



## Broad Benefits of Special Economic Zones

The commerce and finance ministries, as has been reported extensively in the news media, are currently at loggerheads over the way the current concept of special economic zones (SEZs) is to be handled in India.

There is no quarrel on their need; while the finance ministry feels that tax rebates will result in huge losses from direct and indirect taxes, the commerce & industry ministry is arguing that short-term losses will be compensated for by vast overall gains in the long run.

Both ministries are using data to make their respective points. According to an estimate prepared by the finance ministry, the country will have to forego about Rs 100,000 crore, no small sum by any yardstick, on account of SEZ-granted tax rebates by the year 2009-10. While this figure can be challenged, according to an estimate by the commerce ministry, one million new direct jobs will be created on account of SEZs in the next five years. And, depending on the nature of an industry, every new direct job will create five to ten jobs through indirect employment. Imagine the gains generated by this huge increase in the consumer base, and the broader potential impact of SEZs begins to make itself clear.

Another contentious issue is the size of SEZs. Those who usually castigate China are looking towards that country to argue that Indian SEZs will be economically nonviable. The argument is that Indian SEZs will be much smaller in size compared to Chinese SEZs, and hence the Chinese success story cannot be replicated here. This is a shallow argument. Politically, to begin with, it is far more difficult in India than China to acquire large tracts of land for such a purpose. This is a straightforward fact of democracy. Secondly, Chinese SEZs are mostly



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concentrated in a particular region of that country and, indeed, this is a big factor contributing to increasing inequality there. On the other hand, the present policy of the commerce ministry is to spread the formation of SEZs to all parts of India, which is likely to foster relatively balanced growth and development.

Land acquisition is another big issue, and one that tends to make news and attract popular attention for a variety of reasons. The commerce ministry has rightly decided that as far as possible, agricultural land (including wasteland which could be converted to agricultural land) should not be acquired for this purpose. While this may be good in theory, in practice many Indian states do not have sufficient free land. In India,

wastelands constitute 17.6 percent of total cultivable land, and in high population-density states like West Bengal, this figure is less than one percent. Can industry be built in the air?

**The real question is not can we afford to have SEZs, but can we afford not to**

The food security argument is not a valid one. With the use of new technologies (particularly dry-land farming), food production can be increased rapidly on the same land. According to an estimate, even

if 100,000 hectares of cultivable land in the state of West Bengal is taken away for industrial purposes, there will be no threat to the food security of that state. This does not, however, give governments the right to bully landowners and cultivators. They must get adequate compensation, and indiscriminate acquisition of land for SEZs should be stopped immediately.

Ideally speaking, state industrial development corporations should buy land directly from owners and sell them to industrial houses through the use of a competitive bidding process. This will safeguard owners'

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

interest and industrialists can acquire land at lower transaction cost.

The commerce ministry has also taken a significant decision with regard to land use policy in SEZs. It is good that at least 50 percent of land will be used for industrial purposes, while 25 percent each will be used for infrastructure and other uses (such as housing). This will ensure better use of land; otherwise, the real estate mafia will be out to make a quick buck, a qualm that inspires an entirely different set of objections to India's SEZs.

Other than the food security argument, it is being argued that a large number of agricultural jobs will be lost on account of acquiring agricultural land for SEZs. This is not true and figures will testify to that. According to the latest survey of agricultural workers, an agricultural worker gets an average 71 days' employment a year. Compare this with the rate of unemployment in our country – it is very low, as the poor cannot afford to remain unemployed for a long period of time. A majority of agricultural workers in our

country make a living by doing odd jobs. With a bit of skill development, they can easily be absorbed in productive employment in SEZs and ancillary industries. There will presumably be upward pressure on agricultural wages, as demand for agricultural labour will fall less than the fall in supply of such labour.

In short, the development challenge that India is facing today is two-pronged. On the one hand, how do we make our agriculture more productive so that we maintain our food security? On the other hand, how do we increase the manufacturing base to absorb a large army of unemployed and underemployed labour in industry?

India is an aspiring nation of young people, and unless these challenges are addressed with appropriate policies, the country is at serious risk of social and economic Balkanisation. The commerce ministry has taken the right decision by allowing a large number of SEZs, as they can address a significant part of these problems in a direct manner.

## THEME: SEZs - EMBROILED IN CONTROVERSY

### On Misuse of SEZs

Despite all the controversy it has raised, the SEZ should prove to be a very good mechanism to ensure high growth and remove regional imbalances. There are two parts to this. There are certain sectors of domestic industries, which need massive support.

One is electronics, the entire range of electronic manufacturing... and if you don't do so all the studies show that in another ten years we will be importing more consumer electronic goods than petroleum items. So, we have to promote the domestic manufacturing industry. A lot of this can happen in the SEZs.

This is already happening at Sriperumpudur, near Chennai, which is a classic example of units going into SEZs. Nokia, Motorola, Flextronics, Dell along with vendors are coming — this is going to lead to substantial employment creation and multiplier effect. I foresee this happening in other places too.

Second, required are some checks and balances in the system. If one or two parties are going to misuse something, it is our responsibility to see this is corrected and come out with a transparent system. We are trying continuously to improve.

**S.N. Menon, Commerce Secretary**

(BL, 21.09.06)

### Land Acquisition Controversy

Farmers who received notices to surrender their lands to facilitate second phase of acquisition for SEZ at Atchutapuram, Andhra Pradesh declared a war against the move.

Under the first phase, 9,200 acres were acquired. The land there has been allotted to the Apparel Park Project being developed by Brandix of Sri Lanka and second centre of the Bhabha Atomic Research Centre.

The administration has identified 10,000 acres for developing infrastructure in the second phase for which notification was issued some time ago for acquiring 2,109.72 acres.

Enquiries revealed that at the district-level negotiation committee meeting held on September 26, the officials offered compensation ranging from Rs 1.12 lakhs to Rs 1.60 lakhs per acre. The representatives of the farmers rejected the offer outright.

(TH, 16.10.06)



### Size that Matters

The Empowered Group of Ministers (EGoM) on SEZs has resolved the issue over minimum land requirement and processing areas for the information technology, biotech and gems and jewellery zones.

The EGoM has retained the minimum land area requirement of ten hectares and the minimum built-up area of one lakh sq. metres for Information Technology (IT) SEZs.

The controversy over the size of these special areas arose after the Finance Ministry argued that the area should be at least 25 hectares for such SEZs. The issue was then referred to the EGoM for a final decision.

According to sources, for all other multi-product, multi-services and sector-specific zones, the land area requirement would remain the same as notified in the SEZ Rules.

Multi-product SEZs must have an area of 1,000 hectares, while multi-services and sector-specific SEZs should have a minimum area of 100 hectares.

(TH, 07.06.06)

### Transparency in Hydel Projects

A new set of policy guidelines that maintains full transparency for allocation and development of hydel projects by the power sector has been finalised by the Ministry of Power.

Private developers executing hydel projects would now be getting a special dispensation of five years for tariff scrutiny by central power regulator. Currently, only public sector undertakings (PSUs) are enjoying this dispensation and only after January 2011 would the PSUs get their tariff determined on the basis of competitive bidding.

The new guidelines will require state governments to award projects to private companies based on their promoters' financial capability.

Though the initiative for allocating a project will remain with a state government, scrutiny by the central power regulator will ensure that the projects are designed and built whereby consumer interest are adequately protected.

(ET, 27.11.06 & FE, 20.12.06)

### India-US Nuclear Deal

The US Congress' approval to a bill allowing nuclear pact with India is expected to give major boost to Civilian Nuclear Power Industry.

The nuclear accord giving the energy-starved nation access to atomic power and allowing companies such as General Electric to sell equipment in the country sends a very strong signal to the international community that it is time to end India's isolation from the nuclear mainstream.

The agreement allows the domestic utilities, which are straining to supply power to industry, homes and farms. The country needs atomic power, which accounts for about three percent of the total electricity generated, to reduce its dependence on fossil fuels and run plants and services hubs.

The deal will increase bilateral trade, allowing the entry of private players into India's nuclear sector.

(BS, 11.12.06 & ET, 10.12.06)

### Power to Private Players

The power transmission sector in India, which has for long been the preserver of the state-owned

## Reward for Whistleblowers

In an effort to reduce the aggregate technical and commercial (AT&C) losses, the government is considering introducing a scheme that will reward whistleblowers who help identify instances of power theft.

A group of ministers (GoM) that has been constituted to determine steps to effectively curb power theft and other such offence suggested legislative changes.

It is the GoM that had suggested that the state governments should be advised to introduce suitable incentive schemes for such informers who give clues of the source of electricity theft. The reward could be linked to the amount or recoveries that could be affected in such cases.

Such a scheme should not only be introduced but also be publicised appropriately by the state governments. The Union Power Minister has asked the state governments to issue instructions in compliance with these recommendations.

(ET, 11.12.06)



transmission company PowerGrid, is now opening up to private players.

This is the first time that private players will venture into the transmission segment of the power sector on their own. Till now, their participation was mainly through joint ventures with PowerGrid.

The nine companies/consortia that have qualified to bid for the Rs 19,000-crore (US\$4.3bn) project include seven consortia and two companies.

PowerGrid has been charged with awarding the projects, which are estimated at Rs 1,700 crore (US\$385mn), and expected to be completed by 2009.

(ET, 11.10.06 & HT, 09.10.06)

### Broader Framework for Energy

The integrated energy policy document, which sets the broad framework of the future energy policy in the country, has called for radical policy and legislative changes across energy sectors.

The report sets out a broad framework that would ensure adequate supply of energy at the least cost, creation of competitive energy markets, improved efficiencies in energy producing and consuming sectors, accounting for environmental concerns in energy policy and consistent and balanced regulation in the sector.

Given that coal will continue to be the major source of energy for India at least by the year 2031-32, the report has also called for stepping up of domestic coal production through allocation of coal blocks to central and state public sector units and captive consumers.

(ET, 31.08.06)

### New Energy Push

Next time, when you go to buy any electrical appliance, you need to know the cost which will add to your monthly electricity bill, as each appliance will have an energy-efficiency-rating label, valued in stars, pasted prominently on it. The lowest rating will be one star, i.e. the product is a heavy energy consumer. The highest rating will be five stars, i.e. products that consume the least energy.

Already, popular brands of refrigerators, air conditioners and tubelights have got the energy-efficiency rating done from the Bureau of Energy Efficiency. The Bureau follows a three-level process of testing, conducted at the company's own testing laboratory, then testing at a competitor's laboratory, and finally at a government-approved national testing laboratory. This is done to prevent any discrepancy in ratings and to counter accusation by rival companies.

(HT, 01.10.06)



## TRAI Norms

The Telecom Regulatory Authority of India (TRAI) would make it mandatory for all service providers to adhere to certain norms, like providing a landline connection within seven days of applying and a mobile connection immediately, repairing faults within 24 hours of a complaint, maintaining privacy of their customers and informing them about the consumer grievance redressal process on the reverse of each bill.

According to sources, TRAI was forced to introduce the regulation as operators failed to meet the benchmarked criteria for quality of service (QoS) on a regular basis. The latest TRAI survey shows that 57 percent of the operators failed to meet the stipulated QoS criteria on all parameters.

TRAI would also bring out area-wise performance report for all telcos and compile the data on a regional basis, and take the help of newspapers to highlight the operators' performance.



### Blocking Calls

In a bid to tackle grey market illegal calls and address security concerns, the Department of Telecom (DoT) is considering to block all international long distance telephone calls coming into the country without caller line identification (CLI).

The DoT move comes after the security agencies pointed out that the rampant practice could pose a security threat to the country. While, some of the operators have expressed technical problems in displaying the CLI number for international calls, DoT officials said that it was possible to put a system in place.

TRAI has, however, cautioned that blocking calls would lead to inconvenience to consumers as a large number of international calls would not be completed and this would affect the collection of the Access Deficit Charges (ADC).

