PolicyWatch

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

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HIGHLIGHTS

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

Corporate Governance Cries out for Reforms

I made a mistake. I cheated everyone. I am a fraud but I'll be hiring 25 lawyers to defend myself in the court.

As the country recovers from the jolt received from the Satyam scandal it is important that India Inc. learns its lessons well. A fall in ratings might permanently queer the pitch for high economic growth.

Swift disciplinary action by government institutions and regulators has followed the scandal, sending the right signals to the rest of the world. However, the initiated investigations have to be taken to their correct and logical conclusion. With class action suits lodged against Satyam in the US, it is important for punishment at the national level to match that by international regulators in both severity and swiftness.

Other wrongdoers – the company's complacent and inactive directors and the auditors who have allowed a financial scam of such gargantuan proportions to take place for years – too should not go scot-free

Ominously, the SEBI chairman has cautioned about the probable opening of a Pandora's box. The tightening of liquidity caused by the financial meltdown might expose the creative accounting efforts of many other firms as these might find themselves scraping the bottom of the barrel.

In other words, the financial meltdown and the resulting recession might expose the mismatch between actual and reported cash reserves of dishonest firms: companies that are reported as being healthy on paper might be suddenly hard put to meet operational expenses. This can only be attributed to either a cooking of accounts or a siphoning of company cash, both major offences. Pro-active swift interventions by the government to nab likely financial offenders are necessary to retain the confidence of national and international investors.

But, as always, prevention is better than cure. Stricter corporate norms and more pro-active financial regulation are needed. Norms pertaining to appointment of directors need to be revised to rule out a stake in profits. Additionally, there should be more provisions for disciplinary action against dishonest/irresponsible auditing.

At the same time the right balance needs to be maintained in investigation and criticism as fulfillment of moral responsibilities is as important as that of legal responsibilities. The media should play its part in a responsible and constructive manner. Initial reactions have not been encouraging as a section has indulged in sensationalism by predicting the downfall of Indian IT sector / India Inc. because of a loss of reputation.

As N R Narayana Murthy has rightly observed, Satyam is an isolated case and does not represent India. This is the message that should be conveyed loud and clear. The pride of corporate India has taken a serious blow, and the onus is on all of us to help salvage it.

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Spectrum Allocation Row Has Cost India Rs 80,000 crore

– **Paranjoy Guha Thakurta***

It is the biggest scam in the history of Independent India. The perpetrator of the scam, Union Minister for Telecommunications and Information Technology A Raja is trying to brazen it out protesting his innocence. He says he has played by the rule book and that the Cabinet and the Ministry of Finance have approved his decisions. His mentor, DMK supremo M Karunanidhi, claims he is being victimised because he is a Dalit. But facts tell a diametrically different story....


The Hindu Business Line

The exchequer has lost roughly Rs 80,000 crore because of the flawed manner in which electro-magnetic spectrum, used for mobile telecommunications has been allotted. Spectrum is a scarce national resource. The government is supposed to act as a custodian of the people. But the manner, in which a clutch of private companies have gained, at the expense of the country, is nothing short of scandalous. These acts of crony capitalism comprise the underbelly of the telecom revolution that has swept India in recent years.

Two recent transactions, the first involving Swan Telecom (earlier associated with the Reliance Anil Dhirubhai Ambani Group) and Emirates Telecommunications Corporation (Etilasat), the main telecom operator in the UAE, and the other between a division of Unitech Ltd, United Wireless, and Telenor (of Norway), confirm the view that the nation lost no less than Rs 60,000 crore because of the methodology that was adopted by the Department of Telecommunications (DoT) while allotting spectrum.

If one adds to this figure the amount lost due to excess spectrum being allotted to existing telecom operators like Bharti, Vodafone and Idea — the same so-called cartel that A Raja alleges has been working against him without naming them — besides Reliance Communications (RComm) and Tata Teleservices, the total loss figure would rise by roughly Rs 20,000 crore. In other words, the scam is in the region of Rs 80,000 crore or more than what the Central government spends in a year on healthcare.

A Raja has steadfastly refused to allot spectrum through an open public auction and instead chose the first-come-first-served (FCFS) route that was not merely opaque but also discriminatory. Thus, second generation (2G) spectrum for all-India mobile telephony was allotted to individual private companies, for Rs 1,651 crore each (this price was determined seven years earlier) against a current market price that was at least six times higher.

On October 19, 2007, the DoT had changed its policy by issuing a press note. The same evening, RComm was conferred the status of a general system of mobile communications (GSM) licencee by virtue of the original licence it had been holding. The company had earlier been primarily using the competing code division multiple access (CDMA) technology.

RComm was able to jump the queue ahead of 46 corporate entities/groups that had placed 575 applications with the DoT, none of which had at that time received letters of intent despite the fact that some (such as ByCell, Idea and Spice) had been waiting for over a year-and-a-half. After RComm, Tata Tele became the next beneficiary.

Angry letters have been exchanged between Telecom Regulatory Authority of India (TRAI) chairman and former DoT secretary Nripendra Mishra and current Secretary, DoT, Siddhartha Behura. On August 28, 2008 TRAI confirmed that the DoT has made no reference on spectrum allocation to it.

On January 10, 2008, *Sanchar Bhavan* was witness to an unedifying spectacle. At 2.45 pm that day, DoT posted an announcement on its website saying letters of intent would be issued and that application fees (over Rs 1,000 crore) would have to be paid immediately, by demand draft, with supporting documentation. It was announced that spectrum would be allotted to those who deposited their fees first, by even a fraction of a second. In the mad melee, well-heeled CEOs were manhandled by hired bouncers and DoT staffers were bashed up before the cops turned up, late as usual.

Was this the best way to allot spectrum? The compulsions of coalition politics should not make Prime Minister Manmohan Singh blind to the blatant misuse of ministerial powers that have resulted in a huge loss to the country.

* *An Educator and a Commentator based in New Delhi. Abridged from an article that appeared in the Asian Age, November 16, 2008*

COMMUNICATION

DoT to Allow Number Portability

The DoT's move to allow internal mobile number portability (MNP) might result in evading spectrum charges, anti-competitive practices and a non-level playing field among the operators. The Cellular Operators Association of India (COAI) has urged DoT not to treat internal MNP at par with MNP.

Internal MNP is expected to benefit dual technology players such as Reliance Communications Ltd (RComm) and Tata Teleservices Ltd (TTSL) that were predominantly CDMA technology providers and recently opted for the GSM route.

(FE, 06.10.08)

Govt. Revenue Set to Decline

The telecom sector is touching a double digit growth of 8.42 percent and India adding the largest number of subscribers each month. Despite this, the revenue accruing to the Government as a part of the revenue share from licence fee and spectrum charge during April-June 2008 is going to see a decline owing to a dismal performance by the public sector undertakings (PSUs): *Bharat Sanchar Nigam Ltd* (BSNL) and *Mahanagar Telephone Nigam Ltd* (MTNL).

The state-run telcos profitability has been declining steeply and revenues are not growing fast enough. If remedial action is not taken the company could soon be red-listed.

(FE, 07.10.08)

Mobile Reaches Villagers

The rollout of mobile services in rural areas is beginning to bring in the numbers for operators. Compared to a trickle of rural subscribers just a few years back, operators are now getting more than 30 percent of their new mobile users every month from villages.

According to data released by the TRAI while operators got 25 million new users across the country during April-June 2008, 8 million of those came from rural areas.

There are now 70 million mobile users in villages (out of a total 300 million). It is not just State-owned telecom companies, which are going to the remote areas. Nearly 75 percent of mobile users in villages are now owned by private operators.

(BL, 09.10.08)

TRAI to Try a New Tariff Regime

The TRAI said that it was looking to move towards a tariff regime where mobile operators charge on a per second basis instead of the current practice of charging every minute.

If this is implemented it will result in huge savings for mobile users who currently have to pay for an entire minute even if they talked for just 30 seconds. All the operators at present charge on a per minute basis, which means that each time a user dials he will have to necessarily pay for the entire minute. *(BL, 12.12.08)*

Tight Norms for Service Quality

The TRAI has proposed to tighten the quality of service norms for telecom companies. According to existing benchmarks, operators are supposed to keep the call drop rate to less than 3 per 100 calls. TRAI has proposed to change this to 2 per 100.

The regulator has suggested other changes in a consultation paper on reviewing the existing quality of service parameters.

It has proposed to monitor the billing and metering credibility for pre-paid subscribers and reduce the tome period for making refunds by operators from four weeks to one week. *(BL, 18.12.08)*

Govt. Plans to Cap on Operators

In a policy reversal, the Government plans to cap the number of telecom operators in each circle to meet the twin objectives of tiding over the spectrum crunch and enhancing the subscriber base through optimal utilisation of spectrum.

Though the current policy regime supports entry of any number of operators, in 2007, seeing a rush of new applications, the DoT put a temporary cut-off date of October 01, 2007 through an administrative order, for accepting new applications. This has not been lifted as yet.

Further, only applications submitted till September 25, 2007 have been accorded licences till date, with DoT still undecided on the rest.

(FE, 30.10.08)

TRAI Mulls Licence Fee

Mobile operators, such as Bharti Airtel and Reliance Communications that have hived off their tower infrastructure into separate companies may soon have to pay additional licence fee on the revenues they earn from the tower business.

Telecom companies are required to pay between 6 and 10 percent of their annual revenues earned from providing services as licence fee to the Government.

By hiving off the tower infrastructure into separate companies, these operators do not have to pay any fee to the Government from the revenues earned from leasing out capacity. *(BL, 15.10.08)*

Lock-in for Telecom Operators

Stung by growing accusations, especially from the Left, that the Government sold spectrum for second-generation (2G) licences cheaply, Union Minister for Communications and IT A Raja has directed the Telecom Commission to revise licence terms for new telecom operators.

The Commission is looking at imposing a promoter lock-in of three to five years for the eight new licence-holders. New operators said they would be forced to seek court intervention since a lock-in would violate the licence agreement signed with the government. The agreement does not have a clause prohibiting a promoter from selling equity.

(BS, 07.11.08)

Telcos Termination, If Failed

New telecom operators may have to face licence termination and subsequent surrender of spectrum if they fail to start services within the stipulated three-year time, Telecom Minister A Raja said.

Raja said that his Ministry would keep a vigil on these players and on their plans to start operations (50 percent in the first year of spectrum allotment). "It will be implemented strictly, explicit conditions will be inserted in the license conditions", he said. This had led to the accusations that new telcos have only profit in mind. *(FE, 24.11.08)*

Barred From Selling Equity

The DoT had bypassed the TRAI while recommending that the promoters of the new telecom companies be barred from selling their equity for a period of three years, A Raja has referred the matter to it.

The matter requires an amendment in the licence conditions and under Section 11 of the TRAI Act, requires TRAI's recommendation. However, officials said that the matter has been referred by the DoT in the reverse order this time. *(FE, 25.11.08)*

Mobile Tariffs to Drop Down

If the telecom regulator's proposal to bring down various charges payable between operators goes through, mobile tariffs could come down by 20-30 percent in 2009.

The TRAI has indicated that mobile termination charges could be as low as 13 paise a minute compared to the existing rate of 30 paise a minute.

Mobile users could get further discounts on long distance calls as the regulator has also proposed to reduce the ceiling charges for carriage from the current level of 65 paise a minute to 16 paise for each minute. *(BL, 31.12.08)*

TRAI: Determine 2G Licence Fee

In the midst of a controversy over allotment of spectrum to new players, TRAI said that market forces should have determined the price of a licence, which includes start-up spectrum.

