PolicyWatch

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

Volume 16, No. 1 January-March 2015

CUTS International 1983 2012

INSIDE THIS ISSUE

HIGHLIGHTS

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

States May Not Get More Funds, After All

Kahlil Gibran, the mystic Lebanese poet, in *Sand and Foam*, quips, "Half of what I say is meaningless; but I say it, so that the other half may reach you". This might well ring true for the devolution of funds to States, following the 2015-16 Budget.

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Much has been said about the increased devolution, which is expected to provide freedom to States to spend the way they like, redefine Centre-State relations, and push cooperative federalism. However, this is just one half of the story.

It is true that States' share of taxes and duties collected by the Centre is expected to increase from ₹3.38 lakh crore (revised estimates of fiscal 2015) to ₹5.24 lakh crore in the next fiscal. However, total grants and loans to States and Union Territories (UTs) are expected to correspondingly reduce from ₹3.55 lakh crore to ₹3.28 lakh crore.

Total grants and loans to States and Union Territories comprise non-plan grants and loans, assistance for central and centrally sponsored schemes, and central assistance for State and Union Territory plans. While the first two are expected to increase by around ₹28,000 crore and ₹19,000 crore respectively, central assistance to State and UT plans bear the brunt of total reduction, with an expected decrease of around ₹74,000 crore (28 percent), from ₹2.70 lakh crore to ₹1.95 lakh crore. Therefore, States are expected to self-fund their development plans.

Have the States understood the Centre's intentions? Subsequent to the Union Budget, the Rajasthan and Kerala Governments presented their budgets, and more will follow. A review of their budgetary documents shows that they might not have fully understood the Centre's intent.

The Centre has cut its gross budgetary support to schemes, such as *Sarva Shiksha Abhiyan* (SSA), Integrated Child Development Service (ICDS), *Rashtriya Krishi Vikas Yojana* (RKVY), and Integrated Watershed Management Programme (IWMP) by ₹6,894 crore (around 77 percent), ₹8,316 crore (51 percent), ₹3,944 crore (47 percent) and ₹812 crore (35 percent), respectively.

The total budgeted Central aid to State plans in fiscal 2015 was around ₹3.30 lakh crore, which has been revised to ₹2.71 lakh crore, a reduction of around 18 percent. With the disbanding of the Planning Commission, and the Finance Commission making recommendations with respect to Plan as well as non-Plan items, the provisions for normal central assistance, special central assistance, and special plan assistance (hitherto made by the Plan body), amounting to over ₹25,000 crore, ₹10,000 crore and ₹7,000 crore, respectively, during fiscal 2015, have been removed altogether.

The NITI *Aayog*, currently occupied with the evaluation of social and economic schemes in partnership with the States, is probably best placed to do this task on behalf of the Centre.

Published by **Consumer Unity & Trust Society (CUTS)**, D-217, Bhaskar Marg, Bani Park, Jaipur 302 016, India
Phone: 91.141.228 2821, Fax: 91.141.228 2485 Email: c-cier@cuts.org, Website: www.cuts-ccier.org
Printed by: Jaipur Printers P. Ltd., M.I. Road, Jaipur 302 001, India.

• COMMUNICATION •

Notices to Telcos

The State Legal Metrology Department (LMD) has sent notices to the leading telecom companies, asking them to get their ways of measuring call durations verified by the department.

"Any transaction in weights and measures comes under the purview of LMD. As per our records none of these operators have come to our department to verify their instruments, which is a violation of the LMD Act", said Sanjay Pandey, Controller, LMD. Mahesh Uppal, Consultant dealing with license registration for cellular companies, stated that the Government's license form contains no clause about verifying the call duration-measuring devices.

(DNA, 15.01.15)

Spectrum Sale Bonanza

Against an earlier estimate of about ₹82,000 crore, the Modi Government is likely to raise in excess of ₹1,00,000 crore from the biggest-ever sale of 2G and 3G airwaves. In 24 rounds of bidding, since March 04, the Government has already received commitments from telecom players totalling ₹86,000 crore.

Mobile users could expect enhanced quality of services – whether fewer call drops or better data speeds. The Budget papers indicated that the estimate of collection of non-tax revenue from sources, such as successful spectrum auctions during the current financial year (2015-16) had been revised upward by 2.5 percent to ₹2,17,832 crore.

(TH, 09.03.15)

Delay in Digital India Plan

Prime Minister Narendra Modi's Digital India plan could get delayed with the Department of Telecommunications (DoT) set to miss the deadline to connect 50,000 *gram panchayats* through an optical fibre cable network.

The broadband network was supposed to be completed by March 31, but at the current pace of laying cable, only about 15,000 villages might get connected by that date. Although the speed of laying cable has gone up from 500 km per month to 1,000 km a week, the required speed to achieve the target is 30,000 km a month.

In addition, the Prime Minister's office had asked the Department to look at how the process could be speeded up as the network was crucial for a number of Government projects, in particular the 'Digital India' initiative. *(BL, 27.01.15)*

Net-Neutrality Impact

The DoT has formed a panel to examine the economic impact of implementation of net-neutrality principle on the sector, following some operators' bid to charge extra for voice call services like Skype and Viber.

Net-neutrality principle stated that access to Internet or any Internet-based service should be without any barrier or discrimination. A six-member Committee formed, under Telecom Commission member A K Bhargava has been asked to ' examine pursuit of net neutrality from public policy objective, its advantages and limitations', mentioned the sources.

Furthermore, the Committee has been asked to examine the economic implication on the telecom sector that arise from the existence of a 'regulated telecom services sector and unregulated content and applications sector, including over-the-top services'. *(IE, 24.01.15)*

Towers in Residential Areas

In the coming days, mobile towers might be installed in residential areas as the Central Pollution Control Board (CPCB), a central body responsible for controlling and checking environmental pollution has 'distanced' itself from complaints related to radiation from mobile towers and their installation.

In two separate orders, the pollution control agency has washed its hands off the issue regarding mobile towers and referred to the DoT and its enforcement wing Telecom Enforcement and Resource Monitoring (TERM) cell for mobile towers complaints.

The CPCB has ruled out any action on the tower stating that as long as the radiation standards set by the DoT are met, the Pollution Board leaves all mobile tower-related complaints to the TERM Cells. *(DNA, 12.03.15)*

Hiving off BSNL's Tower Assets

The DoT has approved state-run BSNL's plan to hive off its tower assets into a wholly-owned subsidiary and is in the process of formulating a Cabinet note for the same.

BSNL has been planning to monetise its huge tower assets of 61,000 towers across the country to generate additional revenues. This is part of the revival plan for turning BSNL back into profits.

Currently, BSNL has tower sharing agreements with most of the private players. As the towers of BSNL are spread across the country, private telcos prefer to share BSNL's infrastructure rather than investing in setting up of their own network. BSNL is giving much time on launching data services. *(BS, 23.02.15)*

Free High-speed Wi-Fi

The Government will roll out free high-speed Wi-Fi in 2,500 cities and towns across the country, over three years and with an investment of up to ₹7,000 crore. This would be implemented by Bharat Sanchar Nigam Ltd (BSNL).

However, the free ride would be for a limited time, after which one would have to pay for further access, a model similar to the one offered at airports by private operators. "The services will begin in the following financial year and we plan to offer these to subscribers of all mobile operators", said BSNL Chairman and Managing Director Anupam Shrivastava. He also stated that most of the top cities around the country would be getting the Wi-Fi facility that aims to provide fast internet speed. *(ToI, 23.01.15)*

Raising Funds by Duty Hike

The National Highway Ministry plans to ask the Finance Ministry to ensure that the additional funds raised through the excise duty hike on fuel go only for building roads.

The Highway Ministry receives about ₹28,000 crore from the Finance Ministry as budgetary support for building roads. Of this, ₹22,000 crore comes from its share of the dedicated cess, the tolls it levies or the revenue share received from the developers who levy tolls. In effect, the Finance Ministry provides about ₹6,000 crore of additional grant to the roads sector.

While the Highway Ministry had proposed a cess, the Finance Ministry raised the excise duty on petrol and diesel by ₹2/litre, and said that this money would go to the roads sector.

(BL, 08.01.15)

Cess on Airfares

Air fares for passengers travelling on domestic routes might increase with the Government considering a proposal of the North Eastern Council (NEC) to levy a cess to subsidise air transport services in the region.

A senior official in the Ministry of Civil Aviation said, "The NEC has demanded that a cess has to be levied on passengers travelling on domestic routes to mobilise resources for a regional connectivity fund. The resources could be utilised to subsidise air transport services in the North-eastern region. We are considering the proposal".

Improving infrastructure in the North-east States has emerged as a priority area for the National Democratic Alliance (NDA) Government led by Prime Minister Narendra Modi.

(IE, 01.02.15)

Payments for Annuity Model

Moving away from the existing public-private road construction model, the Government would be making payments to operators during the construction period, under the proposed hybrid annuity model. The Ministry of Road Transport and Highways has announced 13 projects worth ₹14,442 crore, under the new model.

Under the existing annuity model, the Government used to release payments after the completion of projects. Hybrid annuity is a mix of government (engineering, procurement and construction or EPC) and private (build, operate and transfer or BOT) models. The hybrid model seeks to invoke the right blend of risk-sharing of both EPC and BOT models.

(BS 23.02.15)

Railways-Investors' MoUs

Indian Railways is going to sign memorandums of understanding (MoUs) with some multilateral and financial institutions shortly for funds to augment its existing capacity, Railway Minister Suresh Prabhu stated.

Prabhu, in his maiden rail budget, has announced that the Ministry plans to attract investments worth ₹17,000crore during 2015-16 from various public sector undertakings (PSUs), multilateral and financial institutions.

"There is a very large amount of money, which is committed for railways. We will sign MoUs in 10-15 days", the Minister said. The Ministry is already with Coal India (CIL) to set up special purpose vehicles (SPV) for each State.

(FE, 01.03.15)

Government Not to Relax Rules

An industry lobby group has urged the Government not to relax rules to allow Vistara and AirAsia India, the two airline start-up joint ventures of Tata Sons Ltd, operate international flights till they have run domestic flights for five years.

The Federation of Indian Airlines, which has lobbied the Aviation Ministry in this regard, has older airlines, such as IndiGo, Jet Airways, SpiceJet and GoAir as members, which together control 80 percent of the local market.

Current rules stipulate that an airline must have a fleet of at least 20 aircrafts and five years of experience in operating domestic flights before it becomes eligible to fly abroad. The Ministry is being biased against the entire existing industry, according to the lobby group.

(Mint, 23.01.15)

Aviation Policy Delayed

The new Civil Aviation policy is likely to be delayed for the third time in recent months, to around mid-March. The Aviation Ministry is yet to complete consultations on the subject.

http://economictimes.indiatimes.com

Before any official declaration, it would need Cabinet approval on issues, such as the proposed listing on stock exchanges of the Airports Authority of India and making Air Navigation Services a new corporate entity.

At this point, various stakeholders, such as the airlines have not even arrived at a consensus on key issues, such as removal or dilution of the contentious 5/20 rule stating that an airline must have at least 20 stating aircraft and have plied in India for five years before being allowed to ply abroad.

(BS, 06.02.15)

Greater Fiscal Powers

The Shipping Ministry has granted greater financial powers to the 12 port trusts it controls to expedite decision-making and help them function as commercial entities on par with state-owned firms. Currently, 12 of the 13 ports controlled by the Union Government are run as trusts, under a law, which was framed about four decades back called the Major Port Trusts Act, 1963.

The plan to delegate greater financial powers to port trust boards was approved by Road Transport and Highway Shipping Minister Nitin Gadkari, said a spokesman for the Shipping Ministry. "This would simplify decision-making and hasten work funded with port resources", a Chairman of one of the 12 port trusts stated.

