PolicyWatch

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

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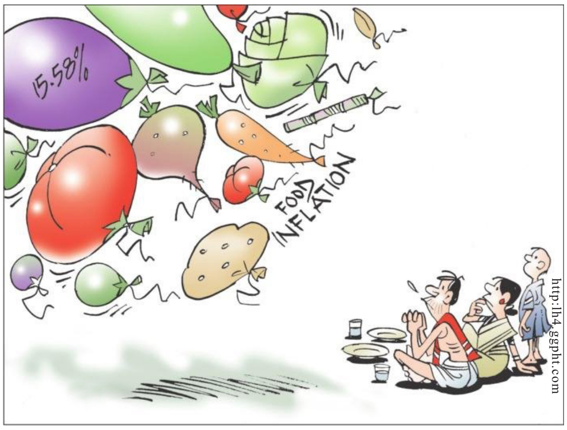
INSIDE THIS ISSUE

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*

Food Inflation: Cure What the Country Does Not Need to Endure

The All India annual average rate of food price inflation is nearing 20 percent and is likely to deal a blow to United Progressive Alliance's (UPA) earnest efforts to usher in inclusive growth through various employment, health and education schemes. While these government schemes have enhanced the real incomes of the poor, the spectre of inflation threatens to nullify these gains as the poor spend a significant portion of their income on food. So while the growth rate of gross domestic product (GDP) has recovered in the past 12 months, this recovery has not been inclusive because of the phenomenon of food price inflation, which by virtue of the nature of food as an essential consumable affects different sectors and income classes unequally.



Over the last year, the price of pulses such as *arhar dal*, a staple source of protein for the *aam aadmi*, have doubled. The same goes for vegetables and sugar. This phenomenon can be attributed to enhancement of the purchasing power of low-income consumers through various development schemes such as the National Rural Employment Guarantee Scheme (NREGS) and the lack of an adequate supply response. Multi-pronged intervention to take the inflationary bull by the horns is required. Several instruments can assist in checking price rise. Reforms in marketing arrangements such as formation of farmer cooperatives reaching directly to consumers constitute a necessary solution, which, however, cannot have an immediate impact. For pulses, in which India is the world's leading producer as well as consumer, direct producer subsidies to pulse farmers and procurement on a larger scale are medium and long term supply measures which need to be planned immediately. In the interim, given the absence of a possible recourse to increase in imports in a thin international market, the government should issue advisories to low income consumers to substitute traditional sources of protein such as *dal* with cheaper substitutes – milk, eggs and soya – to the extent possible.

To conclude, the government also needs to recognise the multidimensionality of food inflation. While storable items such as *dal* have seen a steady increase in prices, others such as potatoes have been subjected to episodes of seasonal inflation – price trebling and then falling back to their original level. Such episodes also play havoc with the consumer's purchasing power and dietary intake – a big push to necessary infrastructure such as cold storages and their easy availability to farmers is required.

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POWER

Curbing UMPP Imports

An empowered group of ministers (eGoM) has decided to bar ultra mega power projects (UMPP) from sourcing equipment from abroad — a move that would benefit domestic suppliers like Bharat Heavy Electricals Ltd and Larsen & Toubro, but could raise electricity tariffs. Finance minister, Pranab Mukherjee, has set up a committee to plan for augmenting domestic equipment-manufacturing capacities to offset the import ban.

The government has already awarded four UMPPs and another four are in the pipeline. The UMPP scheme envisages the use of supercritical technology, which could be import intensive in the absence of competitive domestic manufacturers. The eGoM has decided that no developer can have more than three UMPPs under construction at a time.

(FE, 20.01.10)

Capacity Addition

With the full load commissioning of *Paras*-Unit II, the country has achieved 21,221 MW capacity addition in the 11th Five Year plan, exceeding the total achievement in the 10th Five Year plan. The Union Power Minister said all efforts were being made to keep the projects on track.

He expressed confidence that out of the capacity, addition target of 78,700 MW envisaged for the 11th plan, about 62,000 MW capacity addition would be achieved. The total capacity addition in the 10th Five Year plan was 21,220 MW. In addition, a capacity of 12,590 MW may materialise on best effort basis during the 11th plan. *(FE, 28.03.10)*

Govt Warms to Solar Power

Energy security concerns and environment have been further embedded in the Budget with a slew of fiscal incentives and budgetary support for green measures. A National Clean Energy Fund is to be set up to fund research and innovative projects in clean energy technologies. The fund will be fed by an energy cess of Rs 50 on every tonne of coal produced.

The National Solar Mission, with an ambitious target of achieving 20,000 MW capacity by 2030 under the national action plan on climate change, will also be operationalised in 2010. 200 MW grid power and 32 MW equivalent off-grid solar power will be installed in the financial year beginning April 2010. Custom duty has also been pegged at five percent on equipment for solar photovoltaic and solar thermal power, while components of a unique solar-powered rickshaw will be exempt from customs duty. *(ToI, 27.02.10)*

Power Privatisation

The government-run Uttarakhand Power Corporation Limited (UPCL), the sole power distribution licensee in the state, has proposed privatisation of power at Roorkee in Haridwar district and Rudrapur in Udham Singh Nagar district where transmission and distribution (T&D) losses and power thefts are very heavy. The move is a part of the power reforms programme in the state where such an attempt is being made for the first time.

The process of distribution of power in the two towns would be handed over to private players and UPCL is already under the process of inviting bids from the private players. The UPCL officials think that privatisation would help in curtailing the line losses and help improve the power scenario in the state.

(BS, 09.02.10)

SC Bats for Electricity Regulator

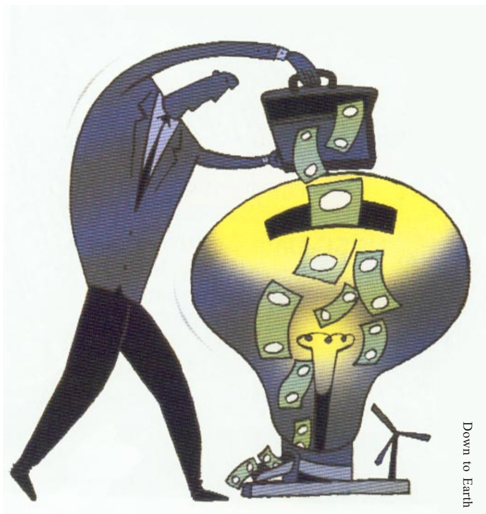
In a move that will strengthen the electricity regulator, the Supreme Court (SC) upheld the authority of the CERC to regulate margins on resale of electricity. It also ruled that these cannot be challenged in a tribunal. The judgement has settled the question of law in favour of the regulator. This will reduce litigation before the appellate tribunal for electricity.

The court clarified that the interpretation was only applicable to CERC and cannot be extended to other regulators. Pramod Deo, chairman of CERC, said he had not seen the judgement, but added the regulator "had framed regulations on trading margins. That is the issue that has been settled by the SC in our favour". "The Apellate Tribunal for Electricity has no jurisdiction to decide the validity of the regulations framed by the CERC," the judgement stated.

(www.livemint.com, 16.03.10)

Promoting Renewable Energy

The National Load Despatch Centre (NLDC) has been designated as the central agency for implementing Renewable Energy Certificates (RECs) mechanism meant to give push to renewable energy capacity addition in the country.



Down to Earth

The Central Electricity Regulatory Commission (CERC) has recently designated NLDC, an apex agency responsible for ensuring integrated operation of the national power system. The CERC had notified regulation on RECs fulfilment of its mandate to promote renewable sources of energy. The central agency will be responsible for registration of eligible entities, issuance of certificates, maintaining and settling accounts in respect of certificates, and repository of transactions in certificates for implementation of renewable energy certificate mechanism. *(BL, 11.02.10)*

OIL & GAS

Subsidies to Remain till 2015

Realising the adverse political fallout of any tinkering with consumer prices of cooking gas (liquefied petroleum gas, or LPG) and kerosene, the government is planning to extend its subsidy scheme on the two fuels by another five years to March 31, 2015. The current scheme, where government provides Rs 22.58 per LPG cylinder and Rs 0.82 per litre of kerosene as flat subsidy, expires on March 31, 2010.

In the 2009-10 budget, the government had made an allocation of Rs 2,840 crore as subsidy on the two fuels. But the real subsidies to consumers are even higher – Rs 15.05 per litre on kerosene and Rs 167.63 per cylinder on LPG. These are known as "underrecoveries" whose burden falls on state-owned fuel retailers.

(www.livemint.com, 25.01.10)

Energy Subsidy – A Bad Idea!

Planning Commission Deputy Chairman, Montek Singh Ahluwalia said it would be a bad idea to continue with subsidies to keep oil prices subdued amid an escalating debate over a possible hike in price of petroleum products.

Singh added that a complete stopping of the financial sector reform process should not happen, due to the global recession. India is largely a balanced economy compared to many other countries in the world and whatever it has been doing, seems to be right and it should keep doing. *(ET, 12.02.10)*

New Policy for Gas Block Auction

India will have a new policy to auction hydrocarbon assets for exploring oil and gas reserves – Open Acreage Licensing Policy (OALP) soon. The new policy, an open acreage system, will be beneficial for the industry, as oil and gas blocks will be on offer through the year and not based on rounds, against the existing regime of the New Exploration and Licensing Policy (NELP).

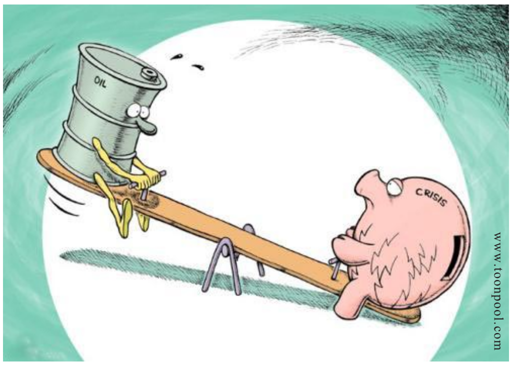
NELP has identified only a limited number of oil and gas blocks and offered bidding to domestic and global energy companies. In OALP, a database of all such blocks that the government plans to offer for bidding will be made available in the public domain. Any company that wishes to bid for a particular block can do so anytime during the year. *(BS, 04.03.10)*

Missed Opportunity for Reforming Petroleum Pricing

– Kirit S Parikh*

The Budget stimulates growth and nine percent is an achievable target if the rains are normal. It also facilitates growth and encourages private investors. The tax cuts provide substantial additional disposable income to the middle classes. This should increase domestic demand. The impact of this should more than compensate the reduction in fiscal stimulus. Also, the projected fiscal deficit to 5.5 percent is modest and for all these the finance minister should be congratulated.

There are some good measures to reform energy policy. What we had recommended in the integrated energy policy concerning coal sector are promised – a coal regulator and auctioning of coal block. However, the monopolistic power of coal India will continue. The outlay for renewable energy of Rs 1,000 crore is welcome. It should give a boost to solar power, which is the most important sustainable energy source of the country. Yet, how this money is spent and how the subsidy is distributed will be critical in deciding if it stimulates development of solar technology or not. One can get solar power by giving subsidies and if it does not improve technology, then the subsidy given is more or less wasted.



But my big disappointment is with respect to the measures on petrol and diesel prices. The Budget has increased customs duty on crude and petroleum products to five and 7.5 percent, respectively. Also, excise on petrol and diesel have been raised so that the price of petrol will rise by Rs 2.67 per litre and the price of diesel will rise by Rs 2.57 per litre. Yet, what is perplexing is that if the government is willing to take the political fallout of raising prices, why does it not free the prices and let them be market determined as recommended by the expert group on petroleum pricing?