"A mechanism should be evolved for licence giving which must capture the market price because the spectrum was bundled in the licence for 2G therefore separately it was not feasible to auction 2G spectrum so that the licence had to capture the market price of the spectrum", TRAI Chairman Nripendra Mishra said. *(FE, 28.11.08)*

TRANSPORT

Railway Officers Facing Action

The Indian Railways has ordered departmental action against more than 6,000 officers for their alleged involvement in various fraudulent practices. There are about 15,000 gazetted officers and nearly 5 lakh non-gazetted officers in the railways with a total strength of 14 lakh approximately.


www.manjul.com

"The Vigilance Department carries out regular checks to bring in transparency and accountability in the administration. It will intensify its drive in the coming months to check leakage of revenue", a senior ministry official said. Railways have earned Rs 53 crore from its drive in the first half of 2008. The Department also inspected Metro rail by carrying out 77 drives. *(BS, 24.11.08)*

Multiple Airports on Anvil

The policy of not having a second airport in a city within a 150-km radius of the existing one was "fundamentally flawed", Civil Aviation Minister Praful Patel said.

Citing the example of Mumbai and Pune, Patel said a new airport in Navi Mumbai was in the pipeline and upgrading of Pune airport was also on the cards.

"This belt of Mumbai-Pune is the biggest of its sort in the region in terms of residential and industrial projects. Similarly, the National Capital Region of Delhi has industrial towns like Faridabad, Gurgaon, and Ghaziabad and this area can also have multiple airports". *(TH, 17.10.08)*

NHAI: A Fresh Round of Bidding

Highway projects will be integral to the Government initiative to give a fiscal stimulus to the economy. The National Highways Authority of India (NHAI), which is to award 105 new road projects worth Rs 1 lakh crore by 2009-10, will begin a fresh round of bidding in April 2009.

Of the 105 projects, spanning phase-III and V of the National Highways Development Programme (NHDP), 40 projects worth Rs 40,000 crore are slotted for bidding in April. Already, 60 projects worth Rs 60,000 crore are in various stages of tendering. *(FE, 19.11.08)*

Airlines Bailout Package

The country's leading private airlines have sought a Rs 4,700-crore bailout package from the government to counter slowing passenger traffic, rising costs and an industry-wide liquidity crunch. Airline chiefs recently made a presentation to the Prime Minister's Office to this effect and Government sources said some of their demands might be accepted.

The concessions requested include an interest-free loan with a "bullet" (one-time) repayment after three years, putting aviation turbine fuel (ATF) in the "declared goods" category for sales tax relief and scrapping customs (5.15 percent) and central excise (8.54 percent) on the fuel. *(BS, 09.10.08)*

Regional Airports to Take Wings

The Government has identified 34 regional airports in the country for city side development in the PPP mode at a cost of US$357mn, even as it grapples with issues of technology, funding and regulation to upgrade and modernise airport infrastructure and open up business opportunities for the private players.

Speaking at the International Conference on India Aviation: *'Scaling New Heights'*, organised by FICCI and the Civil Aviation Ministry, Praful Patel, Minister for Civil Aviation, said the Government's endeavour was to see the development of all metro cities as aviation hubs to connect all cities of India and facilitate transportation of cargo at competitive rates. *(FE, 16.10.08)*

Delayed Projects a Setback

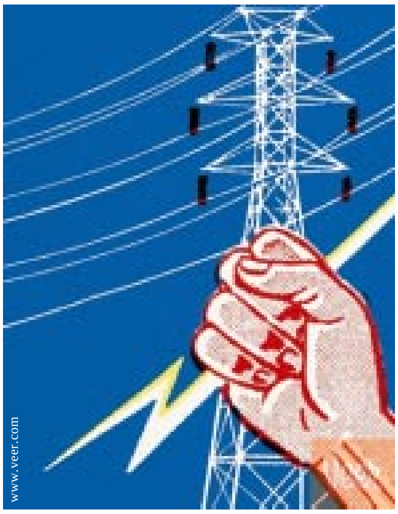
In what could be seen as a setback to the infrastructure growth of the country, 207 of the 516 Central Government projects, each costing Rs 100 crore or more and spanning across sectors, are delayed, the Rajya Sabha was informed.

The maximum delays are reported in the highways sector, in which 105 out of total 181 projects are running behind schedule. Also, of the 909 infrastructure projects worth Rs 4,18,567 crore, 346 projects are running behind schedule. The cost overrun in the 346 delayed projects is Rs 24,689 crore, which is 13.34 percent of the approved cost, the Rajya Sabha was informed. *(FE, 11.12.08)*

POWER

Power Policy under Review

The Centre is considering a proposal to amend the Mega Power Policy. "A proposal to review the Mega Power Policy, deleting the condition of privatisation of electricity distribution in cities, is under consideration", the Power Minister, Sushilkumar Shinde, said in a written reply to the Rajya Sabha. The move comes in the wake of intense pressure from a bevy of States on the issue.



According to the Power Ministry, privatisation of electricity distribution in cities with a population of more than one million, as a precondition for allocation of power to States from mega power projects, was stipulated in the Policy to encourage private investment in the sector. *(TH, 15.12.08)*

Fund to Curb T&D Losses

The National Electricity Fund to cut the glaring transmission and distribution (T&D) losses in the country's power sector is likely to become operational soon.

A panel headed by former Cabinet Secretary and the Planning Commission member in charge of power, B K Chaturvedi, is set to submit its report on the modalities for the National Electricity Fund's operations, by the end of this month.

A total of Rs 2,72,000 crore is required to upgrade the T&D system. The National Electricity Fund, which is expected to have a corpus of Rs 90,000 crore, would give loans to states at low rate of interest.

(FE, 10.12.08)

Appellate Tribunal for Electricity

The Appellate Tribunal for Electricity will hear a petition filed by the New Delhi Municipal Council (NDMC) seeking reprieve from the Delhi Electricity Regulatory Commission's (DERC) tariff order capping its power requirement.

Dissatisfied with the DERC orders, the NDMC had filed the petition against the decision to take away 53 MW from its share of unallocated power from the Central quota.

The Municipal Corporation was forced to file the petition before the Appellate Tribunal after the DERC refused to allocate 350 MW of power to the NDMC. *(TH, 02.11.08)*

Power Generation in Crisis

The country's traditional power generation programme is heading for a crisis. Not only will the current fiscal year's target of adding 10,000 MW of fresh capacity be met, generation from existing capacities can be expected to slow down as well.

Coal based plants the main stay of the Indian power sector are facing an acute fuel crisis. Central and state owned coal based plants account for 70,110 MW of the total generation capacity of about 1,46,000 MW.

As many as two third of country's 77 coal based power plants are facing fuel shortages – of these 39 plants have coal supplies which will last for just about four days. *(ET, 21.10.08)*

CERC Warns State Utilities

The Central Electricity Regulatory Commission (CERC) warned the state utilities not to indulge in grid indiscipline.

The Commission has directed the regional load dispatch centre to report within three days the cases of overdraws from the grid by state utilities when the frequency is less than 49.0 Hz.

They have also been directed to report every case of non-compliance of the directions of the load dispatch centres. CERC has felt the necessity of these steps for taking appropriate legal action against defaulters, with an objective of saving the grid from any untoward happening.

(FE, 17.10.08)

OIL & GAS

Lying Idle Due to Gas Shortage

About 5,000 MW of gas-based electricity generation capacity, built at a cost of about Rs 20,000 crore, is lying idle due to the shortage of gas in the country.

"This (keeping power plants idle) works out cheaper than buying naphtha", said P K Reddy, Executive Director, Andhra Pradesh Power Development Company Ltd.

The State of Andhra Pradesh has around four power plants, including Gautami Power project BSES Andhra Power, with capacity of 1,000 MW lying idle in want of gas. *(BS, 12.10.08)*

Fuel Prices to be Deregulated

Prices of petrol and diesel will soon be deregulated under plans being considered at the highest levels in the Government and could result in consumers paying less at the pump, as prices reflect the recent steep fall in international oil prices.

"The Cabinet has in-principle approved the proposal to deregulate prices of petrol and diesel and directed the Oil Ministry to work out a suitable mechanism to compensate public sector undertakings for selling highly subsidised domestic LPG and PDS kerosene", a senior government official involved in the process said.

(ET, 12.12.08)

Oil Cos. Issue Notice to Airlines for Paying Dues

Faced with a liquidity crunch, the public sector oil retailing-cum-marketing companies have asked domestic airlines to clear their dues for aviation turbine fuel (ATF) already purchased, failing which supplies will be suspended. Supplies are currently available on a credit basis.

The three oil companies – Indian Oil Corporation, Hindustan Petroleum Corporation, and Bharat Petroleum Corporation – have served a joint notice to domestic airlines asking them to pay their outstanding dues by October 22, 2008 if they want ATF to be supplied on a credit basis, official sources informed.

(BL, 12.10.08)

RIL to Retail Fuel Again

Fuel selling in India is a money-spinner again, at least for the private oil companies who do not have to bear the subsidy burden for cooking fuels, LPG and kerosene.

Reliance Industries (RIL), India's largest private sector oil company that had shut down all its petrol pumps because of huge losses, has now written to the Government to start selling petrol and diesel again.

The Government, which controls retail selling price for fuel sold by government-owned companies, is yet to take a final call on when fuel prices are to be cut. *(ET, 20.10.08)*

Oil Cos: Profits on Petrol Sales

After nearly two years, the state-owned oil companies have started making profits on petrol sales, but not diesel or cooking fuel, with the Indian basket of crude oil falling below US$60 a barrel.

The Government, however, has ruled out a fuel price cut for now. "Oil prices have to hold at this level for at least a month before we think of cutting fuel prices. We will review the situation after November 15, 2008", said S Sundareshan, Additional Secretary, Ministry of Oil.

(BS, 27.10.08)

Oil Cos. to Follow Private Sector

Public sector oil marketing companies – Indianoil Corp (IOC), Bharat Petroleum Corp (BPCL) and Hindustan Petroleum Corp (HPCL) – will be forced to reduce petrol and diesel prices irrespective of political pressure, if their private counterparts, Reliance Industries (RIL), Essar Oil and Shell India, slash prices to grab a large market-share. No oil marketing company (OMC) has, so far, cut auto fuel prices despite gaining a margin of Rs 9.86 per litre on petrol and Rs 0.70 per litre on diesel. *(ET, 24.11.08)*

Oil Market to be Transparent

India has underlined the need for putting in place an appropriate regulatory mechanism to restrain unhealthy "speculative practices" and bring about transparency in the crude oil market.

"We should collectively put in place appropriate regulatory mechanism to ensure that unhealthy speculative practices are restrained and absolute transparency is brought to the crude oil market", Petroleum Minister Murli Deora said Deora proposed the setting up of an expert group to make suitable recommendations in this regard. *(BS, 20.12.08)*

MIXED BAG

RBI to Lose Financial Autonomy

The Reserve Bank of India (RBI) may be brought under the category of other regulators, who might have to park their funds with the government. Banking sources said the move would deal a final blow to the financial autonomy of regulatory bodies.

The Finance Ministry is understood to have sounded out to the central bank over a proposal, according to which RBI will have to maintain its accounts and finances with the Consolidated Fund of India (CFI). According to the proposal, RBI will come under the Subordination Act of the Central Government and it will have to seek the Government's permission whenever it needs funds.

(BS, 26.11.08)

Close Watch on Rating Agencies

Capital market regulator Securities and Exchange Board of India (SEBI) is working on new norms aimed at ensuring greater oversight of credit rating agencies. The country's financial regulators – both SEBI and the RBI – and the Ministry of Finance are working jointly on a plan that will focus on closer supervision of the rating agencies, greater accountability for the actions of the raters and disclosure of rating methodologies.

The efforts to put new rules in place have gathered pace in the aftermath of the financial turmoil when rating agencies were slammed for their rating of debt instruments especially sub prime mortgage loans.

(ET, 10.12.08)

Credit Card Complaints Grow

Complaints about credit cards form an important part of the grievances received by banking ombudsmen in financial year 2008 (April-March) according to RBI Annual Report on ombudsman schemes.