(BL, 07.11.06)

### Do-Not-Call Registry

The Country would soon have a 'do-not-call registry' where subscribers can list their telephone numbers and avoid telemarketing calls and short SMSs. According to TRAI, this was essential as unsolicited commercial calls disturbed a large number of subscribers by forcing them to respond to their telephones, thus invading their privacy.

TRAI after citing the growing dissatisfaction among the consumers has clarified that it has no intention to

ban telemarketing activity, the only purpose was to reduce the number of telemarketing calls to people who do not wish to receive them.

Many countries have implemented mechanisms to reduce unwanted and unsolicited commercial communications (UCC). (ET, 21.10.06)

### Sharing Must!

The TRAI would make infrastructure-sharing mandatory for mobile phone operators. Telecom operators will also have to sign inter-connection agreements with each other for their toll-free numbers. Although domestic telcos have taken initiatives, TRAI wants to put a proper regulatory system in place.

The proposed move is likely to benefit all operators, particularly Hutch-Essar, Idea Cellular and Airtel, which have been recently granted fresh letters of intent to start operations in new telecom circles.

These operators will be able to roll out their services quickly while saving on capital and operational expenditure.

(FE, 26.11.06)

### DTH to Replace CAS

The tussle between cable operators and multi-system operators (MSOs) on the implementation of Conditional Access System (CAS) may prompt TRAI to replace CAS with Direct-To-Home (DTH) service.

TRAI has reviewed the progress among three parties – broadcasters, MSOs and cable operators – for

offering CAS and has noted that the agreement between cable operators and MSOs is not 'adequate' to ensure implementation of CAS by January 01, 2007.

As per the rules for CAS, notified by Information and Broadcasting (I&B) Ministry, in case of any snag in the implementation of CAS, TRAI has to look for alternatives so that subscribers do not suffer.

(FE, 30.11.06)

### Amending the Act

In the backdrop of recent information security breaches by Indian Business Process Outsourcing (BPOs), the Communications and the IT industry has finalised the much-awaited amendments to the IT Act 2000 to tighten data protection norms in the country.

It has prescribed a new section, which not only puts the responsibility on body corporate or companies including BPOs to protect sensitive data, but also provides for a civil liability with damages of Rs 5 crore in case of any negligence.

This will prevent any intermediary and service provider who has secured any material or information from a user, who has entered into a contract with him, from passing it on to others without the consent of the user. Violation would be entitled to a punishment with imprisonment of two years or a fine of Rs 5 lakh or both.

(ET, 06.10.06)

### Telecom Infrastructure

Seeking to take mobile and landline services to rural areas, the government has invited bids from operators to set up telecom infrastructure in villages using subsidy from the Universal Service Obligation (USO) Fund.

The USO Fund will be used to set up and manage the infrastructure sites and provide mobile services in select areas.

Under the scheme, the operators would be required to set up infrastructure sites including tower, electrical connection, power back up, boundary walls and security cabins and provisioning of mobile services for BTS equipment, associated antennas and backhaul.

(BS, 21.11.06)

### Support for PPP Projects

In a bid to woo private investors in the port sector, the government is likely to offer equity support for Public Private Partnership (PPP) projects up to 20 percent of the total project cost.

According to the proposed Model Concession Agreement (MCA), the government would provide the concessionaire with an outright grant in terms of equity support. It would also provide funding for project specific operations and management (O&M) support.

As per MCA, the port trust would provide the O&M support in quarterly instalments, with each being five percent of the equity support. Trust will also have to disburse the equity support within 15 days of receiving a request from the concessionaire.

However, if a concessionaire is willing to bear the cost of the entire project without any government support, an additional concession fee of two percent of the total realisable fee will have to be paid to the trust per annum. *(ET, 25.10.06)*

### Railways Plan Questioned

The Railway Ministry's plan for greater private participation hit a major roadblock, with the Industry Ministry questioning the move to award licences to private companies for container services without amending a law that mandates only PSUs to run these operations.

The private owners are proposed to run container trains in competition with state-owned Container Corporation of India and the Ministry has already given licences to 14 companies.

According to the Industries (Development and Regulation) Act, 1951, and the Industrial Policy, only public sector firms can run railway transport services, whether passenger or freight. Giving licences to private players, whether domestic or foreign, requires an amendment to the Act and the policy.

*(FE, 09.10.07 & PTI, 25.10.07)*



## Compensation Approved

In a bid to provide relief to passengers, who are left stranded at airports owing to flight cancellation and delays due to technical snags, State Consumer Commission has declared that airlines operating from Delhi will have to pay a compensation of Rs 10,000 (US\$226) each to domestic travellers if the delay exceeded two hours.

Late running of flights, cancellation, offloading of consumers with confirmed status of ticket and traffic congestion in the air cause enormous mental agony and physical discomfort which are not assessable in terms of money.

The Commission also ordered that all the affected passengers of international flights would be paid Rs 20,000 (US\$452) each as compensation.

However, delays caused due to inclement weather, tyre bursts, which are beyond control of the service providers, did not entitle passengers to get compensation. *(ET, 25.12.06)*



### Airport Regulation

The legislation for setting up an Airport Economic Regulatory Authority (AERA) would soon be placed before the Union Cabinet.

The proposed regulator which is expected to be modelled on the lines of TRAI, aims to create a level playing field, promoting healthy competition among airports encouraging investments for building airport facilities, levying service fee on passengers, and regulating tariffs of overhaul services.

AERA will also protect user interests and look into efficient operations of economic and viable airports, with power to monitor the functioning of airport regulators.

Setting up of AERA is considered important as competition among Indian airports is expected to intensify with private players taking charge of some airports. *(ET, 07.10.06)*

### Promoting Cartelisation

Though the recent formation of the Federation of Indian Airlines (FIAs) by the promoters of airlines was meant to function like any other industry organisation and represent to the government its common problems.

Yet several sources in the industry opine that while the formation of FIA could act as a means to interact positively with the members in all areas of passenger welfare, it could well promote 'cartelisation'.

The indication of cartelisation began even earlier, when a uniform rate was charged as fuel surcharge irrespective of the distance covered in the flight.

Despite the reduction in aviation turbine fuel costs, fuel surcharge remains at Rs 750 (US\$17).

*(BL, 20.10.06)*

### High Level Know-How

The Committee on Infrastructure has finalised a proposal for restructuring the National Highway Authority of India (NHAI).

The NHAI needed restructuring badly because projects as big as the national highway development programme (NHDP) needs a high level of know-how. The move will allow outsourcing of expertise.

The NHAI may also be empowered to take its own decisions, without forwarding them to the Public Investment Board (PIB). The proposal has been sent for the Cabinet's approval.

An official from NHAI said that NHAI board would lay more stress on PPP projects.

The Committee recommended that NHAI should put in place a full-proof and robust system of handling the bank guarantee; and also the proposed modern toll collection system need to be put in place.

*(BS, 23.12.06 & FE, 08.12.06)*

## CNG with Blended Hydrogen

The country's first hydrogen-filling station will become functional at the Indian Oil Corporation (IOC)-owned petrol pump near *Nigambodh Ghat*, New Delhi.

For Compressed Natural Gas (CNG) blended with hydrogen till 10 percent, only a few improvements in vehicle will be required. Engine modifications will be mandatory only if the blending is more than 10 percent.

Vehicle models like Tata Indica, Bajaj three wheelers and Ashoka Leyland mini bus are expected to be ready by early 2007 with modifications to run up to 30 percent hydrogen blend.

Vehicles running on CNG blended with hydrogen will be less polluting as Hydrogen is a clean fuel emitting no carbon when it is burned.

Despite the advantages of using hydrogen, the competition with CNG will be stiff, because hydrogen as a fuel is four times as costly as CNG, though it has three times more energy. *(HT, 26.11.06)*



### Bidding for Captive Mining

The government is contemplating introducing a system of competitive bidding for allocation of coal blocks for captive mining, which would require an amendment in the Mines and Minerals (Development and Regulation) Act, 1957.

According to officials, the parameters for selecting bids would be similar to those in the New Exploration Licensing Policy (NELP) for oil and gas.

The Investment Commission had recommended adoption of the NELP model for private sector participation in coal mining by offering good blocks and awards to be given, based on qualitative evaluation of financial-technical viability and work programme. *(BL, 06.12.06)*

### Ethanol Doping Mandatory

The government is planning to make 10 percent ethanol doping in petrol mandatory from 2007 onwards. According to Petroleum Secretary M S Srinivasan, about 50 crore litres of ethanol oil is needed to meet this target in 2007, and it will increase to 112 crore litres next year.

In an effort to induce new life into the programme to blend ethanol in petrol, Petroleum Minister Murli Deora had scrapped the process of buying sugarcane extract at a negotiated price and instead asked public sector oil marketing companies to call for open markets.

Ethanol manufacturers, who got Rs 18.75 a litre in 2005 on a negotiated basis, were seeking Rs 27 per litre in 2006. This was opposed by oil firms that feared cartelisation and instead wanted pricing based on calorific value of ethanol. *(ET, 09.10.06)*

### Policy for Gas Distribution

The government unveiled the much-awaited policy on setting city gas distribution (CGD) projects that allows companies to have a monopoly for a certain period in selling natural gas to households and automobiles.

CGD projects will have marketing exclusivity. The period of exclusivity would depend on the size of the city and its population. It would also depend on the investment made by companies in CGD projects and be determined by the regulator, which would come into effect in January 2007.

The Petroleum and Natural Gas Regulatory Board (PNGRB) would authorise laying of pipelines and setting up of CGD networks. The Centre would only consider the Right of User (RoU) acquisition for any transmission pipeline/city or local gas distribution project after the regulatory board had granted authorisation. *(BS, 20.12.06)*

### Opening the Coal Sector

In a major policy initiative, the government has opened the doors for private investment in the coal sector

by allowing domestic and overseas mining companies direct access to captive coal blocks reserved for cement, steel and power sector players.

According to official sources, guidelines for allocation of captive coal blocks has been amended and a new entry introduced under which standalone mining companies have been permitted to apply for captive coal blocks.

As per the changes in the guidelines, MNCs could also bid for these captive blocks, if they have already set up an Indian arm or propose to do so within a specified period of time.

At present, captive coal blocks are only allocated to companies in the power, cement and steel sectors and they in turn are free to form joint ventures for undertaking mining. *(ET, 30.10.06)*

### Alternative Fuel

The Bio-diesel Association of India (BAI) sought a proper policy framework to aid the production of the alternative fuel and said that the sector could generate revenues of Rs 33,000 crore (US\$7.5bn) every year.



According to BAI, the fuel sector should be given emphasis and certain allocation of funds in the 11<sup>th</sup> plan.

Various countries provide incentives to producers of bio-diesel except India, which has fixed the price for bio-diesel delivered at refineries at Rs 26.50 a litre, which does not cover the cost of production; hence it should not be less than Rs 33 per litre.

The sector needs other alternative raw materials such as waste recycled oil and non-edible oils for running factories and also a clear-cut policy for land utilisation. *(BS, 06.12.06)*



**Exploring New Avenues**

The Indian Infrastructure sector expects an investment of US\$320bn by 2012. This would include capex in road, rail, air, water transport, electric power, telecom, water supply and irrigation. This was relayed by the Indian Prime Minister, Dr Manmohan Singh, while addressing a conference on ‘Building Infrastructure: Challenges and Opportunities’.

Dr Singh laid stress on exploring new avenues for increasing investment in the sector through a combination of public investments, PPP and exclusive private investments.

He further stated that tariffs and service quality needs to be regulated and consumer access protected. Besides, there is also need for clarity in the policy and regulatory framework that governs private participation in any area.

The Prime Minister also urged the state governments to reduce transmission and distribution losses for improvement in the power sector. *(BL, 07.10.06 & Project Monitor, 23.11.06)*

**Boosting Finance**

In a bid to give a boost to infrastructure financing, the Finance Ministry has mooted a larger exposure of superannuation funds – mostly managed by LIC – and insurance funds to infrastructure bonds issued by private firms.