(Mint, 19.02.15)

• OIL & GAS •

ONGC Drills in Cambay Basin

The Government of India's Public Sector Undertaking (PSU), Oil and Natural Gas Corporation (ONGC) has drilled a well in the Gulf of Cambay Basin in Gujarat to explore potential shale gas where coring has been completed. Further, ONGC has started one more well for shale gas and oil exploration in Gandhar area of Cambay Basin in Gujarat. Technical experts see huge potential of shale gas in the Gulf of Cambay and other nearby areas.

In addition, the Government of India has announced the "Policy Guidelines for Exploration and Exploitation of shale gas and oil by National Oil Companies under Nomination Regime" to carry out exploration and exploitation of shale gas and oil activities in 55 Petroleum mining lease areas. *(DG, 18.03.15)*

New Licensing Regime

The New Exploration and Licensing Policy's (NELP's) tenth round would be the last, under which the Government had already earmarked 42 blocks for investors, with the auction scheduled to be completed in 2015.

The NELP series of auctions of oil and gas blocks would be replaced by the Open Acreage Licensing Policy (OALP), under which upstream oil companies would be permitted to put in bids for securing oil and gas blocks throughout the year, instead of waiting for the Government to identify and put resources on the auction block.

The contours of the new policy regime would essentially have three elements; open acreage, uniform licensing enabling companies to explore and produce all forms of hydro-carbons from a single block, and revenue-sharing to replace the current production sharing regime.

(MW, 03.03.15)

Oilmin Resolving Disputes

The Directorate General of Hydrocarbon (DGH) has come up with a concept note stating "the role of the Government should be cut and the DGH should decide whether to go for arbitration or not". The proposals made by the DGH have been submitted to the Law Ministry for a view.

The DGH has proposed a two-pronged strategy, the case can be referred to a multi-disciplinary team (MDT) in DGH in the first instance to study all aspects of dispute with an open mind. In case, the MDT has different views then the issues should be brought to a second level – Executive Committee (EC). The decision of the EC will be final on any dispute arising in the block or field. "Only those disputes, which are not resolved following the two step process, would be sent to the Government for arbitration.

(FE, 02.02.15)

Need to Rework on Gas Price Pooling

The proposed 'gas price pooling' mechanism for power plants will need to be reworked as the Petroleum and Natural Gas Ministry has communicated to the Power Ministry that additional gas could not be given till 2016-17.

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Pooling is deriving an average price for gas produced from all domestic sources. At present, there are several gas pricing regimes in the country – administered pricing mechanism, market-determined price based on pricing schedule and guidelines issued by the Government, gas sold on formula approved by the Government, price derived at arm's length principle, and pricing under the production-sharing contract regime. The gas price pooling for power plants was also expected to have an element of imported gas. Almost 16,000 MW of gas based power capacity is stranded due to lack of fuel availability.

(BL, 16.01.15)

Options for India

International oil prices have fallen by nearly half. By a rough reckoning, the drop of US$50 per barrel translates to a one percent boost to global Gross Domestic Product (GDP). The Indian economy is also witnessing all-round buoyancy, some of which is attributable to softened crude prices.

Moreover, an economic survey notes that the Indian economy is in "a sweet spot in which it could finally be launched on a double-digit medium-term growth trajectory". The Government has rightly not passed on the entire drop in crude price to consumers, retaining a portion of it to fund infrastructure.

This is a signal that there is political will to steer the economy in the chosen direction. The budgetary provision for oil subsidy has also halved from ₹60,340 crore in 2014-15 to ₹30,000 crore in the current year.

(BS, 21.03.15)

Boost Oil and Gas Funds

The Ministry of Petroleum and Natural Gas has taken up an aggressive programme to survey 1.5mn square kilometres of virgin areas spread across 26 sedimentary basins to ensure presence of hydrocarbon. The exercise is pegged to cost about ₹6,800 crore. And second, a multi-agency team would re-assess the exploration data collected in India in the past 20 years. It would be spear headed by Keshav Dev Majviy Institute of Petroleum Exploration (KDMIPE) and would cost ₹124 crore.

The availability of substantive and quality geological data is vital for success of exploration activity in the country. Industry watchers have blamed non-availability of data as one of the reasons for global explorers shying away from participating in the auction of oil and gas blocks, under the New Exploration Licensing Policy (NELP) regime. *(FE, 10.03.15)*

• POWER •

Right to See Audit

The Delhi Government has informed the High Court that the audit of the State's three electricity distribution companies (Discoms) – Tata Power Delhi Distribution, BSES Yamuna Power and BSES Rajdhani Power – had been ordered in 'public interest'.

The Delhi High Court bench comprising Chief Justice G Rohini is in the process of hearing three separate pleas filed by the Discoms challenging the December 2013 decision of the Delhi Government to call for an audit of the companies through the Comptroller and Auditor General (CAG).

Meanwhile, the court has also asked the State Government to submit a short note explaining its legal position on whether the Discoms can be included within the definition of 'local body' within the parameters of the CAG Act and Article 149 of the Constitution, which defines the role of the CAG. *(IE, 20.02.15)*

Cabinet Approves Privatisation

The Uttarakhand Cabinet has approved the privatisation of power distribution systems in Kashipur circle, comprising Kashipur and Bajpur divisions in Udham Singh Nagar district, and Roorkee circle, comprising the rural and urban divisions in Haridwar district. Government-run Uttarakhand Power Corporation Limited (UPCL) would invite bids from private players.

Furthermore, some years ago, UPCL, the sole power distribution licensee in the State, had proposed privatisation of power distribution at Roorkee and Rudrapur in Udham Singh Nagar district. Transmission and distribution (T&D) losses are heavy in this district and so are the power thefts. *(BS, 03.03.15)*

Check on Energy Theft

The State of Punjab has adopted various technical measures and innovative initiatives to cut down transmission and distribution (T&D) losses and check theft of energy. Punjab has invested ₹2000 crore for an underground power cables network in order to have wire-free roads and uninterrupted power supply.

To create best power infrastructure in the State, Punjab State Power Corporation Limited (PSPCL) has implemented major initiatives to control theft of energy and scaling down T&D losses comprising shifting of low voltage distribution system to high voltage distribution system, replacement of ordinary lamps with compact fluorescent lamps (CFLs), addition of capacitors, shifting of meters outside consumers premises, up-gradation and strengthening of distribution system, automated meter reading (AMR) facilities etc.

Such measures had resulted in dropping of peak demand by about 1000 MW and saving of 1200mn units (MUs) annually. *(BS, 02.02.15)*

Power Generation Target

Breaking away from the tradition of fixing five-year goals, the Power Ministry might set a generation target for the following two decades. According to the sources, the Government might soon finalise power generation targets for the subsequent 20 years or till 2035.

The Central Electricity Authority (CEA) is primarily engaged in this process. For identification of the transmission projects to start flowing power only after the generation plant is ready, the Government has already deputed officers from state-run Power Grid Corporation to CEA so as to provide assistance.

The report on the 20-year perspective plan would be finalised by CEA by the end of January after consulting the State transmission utilities.

(BS, 11.01.15)

OERC Revokes Licences

The Odisha Electricity Regulatory Commission (OERC) has revoked the licences of the three distribution companies – Nesco, Wesco and Southco – managed by Reliance Infrastructure (RInfra), with controlling stakes of 51 percent, in Odisha.

The OERC has cancelled the licences for violation of the shareholding agreements by the Discoms and highly unsatisfactory performance of the licensees in different key areas. These include energy audit, inability to control technical and commercial loss, poor billing efficiency, non-payment of arrears with regard to bulk supply price (BSP) and National Thermal Power Corporation (NTPC) Bond, failure to create requisite corpus for terminal benefits of employees and non-compliance of various directions of the Commission spelt out in retail supply tariff (RST) orders and during performance reviews. *(FE, 05.03.15)*

Fast-track Power Projects

The Government of India has decided to fast-track 10 power projects worth ₹90,000 crore planned by state-owned companies led by NTPC, which have been held up by land-related issues, identified in the Economic Survey as the biggest hurdle for stalled public sector investments.

NTPC is developing eight of the 10 projects, with investments of over ₹76,000 crore at stake to generate about 15,000 MW. This includes ₹5,000 crore joint venture between the Indian Railways and NTPC for a 1,000-MW plant at Nabinagar in Bihar, where the Ministry has attributed delays to 'land acquisition and security related' issues.

A 4,000-MW plant in Telangana with ₹20,000-crore investment from NTPC is also held up, while three generation projects in Madhya Pradesh entailing investments of ₹28,000 crore are delayed as the State Government is yet to formulate rules, under the land acquisition law.

(ET, 09.03.15)

Devolution under 14th FC *vis-à-vis* 13th FC

The 14th Finance Commission has recommended only tax devolution, revenue deficit grants, disaster relief and local body grants

You have substantially increased the tax devolution to States, by 10 percentage points, while the previous Commissions had suggested only marginal raise of 2-3 percentage points. What prompted this change?

It would be misleading to compare the 32 percent devolution suggested by the 13th Finance Commission (FC) with the 42 percent recommended by the 14th FC. Unlike the 13th Commission, this Commission has taken into account the total requirements in the revenue account, without making a distinction between Plan and non-Plan.

The 14th FC has recommended an increase in States' share of Union tax revenues from 32 percent to 42 percent. What impact is this likely to have on the Central Government's fiscal deficit?

The total transfer to be given to States has to be determined by the Union Government. The 14th Finance Commission has recommended only tax devolution, revenue deficit grants, disaster relief and local body grants. To the extent that there is an increase, the Government can cut down the outlay on centrally sponsored schemes (CSS).

The Commission has ignored the plan and non-plan distinction. It also expects the CSS to come down and be replaced by greater devolution of taxes. This is likely to lead to significant changes in the Budget. What are your views?

The Commission has essentially gone by the terms of reference and that, unlike in the past, does not restrict the Commission to meeting non-Plan revenue expenditure requirements alone. This does not mean the Centre and States could not or should not make a distinction between Plan and non-Plan. This also does not mean that the Union Government is restricted to reduce transfers for CSS. If they want to continue, they have to find additional resources, either by raising more revenues or by reducing expenditure.

The Commission has also recommended performance-based grants to *panchayats* and municipalities. What is the rationale behind this move? Will poor States with weak administrative capacity suffer on this count?

We have given a higher volume of grants to local bodies – both urban and rural. In the case of rural local bodies, 90 percent of the grant is basic and 10 percent performance-related. In the case of urban local bodies, too, only 20 percent of the grant is performance linked. The performance grants are linked to simple issues like getting available reliable/accurate data on revenues and expenditure of local bodies duly audited and improvement in own revenues. Surely, it should be possible to perform these. I do not think that poorer States do not have the capacity to undertake these.

The Commission has recommended that 30 CSSs be transferred to States. Which schemes should be delinked from the Centre? The Centre has, however, said only eight schemes need to be delinked. Do you agree with the Government's position?

The Commission has not made any recommendation on discontinuation in the number of CSSs. It is for the Union Government to utilise the fiscal space that the Commission has left for such schemes, in the most productive manner.

You have proposed an independent fiscal council. Is this likely to be modelled on the lines of the Congressional Budget Office in the US? What in your view should be the composition of the entity?

There are 29 countries in the world that today evaluate the realism of macro and budgetary forecasts, monitor fiscal rules and cost the policies and programmes introduced by the governments from time to time, in a scientific manner. These institutions report to Parliament. These are called by various names, such as Congressional Budget Office in the US, and Fiscal Councils in most other countries. What is important is that it should be competent, should have financial independence, autonomous reporting to Parliament and its Committees, and should have access to data and information.

– *Excerpts from an Interview of M Govinda Rao, Member of 14th FC. This was published in* Business Standard *on February 25, 2015*

No Spectrum Scarcity

The industry is not happy with the Government's decision of auctioning only 5 MHz in the 2,100-MHz band and the high reserve price for spectrum. How do you react to this and when can we expect another round of auction?

