by politicians. These are also dilemmas that lend themselves to empirical study.

The conventional political wisdom is that a hike in the price of petroleum products will inevitably undermine electoral support. I have no doubt that a stand-alone question to a voter, 'will you support a hike in the price of fuel', would indeed evoke a strongly negative reaction. But I wonder whether the reaction would be comparably negative if the question were, 'would you support small and phased price hikes in return for guaranteed product quality?'. Or to the question, 'would you vote for the person who 'promised' subsidised kerosene but was unable to deliver or the person who raised prices but gave secure supplies?'.

Politicians have knee-jerk negative reactions to any suggestion that involves a price hike. However, against the backdrop of product shortages, black marketeering and quality adulteration – all the consequences of our distorted pricing and taxation structure – I wonder whether the fears of politicians are not simply a reflection of their preconceptions and expectations than of voter reality.

The hard truth cannot be swept aside. We are inextricably connected to the international oil market and volatile prices. Committees can serve a useful purpose in drawing up the consequential route map. But only if there is the political resolve to consider its recommendations seriously.

– Chairman of the Shell Group of Companies in India. The article appeared in the Financial Express, September 02, 2008.

How well is NREGS?

The Comptroller and Auditor General of India has pulled up the Karnataka Government over the delay in notification and implementation of the National Rural Employment Guarantee Scheme (NREGS).

Several *gram panchayats* had not issued job cards for over 2500 households even after the households had applied for them, thus flouting one of the major guidelines of the scheme.

The State Government also delayed in constituting the State Employment Guarantee Council to regularly monitor and review the implementation of the scheme. No five year plan was prepared to help advanced planning and provide developmental perspective for the district. *(FE, 08.09.08)*

New Fertiliser Policy

The new fertiliser policy will boost investment in the sector from private players. Credit Rating Information Services of India Limited (CRISIL) has observed that gas availability will not be a constraint for new urea capacities.

CRISIL estimates that the long term pricing of domestic gas will be between US$7-9 per million British thermal unit adjusting for the declining availability of administered price mechanism gas.

The policy indicates the normative price of urea at 85 percent of the import parity price, subject to a floor price of US$250 per tonne and a cap of US$425 per tonne respectively for urea produced from the new capacities going forward. *(FE, 18.08.08)*

New Pension Scheme

The UPA Government has thrown open the New Pension Scheme (NPS). The Pension Funds & Regulatory Development Authority (PFRDA), would be designing pension schemes for the unorganised sector, the private sector and individuals.

PFRDA would launch the new schemes through the existing three fund managers of three state-owned institutions-State Bank of India, UTI Mutual Fund and the Life Insurance Corporation.

Subscribers of NPS would enjoy facilities, such as portability across jobs and locations, choice of pension funds and investment schemes, freedom to switch between service providers and nationwide access over the Internet and telephone. *(FE, 29.08.08)*

Decontrolling Sugar Industry

The Union Cabinet is expected to soon clear the Food Ministry's proposal recommending dismantling of the 10 percent 'levy' from the new crushing season, beginning October 2008.

This will help mills to freely sell their entire sugar without awaiting 'release orders' from the Directorate of Sugar. Presently, mills are obliged to deliver 10 percent of the sugar they produce as 'levy' for the public distribution system (PDS).

As regards the PDS, the State Governments will have the option to procure sugar from the open market and obtain a fixed reimbursement from the Centre for selling at below market price through ration shops. *(BL, 02.07.08)*

Evaluation of Flagship Schemes

Prime Minister Manmohan Singh has called upon the Commission, the Finance Ministry and the Department of Statistics to collectively work out details for setting up an office for the purpose of evaluating United Progressive Alliance (UPA) government's flagship programmes in and rural employment, education and health sectors.

Dr Singh also said the Government was looking at making all non-strategic information public. "A proactive policy of disclosure will be in keeping with the spirit of the Right to Information Act.

He said the Government should be at arm's length from the process of independent evaluation of flagship social sector programmes. *(ET, 10.09.08)*

Employment Guarantee

The Government has proposed the creation of a job guarantee fund under National Skill Development Corporation (NSDC). NSDC will enter into an Memorandum of Understanding (MoU) with recruiters to hire people and provide for a job-guarantee fund.

NSDC will create a job placement website and ensure a certain number of qualified workforce every month to the employers. NSDC will be registered as not for profit Company under section 25 of the Companies Act 1956 as a public company with limited liability with a capital base of Rs 10 crore. *(ET, 20.08.08)*

Govt May Defer Implementation

The Government may defer the implementation of the Sixth Pay Commission award to January 01, 2008, reducing the fiscal burden of the recommendations that proposed a 28 percent across-the-board salary increase for an estimated 4.5 million central government employees.

The new pay scales, if implemented as originally recommended (from January 1, 2006), would have cost the exchequer Rs 7,975 crore in fiscal 2008-09. However, the one-time additional outgo on account of the retrospective revision of salaries is estimated to be at Rs 18,060 crore.

Experts opine that the impact of the recommendations would not exceed 0.5 per cent of GDP, unlike the previous fifth Pay Commission award when the impact was much higher. *(BS, 04.08.08)*

Right to Education Bill

The Cabinet is expected to take up the Right to Education Bill, 2008 which envisages free and compulsory education to around 19.2 crore children between 6 and 14 years.

Under the Bill, private unaided schools would have to obligatorily set aside 25 percent of the seats at the entry level for disadvantaged children in the neighbourhood. The Government spends roughly Rs 1,700 per child as against an average of Rs 1,100 by a private school.

