PolicyWatch

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

Volume 5, No. 2&3

कट्स CUTS Twenty Years of Social Change 1984 to 2003

2004

Local Problems Need Local Solutions

Anti-competitive business practices are rampant at the state level, which need state-level competition agencies, backed by appropriate laws, to tackle them.

To achieve progress and the elusive eight percent growth, it is important that all policies are coherent with the singular goal of achieving a better market place.

Indeed, many of our central government policies are framed and implemented to promote competition, such as regulatory policies in the utility sector, or using import policy to offer competition.

One incongruent policy is on small-scale reservations. Closely linked with it are the state government procurement policies, under which both price and purchase preference are awarded to both small-scale and other units in the state.

Overall, all these restrictive trade practices affect our competitiveness to a large extent, and tragically remain unaddressed in the public discourse.

The CUTS research project, to develop a "Functional Competition Policy for India", discovered many interesting issues at the state level, which affect our competitiveness.

The Hindu Business Line

A large number of regulatory failures were also discoverd. For instance, in one case in Rajasthan in the late 1980s, the forest department tendered for the purchase of barbed wire for fencing. A big percentage of this was to be procured only from the small-scale sector.

The local small units, who bid, formed a cartel and shared the supply order. To add insult to injury, the quality was hopeless. Even so, the department was 'forced' to use the shoddy goods.

Similar to occurrences at the central level, the construction sector is scandalously infested with collusive bidding at the state level too, without any regulation. In Chennai, a flyover scam had rocked the state assembly, where contractors pooled together to share the contract at a considerable cost to the taxpayer. But nothing much came of it. Angered by the malicious process, the Rajasthan PWD minister announced in the assembly on July 20, 2004, that he would break all cartels, so that smaller contractors can bid for contracts. But, nothing happened, and it was business as usual.

Such types of regulatory failures are abundant in all our states. Trying to break these cartels is as difficult as you and me travelling to the moon. What with the high levels of corruption amongst the responsible engineers, who are in cahoots to ensure higher 'commissions' from public works. One is reminded of Satyendra Dubey, who blew the whistle on the contractor mafia in Bihar.

The mafia appears to dominate in most such businesses in the states, who indulge in all types of anti-competitive practices in collusion with politicians. In the area of goods transport, there is a mafia-led cartel in various places.

In March 2004, *Economic Times* reported of a truckers' cartel operating in Baddi, Himachal Pradesh. Controlled by the local MLA, the truck union charges 30 percent higher on the Baddi-Delhi route and 15-20 percent higher on the Baddi-Mumbai route. Trucks coming in with supplies, go back empty, because they are not allowed to pick up freight, which only adds to the production costs. Furthermore, new units are discouraged to establish factories in the area.

In a similar case in Alwar, Rajasthan, in the 1980s, the Monopolies and Restrictive Trade Practices (MRTP) Commission had taken action against the local truck union, but to no avail. The local union was headed by an MLA, who later became a minister in the state. Yet, on the cries of the local industry, the district administration took action, and with the help of the police broke the cartel.

Another area, which the research addressed, is the state excise policy. This policy, purely under state jurisdiction, generates the biggest revenue in the state, and is often implemented in a manner that all liquor vends are auctioned annually.

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*

Published by Consumer Unity & Trust Society (CUTS), D-217, Bhaskar Marg, Bani Park, Jaipur 302 016, India
Phone: 91.141.228 2821, Fax: 91.141.228 2485 Email: cuts@cuts.org, Website: www.cuts-international.org
Printed by: Jaipur Printers P. Ltd., M.I. Road, Jaipur 302 001, India. Annual Subscription Rs. 150 p.a./US$30

Here, too, in many states, cartels operate and rob the consumers. The Beverage Manufacturers' Association has been lobbying for uniformity but that is clearly an uphill task.

Other lobbies and ignorance are their enemies. On a query to a senior official in a state, his response was: "I do not care two hoots for consumers. My only consideration is to increase revenues".

What a pity, because he did not realise that by promoting competition, the state would have protected consumer interest as well as increased the revenues. One doesn't need to be an economist to determine that when collusion takes place, bids are always suppressed.

No central law or authority can be used easily to curb anti-competitive practices which exist in the retail sector. In Mumbai, the Pan Merchants' Association decides and circulates a price list, which mandates members to sell at prices which are higher than those printed.

This is a violation of the packaged commodities rules, but one cannot expect the weights and measures inspector to go around prosecuting every pan shop. Such types of practices need to be dealt with systematically by the state government, but no one bothers!

Tied sales is another menace. I wonder whether people remember the time when LPG suppliers insisted on the consumer buying the hot plate at twice the market price. Inspite of an MRTP order and oil companies' notices, the dealers hardly ever bothered to comply.

CUTS research showed another ubiquitous problem throughout the country, with little effort by the state governments to curb it. Most private schools insist that students buy their uniform and stationery from either their own store or a nominated shop. Prices are usually high, and whenever a complaint is made, it is at the risk of the student being rusticated.

Most doctors and diagnostic centres are in league throughout the country, making that extra buck. While pharmaceutical companies 'influence' many doctors to prescribe their brands.

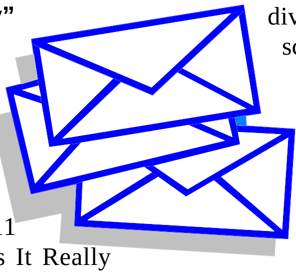
Finally, the very controversial cable TV sector. At the consumer level, one has to deal with monopolies, which do not guarantee good service and escalate prices frequently. While Telecom Regulatory Authority of India (TRAI) is dealing with the policy framework, they too have been exasperated with the situation at the ground level.

In a recent statement, the TRAI has said that cable TV can best be regulated at the state level. But where is the legal framework, which can enable the states to deal with this and million other anti-competitive and anti-consumer practices? For a big country like India, we need state competition and regulatory institutions to deal with a myriad of competition abuses. Local problems need local solutions.

(For further details on the project, please visit CUTS website on http://www.cuts-international.org/funcomp.htm)

FROM OUR READERS

CUTS has the Last Word on "Safety"



I heartily look forward to seeing you in the near future.

At present I have to satisfy myself by interacting through your literary treasure in the form of "CUTS in Action", Research Reports, Newsletters, Briefing Papers, etc.

I was pleased to see our comments on 11 subjects printed in your unique book, "Is It Really Safe?"

It seems the unwritten motto "Safety, Safety and Safety first" has been and is the sustaining power and spirit of CUTS. What CUTS writes or publishes is the last word on the subject matter!

We, as an organisation, wish you, Pradeepjee, and your CUTS, nothing less than sky-high fame.

Ramaben R. Mavani
Ex-MP (Lok Sabha),
A National Award Winner Consumer Activist

Gram Gadar: A Powerful Idea

I have always regarded CUTS as a knowledge-based organisation trying to work on a whole lot of sustainable issues, and it is encouraging to see that it is now diversifying into media education, and educating school children. "Gram Gadar" is a very powerful idea that has taken off really well. I wish CUTS much more success in future.

***K Kannan**,*
The Hindu, INS Bldg, Rafi Marg
New Delhi

Detailed and Insightful Publications

I would like to take this opportunity to thank you for the detailed and insightful publications that you have availed on trade, investment, competition and consumer policy.

In this regard, in an effort to combine research resources for best possible results, it is my pleasure to invite your organisation to serve with us on priority and concrete issues, such as investment policy and strategies formulation. This is particularly important at this point as the Ministry seeks development through capacity building and consensus building, research, analysis and technical assistance.

***Dipak K A Patel**,*
MP, Ministry of Commerce, Trade & Industry
Republic of Zambia

FROM OUR VISITORS

I have been following what CUTS has been doing for many years now and have greatly appreciated the competition policy-related issues. I look forward to more such contributions in the years to come and to working with CUTS.

Bernard Hoekman
World Bank

I have visited CUTS to discuss certain aspects of WTO implications on agriculture. I am impressed to see your library and other resources. You have an insight on WTO issues and have a professional team committed to work and sending valuable contribution to the society and country's economic and policy thinking.

Purushottam Agarwal
Commissioner Agriculture, Rajasthan

Transport Cartel has Last Word

In Baddi, Himachal Pradesh, the Baddi Nalagarh Truck Operators Co-operative Transport Society has monopolised the movement of goods from the state. Controlled by the local MLA, the truck union charges 30 percent higher on the Baddi-Delhi route and 15-20 percent higher on the Baddi-Mumbai route. Trucks coming in with supplies go back empty, because they are not allowed to pick up freight, which only adds to the cost.

There is an excise waiver for companies in this industrial estate and a large number of consumer goods and pharmaceutical companies are setting up manufacturing units in Baddi. By controlling the commercial traffic in Baddi, the transport union has reduced the cost advantage the units would otherwise enjoy. Though, all large companies find cost advantages, due to excise waiver, higher than the component of higher transportation costs, and are willing to yield to the blackmail of the local transporters, small companies are facing problems. *(ET, 23.03.04)*

New Policy to Break Monopoly

In its excise policy for 2004-05, the Government of Madhya Pradesh has decided to abandon the system of allotting alcohol sales outlets to the highest bidders, through auctions, and has substituted a lucky draw instead. According to the State Minister for Excise, this change in policy was aimed at subverting the liquor mafia, which, through its money and muscle power was building monopolies in the liquor business.

Under the new policy, any individual will be entitled to apply for running one or more of the 3,200 country and IMFL shops in the state by depositing one-tenth of the licence fee stipulated for that particular shop. In case where there is more than one applicant, the licensee will be decided through a draw of lottery. Uttar Pradesh (UP) had also adopted a similar policy from 2003-04 and the state's excise revenue jumped by over 30 percent as a result. *(DH, 22.02.04)*

Miller Cartel in Orissa

There is a millers' cartel in Orissa, which results from the faulty procurement policy of the State Government. The State Government collects raw paddy from farmers and sells it to millers for further processing, who sell the processed products back to the State Government. The Government of Orissa does not have its own processing industries. The millers capitalise on this and sell the processed products to the State Government at a high rate. Ultimately, the Government sells the purchased product to the people at a very high price. The procurement policy has thus become miller-friendly instead of being consumer-friendly.

(Based on information from reliable sources)

Doctors' Share in Drug Firms

There are reports about the increasing share of the doctors' piece in the drug firms' pie in Azamgarh, UP, as well as in many other places. Doctors push the brands of local drug companies and receive handsome commissions in return. What is particularly worrying is that no one knows how legitimate these firms are.

Doctors ask patients to show them the medicine first, before using it, giving the reason that there are a lot of fake medicines in the market. While the patient is impressed by the show of concern, quite often the actual motive behind doctors' advice is to earn commission by promoting and prescribing a particular drug.

(HT, 04.07.04)

Ice-cream Cartel

Most often, service providers at the local level resort to anti-consumer practices because of the need to grease the pockets of enforcement agencies, also at local level.

For instance, India Gate at New Delhi, where people go out for an evening stroll etc, is full of ice cream vendors in the evening. All of them charge more than the price printed on the package. Their explanation is that they have to pay "*hafta*" to the policemen on duty in order to sell at India Gate, where business is brisk.

Selling at more than what is marked on the package violates the weights and measures (Packaged Commodities) rules, but the Department of Legal Metrology does not haul them up and they continue to overcharge consumers. One wonders, why not use the same police force to enforce rules that favour the consumers. Their power can be used in a positive way to protect consumers, rather than harming them.

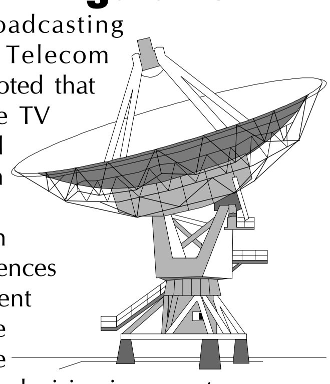
(Based on information from reliable sources)

Bid Rigging in Construction

An area of government procurement, where there are cases of collusion, is construction, contracts undertaken by the government. There is now a trend towards awarding work in much bigger packages, which effectively rules out most small contractors from bidding, thus restricting competition.

Angered by the malicious process, the Rajasthan Public Works Minister announced in the assembly on July 20, 2004, that to break the pool of big contractors and to increase competition, bids with smaller value will be encouraged to ensure that contractors with lower financial capacity are given adequate opportunities. *(RP, 21.07.04)*

State Level Cable TV Regulation



In its recommendations on broadcasting and distribution of TV channels, the Telecom Regulatory Authority of India (TRAI), has noted that implementation of the regulations on cable TV can only be done through a decentralised enforcement agency, which has to draw on State Government resources.

TRAI, through its interactions with consumers, has found that there are vast differences in the requirements of consumers in different parts of the country. Accordingly, no single model can be applied across the whole country. It is of paramount importance that the decision in respect of the precise system in each area, should be taken only after consultations with the State Governments and local stakeholders. *(www.trai.gov.in)*

Freebies for Farmers

Following the paths of Andhra Pradesh and Tamil Nadu, Maharashtra has decided on supplying electricity to farmers, free of charge. The state cabinet has unanimously decided to provide cash advances of about Rs 400 crore upfront to the Maharastra State Electricity Board (MSEB), as prescribed in section 65 of the Electricity Act 2003. The objective is to compensate its loss, on account of free-power supply to over 23.4 lakh agriculture pump consumers.

In a significant development, the Andhra Pradesh Government has decided to disconnect all unauthorised power connections for the agriculture sector in the state, estimated to be at 3.5 lakhs, saying that free power does not mean free availability of power. "No bank or financial institution will be comfortable to fund a power project if the culture of no-user-charges is encouraged," said an industry analyst. *(ET, 21.08.04 & FE, 23.08.04)*

Distribution Reforms

Power distribution should be the first priority for improving the commercial performance and financial viability of the power sector, says the World Bank

Country Strategy Paper for India. The paper that covers the period from 2005-08, says that even if the current levels of losses were reduced dramatically, large investments, in addition to generation capacity, would still be essential, if lack of power availability is not to constrain India's capacity for rapid growth.