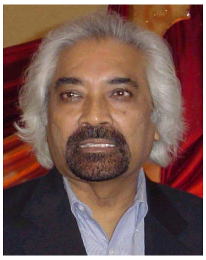
Moving to market determined prices would not have raised diesel prices any more than what the Budget proposes and petrol prices could have been raised a bit more. The advantages of moving to a competitive market would have been many. It would have provided a sustainable energy policy when crude price on the world market fluctuates. If the world price increases to US$90 a barrel, with the present policy the government would find itself facing the fiscal stress from large under-recoveries of public sector oil companies. We also forego the benefits of competition that the free market would have brought about.

The emphasis on reforming subsidies is welcome. A lot is expected of the Unique Identification Database (UID). The UID will verify a person as the person one claims to be when one goes to a shop. However, if subsidised ration is to be given to a person, he would have to be identified as the deserving person and a smart card linked to his UID would have to be issued. Thus, if subsidies are to be effectively targeted, a lot of advance action needs to be taken now.

* *Former Member, Planning Commission and Chairman of Integrated Research and Action for Development (IRAD). Abridged from an article that appeared in The Financial Express, on February 28, 2010.*

COMMUNICATION

Telecom to Map India Assets



Pioneer of India's telecom revolution, Sam Pitroda, is now working on making its application wider and deeper, something he calls the "second stage of the telecom revolution and the idea is to create a complete database and use the information to coordinate activities". Pitroda said he is working on a project that aims at tagging the entire physical asset base and programmes of the country, which will include land records, public goods, *panchayats* and human resources.

All this would constitute a comprehensive database, which would help the government in using telecom and IT much more effectively for e-governance, health programmes, education, and agriculture. He said the exercise would be as big in scope as the UID, which aims to provide a unique identity number to each individual. *(FE, 05.03.10)*

Wiring Up the Northeast

"The government has begun an ambitious programme to wire up the entire northeast and remote border regions with telecom, wimax and broadband connectivity and unleash an Information Technology (IT) revolution in the region", said Minister of State for IT and Communications Sachin Pilot.

Bulk of the money under the universal service obligation fund, collected by the government from private players to meet the demands of rural connectivity, will be deployed in the northeast, said Pilot. Pilot said he is also planning to give satellite phone facilities to villages in the northeast, which are cut off from others due to their location, along with a much-subsidised tariff. *(ET, 07.03.10)*

Cracking the Whip on Media

Media houses, both print and electronic, may attract heavy financial penalty and other stringent actions if found indulging in or encouraging "paid news" in the guise of news. While the Press Council of India and the Editor's Guild are looking into the matter for print publications, the information and broadcasting ministry (I&B) will seek the participation of news broadcasters and the Indian Broadcasting Foundation on the paid news issue soon.

The matter is being looked into by the ministry after the emergence of media reports that said certain print and electronic media houses received monetary considerations for publishing or broadcasting news items. "The phenomenon of paid news is a serious matter as it influences the functioning of a free press," said I&B Minister. *(FE, 05.10.10)*

No to 11-digit Numbers

All mobile firms, with the exception of Reliance Communications and the Tata Teleservices, have asked the telecom regulator to continue with the existing format of 10-digit mobile number format and have opposed the proposal to move towards 11-digit numbers.

Most mobile firms have suggested that digits between '2' and '9' be opened up for mobile telephony so that the current 10-digit format be retained as against the current policy where levels '9' and sublevels of '8' and '7' are only used for mobile numbers. Over 90 percent of the mobile numbers begin with '9' as this level has been completely opened up for mobile telephony. Recently, Department of Telecommunications (DoT) has also opened up sublevels in '8' and '7' for mobile telephony, which has resulted in cellular phone numbers beginning with these digits. *(ET, 05.03.10)*

Telcos Go Green

'Going green' is no more an option for telecom operators. It has become a necessity in a market where margins are nosediving due to tariff wars, denting the profitability of the mightiest. Energy expenses constitute nearly 25 percent of the total network operating costs.

Equipment vendors like Ericsson, tower companies including Bharti Infratel and network services provider GTL are investing big bucks in bringing out green products and solutions to cut operators' opex. GTL has deployed these solutions at more than 5,000 sites, reducing energy consumption and carbon emission. Ericsson has launched its wind-powered radio base station (RBS) site solution in India, offering low cost of construction and maintenance. The towers do not require feeders and cooling systems, resulting in up to 40 percent lower consumption of power. *(ET, 10.03.2010)*

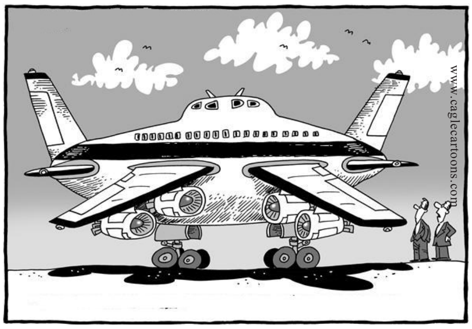
Quake-proof Towers

In a bid to ensure that essential services like telecommunication do not break down during natural calamities, the DoT has brought out a draft policy on mobile towers and has asked cellular service providers to adhere to certain norms while constructing new towers. Saying that the towers would have to be earthquake resistant, DoT has specified that the design, fabrication and use of material should conform to the standards set by Bureau of Indian Standards.

Since there was large-scale damage when the cyclone struck Orissa and even during the Bhuj earthquake, the draft telecom policy paper states that there is an urgent need to ensure that telecommunication services are not disrupted in such disasters. The draft tower policy has asked telcos to follow international standards to cut down on radiation. *(ET, 08.03.10)*

TRANSPORT

Marriage of Incompatiable Minds



A parliamentary committee said that the government had blundered by merging state-owned carriers Air India and Indian Airlines and that the combined entity was "fast slipping into an abyss", calling for a reversal of the decision. The so-called merger has been called as a kind of marriage between two incompatible individuals having wide variances with hardly any meeting ground.

Multiplication of losses suggests something radically wrong either with the projections of the benefits of the merger. The panel recommended that National Avaition Company of India Ltd (NACIL) should be converted to a holding company with two different wings having the freedom to handle Air India and Indian Airlines' operations separately without any intervention of the other wing. *(ET, 13.03.10)*

Restructuring the Regulator

The Directorate General has proposed for the establishment of an autonomous regulatory body, Civil Aviation Authority (CAA) that will have greater autonomy and enhanced powers in comparison to those that it presently exercises. It will operate in line with other national regulatory bodies.

The CAA will play a significant role in areas such as air safety, economic regulation and airspace regulation. A proposal for the creation of a separate body to investigate air accidents and incidents will also be placed before the Ministry of Civil Aviation. In order to ensure sustained growth of the Indian aviation industry, it has become imperative that an autonomous body be set up to further the prevailing regulatory mechanism. *(ILO, 03.03.10)*

Road Target Deferred

Road Transport and Highways Minister Kamal Nath said that India has achieved construction of nine-km roads per day and the target of developing 20-km daily would be accomplished by April 2010. To have a 20-km of road construction a day or 7,000 km of roads a year, there has to be 20,000 km of work in progress, he noted.

For this, the minister said that between November 2009 to June 2010, contracts worth US$20 bn would have been awarded. Nath stressed that mega infrastructure projects would not be awarded to small companies since such companies may not even be able to get finances. "Medium-sized companies should take more jobs and aspire to become bigger. *(BL, 04.01.10)*

Self-made Railway Station

Residents of Tajnagar village near Gurgaon lobbied for a railway station in their village. When their demand was not met, the villagers decided to take matters in their own hands and pooled in Rs 21 lakh and built a railway station on their own. Perhaps it is the first railway station in the country on which the Railways did not have to spend a single penny.

The Railways agreed to stop a few trains at the station if the villagers constructed the station according to the department's specifications. They built a skeleton station and the Railways now needs to help make it concrete. The Railways decided to make it a halt station because a number of people would benefit from it. *(BL, 05.01.10)*

Policy Guideline for Ports

The Union Shipping Ministry plans to formulate a 'Policy Guideline' to prevent private sector monopoly in the port sector. Port users have welcomed this, but private terminal operators feel it as unnecessary when things are going well at major ports with regard to public-private-partnership (PPP) projects.

A recent draft 'Policy Guideline' circulated by the Shipping Ministry says if there is only one private terminal operator in the port for specific cargo, that operator will not be allowed to bid for the next terminal for the same cargo in the same port. Further, an existing private operator of the port will be allowed to bid for the project, only if, with the award of the project, the operator does not have more than two Build, Operate and Transfer projects. *(FE, 18.02.10)*

Move to Regulate

The Centre has initiated a move to regulate the functioning of the State road transport corporations aiming not only to improve their functioning but also provide better commuting services to the people in general across the country. An amendment has been proposed to the existing Road Transport Corporation Act, 1950, allowing for establishment of a regulator body at the Central level to govern the transport services.

The Centre is seeking to grant autonomy to the corporations who have been running in great losses. The corporations will receive capital support from both the Centre and the respective State government and no interest will be charged till it is running at a loss. *(TH, 10.01.10)*

Planning Transport Development

The government has set up a national transport development policy committee to create a policy environment that encourages competitive pricing and coordination between alternative modes of transport.

The members will include secretaries of several ministries associated with the development of transportation and experts. The committee will assess the transport requirement for the next two decades in the context of economic, demographic and technological trends. It will also examine the investment requirements of the transport sector and identify the roles of states and the private sector in meeting these needs. *(TH, 16.02.10)*

MIXED BAG

Disinvesting – Yet in Control!

The Centre is considering the suggestion of the Prime Minister's Economic Advisory Council (EAC) Chairman, C Rangarajan, to allow statutory organisations such as Life Insurance Company, the Employees Provident Fund Organisation and General Insurance Company to infuse capital into public sector banks (PSBs) by buying a portion of the government's holdings in these banks. This amounts to disinvestment without the government losing effective control in the PSBs.

For this, the Bank Nationalisation Act would have to be amended so that the definition of 'Government' includes certain nominated quasi-government agencies. PSBs will continue to be PSBs, except that the government will not be holding 51 percent. This will improve the capital adequacy of PSBs and enhance their capacity to dispense credit.

(BL, 01.02.10)

Road Accident Fund

To ensure that all road accident victims get compensation on time, the SC has asked the Centre to create a Road Accident Fund (RAF) through levy of cess/surcharge on petrol and diesel and credit it to RAF. A three-judge Bench said it was necessary for the Centre to formulate a more comprehensive scheme for payment of compensation to victims of road accidents, in the place of the present system of third party insurance.

India had the dubious distinction of being one of the countries with the highest number of road accidents and the longest response time in securing first aid and medical treatment. The Bench said there was an urgent need for laying down and enforcing road safety measures and establishment of a large number of trauma centres and first aid centres. *(TH, 07.01.10)*

Low-carbon Economy

The Planning Commission (PC) has formed a 25-member expert panel to explore options before the country for a low-carbon economy. It will review existing studies on low-carbon growth/low-carbon pathways prepared by various organisations and assess low-carbon options for the economy. It is expected to outline a road map starting in 2011.

The action plan will comprise of sector-specific, critical low-carbon initiatives, a suggested timeline and targets. It will list enabling legislations, rules and policies to operationalise the road map. The PC said the government was committed to making India a low-carbon economy. It recently announced voluntary and unilateral targets to reduce the emissions. Hence, the targets were built into a strategy for the 12th Five Year Plan, consistent with objectives of poverty alleviation, sustainable development and inclusive growth. *(TH, 12.01.10)*

Infra Investment Doubles

The PC said investment in the infrastructure sector has doubled in the past five years from four percent to eight percent of Gross Domestic Product (GDP). PC had set an investment target of US$ 500bn for the infrastructure sector during the 11th Plan, which was hit due to the global financial crisis triggered by the fall of Lehman Brothers in September 2008.