Currently, there is a campaign going around as if there is a big spectrum scarcity, but there is none. This is not the last auction. In the first auction under the BJP-led Government, whatever spectrum could become reasonably available has been put up and is adequate in the Government's considered view.

And whatever spectrum would be subsequently available, will be put up for auction as well after compliance with all legal requirements and processes. After the swapping and harmonisation process is over, there will be 15 MHz of spectrum vacated from defence services. Then, we will go for another round of auction but there is no fixed timeline. We have taken the market potential of the spectrum band while fixing the reserve price in the current auction.

The telecom sector was marred by controversies during the rule of the previous Government. How would you dispel the industry's fears and those of your department?

Our mandate is to work in a transparent manner, keeping two objectives in mind - consumer interest and growth of the telecom sector. Yes, there was a lot of depression in the department because of serious scams and many uncalled-for developments. Officers were reluctant to take decisions. The first initiative was to restore confidence in them.

There were some legacy issues related to spectrum from the defence forces, which have presently been resolved after eight years through a collective effort of both the Ministries.

State-run telecom firms BSNL and MTNL are in a bad shape. What steps are you taking for their revival. Is a merger of both units still on the cards?

It is a hard fact that from 2008-13, there were forces working to ensure the entire expansion plan of BSNL went haywire for reasons that cannot be called fair. BSNL did not receive adequate support for expansion. Moreover, with a new person at BSNL's helm, things would change and we are closely monitoring the performance on a national as well as regional level.

We are not rushing into the merger of the two. The first priority is to restore the financial health of both. For

fair competition in the industry, one PSU has to be there in the field. Positive results will start showing within a year and we expect their full revival in the next two-three years.

The industry was expecting rules on spectrum sharing and trading to be out before the auction but there has been no word from the Government on that.

Spectrum sharing and trading guidelines are being finalised. There is a process. It will go to the Telecom Regulatory Authority of India (TRAI) and then come back to the Department. We will take a call on this and rules will be notified.

Is there a proposal to restructure India Post fully? How many new entities will be created and would you rope in professionals from the private world to run them?

The vast network of India Post has to be explored in various fields, be it e-commerce, banking, insurance or others. The report of the committee for restructuring has been submitted and we had a meeting with the PMO. For new challenges, professional running is a precondition but what will be the architecture will be decided later.

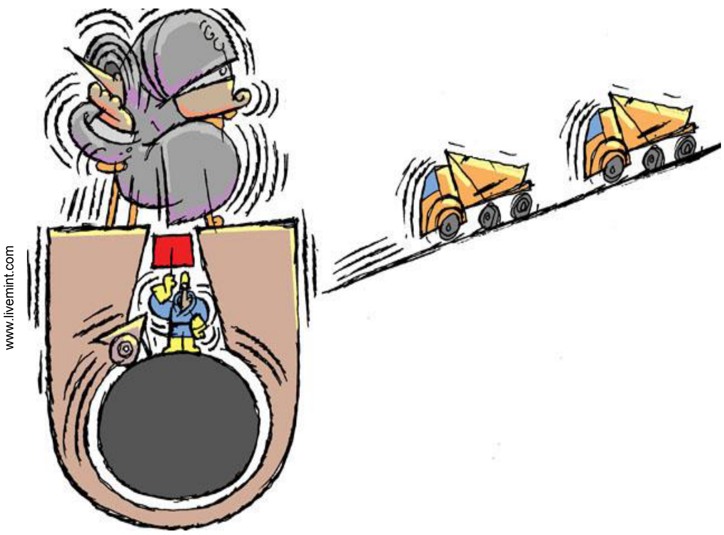
Under the Digital India programme, what new initiatives are being planned?

NOFN (national optic fibre network) is one part of Digital India, which will connect 150,000 *panchayats* across the country. We are also formulating a policy for setting up call centres in small towns and rural areas.

BPOs have mainly been restricted to seven-eight cities. We want BPOs to be set up in small towns. The Government will create a policy for enabling of such call centres with due hand-holding and incentives to private players.

– *Excerpts from an Interview of Ravi Shankar Prasad, Minister for Communication and Information Technology. This was published in* Business Standard *on January 29, 2015*

Call the Bluff, Mine the Strike



If only for a moment, the strike called by coal workers belonging to various labour unions, including the *Bharatiya Mazdoor Sangh* had the Power Ministry worried. Had the strike continued, the implications for power supply could have been disruptive. By some accounts, a very large amount of coal production could have been hit. Labour Unions at Coal India Ltd (CIL), involved in the strike, were protesting the Government's decision to allow auctioning of coal mines. The Union Government enabled such auctions through an ordinance on coal mining. While the strike has been called off, the underlying issues remain unresolved.

The Government's decision is reasonable given its battle on the fiscal front to bring the deficit in order. The trouble with the coal sector, however, goes beyond the matter of operations affected by mass strikes such as the current one. The Supreme Court's intervention in the allocation of coal mines in the aftermath of the coal allocation scam could explain part of the sluggish coal production given the huge uncertainty surrounding control of captive coal mines. But the root of the problem lies within the sector itself, which is currently dominated by CIL.

Being the sole producer in the Indian market, CIL – despite huge amounts of coal deposits waiting to be exploited – has lacked the economic incentive to boost production required to satisfy the economy's increased demand. Compared with 100mn tonnes in 2011-12, India's coal imports have almost doubled in 2015. The imports are expected to continue rising at a rapid pace the coming year as well. As the rise in CIL's production is dimunitive, coal imports continue to rise at anything, over 20 percent each year. In this backdrop, reforms to the coal sector could not be overstated.

It is in this backdrop that the recommendations submitted in the previous month by the advisory group headed by Suresh Prabhu (currently the Railway Minister) should be seen. The group has recommended delegation of power to CIL's subsidiaries and granting them operational flexibility to improve efficiency in production while dismissing the need for any major restructuring of CIL. It remains unclear whether pressure from labour unions influenced the group's recommendation.

History, however, has made it clear that subsidiary companies do not compete as expected by the designers of government policy in the coal sector. Though CIL already has eight subsidiaries under it, this has not brought about any competition to act as a check on the domination of the parent company. Yet, asking public sector units with overt political control over them to compete like private companies by merely breaking them down into multiple units has remained the favourite recommendation of many.

There are other signs of the inefficiency that mires the current system consisting of CIL and its subsidiaries, which are supposed to compete. Both entities have outsourced the excavation of coal to private companies while retaining their huge workforce through pressure exerted by unions. The ordinance passed to allow commercial mining of coal, which is currently restricted to companies with direct end-use for coal, is a welcome step in the direction of denationalising the coal sector.

But any effective policy towards building a more competitive coal sector could not pass over the tough question of huge resources locked in the near monopoly that is CIL and its many subsidiaries. Auctioning of coal mines is a step in the right direction. In the long term, however, the Government's coal policy should be steered by the ultimate goal of creating an unfettered coal market dominated by private competition facilitated by free entry into the sector.

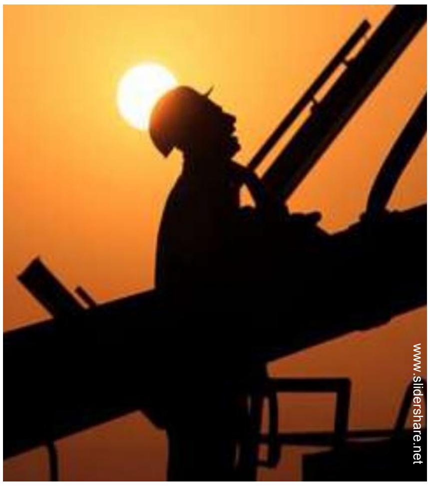
Such a policy will firstly rid the country of supply shocks like the one in the aftermath of the coal allocation scam. It will also provide much-needed efficiency in coal production, something that has eluded the nation ever since the nationalisation of the coal sector more than four decades ago.

– *This feature has been abridged from an article published in* Mint *on January 07, 2015*

Why Government Wants a Unified Gas Policy?

The Ministry of Petroleum and Natural Gas has moved a note detailing the changes for approval by the Cabinet Committee on Economic Affairs. The Ministry has proposed to give top priority to those who sell compressed natural gas (CNG) for transport and piped natural gas (PNG) to households. Besides, in the new priority list are plants that provide inputs to atomic energy and space research. They are followed by hydrocarbons, including petrochemicals, urea plants and power plants, provided they sell the entire electricity at regulated tariff. At present, urea factories are on top of the pecking order followed by liquefied petroleum gas (LPG) plants, power stations and city gas distributors who sell CNG and PNG.

The new gas allocation policy would eliminate multiple anomalies and correct many imperfections in the current policy of allocation. Natural gas available in India is divided into two categories: domestic and imported. Imported gas is unregulated: marketers are free to purchase and sell it as they like. The challenge is with domestic gas. It falls under four distinct sets of rules: those under the administered price mechanism (APM), non-APM, pre-New Exploration Licensing Policy (NELP) and NELP. Each category of gas is allocated under different gas utilisation policies. Though the policies have almost similar order of priority, there are many ambiguities and anomalies, justifying the need for a uniform policy.



As a first step, the new Government issued the new natural gas pricing guidelines on October 25, 2014, raising the price from the existing US$4.2 per unit to US$5.6 per unit for all categories. Two, under the current policy, APM gas is allocated to a few strategically important plants in preference to other sectors. However, the current utilisation policy for non-APM and NELP gas does not provide any such priority. The Oil Ministry has already received requests for allocation of small quantities of gas for plants supplying essential inputs to strategic sectors. Hence, the need to accord higher priority to atomic energy and space research.

There is ambiguity regarding extraction of higher fractions in the current utilisation policy. During its exploitation, natural gas is broken down into multiple fractions each of which is processed into a specific product. Higher fractions of gas emerge first during the production process and are wasted if not used. These fractions could be used only by petrochemical and Liquid Petroleum Gas (LPG) plants but they fall in the lower order of priority in the current policy. Since the higher fractions are of no use for sectors other than petrochemical and LPG, they could not be utilised if the hydrocarbons are not extracted.

In the case of the fertiliser sector, an Empowered Group of Ministers (EGoM) had accorded highest priority to existing gas-based urea plants for allocation of NELP gas in 2014. However, in the non-APM gas utilisation policy, highest priority has been accorded to all gas-based fertiliser plants. Moreover, the EGoM decided to maintain at 31.5mn standard cubic meters per day (mmscmd) the level of supplies of domestic gas to fertiliser sector. While agriculture expansion in the coming years would increase the demand for fertilisers, the 31.5 mms cmd cap would mean higher imports for the sector, leading to higher fertiliser subsidy.

Expansion of the city gas network through replacement of liquid fuels (diesel and LPG) by CNG and PNG is not viable on imported liquefied natural gas. But CNG and PNG are cleaner, safer, cheaper and more convenient than liquid fuels. Also, the replacement of liquid fuels by CNG and PNG will result in savings on foreign exchange through reduction in crude oil imports. Moreover, the Supreme Court in a 2002 judgment had directed the Government to give priority to transport sector with regard to allocation of CNG.

Finally, according to the APM gas policy, in case of reduction in availability of such gas, supplies to customers should be reduced on a pro-rate basis. In case of NELP gas, reverse priority cut order is applicable with reduction in supply of KG-D6 gas. The non-APM gas policy is altogether silent on the mechanism that would be adopted in case of reduction in supply. There is need for uniformity, which the new guidelines seek to bring in. Experts said that the new priority order and the overhaul of the gas utilisation policy appear to be a step in the right direction.

– *This feature was published in* Business Standard *dated December 31, 2014*

New Steel Plants

The Government plans to invest ₹1.5 lakh crore to set up four new steel plants in collaboration with Odisha, Jharkhand, Chhattisgarh and Karnataka Governments. The plants would have a combined capacity of 20-24mn tonne.

To implement each project, two Special Purpose Vehicles (SPVs) would be formed – one for mining and other for steel-making. Based on investment of ₹6,000 crore for each million tonne of steel and associated cost for mining, the total investment would be in excess of ₹1,50,000 crore.