However, if the school has received some concession, such as cheaper land, in lieu of providing admission for disadvantaged children, then the government will not make any payment. *(FE, 08.08.08)*

Bill to Check *Bandhs*

The Kerala Law Reforms Commission has recommended a Bill entitled, 'The Kerala Prohibition of *Bandhs* and Regulation of Hartals Bill' to ban *bandhs* and regulate and place restrictions on the conduct of hartals.

The Bill would not allow any person to conduct any *bandh* or hartal except in a manner as permitted in the Bill. However, a strike permitted by the existing labour laws shall not be considered as a *bandh* or hartal.

The Bill proposes to constitute a committee for giving permission for holding hartals. The persons or organisations proposing to hold a *bandh* or hartal on a particular day shall file at least seven days prior to such date a detailed representation before the committee. *(TH, 13.09.08)*

Biofuel Policy on the Anvil

The National Biofuel Policy may finally see the light of day, albeit in a watered down version in September 2008. A draft policy has been sent to the Union Cabinet for formal clearance.

The draft recommends the creation of a biofuel development board led by the minister of new and renewable energy (MNRE) to monitor the implementation of the policy. With a funding of Rs 1,200-1,400 crore, the board's aim would be to promote the use of biofuels and ensure biofuel feedstock sustainability through a programme sponsored and monitored by the Centre.

This programme will include the development of germplasm banks and supply mechanisms for non-edible grade biofuel plants. *(FT, 09.07.08)*

Amendments to Act

As a deterrent for drunken driving, on-the-spot suspension of driving licence for up to three months is on the cards as the Government proposes to introduce a Bill in the Parliament to amend the Motor Vehicles Act, 1988, for traffic offences.

The proposed amendments would enable to enhance the penalties for traffic offences, provide more powers and teeth to the states and Union Territories. The move will also make regional transport authorities more responsive in the discharge of their duties and responsibilities and rationalise the provisions dealing with payment of appropriate compensation to road accident victims.

The amendments also include imposing a fine of Rs 5,000 on a negligent driver, who causes injury to a person or damages property. The offence of overloading vehicles would no longer be compoundable after the amendments are carried out. *(FE, 07.08.08)*

Reform Package Suggested

The State Government is working on a legislation to amend the Cooperative Societies Act in the wake of its decision to implement the reform package for cooperative societies.

The legislation will cover a number of issues, such as granting operational autonomy to cooperative societies with regard to appointment of staff and pay structure, limiting the State government's powers to supersede the elected bodies and removing State intervention in financial and internal administrative matters.

It envisages ensuring full voting membership rights on all users of financial services including depositors in cooperatives other than cooperative banks. *(TH, 19.06.08)*

Pension Reforms Soon

The pension reforms bill to set up a regulator and give more freedom to subscribers for investing their retirement money is likely to be tabled in the Parliament soon.

The Pension Fund Regulatory and Development Authority Bill (PFRDA) was introduced by Finance Minister P Chidambaram way back in 2005 to replace the ordinance promulgated in 2004 for setting up the regulator.

The Bill was referred to the Parliamentary Standing Committee after the Left parties opposed the legislation. The standing committee recommended the bill with some modifications. *(BS, 05.07.08)*

Energy Policy Soon

The Planning Commission will place the Integrated Energy Policy before the Cabinet for approval. Montek Singh Ahluwalia, Deputy Chairman, Planning Commission said that the Policy would be a framework for the government to follow, in order to ensure energy security and meet the country's growing energy needs.

The Prime Minister, Manmohan Singh has asked the Commission to finalise the draft policy after incorporating any suggestions made by the ministries in the energy sector so that the country has one single integrated energy policy to address its energy issues.

The draft policy has suggested setting up of a common appellate tribunal along with sector-specific regulatory bodies. It has also emphasised the need for acquisition of energy assets abroad to meet the country's energy needs and achieve the targeted economic growth. *(FE, 20.09.08)*

Regulator's Neutrality a Must to Ensure Level Field

– M R Maya

The growing monopolistic trend in the stock exchange is not in the interest of investors, It is time alternative trading platforms are created, on the lines of electronic communication networks and other initiatives in some developed markets.a

The SEBI Chairman, C B Bhave, deserves to be congratulated for his recent statement that SEBI "has no intention of forcing any merger or consolidation between the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE)" adding that "it wants to promote competition among bourses in the country". Unfortunately, the stand taken in the initial stages of SEBI regulation was to encourage the NSE and curb the BSE's growth.

The NSE was set up in November 1992 with ample funding from financial institutions and commercial banks, as a state-of-the-art stock exchange – a rare experiment, as stock exchanges the world over are set up by private enterprise and not by government-sponsored institutions.

Against this, the BSE had to face hurdles placed in the way of its efforts to raise resources by admission of 96 new members, each with an entrance fee of Rs 55 lakh, with the regulator raising objections to the admission procedure, seemingly with a view to crippling the Exchange's operations.

No neutrality

As a result, the BSE's computerisation programme was delayed as the Exchange did not otherwise have the resources to meet the cost of computerisation. The decision to admit new members, which was taken in 1991-92, could be completed only in 1993-94. This, in turn, delayed commencement of online trading through the BSE On-Line Trading System, which commenced only in March 1995.

Even the advantage the BSE enjoyed by the introduction of modified carry-forward system operative from January 1995 was neutralised by the commencement of Automated Lending and Borrowing Mechanism (ALBM) by the NSE in February 1999, which was akin to badla, the difference between the two being the same as between Tweedledum and Tweedledee. In fact, badla had an edge over ALBM as the checks and balances in the badla system by way of margins, limits on holdings, etc., did not exist in ALBM.