The 11th Plan target for infrastructure investment was nine percent of GDP. The gross capital formation in infrastructure should rise as a share of GDP from five percent in 2006-07 to nine percent by the end of this Plan period, the target of nine percent by the end of the 11th Plan seems reasonable. *(ET, 07.02.10)*

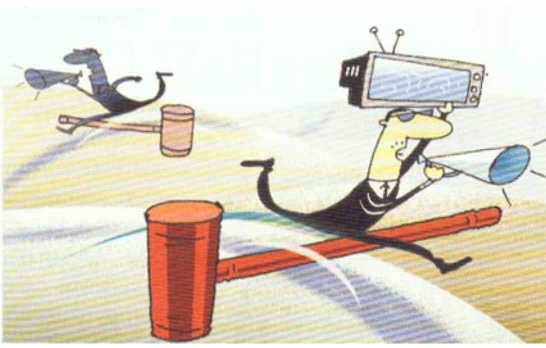
Sowing Seeds for Next Crisis

The Reserve Bank of India (RBI) Governor, Subbarao, expressed fears – "I worry that in resolving this (financial) crisis, perhaps we are sowing the seeds of the next crisis. Next crisis could be a currency or a fiscal crisis''. He expressed fear that governments of advanced countries might not be able to wind down their borrowings.

Subbarao said that adequate attention was not being paid to address the global imbalances and the international monetary system was found to be inadequate in handling the crisis. It was incidental that the global imbalances exploded in the financial sector and not erupted into a currency crisis, he said. Subbarao said that price stability does not guarantee financial stability. One needs to look beyond inflation targeting. *(ET, 13.02.10)*

Caution Against Advertisers

The stock market regulator, Securities and Exchange Board of India (SEBI), has cautioned investors against getting carried away by advertisements promising unrealistic gains and windfall profits. The regulator has also advised investors to deal only with or through SEBI registered intermediaries and cautioned them to be extra careful while using information available from various media sources.


Down to Earth

Investors should realise that when they follow such advice they are exposing themselves to undue risk in using unconfirmed information available on such websites, blogs, astrology predictions or advice, newspaper advertisements, SMS', e-mails, rumours and advice rendered through television or print media and trading tips on an intra-day basis, short term basis or long term basis. *(FE, 11.02.10)*

Riding on Monopoly

– Anand Kalyanraman*

Investors with a medium-term horizon can consider buying the stock of Indraprastha Gas Limited (IGL), the sole supplier of compressed natural gas (CNG) and piped natural gas (PNG) in the national capital territory of Delhi. The company's CNG network of 187 stations services more than 3 lakh vehicles, while its piped gas (PNG) network covers around 1,60,000 households and 315 commercial customers.

CNG is the major contributor to revenues. At the current market price of Rs 203, the stock discounts the trailing 12 month earnings by 14 times. IGL, a joint venture between Gas Authority of India Ltd (GAIL) and Bharat Petroleuim Corporation of India Ltd (BPCL) (22.5 percent each), with a five percent stake held by the Delhi government, is in a sweet spot with rising petrol, diesel and LPG prices driving consumer conversion to gas-based substitutes. The company now sources the bulk of its gas from GAIL at an administered price of less than US$2 per Million Metric British Thermal Units (mmbtu), much cheaper than other sources.

However, the agreements with Reliance Industries for KG-gas, and GAIL and BPCL for regassified-LNG to meet incremental gas requirements, are likely to push up costs over the medium term. While this would lead to pressure on margins, there are a few mitigating factors. The company's monopoly position results in relative inelasticity in consumer demand. Also, clear economies in using CNG in place of traditional fuels may allow leeway in hiking prices.

IGL's growth prospects stem primarily from its monopoly status in Delhi, where demand has been growing, thanks to statutory backing and advantages of gas over alternative fuels

IGL has consistently posted healthy financial results, with sales and profits growing at an annual rate of 17.3 percent and 16.8 percent during 2005-2009. In 2009, sales grew 20.8 percent year-on-year to Rs 853 crore while profits declined marginally to Rs 172 crore. Decline in profits was mainly due to overdrawal charges for gas drawn above allotted limits to meet increased consumer demand.

In response, the company has been able to pass on costs by increasing CNG prices by around 11 percent in June 2009. In the October-December 2009 quarter, sales and profits grew strongly by around 30 percent and 54 percent respectively. IGL has consistently maintained operating margins in excess of 30 percent, and net margins above 20 percent.

While margins may moderate if the blended input costs rise, they will remain at sufficiently healthy levels. Return on equity in excess of 25 percent and zero debt also buttress the financials. Low penetration rates, growing vehicular population and regulations that mandate that Delhi's public transport and light commercial vehicles run on CNG, bode well for IGL. The Commonwealth Games to be held in Delhi in October 2010 is expected to boost CNG sales significantly. Increasing conversion of private vehicles to CNG and introduction of CNG models by automakers are expected to provide a further fillip to demand. PNG too is likely to find increasing favour with households and commercial customers due to its cost and operational benefits. IGL plans to ramp up aggressively to meet this demand. IGL which has expanded its footprint to Noida and Greater Noida, also plans to enter other cities in the national capital region (NCR). With the government planning to roll out city gas networks across the country, IGL as a first mover in this business could benefit. In the initial two rounds comprising 13 cities, IGL bid for setting up City gas distribution CGD networks in Sonepat, Meerut and Ghaziabad.

While IGL has been trying to make inroads into other towns and cities, it has had to face regulatory hurdles due to guidelines laid down by Petroleum and Natural Gas Regulatory Board (PNGRB). In a series of run-ins with the regulator, IGL's bids for the Sonepat and Meerut CGD network were rejected on grounds of inadequate net worth. The company has gone on appeal against this order. IGL had also gone to Court over the PNGRB inviting bids for city gas networks in Ghaziabad and Noida, where it claims exclusive rights.

The latest ruling by the Delhi High Court that PNGRB is not authorised to issue licenses for city gas networks strengthens IGL's case and bolsters its prospects in the NCR. The CGD space is also witnessing increased competition with the entry of major players, including Reliance Industries and GAIL. The Delhi CGD market, post December 2011, will also be open to competition and the marketing exclusivity given to IGL will end. However, network exclusivity for IGL in Delhi for 25 years and its ready infrastructure pose a high entry barrier to other players. PNGRB has proposed caps based on return on capital on transmission and network tariffs for CGD entities. However, marketing margin, not being subject to such restrictions, allows IGL leeway in final pricing.

* *The abridged article compiled by Anand Kalyanraman first appeared in The Business Line, on January 24, 2010.*

Fixing Telecom's Ring

– Sunil Jain*

The TRAI/TDSAT process has several problems right now. TRAI/TDSAT are challenging each other's powers in various fora!

With the Telecom Dispute Settlement and Appellate Tribunal (TDSAT) readying to celebrate its 10th anniversary in a few months time, this is the right time to ask if the new regulatory/appellate structure that was put in place a decade ago is working in the manner envisaged – that is, to deliver justice, and speedily. Given that the sector is adding more than 10 million subscribers per month and investments continue to pour in, you'd think the question is redundant. Yet that's not strictly true since, on critical issues, most players (and wannabe players) remain quite aggrieved – indeed, the way things are, even the regulator, Telecom Regulatory Authority of India (TRAI), and the appellate body, the TDSAT, are challenging each other's powers in various fora!

As a result, the efficiency of the system critically depends upon who is in charge of each body – while individuals always matter, what makes TRAI/TDSAT different is that the heads of these bodies are chosen by the telecom ministry, the body that TRAI/TDSAT is supposed to replace in terms of policymaking and redressal. Since the bulk of the complaints relate to TRAI/TDSAT playing favourites, fixing this is critical. One solution is to free their finances from the telecom ministry and make these bodies report to the law ministry; ditto for their selection process which also needs to move away from selecting just bureaucrats as TRAI chief. To give an example, the telecom minister is currently deciding on whether or not to increase the tenure of the TRAI chief from three to five years – so any TRAI chief who goes against the minister can be sure his tenure won't be increased!

A 10-year review also needs to do something about the powers of TRAI and the TDSAT. TRAI has only recommendatory powers and that ensures it is virtually toothless on critical issues – as in the recent case of 2G spectrum allocations. In the case of the interconnect agreement that determines the terms on which telecom companies will allow access to their networks, similarly, the TDSAT ruled five years ago that TRAI had no jurisdiction on the matter – TRAI challenged this in the Supreme Court where no final ruling has been given.

This is critical since it means that if operators have a dispute, there is precious little TRAI can do. When RCom launched its new Global System for Mobile Communications (GSM) services, this became a serious problem since the older GSM operators refused to sign interconnect agreements that would allow its subscribers access to/from their networks. The fact that interconnect agreements are not a TRAI prerogative means that, for instance, it can do nothing on complaints against BSNL's restrictive practices.

As to the powers of TDSAT, the appeals bench for TRAI decisions, over the years, TRAI has been couching some of its decisions as "regulations", and then saying these cannot be heard by the TDSAT! So, aggrieved parties have to go to various high courts where they could be stuck for years. In the case of the arbitrary allocation of GSM licences in 2008, the TDSAT has ruled there was no problem but the Delhi High Court has ruled that there was a serious problem – how does the government reconcile and implement both rulings and which judgment does industry take as the operative one?

A related problem that arises, of course, is who can appeal to the TDSAT. The reason why STel went to the high court and not to the TDSAT was that, under the current law, only telecom licencees can appeal to it – in the GSM licence case, the aggrieved parties were the firms that wanted to come in but couldn't, thanks to the minister playing favourites and allotting the licences to a chosen few. So, apart from limiting access to speedy justice, this creates the additional problem of different judgments which cannot be reconciled.

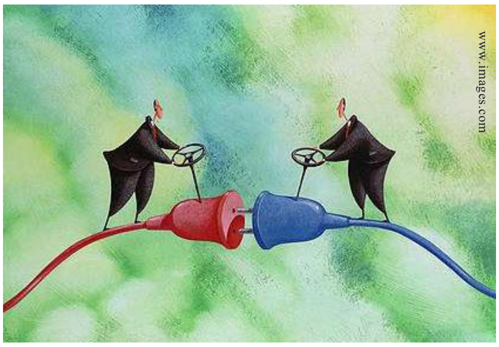
Perhaps another solution lies in law minister's suggestions about having a separate commercial bench in each court to deliver speedy justice on corporate matters. In exactly the same way, perhaps it is a good idea to have specialist judges in the Supreme Court whose job would be to clear cases pertaining to appellate/regulatory bodies like TRAI/TDSAT. And the TRAI/TDSAT law also needs to be clarified further to end the turf war between the two bodies.

* *Columnist, Business Standard. Abridged from an article that appeared in Business Standard on February 08, 2010.*

Gains from Competition in Power Distribution

– Rajesh Kumar*

The Electricity Act, 2003, and National Electricity Policy, 2005, envisage the provision of open access to transmission and distribution networks to create healthy competition and ensure efficient use of energy. However, most state electricity regulatory commissions have not taken any step to implement open access. They point to several roadblocks in the way of its implementation: inadequate transmission capacity, non-desirability of duplication of distribution networks, poor metering technology, retail markets that are yet to attain maturity and so on.



Facilitation of switching provides the rationale for the promotion of competition even if prices potentially on offer by competing suppliers are not very different

However, Mumbai presents a marked and refreshing case as a result of sincere efforts by the regulator, consumers/ Civil Society Organisations (CSOs) and some distribution companies in the suburbs of the city. As a result, even small consumer households can now switch electricity suppliers if they are not satisfied with the existing quality of service or tariff.

The Mumbai experience reveals that it is quite feasible to promote workable competition in the distribution sector without losing the economies of scale It has also been argued that the Mumbai model of competition in the distribution segment can easily be replicated in Delhi and then extended to other states.

The important milestone of this success was the landmark judgement of the Supreme Court in June 2008, paving the way for Tata Power to supply power to retail consumers being served by Reliance Infrastructure under the provisions of the Electricity Act, 2003. The court observed that supply could be provided through the distribution infrastructure installed and operated by Reliance Infrastructure.