The plan for new capacity will boost the 'Make in India' focus and take steel capacity of the country to 300mn tonne by 2025 from 80mn tonne, at present. *(FE, 01.02.15)*

MSME Policy for Growth

The Uttarakhand Government has notified its first Micro, Small and Medium Enterprise (MSME) policy, which aims to boost entrepreneurship, end outward migration and bring about inclusive development in the State, especially in the remote and flood-hit hill areas.

The policy offers several incentives like capital investment subsidy, interest subsidy and value added tax (VAT) reimbursement. It will remain in force until March 31, 2020, though the incentives can be availed of until March 31, 2025.

The thrust would be on skill development and creation of new infrastructure, such as mini tool rooms and flatted factories. Potential sectors identified for MSME development include agro-based food processing and allied industry, handloom, hosiery, textiles, pharma, *khadi* and village industry, floriculture, tourism, herbal and medicinal plants. *(BS, 10.02.15)*

GST to Reduce Cost

The roll out of Goods and Services Tax (GST) in 2016 will bring down manufacturing costs by 10-15 percent, with removal of cascading effect of taxes from the cost of production.

The Assocham (Associated Chambers of Commerce of India) called a stakeholders' meet to clear the pending issues and highlight the benefits that GST will provide.

Nihal Kothari, Chairman of the National Council in Indirect Taxes, Assocham, said that the existing tax structure posed various problems, such as cascading effects on cost of production and services, different tax treatment for manufacturing and services, higher cost of compliance and uncertainty due to frequent changes in tax laws. The trade body expects India's growth to increase by 1.5 to 2 percent on GST roll out.

(BL, 02.02.15)

Sun-Ranbaxy Gets a Nod

For the Sun-Ranbaxy merger, the US Federal Trade Commission (FTC) has completed its review of the US$4bn deal, and granted early termination of the waiting period, under the Hart-Scott-Rodino (HSR) Antitrust Improvements Act of 1976.

The US FTC complaint was that the proposed merger would likely harm future competition by reducing the number of suppliers in the US market for three dosage strengths (50 mg, 75 mg and 100 mg) of generic minocycline tablets.

FTC accepted a proposed consent agreement in which Sun Pharma and Ranbaxy agreed to divest Ranbaxy's interests in generic minocycline tablets and capsules to an external third party, Torrent Pharmaceuticals that markets generic drugs in the US.

(TH, 03.02.15)

Solving Transfer Pricing Cases

India and the US have finalised a framework to resolve long pending Transfer Pricing (TP) cases. This would send a strong signal to overseas investors that India is indeed committed to a non-adversarial tax regime.

Transfer pricing relates to charges levied on each other by various entities belonging to one large company for services rendered. Bilateral advance pricing arrangements (APAs) would allow American companies to ascertain their tax liability in India beforehand.

Tax authorities would be able to resolve as many as 50 of the nearly 200 pending cases before the end of the financial year. This could save companies thousands of crores in tax claims. *(ET, 22.01.15)*

India's Growing Economy

Indian economy is estimated to grow over 7 percent in the current fiscal year. This would bring India at par with China in terms of growth rate, making it one of the world's fastest growing economies.

Latest Central Statistics Office data project growth in current fiscal year at 7.4 percent as against 6.9 percent in 2013-14. These data are on the new base year of 2011-12. Earlier, the base year was 2004-05.

The latest data includes private corporate performance in the manufacturing and mining sectors and use of quarterly information on sales tax and service tax for trade and other services. Also, the new data are based on value addition, rather than production, to measure GDP. *(BL, 10.02.15)*

Import Duty on Cement

The Commerce and Industry Ministry sought imposition of import duty on cement in order to boost exports from the country and provide a level playing field to domestic manufacturers. The cement sector wants imposition of 2-2.5 percent basic customs duty on cement.

Cement will become more expensive with excise duty being increased to ₹1,000/tonne from ₹900/tonne earlier in the Budget. Hurt by a ₹100/tonne excise duty hike in the budget on top of an increase in rail freight, cement makers are likely to increase retail prices by ₹15-20 per bag soon. *(FE, 03.03.15)*

49 Percent FDI in Insurance Sector

The Government of India has notified rules to implement the decision to increase Foreign Direct Investment (FDI) limit in the insurance sector to 49 percent, signalling its resolve to get the law passed in the Budget session of the Parliament.

The Indian Insurance Companies (Foreign Investment) Rules, 2015 allow up to 26 percent foreign investment through the automatic route, while foreign partners can increase their stake beyond that limit up to 49 percent with the approval of the Foreign Investment Promotion Board (FIPB).

The rules would also apply to insurance brokers, third party administrators, surveyors and loss assessors, and other insurance intermediaries appointed, under the provisions of the IRDA Act, 1999. "These rules will come into force from the date of their publication in the Official Gazette", the Finance Ministry said.

The foreign equity investment cap of 49 percent will include foreign portfolio investments and clearly specify that ownership and control has to remain at all times in the hands of resident Indian entities

Any increase of foreign investment of an Indian insurance company should to be in accordance with the pricing guidelines specified by the (RBI), under the Foreign Exchange Management Rules (FEMA) rules. The Government is expected to bring Insurance Laws (Amendment) Bill 2015, in the upcoming Parliament session to replace the Insurance Laws (Amendment) Ordinance, 2014, as promulgated by the President of India, in December 2014.

The ordinance had paved way to allow foreign partners to hold up to 49 percent stake in a venture. The Government issued the ordinance after a bill to the same effect could not be taken up for discussion in the winter session of Parliament despite being approved by the select committee of the Upper House.

"These rules have been prepared based on extensive consultations with all the relevant departments/ organisations", the Ministry said. The foreign equity investment cap of 49 percent would include foreign portfolio investments and clearly specify that ownership and control has to remain at all times in the hands of resident Indian entities.

"Foreign portfolio investment in an Indian insurance company shall be governed by the provisions contained in the relevant sub-regulations/regulations, under FEMA Regulations, 2000 and the provisions of the Securities Exchange Board of India (Foreign Portfolio Investors) Regulations", the Ministry stated.

Furthermore in a report, equity research firm Grupo Novo Banco mentioned that FDI in the Indian life insurance sector would rise substantially following the passage of the Insurance Amendment Bill.

"On the corporate front, we anticipate the announcement of the date of listing of Max Life post its demerger, as well as the prospective IPOs of some leading insurers over a period of 12-18 months", according to the firm "In all these events, we foresee 'sustainability' and 'valuations' to be the dominant themes in the sector", it mentioned, while adding that the new business margins for most insurers have been weak although there has been a revival in growth for leading private life insurers in the last few quarters.

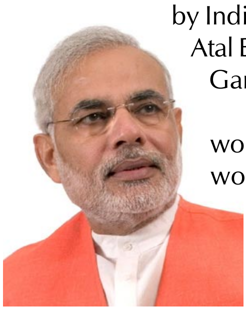
Grupo Novo Banco also said, "Reliance Capital could be the biggest beneficiary of an increase in FDI limits as Nippon Life could increase its stake at premium valuations". Besides giving additional stake to its existing foreign partner Nippon Life in life insurance venture, Reliance Capital also expects to close deals for bringing in new partners for its general and health insurance businesses soon.

"The increase in foreign ownership cap to 49 percent would be a game changer for the industry as it would provide an opportunity for listing to leading players and provide access to capital to mid and lower tier players

– *This feature has been abridged from an article published in* The Economic Times *on March 22, 2015*

Modi Government Issues 8 Ordinances

Narendra Modi-led NDA Government has issued eight ordinances in 225 days, since assuming office on May 26, 2014. The top four slots go to Congress for the highest number of ordinances, topped by Indira Gandhi issuing 208 ordinances followed by BJP's Atal Bihari Vajpayee promulgating 58 ordinances and Rajiv Gandhi with 37.



In the winter session as compared to Lok Sabha that worked for 98 percent of scheduled time, the Rajya Sabha worked only for 59 percent. The President promulgated the eighth, which would merge person of Indian origin (PIO) and overseas citizenship of India schemes and allow PIOs to avail lifetime Indian visa.

Moreover, the Government brought in ordinances to start coal auction and allow FDI in insurance. It also brought in an ordinance on land acquisition among others. *(ToI ,08.01.15)*

Second Most Trusted Nation

India has moved up to the second-most trusted in 2015 with a score of 79 percent in the barometer, according to a survey. While the number of 'truster' countries is at an all-time low of six in 2015 including United Arab Emirates (UAE), India and The Netherlands, the number of 'distruster' countries has grown significantly to 13 including Japan, Italy.

Moreover, UAE tops list with 84 percent trust followed by Indonesia (78 percent), China (75 percent) and Singapore (65 percent). Interestingly, trust in politicians in India has grown from 53 to 82 percent in 2015.

In terms of non-government organisations (NGOs) in India, trust was almost flat at 74 percent from 75 percent. Brazil, Malaysia, France and the US are among the eight 'neutral' nations as per the trust index, the survey stated. *(ToI, 20.01.15)*

India Tops Public Holiday List

India stands at the top with around 21 days each year. "The Philippines follows with 18 and China, Hong Kong have 17 holidays each. Thailand receives 16, 14 for Indonesia and 11 in Singapore", said Joachim Holte, Chief Marketing Officer of Wego (travel portal). Spain and the UK have only eight days for holidays. The United Arab Emirates (UAE), another fast developing travel market has 11 public holidays in 2015.

The Taiwanese have 13 public holidays resulting in 29 days off inclusive of weekends. Mexico has only seven public holidays each year although the Government permits 'optional' public holidays, at the employer's discretion.

"Some countries provide a little more by way of statutory holiday leave, which could top up public holidays nicely", Holte added. *(ToI 16.01.15)*

India 12th in Polluting Ocean

India holds 12th position in the list of top 20 countries responsible for disbursing the maximum amount of plastic into the high seas from their respective coastlines. China ranks first, followed by South Asia, Sri Lanka etc. These countries account for 83 percent of all the mismanaged waste thrown into the ocean.

The University of Georgia criticised lack of available national data and possible under-reporting of statistics to the World Bank (WB), in terms of kilos of waste generated per person per day.

Besides, while less than 40 percent of waste in Europe is recycled, in India, recycling rates of garbage are unknown. *(DNA, 16.02.15)*

Most Negative Attitude

According to the study by the Children's Movement for Civic Awareness, which measured democratic values on a *Yuva Nagric* metre about 43 percent of India's youth are amenable to violating rules and get away with bribing. It also indicated, "41 percent of India's youth said women have no choice but to accept a certain degree of violence, while 55 percent agreed that women dress and behave in certain ways to provoke violent reactions from men".

The study was carried out by the Social Research Institute of IMRB International, (a multi-country market research, survey and business consultancy firm) among 6,168 students and 757 social science teachers from 330 high schools and 4,374 students from 220 colleges across 11 State capitals of Delhi, Bangalore, etc, and five non-metro cities of Bhopal, Guwahati etc. *(BL, 28.01.15)*

Decline in Global Inflows

FDI inflows to India increased by about 26 percent to US$35bn in 2014, despite macro-economic uncertainties and financial risks, according to a United Nations report on global investments.

FDI inflows declined by 8 percent due to fragile global economy, policy uncertainty and geopolitical risks. Interestingly, among the top five FDI recipients, four developing economies include Hong Kong (US$111bn), Singapore (US$81bn) and Brazil (US$62bn).

On the positive side, the report said that stronger economic growth in the US, the demand boosting effect of lower oil prices and proactive monetary policy in the Euro Zone could support increased FDI. *(BL, 29.01.15)*

Rise in Graft Complaints

More than 63,000 corruption complaints were received by the Central Vigilance Commission (CVC) in 2014, a rise of 79 percent from that in 2013. It includes those filed by whistleblowers and anonymous complainants. The anti-corruption watchdog had received 37,039 and 16,929 complaints in 2012 and 2011 respectively, according to its annual reports.