The move will invigorate the moribund domestic corporate debt market, besides enhancing the available finance resources for building world class physical infrastructure in the country, a pre-requisite for 8-10 percent Gross Domestic Product (GDP) growth.

Official sources quote that the rationale behind the move to encourage insurance companies to invest more in private bonds is that conventional risk perception of various debt instruments could have gone wrong in today’s context.

According to the Planning Commission, given the kind of infrastructure development being envisaged, the investment during the 11<sup>th</sup> plan should be some US\$320mn. *(ET, 01.12.06)*

**Unlocking the Lockers**

Having locker in a bank and not operating it for a sustained period could mean courting trouble for some category of bank customers, as banks are set to be granted additional powers by the banking regulator to break open lockers.

According to a draft circular issued by the Reserve Bank of India (RBI), if an account of the locker holder is considered high risk and not been operated for one year, banks could immediately contact the account holder and advise them to operate the lockers. Else, banks could tell them to surrender the lockers even if the rents are being paid regularly.

The banks could also consider opening the lockers with the help of police after giving due notice to the locker hirers.

The proposed new norms came in the wake of recent incidents when authorities discovered unauthorised items like explosives and weapons in a locker not been operated for several years. *(ET, 05.12.06)*

**Assessing Pay History**

Banks will soon be relying on credit scores to assess customers. The Credit and Information Bureau of India Ltd (CIBIL) is expected to roll out credit scores built on databases provided by various banks

Under RBI regulations, banks and financial institutions have been instructed to facilitate submission of details of all borrower accounts to CIBIL for compilation of credit information. This information will

soon be accessible to member banks in the form of Credit Information Reports (CIR) to help improve the quality of credit appraisals and decisions.

CIR would be a snapshot of a borrower’s credit payment history compiled from various lenders. This will benefit credit card issuers, where credit growth is to the tune of 199 percent. *(ET, 05.12.06)*

**Delay Costs Huge Sum**

The delay in the execution of about 160 projects in the country has resulted in cost overturn of over Rs 31,500 crore. The problem has become a national phenomenon with almost all the states reporting cost overturns.

According to an official report, Bihar stands out against others in having the largest number of projects that have got delayed. The other bigger culprits were Jammu and Kashmir (J&K) and New Delhi.

Both J&K and New Delhi reported four and three projects respectively with cost overruns due to delays between 21 to 192 months.

Seven other states including Arunachal Pradesh, Himachal Pradesh, Kerala, Punjab, Rajasthan, West Bengal and Chhatisgarh reported project delays ranging between one to 35 months.

The delays in infrastructure projects have become the main cause of worry for the government. As such an empowered committee has been suggested to be set up in administrative ministries to check the problem. *(ET, 25.10.06)*

**Credit Sans Regulation**

Banking experts opine that the micro-finance institutions (MFIs) and self help groups (SHGs) could be sustained only with a self-regulatory model.

Both MFIs and SHGs considered to be perfect vehicles of growth were obtaining credit from various funding agencies and banks, and were distributing credit to a number of individual families without properly evaluating their repayment capacity.

Banking experts opine that if these institutions were left to themselves without regulation, it would lead to a dampening of the financial system.

Experts thus stressed the need to regulate the MFIs by way of ‘self-regulation’ backed by legislation for which, a three-tier structure for self-governance with least intervention from the regulators has been suggested.

The regulator could be either Reserve Bank of India (RBI) or National Bank for Agricultural and Rural Development (NABARD). *(FE, 08.12.06)*



## Regulator for BPO Sector

With the pressure building up on the BPO sector to allow formation of unions, the Call Centre Association of India (CCAI) is considering a proposal to set up an independent self-regulatory organisation, in partnership with the Confederation of Indian Industry (CII).

The regulatory body would monitor working conditions of employees, and which would have representatives from judiciary, industry, trade unions and BPO employees.

Viewing the recent demands for unionisation of BPO staff as a politically motivated move, many companies from the IT-enabled services (ITES) sector are proposing that an independent regulator like one for the telecom sector would ensure adaptation of better practices and rule out the need for unions. (BL, 18.11.06)

## New Guidelines

The Income Tax (I-T) Department has introduced 'The Income Ombudsman Guidelines 2006', to improve the quality of tax administration and bring about transparency in the system.

The tax ombudsman practice

earlier existed in India, but was discontinued in 1960s. The new guidelines will come into effect from January 01, 2007.

The tax ombudsman, as an authority independent of local I-T departments, will resolve complaints of taxpayers impartially and facilitate settlement of disputed cases.

The tax ombudsman would act as the primary base for redressal of tax litigation before any party could go in for legal redressal. The move is expected to ensure speedy tax recovery. (FE, 10.12.06)

## Axe to Fall on Schemes

The government's axe is all set to fall on a host of centrally sponsored schemes (CSSs), many of which have outlived their utility.

It is planning to make almost half of the existing CSSs redundant. The move is expected to release funds required to meeting all the development goals of the 11<sup>th</sup> Five-year Plan.

According to sources, the government has begun a consultative process on restructuring CSSs that aims to reduce their number from 155 to 75.

However, the restructuring would take care that smaller schemes for welfare of scheduled castes (SCs) and scheduled tribes (STs) continue.

Moreover, states have already expressed dissent over it. In a consultative process, Arunachal

Pradesh, Jharkhand, Nagaland, Rajasthan and Uttar Pradesh objected to complete withdrawal of central assistance for CSSs. (ET, 11.11.06)

## More Open Legal Sector

The Prime Minister Dr Manmohan Singh pitched for a 'more open legal sector' in the country, stating that expertise in international, commercial and third country law is necessary as the Indian economy increasingly integrates with global economy.

Dr Singh also underscored the need for establishing an accreditation mechanism for hospitals and laboratories even while pointing out that health services are an emerging area that hold immense potential for India.

He said that the country's educational system must be expanded to translate the 'demographic dividend' into a 'development dividend'.

The government would soon set up a high level group in the Planning Commission to look into all aspects influencing the performance of the services sector. (BL, 05.10.06)

## Meeting Deadlines

The government has made it mandatory for developers to adhere to deadlines on finished housing properties, otherwise they will have to refund the entire advance amount with interest.

The current practice is for developers to announce a project even without seed money and instead they collect huge sums as advance from customers. Constructions start only after they have collected enough money to continue the work, and buyers suffer because of that.

The Union Urban Development Ministry has circulated a note saying that refunds must be paid within a week after the deadline to state governments.

The refund clause will be incorporated as a guideline for the developers in the new Real Estate Bill, which will be soon introduced in the Parliament.

The move will not only help buyers but also reduce the number of property-related litigation.

(ET, 30.10.06)

## Speedy Justice to Consumers

The government is all set to create a 'simple, inexpensive and quicker delivery system', where the consumer can haul up any company – large or small – in a new court called 'National Consumer Protection Authority'.

The proposed Authority would be a quasi-judicial body aimed at delivering speedy justice, i.e. within 10 days, unlike consumer courts, where justice is delayed for years.

The new judicial system will work on the lines of the US Federal Trade Commission (FTC).

Exploitation through misleading advertisements, frauds through e-commerce, credit cards, telemarketing, Internet marketing, pyramid schemes, identify theft etc., will come under the new judiciary. The move is going to make the manufacturers more accountable and ensure best quality products. (ET, 30.10.06)





## A Code of Ethics

A code of ethics to protect public servants from political interference is on the anvil and is soon likely to be introduced in the Parliament.

It is a part of an overarching Bill called the Public Service Bill, 2006, aimed at overhauling public service in India and protecting whistleblowers.

The Bill envisages setting up of a Central Authority, which will govern all aspects of public service recruitment, and monitor and enforce the code of ethics.

According to official sources, the existing All India Services Act, 1951 is inadequate and does not address the needs of public servants, their rules of recruitments, protection to whistleblowers and new rules of engagement between public servants and politicians. *(BS, 03.11.06)*

## Rewarding the Performer

The Rural Development Ministry plans to give more funds to states that perform well under the National Rural Employment Guarantee (NREG) programme. Andhra Pradesh, Gujarat and Nagaland are the only states, which have provided job card to all applicants. In Bihar, only 50 percent applicants have got the cards.

According to the progress chart of the Ministry, 2.6 lakh works have been carried out at an expenditure of Rs 2,275 crore. In 200 districts, where the programme has been launched in the first phase, 1.05 crore people out of 1.09 crore applicants have been provided jobs.

Social auditing and strict vigilance by monitoring agencies would improve performance. The Ministry has asked the states to give priority to water conservation measures under the programme. *(BS, 04.10.06)*

## Drug Pricing Norms

The Chemicals & Fertilisers Ministry is considering introducing the Drugs (Price Regulation and Control) Bill in the Parliament.

The proposed Bill would allow the government to levy monetary penalties, which is not allowed under the existing drug price control order (DPCO), which is just an executive order under the Essential Commodities Act.

# Regulating Ground Water

The Centre has circulated a draft model Bill to regulate and control the development and management of ground water to states and union territories.

The Union Water Resources Ministry has appealed to the state governments to enact a legislation to check the over-exploitation of ground water.

It has also directed states having over exploited blocks to take necessary steps to promote rainwater harvesting for artificial recharge of ground water and ensure inclusion of rooftop rainwater harvesting in building byelaws.

An advisory council has been constituted on artificial recharge of ground water with the prime objective of popularising the concept among the stakeholders. *(BS, 11.12.06)*



The new law, which would replace the DPCO, would provide for fines, temporary withdrawal and withholding of marketing approval of medicines and sealing of production facilities.

The proposed legislation provides for the settlement of overcharging cases under the previous DPCO. Besides a Settlement Commission, the new statute will also provide for a tribunal where aggrieved drug companies could appeal against the National Pharmaceutical Pricing Authority's (NPPP) notifications. *(ET, 19.10.06)*

## New Regulatory Body

India is likely to have a new regulatory body – National Biotechnology Regulatory Authority (NBRA) – for genetically modified (GM) crops. Two separate expert panels respectively headed by MS Swaminathan and RA Mashelkar suggested the setting up of the NBRA.

However, both the panels had suggested a common regulatory authority for all biotechnological applications, including GM crops and food, recombinant pharmaceuticals, transgenic in livestock, instead of GM crops alone. *(FE, 08.11.06)*

## Curb on Coaching Centres

A consumer court has ordered all Delhi-based coaching and educational centres not to charge money in advance for their services and held

that the rule 'fees once paid is not refundable' 'is unconscionable and voidable'. Any violation of the order shall attract punitive damages and the erring officials may be sent to jail under the provisions of the Consumer Protection Act (COPRA).

The Delhi State Consumer Disputes Redressal Forum (SCDRF) gave the students liberty to leave the course if they found it unsatisfactory, and therefore, entitled them for a refund of the balance fees as well as compensation due to deficiency in service. *(ET, 25.10.06)*

## Franchise Law Muled

The Centre is mulling a franchise law, which exists in countries such as US, Canada and Australia, to provide an impetus to the US\$6bn organised retail market that is projected to grow at 20-25 percent per annum.

The move comes at a time when global retail majors like Wal-Mart, Carrefour and Tesco have been unable to persuade the government to liberalise Foreign Direct Investment (FDI) norms.

A separate franchise law will be a forward movement as it will cover key issues such as exit route for both franchisees and licence holders, disclosure norms, intellectual property rights (IPRs), risk weightage, and royalty fees. Also, the law protect franchisees by ensuring that licence holders disclose all information to their potential business partners. *(BS, 19.10.06)*

### Entry to Foreign Institutions

The government would soon allow foreign educational institutions to offer courses in India independently or in collaboration with Indian educational institutions. A Bill for this purpose has been introduced in the Parliament. The Finance Minister P Chidambaram said that the time has come to recognise the right of every qualified student to pursue higher education.