As a result, even in 1995-96, the NSE recorded a turnover of Rs 67,287 crore, while the BSE's turnover declined from Rs 67,749 crore the previous year to Rs 50,064 crore.

Thereafter, the BSE's share has been progressively shrinking while that of the NSE has been rising. In 2007-08, while the BSE clocked a turnover of Rs 15.79 lakhs crore, the NSE's turnover zoomed to Rs 35.51 lakh crore, with practically no trading at any other stock exchange in the country. The BSE's share is a meagre 30 percent or so, and the NSE's is 70 per cent.

Derivatives

The NSE did not have the prime mover advantage in derivatives that it had in the cash segment. Trading in derivatives started simultaneously both at the NSE and the BSE in June 2000. In fact, in the ten months from June 2000 to March 2001, the volume of turnover in the BSE was higher, at Rs 2,365 crore against Rs 1,673 crore at the NSE.

The turnover at the NSE zoomed year after year, to register a staggering figure of Rs 130.90 lakh crore in 2007-008. At present, the turnover at the BSE has virtually zeroed down.

SEBI's recent decision permitting cross-margining between the cash and derivatives segments will give a further advantage to the NSE over the BSE, as there is no trading in derivatives in the latter, at present.

As against the present near-monopolistic position among the stock exchanges, there is keen competition today in the depository business between National Securities Depository Ltd. and Central Depository Services (India) Ltd.

As a result, there has not only been a significant reduction in the charges investors pay but also in terms of service. The Indian depository system has indeed become a model for the global markets.

Monopolistic trend

The monopolistic trend in the stock exchanges, gaining strength day by day, is not in the interest of investors. It is, therefore, time we thought of creating alternative trading platforms on the lines of developments in some of the developed markets.

Electronic communication networks (ECNs) which match orders of clients and send the residual trades to the stock exchanges have sprung up in these markets. The BSE can do it provided its members make the initial sacrifice of executing trades in the derivatives segment, even if it means a little loss to them.

Once this is done, automatically liquidity will be generated which can lead to higher volumes getting progressively executed. Will they do it? Time alone will decide.

– Former Executive Director, Bombay Stock Exchange. Abridged from an article that appeared in the Hindu Business Line, July 03, 2008.

Ocean Freight to Come Down

Ocean freight may finally come down. The Competition Commission of India (CCI) has asked the Indian shipping industry to desist from fixing rates and issuing advisories to members on freight rates.

The Indian shipping consortium – Karmoham Conference known as the India Pakistan Bangladesh Ceylon Conference (IPBCC), comprising some 13-member countries, may fall in line. The CCI had alleged that IPBCC was colluding and fixing freight rates in Asia, creating a monopoly.

The European Commission has decided to exclude shipping from the exemption extended to a few industries from its anti-competition law. The reason is that shipping conferences have been collectively deciding rates and users have the option either to take it or leave it, creating a price monopoly of sorts.

(ET, 01.07.08)

Cartels Plague Railways

Cartels, bid rigging and corruption plague Indian Railway's procurement, which runs into thousands of crores every year, says a CCI study.

In 2006, as many as nine firms participated in a tender for procuring high speed cast steel bogies, of which seven quoted the same price of Rs 99,638 per bogie for less than 50 percent of the requirement, The Energy Research Institute (TERI) report said. The report concluded that there are "cartels operating in railway procurement.

The audit report of Comptroller and Auditor General of India, 2006, examined 19 items and highlighted that there was "cartel formation in nine out of 31 tender cases examined for pre-decentralisation period".

(BL, 02.07.08)

Strict Compliance Standards

With the CCI soon to get enforcement powers, companies have been asked to set up strict compliance standards for their employees to follow. The regulator says company executives while dealing with trade associations and competitors should avoid discussing topics like market volatility, pricing, profit levels and project bidding, among others.

With the penalty prescribed for cartelisation extending to 10 percent of the cartel's turnover, CCI has urged enterprises to be transparent in their operations and maintain strict in-house compliance standards.

(ET, 07.07.08)

Dealing with Predatory Pricing

Companies bringing innovative products to the market at competitive prices would be able to do so without fears of indulging in 'predatory pricing' under the Competition Act. The CCI has also proposed that the issue of predatory pricing will not be applicable to introductory offers, clearance sales and stock disposal.

According to CCI's draft regulation on determination of cost of production, the formula for calculating predatory pricing would include elements, such as the raw material cost, electricity, any consumable items like oil, and manpower.

Unexpected costs incurred, as a result of natural calamities or fire or accident or such other losses will be excluded in determining the average variable cost. *(BL, 07.07.08)*

Dish to Specify Scheme

The MRTPC has granted interim relief to complainants against Dish TV's free set-top box offer. The scheme that offered a free set-top box or hardware on one year's subscription with Rs 3,990 worth movies for download had been advertised aggressively.

Stating that Dish TV's free set-top box advertisement would cause irreparable loss to consumers in general, the Commission had granted relief on the applications of Hari Shankar and the consumer organisation, *Sajag Upbhokta Shakti Sangathan Samiti*.

A temporary injunction restrains Dish TV from representing in any media that a set-top box comes free-of-cost or rental without indicating the scheme. Dish TV's ads did not specify that the free set-top box was available only on one year's subscription.

(BL, 08.08.08)

Change in Regulation

The CCI has changed its merger regulations so that only if all the parties involved in a deal will separately have a minimum prescribed business presence in the country would the commission's approval become necessary.

CCI will not investigate a case if the foreign entity has no presence in the country even if it has plans to enter India with the same or substitutable product of the local company.