The CVC official mentioned that the Commisssion has processed a record number of corruption accusers. The final figure would be mentioned in the Commission's annual report, which is tabled in Parliament after June every year and then made public. *(DNA 15.02.15)*

147 Business Schools Closed in 2013-14

www.way2k.com

Decline in MBA Students

State	2013-14	2014-15	Change	State	2013-14	2014-15	Change
Maharashtra	406	382	-24	J & K	11	9	-2
Tamil Nadu	395	372	-23	Chattisgarh	20	20	0
Andhra	851	832	-19	Delhi	18	18	0
UP	447	431	-16	Assam	9	9	0
Haryana	150	135	-15	Puducherry	6	6	0
Karnataka	209	198	-11	Meghalaya	1	1	0
Rajasthan	110	99	-11	Nagaland	1	1	0
Gujarat	108	100	-8	Sikkim	1	1	0
Uttarakhand	49	43	-6	D&N Haveli	1	1	0
MP	203	198	-5	Kerala	73	74	1
W Bengal	55	51	-4	Bihar	18	19	1
Punjab	129	27	-2	Jharkhand	6	7	1
Odisha	72	70	-2	Total	3364	3217	-147
Himachal	15	13					

Management programmes across the country might be losing some of their sheen. Latest figures released by the All India Council for Technical Education (AICTE) show that 147 standalone Business Schools and Master of Business Administration (MBA) programmes offered by engineering institutions across the country closed down in the previous academic year. The number of post-graduate diploma programmes in management institutes has also dropped from 606 to 600, in the same period. Maharashtra where 24 MBA colleges were closed and Tamil Nadu with 23 account for the largest number of closures followed by Andhra Pradesh with 19. Among the other States, only Bihar, Jharkhand and Kerala have shown growth by adding new institutions. They have each started one new institution in this period.

Educational Consultant Moorthy Selvakumaran said that most institutions closed down mainly because of lack of patronage. The decline started a couple of years ago after a dip in number of registrations for the Common Admission Test, scores of which determine admission to the premier Indian Institutes of Management and other management programmes across the country.

T N Swaminathan, Director, Branding and Alumni Relations, Great Lakes Institute of Management, stated that the reason for the closures was surplus supply and a demand crunch. "For instance, out of the 1.93 lakh candidates registered for Common Admission Test (CAT) in 2015 only 1.53 lakh took the examinations. Some who paid did not take the assessments. And those who took the examinations are choosy so reputed Business Schools are not affected but others are", added Swaminathan.

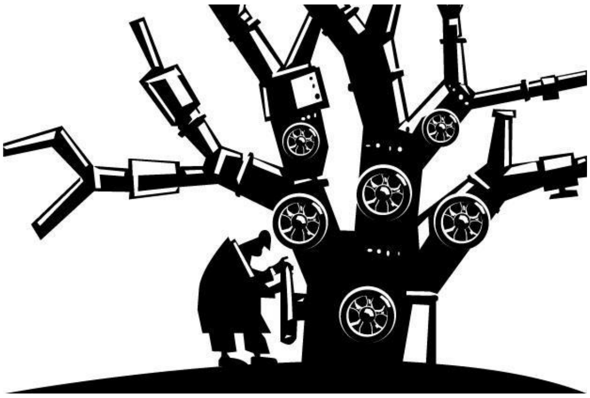
Moreover, some see it as consolidation time for programmes run by engineering, arts and science colleges. "Earlier they were cashing in on the demand for a management degree among candidates. As the craze has died down, they are closing down those that are unfeasible", said the Head of a University Management Programme.

Furthermore, many of the management courses run by engineering institutions are closing down because they did not focus enough on improving the skills of candidates and making them employable. Swaminathan also stated that many have had to down shutters because they followed a university curriculum, which might have been outdated and did not draw students unlike autonomous B-schools, which update curriculum according to market requirements. "We need to add value. Even if the institution has to follow the university curriculum, it could always tweak programmes or add on courses. Institutions should consider how to make students more employable in terms of providing soft skills", he indicated. Colleges could also focus on entrepreneurship and lay emphasis on making students job providers rather than job seekers, he added.

Online management programmes have also made inroads into the market. K Swaminathan, founder and CEO of MyBSkool.com, an online business school that trains close to a million students in management and entrepreneurship, said that several institutions were finding it unviable to continue management programmes because they lacked good teaching faculty. "Those who have just completed MBA might come and teach. What a good management course needs is a faculty member who has industry experience. Online programmes are able to provide that by getting the best faculty, as time and distance are immaterial". He said that the better institutions are coming up with flip classrooms to bridge this gap.

– *This feature has been abridged from an article published in* Times of India *on February 02, 2015*

Capital Allocation
An Ignored Factor in Corporate Governance



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At a recent event, Anil Singhvi, Director of Institutional Investor Advisory Services Ltd, presented a radical idea. He suggested that instead of shareholders approving the dividend that the Board of Directors has recommended, company law should require that the Board of Directors recommend retaining a portion of the profits in the company giving justification for the same and it should be put out for approval by shareholders. In the absence of shareholders approving profit retention, it should be paid out to shareholders by default.

While the idea is too radical it serves to put the spotlight on an often ignored area of capital allocation in the context of governance. Indeed the renowned investor, Warren Buffett, said that his primary job is capital allocation and that his operating managers have complete freedom in running the operating businesses.

While individual asset allocation gets a lot of attention by financial planners and the media, its corporate equivalent of capital allocation does not get the required attention. The reason behind his concern was that this area does not get the required attention. Analyst reports and the financial media talk about business outlook for the next quarter or a year, and also talk about governance issues, such as managerial compensation, related party transactions, insider trading and so on. Broadly speaking, a business can utilise profits through the following alternatives:

- Further investment in the business for future growth
- Acquisitions related to the existing business
- Acquisition/diversification in unrelated businesses
- Dividend payment to shareholders
- Share buy backs and
- Keep hoarding cash without any end-use objective

The first five uses of cash profits are neither good nor bad; it depends on the circumstances. If the business can generate good returns on invested capital in further investment or in related acquisitions it is great. If the business is not generating good returns or if investment opportunities are not there, it will be better to return the cash.

In general, unrelated businesses/diversification is always looked at with suspicion. Success in one business does not automatically translate into success in another business. Wide shareholder approval and consultations should be mandated before any such steps are taken. It should be clearly explained why the management feels that the new business is something that they have a capability to understand and manage well and how it would generate superior shareholder returns.

In case there are no or limited investment opportunities for the company to invest, the money should be returned to shareholders by way of dividends or share repurchases. There cannot be a standard decision as to which route is better. While share buy backs are more tax-efficient, they should not be undertaken if the shares are overvalued. Shareholder wealth is created only if buy backs are done when the shares are undervalued.

The last use is unambiguously bad as equity investors who wish to earn higher returns compared with bonds are forced to invest their returns into low yielding deposits. Surely I am not recommending that the cash profits each year are fully exhausted. Acquisition or share buyback opportunities do not come every day. One has to wait for the right opportunity. However, if the company keeps hoarding cash year after year, and does not invest/acquire/return cash even when opportunities are there, it is in my view an act of wealth destruction.

The information technology (IT) services space has been stellar in many areas and they have improved governance standards in India. Where some of companies have failed, is in the area of capital allocation. Many ex-founders of IT companies have been found investing in technology start-ups or acquiring stakes in existing companies. One wonders why such investments could not have been done when they were at the helm of affairs at the companies they founded. It is high time that shareholders start asking the well-managed IT and automobile companies as to why they continue to hold thousands of crores in cash, and ask the well-managed fast-moving consumer goods companies whether taking profits from a great business and investing in low return businesses is the best use of shareholder money or is it just empire building?

– *This feature has been abridged from an article published in* Mint *dated January 15, 2015*

Republic Day Thoughts

Republic day is not about what we did not get, it is more about what we did get

There is a difference between Republic Day and Republic Day celebrations, such as the parade. The latter has sometimes been described as a fetish, an unwanted frittering away of resources, a legacy evocative of former centrally-planned economies and an event that causes inconvenience to citizens.

While there are strands of truth in this negativity, the positives should not be ignored. Not everyone obtains a VIP pass. There are many who buy tickets, many more who watch it on television. Such a fetish, if that's the word to use, instills a sense of national pride, not just among children.

Well-deserved Celebration

What is so special about those particular days? Just that they remind us about a discipline that should be observed on all days. August 15 and January 26 are similar markers, the latter more, because it gave us the Constitution, the bedrock of the Republic. More accurately, we, the people, gave ourselves the Constitution.

Unlike some other countries, despite warts and blemishes in implementation of constitutional promises, democracy and social empowerment did not have to wait for economic development and empowerment. We gave ourselves the three organs of State: Legislature, Executive and Judiciary. Admittedly, there is citizen cynicism and fatigue about functioning of all three. But January 26 is not about what we did not get. It is more about what we did get.

More so in this age, pride stems from the economic. To splice Mao Zedong and Paul Samuelson together, power flows not from the barrel of the gun, but from pounds of butter. In our growing-up years, the lost development decades of the 1960s and 1970s, there was little of that.

Nevertheless, you sought a kneejerk defence, especially when confronted with peers from East Asia, in a golden age past, when greater India was the fabled golden bird. This never received much traction, when external reportage about India was confined to Kashmir and Punjab, with allusions to *yoga*, Bollywood and cuisine thrown in.

Likewise, the future did not seem to be remarkably different from the bleak presence of the shortcomings in the economy. For the generation that was born after 1991, or grew up after 1991, that seamless transition from the present to the future is no longer true.

India's purchasing power parity (PPP) makes it more respectable per capita income might be only US$5,450, making it one of the poorer countries in the world (Qatar's is US$145,894), but confidence among young Indians is not a static concept. It is more a function of dynamic processes and the promise of incremental growth, translating into opportunities and jobs, reductions in poverty and deprivation, not in selective enclaves, but throughout the country.

Command and Control

Contrary to popular impressions about the reform experience, outside of manufacturing and the financial sector, much of the economy is still riddled with controls. Conversely, the benign role of the Government should have been present in efficient public expenditure, providing goods and services where there are market failures and subsidising merit goods for those who are poor and truly need them. The term 'minimum government, maximum governance' could be interpreted in this way: reducing the malign role for the former and increasing the benign role for the latter.

However, given the constitutional structure – and the promised devolution to local bodies – delivery of these goods and services is typically at the level of local bodies. While citizen expectations and demand for better quality goods and services have risen, at least in some geographical areas, the supply response has not always worked, both because decisions have not devolved downwards and allocation of resources is still driven by top-down approaches.

The fetish we need to discard is a different one, and this is a policy-maker mindset of trying to do good in the name of the poor. The road to Indian poverty has been paved with such good and paternalistic intentions. The poor know what is good for them and what is required is to improve their lives. More often than not, the policy-maker needs to simply get out of the way, since obstructions to accessing opportunities are created by the policies themselves.

– *This feature has been abridged from an article published in* Economic Times *dated January 26, 2015*

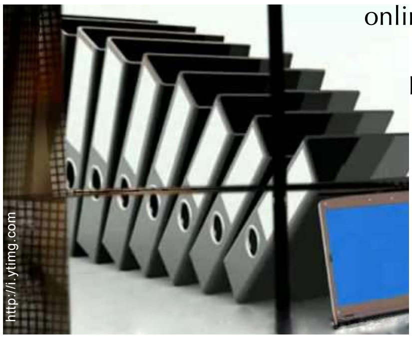
MyGov to be Revamped

The Government is working on the next version of its citizen engagement interface, 'MyGov', sprucing the website to make it more transparent, open and interactive. Also in the works is a mobile application for 'MyGov', expected to take the platform to more masses. According to officials of the department of electronics and information technology, the new website, will have new features, such as surveys and polls, along with talks and speeches by important political leaders and bureaucrats.