To sustain and increase high rate of growth not only requires capital investment but also highly qualified and trained human resources.

According to the Bill, all central and aided education institutions will be required to increase their capacity by 54 percent over a period of three years. (FE, 02.12.06)

### Dos and Don'ts For Media

The Broadcast Services Regulation Bill would be presented in the Budget Session 2007 of the Parliament with little changes. The Bill earlier had received criticism, as it appeared to give sweeping powers to the government to take control of private broadcast channels in certain eventualities.

The Information and Broadcasting Ministry has issued a consultation paper on the Bill, after protests from the media groups and broadcasting industry organisations, and proposes to consult them to obtain their response to some of the major issues covered in the Bill.

The draft Bill includes 16 'dos and don'ts' for TV news channels, including a provision that any media group which carries out a sting operation should be able to justify its undercover operation as being 'warranted' by public interest.

(BS, 18.10.06)

### Law for Development

In a bid to enact a new law for development and regulation of the micro-finance sector, the Union Cabinet has approved a Micro Financial Sector (Development and Regulation) Bill 2006, that would provide full support/oversight to the micro-finance sector.

According to the ministry officials, the proposed law would



### Legislative Changes On Cards

ensure a legal framework for entities engaged in micro-finance and facilitates an environment for development of micro-finance services in the country with greater transparency, effective management and better governance. (BL, 09.12.06)

### Bill for Mobile Services

A Bill enabling cellular mobile service providers to get financial support from the Universal Services Obligation (USO) Fund for offering mobile services in rural and remote areas was passed in the Winter Session of the Parliament.

At present, the USO fund is mandated to support only fixed line telephone in rural areas.

However, with wireless technologies offering cheaper and more affective means of communications, the government has introduced an amendment to the Indian Telegraph Act in Parliament to enable the fund to be used for supporting cellular services.

The subsidy would be given for a period of five years to cover nearly 2.5 lakh villages in remote areas.

(BS, 08.12.06)

### De Facto Nationalisation!

The Chemicals and Fertiliser Ministry has come out with the draft Drugs (Price Regulation and Control) Bill, 2006. The Bill seeks to empower the government to impose a ceiling on the maximum sale price or control the price of any drug or formulation.

The proposed Bill seeks to replace the existing Drugs (Price Control) Order (DPCO), which comes under the ambit of Section 3 of the Essential Commodities Act, 1955.

The government will also have powers to inspect the premises of drug manufacturers for verification of manufacturing process.

The Chemicals and Fertiliser Minister Ram Vilas Paswan told the pharma industry that there was a wide gap between 'reasonable prices and affordable prices'. Meanwhile, opponents contend that the Bill means a *de facto* nationalisation of the pharmaceutical industry. (HT, 20.11.06)

### Judging the Judges

The government cleared a new Bill seeking to enable the common man to lodge a complaint against alleged misconduct by a judge of the Supreme Court or High Court – barring the Chief Justice of India (CJI) – with the National Judicial Council (NJC). The draft Bill approved by the Union Cabinet would be soon introduced in the Parliament.

The NJC is proposed to comprise the Chief Justice of India, two senior-most judges of the apex court and two senior-most chief justices of the High Court to be appointed by the CJI.

However, the NJC will not have the powers to impeach the judges, albeit it has been conferred powers to impose a variety of 'minor measures' against errant judges. (ET, 10.01.06)

### Regulator for Real Estate

In 2007, the government is likely to introduce a Bill in the Parliament, to set up a regulator in the real estate sector to protect the interests of customers and other stakeholders.



The government will also pursue repeal of urban land ceiling Acts and reduction of stamp duty with state governments by making them one of the conditions for release of grants aggregating Rs 50,000 crore (US\$11.3bn) to them in the next six years under the *Jawahar Lal Nehru Urban Renewal Mission*.

There might be a revamping of the rent control Acts as well as a promotion of vertical growth in buildings. (BS, 10.10.06)

### Unique Digital IDs

The Department of Information Technology (DIT) has initiated the process of assigning a unique identification (UID) to every Indian citizen.

The scheme will form the core database for delivery of all citizen-centric e-governance services.

The scheme is being implemented under the supervision of the Planning Commission, in consultation with the Ministry of Home Affairs, Registrar General of Census of India, Ministry of Rural Development and Ministry of Finance. The purpose of UID is to create a central database of resident information, which will be maintained by the state governments.

The UID will provide a common medium for identifying all citizens by government agencies, thereby enhancing the efficiency and transparency in service delivery.

(ET, 20.12.06)

### Portal on e-Governance

The Ministry of Information Technology will soon start a portal for private players interested in implementing e-governance solutions within and outside the country.

The portal intends to be a one-stop shop for corporate entities seeking to cater to various ministries. It will feature interviews with top government officials who will talk about the projects undertaken, status of the projects and future ventures.

It will also cover developments in sectors such as agriculture, banking, education, environment, forest and health in Africa, West Asia, Asia and Europe.

Besides, the portal would be a happenings-related information service for the IT Ministry, be it the launch of an e-auction platform for tea in India or Intel Chairman visit to the country. Through the portal, the government plans to offer various courses on e-procurement to the government officials relevant to their current professional needs.

(BL, 13.10.06)

### Filing Court Case Online

Any advocate-on-record or petitioner-in-person can now file a case in the Supreme Court through the

Internet, from anywhere in the world, using a user-friendly programme with interactive features prepared by the National Informatics Centre (NIC).

The Supreme Court Registry will give every advocate-on-record a password, which can be changed subsequently by accessing the website. As the advocate alone knows the password, it will not be possible for any other person to file any matter or document on his or her behalf.

The petitioner-in-person will, however, have to submit proof of his or her identity such as ration card/PAN card/identity card/driving licence/voter ID card.

This is the first time e-filing is being made available by any court in the country. The e-filing will obviate the need for a visit to the Supreme Court for filing and re-filing. (TH, 01.10.06)

### Tie up for e-Ticketing

Internet company Sify has announced its tie up with Indian Railway Catering and Tourism Corporation (IRCTC) to make online railway ticketing service available at over 3,400 iWay cyber cafes across 154 cities, on cash payments.

The users can approach Sify iWay where the cafe administrator would book the railway ticket online and the customer would pay cash against the ticket and collect its printout. In case of cancellation, customers will follow

the standard cancellation process of IRCTC.

But the convenience of e-ticketing would come at a price. Users opting to book e-tickets through the cash mode would have to shell out a transaction charge of Rs 15 in case of a sleeper class ticket and Rs 25 in case of AC ticket. (ET, 22.09.06)

### e-Filing I-T Returns

Filing of income-tax returns has got easier for corporates and other income-tax assesseees all over the country with the launch of a Web-based portal facilitating filing of returns online using the Internet.

This initiative would particularly benefit the corporate sector, as companies are necessarily required to furnish the return for assessment year 2006-07 electronically to the Income-Tax Department. For other class of taxpayers (individuals, non-corporates and trusts), it is optional to furnish an e-return.

According to official sources, this was a jurisdiction-free filing in the sense that returns could be filed from anywhere within the country irrespective of where the assessing officer is based.

The e-filing of returns is expected to be easy, fast with immediate acknowledgement and would help in getting rid of lengthy queues and last minute rush. (BL, 13.10.06)

## Kiosk to Counter Digital Divide

The government is planning to set up one lakh rural Common Service Centres (CSCs), which will basically be computer kiosks, at a cost of Rs 5,742 crore (US\$43.2bn), through a PPP mechanism.

These CSCs are expected to bridge the digital divide between the urban and rural areas. It will be broadband Internet-enabled and will offer a basket of government-to-citizen and business-to-customer services.

The CSCs will cater to 600,000 villages – one CSC in six villages. The project is expected to provide employment to one lakh people directly and 2-3 lakh additional indirect jobs.

The CSCs will offer web-enabled e-governance services in rural areas, including application forms, certificates and utility payments such as electricity, telephone and water bills. (BL, 21.09.06)





## Splate of M&As

In a spate of mergers and acquisitions (M&As), the Foreign Investment Promotion Board (FIPB) has approved merger of telecom network operations of Nokia and Siemens in India. However, the largest takeover was accomplished by TATA Steel that has successfully acquired the Anglo-Dutch firm Corus Group after a long battle with Brazilian steel making company CSN. The merger would create the world's fifth biggest steel company.

As part of their strategy to take on the financial and global muscle of international port operators, India's top shipping and logistics corporations are coming together to form a mega alliance.

The state-owned Shipping Corporation of India (SCI) is in the process of roping in other PSU majors such as Container Corporation of India (Concor) and Central Warehousing Corporation (CWC) to jointly bid for Rs 5,000 crore (US\$1.1bn) fourth terminal project at the Jawaharlal Nehru Port Trust, Mumbai. (BS, 07.11.06 & ET, 09.12.06)



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### Cutting Non-plan Subsidies

Calling for effective check on non-Plan expenditure by controlling untargated subsidies not aimed at the poor and vulnerable sections of society, the final approach paper for the 11<sup>th</sup> Five Year Plan argues for levy of rational user charges in many areas.

This, it states, is aimed at keeping the demands for budgetary support from these areas within limits.

In the overall sectoral policies for 11<sup>th</sup> Plan period, the emphasis is on achieving an increase in tax revenues as a proportion of GDP and a fall in non-Plan expenditure as a percentage of GDP. (FE, 23.11.06)

### Coming to a Naught

The Commerce Department's attempts to set up a single, dedicated research organisation to provide inputs on trade negotiations at the World Trade Organisation (WTO) and other regional agreements has come to a naught.

While the Department's plans of merging three existing research institutes – Indian Institute of Foreign Trade (IIFT), Indian Council for Research on International Economic Relations (ICRIER) and Research & Information System for the non-aligned and other developing countries (RIS) – into one single entity had to be given up due to strong resistance from the institutes, its follow up plan of setting up a new organisation is gathering dust at the Prime Minister's Office.

Several sections within the government had opposed the idea of setting up a separate research centre for trade negotiations on the ground

that this would needlessly add to costs and bureaucratic hassles. Many feel that it is much easier and cheaper to out-source the work to existing research institutes. (ET, 14.10.06)

### Together to Gauge Toxins

Rivals Coca Cola India and Pepsi Foods – Indian arms of the global cola majors – are on the verge of announcing a joint protocol to measure pesticide content in soft drinks in parts per billion. This would place India at the vanguard, as pesticide levels in end products are not measured in parts per billion anywhere else in the world.



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The challenge before the cola majors, who had started work on this aspect, was to establish a validated protocol and standards that would be acceptable to companies, the government and the non-governmental organisations (NGOs). Both Coca Cola and Pepsi have been working on these standards with the government since 2003 when the pesticide in bottled water row broke. (FE, 19.12.06)

### Move against Maruti

After forcing carmaker Maruti to stop using contents of a disputed TNS/TSC survey for its print advertisement that shows Hyundai in poor light, Hyundai Motors India Ltd has now moved the Monopolies and Restrictive Trade Practices Commission (MRTPC) seeking to stop its rival from using the same study in posters and pamphlets.

Hyundai alleged that Maruti Udyog Ltd (MUL) was still using the contents of the study, but through publicity bills to woo potential Hyundai customers and argued that the practice was unfair.

MUL, which submitted that it has stopped using findings of the survey in print advertisements, argued that there was no bar in using the same in posters or publicity handouts. (ET, 30.11.06)

### Shelling out Service Tax

Government departments and agencies, including railways, security service at airports and others, will have to shell out now. The Revenue Department has issued a clarification, which makes it mandatory for government bodies rendering taxable services to be subject to service tax.

It has become amply clear that if the government renders certain taxable services it will also be liable to pay service tax.