The bank would consider providing investment support in transmission, through the PowerGrid, and in generation, for hydroelectric projects, it added. *(BS, 27.09.04)*

Draft Transmission Norms

In pursuance of the Electricity Act 2003, the Central Electricity Regulatory Commission (CERC) has issued the draft regulations, specifying the conditions applicable to transmission licensees. Companies intending to move into inter-state power transmission will need to have a net worth equal to the estimated annual transmission charges. They must make public details of shareholding pattern and management profile.

The transmission licence would be valid for 25 years from the date of issue, unless revoked earlier, and the companies would charge according to CERC tariff notification. The terms and conditions of the licence may be amended by CERC in public interest or on an application made by the licensee following the procedure outlined in the Act. *(FE, 04.09.04)*

Beating the Target

Having already commissioned 6800 MW, and another 27,500 MW under execution, the Ministry of Power expects to exceed the target of adding 41,000 MW in the 10th plan.For about 8000 MW capacity, mainly to be added by state governments and the private sector, the companies and state electricity boards (SEBs) are at an advanced stage of execution of tenders, which are likely to be awarded soon.

The state-owned National Thermal Power Corporation is successfully finalising the supply of gas for its 2600 MW plant in Gujarat. Besides this, the Ministry has also stepped up efforts to help the private sector achieve financial closure for their projects. Some of the independent power producers are at an advanced stage of achieving financial closure for their projects. A project worth 4000 MW has already got clearance and will take off soon. *(ET, 03.06.04)*

Open Access Implemented

An open access system has now come into force in Rajasthan, making it the first state in the country to comply with the new Electricity Act. The three electricity distribution companies are purchasing power directly from generating units and using the 'open access' system. However, it will not help them in any way to bail out of their present predicament caused by an accumulated deficit of Rs 5,700 crore and a projected deficit of Rs 1,700 crore for the current financial year.

In the first phase, consumers with the contract demand of 15MVA (20MW) and above can avail the open access. The contract demand of MVA will be gradually reduced in each succeeding year. *(ET, 01.06.04)*

Redraft Power Policy

The Planning Commission has trashed the Draft National Electricity Policy's estimates that envisage an investment of Rs 9000,000 crore to finance generation, transmission, sub-transmission, distribution, and rural electrification projects in India, including household electrification.

There is no talk of optimum utilisation of energy resources in the draft policy document and it has failed to identify any specific policy initiatives that would address key problems in the sector.

The major problems comprise a) raising the level of competition in the sector and shifting away from the cost and pricing regime, removing bottlenecks to open access, handling the legacy of existing contracts and b) raising the level of redundancy in generation, transmission and distribution and a system operation at 75-80 percent plant load factor that is not a desirable outcome from system stability considerations.

(FE, 21.09.04 & TH, 23.09.04)

International News.........

California Electricity Market

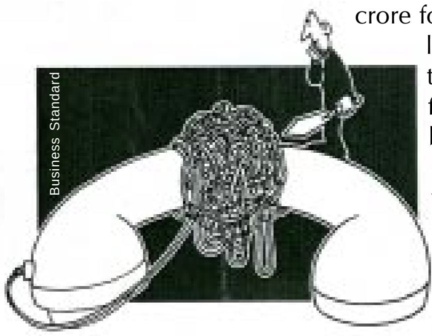
Arnold Schwarzennegger, California's Governor, has prodded the state's power industry regulator to speed up corrections to the failed electricity market deregulation experiment, which dimmed the lights in 2000 and 2002.

Schwarzennegger published a letter to the California Public Utilities Commission urging it to implement a 2002 law that would reduce consumer rates and the threat of blackouts, while encouraging investment in power plants.

The Governor indicated that he expected the legislature to amend laws in order to allow industrial power users to negotiate power contracts independently of utility suppliers, whilst ensuring that smaller consumers did not have to pay more to compensate for any lost business. *(FT, 30.04.04)*

Lowering Licence Fee

TRAI proposed an across-the-board reduction in the annual licence fee from 15 percent to 6 percent, along with an entry fee of Rs 107 crore for an all-India unified licence, by lowering the contribution towards the universal service obligation fund, and by administrative cost being paid by service providers.



The proposed unified licence will enable a new operator to roll out any communication service. The draft recommendation also proposes to include broadcasting services and unrestricted Internet telephony within the gamut of a unified licence, which will allow integrated players like Bharti and Reliance to foray into these segments at no extra cost.

Creation of a new category, 'niche operator', has also been proposed, which will offer fixed line telephone services in rural districts where the tele-density is less than one percent. *(BL & BS, 07.08.04)*

Draft Proposal on FDI

The Government has proposed strong safeguards for Indian promoters as a pre-condition for upping the foreign direct investment (FDI) ceiling on telecom services, from 49 percent to 74 percent.

Referring to the draft proposal, such companies shall also start divesting their foreign equity, within seven years from the date of enhancement of FDI, beyond 49 percent. It is also proposed to provide the Government with sweeping powers to restrict any service in the sector to a foreign holding of less than 74 percent, if the need arises.

In another development, the TRAI chairman, Pradip Baijal, said that they are examining the issue of inter-linking FDI policy across news, entertainment, TV, cable, newspaper, magazines, radio and so on.

(BS, 14.08.04 & FE, 05.08.04)

Ombudsman Recommended

TRAI has recommended that the Government should set up an office of ombudsman, which will help in addressing consumers' complaints that are otherwise beyond the scope of TRAI or the Telecom Disputes Settlement & Appellant Tribunal (TDSAT). Though the tribunal can adjudicate on complaints from a group of consumers/providers, it is not entitled to take up individual grievances.

The regulator is of the view that the best recourse for establishing an ombudsman's office would be to make an amendment in the licence for which the licensor has full power and authority.

"Since consumer courts are not dedicated to telecom-related problems, following this recourse is a time-consuming affair for the consumer. An intra-sector arrangement would be more responsive to consumer complaints in the telecom sector," TRAI recommended to the Government. The statistical data available with the TRAI had also shown that the quantum of consumer complaints was on the rise. *(FE & BL, 11.08.04)*

The Numbers Game

The mobile subscribers' base has outnumbered the fixed line telephone user base in at least 10 states. While mobile subscription has been growing at an average of 1.5 million users every month across the country, the fixed line usage has dipped. The cellular population is 40 million and is expected to overtake the 42 million fixed line telephone base across the country in the next few months.

The Union Minister for Communications and Information Technology (IT), Dayanidhi Maran, is eyeing the minimum target of 200mn telephones, if not 250mn, by the year 2007. That would mean an additional 120mn lines and require telecom equipment worth between Rs 1 and 1.25 lakh crore in the next three years. However, contrary to a rosy picture of accelerated growth, in overall tele-density, over the last few years, rural India still remains neglected and starved for telephone connections.

(BL, 26.09.04, FE, 31.07.04 & 14.09.04)

Merger on the Way

The Government is considering a merger between the two public sector telecom units i.e. Bharat Sanchar Nigam Limited (BSNL) and Mahanagar Telephone Nigam Limited (MTNL). The merger of BSNL and MTNL, and acquisition by either party were among the options being looked at, said Dayanidhi Maran.

Investment bankers have already proposed four options to the Department of Telecommunication for effecting the merger. These are, reverse merger of BSNL with MTNL; merger of MTNL with BSNL; creation of a holding company to control MTNL and BSNL and the latter controlling Government's share, which is around 57 percent in the former.

Analysts perceive that while the merger will make MTNL a vertically integrated player like Reliance and Bharti, it will give BSNL a toe-hold in important markets like Mumbai and Delhi. *(FE, 17.09.04 & HT, 22.09.04)*

International News.............

US: Directory of Cell Users

The numbers of most US mobile phones are to be listed this year in the first wireless directory. The database is being assembled by the Cellular Telecommunications and Internet Association, and expects to include about 75 percent of the 163 million mobile phones in the US.

But privacy campaigners fear that mobile phones, once immune to tele-marketers and e-mail spammers, could become as vulnerable as home telephone lines and computer inboxes.

"I don't want the world to know my cellphone number," said Joseph Pitts, a Republican Congressman, who has introduced a bill to prevent wireless phone companies from automatically including consumers in the directory, without getting their permission, and charging from the customers if they want unlisted numbers. *(FT, 21.05.04)*

NHDP Updates

The Central Government is contemplating the up-gradation of an additional 34,000kms of National Highways as part of the National Highways Development Programme (NHDP). Turning one-lane highways into double-carriage roads is estimated to cost a little over Rs 2 crore per kilometre.

In another development, a consortium of Ircon International and Soma Constructions has emerged as the lowest bidder for two highway projects worth about Rs 900 crore, by quoting the lowest subsidy figure and offering to pay the Government for the project. This has put the National Highways Authority of India in a dilemma as it will be a deviation from the usual, model concession agreement for build-operate-transfer (BOT) projects.

Doubts have been raised over the timely completion of the first phase of NHDP, which is expected to cover 5,846kms before the extended deadline of December 2004 expires.

(BS, 20.09.04 & FE, 07.04.04)

Model Integrated Contracts

According to an independent study, the roads' sector would require investments to the tune of Rs 210,000 crore, with a significant portion to come in through the private sector, for achieving a gross domestic product (GDP) growth rate of eight percent by 2007.

The report titled 'Indian Roads and Highways – A Smoother Ride into Privatisation' prepared by the financial research firm Four-S Services, has favoured an integrated contract model, involving construction, operation and maintenance contracts spread over long concession periods, as against the traditional BOT model of public-private partnership being followed, in the case of the Rs 58,000 crore National Highways Development Project.

(BL, 15.09.04)

Privatise State Transport

The Associated Chambers of Commerce and Industry (ASSOCHAM) has suggested to chief ministers of all states and Union territories to pass the management control of state transport bodies to the private sector for improving the efficiency, productivity and quality of services.

According to the Chamber, by shunning the current regulatory control over the state transport sector, their administration will save a great deal of revenue receipts, as this sector erodes the state finances in a significant manner. The chamber has pointed out that in the majority of Indian states, public sector transport management does not add to the state revenues – rather it is becoming a liability.

According to official figures, the interest liability of all the states has risen phenomenally, from Rs 9,000 crore to over Rs 55,000 crore, in the last ten years. Similarly, the debt burden of all the states also grew drastically from Rs 243,000 crore by the end of the year 2002.

(ET & BL, 25.06.04)

WB Loan for Rural Roads

The World Bank (WB) has approved a US$400mn package for the development of rural roads in India. The main objective of this project is to provide increased access to markets and social services to the rural population. The loan will support the *Pradhan Mantri Gram Sadak Yojana* (PMGSY) – aimed at providing roads to rural areas.

The WB funds will be in addition to existing transfers from the Government of India, to fund the construction and maintenance of the rural road network, in over half of the districts, in the most poorly connected states – Himachal Pradesh, Jharkhand, Rajasthan, and Uttar Pradesh. The project aims to bring lower the transport costs and faster speed of movement for people and goods in rural areas.

(ET, 25.09.04 & BS, 29.06.04)

Railways vs Airways

The new age marketing mantra of building volumes by offering discounts has caught on with the Railways. Each journey by rail will now become an incentive to travel more. Railways will be launching their own version of a frequent traveller scheme, in an effort to keep competition from airlines at bay. Passengers will be able to earn points, equivalent to ten percent of the ticket value, if they board a train during non-peak sessions.

Called the Frequent Railway Traveller Scheme (FRTS), it will replace the flexi-pricing scheme launched by the Railways last year, in response to APEX fares of airlines. The Railways will also be offering membership, for a nominal fee, at any passenger reservation centre.

(FE, 14.06.04)

Green Signal for FDI

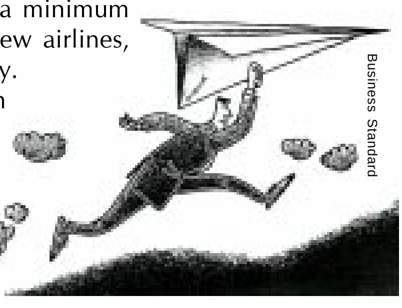
The decks have been cleared for raising the foreign direct investment (FDI) limit in domestic private carriers from 40 to 49 percent. However, the foreign airlines will still not be allowed to invest in the domestic carriers. It is worth noting that not even a single investment has come in since the Government allowed 40 percent FDI in domestic carriers.

Civil Aviation Minister, Praful Patel, has opposed the move, pointing out that this will give a backdoor entry to foreign carriers into the domestic market. Meanwhile, the Government has decided to extend the deadline for finalising the joint venture partners, for the privatisation and modernisation of the Delhi and Mumbai airports, by another six months.

(BS, 25.09.04 & 15.09.04)

Strict Norms Demanded

Bogged down with over-capacity in the aviation sector, the bigger private airlines in the country are demanding stringent entry barriers for new entrants. In a meeting with the ministry of civil aviation, the two airlines, Jet and Sahara, have suggested that the Government should not allow new entrants to the sector, by stipulating a minimum paid-up capital of Rs 250 crore for new airlines, and by handing out licences selectively.



"The Minister for Civil Aviation maintained that the Government will do what is just and fair," said G R Gopinath, the Managing Director, Deccan Aviation, India's first low-cost carrier that is planning to start operations in north India.

(HT, 16.06.04)

The Hindu Business Line

Monopoly to End

The Petroleum Ministry, in its natural gas pipeline policy, has proposed the entry of multiple players for the setting up of natural gas pipeline infrastructure in the country. However, the entities will have to seek authorisation for laying the pipelines from the Government/Regulator. This policy will put an end to Gas Authority India Limited's (GAIL's) monopoly status. As a fallout of implementing the new policy, Reliance Industries will get the rights to lay a 1,400km pipeline from Kakinada in Andhra Pradesh to Ahmedabad in Gujarat. *(FE, 06.08.04 & BS, 05.08.04)*

Regulatory Board on Anvil

The prices of petrol, diesel and LPG, and excise duties, were reduced from 30 to 26 percent, 14 to 11 percent and from 16 to 8 percent, respectively. The Minister for Petroleum and Natural Gas, Mani Shankar Aiyar, informed Lok Sabha that the Government is planning to set up a petroleum and natural gas regulatory board.