'MyGov' in is the Government's project through which it solicits ideas and inputs from the public on various Government policy matters and initiatives. It has 800,000 users, 160 discussion themes and is used by 27 Ministries. About 50,000 comments are received every week and 60,000 users are added each month. *(BS, 14.03.15)*

Paperless Cabinet to Meet Soon

The Modi Government is planning to arm ministers and top bureaucrats with tablets or e-readers powered by a secure app to make cabinet meetings paperless by moving them to an online portal called 'eCabinet'.



Once implemented, it will eliminate physical file movements in any inter-ministerial consultation, enable real time discussions and track 'file' movements online. Besides, saving time, it will also create an e-record of official responses.

It would enable the ministers to log in with a password and access details in electronic form but would restrict the user from sharing it with anyone. The Law Ministry has given its go ahead to the proposal. The Cabinet Secretary is open to accepting it but is of the view that it would be checked for safety. *(HT, 19.01.15)*

Politicians in Ads Defended

Noting that there was nothing *mala fide* in publishing photographs of the Prime Minister, political leaders and 'higher authorities' in government advertisements, the Centre said that it was the prerogative of a democratically elected government to decide its expenses and the Supreme Court could not interfere.

The court was debating if it should make into law a recommendation by a Supreme Court-appointed high-power committee that names and pictures of political parties and their office-bearers should not be mentioned in government advertisements as these were instances of self-aggrandisement and misuse of public money.

It has framed a series of guidelines to regulate expenditure and contents of government advertisements to 'keep politics out of ads' Attorney-General Mukul Rohatgi said such guidelines were unnecessary as a constitutional framework was in place to regulate expenses.

(TH, 18.02.15 & HT, 19.01.15)

Few Women Ministers

With all State Assemblies put together, 360 of the country's 4,120 Members of Legislative Assembly (MLAs) – or nine percent being women. However, less than seven percent of Ministers in State governments are women. Two States and one Union Territory – Nagaland, Mizoram and Puducherry have no women MLAs. Likewise, four States – Delhi, Uttar Pradesh, Telangana and Punjab – have women MLAs, but no women Ministers.

Some States make a special effort to get women into ministerial positions. Meghalaya has just four women MLAs, but three of them were made Ministers. Just three women have been handed the Home Ministry and two of these are Chief Ministers of their States. Only two women leaders in the country handle the Finance Ministry. The Women and Child Development Ministry and Social Welfare are the most common portfolios given to women Ministers.

(TH, 16.02.15)

CAG NEWS

CAG Finds Irregularities

In its latest report on Public Sector Undertakings (PSUs) for the year ended March 31, 2014, the Comptroller and Auditor General (CAG) said that it has observed 'loss of revenue of ₹41.26 crore in six instances owing to non-compliance of rules, directives, procedures and terms and conditions of supply of electricity'. CAG has pointed out that there were irregularities in the management of distribution franchise agreement of Assam Power Distribution Company Limited (APDCL).

"The total loss sustained by the company during August 2011 to June 2014 on account of adoption of lower BST rates worked out to ₹24.57 crore", the report said. The CAG also found that the company paid ₹11.59 crore extra to its franchise because of higher consideration of return at 15 percent instead of stipulated 10 percent.

(BS, 02.03.15)

No Database on No. of FBOs

There is no database available with Punjab's Health Department with regard to the number of food business operators (FBOs) in the State, according to the Comptroller and Auditor General of India (CAG). In its latest report, it found that in the absence of the database, the possibility of FBOs running the business without licenses or registration could not be ruled out.

The auditor also found that monthly targets for collection of samples were not achieved and analysis of adulterated samples from referral laboratory was delayed. CAG further found that the Food and Drug Authority could not be set up in the State for want of release of funds during 2012-14 despite the State Government's decision to make a budget provision of ₹5 crore each year for it. *(ET, 22.03.15)*

Law on Corruption

The Prevention of Corruption (Amendment) Bill makes it punishable for public servants to accept bribes. The Law Commission of India in its report points out that new definition of bribery offence the 'narrows' the scope of corruption, instead of expanding it.

In The Preventions of Corruption Act, 1988, bribe meant 'any gratification whatever, other than legal remuneration' while the proposed law defines the same as 'financial or other advantage'.

The Bill has transplanted provisions from UK Bribery Act, 2010 which might not suit Indian context. UK Act does not draw distinction between public servants and private sector for bribery offence while in India, law is applicable only to public servants. *(ET, 17.02.15)*

Land Bill Sails

The controversial Land Acquisition (Amendment) Bill has been approved by the Lok Sabha. The Congress, the Trinamool Congress, the Samajwadi Party, the Rastriya Janta Dal (RJD) and the Biju Janta Dal (BJD) walked out of the House while National Democratic Alliance (NDA) ally Shiv Sena abstained as the Bill was passed by voice vote.

In the official amendments it moved, the Government accommodated some concerns of the Opposition and allies, such as dropping 'social infrastructure' from the five categories of land use exempted from the consent clause.

However, other key points of contention – the social impact assessment and the restoration of the consent clause – remained unresolved as the Bill moves to the Rajya Sabha, where the Government is outnumbered – and the opposition plans to force the Bill to a Select Committee. *(TH, 01.03.15)*

Foodgrain for Thought

The high-level committee constituted to overhaul the 50-year-old Food Corporation of India (FCI) has recommended the Government to change the National Food Security Act (NFSA) to reduce the coverage from 67 percent of the population and gradually introduce cash transfers.

While the panel suggested increasing the entitlement of so-called priority households to 7 kg of foodgrain per person per month from the current 5 kg, it also suggested that the prices at which poor households buy grain from public distribution shops be linked to minimum support prices (MSP), a move that would effectively reduce the subsidy on foodgrain.

Should the Government accept the recommendations; poor households will have to shell out more to avail subsidised rations. *(Mint, 23.01.15)*

Changes Fair in Land Act?

President Pranab Mukherjee has justified the changes made in the Land Act and said "the Act would safeguard the interests of farmers and families affected by any land acquisition and that the Rehabilitation and Resettlement Act has been suitably refined to minimise certain procedural difficulties in acquisition of land inevitably required for critical public projects".

These changes include bringing acts applicable for national highways, metro rail, atomic energy and electricity-related projects, among others, under the new law for compensation and rehabilitation and resettlement. Similarly, acquisition of land for defence and defence production, infrastructure, affordable housing and industrial corridors was fast tracked. The Ordinance is facing stiff resistance from the Opposition, rallying behind the protests being organised by social activists.

(BL, 23.02.15)

Education Bills Coming

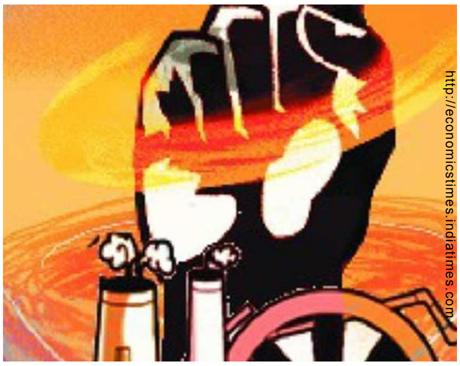
The Union Human Resource Development (HRD) Ministry would introduce two Bills in the budget session of Parliament. The first aims to digitise all academic credentials, the second will create a statutory body for distance education sector.

The academic depository would dematerialise academic records of all students leaving school boards, colleges and universities and create a central resource to curb frauds and forgery. It would help companies do background screening of aspiring or existing employees.

The second Bill will regulate distance education, which is facing trust deficit in a regulatory vacuum, but can help India improve its higher education enrolment. A statutory council will lay down standards for offering higher education programmes and prescribe facilities, staffing patterns and staff qualifications and enforce the same. *(Mint, 23.02.15)*

Upcoming Labour Reforms

The Government is set to introduce second wave of labour reforms with new bills and legislative amendments in upcoming budget session. The new bills are the Small Factories (Regulation of Employment and Other Conditions of Service) Act, 2014, and the National Workers Vocational Institute Act, 2015.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The measures are multi-dimensional and ambitious in scope- enforcing the ban on child labour, simplifying rules for small units and relaxing provident fund norms to move a large proportion of the workforce into the organised sector, ensuring greater protection for them.

Besides, the Government also seeks to push amendments to the Employees' Provident Funds and Miscellaneous Provisions Act, 1952, and the Child Labour (Prohibition and Regulation) Amendment (CLPRA) Bill, which have pending in the Rajya Sabha, since 2012. *(ET, 13.01.15)*

More Jobs Avenues

While addressing his opening remarks at a pre-Budget consultation with representatives of social infrastructure, human capital and development groups, Finance Minister Arun Jaitley said that the deceleration in India's economic growth has bottomed out.

He also highlighted that more than 63 percent of the population was in the 15-59 age group. He said that the young population provides both an opportunity and challenge for the Government.

The benefits of a 'demographic dividend' would flow only if the population is healthy, educated and properly skilled, he said. To gain from this demographic dividend, the Centre has put a thrust on skill development and 'Make in India' so as to create large employment avenues for the youth, he added. *(BL, 08.01.15)*

India to Succeed

"India will succeed so as long as it is not splintered along the lines of religious faith, as long as it is not splintered along any lines, and it is unified as one nation", The US President Barack Obama said, addressing around 1,500 carefully-chosen youngsters from various walks of life addressing a meeting in New Delhi.

Recalling Swami Vivekananda's visit to the US around a 100 years ago, Obama said, "Having thrown off colonialism, we begin our constitutions the same way ".

India represents intersection of two men who have inspired me, Martin Luther King Jr. and Mahatma Gandhi. Moreover, those two great souls are why we are here today", he added. *(BL, 27.01.15)*

Unchanged Business Rules

Pitching for relaxing administrative controls to improve ease of doing business, top industry leader Deepak Parekh has stated that impatience has begun creeping in among businessmen as nothing has changed on ground in first nine months of the Narendra Modi Government.

Parekh, an eminent banker and Chairman of financial services giant HDFC, has always been very vocal with his views on reform and policy measures taken by the various governments over the past three decades.

He was among the first industry leaders to openly criticise the previous United Progressive Alliance (UPA) Government for policy paralysis after a spate of scams leading to decisions getting delayed within the Government and business began getting hurt. He also said that a lot of work needs to be done at state-levels too on ease of doing business, as things have not changed there either on approval to start construction of a business etc. *(DNA, 19.02.15)*

New Environment Targets

RK Pachauri, Director General of The Energy and Resources Institute and Chair of the Inter-governmental Panel on Climate Change (IPCC) has emphasised on India has to be ready for higher environment targets on being asked on his recommendations as a member of Prime Minister's council on Climate Change.

Later, asking about (IPCC's) fifth assessment report. He mentioned, "One of the major findings in this report is the budget for carbon dioxide emissions that are permissible, if we have to stick to a 2 degree Celsius limit on warming. This is an extremely powerful piece of information on the basis of which the world can see if we are doing enough to limit ourselves to this 2 degree Celsius increase or exceed it". *(IE, 01.01.15)*

EDUCATION SECTOR

Work Skills Lacking

Sub-standard education in government schools, delayed infrastructural projects, migration from villages and towns, lack of employment skills in the youth – these were a few problems that Union Secretaries cited in their reports to the Prime Minister's Office after they visited the districts from where they had started their Indian Administrative Service careers.

Many stated that villages have developed at a 'better pace' than cities, which were overburdened due to migration from smaller centres and lack of governance. They lauded schemes, such as Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) but also warned against lack of transparency in such schemes. An officer who had visited Haidergarh in Barabanki district said that the *Swachh Bharat Abhiyan* (Clean India Campaign) has not penetrated into villages. *(IE, 11.02.15)*

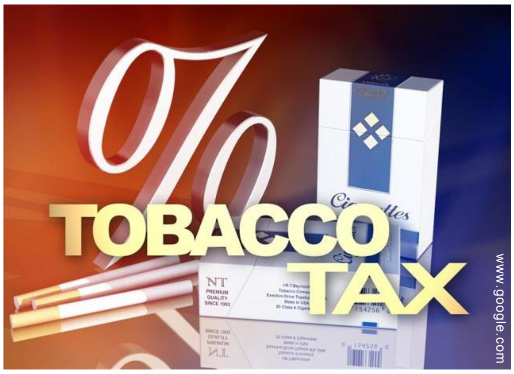
New Science Policy

With the Union Minister of Science and Technology and Earth Sciences Harsha Vardhan claiming that India had the knowledge of Pythagorean theorm and Algebra before the world knew about it, his Deputy Y S Chaudhary informed that the Centre would be introducing a new science policy in the following three months.