However, if one central government department renders service to another departments there will be no liability of service tax, as these would not be treated as two separate entities. (ET, 18.11.06)

### IPR Cover in Demand

Insurance companies are finding more takers among pharma and IT firms for insuring infringement of copyrights, trademarks and patents. This covers legal expenses and damages awarded in overseas litigation.

According to sources, globally, the number of patent applications has increased from 66,000 in 1980 to 1,83,000 in 2001 and the number of the patent claims from 750 to 3000.

The foreign customers of IT companies are now contractually making it mandatory to bundle a copyright and trademark insurance policy with an errors and omissions liability policy. Almost 50 percent of the contracts of IT companies now opt for a copyright and trademark insurance to their policy. (BL, 12.09.06)

### Making Licence Raj History

Liberation is on the cards for Industrial sectors that are still living under the shadow of licence raj.

The initiative is part of reforms agenda of the UPA government that includes stepping up investment in manufacturing by removing procedural bottlenecks that have continued from the erstwhile licence-permit raj.

In the Final Draft of the 11<sup>th</sup> Plan, the Planning Commission has said that controls in such sectors like sugar, petroleum refining, fertilisers and rugs should be progressively eliminated to boost investments and makes the sectors more competitive.

It has also favoured an amendment to the Companies Act, 1956 to facilitate the rehabilitation and liquidation procedures for industrial units, which would also improve investments. (ET, 23.11.06)

### Greener GNP

In view of attaining a more sustainable development indicator the government is working on a methodology that will add the value of things such as clean environment as part of natural resources for calculating the Gross National Product (GNP).

In such calculations, the worth of the resources that has been degraded or polluted will act as a depreciation

factor. The first step in achieving such an international standard of green GDP is for every country to have a national database of natural resource accounting. The second step is to calculate the cost of recovery of polluted resources.

While many European countries have already prepared such databases, India made a beginning in 2003. (ET, 06.12.06)

### Empowering Dalit Trades

The group of ministers on Dalit affairs is actively considering a proposal to make 30 percent central government purchases through entrepreneurs belonging to SC/ST categories mandatory. The move is in a bid to financially empower them.

According to official sources, unless effective marketing of the goods manufactured by SC/STs was accomplished, their financial lot would not improve.

Sources opine that the proposal would serve to generate gainful employment in the country. (ET, 20.10.06)

### Less in Number, More in Control

A study commissioned by the National Pharmaceutical Pricing Authority (NPPA) has found that only eight percent of the branded generic drugs control about 80 percent of the retail pharma market.

With the industry adamant on not letting these brands come under any kind of price control, the government's effort to make drugs affordable to people at large may lose much of its

sheen. The study was necessitated by the fact that the industry had earlier made "voluntary" reductions in trade margins by 40 percent on over 1000 brands. These brands have only nine percent share in the Rs 30,000 crore (US\$6.8bn) pharmaceuticals market.

The move is considered as an "eyewash", as pharma majors have reduced the margins on drugs, which have a small market and not many big manufacturers produce them. (FE, 11.10.06)

### Quota for SC/ST

The Parliamentary Committee has strongly opposed the government's stand that job quotas for SCs and STs cannot be implemented in the private sector or divested PSUs.

It has recommended the enactment of a law to protect the interests of downtrodden sections of the society.

Earlier, the government had contended that reservation provisions could not be enforced if public sector share in a PSU went below 51 percent.

Therefore, the Committee has asked the government to initiate action to provide reservation in the private sector through the enactment of a specific law.

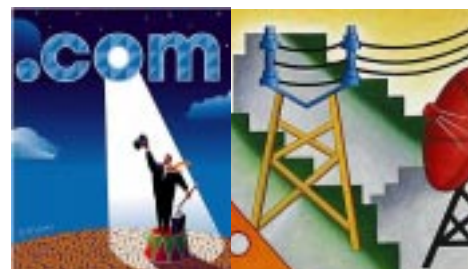
It has also recommended that government should review cases of already disinvested PSUs to see if a government nominee could be appointed in the administrative staff to preserve the constitutional rights of the SC/ST employees. (BS, 30.11.06)

## On a Single Line

For the first time, electricity, Internet and telephone are being made available on a single line to Indian consumers by the US\$90bn tech giant, IBM Global, in a pilot project in India to launch its broadband over power line (BPL) system.

The company is in serious talks with State Electricity Boards (SEBs) and power utilities for the project implementation. The Uttar Pradesh Government is keen to implement a pilot project in rural areas.

Apart from Internet and telecommunication facilities, BPL will make the electricity network intelligent and keep the transmission and distribution loss at minimum. (ET, 08.10.06)



**Policy on Cards**

The government is likely to come out with a policy on FDI in credit information bureau (CIB).

CIB is a repository of credit information with current and historical data on both existing and potential borrowers. It maintains both negative and positive database of credit information, which can be accessed by lending institutions.

According to banking sources, the investment policy under discussion proposes to allow FDI up to 49 percent of the total investment in a credit bureau. However, foreign institutional investors (FIIs) may not be allowed to invest in such ventures.

(BS, 13.11.06)

**VAT Promises Higher Growth**

States implementing value-added tax (VAT) have registered higher growth in revenue collections so far as compared with non-VAT states like Uttar Pradesh, Tamil Nadu and Pondicherry. According to data made available by states, the growth in revenue during April-September (2006) was 27 percent in VAT states, against 22 percent in non-VAT states.

Reasons for the higher growth in revenues in VAT states were a wider tax base, good economic

performance, particularly of the manufacturing sector and increased efforts of the state tax department towards compliance. (BS, 01.11.06)

**BPO Job Seekers' Test**

Nasscom has announced national rollout of Nasscom Assessment of Competence (NAC), a capability assessment programme for potential employees of the BPO industry, with Rajasthan slated to become the first state to administer the test.

NAC aims to address the issue of potential talent shortage by creating a robust pipeline of talent through a standard assessment and certification. NAC would provide insights into the training and development needs of talent and enable companies, governments and universities to develop customised talent development initiatives and programmes.

It would help tap new talent pools in comparatively remote parts of the country, through a common assessment accessible to all. Although the ITes-BPO industry has been on a high-growth trajectory, clocking export revenues of US\$6.3bn in 2005-06, a Nasscom-McKinsey report has cautioned that India may

face a shortage of skilled workforce in the next decade unless corrective measures were put in place.

(ET, 01.11.06)

**Anti-Dumping Duty on Tyres**

The Finance Ministry has imposed provisional anti-dumping duty on non-radial lorry and bus tyres, tubes and flaps imported from China and Thailand.

The provisional anti-dumping duty, which is usually valid for about six months, has been imposed through the reference price route to discourage any under valuation.

The Ministry has pegged the reference price for bias tyres used in lorry and buses at US\$88.82 and US\$108.27 per piece on China and Thailand respectively.



However, the Automotive Tyre Manufacturers' Association, which had filed a petition for initiating an anti-dumping probe on imports of bias tyres from China, said that the reference price was not up to its expectations as the cost of production had increased over the period of investigation. (BL, 12.10.06)

**FDI WATCH**

**No FDI in Agriculture**

Following the RBI's alert on FDI in agriculture, the government has demonstrated that no FDI would be allowed in plantations, even in the case of NRIs.

The issue came up for discussion at the Foreign Investment Promotion Board (FIPB) recently when it took up a proposal made by KVT Estates.

The proposal was rejected by the Department of Economic Affairs, with the emphasis that the FDI policy does not permit foreign investment in any area of agriculture except tea plantations.

The government is taking extra care to check FDI inflow into any area apart from tea after the RBI has pointed out that all residual areas, including agriculture, seemed to have moved to the automatic route after the government rationalised its FDI policy earlier this year.

The apex bank had earlier pointed out that it appeared as if FDI was permitted through the automatic route in the case of all items except those, which are in for FIPB approval list. However, the government clarified its position saying that so far FDI is not permitted in agriculture.

(ET, 02.11.06)



**No to 100 Percent FDI**

While the domestic industry is opposed to 100 percent foreign equity in the retail sector, the overwhelming majority of the domestic firms are keen on allowing 49 percent of FDI in a calibrated manner.

The Associated Chambers of Commerce and Industry of India (ASSOCHAM) has endorsed this to enable the domestic players in the organised retailing get at least two to three years' time to face competition from giant foreign players. Moreover, the organised retail is still at a nascent stage and formed only three percent of the entire retail trade.

If the sector is opened up now, then the country would attract only little FDI compared to what it could attract a few years later.

Further, domestic players suffer from number of hurdles such as lack of infrastructure, prohibitive prices of large retail spaces in the upmarket and a plethora of bureaucratic hassles vis-à-vis the international players with efficient chains at low capital cost. (TH, 10.10.06)



### Corporate Brands

The Confederation of Indian Industry (CII) is in agreement with the suggestion made by the Expert Committee on Company Law that a subsidiary company should not be required to necessarily co-opt an independent director of its holding company as an independent director on its board.

The chamber has supported that corporate boards should comprise one-third independent directors, irrespective of whether the Chairman is executive or non-executive.

On another issue, CII has reasserted the stance upheld under Clause 49 of the Listing Agreement, which deems nominee directors as independent directors.

The CII has also suggested that nominee directors be excluded from the board strength for the purpose of calculating the percentage of independent directors.

CII also supports the view that all non-executive directors should be treated at par and be held liable for prosecution for not complying with the applicable provisions.

(BL, 20.11.06)

### Plugging the Gaps

The Company Affairs Ministry has initiated discussions with the Finance Ministry for a corporate regulatory regime by plugging the gaps in regulations and also making Securities and Exchange Board of India's (SEBI) power more explicit in the proposed new company law.

The new law would specifically provide for the capital market regulator to frame regulations under Section 30 of the Securities Contract Regulation Act with respect to issue and transfer of securities and non-payment of dividend.

Currently, the power to administer the provisions relating to them in the company law, are delegated to SEBI under Section 55A. The idea is to harmonise the company law with SEBI's regulations.

Moreover, ideas are under consideration to include the concept of acquisition and insider trading in the Act itself.

(ET, 24.10.06)

### Corporate Value Survey

More and more companies around the world have adopted formal statements of corporate values and managements routinely identify values as a top issue on their companies' agenda.

To explore these trends, Effecting Creative Change in Organisation (ECCO) International has executed a major study on corporate values. The 2006 ECCO International Corporate Values study surveyed 3,236 companies in 12 countries viz. Finland, France, Germany, Hungary, India, Italy, Netherlands, Norway, Poland, Spain, UK and US.

The ECCO network studies corporate values and its impact on the various publics and adopted a value-based approach to make corporate communications consistent and successful on a long-term basis.

The study found three groups of essential values namely quality; innovation; and customer satisfaction are among the top five values in every country. Dominant values are integrity, team spirit, environment and know-how. Strong values are success, social accountability, respect, and competitiveness and value creation.

(FE, 06.10.06)

### Cracking Down

A revamp of the Serious Frauds Investigation Office (SFIO) is on the cards. The move is expected to avoid

multiplicity of probing agencies in a single case, which only protract the fact-finding and justice delivery process, besides creating difficulty in fixing accountability.

The idea is to plug the chances of the person or the entity under probe getting a leeway to delay the progress when different parallel investigations happen simultaneously.

At present, some jurisdictional and administrative speed-breakers are coming in the way of the functioning of SFIOs. It cannot launch prosecution against wrongdoers for violations of law and is only mandated to submit its report to the concerned ministries.

(ET, 30.10.06)

### New Corporate Vistas

The government is giving the final touches to the new Companies Bill and plans to introduce it during the Budget session of Parliament in 2007.

Besides, the government is also reported to shortly unveil new accounting standards, which will be at par with international norms. The accounting standards would be simple and easy to implement and will cause no hardship to the corporates.

Further sources report that the 'MCA-21' e-governance project has had a smooth transition and from September 2006, 80 percent of all filings by corporates were being done from their virtual front offices.