The types of complaints pertain to issuance of unsolicited credit cards and unsolicited insurance policy and recovery of premium charges, charging of annual fee in spite of being offered as 'free' cards and issuance of loans over phone, disputes over wrong billing and settlement offers conveyed telephonically, non-settlement of insurance claims after the demise of the card holder, abusive calls, etc", the RBI said. *(ET, 25.12.08)*

Power Ebbs as Government Looks Away

– S D Naik

Among all the infrastructure segments in India, power remains the most crisis-ridden, with no immediate solution in sight. Repeated attempts over the past decade to reform this ailing sector have been short-circuited by poor governance and a lack of political will. The worsening power situation threatens to derail the country's economic growth.

Widespread power shortages are adversely affecting both agriculture and industrial production. The worst-affected State is Maharashtra with an average deficit of 20-22 percent and a peak-load deficit of 30 percent. Uttar Pradesh is the most power-starved followed by Punjab and Haryana. Several other states such as Gujarat, Karnataka, Tamil Nadu, Andhra Pradesh, Kerala, and Bihar also face significant power shortages.

Efforts to reform the country's ailing power sector have been short-circuited by poor governance and lack of political will. In turn, both agriculture and industrial output have suffered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Elusive Targets

There have been major slippages in power generation targets in successive Five Year Plans. During the 9th and 10th Plans, for instance, hardly 50 percent of the target for capacity addition was achieved, leading to a sharply widening demand-supply gap over the last decade. Recently, Union Power Minister Sushilkumar Shinde announced an increased target for capacity addition during the 11th Plan period from 78,577 MW to 90,000 MW.

Moreover, transmission and distribution (T&D) losses remain a whopping 35-40 percent due to badly maintained transmission lines, poor maintenance of power plants under the State Electricity boards (SEBs), shortfalls in metering and outright theft of electricity. The power sector faces formidable constraints financial and non-financial – in creating approved generation capacities.

The Constraints

A large number of projects are held up because no private producer has adequate funds to achieve financial closure. With the collapse of the initial public offer (IPO) market, funds are scarcer. The problems surrounding land acquisition is yet another bottleneck affecting projects such as Sasan in Madhya Pradesh (4,000 MW). The process of getting environmental and forest clearances is also highly time-consuming. A dire shortage of coal has now emerged as the biggest hurdle to power generation.

Whither Reforms?

More than a decade ago, the Government tried to attract private investment – both foreign and domestic – for the power sector's so-called "fast track" projects. Again, during the Tenth Plan period, it launched the Accelerated Power Development and Reform Programme (APDRP) for the distribution sector. The programme, with a projected outlay of Rs 40,000 crore, aimed at cutting T&D losses drastically.

Unfortunately, these reform programmes failed miserably largely due to poor follow-up and governance failure. After more than a decade, the contribution of private sector in power generation remains just around 13.5 percent and T&D losses at 35-40 percent.

The passing of the Electricity Act, 2003, and the securitisation of the over Rs 40,000-crore losses incurred by the SEBs five years ago had raised hopes for improved performance. Unfortunately, these hopes have been belied with the accumulated losses of the SEBs surging once again. The reforms initiated for the distribution sector are in shambles with about 75 percent of the technical losses occurring at the distribution stage.

Fresh Action

Given the formidable constraints facing the power sector, policymakers should establish new priorities, including trimming excessive reliance on coal-based thermal power, laying greater accent on harnessing renewable sources of energy. India has significant potential in tapping wind and solar energy, hydro energy including small hydro projects, and energy from biomass. The unutilised potential in these areas remains a high 80 percent.

At the same time, it is extremely important to reduce T&D losses to around 15 percent, as mandated under the APDRP. This will effectively result in additional power generation of 25,000 MW immediately and over 40,000 MW by the end of the Eleventh Plan without any additional installed capacity.

– *Abridged from an article that appeared in The Hindu, November 08, 2008*

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Scrap the TRAI

– Sunil Jain*

The ongoing war of letters between the telecom regulator, TRAI, and the Telecom Ministry on the impending 3G licence auctions throws up several issues, most of which point to one thing: The regulatory system in India has become a farce, and needs to be either scrapped, or thoroughly revamped

First, though, it is hilarious to see the Telecom Ministry arguing against TRAI's recommendation on imposing a 2 percent administrative charge on 3G licences — the ministry argues an additional charge will reduce the auction bids. Here's the logic: If a 3G bid goes to Rs 6,000 crore for an all-India licence, a 2 percent charge adds up to Rs 120 crore a year – so, over the 20-year life of the licence, based on a 5 percent discount rate, that works out to a net present value of Rs 900 crore. If five such licences are to be auctioned, the Government will get around Rs 4,500 crore less.

What's hilarious is that the ministry itself is doing its best to ensure the bid values are kept low. It has, for instance, ensured few new foreign players bid – they have to pay Rs 1,651 crore more than the existing telecom firms will pay, and there are several more such barriers. Indeed, though TRAI recommendations on 3G were first made in September 2006, the back and forth on what the spectrum and other fees will be is still carrying on more than two years later.

Also, TRAI's administrative fee is a lot smaller than what the Telecom Ministry itself has done by raising spectrum usage fees by 20 to 50 percent – this will then lower the auction bids by a greater amount! In any case, what's Rs 4,500 crore compared to the largesse of over Rs 60,000 crore that the ministry handed out earlier this year when it gave 2G spectrum at bargain-basement prices to a favoured few firms?

What is more worrying, however, is the sanctity of the whole TRAI process. Right from the time Dayanidhi Maran was Telecom Minister to now, the ministry has not hesitated to ignore TRAI recommendations whenever it felt like. So, TRAI recommendations on 3G, given when Pradip Baijal was TRAI chief, were ignored; TRAI recommendations on 2G when Nripendra Misra took over were, similarly, implemented selectively; it is true the recommendations were not as clear as they should have been, but when Misra sought to make amends by writing clear letters to the ministry, these were ignored and Misra had to go public saying the Government shouldn't cherry pick.

The larger point is that, the way the law has been formulated, TRAI is a toothless tiger – it works well if the ministry chooses to be gentlemanly and takes the recommendations seriously; if the ministry chooses to assert its authority, there's little TRAI can do. It's a bit like the President who, after a token refusal, just has to sign everything the Government wants. Making TRAI's recommendations binding, as opposed to being recommendatory as they are today, is one solution, but fraught with danger since all it means is that instead of decision-making being concentrated in the minister, it gets concentrated in TRAI.

Theoretically, the solution lies in the appellate, or Telecom Disputes Settlement And Appellate Tribunal (TDSAT) process where you can challenge policy decisions. But the problem here is that it limits the type of people who can go in appeal. Take the case where 2G spectrum was given at bargain-basement prices to a chosen few firms against TRAI's recommendations. Who got hurt by this? Other firms who were waiting in line for the spectrum? But, under the law, they cannot go to TDSAT; only existing licencees can. If TDSAT rules the licences were under-valued and, for the sake of argument, this will imply that existing licencees (Bharti/Vodafone) who have been given extra spectrum beyond the 6.2 Mhz specified in their licence will also have to pay on this basis – that's around Rs 3,000-4,000 crore apiece.

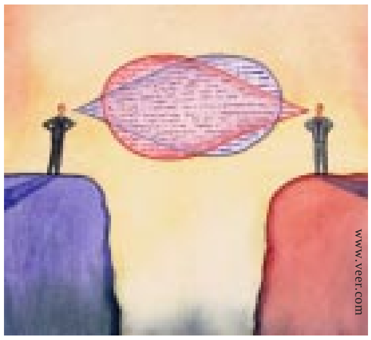
Similarly, in the current case, both the Government and the existing licencees are united in saying TRAI's 2 percent levy is a bad idea. So, if the levy is in fact a good idea, who's going to challenge the government, and where? You or I could go to court, but courts typically do not want to get into Government-policy decisions.

(See next page for a debate on this article)

* *Columnist, Business Standard. Abridged from an article that appeared in the Business Standard, December 22, 2008*

A Healthy Debate on TRAI's Existence

In an article captured on earlier page, Sunil Jain of Business Standard suggests that TRAI should be scrapped, because it is ineffective. One can agree that its effectiveness has been curtailed by the law under which it operates, but is scrapping a solution? Comments from various people were invited on this very crucial and hot topic through the FunComp e-forum* and are summarised below:



M Govind Rao, Director, National Institute of Public Finance and Policy expressed dissatisfaction that we are stuck with corrupt ministers, who for their aggrandisement do not hesitate to hijack the country's interest, especially the need to activate infrastructure spending for achieving faster economic growth.

While VS Ailawadi, former Chairman, Haryana Electricity Regulatory Commission disagrees with Sunil Jain and opines that he has missed the real issue. The fact that the political class is unwilling to allocate powers accompanying recommendations (which it can change to suit the context) and deny penal authority to regulators. This is quite unlike the practice witnessed in advanced countries.

S L Rao, Chairman, Institute for Social and Economic Change, Bangalore is not in favour of abolishing TRAI. He suggests that regulators must be accountable to ensure proper monitoring of their work and discipline.

According to P K Chaubey, Professor of Economics, Indian Institute of Public Administration, scrapping is no solution, improvement is. He urges on the need for regulatory bodies and that amendments can be done in its constitution/composition, mandate and functioning as per the requirement.

Ashutosh Bajpai, Director, Public Policy, DHL Express opines that efforts should be made at regional/ state level to increase awareness for public welfare. Regional parties should be made more accountable to public interest in general than just pursuing agenda favourable for small sections.

Rajiv Kumar, a part time member of TRAI, urges on the need to review law and the only recourse being to mobilise public opinion by using the media effectively and fearlessly. But all will be lost if one relatively successful regulator was to be folded up.

A completely different flavour is provided by AV Shenoy of Consumer Guidance Society of India who looks at the flaws in the present system of nomination, and not in the qualities of the telecom regulators. He is not in favour of winding up TRAI and suggests attacking the issues within the present framework and trying to improve the present lacunae. He opines that it is only because of TRAI that there is some semblance of order in the Indian telecom sector. If things were left to the ministry, it could have been more chaotic.

Pradeep S Mehta says that most of us agree that TRAI has been doing some good things and setting precedents for others to follow. The issue that Sunil Jain had raised is that TRAI has been unable to prevent the hijacking of the honey pot by corrupt ministers, and therefore it should be wound up.

Frankly, while the law does not bind the Ministry to accept recommendations of TRAI, it does not matter if it did.

He looks at the need to develop healthy conventions to ensure that this happens. No rules will prevent the clever and corrupt (politicians, bureaucrats and the greedy business) from circumventing the law.

While agreeing with Pradeep about the root cause partially, Manas Chaudhuri, Head, Competition Law Practice, J Sagar Associates views the manner in which the regulators are nominated in India as a prominent cause for regulatory inefficiencies.

Postscript

The DoT and TRAI have been at loggerheads over the past two years over various issues. But this is the first time the TRAI Chairman Nripendra Misra has gone public with his views on the need for more powers while speaking at a seminar entitled, 'Developing Infrastructure through an Ideal Regulatory Framework' held in New Delhi, on January 16, 2009 *(http://www.circ.in/media-jan09.htm#media02).* While lamenting lack of adequate powers, he said pressures from incumbent operators, new players and the national treasury were slowing down the decision making processes in the telecom sector.

* *A platform to exchange and communicate news and views, focussing on Competition & Economic Regulation in India. For subscription, mail at: FunCompForum-subscribe@yahoogroups.com*

Now Foreign Policy Objectives

In a move that formally acknowledges the Government's desire to leverage India's status as one of the world's largest consumers of oil to its diplomatic advantage, the country's energy purchases will now officially be guided by foreign policy objectives.