The key role for the regulator would be to ensure transparency, particularly by the display of information regarding maximum retail prices fixed for consumers. It will also monitor prices and take corrective measures to prevent profiteering, and enforce the retail service obligations of various players. The regulatory board will also oversee the setting up of liquefied natural gas terminals, with an objective of preventing regional imbalances and avoiding wasteful investment. *(BS, 17.07.04 & HT, 17.05.04)*

Petrochemical Hub at Panipat

An international-scale petrochemical hub is to be set up at Panipat, by the Indian Oil Corporation (IOC), which will involve an investment between Rs 25,000 and Rs 30,000 crore, and generate employment opportunities for 50,000 people. The Haryana Government has signed a Memorandum of Understanding (MoU) with the IOC for this project. The IOC will initiate all necessary steps to speed up implementation of the project, to complete the construction work of the complex by the year 2007-08. It would make a direct investment between Rs 16,000 and 17,000 crore. According to the MoU, the State Government would extend financial assistance, to be quantified at 75 percent of the tax paid on the sale of goods produced in the complex under the VAT Act 2003, for a period of seven years from the date of start of commercial production. *(TH, 23.06.04)*

Investing Abroad

India plans to invest around US$1 bn annually in the acquisition of overseas oil and gas fields. Addressing a seminar organised by the Confederation of Indian Industry (CII), Petroleum Secretary B. K. Chaturvedi mentioned that the move would help to reduce India's dependence on imported crude oil, which is currently at 70 percent of the domestic demand.

Chaturvedi mentioned that ONGC Videsh Ltd has already taken an equity stake in an oil field in Sudan, which is yielding 3 million tonnes of crude oil annually to India. Besides this, a 20 percent stake in a Sakhalin field, in Russia, will give 5 mn tonnes from 2005, and an equal quantity would be received in exchange of 50 percent from the Angola block. *(BL, 22.05.04)*

Mega-merger Favoured

The Government is considering a move to sell its majority stake from the exploration firm Oil India Limited, (OIL) to the country's largest refiner, state-run Indian Oil Corporation (IOC). The proposal was a part of a broader plan to restructure state-run energy firms to create two or three large companies, said a higher official.

M S Ramachandran, Chairman of IOC, has strongly favoured the Government proposal of merging state-owned oil companies, in order to create a separate entity formidable enough to take on global competition.

(ET, 02.09.04 & FE, 27.08.04)

Crude under VAT!

Oil companies are pressing for the inclusion of crude and petroleum products in the value-added tax (VAT) regime. State governments are, however, opposing the move since they stand to lose substantial revenue that is at present accruing to them. The companies are of the opinion that the uniform rate of VAT would help in reducing prices, and hence would benefit end users.

"Now, high speed diesel (HSD) is being used for running power plants. If HSD is brought under VAT, the cost of generation will be brought down and the individual and industrial consumers stand to gain substantially," said a senior executive with a public sector oil company.

(BS, 30.06.04)

Oil Worries

The world's leading developed countries issued their sternest warning for the damage that high oil prices could inflict on the world economy. Finance ministers from the group of eight leading economies urged all members of the Organisation of Petroleum Exporting Countries (OPEC) to increase the output to help bring down prices.

However, Peter Davies, Chief Economist of British Petroleum (BP), has said that the

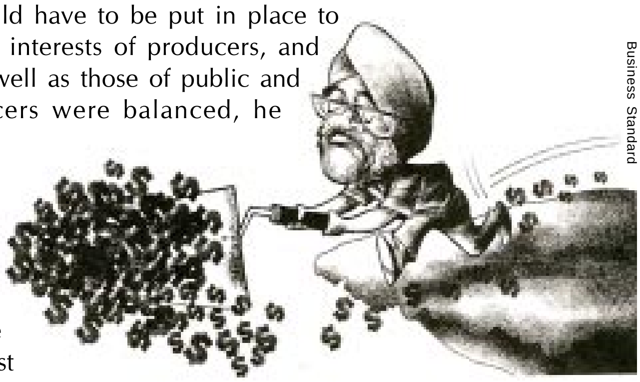
The Financial Express

world oil reserves rose by almost ten percent last year, providing enough to last for 41 years at the current rates of production. Introducing the oil company's yearly statistical review of world energy, he said that the recent surge in oil prices had nothing to do with the threat of depleted reserves, and the world had proven oil reserves of 1,150 billion barrels in 2003.

(FT, 04.06.04 & 24.05.04)

Clearing Bottlenecks

Indian infrastructure needs a major facelift as the lack of quality infrastructure has adversely affected the flow of FDI towards India in the recent past, expressed Montek Singh Ahluwalia, Deputy Chairman of the Planning Commission. Given the special nature of the infrastructure sector, which requires large investments and long gestation periods, a strong regulatory framework would have to be put in place to ensure that the interests of producers, and consumers, as well as those of public and private producers were balanced, he added.


Business Standard

Meanwhile, the Government has identified a priority list of infrastructure projects to be taken up on a fast track basis. The newly constituted Cabinet Committee on Infrastructure has been entrusted with the task of removing inter-ministerial bottlenecks in the implementation of these projects. *(ET & FE, 30.08.04)*

Tapping Private Funds

The Government has ventured into controversial state terrain by articulating a strong preference for the privatisation of water supplies and sanitation (WSS) services. Detailed guidelines embracing all forms of private sector partnership (PSP), whilst providing the overall framework for Central support, are now firmly in place.

Prepared by the Ministry of Urban Development and Poverty Alleviation, the document acknowledges, and affirms, that joint ventures with qualified national and international private firms will help add capacity. Conservative estimates place the size of the emerging water market in India at US$2bn.

The guidelines have been circulated to the state governments, and indicate exploring a combination of strategic, financial engagements to catalyse urban reform, where 'hybrid' contractual agreements will be more the norm than the exception. *(ET, 09.04.04)*

Probe in HUDCO

The Central Vigilance Commission (CVC) and the National Housing Bank (NHB) have begun a probe into the alleged irregularities in the working of the Housing and Urban Development Corporation (HUDCO). The investigation is in response to a public interest litigation (PIL), filed in the Supreme Court.

The PIL has alleged that, besides sanctioning of Rs 14,500 crore, Rs 550 crore was written off in 2002-03 and this had caused a "grave loss to the public exchequer". HUDCO has been releasing funds to schemes, blindly and in bulk, without hedging risks by spreading money on a greater number of projects. For example, HUDCO sanctioned about Rs 1000 crore to the irrigation department of the Maharastra Government on March 26, despite previous records of default by the state. *(FE, 30.06.04)*

Real Estate Policy Needed

The Confederation of Real Estate Developers Association of India (CREDAI) has called for a national real estate development policy that would encompass overall development of amenities such as commercial centres, hospitals, educational institutions and stadiums.

We need to realise that when we talk about infrastructure, we cannot omit real estate. The country's infrastructure, including expressways, shopping malls, power and facilities such as ease of accomodation, are all part of real estate.

A national real estate policy is missing. We have a National Housing Policy focusing on housing, but not on aspects such as IT and biotech parks, multiplexes, and educational institutions, among others. *(BL, 04.08.04)*

Industry Participation Mooted

The Government has called for increased industry participation for setting up superior technical institutes. There is a need for increased investment in social infrastructure, particularly in education and health care.

The task that lies ahead is how fast we can get the kind of innovation that would change global thinking. Innovation in productivity would determine the market leaders in the area of manufacturing in the next decade. India has a lot of scope in the area of low-cost manufacturing, enhancing resources and improving policy framework, says George Theriault, President and CEO, GE Fanuc Asia Pacific. *(BL, 06.08.04)*

Viewership Rising

Competition has augured well for news channels. Last year, a host of news channels had entered into the television space, and a look at the numbers indicates that the genre has performed well.

According to data from TAM India, the share of Hindi news channels has consistently been on the rise. For instance, for the week ending November 15, 2003, the share of news channels was 2.92 percent, which rose to 5.19 percent during the week that ended March 20, 2004.

"In the last one year, the viewership of the news channels has risen by 3.5 percent to 4 percent," said G Krishnan, Chief Executive Officer, TV Today.

However, the English news channel has not managed to increase by leaps and bounds. It's share hovers around 0.3 percent of all channels available in cable and satellite homes, with NDTV 24x7 leading the pack, followed by the business news channel, CNBC. *(BL, 07.04.04)*

Services Set to Grow

The 2003-04 survey, carried out by the Confederation of Indian Industry (CII), forecasts robust growth for the services sector. It places cellular sector growth between 90 and 100 percent in the first half of the current fiscal year. The housing finance is expected to grow by over 30 percent during the next six months," the survey said. *(ET, 01.07.04 & FE, 14.06.04)*

Breaking the Glass Ceiling

From women's cricket and hockey teams to all-women police stations and all-women bands – we've seen them all. But all-women factories? Yes, girl power is driving garment factories in Tirupur. The entire 35km stretch around Tirupur is dotted by 40-odd all-women factories. These factories, run by exporters, employ 100-400 women each. Women are employed right from the junior-most to the supervisory levels.

Traditionally, garment factories have attracted women workers. However, they were restricted to specific jobs like stitching. But over the last few years, women have made their presence felt in other activities like bleaching, dyeing or ironing areas that were earlier dominated by men.

And exporters aren't complaining. In fact, they say, though off the record, "women cause less trouble in factories and work better." The textile-exporting town provides employment to roughly 4 lakh people, of which 1 lakh are indirect jobs by way of sub-contracting. In direct jobs, sources say, women's share is about 50 percent. Tirupur has around 2,000 factories, in addition to all-women clusters in the outskirts. *(ET, 16.04.04)*

Whistle-blower in Race

Satyendra Kumar Dubey, former Deputy General Manager of the National Highways Authority of India, who was killed after his name was leaked in connection with a complaint about corruption that he had sent to the Prime Minister's Office, is among three posthumous candidates short-listed for the Transparency International Integrity Awards 2004.

The Berlin-based Transparency International (TI) is a leading non-governmental organisation fighting corruption worldwide. The TI Integrity Awards Committee had short-listed eight individuals, including the three posthumous candidates, from a total of 30 candidates nominated from every continent.

Dubey was overseeing a road project worth billions of dollars when he died at the young age of 31. His death had evoked widespread condemnation in the country and led to renewed demands for laws to protect whistle-blowers. *(BL, 20.07.04)*

Green Signal for Commission

The Union Cabinet has given a green signal for the setting up of a national commission to suggest measures to promote enterprises in the unorganised and informal sector, which accounts for almost 90 percent of the Indian economy.

The panel's mandate would be to identify the various problems faced by such enterprises, in terms of freedom of operation, access to raw material, availability of financial expertise, infrastructure, technology and market, and review the various government programmes designed to assist them.

The panel would be specifically asked to suggest the legal and policy environment that should govern the informal and unorganised sector. In particular, it would be asked to put forward innovative legal and financial instruments to promote growth. The Commission would also review the existing arrangements for estimating employment in the sector, and review labour laws, consistent with the protection of workers' rights.

(TH, 17.09.04)

Transparency in Disinvestment

Comptroller and Auditor General of India (CAG), V N Kaul, has said that the need of the hour is to bring about transparency in the privatisation and disinvestment process, for the purpose of audit.

At the same time, the audit system needs revamping and auditors should be trained in the new set-up of the global economy, so as to fix responsibility and accountability of companies. The international standards of auditing need to be adopted by auditors in India, he said.

Kaul explained that the CAG's responsibility was to audit the work done by the Government, and place an audited report in Parliament or the state assembly, at a fixed time of the fiscal year. Subsequently, the Public Accounts Committee (PAC) ensures implementation of the suggestions and recommendations made by the CAG. *(HT, 18.08.04)*

Bring President under Lokpal

President, A P J Abdul Kalam, while inaugurating the 8th All India Conference of *Lokayuktas* and *Lokpals*, asked the *Lokayuktas* to ensure that the elected representatives and government servants did not become "victims" of vilification campaigns by vested interests.

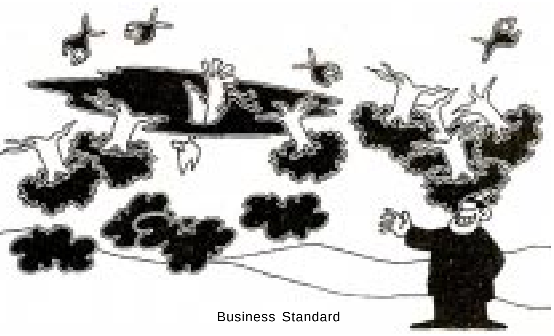
"All elected representatives and top-level executives in the states, who are responsible for executing the government schemes, should be brought under the purview of this body *(Lokayukta)*. I will even suggest that the office of the fountain head of judiciary, which in our system is the President, be also brought under the purview of the *Lokpal*," he said.

(BS, 27.09.04)

Environment Policy Seeks Changes

The draft new environment policy (NEP) 2004 has come as a shot in the arm for the industry. It has advocated the need for changes in different regulations, for enabling speedy environmental clearance.

The draft policy has also called for enhancing and conserving environmental resources, enforcing environmental standards, adopting standardised management systems, and promoting environmental certification and indicators.



Business Standard

The Ministry of Environment and Forests will schedule a standing timetable of meetings of regulators/expert committees. The Government has also worked out a time frame for the consideration of applications. Additionally, the committees have been asked to seek information from the applicants with complete transparency. *(FE, 28.08.04)*

An Amazing Phenomenon

The growth of self-help groups (SHG) in this country, especially in the southern states, has been nothing short of phenomenal. What a unique success story it has been will be evident from these figures: There are seven lakh SHGs in India, which works out to an average of more than one per village.

The membership of 90 percent of them is made up only by women, and all together, have a record of 95 percent repayment of loans, on time and with interest. Up to the end of March 2003, 1.16 crore poor families (comprising approximately 5.80 crore individuals), have been assisted through bank credit, and the average bank loan per SHG amounts to Rs 28,560.