(BL, 10.11.06)

## Award for Top Performer

The ITC Limited has won the National Award for Excellence in Corporate Governance 2006 from the Institute of Company Secretaries of India. ITC received the award for its commendable performance along the "triple bottom line", its strong corporate governance model and visionary leadership. The award was presented in Chennai, by Surjit Singh Barnala, Governor of Tamil Nadu.

The award recognises leadership efforts of companies in establishing, following and promoting exemplary corporate governance practices.

A souvenir and a book on Corporate Governance were also released on the occasion. The book on Corporate Governance contains modules for best practices relating to disclosure of various items of compliances in the light of revised Clause 49 of the Listing Agreement and is a user-friendly treatise on Corporate Governance for corporate and professionals.

(ITC Limited, 23.12.06)



## Cactus of Corruption

India has been ranked as the worst performer by Transparency International (TI) on its global 'Bribe Payers Index', which is based on the propensity of companies from the world's 30 leading exporting countries in bribing abroad.

The watchdog said that India consistently scores worst across most regions and sub-groupings, while China ranks second to last in the index. It said that in case of China and other emerging export powers, efforts to strengthen domestic anti-corruption activities have failed to extend abroad.

The index has been prepared on the basis of responses of more than 11,000 business people in 125 countries polled in the World Economic Forum's Executive Opinion Survey 2006.

TI encourages rich nations and emerging export powers to curb corporate bribes by enforcing international anti-corruption standards. (HT & FE, 04.10.06)



### Win-Win for All!

The pre-paid cellular cards with lifetime validity have gaining popularity with as many as 16 million subscribers taking the scheme since it was launched by mobile operators six months ago.

The lifetime validity scheme is providing an average revenue per user (ARPU) of Rs 218 (US\$45) compared with Rs 268 (US\$6) for the overall pre-paid card segment.

The results of the data analysis, done by the TRAI, show the scheme as one of the factors responsible for the growth of mobile subscription in 2006.

Various operators have launched lifetime validity in December 2005 and January 2006. This scheme entitles subscribers to receive incoming calls for an indefinite period. (BL, 19.12.06)

### Press Freedom Index

India moved up one place and neighbouring Pakistan went down seven places among 168 nations in the Press Freedom Index compiled by global media watchdog Reporters Without Borders.

Though India moved up to 105<sup>th</sup> position from 106<sup>th</sup> in 2005, the press freedom was nowhere near the level of 2002 when it was placed 80<sup>th</sup> among 168 countries ranked.

Pakistan's was placed 157 in 2006 down from 150 in 2005 and 119 in 2002. The US slipped nine places compared with last year to 53<sup>rd</sup> position, much

lower than its inaugural index rating of 17<sup>th</sup> that implies it has lost 36 places in last five years.

Tied for the first place, indicating maximum press freedom are Finland, Iceland, Ireland and Netherlands. The worst offenders are North Korea, Turkmenistan and Eritrea occupying 168, 167 and 166 places respectively.

(BS, 26.10.06)

### Private Insurance Preferable

Consumers prefer private insurers including TATA, AID, HDFC Chubb and IFFCO Tokio to public sector insurers in portfolios such as life, health, home and motor insurance.

The most set of dissatisfied customers cropped up in health insurance. Tardy clearance of mediclaim and insufficient cashless facilities were the most notable drawbacks in the medical insurance.

The recent survey sponsored by the Ministry of Consumer Affairs (MoCA) shows that consumers believe LIC is the most reliable life insurance company in terms of safety of their interest.

The parameters used were tangibility, reliability, responsiveness, assurance and empathy on part of the insurers.

It was, therefore, recommended that various policy initiatives taken by MoCA be integrated with those of the finance and health ministries to make insurance more accessible and affordable to consumers.

The survey has called for more efficient utilisation of huge public wealth created by the PSU insurers to ensure better returns on investments.

(ET, 10.01.06)

### High on Energy

The importance of energy in public policy and the market is growing by the day.

According to the *Economic Times* Energy Survey if India has to sustain a GDP growth of eight percent, energy is a prerequisite.

The issue of energy security has also captured the common imagination. The task is not made easier by the fact that the government has separate ministries for coal, petroleum, power and non-conventional energy.

The survey reveals that a sensible energy policy will be to harness indigenous energy sources.

Indian companies will have to snoop around for equity oil and equity coal, keeping in mind the environmental concerns, which underscore the need for cleaner fuels like natural gas and renewable energy.

(ET, 22.12.06)

### Investment on the Rise

The domestic real estate sector would emerge as a US\$50bn industry by 2010, and prove one of the most attractive sectors for foreign investments.

According to a research, by India Infoline, in the last two-three years, strong economic growth, favourable demographic changes, fiscal benefits, lower interest rates and improvements in institutional framework have helped the industry's growth.

Since 2004, most companies have reported astronomical growth in profitability on the back of rising property prices.

The study estimates India to see a demand-supply gap of 17.9 million housing units by 2010 with commercial real estate demand rising to about 350 million sq ft.

(BS, 23.10.06)



### Call for Urban Reforms

The Associated Chambers of Commerce and Industry (ASSOCHAM) has called for urban sector reforms including creation of a legal and regulatory framework for private sector investment in urban infrastructure.

This calls for innovative reforms in municipal tax structure and user charges, taking into account the poor paying capacity of a sizable sector of the urban population.

The chamber has also highlighted that urban infrastructure facilities face serious problems due to population pressure, deterioration in physical environment and quality of life.

In a paper, the chamber noted that private sector investments for urban infrastructure cannot take place unless a proper legal and regulatory framework is developed. Such a framework alone can ensure a full cost plus recovery of such investment.

(TH, 30.10.06)

### Creating Concessions

Even as the Competition Act 2002 is yet to be made operational, there is a case for explicitly stating in the concession agreement in infrastructure areas that competition law provisions would apply to the concessionaire.

This way the concessionaire gets the right to provide infrastructure facilities through the competitive process.

The government involves the private sector in infrastructure development and marketing through agreements known as concession agreements.

In a recent article, Vinod Dhall, Member, Competition Commission, observed that concession grants a private firm the right to operate an infrastructure service and to receive revenues generated, though the ownership of assets that vest with the government.

However, concessions create monopoly or extreme cases of dominant position, with consequent market power, which is prone to be abused. This raises the relevance of competition policy in the handing out of concessions.

(BL, 29.11.06)

### Relying on Market Economy?

Nobel laureate Amartya Sen warned that market economy is here to stay but could not be relied upon for developmental tasks, while releasing a book "Locked Homes, Empty Schools: The Impact of Distress Seasonal Migration on the Rural Poor".

The Nobel laureate said the market economy would neither run the village hostel for children whose parents have to move out of their homes every year to make a living nor would they run schools for their children at the sites where they were employed.

He further added that the miracle of Chinese growth after they adopted market economy could only be explained by the fact that they had implemented land reforms in the 1980s. "If India could implement land reforms, spread education and extend healthcare, it will help reduce distress migration", he added.

(TH, 21.12.06)

### A Rendezvous with Bhagwati

Jagdish Bhagwati, the well-known economist who formulated the intellectual case for economic reforms in India, has suggested for opening of agriculture to international trade with safety nets and adjustment assistance programmes.

On labour market flexibility, he agreed that firing has its downside, but not being able to fire has a bigger downside. He expressed his worry over decisions the Congress Party is

taking which are full of sound and fury but mean nothing. India has more money at her disposal, which should be spent on productive schemes like employment guarantee.

He held that ban on child labour is ridiculous in a country where poor children would die of starvation if they were not allowed to work.

On nine percent growth target, Bhagwati recommended reforms to accentuate to reach a double-digit growth rate.

(BS, 27.10.06)

### The Montek Potpourri

The Chairman of the Planning Commission, Montek Singh Ahluwalia stands to support the RBI's directive to banks to treat lending to SEZs at par with real estate. He said that the Chief Ministers would have to take decisions on allocating agriculture land for SEZ, keeping in view the fairness of land price.

On reforms, he came out in support of Finance Minister P Chidambaram, saying the 11<sup>th</sup> Five year Plan target of nine percent economic growth would not be possible if 'political space' was not given to state government to push through liberalisation.

He urged the need to make labour laws flexible to attract greater investment and job creation. He, however, cautioned that the country cannot follow degrees of flexibility, which was not in vogue with the rest of world.

(ET, 05.10.06 & FE, 14.11.06 & 01.12.06)

## Allowing Free Movement

The ICRIER has suggested freer movement of essential commodities across states to attain price stability.

It also said that the Essential Commodities Act should be amended for enforcement only as an emergency provision for free movement of grain, edible oils, pulses, kerosene, and sugar. A central Act should be brought about to ban control on movement of goods within and between states.

ICRIER also suggested that there is a need to abolish octroi and all sorts of other indirect taxes and levies on foods to turn the whole country into a single unrestricted market. Subsidies on goods and public distribution system (PDS) have distorted prices in the market and therefore all further attempts to provide subsidy to more and more commodities should be resisted.

States should also be free to set up public or joint venture companies for food procurement, transportation and distribution if it is commercially viable.

(FE, 08.12.06)





## HT Edit: The Message from Maruti

The government's decision to sell its remaining 10.27 percent stake in Maruti Udyog Ltd. for an estimated Rs 2,700 crore (US\$607mn) has not come a day too soon. Having shed its management control over the country's largest carmaker years ago, there was little purpose in the state hanging around as a portfolio investor, with neither the power to run the company nor any need to do so. In the age of globalisation and market-friendly economies, government should keep out of industries that have no social, environmental or security implications. Instead, the state has better things to do. There are roads crying out to be built, power plants hungry for funds, schools and hospitals missing in villages and malnourished children in need of anti-poverty programmes.

(23.12.06)



## Public Assets, Private Gain

– Ashok Parthasarathi\*

The editorial, 'The Message from Maruti' (December 23, 2006), stated that in the age of globalisation and market-friendly economies, government should keep out of industries that have no social, environmental or security implications. But, surely, one cannot have rigid norms or criteria on such matters.

To begin with, not too many people today bother to recall that it was the state that built almost all of the industrial brainpower and muscle from 1956 to 1991. And it was the government that launched the so-called liberalisation, privatisation and globalisation policies only in 1991.

In 1956, the larger companies in the private sector – TISCO and some of the Birla companies – neither had the finances nor the commitment to build technological capabilities of personnel and machinery for the expansion of steel, heavy engineering, heavy electricals, electronics, petroleum, petrochemical and the chemical industries. Where would India have been today had the state not moved into the economy in a massive way, starting way back in 1956?

It is because the state provided a sound foundation of such core-sector industries over the last 40 years that the private sector was able to move into the consumer and light industries in the last 20 years. It is only recently that the private sector has started manufacturing products that need superior technology and large investment and products that the public sector had till then been making.

When Maruti was launched in 1982, the majority of the machines that it bought for its plants were sourced from public sector companies, like Bharat Heavy Electricals Ltd. (BHEL) and Heavy Engineering Corporation (HEC). Naturally, the machines were much cheaper than the imported equivalents.

The same applies to TISCO and TELCO. We could not have set up our first petrochemical complex — public sector enterprise Indian Petrochemical Corporation Ltd. (IPCL) at Baroda — if the state had not already set up the Gujarat Refinery of Indian Oil Corporation, which produced the naphtha, the raw material for IPCL. Also, the IPCL plant, like the Gujarat Refinery, was designed and engineered by

the public sector design engineering company, Engineers India Ltd. Again, our costs of design engineering and equipment were much less than those of imported equivalents. Such indigenous input-providing capabilities gave us tremendous bargaining power *vis-à-vis* the multinational companies of US and Western Europe which monopolised petroleum refining and petrochemicals production worldwide at the time.

Apart from the industries that are social, environmental or security-related in nature, which must be promoted, developed and operated on a continuing basis by the state, there is another category — the 'strategic' industries — which must be kept under state purview. These are all petroleum-related, energy-related industries and the hi-tech machine-building industries. Reliance has undertaken petroleum refining, on a large scale, only in the last decade or so.