The United Progressive Alliance (UPA) Government has set up an institutional mechanism in the form of a group of ministers (GoM) under the chairmanship of the External Affairs Minister which will be the final authority for conduct of structured energy dialogues with energy-rich countries.

The mechanism is part of the Integrated Energy Policy (IEP), which recognises that India's growth process could be hit due to its growing dependence on energy imports that exposes it to external price shocks.

(FE, 28.12.08)

SC for Prompt Compensation

The Supreme Court has asked the Government and the beneficiaries for prompt and timely payment of compensation in land acquisition cases. There should not be proxy means of long litigation to avoid such payments, the apex court said.

Public interest demands that the state or the beneficiary of acquisition, as the case may be, should not be allowed to indulge in any act to unsettle the settled legal rights accrued in law by resorting to avoidable litigation unless the claimants are guilty of deriving benefit that otherwise not entitled in law in any fraudulent manner. *(ET, 06.11.08)*

Top Investment Destination

Haryana and Punjab together accounted for 57 percent share of the investments in the North India announced by the private sector during first six months of the 2008, according to an Associated Chambers of Commerce & Industry of India (ASSOCHAM) investment metre (IM).

Haryana was the top investment destination in the northern region, as it attracted the capex announcements worth Rs 50,917 crore out of the total Rs123,905 crore investments lined up by the corporate sector during the period January to June 2008. Punjab was at the third position with Rs 19418 crore of private sector line up of funds.

(FE, 25.11.08)

Review Pak's Cement Exports

Imports of cement from Pakistan by rail, started in September 2007 and seen as a friendly gesture between India and its neighbour, have become a matter of concern following the recent terror attacks in Mumbai.

The Indian cement industry is now sensing an opportunity to demand a curb on Pak imports of the commodity, which, of late, has created oversupply and pulled down prices in North India.

The industry now wants the Indian government to review its trade talks with Pakistan, especially with respect to cement, as it believes that lack of meticulous check of the commodity entering India may spell trouble for the country. *(FE, 01.12.08)*

Govt: No FDI in General Retail

Even as the Government is thinking of allowing foreign direct investment (FDI) in specialty retail formats selling products of many brands, it has emphasised that there is no plan to open up the general retail sector, including Fast Moving Consumer Goods (FMCG), vegetables and groceries, to foreign equity participation.

The Department of Industrial Policy and Promotion (DIPP) has clarified that in order to protect the interests of small retailers, the general retail sector will not be opened up.

Currently, FDI in multi-brand retail is not permitted, while 51 percent foreign equity participation is allowed in single-brand retail. *(BS, 09.10.08)*

Emerging Markets Outperform

Asian financial markets led by China, India and Malaysia are likely to outperform other developing nations as higher savings help borrowers to weather the global economic slump, according to Bank of America Corp. analysts.

Chinese domestic savings total more than 45 percent of gross domestic product (GDP), supporting economic growth, Lawrence Goodman, head of emerging-market strategy at Bank of America in New York, wrote in a research note. Malaysia and India have private saving rates above 30 percent.

(BL, 06.11.08)

India: Hot Destination for Tourists

India may have temporarily lost its charm of being a hot destination for foreign tourists in the wake of the recent terror attacks on Mumbai, but it still remains an important place for foreign investors by virtue of being a high demand market.

As people understand that terror is a global phenomenon and that there has to be an institutionalised administrative mechanism to deal with it. Thus, India would continue to stay an attractive destination.

(BS, 03.12.08)

FM: Time to Revisit Pending Reforms

Finance Minister P Chidambaram said India would end 2008-09 as the second-fastest growing economy in the world at seven percent-plus. The Minister's confidence is based on an analysis of the impact of the global financial crisis on 15 sectors.

These five sectors – including agriculture, mining, trade & recreation and communication – with a weight of 42.9 percent in GDP would suffer no impact.

Furthermore, community and social services would actually benefit. The Finance Minister said, "we must introduce measures to make our economy more competitive and the regulatory system more responsive". *(FE, 24.11.08)*

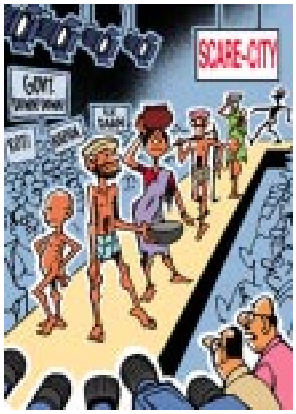
Don't worry. You are safe from global meltdown.

India Below SSA in Hunger Index

Despite robust economic growth in recent years, India's record on hunger is worse than that of nearly 25 sub-Saharan African (SSA) countries and all of South Asia, except Bangladesh.

The International Food Policy Research Institute (IFPRI)'s 2008 Global Hunger Index says that with over 200 million people insecure about their daily bread, Indian scenario is 'alarming' in terms of hunger and malnutrition.

The first ever India Hunger Index found that not a single state in India fell in the 'low hunger' or 'moderate hunger' categories. Madhya Pradesh had the most severe level of hunger in the country, followed by Jharkhand and Bihar. Punjab and Kerala scored the best on the Index. *(ET, 15.10.08)*



Times of India

Kamal Nath: Crisis to Impact FDI

"The financial turmoil that is fast spreading from the US to other parts of the globe could have an adverse effect on investment flows into India", Kamal Nath, Commerce and Industry Minister said. However, he was hopeful that the country would achieve its US$35bn FDI target.

After the release of FDI data, he said the country had received US$14.6bn worth FDI in April-August 2008, a whopping 124 percent rise over US$6.5bn in the corresponding period a year ago. In 2007-08, India received FDI inflows of US$24.57bn.

Despite the slowdown in major export markets like the US and the EU, Nath was also optimistic that shipments would continue to record a 30 percent growth. *(FE, 13.10.08)*

Farm Sector Likely to Grow

Despite many challenges such as shortage of fertiliser and delayed monsoon, the Government expects an agriculture growth of four percent in 2008-09.

Terming the growth of futures markets as "lopsided", Union Minister for Agriculture and Food, Sharad Pawar said that the share of agriculture commodities in the total value of trade is dwindling very fast.

Some of the regulatory measures such as price bands, and trade leverage restrictions were looked down on by the purists of the market, but now they are looked upon favourably for disciplining the market, particularly after the recent global concerns over the unchecked rise in crude oil prices. *(BL, 23.11.08)*

IBSA: New Engines of Growth

The Union Minister for Commerce and Industry, Kamal Nath, identified the three economies – India, Brazil and South Africa (IBSA) – as the engines of growth in the current financial gloom.

He also sought greater cooperation on some major areas like infrastructure, mining, information technology, pharma and healthcare, transport, agri-business, skills development and energy sector among the three economies, which are growing at the range of five-nine percent GDP rate. The IBSA member countries are seeking to increase the trilateral trade to US$15bn over the next two-three years from the current level of US$7bn. *(BL, 13.10.08)*

India Slips in Ranking

India has slipped to the 50th place in the global competitiveness ranking, while the US has retained the top slot even as the country is grappling with severe financial crisis, World Economic Forum said.

In the annual Global Competitiveness 2008-09 report, India has dropped two places from 2007's 48th spot. The top three in the league of 134 nations – US, Switzerland and Denmark – have retained their respective positions from 2007.

However, India's overall competitive position has weakened by its macroeconomic instability, with the Government running one of the highest deficits in the world, unsustainable levels of Government debt, and fairly high inflation *(BL, 10.10.08)*

ADB Predicts India's Growth

The Asian Development Bank (ADB) reckons that India will grow at 11.5 percent (average) over the next 30 years. By 2040, India's GDP will be US$35tn at 2007 prices, against US$1tn now.

To achieve this growth, India would have to meet five major challenges: i) has to reduce inequality within the country; ii) have to invest more in infrastructure; iii) need to provide investments for technological upgradation to encourage innovation; iv) must overhaul its relations with the neighbours in the sub-continent; and v) optimum utilisation of water and energy. *(BL, 15.10.08)*

FTAs Okay, But With Caution

India, which has already concluded free trade agreement (FTA), is negotiating another 10 and 12 more have been proposed. The immediate ones to be inked are the FTA's with Asean and Korea. This makes India the most ardent embracer of bilateral trade-liberalisation.

The question is if all these agreements to have been agreed to after through analysis of their benefits to India and the risk factors. Going by the India-Thailand FTA it does not seem so.

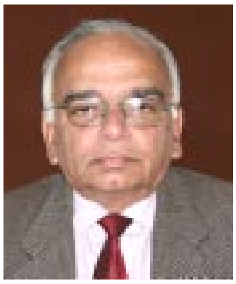
Many FTAs are being agreed to by the Indian Government admittedly as political gestures, which is not good. After all, every free trade deal will inflict pain in some segments of the economy. *(ET, 10.10.08)*

India Imposing Dumping Duties

India led all World Trade Organisation (WTO) member-countries in implementing anti-dumping measures followed by European Union (EU) and Indonesia during 2008, WTO Secretariat said. India applied for six of the 16 new measures on products in the chemicals sector.

The member countries reporting the highest number of new initiations during January-June 2008 were Turkey (13) followed by the US (12) and India (11), WTO, the report said. The EU bagged the second place reporting eight new measures initiating anti-dumping actions. *(ToI, 21.10.08)*

A Political Manifesto: Any Takers?



– Pradip Baijal*

We should halve all taxation rates and triple investment in infrastructure sectors such as agriculture, irrigation, roads and power

General elections are round the corner and all political parties must be writing their manifestos. I have attempted a manifesto below for any party to pick up.

"If voted to power, we will halve all taxation rates and would triple investment in infrastructure sectors like agriculture, irrigation, roads and power. The lower taxation rates would lead to surge in domestic demand, increase in savings and investments, like they went up in China after 1994 taxation reforms".

We must explain how we would do it. The Government disinvested 5 percent of Government equity in the public sector during the years 1991 to 2005 and earned Rs 50,000 crore. If 50 percent of the stocks are disinvested over the next five years, they should fetch Rs 1 lakh crore each year. But these stocks were disinvested when stock market index was around 3,000 and public sector index much lower.

With stock prices likely to be more than 15,000 over the next few years, particularly after privatisation starts, the balance stocks should realise more than Rs 5 lakh crore each year giving us the capacity to change our budgetary patterns/allocations and economy.

The 2008-09 budget has provided for Rs 7 lakh crore as total tax revenue. This can be halved and the additional investment funded for infrastructure. China had allowed 100 percent FDI in disinvested companies. A raise in FDI limits for disinvested companies and also for other units will mop up a lot of foreign investment, necessary for dealing with rupee depreciation.

If nuclear power can rightly be in the private sector, such an argument cannot hold water. Higher FDI will ensure that foreign investment does not run away like it presently has in the form of hot money from FII investment, causing stock market and foreign exchange rates to collapse. A higher emphasis on FDI rather than hot money will increase investment and employment and would prevent a similar collapse in the future.

Last year the expenditure on road, agriculture, irrigation, and power as per our budget was Rs 75,000 crore. Aggressive disinvestment will give enough funds for many years to triple this investment. More investment in these sectors, primarily in the rural areas, will ensure increased food supply and reduce the urban–rural growth rate gap.

We will also ensure that all industrial and infrastructural projects come up expeditiously with better land acquisition rules giving a stake in new companies to land-losers, and are not sabotaged by conflicting political interests like in Singur, a number of hydel, steel and road projects.

The incomes of the government will additionally go up, consequent to privatisation and increased infrastructural investment. All privatised companies, across sectors, have shown far better performance and even increase in employment due to a sharp rise in turnover. Maruti was losing and had a turnover of Rs 9,253 crore at the time of privatisation. The turnover today is Rs 20,949 crore and profit Rs 1,732 crore.