Indian regulations are flexible to the extent that even if the foreign partner at the time of the deal highlights an intention to enter India later, the CCI will refrain from scrutinising the deal if both the entities do not cross their threshold limits. The CCI can only apply retrospectively the provisions of the merger regulations after its operationalisation likely by the end of 2008. *(ET, 22.07.08)*

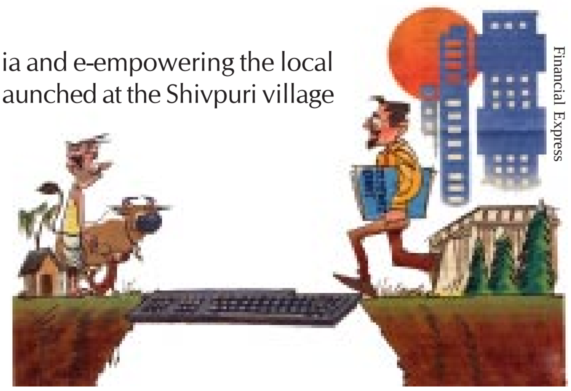
TataSky Under Scanner

The Direct-to-Home (DTH) operator TataSky has come under the scanner of the Monopolies and Restrictive Trade Practices Commission (MRTPC), based on a petition filed by Voluntary Organisation in Interest of Consumer Education (VOICE) for monopolisation of price and imposing unjustified cost on the subscribers'.

VOICE said though TataSky claimed to reduce the cost, it removed prime channels such as BBC, Ten Sports, ESPN, STAR Sports, STAR Cricket etc from its base packs.

Action of TataSky in blacking out the said channels and removing it from the base pack enjoyed by the subscribers was clearly a monopolisation of price and imposing unjustified cost on the subscribers and to deprive the viewership of the said channels unless the subscribers pay more. *(PTI, 25.07.08)*

Bridging the Digital Divide



In an initiative aimed at bridging the digital divide in rural India and e-empowering the local governing bodies, a pilot Digital *Panchayat* project has been launched at the Shivpuri village in Guna, Madhya Pradesh.

The Digital Empowerment Foundation project that aims at setting up a dynamic and interactive website for every *Panchayats* in the district by making use of Information Communication Technology (ICT) tools to help communities explore the vast opportunity to leverage their local knowledge, assets, wisdom, products and services for their own benefit, and for establishing a global presence.

The Digital *Panchayat* will primarily focus on areas of governance, health, enterprise, agriculture, tourism, employment, education, culture, tribal, gender and microfinance. The project was an extension of its wider concept of the Local Area Portal programme that aims at connecting the rural India through a bottoms-up technology approach. *(I-Government, 13.08.08)*

Tenders Go Electronic

The Uttar Pradesh Government has decided to implement e-tendering from 2009 to bring in transparency in procurement by the state agencies and departments.

This electronic system would not only be easy for the parties participating in the e-tendering process with simplified complicated legal and administrative procedures but will also minimise the massive paper work and ensure easier documentation for the concerned departments.

Besides, the electronic process would check the influence of mafia elements involved in the lucrative government procurements amounting to several crores. *(BS, 06.07.08)*

Sharing IT Expertise

India is keen to share its expertise in Information and Technology with the Commonwealth countries to help them take up e-governance in a big way.

Lok Sabha Speaker Somnath Chatterjee, said that there was a need for making available authentic information to MPs to enable them function effectively for which, generation of electronic data base and introduction networking technologies has helps MPs in India to take "informed decisions".

Chatterjee said that in India E-governance Plan is being implemented as the Central, State and local government levels at a cost of Rs 2,30,3000 million. He pointed out that the launch of the Lok Sabha TV has help in disseminating vital information about Parliament and its functioning. *(BS, 09.08.08)*

Software for Education

The Maharashtra Knowledge Corporation Limited (MKCL) has conveyed to the State Government it's intent of developing a software to facilitate quality academic and administrative e-services in the state's primary and secondary education systems.

The MKCL has been successfully running an educational portal 'Digital University' that offers such e-services in the higher education level at a cost of Rs 50 per student. The online admission process for external students at the University of Pune forms a part of these e-services.

The challenge ahead lies in replicating this model with appropriate changes to suit the school education requirements at the primary and secondary education levels. *(ToI, 14.07.08)*

Enhancing Administration

Experts from over 40 countries will assemble at the Asia's largest meet on 'e-governance and digital learning' in New Delhi to discuss ways and means of infusing ICT to provide better governance across rural and urban India.

As many as 4,000 delegates are expected to deliberate on issues like providing "simple, efficient and prompt services to citizens through mobile and internet".

The conference will focus on making e-governance initiatives available in rural India among other issues. Apart from discussing ways and means to leverage the capabilities of ICT to promote good governance across the country, the delegates will focus on digital learning to achieve 'education for all' goal. *(BS, 27.07.08)*

Commercial Taxes Launched

The e-governance services of the Commercial Taxes Department , which includes online filing of 'W' returns, e-request for saleable forms and online fast track check-post clearance system was recently launched.

The system would do away with the manual filing of the returns at the Commercial Tax office, i.e. eliminating the need for the dealer to visit the office and ensure speedy disbursement of refunds.

Under the fast track clearance system, dealers can register through the website details of the goods being transported. The acknowledgement generated through the website could be carried along with the goods. *(TH, 19.07.08)*

Way to E-governance

The Meghalaya Government has planned to set up 225 Common Services Centres (CSCs), mostly in rural areas, in a bid to pave way for e-governance in the State.

The CSEs are part of the two pronged strategy to develop the state's IT sector. The centres will provide government-to-citizen and business-to-citizen services like issuing certificates and licences etc.