For example, Reliance got into petrochemicals by purchasing the superb IPCL plants at Baroda and Nagothane. These were fully operational world-class plants, which had the additional financial advantage of being totally depreciated.

It is unfortunate that despite the opportunities, India failed, over an entire decade of 1990s to set up power generation and transmission capacities.

China has undertaken a massive export drive, primarily to the US market for the last 15 years or so. The drive is dominated by huge state-owned companies, which includes textiles, footwear, electronics and even toys.

The problem in dealing with 'privatisation' on a 'macro' level is that it does not provide for policy-making on an enterprise-specific basis, which leads to emphasising on the revenue realised by the state through the 'strategic sales' of public enterprises. More importantly, they are sources of industrial, technological and human resources — assets, which have been built over long periods of time. This applies equally to Maruti.

Anomalies do exist in the public sector family. What we need to do is correct such anomalies rather than pursue privatisation as an all-embracing macro policy.

\*A former Science Advisor to Prime Minister Indira Gandhi and Permanent Secretary to scientific departments in the Government of India. This is an abridged form of an article that appeared in *The Hindustan Times*, January 03, 2007

# Why Not Education Vouchers?

This year's Human Development Report has been out for sometime now. Like our cricket team, in the case of human development too, in spite of much hype about our rapid progress, we have not done well. In fact, when it comes to basic factors of human development such as education and healthcare, we are doing very badly. Not doing well is bad enough; the fact that no in authority is concerned about it is worse.

Teachers in our government schools are relatively well paid. In the rural areas, they will rank among the rich. According to informed estimates, they skip a quarter of the classes and teach little rest of the time. I once asked the Secretary to Education of a State government, who made the same complaint, why he does not take action against erring teachers. He confessed he could not. If he tried to do so, the teachers will get a local politician to complain to the Minister and will get his orders reversed. If well-paid teachers do not teach, is it not a self-inflicted disease? If so, why do we take bad decisions and suffer?

## Poor Grafting

Grafting is a well-known technique in agriculture for improving the quality of the output. When a branch of superior variety is grafted on to a plant of lower quality, the lowly plant produces high-quality fruits. Apparently, our rulers have no lesson to learn from this well-known process: They are grafting second-rate teachers onto students with poor background.

The result is, in the matter of school education, we are among the worst in the world. For two reasons, politically, it does not matter. One, the uneducated can be moulded into vote banks more easily than the educated. Two, less competent teachers make better organisers of vote banks. On the other hand, those who benefit from rapid growth are rarely grateful. How grateful to politicians are those who prosper in the IT industry compared to poor villagers are for a bottle of liquor?

Experience in the past 15 years has confirmed that competition works. As we have seen in telecommunications and in a host of other products, competition improves quality and simultaneously reduces prices. Competition should help education too similarly.

## Competition Among Schools

The idea of education vouchers has been going around as a means of introducing competition among schools. In that case, the government does not fund schools directly; instead, it provides vouchers to students who can use them to pay fees in a school of their choice. Once vouchers come into vogue, schools (and teachers) will survive only by attracting students, by providing quality education.

To teachers (and the government) vouchers are an anathema because it transfers powers from their hands into those of parents. It is unlikely that the idea will be

*Education vouchers can introduce competition among schools. With the government providing vouchers to students who can use them to pay fees in a school of their choice, institutions will survive only by providing quality education. Rope in the corporate sector, and the scheme can save the economy from short-sighted politicians.*

– P V Indiresan



accepted if for no reason the government does not want to displease teachers. On the other hand, without causing much umbrage, the corporate sector can give vouchers to a select few, enough in numbers to ensure the required size of talent. Even then, it should be so designed that it will not be rejected the way the government rebuffed private industry when it wanted to fund IITs and IIMs.

Then, consider a scheme where the corporate sector distributes education vouchers (population-wise) among small groups of Village Panchayats (with a similar arrangement for the urban areas too). Each member of the group will compete with the others for the number of vouchers it can distribute to its children on the basis of a test. In turn, the children will be free to use the vouchers in a school of their choice.

## Promoting Education

Here is a system that introduces competition among panchayats for the patronage of distributing education vouchers, and thereby induces them to promote good education within their domain. The numbers competing are small enough to create zest. (It is the bane of All India or State-wide tests that they are too remote to create local excitement or civic enthusiasm.) It introduces competition among schools also. The system is decentralised and bypasses centralised bureaucracy. That too is good.

Ten percent of the first year's emoluments of every new entrant to the corporate sector should suffice to support over a million students and help them attend good schools. The scheme will earn the corporate sector much goodwill, at a cost that is no more than what head-hunters charge for finding candidates. The scheme can save the Indian economy from short-sighted politicians. The question is whether the corporate sector has a long enough vision to fill the breach created by politicians.

*(The author is the former Director of IIT Madras. Abridged from an article that appeared in The Business Line, November 27, 2006)*

# Watershed Development and Management\*

In the sultry heat of a summer afternoon, Ashok Kadam breathes a sigh of relief to see his onion crops spread over two acres of land ready for harvesting. He lives in a small village called Ralegaon Siddhi in Maharashtra. Like Ashok's, most of the fields in the village are green. Greenery in this region is the result of efforts initiated by people 30 years back to pool water through vegetative and engineering methods. This area, which had once been struggling under abject poverty, is now exporting agricultural produce to other parts of the country. This transformation has been possible due to effort initiated by Anna Hazare, the well known social activist, who mobilised communities to restore water resources in the area. By restoring water resources and ensuring its steady supply, Anna addressed the economic problems of the locals and turned their fortunes around.

The story of Ralegaon Siddhi testifies that land degradation, water crisis and poverty are inter-related. And proper management of land resources is essential for socio-economic development of countries dependant on those resources, and thus maintaining ecological balance.

The technique used in Ralegaon Siddhi focused on micro aspects (including social, economic, scientific and engineering) of a drainage basin. The innovation is technically termed as watershed management.

## Characterisation

So, how do we define watershed management? In layman's language, it is a process of slowing down the intensity of flowing water down the stream, allowing more water to percolate through the soil by using natural and engineering techniques, pooling water wherever possible and creating livelihood opportunities.

It is a technique to manage natural resources by superseding administrative and institutional aspects and addressing physical and economic issues. Besides, it links the social system with the environment and integrates various programmes, such as forestry, soil conservation, farming activities and community development.



## History

In India, water harvesting structures were used in the past to collect rain and stream water. The colonisers adopted a number of preventive measures to check soil erosion at the beginning of the 19<sup>th</sup> century. In the 1960s and 1970s, the focus shifted from enhancing productivity of rain fed areas to combat drought and famine through appropriate land

management programmes.

In the 1970s, people in parts of Maharashtra and Chandigarh had started asking for a greater role in governance and bigger share of benefits. Hence, the focus of watershed management shifted to poverty alleviation emphasising on employment generation and creating livelihood opportunities. Suggestion from the Hanumantha Rao Committee and pressure from donor agencies forced the government to redefine objectives of watershed programmes - referring to it as Participatory Integrated Watershed Programme.

With the success of watershed programme initiated in Sukhomajri (Haryana) and Ralegaon Siddhi, the approach

**Table I. History of Evolution of Watershed Programmes in India**

Year	Soil & Water Conservation Programme
	<b>Period I: Pre-Independence Period</b>
1900	First Soil and Water Conservation Act by Punjab State
1928	Recognition of soil erosion problem by Royal Commission on Agriculture
1930	Establishment of dry land research centers (Bombay dry farming practices)
1938	Scheme for dry farming development: Emphasis on contour bunding
1945	Famine commission: SWC was considered as a component of relief measures
	<b>Period II: Post-Independence Period</b>
1950-60	Enactment of Soil and Water Conservation Acts by several states in India All India Soil Survey and Land use organisation
1954	Starting of Central Soil and Water Conservation Research and Training Institute (CSWCRTI)
1961	Launching of River Valley Schemes/projects
1975	Implementation of Operations Research Projects
	<b>Period III: Watershed Development Programme Era</b>
1982	Launching of 46 model watershed projects (WDP) for the development of dry lands
1983	National Water Policy
1984	World Bank Assisted WDP in four states
1986	National Watershed Development Programmes for Rainfed Areas (NWDPRAs) in 16 states
1988	National Forest Policy
1989	Integrated Waste Land Development Programme (National Wasteland Development Board)
1990	Joint Forestry Management
1992	National Watershed Development Project for Rain fed Areas (NWDPRAs)
2002	National Water Policy and National Afforestation Programme

Source: Shah (1998) and others



became a buzzword in the socio-economic development circuit. The successes of Pani Panchayat in Puranadar district of Maharashtra and 'Sukha Mukti Abhiyan' of Peoples' Science Institute in Palamau, Jharkhand revealed that problems of drought could be overcome by systematic planning and management of water harvesting structures.



socio-economic settings of rural India. However, even after spending million of rupees, the country is yet to realise the desired results. Problems lie with lack of peoples' participation in the decision making processes and faulty benefit sharing mechanisms. Nevertheless, the government of India along with development partners and a dedicated genre of NGOs and activists are trying to make watershed projects successful.

The Ministry of Agriculture (MoA), Ministry of Rural Development (MoRD) and the Ministry of Environment and Forest (MoEF) along with their respective line departments have since initiated watershed development programmes (See Table I).

A lot of work has to be done on decentralisation of power mechanism and fine-tuning the decision making processes.

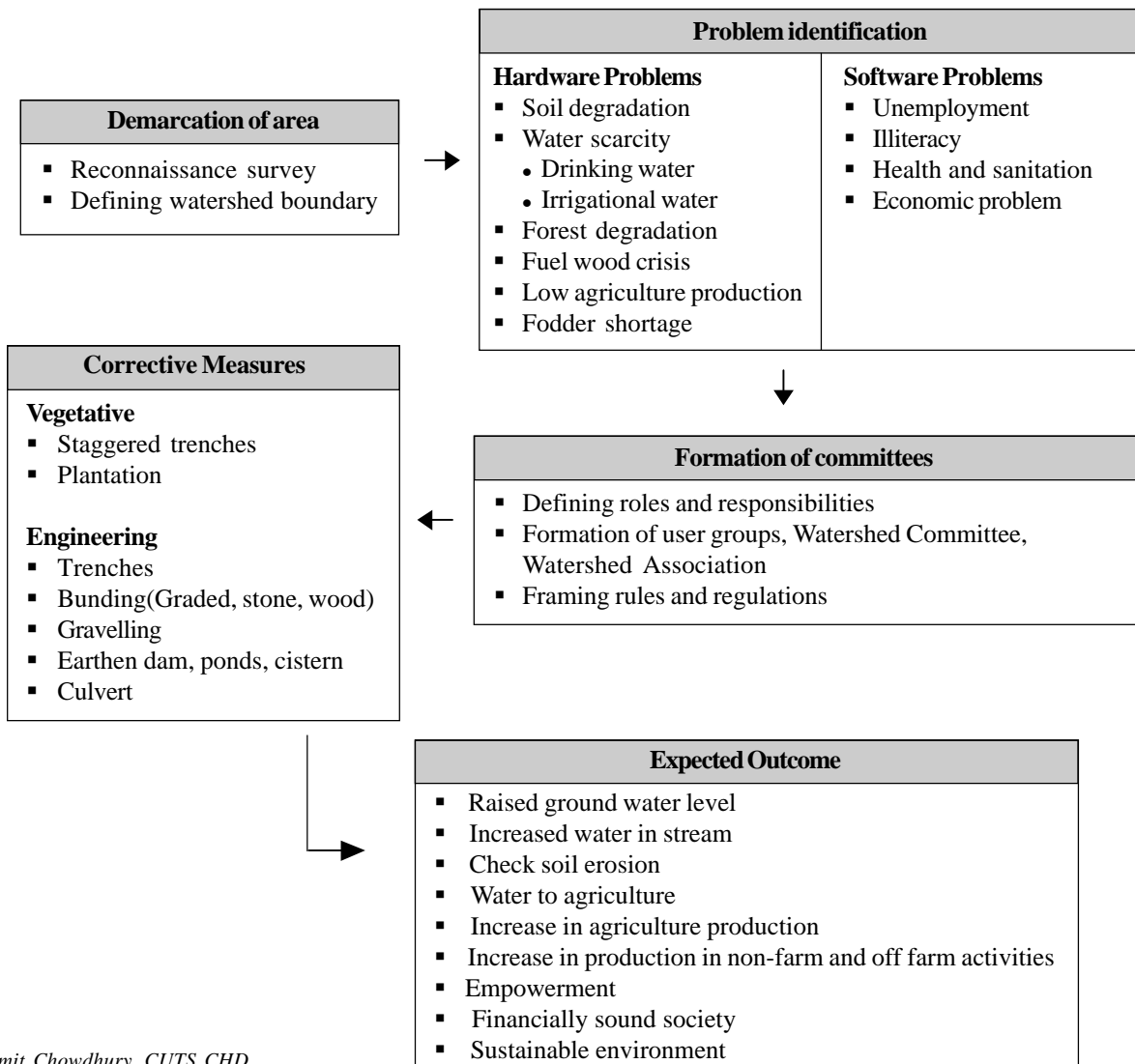
An integrated and coordinated approach is required between MoA, MoRD and MoEF to avoid overlapping of schemes.