Aggressive telecom reforms leading to level playing field have led to a telecom growth of more than three times the target set by the Government, also higher growth rate than in China, whereas power targets have continuously slipped by more than 50 percent and will slip by more than 50 percent in the current plan period, as per current trends.

Private sector share and investment in telecom today is 80 percent, against 10 percent five years ago and thus leading to more investment. It stagnates at 10 percent over the last many years in the power sector. Hydropower projects are more environment-friendly (than thermal power) and more cost efficient (old hydel projects cost of few paise/unit vs Rs 2/ unit in case of old thermal projects).

Yet, instead of us exploiting our vast natural resources, we have let our policies get hijacked by strong lobbyists, in the name of the displaced, in the pretext of saving the environment, etc. What happened to the hydropower sector in the past is happening today to all major manufacturing projects, which are systematically being sabotaged by those opposed to India's growth.

We have not been able to put one large green field plant in the last few decades due to problems of land, iron ore linkages, environmental clearance, litigation, etc. Other commodities and manufacturing sectors have been dealt with the same fate. We will ensure that this changes, by effective implementation.

In summary, there is a unique opportunity for the next Government to radically transform the Indian economy and we will ensure this.

* *Former Chairman, TRAI. Abridged from an article that appeared in the Economic Times, November 17, 2008*

Who keeps us behind China? Babus & Judges

– Kaushik Basu*

Just as the human body has several organs, all-important but one or two that are vital, a nation's economy also has, among its myriad components, one or two vital ones, which, managed properly, can help a nation to course ahead. A country's bureaucracy and judicial system are examples of such critical components. Many other parts of the economy can be left on auto-pilot, if these are run effectively

Thanks to the global financial crisis and slowdown of the American economy, India's growth forecast for 2007 has been lowered to seven percent – my own expectation is that it will go even lower. But there is reason to expect that, within two years, India will be back on the nine percent per annum growth path that it has been on during the last four years.

This is good performance but still well below China's annual growth of 11 percent. However, now that India is saving and investing 35 percent of its national income – a statistic that even ten years ago, when our savings rate held steady around 23 percent, would have been unthinkable – it is possible to think of strategies for catching up with China's growth performance.

Take the loans for buying cars or fertilisers or tractors or any transaction that engages two or more agents over a certain period of time. There would not be need for Government to set up separate organisations and have teams of bureaucrats to provide these if the Government had an efficient legal system, whereby individuals could sign contracts and rely on the judiciary to enforce these contracts quickly and fairly. But an efficient judiciary and bureaucracy cannot be wished into existence. They need careful design, determination and some initial expense of reorganisation, but they can help government cut back on so many other separate expenses and initiatives. How has India been doing in terms of its bureaucracy?

Putting business first

The first step in running a business is of course to get the basic paperwork done and to acquire the necessary permissions from the Government. This takes 5 days in Singapore, 17 days in South Korea and 33 days in India. In the event of a contract lapse, how long does it take to enforce it? The answer is 120 days in Singapore, 230 days in South Korea and a whopping 1,420 days in India. For this and for the time it takes to close a business, India is at the bottom of the list – the worst performer. There is little surprise that there is not a greater rush of new firms entering India's labour-intensive manufacturing sector.

What about the judiciary?

The story of India's judiciary is not very different. In response to a query lodged under India's Right to Information Act, 2005, the Home Ministry's Department of Justice revealed that, in 2007, there were 26.3 million cases pending in the nation's lower courts and 3 million were pending in India's 21 high courts. In the same year a quarter million under-trials were languishing in jails, of whom, 2,069 had been in jail for over five years. Apart from the gross injustice of this system, such inefficiencies work as a huge deterrent for the economy. This is what makes me believe that, if the bureaucracy and the judiciary can be made more efficient, India can close the gap with China.

Following the financial sector reforms of the early 1990s, India introduced the Debt Recovery Tribunal (DRT) to enable banks and other financial institutions to quickly recover loans that they had given out to individuals and firms. Only large loans – those exceeding Rs 10 lakhs – came under the purview of the DRTs. There were hurdles setting up the DRT. In July 1994 the Delhi Bar Association challenged the validity of DRTs and the Delhi High Court issued a stay on their operations. They could resume function only after the Supreme Court gave orders for them to do so in 1996. How successful have the DRTs been and have they had an effect on general economic functioning?

The time is ripe for India to overhaul its management of the courts and bureaucracy, so that the nation does not rank so poorly.

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* *Professor of Economics and Chairman, Department of Economics, Cornell University. Abridged from an article that appeared in the Financial Express, October 20, 2008*

Celebs in Jail for Misleading Ads

If the ad is smart but the product turns about to be a dud, who is responsible? The new Companies Bill 2008 proposes throwing celebrities for up to three years in jail if they use misleading claims to induce consumers to buy a company's product. The Bill also wants the company itself to pay Rs 50 lakh in penalty for cheating consumers.

Though the existing law – Companies Act 1956 – has a similar provision in Section 68, punishment is limited to a fine. The new law creates a bigger deterrent by adding a jail term and increasingly the penalty several-fold. *(ET, 18.12.08)*

Penalty for Drugs' Over-pricing

Drug companies including Ranbaxy Laboratories, Dr Reddy's Laboratories and Lupin may have to pay over Rs 1,600 crore as penalties for selling some of scheduled drugs at a price higher than the prescribed limit.

The National Pharmaceutical Pricing Authority (NPPA) has asked Ranbaxy and DRL to pay a fine of Rs 124.21 crore Rs 31.11 crore respectively for overcharging consumers. *(ET, 21.11.08)*

India on Global Hunger Index

India has been ranked 66th in the Global Hunger Index (GHI) for the year 2008 developed by the US-based International Food Policy Research Institute (IFPRI).

In South Asia, countries like Myanmar, Sri Lanka, Nepal and Pakistan have fared better than India in their drive against hunger. Even countries like Laos, Cambodia and Burkina Faso have been ranked higher than India. *(FE, 14.10.08)*

Setting Up Central Drug Authority

The Parliamentary Standing Committee on Health and Family Welfare, headed by Amar Singh, has rejected the Government's proposal to create a separate Central Drug Authority for monitoring quality of drugs.

It has, instead, proposed to set up a central drug administration in line with the recommendations made by the Mashelkar Committee report. The proposed central drug administration would be carved out of the existing Central Drug Standard Control Organisation (CDSCO). *(ET, 27.10.08)*

IFPRI: Ensuring Food Security

Over the last nearly two decades substantial progress has been made in improving food production worldwide and some success has been achieved in reducing hunger and poverty.

As many as 33 countries have "alarming" or "extremely alarming" level of hunger. India faces urgent hunger situation despite all the rhetoric of impressive economic growth. South Asia has a very large number of hungry people. Sub-Saharan Africa (SSA) is even worse, says IFPRI. *(BL, 20.10.08)*

Cutting Vacation of Judges

The Parliamentary Standing Committee attached to the Law and Justice Ministry has asked the Supreme Court to cut vacations and holidays to reduce the huge backlog of cases.

The Committee said, "The system of vacations is a colonial legacy that has no relevance today. Given the huge pendency of cases at various levels, including at the Supreme Court, vacation is a privilege that the judicial system could hardly afford". *(TH, 02.11.08)*

CAG REPORTS

Quality of MDMS in Question

The Comptroller and Auditor General (CAG) has raised some issues about quality and delivery in the biggest Mid-day Meal Scheme (MDMS) for schools. Which failed to meet the objectives and standards set by it in terms of calorific value of meals, quality of food, micronutrients and quality of foodgrains. *(ET, 28.10.08)*

Railways Hauled up

The CAG has hauled up the Railways for major irregularities resulting in substantial losses, blocking of scarce resources, and poor planning and deficiencies in stores and contract management. This was highlighted in the railway audit report for the year ended March 2007. *(FE, 25.10.08)*

NHAI Rapped

Even as the Government pegs infrastructure spend in the country in the 11th Five-Year Plan period at US$500bn, and is implementing mega road projects on public-private partnership (PPP) basis, the CAG has raised concerns over the quality of the 'world class' highways. *(FE, 13.12.08)*

Irregularities in NREGS

"The absence of an effective system to address grievances to and lacunae, such as delayed payments and improper record of applications by job seekers under National Rural Employment Guarantee Scheme (NREGS) is defeating the purpose of this flagship programme of the Government", CAG said. *(BL, 26.10.08)*

RTI is Now a Common Man's Instrument

An interim assessment of the Right to Information (RTI) Act, 2005, undertaken independently, has concluded that more and more people are now using it in previously unknown ways, disproving the propaganda that RTI is an instrument concentrated in the hands of select social activists.

The first of its kind, the comprehensive study, conducted jointly by the National Campaign for People's Right to Information (NCPRI) and the Right to Information Assessment and Analysis Group (RAAG), has been billed as a people's initiative to assess who is using the Act and to what purpose. The study covered 10 states besides Delhi. *(TH, 15.10.08)*

Least Impact on Economy

Planning Commission Deputy Chairman Montek Singh Ahluwalia exuded confidence that the stock markets will bounce back as the fundamentals of the economy and the banking system are sound and averred.

The impact of the global financial turmoil on the Indian economy would only be minimal as India cannot be completely insulated from the global economic developments.

"The fact is there is a global meltdown and India is not completely insulated. But our medium term (next 3-4 years) growth prospects are strong. *(FE, 08.10.08)*

IRDA on Guidelines for M&As

The Insurance Regulatory and Development Authority (IRDA) is pitching for consolidation in the Indian Insurance Industry. The IRDA Chairman, J Hari Narayan, said that the regulatory authority was working on guidelines for mergers and acquisitions (M&As) in the insurance sector.

"There is a need to evolve M&A guidelines. In India we do not have within the insurance regulatory roadmap (framework) appropriate guidelines in this regard. I think we need to evolve some of them and we are working on them", he told.

(BL, 03.12.08)

NKC's Suggestions on Hold

The National Knowledge Commission (NKC) is planning to fast-track implementation of its recommendations for higher education before the onset of general elections.

The Commission fears its recommendations might be put on the backburner if a new Government is elected.

Recommendations, which are being fast-tracked, include the creation of a National Knowledge Network; formation of National Science and Social Science Foundation (NS3F) and passing a legislation to help universities and research institutions file patents in their own name and forge commercialisation processes with the industry. *(BS, 25.11.08)*

Pullout Effect on Investment Climate

The decision by Tata Motors to move a factory out of West Bengal after violent protests by farmers whose land was taken by the state for construction of the low cost Nano may affect the broader investment climate in the country, deterring foreign investors and denting economic growth.

Analysts said though the immediate impact would be limited to West Bengal as the Tatas move to a more industry friendly state, it would have wider repercussions as more states may adopt a harder anti-industry tone for political gains.

No, it's not Mamata Banerjee. It's some other state's CM who wants us to move out from here to his state.

Though West Bengal is different from other states in showing it can throw out established industrial houses for political mileage, it may be the start of a very dangerous broader trend which does not bode well for the economy. *(BS, 04.10.08)*

Regulating the Real Estate

Real estate is fast becoming the most sought after investment option given the high capital appreciation and better returns. However, it is well known that the sector is highly fragmented in nature.

If there are renowned and proficient builders then there are shifty operators as well. This calls for a greater transparency in the sector to prevent malpractices such as construction of unauthorised buildings, developments not in line with sanctioned plans, overcharging etc.

An independent regulator with clearly set guidelines and directives to follow that will ensure fair competition and protection of interest of builders, investors and the consumers on the top. *(FE, 05.10.08)*

Weeding out Corrupt Judges

Concerned at increasing instances of corruption in the judiciary, particularly in lower courts, the Chief Justice of India, Justice K G Balakrishnan, has asked the Chief Justices of all High Courts to weed out judicial officers in the subordinate judiciary who are found to be of doubtful integrity or incompetent.