While as many as 504 banks have been active in financing SHGs, the State Bank of India, the Andhra Bank and the Indian Bank have catered to the maximum number, cumulatively disbursing Rs 2,049 crore. They normally charge 8.75 to 9 percent interest for SHG loans up to Rs 50,000. Thanks to the SHGs, the amount of net credit given to women, by banks, has touched the target of 5 percent of total credit. *(BL, 21.07.04)*

Integrated Food Law Planned

The Ministry of Food Processing plans to introduce a unified food law with a single regulatory authority. Now, eight Central Ministries handle 14 sets of laws, which are enforced and regulated by a number of agencies. Different states have different laws for contract farming and co-operative farming. Hence, the idea is to find out how best the produce can reach from the farmer to the factory.

The Joint Secretary, Food Processing, Sinha, said that he is working on the model of integrated food law where the enforcement will be through state governments, which will also have one body. The regulatory reform is expected to increase the level of food processed in the country. Only two percent of the primary produce was processed. The target was to increase it to 10 percent. *(TH, 01.08.2004)*

CSE Urges for BIS Norms

The Centre for Science and Environment (CSE) has demanded that the draft norms formulated by the Bureau of Indian Standards (BIS), on carbonated soft beverages, like Pepsi-Cola, should be approved and made mandatory immediately. It has criticised the "compromising" steps taken by the Union Ministry of Health and Family Welfare, on the issue.

The CSE has also demanded the citizens' right to access potable water, free from any health and hygiene hazards. It has urged the Government to formulate a policy for the regulation of pesticide use and for lowering the maximum residue levels (MRLs) of pesticide residues in foods as per international norms. After revising the MRLs, care should be taken that the pesticide intake, through an Indian diet, should not exceed the acceptable daily intakes (ADIs) of the commonly used pesticides. *(FE, 08.08.04)*

Urban Doctors for Rural Areas

The Indian Medical Association (IMA) is ready with a blueprint, for work allocation of doctors practicing in the urban sector to render medical health services to those living in the rural areas. The project– *"Aao Gaon Chalen"*, is a village health development project, the objective of which is to motivate doctors in the country to contribute their best to rural health development.

"While medical health care has grown by leaps and bounds in urban areas, the rural health care sector has not been sustained. There has been a crumbling of the primary health care infrastructure across the country. The state of these rural centres can be understood from the fact that the budget allocation, for public health schemes, has not gone up in many years. Also, it is a misconception that the doctors are not ready to go to rural areas. We do not require funds from the Government or any other agencies. IMA, in various areas, will look into the running and maintenance of each project," explained the president of IMA.

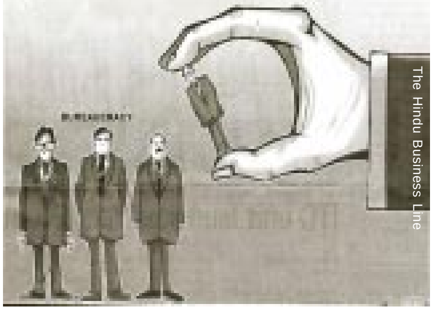
With the launch of the project, doctors claim that the health services would be made available in a co-ordinated and well-organised fashion, and would be consistent. *(TH, 01.08.04)*

Moral Code for Bureaucrats

The Manmohan Singh Government is set to evolve a moral code of conduct for its bureaucrats, which will be effective all through the working tenure of the officers.

The 11-point code of conduct has just been put on the website of the Department of Administrative Reforms for wider public debate. Committing bureaucrats to honesty, accountability and transparency, the charter makes a pointed reference that officers will resist the temptation of soliciting gifts, or accepting transfer of economic benefits, in the exercise of their official work and decision making.

"We shall not act, after we leave public office, to take improper advantage of our previous office," the charter stipulates, whilst committing bureaucrats to stay away from misuse of their position for politically partisan purposes, or in a manner leading to any kind of assistance to private entities. *(HT, 27.09.04)*



Misplaced Priorities

At a time when the Planning Commission has sought an 18 percent increase in gross budgetary support for the social sector, a close look at state finances shows a rather disturbing trend. Whilst the states are spending more, and even budgeting higher levels of expenditure on the social sector, this has stagnated, and in some years, has even declined as a proportion of total expenditure. Reserve Bank of India (RBI) data shows that the latter, which was 35 percent in 2001-02, declined to 33.5 percent the following fiscal year. For 2003-04, the budgeted estimate remains at the same level as in 2001-02. Simply put, such trends are reflective of one aspect, that is, states have misplaced priorities and are spending more on non-productive sectors. *(FE, 23.06.04)*

Rural Schemes to be Merged

The Government will merge most of the 208 centrally sponsored rural development schemes, to ensure that the funds reach the district level bodies directly, and not through the state government.

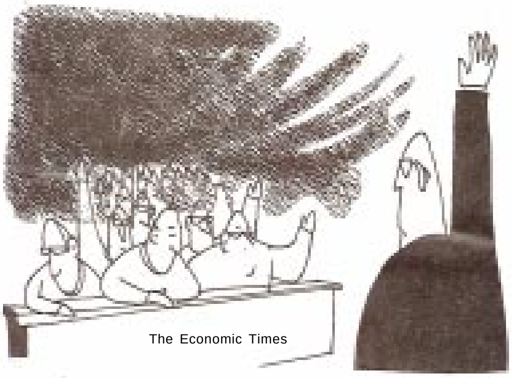
This is a part of a new rural development policy to be unveiled by Prime Minister, Manmohan Singh. The crux of the Prime Minister's proposal is that it will be up to the districts to come up with plans for their development. These are to be conceived and implemented by *zila parishads* or the district development or planning boards, which will be constituted for each district.

The Prime Minister will propose almost all centrally assisted rural development schemes to be merged to create individual district plans.

(BS, 29.06.04)

Jan Sunwai Reprimands Shopkeepers

A *Jan Sunwai* (public hearing) on the Public Distribution System – the first of its kind in the Capital – was organised by different organisations in Delhi. Residents of slum settlements of the area participated in the public hearing.



At the hearing, records of two ration shops in the area, obtained by the *Sangathan* using the Delhi Right to Information Act, were scrutinised. The two shops denied ration, to their cardholders, for over five years on the pretext that they have not been receiving any ration under the PDS. The records obtained reveal that both the ration shops have regularly claimed wheat, rice and sugar every month at highly subsidised rates from the Government godowns, but have not sold the commodities to the intended beneficiaries.

(TH, 25.07.04)

State Briefs

Bengal: A Role Model

When it comes to rural sanitation, West Bengal shows the way not only to the country but also to the entire developing world.

In a joint press conference, the United Nation's Children's Fund (UNICEF), and the West Bengal Government announced that the State has become a model for sustainable rural sanitation.

The State, they said, was able to give access to sanitary latrines to 50 percent of its rural population by the end of last year. The coverage in 1991 was a mere 12.3 percent. The State Government, in collaboration with UNICEF, now targets 100 percent rural sanitation coverage by 2006-07.

(BL, 31.08.04)

Rating System in Rajasthan

The Rajasthan Government has decided to get its various departments and ministries rated. It feels the move can accentuate the pace of implementation of various policies, and counter anti-incumbency.

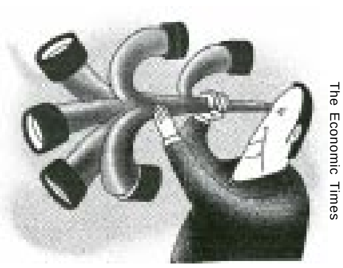
Though the Government is wary of the political implications of such a practice, a section of the bureaucracy is rooting for it. A core group in the Government would be entrusted with the job. The department awarded maximum points would be rated excellent, and so on. The personal loyalty of ministers to the Chief Minister would also be measured and offered points. The focus will be on the implementation of the accelerated time-bound 365-day programme, announced by the Chief Minister during the Independence Day speech.

(ET, 09.09.04)

International Briefs

New EU Biotech Label Laws

A wide range of foods with small traces of genetically modified (GM) ingredients will need to be specially labelled under new European Union (EU) rules, as the bloc struggles to accept bio-tech goods. The labeling regulations are part of efforts by the European Commission to provide consumers with choice and reassurance, as it seeks to end a ban on new bio-tech products imposed by a group of EU states five years ago.



The Commission is acting amid lobbying from the bio-tech and food industry as well as pressure from a suit brought to the World Trade Organisation (WTO) by the US, whose farmers say that they are losing money due to the EU's GM ban.

But many consumers, environmental groups and several EU Governments remain resistant to bio-tech foods. Currently, all foods containing more than one percent of genetically modified organism (GMOs) have to be labeled, but not if the food is so processed that it is impossible to detect GMOs in the final product.

(BL, 17.04.04)

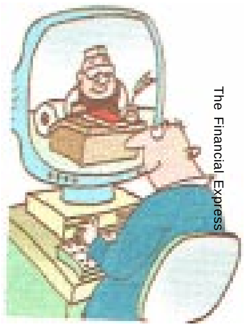
Consumer Protection Bill

A Bill for the Protection of Consumer Rights will be moved in the next session of the Punjab (Pakistan) Assembly. The Parliamentary Secretary for Social Welfare, Shehla Rathore, made this announcement whilst speaking at a public forum on the state of legislation for consumer protection in Punjab, organised by the Pakistan Legislative Strengthening Consortium. She said that the Bill was necessitated by the fact that nothing had been done for the protection of rights of consumers, at the government level, so far.

(Dawn, 20.08.04)

"You can never have a big-bang approach to reforms in India. One will have to keep chipping away steadily." – Dr. Ashok Lahiri, Chief Economic Adviser to the Government of India.

Andhra in eSeva Net



Andhra's on-line public utilities service, eSeva, will now be available across all the 116 municipalities in the state where citizen services will be accessible through eSeva centres, apart from Internet-based access. Currently, it is available at 144 centres in 21 districts of the state, apart from 43 centres operational in the twin-cities of Hyderabad and Secunderabad and the neighbouring Rangareddy district.

Interestingly, apart from the government departments, the private sector, too, has found the public utility portal, which is currently providing 123 citizen services, to be a lucrative proposition in providing its products and services. Significantly, proving its success, the eSeva reached the milestone of 20 lakh transactions in the state during March'04, the release added. *(ET, 16.04.04)*

e-Choupal Bags Award

ITC Ltd's Internet-based rural project, '*e-Choupal*', has won the inaugural 'World Business Award' instituted by the United Nation's Millenium Development Goals (MDGs). The award recognises the significant role business can play in the implementation of the UN's targets for reducing global poverty by 2015.

The project is the single largest IT-based intervention by a corporate entity in rural India. The *choupal* network helps to aggregate demand in the nature of a virtual producers' co-operative and in the process, facilitates the farmers' access to higher quality farm inputs at lower costs. The network creates a direct marketing chain, eliminating wasteful intermediation and multiple handling, thereby reducing transaction costs. *(BL, 19.05.04)*

Industries Resource Locator

The Industries Department of Kerala has formulated a proposal to create an "industries resource locator" with an objective to establish a web-based utility that will act as a reliable single-point information dissemination centre. All the basic information regarding industrialisation, infrastructure, incentives and opportunities will be hosted at the site, which will serve as a dynamic and interactive system.

The main feature of the system is that it will speed up the process of retrieving information on the infrastructure, and resource availability for the benefit of a potential entrepreneur or a policy decision maker. For this purpose, all District Industries Centres (DICs) in the state will be linked to the Directorate of Industries and Commerce, which will act as the hub. *(BL, 19.04.04)*

BIS Networks its Offices

The Bureau of Indian Standards (BIS), has turned hi-tech with the introduction of a newly developed computer software, which will monitor its certification marks management system (CMMS).

With the launch of the software, all the regional and branch offices of BIS, and its laboratories, which are spread over 28 locations in the country, will be connected through a corporate virtual private network (VPN). The software, which has been developed by the National Informatics Centre (NIC), will use this VPN to share the database across all the BIS offices. Information relating to licences and renewals would be available to the licensees, and the general public, through the website. BIS would also accept applications electronically for preliminary scrutiny. *(FE, 22.04.04)*

Delhi to Switch to E-Gov

After its success in Banglore, Infosys is now going to help Delhi civic bodies to switch over to e-governance to improve their services. A memorandum of understanding was signed by the Municipal Corporation of Delhi (MCD) with e-Government Foundation, a non-profit organisation sponsored by the Infosys CEO, Nandan Nilekani.

Infosys has a number of software products that are ready for application in areas such as property tax, grievance monitoring, Geographic Information System (GIS) and fund-based accounting, which the MCD will now introduce into its functioning. Addressing a press conference, after the signing of the MoU, Nilekeni said that increasing public accountability is the call of the day and it is only through the use of technology that transparency can be ensured, which would automatically take care of public accountability. *(BL, 22.07.04)*

MP Fund Online

MPs should get ready to splurge. The MP Local Area Development Fund (MPLADF) will be in public domain, and voters will be able to access each stage of its utilisation process on the Internet.

The Ministry of Statistics and Programme Implementation, which oversees the fund, is soon introducing an online monitoring system. The pilot project is to be undertaken in a month's time in 10 parliamentary constituencies across the country.

Along with online monitoring, the government is also introducing an electronic money transfer mechanism to prevent any delay in disbursement. At present, it takes nearly 15 days for the transfer of money to the deputy commissioner's office. Once the electronic system is in place, it will be almost instant. *(ET, 04.09.04)*

Electronic Monitoring Proposed

The Centre has proposed electronic monitoring of fund utilisation at *panchayat*i *raj* institutions (PRIs) for effective devolution of financial resources. The proposal was forwarded at the first 'round-table on *Panchayati Raj*' (local governance) organised in Kolkata in July 2004.The Centre will organise six more round tables across the country this year, as part of the Prime Minister's initiative for poverty alleviation and development through *panchayati raj*.

Adopting resolutions on four broad parameters, including devolution of functions, functionaries and finances, along with the empowerment of *gramsabhas* (village meetings), the round-table resolved that the "electronic monitoring could stop the controversy on diversion or delay of funds from reaching the beneficiaries altogether." *(BL, 25.07.04)*

RBI Operations to go Online

The Reserve Bank of India (RBI) is planning to launch a full-fledged Centralised Fund Management System (CFMS). After the launch of the real-time gross settlement (RTGS) system, this is "the next big challenge before RBI", sources said.