These centres will provide services at the doorsteps of the citizens and also serve as learning centres, by charging very nominal rates from the citizens. *(PTI, 02.07.08)*

E-Governance in India

– S Ramadorai

For e-governance to succeed in India, the most important change that needs to take place within government, at the central, state and municipal levels is not an understanding of technology or an ability to leverage it or even the need to re-invent government processes and systems.

For e-governance to make a tangible difference to the lives of the millions of un-served and under-served in our country, the government has to switch from a mindset of procurement where technology is seen as an input to one where it is focused on outcomes and services.

IT arms of various government departments have purchased hardware, software, services and networks from multiple vendors. All this has resulted in disparate, often out-dated systems, standards and technologies that cannot interface and consequently prove to be an obstruction to intra and inter-departmental information sharing and collaboration.

What is required at this stage in India's government sector is a strategic shift from the commodity-based IT approach to a mature solution- or services-based approach. The government sector needs to start procuring IT services rather than procuring hardware and software.

E-governance demands fundamental changes in the way government departments work. Reengineering and modernising processes are an integral part of any e-governance project implementation.

Within this new approach, the IT related needs of government organisations are addressed in conjunction with an IT partner, and after a thorough consultation process. This public-private-partnership (PPP) model for managed services enables government to concentrate on core, mission critical value-adding activities while moving the technology-related requirements to IT professionals (IT partner).

A change management strategy has to be the starting point for e-governance, which can include identifying champions of change, ensuring commitment to change, facilitating the participation of stakeholders, devising a communication strategy, enabling IT training and setting up a mechanism for continuous learning.

So far, resistance in government has led to piecemeal implementations that do not enable us to leverage technology and transform government in a holistic manner. All this has meant that e-governance efforts in government are primarily based on computerising age-old processes within existing departmental boundaries.

As a result, all that happens is the computerisation of cumbersome, often out-dated processes and hence neither the government nor the citizens commensurately benefits from it. Simply digitising existing processes merely adds another additional layer of expense, complexity, delay and confusion.

E-governance demands fundamental changes in the way government departments work. Re-engineering and modernising processes are an integral part of any e-governance project implementation. Digitisation should take the processes and workflows of a government enterprise to a higher level.

It may necessitate empowerment of employees and de-layering of decision making levels. It will also provide traceable records; enable enforcement of individual performance, accountability, efficiency and productivity, as well as transparency of policies and processes.

What is needed to bind these elements together is leadership. The commitment of top leadership is important for the success of e-governance initiatives. Many e-governance projects in government enterprises have faced problems when the administrative officer responsible for a specific programme leaves or gets transferred.

On the other hand, a successful milestone in e-governance in India was the MCA21 project, a major initiative by the minister of corporate affairs that has led to digital transformation, involving redefinition of many processes and redesigning of multiple forms.

Wherever possible, e-governance solutions should be replicated. However, the efforts largely remained confined to building of technology infrastructure only with big gaps evident between deliverables conceived by different departments and their actual realisation in so far as e-governance applications were concerned.

These gaps could well be due to over-emphasis on technology by different departments rather than adopting a holistic approach by involving various stakeholders while formulating their plans. This highlights a mindset of procurement vis-à-vis that of service orientation.

Typically, governments have been giving maximum weightage to the cost factor while selecting an IT partner, leading to selection of unsuitable IT players and the subsequent failure of the entire initiative. First of all, the focus needs to be on total cost of ownership, not just the initial cost.

Secondly, the quality of services being offered should be given more weightage during the evaluation process. Successful e-governance programmes have shown that citizens, for instance, prefer to pay service fees if technology can save them time, effort and the opportunity cost. These also need to be factored in, wherever necessary.

The government needs to adopt the methods typically used in enterprise wide IT implementations in the corporate sector. In other words, think big, start small and scale fast.

– CEO and MD, Tata Consultancy Services. The article appeared in the Economics Times, June 30, 2008

Online System for Grievances

The Government of Himachal Pradesh is planning to evolve an online system of public grievances monitoring, which would connect the office of the Chief Minister to the common man at the grassroots.

Under the proposed system, any person could register his complaint through cyber cafe, personal computer or even in the Deputy Commissioner Office.

With the adoption of this new system, complete transparency would be ensured from the highest office to grass root level besides accountability of the officers towards the public. *(iGovernment, 27.08.08)*

Solar Rickshaws in Delhi

The Central Government will introduce solar rickshaws in the Chandni Chowk area of old Delhi, which replace man-pulled pedicabs in the Chandni Chowk area of old Delhi.

The rickshaw would approximately cost Rs 17,000, weigh 210 kg and be able to run at a speed of 15 to 20 km per hour. It would be run by a solar battery, which would suffice for a journey of 70 km. The battery would take five hours to be charged with the help of solar panels in the charging unit which will be functional above the Delhi metro stations.

The solar powered rickshaws in Chandni Chowk would be a pilot project and its success will pave the way for implementation in other areas. *(iGovernment, 22.08.08)*

Smart Card to BPL

The Central Government launched the *Rashtriya Swasthya Bima Yojna* (RSBY) by distributing smart cards to below poverty line (BPL) families for availing free medical treatment in designated hospitals in the national capital.

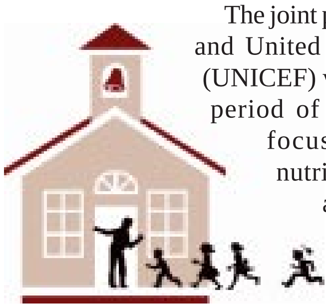
The smart card consists of photographs of five members of the family, including its head, their fingerprints and a toll-free number and would be able to get cashless treatment up to Rs 30,000 for a family of five persons on premium of just Rs 30 per annum.