The court's order bore fruit only after October 2009 when the Maharashtra Electricity Regulatory Commission passed detailed guidelines specifying essential modalities relating to the submission of applications for switch over, metering, reading, billing, complaints redressal, etc. The guidelines made the overall process transparent and accountable and thus, consumer-friendly.

While making it clear that there is no need for a consumer to take a no-objection certificate (NoC) from the existing supplier before switching, the regulations stressed the need to pay all pending dues. The facilitation of switching over breathed new life into competition. Since its inception, Reliance Infrastructure was the only distribution licensee participant in the suburbs of Mumbai. For a long time, Reliance consumers have been demanding access to supply from Tata Power, given the lower tariffs of the latter relative to the former.

Opportunities for switching over, coupled with price differences, have motivated 50,000 consumer households as well as some bulk consumers such as Mumbai International Airport Limited to move from Reliance to Tata Power. This is a potent example of how competition can boost consumer choice and welfare.

CUTS International, a think-tank working on competition issues in electricity as well as other utilities, has pointed to the easy replicability of this model in Delhi, citing various reasons. First, like Mumbai, the distribution business in Delhi has been privatised, providing reasonably good scope for competition. Second, the prolonged legal battle in Mumbai – over seven-eight years – has resulted in the fleshing out of clear modalities that can be adapted without too much change to facilitate open access in Delhi. Third, like in Mumbai, most consumption in Delhi is metered, making accurate calculation of energy losses possible.

However, some experts have expressed doubts about such replicability. First, there are no significant differences in power purchase costs across utilities in Delhi as most of these draw energy from common sources. However, significant differences across companies in terms of percentage of distribution loss might actually make the suggested replication economically beneficial – NDPL owned by Tata exhibits the lowest level of losses while Yamuna Power and Rajdhani exhibit different levels despite being owned and operated by Reliance.

As long as geographical monopolies in power supply exist, any talk about promotion of competition in the electricity sector will remain empty and bereft of significance for the *aam aadmi*. The Mumbai model offers a strong ray of hope and its replication in major urban centres would mark the coming of age of competition in the power sector.

* *Assistant Policy Analyst, CUTS Centre for Competition, Investment & Economic Regulation. Abridged from an article that appeared in The Financial Express on March 24, 2010.*

Bt Brinjal in Cold Storage

The Union Environment Minister, Jairam Ramesh, announced the moratorium on commercial release of the genetically modified (GM) brinjal was only "time being" and would apply till the human health and environmental safety aspects of the product are established by "independent scientific studies". The Minister added that 11 states have expressed their reservations on granting clearance to Bt brinjal. This was significant given that the first three states accounted for over 60 percent of the country's brinjal output.

Down to Earth

Ramesh justified the "precautionary principle-based approach" on the basis that Bt brinjal developed by Mahyco – a leading domestic seed firm in which the US life sciences major, Monsanto, holds 26 percent – will be the world's first ever GM vegetable to be grown.

(BL, 09.02.10)

Slow-moving Elephant

The Prime Minister, Manmohan Singh, accepted that India was a slow-moving elephant but added that with each step it was leaving a deep imprint. "There is a price that we pay in trying to carry all sections of our people along in national development. It is perhaps a price worth paying," the Prime Minister said. He added that each citizen should feel that his voice is heard and have a sense of participation in national development.

(BL, 08.01.10)

Partial Roll-back of Stimulus

In what may be a broad prescription for the government's economic policy road map ahead of the Budget for 2010-11, Prime Minister's EAC pitched for a partial roll-back of stimulus measures to usher in fiscal correction by scaling up excise duties and service tax and "adjusting" Central expenditure without hurting capital spending on infrastructure.

Prime Minister's EAC Chairman C Rangarajan said that since the expenditure stimulus was directed at augmenting consumption and not investment, the corrective measures must also focus on adjusting expenditure. As part of the stimulus package to tackle the impact of the global meltdown, the government had reduced the excise duty from 14 to 8 percent and service tax from 12 to 10 percent. *(TH, 20.02.10)*

Want to Call it a Day

The Ratan Tata-chaired Investment Commission has asked the government to wind up the entity instead of extending its term further. The commission, set up in December 2004 originally had a three-year term, but after a two-year extension its term officially ended on December 31, 2009.

Several recommendations of the Investment Commission could not be implemented in the first five years of the then government. The commission called for significant reforms across manufacturing, services, infrastructure and resource-based and knowledge-based sectors. *(FE, 10.01.10)*

User-friendly FDI Policy

The government intends to rationalise and simplify the foreign direct investment (FDI) policy and has taken a number of steps to make it easily comprehensible to foreign investors. For the first time, both ownership and control have been recognised as central to the FDI policy, and methodology for calculation of indirect foreign investment in Indian companies has been clearly defined.

A consistent policy on downstream investment has also been formulated. The government also intends to make the policy user-friendly by consolidating all prior regulations and guidelines into one comprehensive document. This would enhance clarity and predictability of the policy to foreign investors. The new policy will be unveiled on March 31, 2010.

(TH, 27.02.10)

NFP by April 2010

The much-awaited National Fibre Policy (NFP), aimed at restoring the competitiveness of the domestic textile industry, is set to come into being early in the next financial year, 2010-11. Union minister for textiles Dayanidhi Maran had earlier said NFP would help both exporters and the domestic market. The new policy is likely to benefit various sectors, such as cotton, cotton yarn and man-made fibres to garments, the spinning sector, exporters and domestic markets.

The need for such a policy was felt due to several industry lobbies with conflicting interests. In the Rs 1.8 lakh crore domestic market, over 60 percent is taken by cotton textiles and the rest by man-made fibres. Maran suggested exporters look beyond the US and European markets. "These two markets have a tendency of parallel movement, as they boom and fall together," he added. *(BS, 16.02.10)*

Best Laid Plans Go Awry

When L N Mittal voices his frustration at his inability to make any headway with his plans for investment in India, he speaks not only for himself but for the large body of potential investors, both domestic and foreign, who find their best investment decisions speedily come to naught. True, the best-laid plans of men and mice often do go awry anywhere, but nowhere do they go so awry with such unerring regularity and for the same reason as in India.

Domestic investors might still opt to stick it out but it is not so with overseas investors for whom India is just one among many competing avenues. And if, for whatever reasons, land acquisition or environmental clearance, they are forced to keep their plans on hold for an unconscionably long period, they will pack their bags and go. India desperately needs investment and thus there is a need to create an enabling environment, both soft — in terms of changed mindsets — and hard — land, clearances etc.

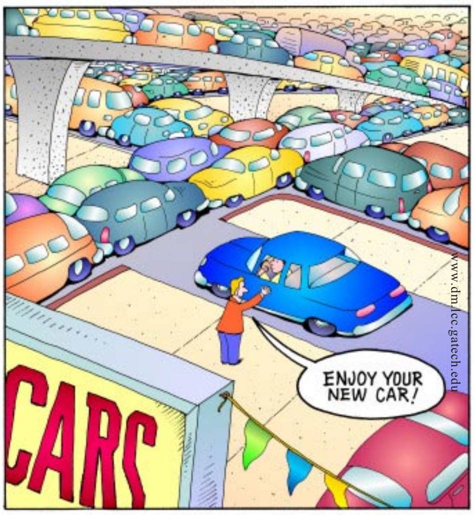
(ET, 09.01.10)

Choose your Future Today

– Sunita Narain*

A new decade. For me, three decades of work in the field of environment. I wonder: Have earth matters improved since the early 1980s, when I began? Or, are things worse off? Where do we go from here?

Two things are evident. First, there is no doubt that environment holds centre stage in the country. It is talked about extensively; considered in policy; frankly, nobody today would dare to say they aren't environment-friendly. Car companies sell their products for luxury and sustainability; real estate giants boast about rainwater harvesting systems; Bollywood stars dance their fondness for all things green. And governments say they want low-carbon economies for the future. Being green is the "in-thing".



Do we want to take the modern convenient bus or celebrate the new hybrid car? That's the choice

This is an achievement of three decades of environmental activism, but a key difference as well. In the early 1980s, there was some awareness about environmental issues, but these were thought fringe, marginal, seen at best as a fad of some lovers of bees and birds.

Second, in spite of this phenomenal growth in green consciousness, the real matter is going from bad to worse. Pollution in our rivers is worse today than what it was three decades ago. Garbage in cities is growing by the day, even as governments scramble to find ways of reducing plastic and hiding the rest in landfills in far-off places. Air pollution in cities is worse and toxins hurt our bodies, damaging our lungs. All in all, the report card is not good.

So, where do we go from here? As a society, we increasingly care about environmental issues but we are increasingly failing to manage the environment. We are failing in two ways here. One, in managing the ecological fallout of economic growth – pollution and toxification, which come from generating wealth. Two, how to use the wealth of the natural environment to build economic well-being, what I call the development challenge of environment.

This is really because we, as a society, have to now graduate to not just caring about environment but also doing something. Very difficult: The answers will not come easy or cheap. They will require a new understanding of the way we do things, tough policies which change the direction of growth and difficult choices we make in our personal lives. This is the crossroads.

These are the same choices the environmental movement of the rich countries asked their countries to make, some two generations ago. They failed. This is why the challenge of climate change remains a challenge. Today, these societies are rich; they have cleaned up their streams and their black smoke. But their economic growth and lifestyle are putting the entire world at risk and they have no real answers to the future because they want to keep tinkering with the present. They are looking to find small solutions to the massive problem of increased emissions, linked to growth.

The western environmental movement also has a history different to ours. It began after these societies had acquired wealth. So, the movement was a response to the garbage, the toxic air or the polluted water, resulting from the growth of their economies. They had the money to invest in cleaning and they did. But because they never looked for big solutions, they always stayed behind the problem – local air pollution is still a problem in most western cities, even if the air is not as black as ours. It is just that the toxin is smaller, more difficult to find or to smell. They keep spending – keep investing in technology to deal with the present. As such, the rich world's environmentalists are garbage managers, nothing more.

We want to emulate them, with much lesser resources and much more inequity and poverty. The fact is we cannot find answers in the same half solutions they invested in. This is the challenge of our next decade.

The next decade awaits us. Will we drown in our excreta and the spit of our cars and pretend that the problem has gone away? More talk, more conferences and more buzz about all things green? Or will we do things differently? For instance, take the modern, convenient bus, and not just celebrate the answer of the fuel-efficient or hybrid car? Find different answers. The choice is ours to learn and make. Only ours.

* *Director, Centre for Science and Environment, New Delhi. Abridged from an article that appeared in the Business Standard on January 15, 2010.*

Repute Claws

Companies not complying with the 'voluntary' guidelines relating to corporate governance laid down by the Ministry of Corporate Affairs (MCA) may soon have to offer explanations for the delay. Corporate Affairs Minister, Salman Khurshid told that even though the guidelines would continue to be voluntary, the government intends to ask the companies not complying for the reasons for their recalcitrance. The government's prodding, would force many companies to behave, as open non-compliance will affect their reputation.

The ministry's guidelines are over and above the ones stipulated by market regulator SEBI under Clause 49 of the listing agreement. Ideally, the guidelines should be made mandatory for companies to follow. The move would enhance the image of Brand India overseas and create more transparency in corporate governance. *(FE, 08.03.10)*

Babus Shielded

Concerns that "frivolous" complaints against secretary-rank bureaucrats at the Centre could end up harassing them have prompted the government to give them a second protective shield. The government has set up a screening committee under Cabinet Secretary to examine all charges levelled at secretaries to the central government to decide if allegations against them should be chucked into the dustbin or investigated.