The use of the CFMS would facilitate movement of funds across locations of the RBI, online and with adequate security control in place. This will facilitate linking of various deposit account departments of the RBI. Moreover, it will also provide current account holders an online facility to view balances in their accounts, maintained with the central bank, on a real-time basis.

(FE, 14.04.04)

E-governance Plan

The Rajasthan Government has prepared a multi-billion-rupee action plan for e-governance. The idea is to have complete transparency in official functioning, and to provide instant information flow to people in the matters of revenue, police, transport and commercial taxes, amongst others. Finances will be arranged by the Asian Development Bank.

The entire district headquarters have already been connected through a video-conferencing facility. A sum of Rs 65 crore has been spent on the project and the Chief Minister is now in a position to communicate directly with the districts and take feedback instantly, at regular intervals. All the *tehsils* (administrative revenue district) and *panchayats* (village councils) will be connected in the second phase of the IT Expansion Programme. *(HT, 15.06.04)*

E-gov Spend to Increase

State Governments will spend close to a staggering Rs 15, 000 crore on computing their operations over the next five years, as per NASSCOM (National Association of Software and Service Companies). The government sector accounted for nine percent of the total spend on IT in India in 2002, and is estimated to go up to 15 percent in the next five years.

In 2003, the Central Government proposed a total outlay of Rs 2,550 crore (US$560mn) for the national plan of e-governance. While Rs 1,485 crore had been allocated for the Centre, Rs 800 crore was earmarked for financial institutions, and Rs 265 crore for state governments. The launch of e-governance projects has resulted in an increase in the overall IT budget of state governments by almost 100 percent. *(FE, 13.04.04)*

Storage System Vital

Be it the census process and storage of electoral rolls, by the Election Commission of India, or large operations and administrative processes of the Department of Company Affairs, all have been streamlined through e-governance.

The country's electoral data has been stored by the Election Commission of India in PDF (portable document format) and this has simplified the administrative process of the commission by providing swift retrieval.

Likewise, the Department of Company Affairs has taken to electronic administration, wherein companies can register and manage all their interaction with the Government electronically. These were two of the largest e-governance projects anywhere in the world. The challenge was to have a system that could store and retrieve information in a cost-effective manner. *(BL, 14.09.04)*

IT in Education

Microsoft India is upbeat about its Project *Shiksha* (education) in Madhya Pradesh (MP). The company, in association with Navodaya Vidyalaya Samitis (NVS), has aimed at expanding the project, which, having been launched in the first phase through SMART schools, will soon expand to 800 schools and 15,000 students in various districts.

'Project *Shiksha*: Empowering the Future', is a significant step towards enabling access to technology for students and teachers, and accelerating IT literacy at the national level. The objective is to take IT education to the grassroots level.

(BS, 27.09.04)

Telemedicine for Rural Areas

The country's rural population continues to suffer from non-availability of simple and standard healthcare infrastructure. It is to bridge this major gap that the Bangalore-based Neurosynaptic Communications Pvt Ltd and the TeNeT (The Telecommunication and Computer Networks) Group at IIT, Madras, have developed a low-cost telemedicine solution for rural areas.

It includes a remote diagnostic kit and a personal computer to provide basic healthcare infrastructure in rural areas, and help people sitting in villages get advice from doctors in urban areas. The Rs 10,000 kit can be installed at villages having internet connection. It can measure basic physiological parameters like temperature, blood pressure, pulse rate and multichannel ECG (electrocardiogram). It also has an electronic stethoscope, said Sameer S. Sawarkar, Chief Executive Officer, Neurosynaptic Communications.

(BS, 27.09.04 & BL, 18.05.04)

An ATM for Rural Areas

Easy-to-use cash dispensing machines that use Web cameras and fingerprint access will be available in a couple of months in rural areas. Costing about Rs 40,000 each, compared to ATMs available in the market for about Rs 8 lakh, the *Gramatell*er INDI will do away with personal identification numbers. Just a thumb impression is enough for a person to withdraw cash from the machine. ICICI Bank plans to install the machines in Internet kiosks that the TeNeT(Telecom and Network Group) group has set up across villages in the country.

Hindustan Times

In a *Gramatell*er INDI, a user only has to display a smart card and authenticate oneself through the fingerprint identification module. The machine would send this image, through a personal computer that has a web camera, to a remote server of the bank. *(BL, 23.04.04)*

Treaties Override I-T Act

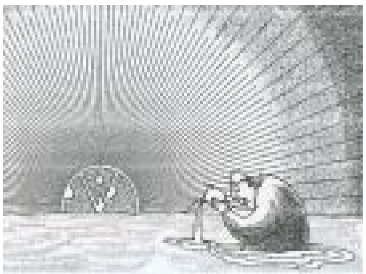
In a major judgement, the Supreme Court held that treaties for avoidance of double taxation between India and other countries will override Income Tax Act provisions.

As per the judgement, "Taxation policy was within the power of the Government, and Section 90 of the Income Tax Act enables the Government to formulate its policy, abiding treaties entered into by it. These treaties, therefore, prevail over the provisions of the IT Act." This ruling was expected to have a bearing on certain pending petitions challenging the Indo-Mauritius Double Taxation Avoidance Treaty. It had been alleged, in those petitions, that the Government was losing huge amounts in tax, as many companies were operating in India, after registering in Mauritius, just for the purpose of avoiding tax payment.

(ET, 01.06.04)

VAT Composition Scheme Limit

There is consensus among the State Governments to raise the limit of the optional composition scheme, under the Value Added Tax (VAT) regime from Rs 40 lakh to Rs 1 crore. The main purpose of a composition scheme is to enable the small dealers in a state to pay tax without incurring a high compliance cost.



The Economic Times

States are only looking at the implementation of VAT regime that would replace the sales tax, and there is no provision for full-fledged national VAT. "States would have the flexibility to keep the limit at either Rs 40 lakh, Rs 50 lakh or Rs 75 lakh, as per their choice" as informed by Ramesh Chandra, Secretary, Empowered Committee of State Finance Ministers on VAT.

(BL, 31.08.04)

Sweet Prospects for Sugar Units

The recently announced measures by the Union Government for the sugar industry have been well received by the industry circles. These measures include the linking of Statutory Minimum Price (SMP) to nine percent base recovery, and slashing of interest rates on Sugar Development Fund (SDF) loans to four percent from nine percent.

Credit Rating Information Services of India Limited (CRISIL) predicted that the linking of cane prices based on average recovery, rather than peak recovery, would result in a decline in the raw material cost. The reduction in interest rates on SDF loans was anticipated to favour the emergence of integrated sugar complexes.

CRISIL strongly believes that total liberalisation of the sugar industry was critical for realising the full potential of this large agro-industry.

(BL, 15.09.04)

Steel Majors under Price Cuts

The recent cuts in steel prices have adversely impacted net sales of major steel makers by about three to eight percent. All five Indian steel giants, *SAIL, Ispat, Essar, JVSL* and *TISCO*, went in for a price cut ranging between Rs 500 and Rs 2,000 a tonne.

Retail sales of companies, which account for 10-30 percent of the net sales, were anticipated not to be affected by this impact. But, for derived demand avenues, like car prices, lower prices for end products might be visible for the year's end.

The price cuts were taken at a gross level, as announced by companies, and did not take into account the detailed grade-wise cuts. Retail sales were not taken into account, as the price cut was intended for direct customers. The impact should not be considered in isolation, with the recent changes in the customs duty structure announced by the Government.

(ET, 28.08.04)

Special Package in Exim Policy

The Central Government has proposed the inclusion of a special package for Special Economic Zones (SEZs) and Export-oriented Units (EOUs), as part of the exim policy. The Government is considering a proposal for the enactment of a SEZ Act, and is likely to extend some of the benefits, indicated in the proposed SEZ Act, into the exim policy.

SEZs and EOUs are the schemes of the future, as exporters operating under them have dedicated export facilities, and help in increasing manufacturing activity as well as value addition in the country. They would also generate tremendous employment in India.

(TH, 07.06.04)

EU to Benefit India

With countries from central and eastern Europe joining the European Union (EU), India's business relationship with the EU would enhance, as predicted by observers. The enlargement means the addition of 10 countries to the EU, touching the lives of 450mn citizens, across 25 countries.

This enlargement will boost economic growth, as the GDP of EU 25 would certainly increase by 5 percent, compared to EU 15 GDP; and create jobs in both old and new member states. Export figures showed that India's trade with the acceding countries had increased. Exports' value has increased from Rs 10bn to Rs 13.7bn between the period 1999-2002.

(FE, 30.04.04)

Cement Cos to Make a Killing

With cement prices reaching a three-year high in most parts of the country, the industry expects another ten percent rise. The net profit of cement major including ACC, Gujarat Ambuja, Grasim, Shree Cement etc, nearly doubled during the quarter ending in March this year.

In 2003-04, the average all-India price realisation, for cement companies, went up by 20 percent, to touch a figure of Rs 150 per bag or Rs 3,000 per tonne.

(ET, 02.06.04)

Retail Sector's Demand

Industry captains have lodged their demands of industry status and an uninterrupted work schedule for the organised retail sector. The demand was raised during a CII seminar at Kolkata on 'Retail 2004: Unlimited Opportunities'.

According to Sanjiv Goenka, former President of the CII and Vice-Chairman of RPG Enterprises, modernisation of the organised retail sector deserved Government attention and should immediately be declared an industry. The Government is giving assurance of sincerely considering giving industry status to the organised retail sector and allowing it to function round the clock.

(BL, 29.07.04)

Trade Imbalance With India Worries China

The Chinese industry has expressed concerns about the growing trade imbalance between the two countries. China has also pointed out the high tariff rates and growing number of anti-dumping cases against its products. This is a concern that needs immediate attention particularly in view of the increasing volumes of trade between the two countries.

The Hindu Business Line

The bilateral trade between the two countries was US$5.45bn in January-May 2004 as compared to US$2.89bn in the corresponding period of the previous year. *(FE, 04.08.04)*

New Norms for Pricing

The new norms for determining the manufacturing cost of drugs and for the pricing of controlled drugs notified by the National Pharmaceutical Pricing Authority (NPPA), will result in a one to five percent drop in 51 percent of controlled formulations.

In the case of another 39 percent of medicines, the prices would increase by one to five percent, while 10 percent of controlled formulations will see a sharp price hike of five to ten percent. On an aggregate basis, however, the new norms will be consumer-neutral. With the adoption of norms for conversion cost (CC), packing charges (PC) and process losses (PL) of materials by NPPA, the authority can now issue fresh price orders.

The norms, depending on the form and composition of the medicines, factor in 3 to 76 percent actual increase in CC and 5 to 40 percent actual increase in PC, as compared to existing norms. Counterweighting the hikes would be 25 to 50 percent reduction in PL. *(ET, 13.08.04)*

Medical Tourism

India could emerge as an attractive centre for medical tourism, according to a recently conducted analysis by PHD (Progress Harmony Development) Chamber of Commerce and Industries. The analysis stated that the country could pocket a major chunk of the US$3tn global healthcare industry in the coming years.

At present, the domestic healthcare industry is estimated to be worth Rs 100,000 crore (US$22bn) and is employing 4 million people. This could grow to Rs 270,000 crore (US$60bn) by 2012. The study indicated that the sector has been growing at a rate of 15 percent for the past five years, and by 2012, medical tourism could account for 25 percent of revenues of private up-market players.

The country would have to identify the areas, such as orthopaedics, for non-trauma medical disease, replacement/corrective surgery, urology, dental surgery and other similar fields, where the nation enjoys substantial cost and expertise advantage in comparison to western countries. This would increase the inflow of foreign patients and their conversion into tourists with medical requirements in the country. *(BL, 26.06.04)*

Credit Card Rate Clipped

Standard Chartered Bank has triggered a price war in the credit card market. Even though the British Bank has raised its home loan rates by 25-50 basis points after HDFC, it has brought down the interest rate on credit cards to 1.99 percent, compared to 2.54-2.95 percent for most other players in the industry.

The credit card is the only financial services product, which has not seen a drop in interest rates in the last few years. The new rate will be applicable to 'Manhattan'- a new card from the bank's global portfolio.

A day after Standard Chartered Bank cut rates on its new credit card; ICICI Bank launched a 'second' credit card- ICICI Bank Easy Deposit - for its fixed deposit holders with a monthly interest rate of 0.99 percent per month. This is the first secured credit card in the country. *(ET, 24.08.04 & 25.08.04)*

Foreign Trade Policy Aims High

New export policy support measures have been proposed in the five year (2004-2009) Foreign Trade Policy, announced by the Union Commerce and Industry Minister, Kamal Nath. The highlights of the policy include:

- A big push to exports to garner 1.5 percent of the world share by 2009;
- FDI permitted up to 100 percent to establish and develop free trade and warehousing zones;
- New schemes to boost exports of fruits, vegetables, flowers and minor forest produce;
- Restrictions on importing second-hand capital goods lifted;
- Validity of licences of various schemes increased to a uniform 24 months;
- Import of gold of 18 carat and above allowed under replenishment scheme; and
- An exclusive service exports promotion council to be set up.

(BL, 01.09.04)

International Brief……..

Drug Imports to Stop

The Philippines Department of Trade and Industry (DTI) is planning to abandon parallel drug importation from India and work with local pharmaceuticals and multinational drug corporations.

According to the DTI Secretary, Cesar V Purisima, consumers have been pressing for quality drugs at affordable costs. Therefore, the department had decided to work with local and multinational drug manufacturers.

The Philippine International Trading Corporation (PITC), the Government's trading arm, is already in the process of negotiating with local pharmaceutical, and multinational, companies for the supply of less expensive medicines. *(BL, 29.06.04)*

IRDA for CG Norms

The Insurance Regulatory Development Authority (IRDA), will introduce corporate governance norms for all life and general insurance companies, operating in India, to be effective from the next year.

TK Banerjee, a member of IRDA, informed that an expert committee would be entrusted with this responsibility. The plan is to develop these norms in line with the Securities and Exchange Board of India (SEBI) corporate governance rules.