The basic objective behind this provision is to retire those who are found to be unfit, incompetent and ineffective or with doubtful integrity, reputation and utility. *(TH, 16.10.08)*

Regulatory Regimes Unequipped

The Reserve Bank of India (RBI) Governor, D Subbarao, pointed out that while the regulatory regimes were tailored to address institutional failures, they were not equipped to address systemic failures.

By far, the most contentious and most voluble debate triggered by the crisis is about the flaws in the regulatory architecture.

Speaking at the RBI-BIS seminar on "Mitigating Spillovers and Contagion - Lessons from the Global Financial Crisis" in Hyderabad, he said that several issues came to the fore.

(FE, 04.12.08)

Liberalisation, But with Caution

The Congress took a lunge to the left of centre with Sonia Gandhi saying that liberalisation should be pursued with caution and not at the cost of social justice.

Although 'liberalisation lacks kindness, gentleness and social justice' is a familiar theme on the eve of elections, Sonia's assertions clearly showed the Congress' reluctance to follow through its claim of being the reformer at the time of global financial meltdown.

The effort may have been also aimed at appealing to Left parties, which have been claiming that the gains from the economic growth skewed heavily towards the wealthy.

(ET, 22.11.08)

New Concerns over Rising Poverty

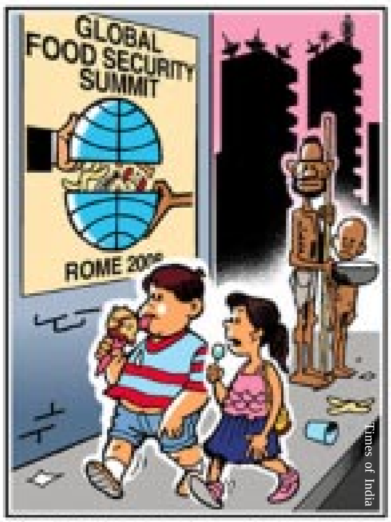
– **Usha Tuteja***

The estimates of poverty in India have been an important but debatable issue among academia and policy makers. So far, there is no consensus on the rate and proportion of decline in poverty.

If the poverty level is redefined on the basis of access to education, health, infrastructure, clean environment and empowerment of women and children, the existing numbers of poor will add up to a staggering quantum. Recently, two reports by the World Bank and the ADB have been released on poverty estimates. The World Bank revised its benchmark of extreme poverty up by 25 cents from US$1 per person a day to US$1.25 per person per day. The ADB has estimated an even higher benchmark of US$1.35 per person per day.

By using the first poverty line, the estimated number of poor in India during 2004-05 was 456 million or 41.6 percent of the total population. According to the second poverty line, the number of poor in India was 622 million, which is 54.8 percent of the population. Evidently, these estimates are significantly above the official estimates of 27.5 percent indicated by the Planning Commission. Among the states, Bihar, Chhattisgarh, Jharkhand, MP, Orissa indicate that around 40 percent of the population is below the poverty line.

In the past quarter century, the poverty rate has slowly declined by somewhat less than one percentage point a year. But the number of poor has remained stubbornly large. Moreover, the decline in poverty was faster during the 1980s than during the 1990s and in recent years. Clearly, India has not experienced the spectacular declines in poverty, expected in an emerging economy with high growth.



Alarming food crisis....At my home, from plates we'd shifted to quarter plates. Nowadays we eat in saucers.

Education and skill building of rural poor are big challenges. In the absence of these attributes the rural poor will not be able to compete in the skill-based market economy and would remain at the bottom of the pyramid

There are a large number of factors that have affected the plight of the poor. The vast majority of the poor is in India's villages. The small and marginal farmers, who own less than one hectare of land, constitute a major proportion of the poor. The tiny pieces of land owned by them have been unviable and therefore unable to provide income for the sustenance of the family. The rising input costs and stagnating yield rates of important crops have compounded their woes.

Moreover, rising prices of commodities during the last two years have only helped the farmers marginally in raising incomes because traders have cornered a large proportion of the additional income. The second segment on the bottom of the pyramid in rural India comprises farm labourers, women and children. These are most vulnerable and greatly affected by the seasonal nature of employment in agriculture, which does not provide round-the-year employment.

The solution to alleviating poverty in rural India is to shift the surplus labour force from agricultural to non-agricultural activities since agriculture is unable to provide significant opportunities to the vast majority. The rural poor have been migrating to cities in search of employment opportunities due to pull factors. They often live in urban slums and work at low productivity jobs in the absence of education and skills. These groups lag in education, health, income and consumption levels.

Strong economic growth, rising incomes and social welfare programmes have pulled millions of urban out of poverty in recent years but the rural poor are trapped in extreme poverty in an economy with an inflation rate above 10 percent. Education and skill building are the catalytic factors to pull rural poor out of poverty. Around 57 percent of male workers and 77 percent of female workers in the unorganised sector in rural India have less than primary level education.

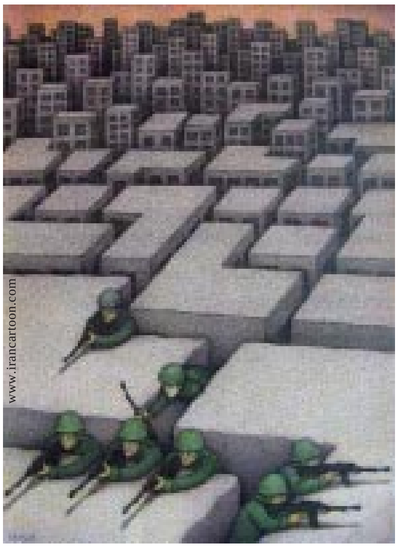
A historic neglect of education in rural India is a major roadblock in the quest to reduce poverty. Experts say that rural areas would continue to straggle far behind urban areas until rural schooling improves and more rural labour is properly educated. Over the last decade, the Government has invested heavily in increasing school attendance in rural areas but less on skill building and quality education.

* *Head of Agricultural Economics Research Centre, Delhi School of Economics. Abridged from an article that appeared in the Economic Times, November 08, 2008*

The Armageddon

– Meghnad Desai*

Political and institutional reform is urgently needed to prevent a freefall



Mumbai will never be Shanghai. It should worry that it does not become Beirut. Lebanon was once a prosperous nation with the most enterprising people who since the earliest days of civilisation as Phoenicians traded with the world. Lebanon went through a civil war and became a shell of itself. Mumbai could be on its way there. I guess the leaders of the Marathi Manoos would not mind as long as we call the old VT station Chhatrapati Shivaji Central terminus. That was the one thing which newsreaders changed immediately on a busy night.

The entire paraphernalia of the security services was helpless to prevent the occurrence of terrorism and even the rapid spread of the terrorists. How could people come by boat, off the Gateway of India and rush with guns blazing into the Taj? Were there no police, anywhere? No guards?

If there had been a VIP or even his brother-in-law present, there would have been Z-security personnel crawling all over the place. Even the Congress dynasty's son-in-law who holds no elected position, gets Z-security. But after we have paid for the least important VIPs and their brothers-in-law, what resources are left for the rest of us? Why cannot the Indian State, which interferes in all sorts of unnecessary ways, but fails to do the one thing even Adam Smith thought it should do – provide law and order – get its act together?

The Indian State has been falling apart now for 20 years. While there was a single party majority, corrupt at it was, it delivered the minimum. It was costly in terms of low growth and horrendous corruption. But it worked. Now there are more parties than the varieties of Heinz canned foods and yet there is paralysis.

The Indian business fraternity has to take action. They have to stop being so cautious and so sycophantic. The days of infant industry are gone. Business is the one efficient sector of the society. Had private sector been in charge, it would not have been a bewildered, in comprehending Ratan Tata asking why no one has taken heed of all the previous attacks? Ratan Tata has been now betrayed twice over by the great Indian State, first in Singur and now with a burnt out Taj. No wonder he was asking: Why were no lessons learnt? Why does it take so long for the police to get to the scene of crime?

The Indian State costs far too much for what little it delivers. It fails on education and health and now law and order. There is no political party today, which is both genuinely secular and sound on economics. Swatantra was there in the sixties and seventies but was cannibalised by Janata and BJP. India badly needs a right of centre political party, which will do what is needed—ensure a government, which is at least a good nightwatchman.

The first thing to demand is electoral reform. No party has commanded a majority of those voting, let alone the electorate since independence. Still governments claim that they have a mandate, to flout the constitution and abridge fundamental rights in the name of some flimsy ideology of socialism.

Let us have fixed term governments so elections do not become a perpetual circus. Let us curb executive and legislative privilege and ask what is the sum of a MP's salary and perks and what is the ratio of this largesse to the per capita income of the *aam admi*. How many days or indeed hours does a MP actually do legislative work and not rush down to the Well of Parliament in protest?

It is time to take an audit of the dysfunctional Indian State before it destroys the Indian economy and indeed the nation.

* *Prominent Economist and Labour Peer. Abridged from an article that appeared in the Financial Express, November 29, 2008*

Cyber Crime to be Defined

The Union Government, in its proposed Amendment Bill 2006 to the IT Act 2000, has made an effort to define cyber terrorism, child pornography spam and "phishing". The Bill, which seeks to address cyber crimes emerging from new technologies, is likely to be taken up by Parliament.

Participating in a panel discussion on "Are we losing the battle against cyber crime?" Gulshan Rai, Director General in the Ministry of Information and Communication Technology (ICT), said the amendments dealt with data security and privacy, identity theft and cyber terrorism. *(TH, 05.12.08)*

Spurious Drugs: Amendment Worries Cos.

The latest amendment to the Drugs and Cosmetics Act, regarding spurious medicines, could not just end up catching genuine manufacturers in its net, but also puts the spotlight on medicine storage and its transportation.

The Drugs and Cosmetics (Amendment) Bill, 2008 has been passed by both the Houses of Parliament and awaits the President's approval, after which it becomes the law.

Drug-makers fear that the soon-to-be-law tars companies with the same brush, the motive or reason behind the adulteration notwithstanding. If law-enforcers pick up such products from retail shops, it would get categorised as an adulterated drug and the drug-maker would land up in jail. *(BL, 21.11.08)*

AERA to Foster Healthy Competition

The Airport Economic Regulatory Authority Bill, which seeks to create a level playing field and foster healthy competition among major airports within the country, was passed by both the houses of Parliament.

The Authority will be empowered to protect the reasonable interest of the users apart from regulating the tariff for aeronautical services at major airports.

It shall determine tariff once in five years, but may consider amending the tariff from time-to-time during the five-year period. It will also have the power to determine the amount of development fees and the amount of passenger service fee that these airports can charge. *(BL, 24.10.08)*

An Integrated Energy Policy Approved

The Union Cabinet approved an Integrated Energy Policy for the country. The Policy is expected to explore alternative technologies and possible synergies that would increase energy system efficiency and meet requirement for energy services. It would allow for relative pricing of different fuels taking into account both their efficiency in use and convenience as well as the amount of pollution they generate.

An Integrated Policy is also expected to bring in a level playing field for all energy players – large or small, public or private, domestic or foreign. *(BL, 26.12.08)*

Replacing Old Legislation with New Provisions

The Central Government introduced the Companies Bill, 2008, in the Lok Sabha, seeking to replace the existing 52 year-old legislation with new provisions to lessen state control and catalyse speedy M&As.

The Bill, introduced by Corporate Affairs Minister Prem Chand Gupta, proposes to do away with the 658 provisions and 15 schedules in the existing Act and replace them with a far lower number of 426 clauses to provide for greater shareholder democracy and fair company valuations.

The Bill, once enacted on approval by Parliament, would replace the existing Companies Act, 1956.

(TH, 24.10.08)

Modifications Approved to Protect Trademarks

In a bid to ensure better protection for Indian trademarks across the world, the Government approved modification in the Trade Marks (Amendment) Bill.