In addition to government hospitals, this facility is also available in more than 80 private hospitals thereby providing cashless treatment for 750 types of diseases.

(iGovernment, 21.07.08)

Action Plan to Reduce Mortality

The Ministry of Women and Child Development in India has launched a country action plan to reduce infant mortality and maternal mortality rates within five years and improve other indices related with development of children.



The joint plan of Government of India and United Nations Children's Fund (UNICEF) will be implemented over a period of five years (2008-2012), focusing on improving the nutrition status of the mother and child, availability of clean and safe water, protection of children from violence, exploitation and child labour.

UNICEF would spend about US$700mn over these five years in India under the programme. The advocacy and partnership will be an important component of the action plan to build a voice for children and their rights through civil society. *(iGovernment, 22.08.08)*

CORPORATE GOVERNANCE

Hyundai's New Programme

Hyundai Motors India launched its 'Happy Move Global Youth Volunteers' programme as part of its corporate social responsibility, sponsored by the company headquarters in Korea.

While launching the programme, HM Managing Director H S Lheem said it aimed at prevention of communicable diseases and would counsel schools on the same. It would also launch a mobile clinic with all facilities to link peripheral hospitals to the base hospitals.

Under the programme, 20 medical professionals and students from Korea would come to India for rural exposure, serving the students and doctors to enhance the quality of life and environment in Kancheepuram and Poonamalle blocks of the area.

(ET, 28.07.08)

No Attention to Governance

Prime Minister Manmohan Singh cautioned corporate India that it will fail to compete without a worldwide recognition for good corporate governance, which he regretted is not getting adequate attention in the public discourse.

Describing the chartered accountants as 'the watchdogs of new corporate world', he said, "the dynamism of globalised capital market and emergence of knowledge based economy has posed major challenges to accurate and speedy financial reporting".

He further said "in the era of protectionism few bothered about corporate governance and transparency in accounting and management. Such laxity is no longer possible...Shareholder democracy has come to stay...".

(TH, 01.07.08)

Permit Law for Liability

A law will soon be enacted to permit limited liability partnerships for professions like chartered accountancy.

This would help in the consolidation and growth of small firms and promote multi-disciplinary practices in line with the evolving global trends. India at present does not permit limited liability clause for partnership firms, as a result of which all its partners are jointly and severally liable in the event of losses.

Even the personal assets of a partner and his immediate family can be used to settle debts and pay off creditors in the event of loss. This apart, chartered accountancy firms cannot float private or public limited companies. *(ET, 01.07.08)*

Evolving Role of the Private Sector in Agriculture

– Rana Kapoor

Indian agriculture has witnessed significant transformation over the past few decades. But these changes have unfortunately not been accompanied by changes on the institutional and policy front. Even in instances where amendments have been introduced on the policy front they have not necessarily been accompanied by changes on the organisational and institutional fronts. This disconnect has limited the growth potential of this vital sector.

The need to develop a long-term strategy that would reduce the vulnerability of the farming community and accelerate agricultural growth is thus imperative. What are required are institutional reforms and technological breakthroughs, which trigger agricultural transformation. It is here that the central and state governments play a key role through national and state research systems as the future and success of the agricultural sector in India depends on how the Centre and states function with respect to each other, and how they facilitate the sector across the country.

While the Centre would continue to play a major role on the funding front, the various state governments need to take on the onus of developing the sector in their respective states since there is no dearth of funds.

There also exist administrative and legislative issues that keep cropping up between the Centre and states, as well as between states. There is an urgent requirement for immediate improvement and harnessing of the synergies of central and state organisations in the areas of agricultural research, extension and education by evolving appropriate institutional arrangements.

The *panchayati raj* institutions also need to be re-integrated fully into the agricultural system for sustainable and equitable growth. The hitherto problem of non-involvement of farmers in the planning process will be addressed by involving the *panchayati* system in the process of agriculture planning by introducing the three-tier system.

It is imperative to develop a long-term strategy that would reduce the vulnerability of the framing community and accelerate agricultural growth. Importance of the private sector in agriculture is now being increasingly recognised in terms of additional investments that it can mobilize as well as its greater efficiencies which ensure superior service delivery to the end consumer.

All of the above would require focused and strategically designed institutional reforms that would facilitate the movement towards a robust agricultural sector jointly driven by the public and private sector. The need of the hour is an in-depth analysis and review of the current system, identification of the problem areas and the subsequent formulation of institutional and policy reforms that would ensure an efficient governance mechanism to facilitate the new/reformed system.

A well developed food value chain is essential for the development and success of the Indian agribusiness sector. This, however, requires the identification and implementation of appropriate projects and interventions. Lack of agri infrastructural facilities can severely affect, and in fact nullify, the gains in value and efficiency in the agricultural sector. These bottlenecks need to be dealt with and removed in a focused manner. This can be done by facilitating and extending Public Private Partnership (PPP) principles from the infrastructure sector to the agribusiness sector.

Additional investments that the private sector can mobilise as well as its greater efficiencies, ensure superior service delivery to the end consumer with the objective of maximising service to the common man at an affordable price. PPP has thus been recognised as an important facilitator of and a probable mechanism to facilitate and foster the participation of the private sector along with the government, both central and state, in order to achieve social objectives as well as ensure the marketability and profitability of the agricultural sector – both in terms of technology and final output.