Three sets of issues, which would be critically examined for the purpose of evolving the norms, relate to –

- Overseeing and advising insurance companies on their cost structure;
- Plugging legal gaps in the publicity and disclosure norms; and
- Adopting appropriate selection and training procedures for agents.

(ET, 12.08.04 & BS, 13.08.04)

Diluting Companies Act

The Central Government has proposed to dilute the Companies Act. A 250-page concept paper has been put up for national debate, as the new Act is set to replace the old one that has been governing Indian companies, for over a decade now. The Government anticipates that the final Bill would be ready by the end of this year, with inputs from industry and professionals.

Some of the features of the proposed law are as follows –

- There would be no limit on the retirement age for directors on the board of private companies;
- It is not mandatory for companies to induct a majority of independent directors on the board;
- Investment arms of a company remain restricted to one; and
- There would be a restriction on foreign companies having more than one subsidiary.

The new law proposes to make life a lot easier for corporate entities and the managements, while ensuring investor protection also. *(HT, 04.08.04)*

Audit Standards Mulled

The Institute of Chartered Accountants of India (ICAI) is all set to frame a separate set of standards for internal audits. These are different from statutory audits, as their findings are generally not made public but shared with the company only.

It has been reported by ICAI that the new standards would be more focused, and would impose better checks and balances on the organisations. Owing to the uniqueness of every internal audit (being a function of the type of industry that is audited), ICAI proposes that the standards would be structured as a broad framework, ensuring the removal of leakages, and the provision of quality services. ICAI hopes to systemise and codify the entire procedure of conducting audits through these standards. *(BS, 14.04.04)*

Environmental Compliance

Fiscal incentives from the Government could be given to companies that comply with environmental regulations. This was suggested by top CEOs, across industries, in a survey conducted by the Federation of Indian Chamber of Commerce and Industries (FICCI). The survey was undertaken to assess the willingness of the Indian industries to adopt technologies for environment management.

Most of the companies surveyed felt that the Government should recognise their efforts at environmental compliance, by offering rewards in terms of customs duty waivers on pollution control equipment, sales tax exemption on purchase of pollution control equipment, and soft loans on installation of pollution control technologies and measures. In addition, some CEOs also urged the exemption of excise duty for products manufactured through environmentally-friendly processes.

(BL, 01.06.04)

Declining Media Ethics

The world's largest-circulated English daily has been involved in some shady business. A leading Mumbai tabloid, *Mid-Day*, published the "rates" for purchasing editorial features in the *Times of India*. For sums ranging from US$45,000 to US$66,000, the *Mid-Day* story alleged, one could buy a news feature plugging their business, get interviewed (the business owner supplies the questions and answers themselves) and have their picture published on the much-scorned Page 3 of the *Bombay Times*, the city supplement of the *Times of India*.

Stricter standards of management could clean up India's largely family-owned media houses, which often hob-knob intimately with political parties and industrial groups.

The manipulation of circulation figures is also an ongoing practice. The *Times of India* (founded in 1838), one would recall, was recently involved in a controversy with its competitor in New Delhi, the *Hindustan Times*, over circulation figures.

(www.atimes.com, 18.05.04)

Slandering Ads

The Delhi High court restrained Colgate Palmolive India Ltd from telecasting an 'offending' clip.

The ad that features Bollywood actor Suneil Shetty rubbing what looks like *'Dabur Lal Dant Manjan'* on a customer's spectacles and leaving marks akin to 'sandpapering', was considered disparaging by the court. The court observed that 'slandering a rival product' was not permissible, especially when it is part of an ad campaign involving a top cine star, and was bound to impact viewers.

(BL, 24.09.04)

Jamshedpur in Pilot Programme

Jamshedpur has been chosen to represent South Asia and participate in the UN Global Compact Cities' pilot programme. The other five cities chosen for this programme are Melbourne (Australia), Porto Alegre (Brazil), Tianjin (China), Nairobi (Kenya) and San Francisco (USA)

Tata Steel's exceptional record in the field of community development, and its close involvement in providing services to the steel city, has been the reason behind its nomination. The Global Compact Cities' pilot programme is a methodology that has been developed to address intractable social, economic and environmental issues, in an urban context, around the world. *(FE, 14.04.04)*

Bio-diesel can Fuel Economy

India has its own answers to an impending fuel crisis, lying dormant in its wastelands – these are oilseed-bearing, drought-resistance trees, like *jatropha* and *pungam*. This could also be the solution for millions of rural labourers waiting to find employment. The non-edible oil from these trees can take the place of petro/diesel to a great extent.

The new jobs in farms and processing plants, along with crores of rupees saved in foreign exchange, and new plantations, may change the face of India. All this, however, can happen only if the national leadership, planners and the people, get serious about the biofuel revolution. If this happens, the 2010 target of replacing ten percent of the diesel sold in India, with bio-diesel, would not be difficult to achieve, although the potential is much greater. *(FE, 20.05.04)*

Share of Housing Pie

Urbanites living in *'pucca'* houses outnumber people in rural areas living in such structures by 41 percent, revealed a survey on housing conditions carried out by the National Sample Survey Organisation (NSSO). The study, which is the first of its kind, pointed out that out of every 100 households in rural areas, 36 lived in *'pucca'* structures, as opposed to 77 in urban areas. The study was conducted for the period July-December 2002, an official release said.

Interestingly, ownership of dwellings by occupiers is much higher in rural areas than in urban areas. As many as 92 percent of rural households owned the dwellings, against 60 percent of ownership among urban households. In rural areas, a majority of households (43 percent) occupied *'semi-pucca'* houses, whilst the households occupying such structures is 20 percent in urban areas. *(FE, 14.05.04)*

Surprise Package

West Bengal (WB) and Uttar Pradesh (UP) figure among the top five states with maximum market potential, along with Maharashtra, Tamil Nadu and Delhi. According to a study, Guide To Urban Markets, WB and UP offer more opportunities for marketers than the perceived more affluent states like Gujarat and Karnataka.

The study ranks 784 towns, with a population of over 50,000, across 21 states. It uses an index called the market potential value, which is a combination of the town's per household income, consumption pattern, media reach and awareness, and market support systems like employment, trade, bank deposits and logistics.

As per the study, the consumer spending in urban markets in the country is estimated to be close to Rs 300,000 crore. The project was headed by I. Natrajan, former Chief Economist of the National Council for Applied Economic Research (NCAER).

The study also breaks the myth that higher incomes automatically lead to increased consumption. Punjab, which has one of the highest per capita income at more than Rs 20,000, does not figure in the top ten states, ranked on the basis of the market potential value. It ranks even below Madhya Pradesh and Rajasthan. *(BS, 25.04.04)*

Concentrated Riches

The distribution of wealth in the country is heavily imbalanced. According to the World Wealth Report by investment bank, Merril Lynch, and IT services firm, Capgemini, there are 61,000 high net worth individuals (HNI) in India with total wealth as high as US$267bn or over Rs 1,200,000 crore at the end of 2003.

HNIs, as per the study, are individuals with financial assets of at least US$1mn, excluding their primary residence. The HNI population in India has increased by 22 percent in terms of numbers and total wealth, in 2003 over the previous year, thanks to the bull-run on the bourses, a healthy GDP increase, and the emergence of non-traditional pockets of wealth, such as the BPO industry. *(BL, 16.06.04)*

India Slips in WTO Ranking

The World Trade Organisation figures, on world merchandise trade for 2003, show that India has slipped in its share of world exports by 0.1 percent over the last year. In 2003, its share was 0.7 percent, against 0.8 percent in 2002. Falling a rank, India occupied the 31st spot in 2003.

On the other hand, as an importer, India maintained its rank at 24. Though India's export growth during the year has been on target, the decline in the share of world trade in 2003 is a cause for concern, particularly when attempts are being made to reach a share of 1 percent. *(FE, 20.04.04)*

Poll Axe On Green Neck

The Election Commission may have done its bit to make paperless polling a reality. Yet, the campaign for Elections 2004 in the world's largest democracy – despite infusion of technology – will leave behind a toxic trail and denude forests.

NGO and industry estimates reveal that Polls in 1996 used up 800,000 tons of paper and 400,000 tons of plastic. A great

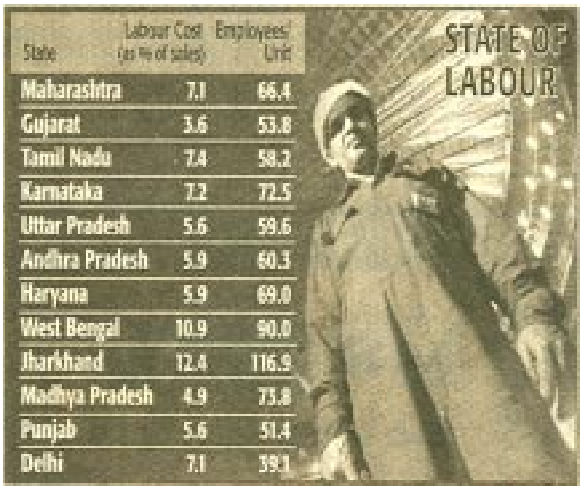
The Economic Times

has been made out of the estimated 8,000 tons of paper saved through the adoption of electronic voting machines. But, if the 1996 figure is any indication, 792,000 tons of paper will still be used. That translates roughly to 15,840,000 trees, arrived at by substituting 20 trees for the globally quoted "17 trees equals-one-ton paper" calculation. Even if very specific parameters obtained from the Indian industry are applied, the loss of trees is a staggering 1,980,000! *(ET, 14.04.04)*

Indian Tourism

The Indian tourism sector is on a roll after registering a 21 percent jump in forex earnings in the first quarter, compared to the corresponding period last year. A foreign tourist in India spends US$40 per day as compared to US$252 in Singapore, according to a WTO study. With an average stay of 30 days (among the highest in the world) by foreign tourists, Indian forex earnings were US$3.04bn in 2003, whilst in Singapore, an average stay of three days notched up US$5.04bn.

In the tally of tourist arrivals too, India slipped from 47th position that it had retained for the last six years, to 53rd in 2003. France remained the leader with 80mn tourist arrivals, whilst China is 5th with 34 mn tourists. Over the last two decades, India's share in the world tourism market still remains an abysmal 0.38 percent. *(ET, 22.08.04)*



State	Labour Cost (as % of sales)	Employees/ Unit
Maharashtra	7.1	66.4
Gujarat	3.6	53.8
Tamil Nadu	7.4	58.2
Karnataka	7.2	72.5
Uttar Pradesh	5.6	59.6
Andhra Pradesh	5.9	60.3
Haryana	5.9	69.0
West Bengal	10.9	90.0
Jharkhand	12.4	116.9
Madhya Pradesh	4.9	73.8
Punjab	5.6	51.4
Delhi	7.1	39.1

The Financial Times

Spending on Labour

The eastern states' industrial outfits report some of the highest spending on labour as a ratio of their sales. The four states: Jharkhand, West Bengal, Uttaranchal and Chattisgarh, have a labour cost to sales ratio of more than 10 percent. Jharkhand has the highest ratio of 12.4 percent. West Bengal, Chattisgarh and Uttranchal follow with 10.9 percent, 10.7 percent and 10.4 percent respectively.

On the other hand, Madhya Pradesh, Uttar Pradesh, Gujarat and Punjab are at the other end of the spectrum with some of the lowest labour cost to sales ratios. It is interesting to note that some of the most industrialised states are somewhere between the two extremes. The reason for this phenomenon lies in the labour intensity of production. *(FT, 27.07.04)*

Indian CEOs Thinking Global

The Chief Executive Officers (CEOs) of Indian companies see opportunities for a resurgence in consumer demand, especially in the rural markets, accompanied by attractive financing options.

According to a study entitled 'Your Turn: The Global CEO Study 2004', conducted by IBM Business Consulting Services Ltd, Indian CEOs feel that new Indian multinational companies are emerging, characterised by a changing mindset, global ambition, a new-found confidence and a desire to benchmark themselves against the best in the world.

The CEOs see new opportunities for the development of products through India-based research and development (R&D) and integration with the global markets. *(BL, 19.04.04)*

'Hide'n Seek in J&K!

The new-found bonhomie between neighbouring Pakistan and India has given fresh hopes of peace returning to the valley. It has also brought a belated realisation among all the stakeholders to revive the economy and create employment opportunities for the youth. A team of scientists and economists who carried out studies on the leather industry potential in J&K, have the view that the tanning and manufacture of leather products would give the state a new life.

"With almost 75 percent of the population in rural areas, and annual per capita income of less than Rs 1,500, leather industry can play an important role in the overall development of the economically sensitive section of the Kashmiri society," say the economists and scientists who prepared a perspective on techno-economic report on leather. *(FE, 21. 04.04)*

India Second to China

The Indian Internet and E-commerce dream is still far from realisation. The Internet sector has improved vastly due to improving telecom infrastructure, better bandwidth availability and multiplicity of Internet Service Providers. However, a major jump is still required before India can achieve "anytime, anywhere" connectivity, and reach the stage where enhanced Internet penetration translates into high volumes of online transactions.

United Nations Conference on Trade and Development's (UNCTAD's) 2002 study says that India's Internet population will be second to China's by 2006, while E-commerce activity is expected to remain modest. Estimates show that Indian E-commerce activity, in 2002, was around US$300mn, almost half that of the Chinese market. At the end of March 2002, India's Internet population was around 10 million users and is expected to hit 46 million users by March 2005. *(FE, 20.05.04)*

Road Safety

Road accidents are a growing public health concern. If nothing is done to change the current trends, they will be the third leading contributor to ill health in the world by the year 2020. On a global scale, it is estimated that road traffic injuries cost 1 to 2 percent of most countries' GDP every year.

Measures including improved legislation, enforcement and education about the use of seat belts, helmets, child restraints, about the dangers of speed and drunken driving have lowered the road accident rates.