**Conclusion**

The technique which was primarily initiated to solve problems related to soil erosion has become a mechanism to deal with wider problems such as health, sanitation, education and empowerment in various demographic and

Policies that emphasise on management of resources than development of resources have to be formulated and implemented. Only then the country can capitalise on benefits of watershed development and protect the health of ecosystems and countries that depend on them.

**Figure 1: Process of Watershed Development**



\*Amit Chowdhury, CUTS CHD

## Open Access In Power - A Long Way Off

*The Electricity Act 2003 opened the power sector in India to a number of players by laying down provisions for a power market and competition. The Act mandated opening access in transmission and defines open access as the non-discriminatory provision for the use of transmission lines or distribution system or associated facilities with such lines or system by any licensee or consumer or a person engaged in generation in accordance with the regulations specified by the Appropriate Commission. According to the Central Electricity Regulatory Commission (CERC), all transmission service providers, including the Power Grid Corporation (PGCIL), shall provide non-discriminatory open access for inter-state transmission to any distribution company, trader, generating company, captive plant or any permitted consumer. The move was expected to create options for distribution companies and bulk customers for buying power by facilitating competition in the power generation industry*

The current legal framework provides and, in fact, promotes the open access concept. But most state electricity regulators have yet to devise comprehensive regulations for open access in intra-state transmission as well as distribution systems. In several states, regulatory orders have had an enabling nature, yet issues related to the 'incumbent' utility have held up power flows based on an open access regime. The resultant uncertainty seems to have affected investments. Potential investors adopt a 'wait and watch' approach whenever they see uncertainty in progress on an intended foundation of a new industry structure.

Therefore, the required end result of open access in power, i.e., unconstrained portability of power, still remains a distant dream. What is required is a greater development of regulatory capacity, so that issues involved are addressed in a proactive mode. Regulators need to drive the process of change in the power sector by adhering to timelines for issuing regulations as well as doable plans for phasing out cross-subsidy related elements in the power usage charges. Outreach programmes by policy-makers as well as definite incentives and disincentives to encourage incumbent utilities towards a mindset change are the need of the day. In the long term, additional capacities in the wires, to make available redundancies in the system, will need to be planned to encourage merchant business models, where open access is the very foundation.

**T N Thakur**  
CMD, PTC India

In most states, the basic legal and regulatory framework is in place. The state regulators have defined phasing in of retail competition, for example, from April 2007, consumers above 5 MW in UP, above 3 MVA in Karnataka, above 1.5 MVA in Rajasthan and above 1 MVA in Maharashtra become eligible to choose their suppliers. This is a significant step. In most states, while the path for retail competition is laid out, corresponding efforts on a settlement mechanism, i.e., the intra-state ABT, has not.

The financial loss to licensees of unregulated interchange is far more than they imagine, particularly as the number of players increase. A recast of tariff structure or use of tariff caps will help licensees compete better in the lean season or off-peak hours to recapture market; and improves system utilisation. Access must not be slowed by considerations of limited response now.

The response is influenced by many factors: for example, several states have reduced industrial tariffs, lessening the cost advantage of an alternate supply. Experience shows that response picks up over time, as more suppliers enter, new products are created, and participants gain confidence in the system. We need to strengthen this process.

**Kameswara Rao**  
Leader, Power Practice,  
PricewaterhouseCoopers

It will be very simplistic to say that "open access" alone will solve all the complex problems of power sector and put it back on track. Nonetheless it will address some of the major concerns responsible for the present mess. Open access is long overdue and has to be the beginning of several such measures, which have been part of the Electricity Act, 2003 and need to be implemented urgently to save the sector from complete collapse.

We must allow bulk consumers like malls, manufacturing, large office blocks, IT development centres, etc., open access, to begin with. The surcharge collected from them can be used to set off SEB's unviable rural programmes. The system that could evolve will be a win-win one for all, if we are imaginative. The argument of cherry picking is meaningless. We have a great demand and so let some new players satisfy it.

Let someone be the cherry-picker while others can pick berries. The dog-in-the-manger policy has not served anyone including SEBs. We can add capacity and at the same time address the distribution reforms. However, the much greater need is for focused attention on distribution reforms. This alone will make it commercially viable, improve quality, stop thefts and improve revenue.

**Suresh Prabhu,**  
Former Union Minister  
for Power, Gol

*(Abridged from an article carried in The Economic Times, December 12, 2006)*

# Strengthening the Competition Culture

– Pradeep S Mehta

*The Planning Commission's Working Group on Competition Policy must nurture a competitive environment in the government so as to boost overall economic development.*

On the government's advice, the Competition Commission of India (CCI) has constituted an Advisory Committee to prepare a consultation paper for a National Competition Policy. In addition, the Planning Commission recently set up a Working Group on Competition Policy.

The Working Group is required to recommend a set of comprehensive policy instruments and strategic interventions to effectively generate a culture of competition in the domestic market with all the stakeholders' involvement. The Group would also recommend ways to enhance the role of competition in government policy making and suggest ways to harmonise relations between the competition authority and sectoral regulators.

## Possible Recommendations

In terms of policy instruments, the Working Group could recommend the government to adopt a National Competition Policy statement to provide a declared intent to government's resolve of promoting competition in the market place. This would help introduce competition principles in government's policies and practices. The Working Group could also recommend a periodic competition audit of all existing and proposed government policies and laws. This exercise would help identify policies and laws that distort the market process, and will form the basis for drawing up a reform framework.

## Policy Implementation

How will the policy be implemented and who will do it? Considering the CCI as the appropriate agency will not be the right approach. One, the CCI is primarily an enforcement agency and not a policy-vetting agency and this distinction should be clearly understood. Through its 'competition advocacy' function, the CCI can suggest precise measures, when a matter is referred to it, such as in the case of privatisation or concessions.

Accordingly, the Working Group could recommend the establishment of an apex National Competition Policy Council with the Prime Minister (or his nominee) as its chairperson, Chief Ministers or their nominees and representatives from business, consumers, media and academia so that competition issues receive highest consideration in every area of governance.

## Premier Policy Think-Tank

As a premier policy think-tank, the Planning Commission could be made the nodal agency and entrusted with the task of carrying out competition audit of policies and laws and assessment of markets. It should also assist

the National Competition Policy Council in monitoring the implementation of competition principles across all government agencies. The proposed National Competition Policy Council can then consider the recommendations that emerge from these exercises.

Government departments, on their part, should be asked to state competition implications of major policy submissions, which can be reviewed by the Competition Policy Council.

## Empowering State Bodies

To guide the implementation of the National Competition Policy at the state-level, state governments should be empowered to establish State Competition Policy Councils with Chief Ministers as chairpersons, and Chief Secretaries, business, consumer, media and academia representatives as members.

The Planning Commission could consider providing incentives to state governments in the form of competition payments linked to the extent of reforms that states take up in their policies and practices.

## Clear Working Relationship

To strengthen the competition culture in the country, the Working Group could recommend the government to support public awareness and advocacy campaigns and training programmes on competition issues targeting all stakeholders. This would make the entire exercise an 'inclusive' process.

By nurturing a competitive environment, the Centre and State governments can ensure efficient spending, additional revenue generation and provide a boost to overall economic development. The road ahead is long and this requires a 'can do' approach, as the Prime Minister, Dr Manmohan Singh, has articulated on several occasions.

*(The author is Secretary General, CUTS International. Abridged from an article that appeared in The Business Line, August 11, 2006 issue and was last in a series of three )*

## Issues for Discussion

- How can a competition environment boost overall economic development?
- How will policy be implemented and who will do it ?
- How can we strengthen the competition culture ?







# REGULETTER

The Special Annual Edition of ReguLetter, the flagship newsletter of CUTS CCIER, in its cover story throws light on the political-economy and governance constraints that frustrates successful implementation of economic reforms and other enabling laws in developing countries. It further discusses ways to structure laws and to implement an effective enforcement regime within the political economy constraints in regulatory regimes in developing countries.

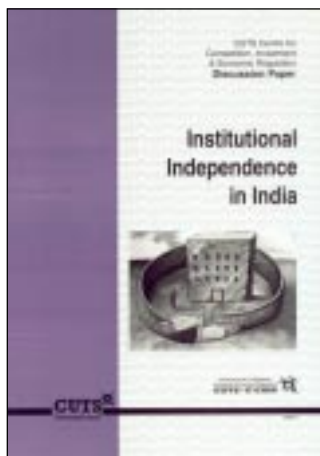
The lead story is followed by regular sections focusing on news, views and policies related to corporate restructuring, regulations of utilities and finances, corporate governance etc. of different countries in particular, the developing nations. Besides, annual roundup of competition laws, mergers &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

The theme for the Special Edition, identified as “Competition Law & its Benefits” walks through country experiences of Canada and Peru and attempts to cover the wide range of experiences from these countries with respect to competition law and its benefits.



## Institutional Independence in India

In India, several institutions have been mandated with institutional independence. Most of such institutions were established to perform the challenging task of maintaining a judicious balance between conflicting interests and overhauling the governance system, by enforcing accountability. The state has not been so successful in ensuring a right balance between these two. Institutional Independence has an inverse relationship with external influences over the authorities. The lesser the influence, the higher will be the scope for functional autonomy.



In this discussion paper, a comprehensive analysis of institutional independence in India is carried out, which would help facilitate cross-disciplinary learning and identification of good and bad practices. Further, the functioning of various independent institutions – Tier one and Tier two – have been examined in detail. Several instances of confrontations between the institutions and the Parliament have been cited over the jurisdiction as well as independence of action. Various obstacles in the way of the effective functioning of the independent institutions have been examined in this paper. The paper suggests

Institutions are necessary for the healthy functioning of political and economic democracy, but they come into conflict while exercising their independence to make social welfare meaningful. In India, the problem has been compounded, because the Parliament also wants to exercise some control over the way the institutions function.

that institutional independence should not be mistaken as an objective in itself; it should rather be seen as an important requisite for achieving desired effectiveness, economy, and efficiency in the system.

[www.cuts-ccier.org/pdf/Institutional\\_Independence\\_in\\_India.pdf](http://www.cuts-ccier.org/pdf/Institutional_Independence_in_India.pdf)

We want to hear from you...

Please e-mail your comments and suggestions to [outreach@ccier.cuts.org](mailto:outreach@ccier.cuts.org)

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

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

Eagerly waiting to hear from you!

### SOURCES

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