Legendary scientist Professor CNR Rao was instrumental in bringing the new science policy during 2012 and he had worked as the adviser to the UPA Government. With change of guards at the Centre, nuclear scientist R Chidambaram was made the principal scientific adviser to the NDA Government.

Furthermore, on being asked about the new policy, Chidambaram said, "The Prime Minister has spoken at length in the inaugural address. What I can do is explain it to you. I will say anything on what government is doing". *(DNA, 04.01.15)*

Tax and Tobacco Link



India needs to draft a comprehensive tax policy for all tobacco products if it wants to reduce easy access to low-cost and locally produced tobacco products available in the country, World Health Organisation (WHO) has suggested. Low taxes have resulted in low cost and easy availability of these products.

Nearly a million deaths occur every year in India due to tobacco-related diseases with the total economic costs attributable to tobacco use (in 2011 for people aged 35–69 years) amounting to a staggering ₹1,04,500 crore – which impacts human and fiscal health of the country.

The draft Cigarette and Other Tobacco Products Act (COTPA) Amendment Bill, 2015, proposes to disallow the provisions for designated smoking areas in restaurants and pubs/bars, point–of–sale advertisements and loose sale of tobacco products, among others. *(ET, 22.03.15)*

Jan Aushadhi's Revival

The Government is set to revive the struggling *Jan Aushadhi* chain of pharmacy outlets by focussing on select drugs and States, sprucing up supply chain and encouraging doctors to use generic names of drugs.

The list of drugs distributed through Jan *Aushadhi* outlets would be trimmed to 40-50 from the original list of 320. The focus would be on States where the model has already picked up, before chasing its original goal of having at least one *Jan Aushadhi* store in each of the 630 districts in the country.

Government plans to increase participation of private drug firms in the project. The doctors would also be encouraged to prescribe generic drugs because of the significant price difference between branded generic and the unbranded generic product.

(ET, 02.01.15)

Factor Health Sector

70 percent of India's population has no health insurance and the country is short by 2mn beds compared with the global benchmark, stated by report *'Aarogya Bharat* 2015', released by NATHEALTH, a health federation of India. India requires US$3tn in cumulative funding and has potential to generate 15 to 20mn jobs by 2025.

NATHEALTH has also suggested an increase in public spending on healthcare to 2.5 percent to 3 percent of GDP; apportion a greater share of public spending to prevention, including mass screenings and primary care coverage.

It recommends the expansion of the supply of healthcare talent in critical roles, rejuvenation of AYUSH, (Ayurveda, Yoga and Naturopathy, Unani, Siddha and Homoeopathy) and encouragement of private investment in education. It suggests increasing tax exemption on premiums of health insurance and incentivising private sector participation in medical education. *(ToI, 22.01.15)*

Flawed Health Policy

The National Human Rights Commission's core group on health has observed rights perspective is missing from the draft National Health Policy, 2015. They said the public health system needs to be made accountable and participatory and that the draft does not talk about community action.

While reviewing the draft National Health Policy, 2015 at a meeting of the Commission's reconstituted core group on health, the group said that public-centered universal health care found no mention in the draft policy, and added that it should look into national action plan on health prepared by the National Human Rights Commission (NHRC) in collaboration with *Jan Swasthya Abhiyaan* and the Ministry and that it should also reflect the budget that the Government would invest in the health sector. *(ToI, 02.02.15)*

2015: A Year of API

Department of Pharmaceuticals (DoP), Ministry of Chemicals and Fertilisers, Government of India under 'Make in India' programme has decided to declare the year 2015 as 'Year of Active Pharmaceutical Ingredients (API)'.

It has also been decided that Bulk Drug Manufacturers Association (BDMA), India would be the nodal agency to organise various activities throughout the year to project India as a major API producer globally.

Under the 'Make in India' initiative, it is expected that the government will introduce many industry-friendly policies and incentives to give a major thrust to the growth of Indian bulk drug industry to make it a formidable force globally. Announcement of policy on bulk drugs are expected in March 2015 by the Ministry of Chemicals and Fertilisers, Government of India.

(EPN, 27.01.15)

Pharma in Budget 2015

The Union Budget 2015 is being lauded for moving forward on 'Make in India' by correcting the inverted duty structure and Indian pharmaceutical industry is dependent on cheap raw material imports from China. If raw material import duty goes down to that extent it would be a challenge to manufacture those raw materials in the domestic market.

The Budget offers no direct benefit to the pharmaceutical industry, though it is certainly positive for the health-care sector. Various initiatives on extension of health cover and boosting health insurance could mean more money going into health care.

But there is little encouragement for investment into research and development. There is no direct funding/support for research and development/innovation. Reduction in minimum alternate tax (MAT) benefit has not been extended for R&D.

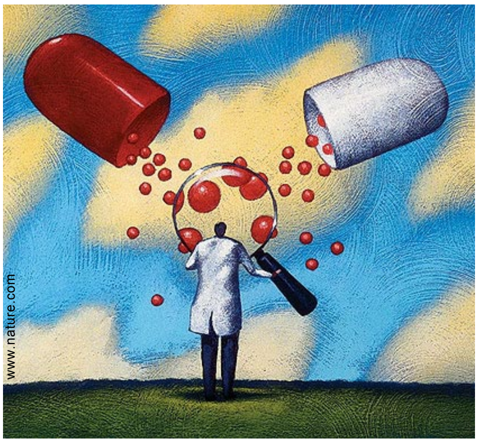
(BT, 28.02.15)

Drug Manufacturing Industry Poorly Regulated?

India's drug manufacturing industry is afflicted with poor regulation – a case of authorities not scaling up the supervisory process to match the pace of the sector's growth.

The botched up sterilisation surgeries in Chhattisgarh in November, which left 13 women dead, was a grim reminder about the need to increase oversight of both health practices in the country as well the manufacture of drugs by companies, some of which face increasing scrutiny for allegedly not adhering to global regulatory practices.

While drug makers indicated local regulators are ill-equipped and inadequately staffed to monitor them, the watchdogs in turn hold State governments responsible for failing to strengthen the supervisory mechanism. The governments were in a mad rush to attract investments by creating tax havens but did not pay enough attention to augment the scrutiny machinery.



"As a result, drug regulators and manufacturers in very few States could attain respectable quality standards," a State drug controller conveyed on the condition of anonymity, admitting inadequacies in the system.

Both the Central and State Government are involved in granting approvals to drugs and their manufacture. Central government authorities approve clinical trials and new drugs, apart from controlling imports and prescribing standards. States issue manufacturing and sales licenses and carry out plant inspections. However, drug controllers appointed by the State governments are hardly equipped with laboratories for quality controls and checks.

"It is well recognised that the States have to strengthen their regulatory setup, undertake capacity building and bring in transparency and accountability in the administration. The Centre has offered to contribute 75 percent of these costs, but the action lies with the States", Indian Pharmaceutical Alliance Director General DG Shah said.

In 2003, a Committee headed by RA Mashelkar appointed to study drug regulatory preparedness and spurious drugs had pointed out that only a few States have well-equipped testing laboratories, while others either have no laboratory or a very small one, with limited testing facilities. "The States have not taken action to provide full-fledged testing facilities, despite the rapid increase in the number of sales premises. The number of drug inspectors in the States, as also their skills, are observed to be generally not commensurate with the load of work of inspections and monitoring of quality of drugs", the panel said.

As against about 20,000 pharmaceutical manufacturers, traders and services firms in the country, the Central Drugs Standards Control Organisation (CDSCO) has less than 300 staff to grant drug approvals and all the State drug controllers together have about 1,000 inspectors to regulate them, a senior CDSCO officials said.

"Though the Union Government had agreed to give us at least 1,200 more regular staff and another 1,200 staff on contract basis, we are still waiting for funds and clearances. The central drug laboratories are poorly equipped with testing infrastructure and personnel", the official said.

Insisting on the urgent need to evolve a sound and unified drug control framework across nations and States, the Indian Pharmaceutical Congress has convened a three-day global conference of regulators and manufacturers in Hyderabad from January 23, said its organising Committee Chairman Ravi Udayabhaskar.

In the case of the sterilisation deaths, the manufacturing licenses of two firms – Mahawar Pharma in Chhattisgarh and Technical Lab and Pharma in Uttarakhand – were temporarily suspended based on preliminary reports of the Central Drugs Laboratory in Kolkata. Both the drug makers denied that their products caused the deaths.

"Though we have a sound track record of manufacturing quality medicines but still drug induced deaths are quite unfortunate. The authorities should complete the probe at the earliest to determine the causes for spread of infections and deaths", Technical Laboratories' Director Rajanish Goel indicated.

According to the Indian Drug Manufacturers' Association, the overall standards of the Indian medicine manufacturers are one of the most stringent and superior in the world.

– *This feature has been abridged from an article published in* Economic Times *on January 09, 2015*

No Unfair Trade Practices

Coming hard on real estate players across-the-board for 'exploitative conduct' and unfair trade practices, the Competition Commission of India (CCI) has asked them to mend their ways. CCI held that there is an urgent need for a strong regulatory mechanism and immediate legislative steps to safeguard the interest of buyers in this sector.

Disposing of a case against 21 realtors including Ansal, Omaxe, Oberoi Realty, Parsvnath Developers etc. and their industry body CREDAI without any penal action, CCI asked them, as well as other players in the sector, to "take appropriate voluntary measures to address the concerns".

It also called for 'immediate and urgent' steps to enact a law, which would supplement the existing regulatory architecture to address the buyers' grievances through a mix of structural and behavioural remedies.

(BT, 04.02.15)

Fair Trade Practices Violated

The CCI found DLF Ltd's (one of the largest commercial real estate developers in India) agreements with buyers in relation to another Gurgaon housing project to be a violation of fair trade practices. It has ordered a probe into DLF's Skycourt project. The project being investigated is Skycourt at Sector 86, DLF Gardencity, Gurgaon, Haryana.

Vijay Kapoor who complained to CCI, received his allotment letter in January 2013. However, DLF demanded an additional ₹10.89 lakh soon after, without which his allotment would be cancelled. He alleged that DLF's agreement with him was "unfair, discriminatory and one-sided" and that DLF had abused its dominant position.

Aside from ordering a probe in relation to Regal Gardens at DLF Garden City, Gurgaon, recently, DLF is also fighting a case in relation to three projects in Gurgaon – the Belaire, Magnolia and Park Place – before the apex court. *(Mint 10.02.15)*

Great Eastern Energy

The CCI has ordered an investigation against Great Eastern Energy Corp (GEECL), engaged in exploration, development, production, distribution and sale of CBM gas for allegedly indulging in unfair business practices with respect to sale of coal bed methane gas to entities in West Bengal. It was alleged that GEECL abused its position by imposing unconscionable terms and conditions in Gas Sale and Purchase Agreement (GSPA).

The investigation has been ordered following a complaint by an employee of SRMB Srijan, which is into steel rolling activities. The firm is a buyer of CBM gas from GEECL.

On investigation, it was revealed that GEECL was having 100 percent market share during 2010-11, 88 percent during 2011-12 and more than 70 percent market share during 2012-13 in the relevant market. *(BS, 02.01.15)*

SpiceJet Deal Agreement

Fair trade watchdog, CCI has cleared Ajay Singh's proposal to acquire a majority stake in cash-strapped SpiceJet, moving closer to the much-needed recapitalisation of the budget carrier.