Already, the government has tied the hands of Central Bureau of Investigation (CBI) making it mandatory for CBI to seek government's persmission before investigating or registering a case against an officer of Joint Secretary rank or above. *(HT, 21.02.10)*

Code of Conduct for Doctors

The Medical Council of India (MCI) has binged out an enforceable code of ethics for doctors. MCI finalised a code of conduct restraining doctors from being influenced by drug makers through gifts and other disguised bribes to bring down costs for patients. The code prohibits doctors from receiving gifts, travel facilities, hospitality, monetary grants, medical research, endorsements, etc.

MCI has suggested various degrees of punishments for doctors who accept gifts worth Rs1,000 from any pharmaceutical or allied healthcare company instead of a total ban. *(ET & TH, 19.02.10, 14.03.10)*

Separate Fund for CSR

The MCA has urged all companies to create a separate fund for their corporate social responsibility (CSR) activities. The recommendation is part of a set of voluntary guidelines for companies, which suggest that a specific amount should be set aside in the annual corporate budget that is linked to profit after tax or any other suitable metric or expressed in terms of the cost of planned CSR activities.

The guidelines say that the CSR policy should be governed by ethics, transparency and accountability and consider its impact on all stakeholders – shareholders, employees, customers, suppliers, project affected people and society at large. Under CSR, the ministry has directed all companies to provide a safe, hygienic and humane workplace environment to all employees. The policy should respect human rights, environment and aim at social and inclusive development. *(BS, 20.03.10)*

SIFO to Have More Teeth

The government has said it is not considering granting the Serious Fraud Investigation Office (SFIO) powers to trail money stashed abroad by corporates, as CBI and the Enforcement Directorate are already equipped for this job. SFIO is one of the agencies probing the multi-crore Satyam scam.

The government plans to give SFIO more teeth in the new Companies Bill to probe and prosecute entities involved in financial frauds, besides also probing cases related erring entities/individuals like chartered accountants and company secretaries. SFIO should be empowered to take up a case *suo moto* and even on a source-based information if a corporate fraud has been committed. *(ET, 08.02.10)*

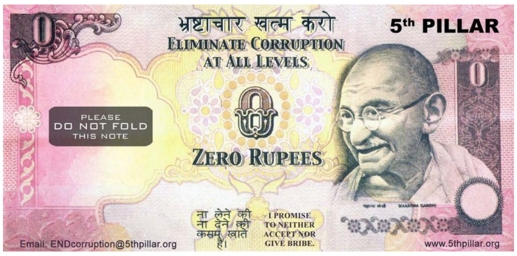
Good Governance Code

The decision to bring all the 246 listed and unlisted central public sector units (PSUs) under good governance codes will safeguard the interest of shareholders and ensure transparency in these companies' operations.

As per the norms, the number of functional directors should not exceed half of the board's strength and at least a third should be an independent director. The audit committee of these companies should have a minimum of three directors as members and an independent director should head the committee. The role of directors and auditors had come in for scrutiny after the unraveling of the multi-crore Satyam fraud in 2009. *(ET, 26.03.10)*

The Zero-rupee Note

An Indian lobby group has launched a novel anti-corruption tool – the zero-rupee note that can be handed over to any crooked bureaucrat who seeks a little extra payment. The protest note – literally worth only the paper it is printed on – is being promoted by 5th Pillar, a group that campaigns on behalf of ordinary Indians who are forced to grease the palms of millions of civil servants.



The bill, which like all Indian notes is graced with a picture of independence leader Mahatma Gandhi, carries 5th Pillar's email address and phone number and the solemn vow "I promise to neither accept nor give a bribe". *(BL, 11.02.10)*

Remember the Money does Not Belong to You

– Gurucharan Das*

At a lunch in Delhi, I was confronted by a woman in a pink sari who lectured me on the importance of CSR. No one came to my rescue for 10 minutes, and I began to fret. I wondered how to get away from her without causing offence. Then, I remembered an advice that in such situations a white lie was one's best ally. So, I glanced over my overbearing tormentor's shoulder as though someone had distracted me, and whispered loudly, "Coming, coming!" to the imaginary person. Then I lied brazenly to my oppressor, "Ah, what a pity, I am being dragged away," and I moved on, shaking my head reluctantly.

At first, I felt guilty for having lied, but soon I realised that I had done a good deed since by lying, I had saved my tormentor from the pain of learning that she was a bore. I am convinced that white lies are the basis of civilisation.

What troubles me, however, is the presumption of the woman in pink. I ask myself why no one lectures doctors, lawyers, or even journalists on their social responsibility. Why rage only on the social responsibility of business? Businesspersons are blamed for making us materialistic and consumerist, for promoting selfishness and greed. The market is reviled for debasing our taste through advertising, for making us buy things we do not need. Capitalism is denounced for alienating workers, for creating unjust inequalities, for corrupting the government and for ruining the environment. It is true that in India our animus against capitalism has diminished in recent years as our economy has risen and we have tasted the fruits of reform. The fall of communism has also helped. While people have begun to believe that markets deliver greater prosperity; they do not think that capitalism is a moral system. We still think that morality must somehow depend on religion. CSR is supposed to be the answer to alleviate the guilty conscience of businessmen for having made a profit. CSR has a nice ring to it and it has been a buzzword for over a decade. There are CSR departments in companies, CSR courses in business schools and CSR reporters in newspapers. And yet, why does something so worthy and high-minded leave me profoundly uneasy?

A company's social responsibility is to make profits legally, not to harm nature and uphold the highest standards of governance

The premise of the lady in pink is that that a firm is obligated to "give something back" to those that make its success possible. Her image of a firm is that of a free rider, unjustly enriching itself at the community's expense. Hence, good deeds are necessary to redeem firms. But why should firms be obliged to give something back when they give so much already? Rather than enslaving their employees, they pay them wages and benefits. Rather than stealing from customers, they deliver goods and services that people value and pay for. Rather than riding freely on public services, they pay taxes.

According to my friend, Parth Shah, the CSR movement is trying to get the market to perform the function of the civil society or the state. Society consists of the state, the market and civil society; and the individual is variously a citizen, a customer and a member of a community. It is often difficult to define the three domains separately.

"The social responsibility of business is to make a profit," said Milton Friedman, the Nobel Prize winner. He explained that in making a profit, a company creates thousands of jobs, both directly and indirectly through suppliers, distributors and retailers. It imparts valuable skills to its employees. It pays millions in taxes. It improves the lives of millions of satisfied customers with its products and services. This is an enormous service to society. If some shareholders get rich along the way, does it really matter? Companies should focus single-mindedly on their competence, provide better goods and services than their competitors and not get distracted by extraneous activity.

Individuals, however, should engage vigorously in philanthropy. It is immoral to spend the company's money but it is admirable to spend your own money on charity. It is a theft against Reliance's shareholders if the company embarks on building hospitals, but it is admirable if Mukesh Ambani does. Hence, Tatas do their charity work through their trusts. CSR should be re-labelled ISR, Individual Social Responsibility, and each of us, as individuals ought to feel the need to give back.

* *Former Chief Executive Officer, Procter & Gamble India. Abridged from an article that appeared in the Business Standard on February 06, 2010.*

Alarming Water Depletion

Indiscriminate exploitation of groundwater in India without looking into recharging options has led to its decline. The latest World Bank report entitled 'Deep Well and Prudence: Towards Pragmatic Action for Addressing Groundwater Overexploitation in India', suggest water pricing measures as "incentives" to conserve the natural resource.

The report was initiated with the objective of identifying practical and politically feasible strategies for managing groundwater use in the country. According to the report, groundwater resources are depleting at an alarming rate – "29 percent of groundwater blocks are semi-critical, critical or overexploited, and the situation is deteriorating rapidly".

The World Bank predicted that by the year 2025, an estimated 60 percent of India's groundwater blocks will be in a critical condition. *(ET, 06.03.10)*

India Enters League of Top-10

In its latest Yearbook of Industrial Statistics 2010, the Vienna-based UN body said in 2009 India overtook developed countries such as Canada and Mexico and emerging economies such as Brazil to move up to the ninth slot among the world's top-10 industrial countries. India has forged ahead three places from the 12th position it held in 2008. The top-10 in 2009 are the US, China, Japan, Germany, South Korea, France, Italy, the UK, India and Brazil.

The sectors in which India figures among the world top-10 include textiles, leather, leather products and footwear, coke, refined petroleum products, nuclear fuel, chemicals and chemical products, basic metals, electrical machinery and apparatus and other transport equipment, other than motor vehicles, trailers, semi-trailers.

(TH, 12.03.10)

BCI at Two-year-high

Business confidence in India continued to improve and touched a two-year high in January, according to the latest National Council of Applied Economic Research (NCAER) - MasterCard Worldwide Index of Business Confidence. The Business Confidence Index (BCI) rating of 153.8 points for January 2010, compared to the October 2009 rating of 143.7 points and July 2009 rating of 118.6 points, is also the highest rating since January 2008.

The survey measures business confidence on four indicators: Overall economic conditions expected after six months, expected financial position of the firm after six months, investment climate compared to six months back and capacity utilisation level.

(BS, 12.02.10)

Open, Competitive Arena

The Indian Council for Research on International Economic Relations (ICRIER), and Indicus Analytics released a report on issues of competition in mainframe and associated services in India. The report raised concerns over alleged attempts by IBM to "tighten its hold on the Indian market by under pricing its products, much lower than other markets".

"This, in essence, is a clear effort to monopolise the market", the report alleged. It added that high-end servers such as mainframes are crucial for India's IT needs for developmental programmes, and monopolistic practices of dominant enterprises in this sector were detrimental to growth.

(TH, 11.03.10)

124th in Economic Freedom

With an economic freedom score of 53.8, India has been rated the 124th freest economy in the world, according to the 16th annual Index of Economic Freedom. India is ranked 24th out of 41 countries in the Asia-Pacific region, and its overall score is below the world average of 59.4 on a scale of 100.

India continues to move forward with market-oriented economic reforms and has achieved average growth of about nine percent over the past five years, the report said. India's overly restrictive regulatory environment does not facilitate entrepreneurship or realisation of the economy's full potential, the report said. *(ET, 22.01.10)*

Who Do You Trust?

The March edition of Reader's Digest carries a survey, 'Who Do You Trust, India?' which ranks former President and scientist APJ Abdul Kalam as the most trustworthy person in a list of 100 people. Following Kalam are Ratan Tata, Kiran Bedi, NR Narayana Murthy; AR Rahman, Viswanathan Anand, Manmohan Singh, Sachin Tendulkar, RK Laxman and at 10th place are, Amartya Sen, Azim Premji and Madhavan Nair.

There were no surprises in the least trusted professions - these are the people India loves to hate: Politicians (ranked last at 40) with Advani at 94, Mamata Banerjee 96, Sharad Pawar at 97, Lalu Prasad at 99 and Mayawati at the bottom of the list. *(BL, 02.03.10)*

Revisiting the SEZ Act

Government should "revisit" its Special Economic Zone (SEZ) Act "comprehensively" and put a ban on transfer of common property and agricultural land for its implementation, a high-level panel has recommended in its report.

Committee on State Agrarian Relations and the Unfinished Task in Land Reforms has noted in its report that concerns of tribals and farmers remained "totally unattended" under the Act. Committee noted that the status of "deemed foreign territory" to SEZs stands to undermine the institutions set up under (Panchayats Act, 1996) as also the rights of the individual citizens.

SEZ have been given the status of industrial townships and the state governments would declare the SEZs as industrial township areas to function as self-governing, autonomous municipal bodies under the Act, according to the report. *(BS, 31.01.10)*

Triple Play

– Nirvikar Singh*

A few years ago, the Prime Minister had spoken of a new social contract. Now is the time to go for it

Last month's release of the report of the 13th Finance Commission (TFC), the Economic Survey of India and the Union Budget did not disappoint those looking for positive signals for the Indian economy. The three documents together display the impressive intellectual talent at work in economic policymaking.