Prithviraj Chavan, Minister of State in the Prime Minister's Office, said, "The amended Bill will provide better protection to Indian trade marks in designated member countries and afford reciprocal protection to trade marks from member countries abroad".

It will thus encourage transfer of technology through trademark licensing and franchising and generally promote overall business confidence in Indian intellectual property rights (IPRs) system globally. *(FE, 20.11.08)*

Council to Probe Complaints Against Judiciary

The Union Cabinet gave its nod for introducing a newer version of the Judges (Inquiry) Amendment Bill 2008, the Parliament, to make High Court and Supreme Court judges accountable for their acts, including corruption and incapacity.

The meeting decided to withdraw the Judges (Inquiry) Bill, 2006, introduced in the Lok Sabha on December 19, 2006. That measure drew criticism from a Parliamentary Committee and many retired judges for lacking the teeth to deal with cases of corruption in the higher judiciary.

(TH, 10.10.08)

Limited Partnerships Bill Gets Going

Foreign limited liability partnership (LLP) firms may soon be allowed to set up shop in India paving the way for foreign collaboration in areas like financial services, information technology, venture capital, consulting and possibly legal services.

Prem Chand Gupta, the Corporate Affairs Minister, introduced the Limited Liability Partnership Bill, 2008 in the Rajya Sabha. The Bill, once enacted, is expected to allow entrepreneurs, professionals and enterprises providing services of any kind to form commercially efficient entities. *(TH, 22.10.08)*

Making Workplaces Safe

The present UPA Government will have to its credit three labour-related policies when it exits from power. Having given finishing touches to the skill development policy and an employment policy for the first time after Independence, it is pushing a third policy for Cabinet approval.

The draft for this policy, dealing with occupational health and safety at workplace, envisages creation of a National Safety, Health and Environment at Workplace Fund and establishing suitable schemes for subsidy and provision of loans to enable effective implementation of the policy.

The policy also asks for a suitable accreditation machinery to recognise institutions, professionals and services related to safety, health and environment at workplace.

(BS, 15.12.08)

Policies to Counter Global Crisis

The Government is discussing a number of policy measures to insulate India from the impact of the global financial crisis including further banking reform, industrial de-control, auctioning all loss-making public sector units, foreign investment in retail, amending labour laws and notifying important pending legislation like the Delhi Rent Control Act.

These and other measures have been put up for discussion by the government to ensure that the Indian economy returns to a trend growth rate of nine percent from the next financial year. *(BS, 19.10.08)*

Universal Access to Education

In a bid to ensure universal access to secondary education by 2020, Government gave the go ahead to the *Rashtriya Madhyamik Shiksha Abhiyan* (RMSA) scheme for which Rs 20,120 crore has been allocated in the 11th Five Year Plan.

The objective of the Scheme is to achieve a General Enrolment Ratio of 75 percent for classes IX-X within five years from 52.26 percent in 2005-06 by providing a secondary school within a reasonable distance of every habitation. Other objectives are removal of gender, socio-economic and disability barriers and ensuring universal access to secondary level education by 2017 and universal retention by 2020. *(BS, 02.01.08)*

Hike in Urban Development Plan

The Centre is considering an increase in allocation of funds for the UPA flagship *Jawahar Lal Nehru National Urban Renewal Mission* (JNNURM) by 44 percent for the 11th Five-Year Plan period.

The Planning Commission aims to allocate the additional funds of Rs 22,000 crore to boost infrastructure spend in the small and medium towns as well as provide affordable housing for the urban poor.

The Commission had originally allocated Rs 50,000 crore for JNNURM projects during the 11th Plan period of 2007-12. *(FE, 11.11.08)*

A Landmark Judgement by HC

The Kerala High Court has held that the husband of a pregnant woman, who dies in an accident, can claim for compensation for the death of his unborn child also.

A division bench comprising justices C N Ramachandran Nair and Harun-Ul Rashid, issued an order while disposing of an appeal filed by TR Manikuttan of Thodupuzha in Idukki district and his mother-in-law wherein his pregnant wife was killed while she was riding pillion on his motorcycle. They had sought enhancement of the Rs 3 lakh compensation awarded by the Motor Accident Claims Tribunal at Thodupuzha. *(FE, 21.10.08)*

Boot out Non-performing Babus

A reform panel has recommended that non-performing bureaucrats should be booted out after 20 years of the services and the upper age limit to sit for the civil examination be reduced from 30 to 25 years.

The report on *'Refurbishing of Personnel Administration'* said the first review at 14 years would primarily serve the purpose of intimating the public servant about his/her strengths and shortcomings, while the second review at 20 years would mainly serve to assess the fitness of the officer for continuation of services. *(HT, 13.12.08)*

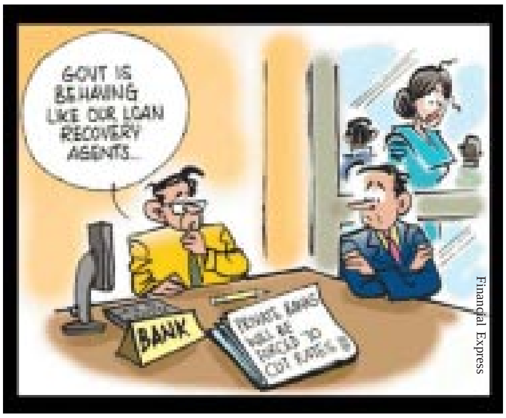
Act to Reduce Healthcare Cost

The Government would soon bring in a Medical Devices Act in a bid to regulate prices of healthcare equipment. The Union Science and Technology Minister said the Act will ensure an ISO certification procedure for medical equipment and it make manufactures of medical devices adhere to proper standards.

A draft Bill in this regard would soon be presented in front of the Cabinet. This initiative will reduce the cost of healthcare considerably by making it more competitive.

(ET, 15.12.08)

Housing Loans at Lesser Rates



The Government is pushing state-owned banks to offer interest rates on housing loans up to Rs 20 lakh at pre-2004 levels. This would mean consumers could get home loans at seven-eight percent, two or three percentage points lower than the current market rate of 9.5 to 10.5 percent.

Public sector bankers indicated that they have received signals to lower pricing of home loans up to Rs 20 lakh. "The price of such home loans may be capped at 10 per cent," said a public sector bank chief.

The Government is alsl looking at bridging the cost of this scheme – the difference between the rate at which the loan is offered and the market rate – through financing from the Reserve Bank of India (RBI). *(BS, 08.12.08)*

Parties to Pay for *Bandh* Damage

The Supreme Court decided to examine whether political parties could be directed to pay compensation for the damage caused in violence during a *bandh* they called in July 2003.

A Bench consisting of Chief Justice K.G. Balakrishnan and Justice P. Sathasivam issued notice to the Maharashtra Government and petitioners, on whose petition the Bombay High Court in July 2004 directed the *Shiv Sena* and the *Bharatiya Janata Party* to pay Rs 20 lakh each as compensation for the loss of public property during the *bandh* called by them.

(TH, 02.12.08)

India's First Low-cost Medicine Bank

The Chemicals and Fertiliser Ministry has launched the country's first national level low-cost medicine bank scheme in a bid to help people buy drugs at affordable prices.

Under the scheme, the space needed to set up the medicine outlet will be provided free of cost to a non-governmental organisation that will be responsible to run the shop. The sourcing of medicines will be managed by government-deputed agencies such as public sector drug makers.

(BS, 30.11.08)

Award for Gujarat Infrastructure Board

Gujarat Infrastructure Development Board (GIDB) has been awarded the "Most Admired State Level PPP Agency" by KPMG-Infrastructure for the year 2008.

GIDB, since its inception, has been working for the development of world-class infrastructure, particularly with private sector participation under the public-private partnership models across all sectors.

KPMG has initiated this award to accelerate the growth of infrastructure sector in the country. The award is the result of research conducted by the KPMG across the country. *(BL, 11.12.08)*

BHEL-NTPC Sign 'Integrity Pact'

Bharat Heavy Electricals Limited (BHEL) and National Thermal Power Corporation (NTPC) inked an 'Integrity Pact' with Transparency International (TI) and the Central Vigilance Commission (CVC) to ensure complete transparency in major contracts, tenders and procurements.

Complimenting the efforts of TI and the CVC, all the private companies, which were into public-private participation projects with PSU funding, should also be asked to enter into the Integrity Pact. *(TH, 17.12.08)*

E-GOVERNANCE

Patients to Rate Doctors Online

"British patients could soon rate their doctors by posting reviews on an official health service website", Health Minister Ben Bradshaw said.

By being able to read feed back from other patients, people would be better able to decide which doctor they wanted to consult.

However, doctor's representatives voiced concerns that it would descend into a meaningless popularity contests rather than providing accurate information about medical skills.

(BL, 30.12.08)

Bengal Among Bottom Three

Chief Minister Buddhadeb Bhattacharjee has for long been trying to hard sell West Bengal as IT-friendly, but a national survey by International Data Corporation on e-governance has found the state among the bottom three, ahead of just Jharkhand and Bihar. It found Tamil Nadu at the top and Bihar at the bottom.

The survey found the state among the bottom three on six of the 12 citizens' parameters on e-governance such as transport/RTO, Municipal Corporation, agriculture, healthcare, state transport services and employment exchange and also bottom three in seven of the 15 business parameters of e-governance such as business registration small business assistance, licences and permits, government tenders and contracts. *(BS, 21.12.08)*

Haryana Marches Ahead

Haryana has made rapid strides in many key fields and is well on the way to topping the e-Governance Readiness Index-2006, having progressed from 15th position in the country in 2003 to the fourth in 2006, according to the e-readiness report of the Union Government. It also won the "Best e-Governed State Government" Telecom India Excellence Award-2007. In all, the State has received 18 prestigious national e-governance awards.

Haryana ranked No. 4 in the Dataquest-IDC e-Governance Survey 2008, having progressed from the 18th position in 2007-08, ahead of Andhra Pradesh, Karnataka, Goa, Gujarat, and Maharashtra. *(TH, 27.12.08)*

SNIPPETS

Cabinet Papers & RTI

Citizens can get hold of Cabinet papers under the RTI Act, once the decision is made. The Central Information Commission has overruled the objectives of Department of Personnel and Training in revealing deliberations of the Cabinet saying the information is not exempted under the Act. *(HT, 27.10.08)*

Whistle-blowing Pays

The Bihar Government has upped its reward for information on corruption. Depending upon the nature of the corruption, the reward money runs all the way from Rs1000 to Rs 5 lakh. Whether this will help reduce corruption in the awards remains to be seen. *(BS, 30.12.08)*

To Beat Anti-incumbency, Learn to Talk to People

Sheila Dixit*

When India became independent I was 11 years old. I saw everything that happened in its wake; like people coming in from various places to Delhi.

That was the first change I saw in Delhi. Only a couple of companies such as Bata and DCM were based here then. I noticed every single change in Delhi. I saw the city become a melting pot of Punjabis, Malayalis, Bengalis and people from all other regions of the country.

That helped me come to grips with the fact that unless we understand the aspirations of people and their traditions in all their diversity, we cannot appeal to Delhi's mini India of a populace. Today, 75 percent of Delhi's population is made up of young people. They don't know any caste or creed and are only concerned about development.

Let me confess, I did not initially understand Delhi politics. I had always understood UP politics better because my husband's family comes from that state and was active in politics. During my stay in UP, I noticed that caste was a major factor in politics. But when I came to Delhi I realised that its agenda is not caste, creed or religion but only governance.

You have to get into the thick of things. What does a child look for in the Government? Is it the Government that is going to give me good schools, good roads, a better future? Or, is it going to preach about caste and creed? That is how our government was able to beat anti-incumbency twice over. We related to the people. And our biggest relationship medium was envisaging government as a partnership enterprise with them.