With clearance from the CCI, the low-cost carrier's original promoter is closer to taking the management reins and ownership of SpiceJet.

The deal, already cleared by the Civil Aviation Ministry, would also require approval from capital market regulator SEBI, among others. The SpiceJet board had approved transfer of Maran family's entire 58.46 percent existing stake to Singh.

Besides, Marans would also infuse ₹375 crore into the budget carrier in lieu of 'non-convertible preference shares' to be alloted to them despite they offloading their entire existing equity stake in favour of Singh and resigning from the board of the airline. *(ET, 20.02.15)*

Question of Answers

On Assocham Foundation Day Lecture, DLF Chairman K P Singh put a question to Competition Commission of India Chairman, Ashok Chawla. Singh wanted to know why regulators did not think of the repercussions on business while taking decisions.

Chawla said that was how the system worked and that the judiciary in India had the power to reverse such decisions. Singh continued that businesses suffered when money got caught up in long-drawn-out cases.

One would recall in the previous year, the Supreme Court had ordered DLF to pay a ₹630-crore fine imposed on it by the antitrust regulator for alleged unfair business practices. The country's largest real estate developer had also found itself in regulatory cross hairs when the Securities and Exchange Board of India denied the company permission to access the capital market for three years.

(BS, 21.01.15)

CCI Probes against REC

http://economictimes.indiatimes.com

As per a complaint filed with the CCI, it has been alleged that there is a conflict of interest existing between REC Power Distribution Company and its parent company in implementation of *Rajiv Gandhi Grameen Vidhyutikaran Yojna* (RGGVY) scheme.

The fair trade watch dog has ordered a probe against state-owned Rural Electrification Corporation (REC), for allegedly indulging in unfair business practices with respect to financing of rural electrification schemes.

It is the nodal agency for implementation of RGGVY scheme, which also provides financial assistance to public sector utilities, State electricity boards, private power developers. The CCI said that it appeared that REC tried to take advantage of their position in the market for financing of rural electrification schemes to "distort/manipulate competition and benefit the REC Distribution Company". *(ET, 19.01.15)*

Soft Bank Helps Uber Competitors

Growing demand for mobile app-based rideshare services in China and India is driving the growth of Uber-like start-ups in the world's two most populous countries. Japanese telecommunications and Internet giant Soft Bank Corp. has been investing more than US$1bn in these companies.

SoftBank's latest move was a US$600mn investment in China's KuaiDi Dache, which the rideshare company announced in January 2015. In October, it announced an investment of US$210mn in Ola Cabs alongside existing investors in India. It is led by former Google Chief Business Officer Nikesh Arora, who has committed to invest US$10bn in India to increase the smartphone penetration. But Soft Bank's focus on local taxi startups indicate that the Japanese telecom titan is betting that Uber will have a hard time competing in Asia against homegrown competition.

"In Asia, the markets are less penetrated from international competition, but the way the smartphone market is growing, it is a fast-growing audience", said Jack Kent, principal analyst for mobile media IHS technology consultancy.

Investing in smartphone-based services, such as ridesharing is basically a play on the timing of smartphone maturity. Taxi and ridesharing apps raised almost US$5bn in disclosed funding in 2014, accounting for 17 percent of the total raised by mobile companies in 2014. Apart from China and India, these included startups in Estonia, Mexico, Brazil, the Philippines, Singapore South, Korea and several developed markets in the West, according to IHS research. Ola Cabs, GrabTaxi and KuaiDi Dache have "excellent prospects for growth in their respective regions, Softbank stated. They could have been doing a million bookings a day, if they had been able to expand any faster", he said.

As the startups add more drivers, they get more customers, they get more drivers looking to benefit from the growing business. "This virtuous cycle keeps repeating" but only for the business that manages to scale fast. This is where backing from SoftBank and Matrix (a repeat investor) and others becomes important.

"There are very well-funded players in the country today who understand that this is network-effect business, and they are spending very aggressively to scale their businesses. Competitive intensity in the short term is a very large challenge", Davda said.

The question is whether these bets spread across the region would slow down the expansion of Uber, which is already present in China, India and the Southeast Asian markets. At present, homegrown companies have been dominant in their respective markets, but Uber recently raised US$1.2bn, in part to expand in Asia.

In any new city or market, there are local or regional regulations and the need for compliance that "requires local knowledge and local investments, however big your international focus is and how much funding you have", Kent stated.

In China, international companies will also face well-financed local competition that might be part of bigger content and services ecosystems. The Chinese market already includes services owned or backed by leading companies, such as Tencent Holdings Ltd. and Alibaba Group, while Baidu Inc. is an Uber investor. KuaiDiDache launched in 2012 and has grown to become one of the leading and most widely used mobile taxi booking app providers in the country.

The company's app "combines integrated mapping and third-party payment technology to provide widely accessible booking services to over one million taxis in more than 300 cities in China, including Hong Kong", Travice Inc., the company that operates the KuaiDiDache cab service, said announcing SoftBank's investment. Its top local rival is DidiDache, which recently won funding of US$700mn in its fourth round, led by Singapore's Temasek Holdings Pvt. Ltd., with participation from Chinese Internet company Tencent Holdings Ltd. and DST Global.

All these developments have not been without some serious fallout, including a temporary ban in India on all such services after an alleged rape by an Uber driver and widespread protests by radio taxi drivers in China, who saw their livelihood caught between modern technology and the backbreaking cut they pay the cab companies that own the licenses.

Investors remain unfazed: "KuaiDiDache is transforming China's urban travel through technology and enriching the lives of many people in the process", Jonathan Lu, CEO of Alibaba Group, said in the press release that announced the new investment in KuaiDiDache.

(IBT, 20.01.15)

NITI Aayog Constituted

The Planning Commission set up in March 15, 1950 was replaced with a new institution, *NITI Aayog* (National Institution for Transforming India). Governance, across the public and private domains, is the concern of society, as a whole. Everyone has a stake in ensuring good governance and effective delivery of services. Creating *Jan Chetna*, therefore, becomes crucial for people's initiative. In today's changed dynamics – with 'public' services often being delivered by 'private' entities, and the greater scope for 'participative citizenry', governance encompasses and involves everyone.

In the context of governance structures, the changed requirements of our country, point to the need for setting up an institution that serves as a Think Tank of the Government – a directional and policy dynamo. The institution must have the necessary resources, knowledge, skills and, ability to act with speed to provide the strategic policy vision for the Government as well as deal with contingent issues. This would be a *Bharatiya* (Indian) approach to development.

The institution to give life to these aspirations is the NITI *Aayog*. It would provide Government at the Central and State levels with relevant strategic and technical advice across the spectrum of key elements of policy, including matters of national and international import on the economic front, dissemination of best practices from within the country as well as from other nations, the infusion of new policy ideas and specific issue-based support.

The NITI *Aayog* has set the following objectives:

- To evolve a shared vision of national development priorities, sectors and strategies with the active involvement of States in the light of national objectives
- To foster cooperative federalism through structured support initiatives and mechanisms with the States on a continuous basis, recognising that strong States make a strong nation
- To develop mechanisms to formulate credible plans at the village level and aggregate these progressively at higher levels of government
- To pay special attention to the sections of our society that might be at risk of not benefitting adequately from economic progress
- To design strategic and long term policy and programme frameworks and initiatives and monitor their progress and their efficacy
- To provide advice and encourage partnerships between key stakeholders and national and international like-minded Think Tanks, as well as educational and policy research institutions
- To create a knowledge, innovation and entrepreneurial support system through a collaborative community of national and international experts, practitioners and other partners and

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- To evaluate the implementation of programmes and initiatives, including the identification of the needed resources so as to strengthen the probability of success and scope of delivery.

Government would continue to set policies that anticipate and reflect the country's requirements and execute them in a just manner for the benefit of the citizens. It would be chaired by the Prime Minister, Chief Ministers of all States and Lt. Governors of Union Territories. The full time members include Vice-Chairperson, part time members, *ex officio* members, Chief Executive Officer and Secretariat.

In essence, effective governance in India would rest on the following pillars:

- Pro-people agenda that fulfills the aspirations of the society as well as individual
- Pro-active in anticipating and responding to their needs
- Participative, by involvement of citizens
- Empowering women in all aspects
- Inclusion of all groups, with special attention to the economically weak, the schedule cast, schedule tribe and other backward communities, the rural sector and farmers, youth and all categories of minorities
- Equality of opportunity to our country's youth and
- Transparency through the use of technology to make government visible and responsive

India's demographic dividend has to be leveraged fruitfully over the next few decades. Youth should be provided with opportunities to work on the frontiers of science, technology and knowledge economy. Eliminating poverty is also essential for the success as a nation. Economic development is incomplete if it does not provide every individual the right to development. There is also a need to create an environment that encourages women to play their rightful role in nation-building. Responsible development implies environmentally sound development. Each element of our environment and resources, namely water, land and forest must be protected; and this must be done in a manner that takes into account their inter-linkages with climate and people.

– *This special article has been abridged from* http://pmindia.gov.in *on January 01, 2015*

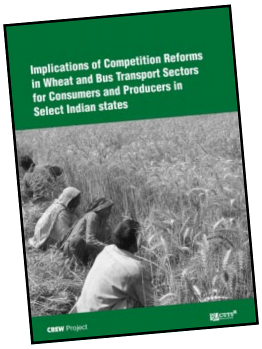
PUBLICATIONS

BRICS-TERN

BRICS Trade & Economics Research Network (BRICS-TERN) was established as a platform for non-governmental organisations from Brazil, Russia, India, China and South Africa to assist in furthering South-South cooperation through network-based policy research and advocacy on contemporary and developmental issues. In line with networks' agenda, every quarter BRICS-TERN publishes a four page newsletter that provides an overview of the most recent BRICS trade and investment-related activities and provides information on the research and networking activities that are being undertaken by BRICS-TERN partners.

This newsletter can be accessed at: http://cuts-international.org/BRICS-TERN/publications.htm

Implications of Competition Reforms in Wheat and Bus Transport Sectors for Consumers and Producers in Select Indian States



A holistic national competition policy that effectively addresses anti-competitive dimensions of government policies and regulations is yet to be adopted in India. Anti-competitive practices are handled through the Competition Act 2002 and various sectoral regulatory laws in the country.

Enhanced harmonisation of government policies and regulations, formulation of a framework for competition impact assessment of various government policies, practices and regulations, greater competitive neutrality between public and private market players are some of the major benefits that can accrue from adoption of a national competition policy in the country. This report, the Diagnostic Country Report (DCR), is a product of the diagnostic or the research phase of the Project entitled Competition Reforms to Enhance Social and Economic Welfare in Developing Countries (CREW).

http://www.cuts-ccier.org/CREW/pdf/Diagnostic_Country_Report-India.pdf

Forthcoming Publication

Transforming Electricity Governance in India

Consumer Participation and Protection in Regulatory Practices

Consumer protection and participation in the regulatory process is crucial for better governance in the sector. Participation strengthens the information base available to regulators as they make decisions, and helps them understand consumers' perspective. Participation also increases the social acceptance of technical decisions that the regulators take, and measures for consumer protection help build consumers' trust in the system. With the objective too evaluate the current State of consumer participation and protection in electricity regulation, the study looked into practices and experiences in five States: Delhi, Haryana, Karnataka, Maharashtra and Rajasthan.

We want to hear from you…

Please e-mail your comments and suggestions to **c-cier@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 and suggest ways for improvement on:

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

SOURCES

BL: The Hindu Business Line, **BS:** Business Standard, **BT:** Business Today; **DG:** Desh Gujarat; **DNA:** Daily News Analysis, **ET:** The Economic Times, **EPN:** Express Pharma News; **FE:** The Financial Express, **HT:** The Hindustan Times; **IE:** Indian Express; **MW:** Mining Weekly; **NDTV:** New Delhi Television Limited, **TH:** The Hindu

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.