The TFC report does not break major new ground, but is characterised by an elegance and simplicity of approach to the country's public finances that can only be good. The recommended increase in the states' share of the tax pool is justified in terms of the greater buoyancy of Central taxes. At the same time, both the Centre and the states are admonished to improve their finances: the states by borrowing less, and the Centre by managing its expenditure better – cutting subsidies, improving targeting and restructuring the numerous Centrally sponsored schemes. The movement to a goods and services tax (GST) is supported, and the recommendation is again geared towards simplicity, with a uniform rate, a clear split between the Centre and the states, and creation of a fund to get buy-in from the states for the transition. A clear new plan for fiscal consolidation is also laid out.

The Economic Survey presents a large quantity of information in an accessible format. The conceptual framework for the appropriate role of government is laid out first: The government is not too big, it is just spread too thin, trying to do too many things, and often doing the wrong things. The objective of inclusive growth is operationalised in a simple way, with respect to how much different income groups benefit from growth. Then examples are given of how to improve the efficiency and effectiveness of specific policies. A coupon scheme to provide subsidies is described, and why it will work better, from the point of view of normal human behaviour, is clearly explained. This is an important step forward in Indian policy documents, which often neglect the "incentive compatibility" of proposed policies. There is a proposal for improving the management of food buffer stocks, so that prices can actually be brought down by releasing stocks, something that did not happen initially in the battle against food inflation.

The Report suggests a balanced case for labour market reform, without polemics, and suggests a process of discussion that could lead to positive legislative changes. The report even ventures into issues of social norms and their impact on development, making the case for understanding the broader social dynamics of long-run change. The back-and-forth between abstract concepts, on the one hand, and concrete realities – from specific cases to aggregate facts and figures – on the other, makes this chapter a milestone in official documents on Indian economic policy.

The third leg of the triple play was the Union Budget. The Budget has a scope much broader and requires details much richer than either of the other two documents, but it also has a tone that emerges from the welter of individual proposals. This Budget clearly succeeded in achieving a complex balancing act between encouraging growth and working towards fiscal rectitude, while offering a number of possibilities for improvement, through changes in the tax code, regulatory reform and expenditure priorities. No budget is perfect, and no budget satisfies everyone. In this case, one might have wished for more emphasis on generating employment by encouraging small and medium enterprises and more incentives for private sector investment, but the finance minister may have done what he could, and there is the promise of more improvements to come.

Ultimately, the success of the Budget will boil down to expenditure implementation, and that will require absorbing some of the lessons and conceptual innovations outlined in the Economic Survey. On the revenue side, enormous progress has been made, leading now towards GST and a new direct tax code. For an "enabling" government to emerge, there will still need to be changes in the philosophy and implementation of spending, and of how to regulate the market and private sector organisations. The Budget is not necessarily the place to tackle that agenda. However, this agenda is now going to move forward, because the Economic Survey begins to show the way to changing the functioning of government without sidelining it, and without sacrificing the goal of inclusiveness while pursuing high growth.

* *Professor of Economics, University of California, Santa Cruz. The article appeared on www.livemint.com on March 07, 2010.*

No to Rural MBBS Course

The Indian Medical Association has come out strongly against MCI's proposal to start a rural MBBS course called Bachelor of Rural Medicine and Surgery (BRMS) in district hospitals soon. BRMS is aimed at solving the problem of shortage of doctors in rural areas and MCI proposes to encourage students from notified rural areas to take up BRMS course and then work in district hospitals and public health centres.

Services of these rural doctors will be limited only to district hospitals and primary health centres in their state. The proposal has several drawbacks such as why should the rural population be treated by doctors who are not trained equivalent to any allopathic doctor in the country? Also it is not possible to restrict doctors according to geographic area.

(TH, 08.01.10)

Look Who's Using RTI

When the Right to Information (RTI) Bill was passed, it was seen to be a tool that would allow private citizens to get information from a government that was reluctant to part with this. Ironic then, that one wing of the government should be using RTI applications to get information from the other.

Down to Earth

The PC, which works closely with various infrastructure ministries like the surface transport one, is finding it difficult to get information, so an official has put in an RTI application asking for information from the surface transport ministry. *(BS, 11.02.10)*

Colour Grading of Cities

Cities will now get graded on how well they handle their public health and sanitation. Cities will be colour graded on the sustainable handling of their waste, and the comparable data on different cities will be put in public domain by April-May, according to the Union Ministry of Urban Development.

Benchmarking would be based on cities' solid waste collection and disposal, storm-water management, prevalence of open defecation etc. Red grade of city (less than 33 marks) would indicate a public health and sanitation "emergency". As sanitation environment improves, grading will move to black, then blue and finally green, indicating a healthy and green city. A good grading is an endorsement that the city is doing well and its systems work, and it could work as an indicator for investors evaluating locations to set up businesses. *(TH, 02.03.10)*

Youngheaders Complain

Panabaka Lakshmi happens to be India's junior minister for textiles, and in the eight months since she was sworn in, the only work that has come her way was signing a single official file.

This and more of such occupational heartburn poured out when Lakshmi, along with her junior ministerial colleagues, met Prime Minister Manmohan Singh to air their grievances.

Minister of State for Commerce and Industry, Jyotiraditya Scindia also complained that junior ministers are not even told about routine media releases, making them look clueless in front of reporters. Most of the ministers who complained of being either under-employed or totally unemployed have their own party colleagues manning the senior positions in their respective ministries. *(ET, 20.01.10)*

GST Further Delayed

The proposed GST which is to replace most of the indirect taxes levied by the Centre and the states will not be introduced from April 01, 2010. A fresh date for its implementation is yet to be announced. The delay is due to the fact that the states failed to arrive at a consensus with regard to the structure of the new levy as well as the tax rates for the various commodities.

The GST is being launched to bring about uniformity in the indirect taxation structure throughout the country by doing away with Central levies such as excise duty and excise tax along with the value added tax (VAT) and octroi at the state level.

(TH, 30.01.10)

Repealing Outdated Laws

Under mounting public pressure to plug the glaring loopholes in the country's legal system, the government has decided to review outdated laws. The Law Ministry will examine such laws, particularly those affecting "individual rights", to avoid a repeat of cases like that of teenager Ruchika Girhotra.

The government faced two peculiar situations in 2009 due to the 150-year-old Indian Penal Code. On July 02, 2009 the Delhi High Court ruled sexual activity between consenting adults of the same sex in private was not a crime. The court partially read down Section 377 of the IPC, which dealt with the offence. Public outcry in the Ruchika case forced the government to announce a series of concrete steps. *(HT, 02.01.10)*

Uniform Tax on Vehicles

Centre plans to invoke a constitutional provision to end the wide disparity and diversity of motor vehicle taxes across the states. The idea is to ensure that sundry taxes and levies on vehicles, including excise duty, road tax, registration charges and toll tax for plying on specified roads, are rationalised and made uniform across the country.

Currently, state-level taxes on vehicles vary widely not in terms of rates but also in their application. Although the Centre has been insisting on certain uniformity in motor vehicle taxes, the states have mostly ignored it, in the absence of a legal provision. Making vehicle taxes uniform would go a long way in ensuring seamless travel and would boost the economy. *(TH, 28.02.10)*

The Republic of Corruption

– Ramesh Ramanathan*

Most times I read a piece about corruption, I have what I suspect is a fairly common reaction – "Not another moralising piece!" And so, a promise – this piece on corruption won't preach. We can safely declare that while we may not have achieved universal education in India, we have succeeded in universalising corruption. Consider the list of corruption-infested activities:

Birth certificates, building licences, ration cards, medical supplies, primary school admissions, examination papers, police station postings, mining permits, master planning, defence contracts, court pronouncements, environmental clearances, NGO funding, corporate balance sheets, auditor statements, bank loan sanctions, burial grounds, petrol pump licences, natural gas concessions, power plants, water supply distribution, affordable housing allotments, parking violations, speeding violations, treating accident victims, telecom tariffs, dairy cooperatives, microfinance, garbage contracts, highway contracts, auto-rickshaw meters, bus tickets, press coverage, beggars, hawker zones, NREGA payments, JNNURM contracts, army uniform supplies, temple priests, church conversions, *mullah* edicts, sales tax offices, small-scale industry licences, political parties, governors' offices, intelligence bureau, Border Security Force, train reservations, cricket boards, censor board, Olympic committee, forest preservation, backward class reservation, college admissions, *panchayat* presidents, municipal mayors, movie-making, tiger protection, aircraft purchases, RTI offices, rape victim depositions, hit-and-run cases, disabilities Act implementation, foster homes, adoption agencies, fertiliser subsidies, land use conversions, Ganapati festivals, factory emissions, labour unions, employment exchanges, student hostels, passport offices, drivers' licences, excise duties, tourist visas, pilgrimage spots, death certificates...

From birth to death, we are now immersed in corruption. Try and think of one public activity that is completely free, from corruption. If there is a common thread that binds us together as Indians, it is corruption. One massive national endeavour in which each of us is an active agent – either as perpetrator or as victim or as beneficiary. The specific role we play changes – just as *Vishnu* takes different *avatars*, we assume different garbs depending on the situation: often victim, sometimes beneficiary, and not infrequently perpetrator. It's got so pervasive that there is an almost ubiquitous corruption-level guessing game going on in everyone's minds, be it in government, in the private sector or NGOs: "I heard that so-and-so is corrupt, that is how they can afford all those new gadgets, and the fancy holidays they take."

We need a combination of credible systems and collective leadership to catalyse a virtuous cycle of change

www.images.com

Gone are the days of "innocent until proven guilty"; today the mantra is "corrupt until proven honest". Unfortunately, honesty is like scientific theory – it can never be proved, only disproved. And so, the honest folk who resist are fighting a constant uphill battle – pretty soon, the corrosive effect of corruption seeps in to erode almost everyone's defence – built on a varying mix of ethics, fear and fading hope in a day of comeuppance.

We find ourselves so neck-deep in the swamp that we don't even sense the stink any more. In fact, we have constructed twisted arguments to condone corruption, including the ingenious one which says that all the corruption-driven money eventually comes back into the economy, so it's okay – that in fact it was India's large grey market that helped cushion the impact of the global economic crisis in 2009.

When a phenomenon is so pervasive that it engulfs an entire society, we cannot get out of the mess by pretending that some are superior to others, or with lectures that lament a bygone ethical way of life – it only puts everyone off, especially the youth. And, for all its punchy impact, Rajkumar Hirani's movie on *Gandhigiri* was never really going to work in real life. This is a problem where isolated individual action isn't enough – we need something more, much bigger, a combination of credible systems and collective leadership – to catalyse a virtuous cycle of change. Unfortunately, it's not clear where the flywheel for this change will come from.

For all the gloom, it's also true that we have the capacity in our country to harness a collective energy, rise above our circumstances, and undertake massive transformation. We've done it before – what better reminder than 26 January? Maybe that was a unique event, and we can never have an encore. Or, perhaps, we could do it again. Happy 60th anniversary for the Republic. In hope.

* *Co-founder, Janaagraha. Abridged from an article that appeared on www.livemint.com on January 27, 2010.*

Bill on Cards for Easier Land Acquisition

The government plans to introduce a bill in the forthcoming budget session to amend the land acquisition policy so as to make it easy for companies to acquire lands for their projects, said the minister for heavy industries Vilasrao Deshmukh.

Land acquisition has become an issue in India and may create more problems as the governments at central and state level are different. The new policies are aimed at giving a compensation, which will be determined by the market price, to the farmers instead of the government deciding the package.

Projects of foreign as well as domestic companies planned in India get delayed over land acquisition, often due to issues such as compensation to people displaced from the acquired land as well as environmental clearances. *(ET, 20.02.10)*

Right to Free Education

The Centre informed the Supreme Court that the Right to Free and Compulsory Education Act to provide free and compulsory education to children in the age group of 6 to 14 will be enforced in April/May 2010 after the rules were put in place. If the law is implemented with full vigour, children engaged in labour would be in school and not in work place.