The joint global report by the World Bank and World Health Organisation insists that national Governments should make road safety a high political priority and create a lead agency to guide road safety efforts. Governments and NGOs should jointly formulate the programmes, considering road safety as a valuable public good. *(ET, 04.10.04)*

Small is Still not Beautiful

Small-scale industries accounted for almost 40 percent of the industrial value-added and 34 percent of the country's total exports, in 2002-03. The sector's 3.6 million units manufacture over 8,000 items and provide employment to about 20mn people. Yet, the small-scale industry (SSI) finds it difficult to raise funds from banks, most of which are directly or indirectly owned or controlled by the Union Government.

A recent survey of SSIs by the Federation of Indian Chambers of Commerce and Industry (FICCI), reaffirms the difficulties faced by the sector, when it comes to taking loans from banks. In fact, an overwhelming majority, of 79 percent, of the respondents said it was difficult to obtain funds from banks. SSIs feel that banks do not consider them as valuable customers and this attitude is reflected in all stages – from obtaining information, to the filing of documents for the sanctioning and disbursement of loans, concluded the survey. *(FE, 15.04.04)*

AP Tops in Power Reforms

Andhra Pradesh (AP), followed by Karnataka and Haryana, has topped in power reforms in the country, showing propensity for being commercially viable and absorbing investments.

According to the independent Credit Rating Information Service of India Limited (CRISIL), and Investment, Information & Credit Rating Agency (ICRA) ratings for 2003-04, AP scored 71.5 points, which has been reflected in its payment of subsidies and in keeping AP Transco's loss levels under control. Karnataka, with 68 points, and Haryana, with 64, are second and third in the ratings, respectively. After the lull in the investments in the power sector, when poor finances of the State Electricity Boards (SEBs) forced investors to make affirmative moves, reforms in the sector are now beginning to show results.

(BL, 14.04.04)

Mumbai is Most Expensive

The results are out! Mumbai prevails as the most expensive city in India, with Delhi a distant second. *Economic Times* Intelligence Group's annual cost of living survey, across Indian cities, has been completed for 2004, with the inclusion of Cochin, Jaipur, Lucknow and Patna, to increase the coverage from 8 to 12 cities this year.

One interesting result, with the inclusion of these new cities, has been that Hyderabad has slipped from rank 8 in 2003 to rank 12 in 2004. Yet, it has maintained its position as the cheapest city in the survey, for the third year in a row. Nonetheless, there have been many changes in the relative ranking of the other cities. Ahmedabad and Kolkata have become more expensive, whilst Bangalore is becoming increasingly affordable. *(ET, 27.04.04)*

India Lack Tech. Efficiency

The World Bank (WB) positioned India as the fourth largest economy in terms of purchasing power parity, even as it said the country lagged behind in technology and efficiency. As per the World Development Report 2005, India's gross national income was at US$3,068bn and per capita income at US$2,880bn by purchasing power parity.

However, India was held back in technology and efficiency due to lack of proper exit policy, which sought to close down inefficient industries and lay off surplus workers. Apart from this, the report said the other factors were: insistence on protecting smaller companies, regardless of whether they were efficient and competitive; and the "snail's pace", at which the judiciary disposes of cases. *(FE, 28.09.04)*

India an Under-performer

Ranked 114 in the inward foreign direct investment performance index for 2001-03, India not only has a low potential of attracting FDI, but is also an under-performer in this respect, according to UNCTAD's World Investment Report 2004.

India has been clubbed with the likes of Indonesia, Argentina, Bangladesh, Pakistan and a host of African countries as an "under-performer" on the basis of performance and potential. China, Bahamas, Belgium and Luxembourg, the United Kingdom and Canada have been termed as the front-runners, while the US, Australia, Japan, South Africa and South Korea are classified below potential.

In the potential rankings, India does not figure in the top 25 with the US leading the charts followed by Norway and the UK. *(BS, 22.09.04)*

Boost to Durables

The consumer durables industry, in India, has witnessed a major shift in favour of the organised sector, with the share of unorganised sector coming down to 8-10 percent from a high of 40-50 percent, less than a decade ago.

Furthermore, the price difference, between branded and unbranded goods, has narrowed down substantially, over the past few years, because of easy availability of branded products (due to lowering of import duties). The consumer preference has shifted as a result of better after-sales services and support offered to the consumers, says a survey conducted by FICCI.

(FE, 02.06.04)

Landless Households Rising

According to the West Bengal Human Development Report, 2004, the number of rural households that are landless in the state, is rapidly increasing. The report sees this as a disturbing trend, particularly in a state that undertook land reforms on a massive scale, after the ruling left front government came into power after 1977. *(For further details, please see Good Practice Series in this issue on Page 25)*

According to National Sample Survey data, the proportion of rural landless households in West Bengal went up from 39.6 percent in 1987-88, to 41.6 percent in 1993-94, and to 49.8 percent in 1999-2000. In other words, by the end of the decade, nearly half of the rural households were landless. The figure for rural India as a whole is 41 percent. *(FT, 23.08.04)*

Higher Growth for Core Sectors

FICCI's core sector survey projected higher growth, during the first two quarters of 2004-05, for industries like cement, steel, and electric power generation. This, in turn, would further boost growth prospects for a number of dependent industries in the engineering, non-engineering and service sectors.

The Hindu Business Line

The projection considered some of the positive developments, like a steady and firm rise in GDP growth rate, prevailing strong fundamentals and business confidence.

The survey cautions that the core sectors can attain projected growth rates, and may even reach higher growth figures beyond projection, provided some of the basic issues pertaining to each individual sector are properly set right. *(FE, 24.05.04)*

Water Literacy Movement

Water should become everyone's business, if India is to cope with the water shortages that confront most parts of the country, said Sunita Narain, Director, Centre for Science and Environment. Whilst inaugurating a workshop on rainwater harvesting, she said that a movement for 'water literacy' must be launched, to spread awareness about various issues relating to water and its usage in India.

Water shortages are now a permanent feature in India, and the only solution is to adopt sustainable, and appropriate, water management practices. Traditional water management models offer valuable insights into methods to capture and store water, and thus, recharge water resources. Everyone looks at increased supply, and not at augmentation and conservation of supply, says internationally acclaimed agriculture scientist M S Swaminathan.

Planners warn that the day is not far off when water will be costlier than milk, unless conservation measures are undertaken. *(BL, 22.06.04 & ET, 01.08.04)*

Prosperous Rural India

President Dr APJ Abdul Kalam has underlined the need for building up both "content" and "connectivity", simultaneously, to make rural India more prosperous.

The method should include physical connectivity of village clusters, through quality roads and transport; electronic connectivity, through telecommunications with high bandwidth fibre optic cables, reaching rural areas from urban cities; and Internet kiosks. The method should also comprise of vocational training for farmers, artisans and crafts persons and entrepreneurship programmes; and economic connectivity through enterprises with the help of banks, micro-credit and product marketing, said Dr Kalam.

He added that the next two decades would be a period of accelerated economic development for the country, and stressed that science, technology and economic planning have to contribute continuously, for undertaking various missions. Pointing out that 70 crore Indians live in six lakh villages, the essential needs of villages today are water, power, road, sanitation, healthcare, education, transportation, and other services needed for sustainable entrepreneurship and quality of life.

(FE, 21.06.04)

Capital Account Liberalisation

Capital account liberalisation is a process that has to be managed, keeping in view the elasticities in the economy, and vulnerabilities or potentials for shocks, according to Dr Y V Reddy, Governor, RBI.

Speaking at the Central Bank Governors Symposium, convened by the Bank of England, in London, Dr Reddy asserted that, in addition to the above fiscal and financial factors, externalities such as gas and oil prices, and monsoon conditions for India, also determine the extent of capital account liberalisation. Each step in capital account liberalisation has to be taken, recognising that the reversal of a step is difficult, particularly since markets tend to react negatively to reversals, unless there is already a crisis situation. *(BL, 26.06.04)*

Financial Liberalisation

Financial liberalisation, in the wake of economic reforms, had a mixed impact on different sectors in the Indian economy. But, it has weakened the efficacy and conduct of monetary policy.

"The efficacy of monetary policy is seriously jeopardised by financial liberalisation. This is similar to the experience in European countries. The similarity of situations need not necessarily imply the adoption of the same policies to tackle problems such as inflation, unemployment or declining output. This is because the structure of a developing country, like India, differs sharply from that of European or developed economies" said Professor Dilip Nachane, economist and Senior Professor at the Mumbai-based Indira Gandhi Institute of Development and Research (IGIDR). *(FE, 20.08.04)*

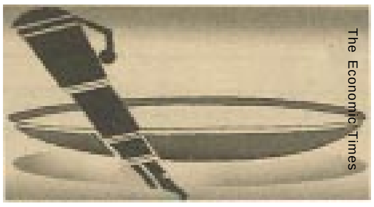
Millenium Development Goals

India is on course to achieve the Millennium Development Goals (MDGs), long before the agreed 2015 deadline, says the Finance Secretary, D C Gupta. The MDGs are a set of numerical and time-bound targets, related to key achievements, in human development. The international community accepted the MDGs at the United Nations Millennium Summit, in New York, in September 2000.

Speaking at a conference on 'Attaining the Millennium Development Goals in India: Role of Public Policy and Service Delivery', organised by the World Bank, Gupta pointed out that the goals of the Tenth Five-year Plan are much more ambitious than the MDGs. At the same time he held that "innovation" in the formulation of public policy, and increased efficiency in public expenditure was essential for the achievement of human development goals. *(BL, 17.06.04)*

Press Freedom Helps Fight Poverty

What is the connection between press freedom and economic poverty? A large part of the answer lies with corruption and the fight against it. Studies by the World Bank show that higher the level of press freedom in the country, the greater the control over corruption, and thus, the greater the focus of scarce resources on priority development issues.



The imbalances in press freedom reflect broader imbalances between the rich and the poor countries. A free press not only serves as an outlet for expression but also provides a source of accountability. It also helps to promote good governance and more equitable growth, says James D Wolfensohn.

There is no longer any doubt that media contributions are invaluable to advance economic progress, fight corruption, address the greater imbalances between rich and poor and ultimately reduce poverty worldwide.

(ET, 10.05.04)

Review FDI Policy

The government needs to review its policy allowing FDI upto 24 percent in the small and medium scale enterprises (SMEs) while ensuring better credit facility and technology financing to make them globally competitive, says industry experts.

"Direct benefits of FDI have not permeated down to the SMEs." It was important to the economy as SME's constitutes about one-third of India's total exports and contributes seven percent of the country's GDP. Outlining the challenges before the sector, which employs more than 17.8 mn people, small companies should be provided cheaper loans instead of subsidies, feels Prabir Sengupta, Director of the Indian Institute of Foreign Trade. *(ET, 22.04.04)*

The Economic Times

Greenhouse Gases

Carbon Dioxide concentration in the atmosphere today, is at perhaps the highest level for the last 20mn years, says R K Pachauri, Director General of The Energy and Resources Institute (TERI), Delhi. The number of hot days has increased globally, continental precipitation has risen by five to ten percent, and glaciers are reducing at an alarming rate, he added.

This unprecedented Concentration of Greenhouse Gases (CHG), has led to the 1990s being the warmest decade, globally. Even in 2003, high temperature records were broken all around the globe. London witnessed the first three digit Fahrenheit temperature and about 15,000 people died in France due to the highest temperatures there since 1873. *(TH, 11.09.04)*

Growth-oriented Action Plan

The Federation of Indian Chamber of Commerce and Industry (FICCI) presented its action plan to the PM with a view to spur economic growth in key sectors: agriculture, manufacturing, education, drinking water, and sanitation, emphasising on remedial steps.

FICCI stated that the farm sector should be de-regulated, and restrictions on inter-state movements of grain and farm products should be removed. The submission has emphasised on the need to create a single Indian market for farm produce.

There is a lack of flexibility in labour policy, which constricts the growth of employment. FICCI, therefore urged the Prime Minister to make labour policy a state subject. It added that investment in the manufacturing sector holds the key to the rapid growth of the economy, and generation of new jobs. *(FE, 30.05.04)*

Give Poor a Voice

The World Bank (WB) believes that the poor people of India must have a voice in policy-making. The Bank would promote innovative delivery of services, to rural areas, to give a fillip to poverty alleviation programmes in the country. The World Bank Country Director for India, Michael Carter, informed that the Bank would now focus on bridging the gap between local and large-scale development, as the real action lies at the grassroots level. *(BL, 21.06.04)*

Centre of AIDS Pandemic

India has overtaken South Africa as the country with the largest number of HIV-infected people, as per the United Nations-backed Global Fund to fight AIDS, Tuberculosis and Malaria.

India is on the verge of a massive AIDS problem, and international health experts fear that the disease is spreading very fast among India's billion plus population. Many believe that, unless it is controlled, AIDS would flourish in India as it did in African countries during the 1980s. According to the experts, the spread of the disease here is helped by widespread migrant labour, prostitution and taboo communication concerning sex and AIDS. *(FT, 16.09.04)*

Evolve Delivery Systems

There is a need to evolve a national model on delivery systems, based on the best practices followed by the state governments in various fields. The states, which are lagging behind in the race, should try and adopt best practices with examples from Kerala for its achievements in education; Tamil Nadu and West Bengal for healthcare; and Maharastra for food, says the finance minister, P. Chidambaram. *(BL, 06.08.04)*

Credit Policy: Nothing New

The RBI Governor, Y V Reddy's credit policy announcement, for 2004-05, has come as expected.

The latest policy statement leaves the interest rate environment unchanged, as is the cash reserves ratio. It points at the need for greater access to funds for agriculture, small and medium industries, as well as for infrastructure.

The credit policy document has the usual coverage of various actions, in respect of detailed segments of the economy, but it leaves out what should be done in the light of pronounced volatility in the stock market. All in all, the credit policy does not surprise, but does not also satisfy all expectations. *(BL, 19.05.04)*

Dream Budget to Model Budget

A decisive blow against poverty was struck when India's Finance Minister, Chidambaram, tabled the 2004/2005 budget. The document is a brilliant lesson in development economics, says Jeffrey D Sachs.