The most successful example of this approach is Bhagidari, which enabled us to communicate to people our idea of governance. Bhagidari, initially, had its constraints and restraints. But there was always a balancing factor. I told people they should voice their opinion for which we had created a forum.

The hold that caste has over politics would loosen only if political parties and governments acquire the ability to communicate with the people

In Bhagidari workshops, we distributed books to educate people about their right to know. We have been constantly telling them that we need their cooperation. People have always been kept in the loop, both about the successes and failures of our government.

This third electoral victory has taught me, beyond all measure of doubt, that my positive image and the victory it has brought me has nothing to do with my being from a particular caste. Are other Indian states ready to learn from this experience of ours? But then the hold that caste has over politics would loosen only if political parties and governments acquire the ability to communicate with people.

Our greening efforts, for instance, would have never been successful had we not got the people of Delhi involved. The green cover has expanded from about 2 percent in 1998 to 20 percent now. A large number of children in Delhi just do not use crackers now, which is yet another sign of the importance of communication for good governance. The other crucial tool which helped me win over Delhi people was the various ways I tried reaching out to each one of them.

I call daily meetings where I receive both bouquets and brickbats. Somebody complains about the water supply or hours-long power cut. I try to listen to as many people as I can in the limited span of time.

The issues of introduction of CNG and power shortage were the major ones. It was not easy for our government to fast track the switchover to CNG from diesel. But we managed to succeed and over the years brought down the pollution levels considerably.

I never felt shaken by the ruckus around the BRT corridor. I realised that something might have gone wrong somewhere. I stopped working on the project for a month and went into the nitty-gritties and understood the system so that the process could be revisited in a better way.

Also see:

Speak to the people

By Pradeep S Mehta

The Economic Times, April 14, 2007

The key to success is realising the importance of right flow of information and listening to people. In a nutshell, irrespective of the canvas of a reform and it's importance to a country's economy, what is crucial is to: speak to the people!

http://www.cuts-citee.org/media-archive-apr07.htm#MEDIA05

* *Chief Minister, New Delhi. Abridged from an article that appeared in the Economic Times, December 22, 2008*

Inclusion and Regulators' Dilemma

– Sanjay Sinha*

The Raghuram Committee has made excellent recommendations to promote financial inclusion. Regulators need to take a few bold steps to release the energy of the financial system in favour of the excluded

By and large, regulators are a conservative lot and tend to favour caution over liberal growth. Thus, in India we have seen the facilitation by regulators of a high capital financial system while alternatives with lower capital requirements are either limited to government ownership, as in the case of the regional rural banks, or disallowed altogether in the insurance sector.

The dampening effect of regulatory conservatism on economic inclusion and ultimately on economic growth is a matter that can only be speculated upon. The excellent report of the Raghuram Rajan Committee on financial sector reforms estimates that a better functioning financial sector alone could release enough economic energy to add up to 2 percent to the rate of economic growth. This is not a release to be sneezed at. For this, the Raghuram Rajan Committee makes a number of important proposals.

Economic Times

First, the committee favours the introduction of what it calls "small finance banks"; deposit-taking banks with far lower levels of capital than the Rs 300 crore of equity that conventional commercial banks are required to have. The RBI can ensure a better and more responsible management than is possible with the few applicants there are for large bank licences. Viability, the committee argues, can be improved by applying technological solutions that will also enhance transparency.

Second, the Committee recommends the liberalisation of the business correspondent regulation by allowing more diverse local agents to extend such services while using technology to reduce transaction cost and limit fraud. This would enable the tapping of various distribution networks such as cell phone kiosks and *kirana* shops for bridging the last mile between large banks and small, and sometimes geographically scattered, customers.

Third, the recommendations of the Vaidyanathan Committee on cooperative reforms are reinforced to emphasise that better management would result if members of cooperative institutions had their funds at stake since this would lead them to exercise real control because there would be no prospect of government intervention or interference. This would enable unviable cooperatives to be closed while the best ones could even explore the possibility of conversion to small finance banks.

Fourth, the Committee argues for the liberalisation of the interest rate regime with appropriate safeguards such as full transparency on the effective interest rate and publication of annual average and maximum rates charged to the priority sector.

These recommendations have excited surprisingly little public debate so far. In the initial discussion in the business media, the report was faulted mainly for being too far-sighted for the financial establishment to swallow. In a time of reform, the needs of inclusive growth demand that such thinking be abandoned.

In addressing the regulators' dilemma, the Committee does make the point that the failure of the odd small finance bank is hardly likely to have disastrous consequences for the financial system. What it might have gone on to say is that in order to serve the needs of the vast majority of people in India, regulators need to address every level of the financial architecture; there is little kudos in ensuring their own reputation if it means restricting the outreach of the system.

To solve such problems, there should be a mechanism for constant feedback. Unless we have the administration with us, we will not be able to achieve what we have set out to achieve.

People said that anti-incumbency was, this time around, writ large in Delhi. But I always maintained it would be a pro-incumbency. Besides terrorism, the opposition also raised the issue of price rise. But it did not work. I always said that it was a global phenomenon and Delhi could not escape it. And the electorate understood it and voted for me against all odds.

* *MD of Micro-Credit Ratings International Ltd and Member, UN Advisers Group on Inclusive Financial Sectors. Abridged from an article that appeared in the Economic Times, October 25, 2008*

The Financial Crisis and the Indian Response

– Arjun K Sengupta*

During the current financial crisis the Government seems to be following a similar conventional approach of market management, without directly addressing the source of the problem. Traditionally during a financial crisis, the Central Banks act as lenders of last resort, lending liquidity to the banks. In India, RBI is returning some of the liquidities of the banking system that it held as reserves.

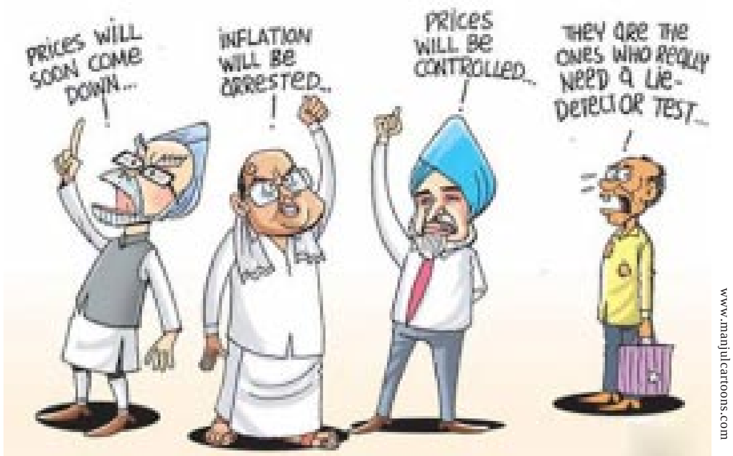
No doubt our banks are suffering from liquidity crunch for some time, caused by our earlier policy of liquidity withdrawal to manage inflation. The RBI's attempts to contain the fall in the exchange rate of rupee by selling dollar is also withdrawing rupees. Most important however is in falling stock markets, FII investors take away dollars by surrendering rupees.

But injection of rupee by the RBI into the system will not necessarily increase bank lending unless borrowers have the confidence in the sustainability of our economy to induce them to increase their investment and the banks have the confidence that these borrowers will be able to pay back.

Missing element

The main element that is missing in the system is enough confidence of our economic actors in our ability to get over the crisis within a short period. In its absence, there is hardly any way that either the demand for credit and finance for investment or the bankers' willingness to meet that demand can increase.

In such situations, the Government has to take steps to increase confidence in the system, and provide a stimulus to increase the rate of investment and expectations of revival of growth. Relaxation of liquidity shortage will be good, especially when it was the result of government's policies.



The Government seems to be following a conventional approach of market management without directly addressing the source of the problem

Only a policy to increase the rate of investment will be seen as promoting growth and revive confidence. When private investors are reluctant, we have to depend upon public investment to stimulate investment. We have a large public sector functioning with efficiency, as has been demonstrated by a sustained increase in its profitability. The Government may mobilise some of our public sector corporations engaged in the sectors of power, transport, construction and communication to expand investment in our infrastructure.

This policy of expanding real expenditure through a monetised budget deficit to finance infrastructure investment can be compensated by a policy of expanding credit to the small and medium-sized enterprises (SMEs). This sector with only 10 percent import content and with a proven ability to expand production through small amount of investment can very rapidly increase output and employment in our system. This sector has suffered most when the banks are in no mood to support SMEs with limited profitability and with practically no collateral. Only a directed public policy of providing financial support can galvanize them.

Stock markets

But the government also must attack directly the problem of loss of confidence in the stock markets. Without buying designated assets, as some others are trying, we may use our mutual funds. They can do the job quite effectively with the minimum involvement of the government. A simple mechanism would be opening a window of lending to the mutual funds against their purchase of stocks or retaining them even when there is a high demand for redemption. In the current situation the primary objective is to increase the confidence of all market participants in our potential for growth.

Our fundamentals may be alright but the confidence in them has been grossly eroded. If a government programme can stimulate that confidence by investing in infrastructure, by allowing the small and micro enterprises to expand their output and employment and by increasing the private sector confidence in our stock market, it is highly likely that we shall get our the crisis.

* *MP and former Executive Director of the International Monetary Fund. Abridged from an article that appeared in The Hindu, October 24, 2008*

ReguLetter

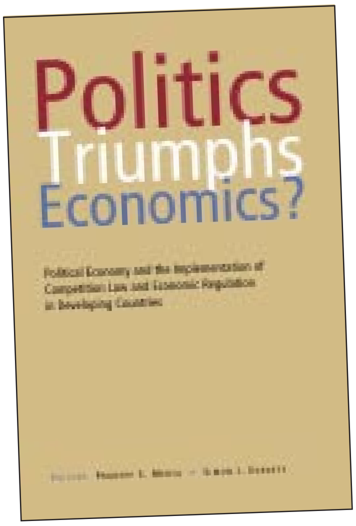
The October-December issue of the CUTS C-CIER newsletter ReguLetter encapsulates the 'Economic Globalisation with Uncoordinated Regulation: Cruel Contradictions' in its cover story, which stresses on the need to have different global guardians for corporate governance, financial transactions and the environment over and above the WTO because in today's globalised world incorrect actions by a major economic agent often results in misery for the whole world.

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 Manish Agarawal and Aditya Bhttacharjae analyses one amendment to the Competition Act that covers the threshold limits of mergers of global companies operating in India which would be covered by the Indian legislation. Another special article stresses on the need to have an international regulator in place to monitor agreement and promote free capital flows in a market-based system.

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

This newsletter can be accessed at:
http://www.cuts-international.org/reguletterpdf/reguletter4-08.pdf



Politics Triumphs Economics? *Political Economy and the Implementation of Competition Law and Economic Regulation in Developing Countries*

The research volume has been published under the 'Competition, Regulation and Development Research Forum' (CDRF) project. A wide range of issues have been captured in the research volume – for instance, the political economy underlying the implementation and enforcement of competition and regulatory laws and regimes, barriers posed by vested interests to the free and fair functioning of competition and regulatory regimes and regulators attributable to functional overlap which often delays decisions and is, therefore, detrimental to the welfare of any country.

This book can be purchased at:
http://www.academicfoundation.com/n_detail/ptrumph.asp

Hard Back Book: Pp 468, Rs 1195/US$69.95, ISBN 13: 978-81-7188-725-5, 2009 Edition

Forum

Among International Development Research Centre's (IDRC) competition policy projects is one entitled, 'Competition Research for Economic Development' (CRED), which provides research support directly to competition authorities in developing countries. Though on a smaller scale, it is providing a successful complement to CUTS' valiant efforts in promoting national cultures of competition.

Susan Joekes
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Globalization, Growth & Poverty Program
IDRC Middle East and North Africa Regional Office

SOURCES

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