The Solicitor-General said that after the *Sarva Siksha Abhiyan* was launched, the dropout of girls from the schools come down to 11.36 from 13.57 percent. The Chief Justice of India said that, "there is some improvement but not to the full extent in some of the States. Child labour can be completely wiped out if the law is fully implemented". *(TH, 07.01.10)*

Law for Fradulent Institutes

The Union Cabinet cleared the Prohibition of Unfair Practices in Technical, Medical Educational Institutions and Universities Bill, 2010. The Bill recommends a maximum of three years imprisonment and a fine of Rs 50 lakh for charging capitation fee and putting out misleading advertisements or wilfully giving wrong information in the prospectus. All other offences are non-cognisable and will be tried by the educational tribunals to be set up for the purpose.

The Ministry had been concerned over some technical and medical institutes and universities resorting to unfair practices such as demanding donations, not issuing receipts in respect of payments made by or on behalf of students, admission to professional programmes of study through non-transparent and questionable processes, low-quality delivery of education services not in keeping with promises made etc. *(TH, 20.03.10)*

Model Bill on Groundwater

The Ministry of Water Resources had drafted the 'Model Bill to Regulate and Control the Development of Groundwater' and circulated it to states in 1970. It was re-circulated in 1992, 1996 and 2005 to the states and union territories to enable them to enact suitable legislation on the lines of Model Bill. 11 states and union territories have enacted and implemented the legislation, while 18 others are in the process of enacting the legislation, while six states have rejected it.

The bill proposes setting up of a Groundwater Authority in every state and Union Territory. The Authority will have powers to enter any government or private property and survey wells and groundwater resources. People using groundwater, including wells, will have to seek its permission so that water resources are not exploited. *(BL, 09.02.10)*

Food for All

The draft Food Security Bill has returned to the negotiating table of the Empowered Group of Ministers. The programme seeks to provide 25 kgs of rice or wheat at Rs 3 per kg every month to all the families living below the poverty line, is expected to cost the government Rs 62,000 crores every year, which is equal to the food subsidy burden borne by the Centre.

While the Bill is expected to translate into reality UPA's "food-for-all" commitment, there is no unanimity on the number of people who are to be covered by the scheme. The bill has also sought to explore the possibility of including other vulnerable sections, including children under the age of five, people carrying the HIV positive virus and other such groups among its beneficiaries. *(ET, 12.02.10)*

New Emigration Law in Offing

Seeking to prevent exploitation of Indian workers abroad, the government is planning to make it mandatory for foreign employers from certain countries to register in India under a new Emigration Law. The Emigration Bill that will replace the legislation of 1983 is expected to be introduced in the Parliament during the ongoing Budget session.

Under the new law, an Immigration Authority would be set up to oversee all the aspects related to movement of workers, mainly to 18 Gulf countries and Malaysia. The draft bill has been sent to various ministries for their comments. *(BS, 14.11.10)*

Bill on Dam Safety

With several dams across the country being nearly half-a-century old, the Centre has planned a legislation for their safety. The proposed bill on safety of large dams is likely to be introduced in the budget session. He said while some states like Bihar have their own dam safety laws, West Bengal and Andhra Pradesh have authorised Parliament to enact a law in this regard.

Under the new bill, a Dam Safety Cell will be set up at the project level, while a Dam Safety Organisation will be constituted at the state level. Another similar organisation will be established at the level of the owner of the dam. *(HT, 21.02.10)*

Liberalising M&A Norms

India is looking to recast provisions relating to mergers and acquisitions (M&As) that require ratification by the Competition Commission of India (CCI). Currently, under the Competition Act, any M&A that results in combined revenue above certain thresholds must first be cleared by CCI, a unit of the MCA. The ministry also must first notify regulations regarding M&As before referring them to CCI.

Firms and conglomerates will have to approach CCI for approval if the combined revenues of the Indian operations of the acquirer and the acquired are at least Rs 1,500 crore, with the smaller operation having at least Rs 600 crore in revenue. The new provisions will be industry friendly, said CCI Chairman, Dhanendra Kumar.

(www.livemint.com, 22.02.10)

Notices to DTH Operators

CCI may soon issue show-cause notices to leading Direct-to-Home (DTH) operators like Tata Sky, Reliance Big TV and ZEE's Dish TV for abusing their dominant market position and not allowing users to change the operator. DTH operators have been found guilty of violating Sections 3 and 4 of the CCI Act, for which action will be taken against them and they could be penalised to the maximum of 10 percent of the average turnover of the preceding three financial years.

It was also found that DTH operators are not following guidelines issued by TRAI according to which subscribers should be able to rent, hire or buy Set Top Boxes (STBs). The practice of not allowing interoperability of STBs is anti-competitive and against the interest of consumers. *(ET, 17.01.10)*

Belling the CAT

The move to set up an appellate tribunal against decisions passed by the CCI is already backfiring. The Commission plans to move the Supreme Court against the Competition Appellate Tribunal (CAT), alleging it has overstepped its brief.

The CCI, set up by the government to break monopoly and unfair trade practices, is upset over a stay order imposed by CAT, a quasi-judicial body. In a recent order, the Tribunal had asked for halting investigations by the Commission into an alleged "cartel-like arrangement" between Steel Authority of India Ltd. (SAIL) and the Indian Railways. CCI is upset as it believes the Competition Act clearly states CAT can only hear cases after these have been settled. Only final orders passed by the Commission can be appealed against in the CAT. This is also the rule for all sectors with government regulators.

`(FE, 04.03.10)

Pre-payment Penalty

Competition watchdog CCI has asked about two dozen banks and housing finance companies, including State Bank of India (SBI), Housing Development Finance Corporation (HDFC), Industrial Credit and Investment Corporation of India (ICICI) Bank and Life Insurance Housing Finance (LICHF), to explain their move of imposing penalty on borrowers for pre-payment of home loans.

The Commission has sent notices to major home loan players after examining evidences against banks, which also include public sector lenders Punjab National Bank and Bank of Baroda, for misusing their dominant position and entering into anti-competitive agreements.

The Reserve Bank has also been sensitised on how the practice of charging pre-payment penalty is hurting consumers. It was also said that lenders could be penalised for adopting such practices to discourage customers from pre-paying home loans or the practice could be banned. *(BS, 20.01.10)*

Easier M&As in Banking Sector

Corporate Affairs Minister Salman Khurshid said the CCI can perhaps make M&As of banks easier and asserted that it is wrong to say the anti-monopoly watchdog will not understand the objectives of consolidation in the sector.

The Reserve Bank has reportedly written to the Finance Ministry asking that the banking sector, including M&As of banks, should be kept out of the purview of the Competition Act, 2002.

Khurshid said the Ministry has got feelers from the banking sector that amalgamations should be kept out of CCI's purview. "Although we are studying all possibilities, it is not right to say that the CCI will not understand bank consolidations. The government, however, is yet to notify Sections 5 and 6 of the CCI Act, which will empower the Commission to vet M&As.

(BS, 04.02.10)

CCI: The Game Changer

– Arvind Panagariya*

CCI can potentially play a role in promoting efficiency and consumer welfare relate to anti-competitive practices of the government.

Recently, when a customer petitioned the CCI to intervene on his behalf against prepayment penalty on a loan imposed by his creditor bank, said a senior RBI official was quick to tell, "we will direct banks to do away with the prepayment penalty in case of loans disbursed in future".

For years, customers had complained to the RBI about excessive prepayment penalties ranging from 1-4 percent of the loan value but without notice. The game changer this time around was the pending petition by the customer to the CCI. The commission, which began its full operations in April 2009, is required by the Competition (Amendment) Act, 2007 to protect the interests of consumers against anti-competitive practices of all market entities.

Because a prepayment penalty works as a barrier against refinancing of an existing loan at a lower interest rate offered by another bank, it has a good chance of being ruled as anti-competitive. The RBI, which has had the exclusive sway over all bank regulation till now, perhaps feared the entry of CCI as a competing regulatory agency and wanted to pre-empt it by announcing its intention to end prepayment penalties.

The Competition Act gives CCI wide powers to enforce efficiency and competition. Its jurisdiction extends to the entire economy including sectors such as banking, capital markets, insurance, telecommunications, roads and ports that already have sector-specific regulatory agencies. If CCI acts wisely and the government allows it the independence it must have to achieve the objectives laid out for it in the Competition Act, it can turn into the most important instrument of promoting efficiency and consumer welfare.

No doubt, the existing sector-specific regulators will view the entry of the CCI as an assault on their turf. They will likely lobby the government to deny the CCI jurisdiction over their sectors arguing that multiple regulatory agencies would only create confusion. Despite some truth in this argument, the government must deny such demands. In sectors with large public sector players such as banking, insurance, stock exchange and telecommunications, the problem may be especially acute since the sector-specific regulator may have an incentive to protect the profitability of public sector operators at the expense of the consumer.

The greatest challenge CCI will face in promoting efficiency and consumer welfare will come from the existing government agencies and policies. For example, in the market for goods that are internationally traded, market power is difficult to exercise even when the number of firms operating in the domestic market is small. The availability of imports at competitive prices is often sufficient to restrain the market power of the firms.

A common failure of this mechanism results from anti-dumping actions of the government that force the most effective foreign competitors out of the market. In this case, the CCI has the unenviable task of taking on to the anti-dumping authority, which routinely ignores the interests of the consumer in favour of domestic producers.

Another major exception in the goods market arises in agriculture. Once again, the key source of the problem originates in the government: the monopoly of agricultural produce marketing committees on the purchases of certain products from farmers and their sales to retailers shortchanges the farmers, retailers and the final consumer. The CCI has a clear role to play here in opening the door to competing private agents to whom farmers can sell their produce and from whom consumers can directly buy it.

Procurement by government agencies lacks transparency resulting in excessive prices paid to suppliers. This hurts the taxpayer. State governments provide electricity free of charge to farmers, at prices below unit cost to households and at above-cost prices to the industry. This is an anti-competitive practice that shortchanges the industry and the taxpayer who must bear the burden of the implied subsidy.

In principle, these are all cases in which the damaged parties should be able to petition to the CCI. But it is unlikely the government will allow it to admit such petitions. Even so, it can play an important advocacy role explicitly assigned to it by the Competition Act and sensitise the government to the acute need for policy reforms to correct these problems. It is altogether possible that where the rants of economists and journalists have failed to attract the government's attention, criticisms by the CCI would succeed.

* *Professor, Columbia University and Non-resident Senior Fellow at Brookings Institution. Abridged from an article that appeared in The Economic Times, on January 26, 2010.*

Regulatory Failure in Financial Sector

– C Rangarajan*

It is widely recognised that financial intermediation is essential to the promotion of both extensive and intensive growth. Efficient intermediation of funds from savers to users enables the productive application of available resources. Greater the efficiency of the financial system in such resource generation and allocation, higher is its likely contribution to economic growth.

What stands out glaringly in the current international financial crisis is regulatory failure. The failure was two-fold. First, some parts of the financial system were either loosely regulated or were not regulated at all, a factor which led to "regulatory arbitrage" with funds moving more towards the unregulated segments. Examples of "soft-touch" regulation are investment banks, hedge funds and rating agencies. Second, there was imperfect understanding of the implications of various derivative products. Quite clearly, there was a mismatch between financial innovation and the ability of the regulators to monitor them.