Financial institutions (FIs) play a key role in the agri-business sector, primarily on the credit front due to the priority sector lending requirement .In order to make FIs should be an integral component of the agri-system and finance should be available at each and every stage of the value chain in order to make the agri-system sustainable. Government should refrain from direct participation but should facilitate this integrating process by creating appropriate institutional mechanisms and policy frameworks.

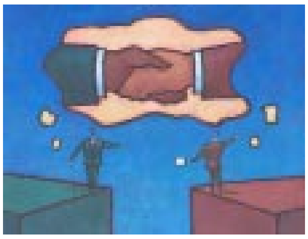
The Government should also aim at reducing the dependence of farmers on subsidies and loan waivers but help in capacity building and training programmes such that the farmers can assess their credit needs on the basis of which they are able to take informed and calculated choices and decisions.

There are a variety of challenges that need to be addressed in the agricultural sector. These need to be identified, worked upon along with formulating appropriate institutional and policy reforms as well as appropriate regulatory and governance mechanisms.

– Founder/Managing Director & CEO, YES BANK. The article appeared in the Economic Times, August 04, 2008

India & Pakistan: Being Economically Savvy Yields a Peace Dividend

– Pradeep S Mehta* & Abid Qayyum Suleri**



What is more important is that both nations now realise that improvement in economic (trade) relations should not wait for conflict resolution. Importantly, trade can also result in almost normal relations despite unresolved problems between countries.

The first foreign secretary and foreign minister level talks between India and Pakistan, held in Islamabad in May, after the restoration of democracy in that country, led to a consensus to continue the ongoing peace process and push for an improvement in bilateral economic relations with the resolution of all issues related to Kashmir.

In a bid to improve and make relations more cordial through a series of confidence building measures, the two sides agreed to increase the frequency of bus services between the two countries, firm up modalities for intra-Kashmir trade and truck service and implement other measures to give a fillip to cross-border travel.

They reaffirmed the significance of ceasefire along the Line of Control (LoC) and committed themselves to cooperation with a mission of safeguarding the LoC as well as liberalisation of visa norms to facilitate people-to-people contact. It was recognised that the menace of terrorism plagues both countries. It was agreed to activate a joint anti-terror mechanism so that incidents of terrorism do not affect their ties.

What is more important is that both nations now realise that improvement in economic (trade) relations should not wait for conflict resolution. Importantly, trade can also result in almost normal relations despite unresolved problems between countries.

It is expected that the resumption of the composite dialogue process between India and Pakistan will give a fillip to bilateral trade, besides facilitating early execution of various gas pipeline projects such as Iran-Pakistan-India (IPI) and the Turkmenistan-Afghanistan-Pakistan-India (TAPI) projects involving the two neighbours.

It is hoped that bilateral trade between the two countries would touch US$5bn by 2010. During 2002-03 and 2007-08, India's exports to Pakistan and its imports from Pakistan have grown by 62 and 65 percent, respectively.

Pakistan has expanded its positive list of imports from India from 774 products to 1074 products. These products include machinery/equipment, raw materials, chemicals and accessories of a number of manufactured items that are in great demand in Pakistan.

Presently, the main commodities of export to Pakistan are dyes, sugar, plastic and petroleum products and cotton while the main items of import are petroleum and crude products, fruit, cotton yarn and fabrics and organic chemicals.

Trade between India and Pakistan, measured by the sum of their bilateral exports, is less than 1 percent of total exports from India and Pakistan. It is just 4 percent of the equivalent measure of bilateral trade between Malaysia and China, two countries of comparable GDP and proximity and only 9 percent of the equivalent measure of trade that occurs between Argentina and Brazil, other countries of comparable size.

Recent trends do show that trade has picked up considerably between the two countries and therefore there is much hope of salvaging the situation and tapping the hidden potential for trade between the countries. In fact, the deepening of trading relations has been accompanied by more peace building measures such as opening up of bus and truck services and greater social contact.

The current political atmosphere in both countries favours deeper political and economic interactions leading to more trade and investment. In the joint press conference after the ministerial meeting, Pakistan's foreign minister Shah Mahood Qureshi declared that his government was ready for a "grand reconciliation" with India through dialogue to resolve all outstanding issues with self-respect and dignity.

Though such statements are not new, they might be considered significant in the changed circumstances, in particular, the return of democracy to Pakistan and the two main ruling political party leaders Asif Ali Zardari and Nawaz Sharif expressing their desire to improve ties with India and reap the benefits of trade and closer social contact.

With foreign minister Pranab Mukherjee reciprocating the feelings expressed by counterparts across the border, India and Pakistan have probably entered a crucial stage in their relations which could herald a new spirit of complementarity and synergy as both countries develop rapidly.

* *Secretary General, CUTS International*

** *Executive Director, Sustainable Development Policy Institute, Islamabad.*

Abridged from an article that appeared in the Economic Times, July 18, 2008

The Promise of Cheaper Power for all

– Rajesh Kumar

The Ministry of Power has once again failed to fulfill the target for new generation capacity for the financial year 2007-08. The current power famine in India can create a hurdle not only for the attainment of universal access to power by 2012, but also the continuation of the general surge in affluence seen over the last two decades.

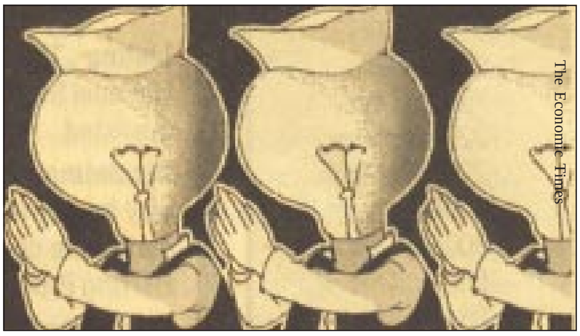
If gross domestic product (GDP) growth is to be sustained, the growth of power generation should at least equal it. However, this has definitely not been the case in India. Estimated shortfalls in average and peak availability in 2007-08 were 9 and 13 percent, respectively, indicating the continuing tendency of the power sector to lag behind the rest of the economy.