It is ironic that such a regulatory failure should have occurred at a time when intense discussions were being held to put in place a sound regulatory framework. There is a degree of consensus on how the regulatory framework should be re-shaped. Some of the key elements that should be integral to a reformed regulatory structure are:

1. The regulatory framework should cover all segments of the financial markets. The rigour of regulation must be uniform among all segments to avoid "regulatory arbitrage".
2. Systemically-important financial institutions should receive special attention. Apart from additional regulatory obligations, such institutions may be required to conform to stricter and enhanced prudential norms. Large institutions having operations across countries may require coordinated oversight of regulators of different jurisdictions.
3. Institutions may be required to set up buffers in good times to be drawn down in bad times. This may entail varying capital adequacy and provisioning requirements according to the phase of the business cycle. They may be allowed to rise and fall with the business cycle.
4. Excessive leverage in banks may be contained through additional supplements to the risk-based capital ratio.

Most countries are convinced that the reform of the regulatory structure along these lines is very much needed. However, there is no consensus on whether the financial system should have a single regulator or multiple regulators. The recent experience does not provide an unique answer.

Too little regulation may encourage financial instability, but too much of it can impede financial innovations which are badly needed

A question that is being asked increasingly is whether the financial sector today is inherently more volatile and vulnerable than before. The very factors that have contributed to the growth of the financial sector may well have contributed to increase fragility.

It has been argued that much of the recent innovation in the financial system has sought to increase the short-term profitability of the financial sector rather than to increase the ability of financial markets to better perform their essential functions of managing risks and allocating capital. In addition, it has been pointed out that some of these innovations have engendered financial instability. It would be inappropriate to classify all or even most of the financial innovations introduced in the last few decades as socially useless. Many of the financial products satisfy a felt need.

We are living in a world of uncertainty. Customers need to protect themselves from the volatility in exchange rates and interest rates. Appropriate hedging mechanisms are, therefore, needed. It is the function of an efficiently organised financial system to provide these instruments. It is wrong to argue that the economic growth seen by the industrially-advanced countries in the recent period, particularly in the last decade-and-a-half, has not been helped by the improvements in the financial markets. But excesses in any field have their own dangers.

There is no argument that the regulatory regime needs to be restructured to make the banking system sounder. But to set the face against financial innovations is not a wise policy. In developing economies like India, the financial system must be able to meet the diversified needs of a growing economy. Hence, we must actually encourage financial innovations. We need to draw appropriate lessons from the current international financial crisis. The policy-makers must strike an appropriate balance between the need for financial innovations and the need for regulation to ensure stability.

* *Chairman, Prime Minister's Economic Advisory Council. Abridged from an article that appeared in the Business Standard, on February 09, 2010.*

An Opportunity Lost?

– Rajiv Kumar*

The budget season in India, with its unique hoopla and hype, is over. One of the last substantive events on the Budget was a recent seminar, bringing together heads of the five leading Delhi-based think tanks to comment on the Budget's impact on the country's economic and political prospects. While the seminar's quality this year was unquestionably internationally comparable, there was, unlike in previous years, a lack of unanimity among the panellists on the quality of the Budget.

The Budget drew acclaim for showing the government's commitment to fiscal rectitude and for making subsidies more transparent by not treating them as off-budget items in future. Several other features were favourably commented on, including its ambitious target for disinvestment; special allocation for raising agriculture yields in eastern states and for pulses; and the resolve to cut petroleum subsidies by allocating just Rs 3,100 crore for the full year, portending another price rise in the near future. Raising the limits for personal income tax and broadening the slabs drew a mixed response.

In my presentation, I made clear my disappointment with the Budget, principally because I see this as a lost opportunity for pushing forward the agenda of much-needed structural reforms. The finance minister in his speech was categorical that the budget is not merely a statement of government accounts, and should contain a vision. But he fell short of his own benchmark. Given the absence of any political constraints, external to his own party, the Budget could have included measures to attract bigger volumes of private investment to make up for the inevitable tapering off of the fiscal expansion. This is sadly missing.

There is practically no measure with far-reaching or game-changing qualities in this Budget

There is today practically a void in terms of strategic planning and long-term policy thinking within the ministries. The Prime Minister's office has also consciously given up this role; the best bet is that it is housed in the cabinet secretary's office. But undertaking reforms requires bold forward thinking that is the realm of the political process, with bureaucracy ensuring its implementation. Perhaps the Planning Commission, when it emerges in its proposed *avatar* of the government's chief economic policy think tank, will perform that role. For now, however, it must be played by the finance ministry which, because of its official mandate, is privy to and involved in all major decisions in any part of the government.

Moreover, its function as guardian of the country's financial and economic health is affected by what other ministries or departments do. Therefore, the budget could become the occasion for marshalling reform proposals from all the line ministries, examining their financial and economic implications, and then including at least an outline of the proposed reform in the budget. This ensures that line ministries have a target and timeline to achieve, and the proposals also go through the needed parliamentary review. This was done during the early 1990s, and there is no reason for not adopting this modality, quite suited to our political and governance realities.

This Budget seems to have given up on the move towards an outcome or performance based budget, which was initiated by the previous United Progressive Alliance government. Surely, that is the way forward to achieve higher expenditure efficiency. And this Budget seems to have regressed rather than moved towards a relatively more unified structure of taxation to pave the way for the goods and services tax.

I have been a bit surprised by the capital market response, due, it seems, to the Budget being on expected lines. The rising yields on government securities, however, show that bond markets have not accepted at face value the government's commitment to bring down the level of borrowing. This will result in losses for banks and other financial players and also exert upward pressure on interest rates. This may dampen the investment demand at a time when firms are looking to expand capacity and build inventories.

Hopefully, our entrepreneurs' animal spirits, buoyed by rising demand from higher disposable income, thanks to the income-tax concessions, will be strong enough to take the coming interest rate hike in its stride. It would be a pity if higher capital cost and governance glitches nipped the investment boom in the bud. That is the only way to achieve the required growth rate.

* *Director and Chief Executive, Indian Council for Research on International Economic Relations. Abridged from an article that appeared on www.livemint.com on March 10, 2010.*

A tough Job Well Done

– TCA Srinivasa-Raghavan*

The strategy has been to tax a few big items on the indirect taxes side – like the imposition of the service tax on the Railways, the Customs duty increase on crude oil and its products, etc – and compensate for it by putting more money in the hands of the people

The Budget for 2010-11 is one of the best seen in recent years. It was prepared in uncertain times and with three main macroeconomic objectives in mind. One was to bring down the fiscal deficit by a large margin, which has been done. The deficit for 2010-11 is only 5.5 percent which is consistent with the deficit level for the last two decades. It is, if you will, the 'normal' level for India. There is probably no need to go down very much further, especially since the 'crowding' out theory now stands discredited.

This theory was that if the government ran high deficits and financed them by borrowing more, the cost of private borrowing increased, thus 'crowding out' the private sector. But that clearly cannot be the case when there is so much liquidity in the world, some of which is coming India's way. The second objective was to keep the nascent growth momentum going. This has also been done because of the increased spending on infrastructure – 46 percent of Plan expenditure.

This will ensure increased demand for cement, steel etc. Even in the social sector, all sorts of building projects are envisaged. And the third objective was to keep borrowing down. This has been done by borrowing around Rs 1 lakh crore less in 2010-11 than in 2009-10. This is largely because there is no farm loan waiver (about Rs 60,000 crore) and no Pay Commission (about Rs 45,000 crore). So, not surprisingly, since all three key objectives have been met, the stock market has reacted positively. It went up after the Budget for the first time in several years. Usually, it dips.

The rationale for raising the excise rates is also that the Government wants to reduce the gap between the excise duty rates and the GST which is likely come into being on April 01, 2011. The likely Central GST rate is around 14 percent. A sudden jump from 8 to 14 would have been too large. Hence a gradual increase has been preferred. On the revenue side, the bad news of the higher excise duties has been offset by the good news on the disinvestment side. The Government hopes to garner around Rs 40,000 crore from the sale of PSU stock.

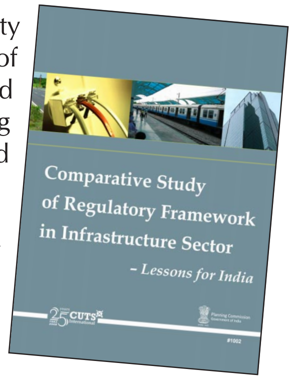
But the really good news for the taxpayer has come from the changes in the tax slabs. Everyone will have more to spend as a result of these changes. For example, those who earn Rs 5 lakh per year will have about Rs 2,500 more per month to spend as they will pay lower taxes now. And those who earn Rs 8 lakh will have as much Rs 4,000 more to spend. In short, this increased spending power will also offset the dampening effect of higher taxes along with the higher spending on infrastructure. Will the Budget be inflationary? To the extent that any increase in the overall level of taxation is inflationary, yes. The increase in excise duties from 8-10 percent for almost 90 percent of the dutiable products will exert upward pressure on manufactured products, as will the increase in Customs duty on petroleum products and crude oil. But inflation on these items has been low, so it was risk worth taking.

Also, it is worth pointing out that if the higher taxes are passed on by the oil companies, it will lead to the same outcome as what the Parikh Committee had wanted: An increase of about Rs 2.50-3.00 per litre for petrol and of about Rs 2.50 for diesel. The issue of total decontrol can wait. All in all, the strategy has been to tax a few big items on the indirect taxes side – like the imposition of the service tax on the Railways, the Customs duty increase on crude oil and its products, etc – and compensate for it by putting more money in the hands of the people by reducing personal and corporate taxes. It should work as long as there is surplus capacity and investment keeps growing. Hopefully, the monsoon will be normal this year. It is the one thing that could upset the fine balancing act that the Finance Minister has performed.

* *Associate Editor, The Hindu Business Line. Abridged from article that appeared in The Hindu Business Line, on February 27, 2010.*

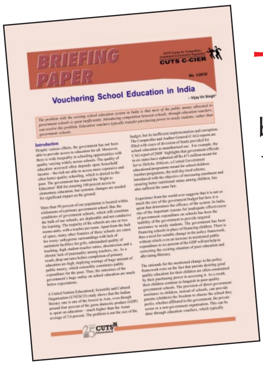
PUBLICATIONS

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



For the Indian economy to achieve and sustain a high growth rate, creation of quality infrastructure is critical. It is estimated that India needs more than a trillion dollars of investment in infrastructure. This Report focuses on how such a regime can be developed by studying international experience in infrastructure regulation. It assumes, as its operating premise, the need for a regulatory framework to be transparent, consistent, effective and independent of the government.

The report analyses and compares the institutional and governance aspects of regulatory frameworks in seven countries: Australia, Brazil, Canada, Philippines, South Africa, Sri Lanka and the UK. On the basis of this comparison, lessons are identified for India.



Vouchering School Education in India

The problem with the existing school education system in India is that most of the public money allocated to government schools is spent inefficiently. Introducing competition between schools, through education vouchers, can resolve this problem. Education vouchers typically transfer purchasing power to needy students, rather than government schools.

This briefing paper lays emphasis on vouchers which enhance choice for students constrained by the ability of their parents to pay for school education. This results in both an increase in the average quality of education as well as equity.

This briefing paper can be viewed at:
http://www.cuts-ccier.org/pdf/Briefing_Paper10-Vouchering_School_Education_in_India.pdf

ReguLetter

The January-March 2010 issue of newsletter, 'ReguLetter' encapsulates 'Rookies in the Competition Circuit...best among equals' in its cover story, which presents an analysis that in the case of 'young' competition agencies from Pakistan, Mauritius and Egypt strong leadership at the top has facilitated their emergence as confident and intrepid institutions, which are not perturbed by negative forces acting against them.

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

A special article by Timothy Wise takes a close look at the contribution of commodity buyers, food processors, and retailers to the food insecurity now plaguing over one billion people in the world. Another special article by Micheal Gawaseb says that Namibia seemingly is among such countries that prioritise consumer protection, judging by plans for 2010.

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

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

SOURCES

BL: The Hindu Business Line, **BS:** Business Standard, **ET:** The Economic Times, **FE:** The Financial Express, **HT:** Hindustan Times, **ILO:** International Law Office, **TH:** The Hindu, **ToI:** Times of India

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