Circularity in economic phenomena implies that the worsening of India's power famine due to the rapid pace of economic growth might threaten the very sustainability of such growth. The economy might slide to a lower equilibrium more in sync with sluggish power expansion.

In light of this fact, the Planning Commission has proposed an investment of US$200bn in the power sector during the 11th Five Year Plan period. With the public sector unable to mobilise such funds, it has to form a partnership with the private sector to achieve the required investment. The latter can make varied contributions – from boosting generation through ultra mega power projects (UMPPs) to investing in the transmission & distribution network.

Of the planned expansion of 78,577 mw, around 45 percent, or 36,000 mw, is to be delivered through private UMPPs. Each of these projects has a capacity exceeding 4,000 mw, a size that generates economies of scale.

Adding generating capacity by inviting UMPPs through a competitive bidding process will not only help meet increasing energy requirements, but also reduce the cost of power supply. Tariffs resulting from the bidding process conducted for the initial UMPPs have been reported as being lower than the present average cost of power generation in the country. The rates fixed for buying power from UMPPs are in the range of Rs 1.70-2.30 per unit, against Rs 3 and above from other sources.



Public-private-partnership (PPP) in the power sector is in effect a partnership for India's development. Its success will determine whether an India pregnant with unfulfilled promises will deliver.

With power a vital requirement for manufacturing and services, as much for agriculture, cost and profitability of production should be favourably impacted, thus giving a boost to economic growth. Similarly, cheaper power would give rise to a sharper increase in consumption by households over time. This, in turn, will imply higher growth of aggregate power demand. To sum up, cheaper power through UMPPs should imply a faster rate of growth of power demand if lower costs translate uniformly into lower prices.

This has immense implications for policy. While lower power costs for the production sector are welcome from the perspective of economic growth, the same argument cannot be made for all consumption. In fact, the lower costs of production for UMPPs should not translate into wasteful consumption by high-income consumers, given the involved sacrifice of energy.

In the National Electricity Policy, 2005, the Government has fixed a target of providing electricity to all households and to increase per capita consumption to 1,000 kw a year by 2012, from the current level of less than 600 kw.

To facilitate universal access and prevent wasteful consumption, the lowering of costs should be accompanied by a more progressive power schedule for households, i.e. initial units of power consumption by a household should cost less than before, but the per unit cost for consumption above a stated threshold should not decrease.

In this way, the cheap power forthcoming from UMPPs, if managed properly, can improve access, accelerate economic growth and maintain demand for power within tolerable bounds. Such a tariff plan would also facilitate access by hitherto uncovered rural consumers. In other words, aggregate power consumption would rise through extensive rather than intensive means.

Above all, the success of the PPP model in the power sector would also depend upon the sincerity of efforts made by the government to provide the required support to private players. The Delhi Model, wherein the government provided subsidy to private distribution companies at the initial stage of reforms, is a good example. As a result, the companies have been able to reduce their losses significantly.

– *Assistant Policy Analyst, CUTS Centre for Competition, Investment & Economic Regulation (CUTS C-CIER). The article appeared in the Financial Express, September 09, 2008.*

ReguLetter

The July-September issue of the CUTS C-CIER newsletter ReguLetter encapsulates the 'Corruption in Market Competition: Collusion and Cartels' in its cover story, which explores various types of cartels that have been observed in national and international economies and establish their origin in competition. Case studies of such cartels are provided with estimated of losses researched by scholars and possible remedies suggested.

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

A special article by RS Khemani recommends various actions to be performed jointly by national governments, inter-governmental organisations and civil society to effectively enforce competition laws. Another special article throws light on the new anti-monopoly law in China which would establish a basic framework to build a fair, uniform and national competition law system to benefit consumers.

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

This newsletter can be accessed at:
http://www.cuts-international.org/pdf/reguletter1-08.pdf

Comparative Study of Regulatory Framework in Infrastructure Sector: Lessons for India

Analyses and compares the regulatory framework in seven countries with respect to institutional and governance aspects, and identifies lessons for India.

http://www.cuts-international.org/pdf/CCIER-9-2008.pdf

Competition Law and Intellectual Property Rights: *Controlling Abuse or Abusing Control?*

Examines the interface between competition issues and protection of Intellectual Property Rights (IPRs); complementarities and conflicts.

http://www.cuts-international.org/pdf/CompetitionLaw_IPR.pdf

Competition and Regulation in Indian Retail Sector

Describes the structure of the retail sector in the country, including its diverse components. It looks at the main challenges faced by the retail sector, and analyses the nuances of regulation and competition for the sector.

http://www.cuts-international.org/pdf/2-2008Comp_Reg_in_Indian_Retail.pdf

Enforcing Competition Law in India: *A Toolkit*

"Advanced Copy"

This toolkit looks at different types of anti-competitive practices in light of the competition law of India and juxtapose it with examples from the country and of similar cases from other jurisdictions, in particular from other developing countries.

SOURCES

FT: The Financial Times, **ET:** The Economic Times, **BS:** Business Standard, **DNA:** Daily News Analysis, **ToI:** Times of India
TH: The Hindu, **BL:** Business Line, **FE:** The Financial Express, **PTI:** Press Trust of India

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