It shows how to combine a full-speed-ahead approach to market reforms, with urgently needed attention to poverty. Spending on the poor for health education, safe drinking water and the like, is a serious productive investment, according to Jeffrey D Sachs. The rich should not be grudging in their help to India. In other words, it is time for donors to step up to help reform-minded, yet poor, countries like India, and, even more urgently, those in Africa that are similarly committed to economic development. *(ET, 03.08.04)*

Break WTO Deadlock

The US-based International Food Policy Research Institute (IFPRI) has suggested a five-pronged strategy to break the stalemate on WTO negotiations in agriculture, and is of the view that proliferating bilateral trade agreements marginalises developing countries. IFPRI prescribes:

- Rich nations must reduce their farm subsidies and tariffs;
- Developing countries must open up their agriculture markets;
- Doha round agreement on agriculture must be substantative;
- Wealthy nations must provide development assistance to poor countries to complement a trade agreement; and
- Regulations must not pose undue burden on Third World exports

As maintained by IFPRI Director General Joachim von Braun, "market and trade reforms have great impact on food and nutrition security of the poor people in developing countries. Therefore, it is critical that the agriculture sector has a transparent, rule-based, global trading system that benefits the poor. Unfortunately, agriculture has long been treated as an exception to the rules, and as a special case left outside the trade liberalisation process". *(FE, 30.05.04)*

Take Bold Steps

India, in its quest for sustained economic growth, needs to thrash out political consensus on key issues like FDI and for infrastructure development to catch up with China. Everbody knows India has the potential. But translating the potential into reality needs political will and bold decisions. This was explicitly expressed by global business leaders and analysts during the China Summit 2004, organised by the World Economic Forum (WEF). Senior executives of Indian companies complained about the poor Indian infrastructure in terms of power, airports, roads and ports, which demands immediate attention.

(FE, 14.09.04)

Avoid Bureaucratic Hassles

Bureaucratic hassles have to be avoided if funds from the Centre are to be canalised effectively and efficiently. States require more flexibility for proper utilisation of funds for different projects and schemes, says Montek Singh Ahluwalia, Deputy Chairman, Planning Commission of India.

As believed by him, economic growth in West Bengal was among the best in the country. However, there were certain gaps in some sectors that could be plugged with proper plans and programmes.

Ahluwalia said that the state needs a watchful administration, which should tactfully handle areas where there were gaps. It should focus on the industrial sector with a view to reducing the burden on the agriculture sector. *(BL, 20.07.04)*

Extend Reform Fruits to Poor

The battle for economic reforms in India is finely poised, but the Government can help tip the balance towards reforms by expanding access for the poor, to health and education.

There is a need to convince the rural poor that they, and not just India's elite, would benefit from pro-market reforms. Hence, it is important that they have greater access to education and healthcare, and are able to stand up and compete in a much more competitive economy, said Raghuram Rajan, Former Professor of Finance, University of Chicago.

Creating political constituencies for reform, in this way, is one of the toughest aspects of development and can be helped by providing pro-growth policy advice, but it needs to be careful not to promise more than it can deliver. *(BS, 22.07.04)*

Indian Voters Favour Reforms

The outcome of India's parliamentary elections reflects a "message", in favour of "more reforms", instead of being a mandate against the "spread of markets" and the "process" itself, said Dr Raghuram Rajan, the International Monetry Fund (IMF) Economic Counsellor. He further added that the vast majority of voters wanted more of it (the reform process), and laid emphasis on their feelings, in regard to the inevitable challenges of "competition" that could be addressed through the provision of greater "access' to education and healthcare. *(BL, 22.07.04)*

Competition Minimum Programme

The Competition Minimum Programme (CMP) will be important in shaping the rhetoric, within which policies are presented, and should be examined in the light. An important element of the CMP is its emphasis on the role of the Government in stimulating competition, says Suman Bery, Director General of the Delhi-based National Council of Applied Economic Research.

The CMP stresses the importance of competition at several levels. Thus, in the section on administrative reforms, it is stated that "all regulatory institutions will be strengthened to ensure that competition is free and fair"; the section on the financial sector asserts that, "competition in financial sector will be expanded"; while the section on public sector says that, "privatisation should increase competition, not decrease it". The CMP is also unabashed in its defence of the public sector, in such areas as infrastructure, the banking system, and existing successful central PSUs, added Suman Bery. *(BS, 08.06.04)*

Study Deep Poverty

The poverty line should not be the only yardstick for measuring poverty, said Dr Kaushik Basu, Professor of Economics at Cornell University. Poverty in India might have gone down, according to Government statistics, but the improvement is not visible. Dr Basu extolled the role of voluntary organisations attempting to empower people at the grassroots level.

Dr Basu opined that proper data should be made available to economists/policy makers to study 'deep poverty' in our country. A 'pyramidal model' should be adopted for monitoring corruption. Lack of awareness at the grassroots level, with regards to Intellectual Property Rights (IPRs), and faulty policies that hindered business were the two major areas of concern for the expert development economist. *(FE, 02.08.04)*

Government to Adhere to Six Basic Principles of Governance

The National Common Minimum Programme (NCMP) of the United Progressive Alliance (UPA) Government proposes six basic principles of governance: protecting social harmony; ensuring growth of economy at seven to eight percent; enhancing the well-being of farmers; empowering women; providing full equality of opportunity in education and employment, to dalits, tribals, underprivileged classes and religious minorities; and unleashing the creative potential of entrepreneurs and productive forces.

Highlights

- *Employment*: enact a National Employment Guarantee Act to guarantee at least 100 days of employment
- *Agriculture*: irrigation to receive the highest investment priority; all on-going projects to be completed according to a strict time schedule
- *Education, Health*: raise public spending in education and health to at least six percent and two percent of GDP, respectively
- *Women and Children*: introduce legislation for one-third reservation for women in elected bodies; strive for the elimination of child labour
- *Food and Nutrition Security*: prepare a comprehensive medium-term strategy for food and nutrition security; strengthen the public distribution system
- *SCs/STs*: initiate a national dialogue with all stakeholders concerned to see how best the private sector can fulfil the aspirations of SC/ST youth
- *Infrastructure*: public investment in infrastructure will be enhanced, even as the role of the private sector is expanded; subsidies will be made explicit and provided through the budget
- *Regional Development*: make the National Development Council a more effective instrument of cooperative federalism; set up a new Commission to look into Centre-State relations
- *Administrative Reforms*: set up an Administrative Reforms Commission; e-Governance will be promoted on a massive scale; all regulatory institutions will be strengthened to ensure that competition is free and fair, and that these institutions will be run professionally; set up a National Manufacturing Competitiveness Council
- *Labour*: Social security, health insurance and other schemes for unorganised sector workers will be expanded; against hire and fire policy, however, some changes in labour laws may be required
- *Public Sector*: generally profit-making companies will not be privatised; will not support the emergence of any monopoly that only restricts competition
- *Fiscal Policy*: eliminate revenue deficit by 2009; subsidies will be targeted at the poor and truly needy; early introduction of VAT
- Committed to Economic Reforms with a human face

The essence of the NCMP is the recognition that policies aimed at promoting economic growth must also advance the cause of distributive justice, and create new employment opportunities.

Manmohan Singh
Prime Minister of India in his address to the Nation
(FE, 25.06.04)

Needs Commitment, Money and Pragmatism

That such a wide-ranging agenda for development and reform can even be dubbed a "common minimum programme", between such a diverse set of political parties, is a great step forward. It is actually possible for the Government to deliver a decent record in office, by just sticking to the NCMP's agenda.

However, the real challenge for the country is the challenge of good governance, and improving the efficiency of bureaucracy, public enterprises and public utilities.

(Editorial, FE, 28.05.04)

Implementing CMP Needs Imagination

The UPA Government promises to carry out the broad reforms programme with renewed focus on public investment in agriculture and infrastructure, both physical and social. It is also reassuring to hear the UPA Government's emphasis on its commitment to a fully-fledged VAT regime.

The Government must proceed on the special cess on all taxes to fund primary education, only after properly evaluating whether funding is the real problem in education. The delivery mechanism for various rural infrastructure programmes must be radically altered to ensure higher rural incomes and employment. The real challenge for the new Government will be to balance higher public spending with the imperative of reining in the fiscal year. *(Editorial, ET, 28.05.04)*

Growth with Social Justice

The NCMP aims for seven to eight percent GDP growth, with special emphasis on rural development and employment. Agricultural growth was a dismal two percent, and there was stagnation in employment. So, the NCMP's thrust on growth, with social justice, is perfectly justifiable.

Agricultural growth in our country has been retarded by a sharp fall in public investment. The Government should make all efforts to raise public investment in agriculture, resulting in an increased demand for industrial goods. Employment and rural purchasing can be boosted through investment for rural diversification. The Government's real challenge is how to keep a check on fiscal deficit. If the prices of public goods are not rationalised, fiscal deficit may be a problem.

B B Bhattacharya
Director
Institute of Economic Growth, Delhi
(ET, 07.06.04)

A Welcome Initiative

If India, as a nation, is to achieve prosperity, it is imperative that governance ensures secularism, growth in opportunities for all, and egalitarianism. The NCMP is a welcome initiative in this direction, since it attempts to take India forward with specific policy commitments towards the marginalised.

The NCMP's proposal to increase public investment in agriculture and irrigation, ensure land reforms, enact the National Employment Guarantee Act, and restructure the public distribution system, are attempts that are long overdue.

Illa D Hukki
Director, Development Support, CRY, India
(ET, 07.06.04)

'Inclusiveness' of NCMP Welcome

The World Bank welcomes the NCMP for its 'inclusiveness', since it has a positive development dimension. NCMP's focus on reforms, with a human face, was particularly appropriate as it demonstrated the Government's willingness towards investing in education and public health.

However, it is important to reduce fiscal deficit, and the increased expenditure in the social sector has to be balanced with reallocation from other expenditure and increased revenue collection.

Michael F Carter
Country Director, The World Bank, India
(FE, 10.06.04)

A two-day national seminar entitled "The Common Minimum Programme and Its Prospects for Economic Reforms" was jointly organised by Friedrich Ebert Stiftung and CUTS International in New Delhi on September 17, 2004.

Some issues that were raised during the ensuing discussions were:

- Pradeep S Mehta, Secretary General of CUTS International: there is a need to understand the complexities of the system and see how to grow and balance the concerns of different communities.
- N P Samy, Co-ordinator of the National Council of Labour: the Government should address the imbalance in the employment level through appropriate policy measures.
- Pronab Sen, Advisor to the Planning Commission of India: the planning system, of following a tiered approach, at national, state, district and village levels, has to be recreated.
- Dinesh Trivedi, Member of Parliament: the nation's confused people, as well as policy-makers, are not sure of which development model to follow.
- Tapan Sen, Centre for Indian Trade Unions: the Indian electorate has started responding to economic issues, which will increase the political accountability of the system. *(News From CUTS, www.cuts-international.org)*

SPECIAL TOPIC

Bad Ideas vs Good Men – A Piece of my Mind

The NCMP of the new Government at the centre has been a fertile breeding ground for many bad ideas. Over the same period, the Government's top economic management team has taken shape, with Manmohun Singh as Prime Minister, P Chidambaram as Finance Minister and Montek Ahluwalia as Deputy Chairman, Planning Commission.

Since the quality of the top team is hardly an issue, this article dwells on some of the bad economic ideas abundant in current economic policy documents and pronouncements.

Item: A National Employment Guarantee Act to guarantee 100 days employment, per year at minimum wages, for at least one able bodied person in each rural household. Several analysts have already noted the massive fiscal costs of this proposal and the dubious value of assets that might be created. The organisational challenge is also daunting.

Item: "Fullest implementation" of minimum wage laws for farm labour. Its hard to think of a more fearsome anti-poor, anti-employment measure than this. Let us hope "fullest implementation" connotes the status quo.

Item: Raise public spending on education, to at least six percent of the GDP. Aside from the obvious problem of resources, this promise (and the similar one on health) totally misses the real problems of ineffective service delivery and absence of accountability in the bulk of our public social sector service systems.

Item: Government will be "sensitive to the issue of affirmative action, including reservations, in the private sector". Enactment of reservations will become huge disincentives against any fresh employment, grievously undermine the international competitiveness of Indian firms, and cause social conflict.

Item: "Generally" profit making public sector companies will not be privatised. This pretty much terminates existing policies for disinvestments/privatisation. As for loss-making enterprises, the chances of successful sales by Government are next to nil. Who will have the courage to bring reserve prices low enough to allow successful transactions?

Another dubious (and very, very old) idea, doing the rounds, is that of sharply expanding rural credit. The underlying problems are deep-seated, and include a floundering system of co-operative credit institutions, bankrupt, regional, rural banks and serious weaknesses in the real agricultural economy

As you can see, there is no lack of bad economic ideas. Indeed, it is hard to keep them from bubbling over. Today, in India, we look to a few good men in the top economic management team to hold back the tide of bad ideas, and advance real economic reforms. We should wish them luck from the bottom of our hearts.

This is a summarised version of the write up by Shankar Acharya, Honourary Professor, Indian Council for Research on International Economic Relations (ICRIER) (BS, 22.06.04)

West Bengal Land Reforms

Background

In the early seventies, the state of West Bengal, in the eastern part of India, had one of the highest poverty levels and one of the largest numbers of poor people in the rural areas of India. West Bengal inherited very complex production relations, which were widely acknowledged to be the obstacles to the development of agriculture. This may be why West Bengal continued to be a poor performing state in terms of agricultural output, until the end of the 1970s. These relations were historically the result of the 'permanent settlement' adopted by the British in Bengal. In particular, the system was associated with a high prevalence of sub-infeudation, with many layers of intermediaries between the actual cultivator and the 'landlord' – all of whom had some rights or claims upon the produce of the land.

Thus, the system of sharecropping was created, under which the sharecroppers cultivated the lands of absentee landlords and received a share of crop as income. This had come about because many landowners had started to live in the urban or semi-urban areas, and did not want to cultivate the land themselves. Others, who still lived in the countryside, were unable to cultivate all the land they owned. The high rents that the British extracted from the landlords made them, in turn, coerce the tenants into accepting a minimum share of the output. The system continued even after independence, when the period of permanent settlement was over. There remained a large group of sub-infeudaries with varying types of claims to the land. There were some larger landowners who cultivated their land themselves, and many amongst them also hired out part of their land to sharecroppers. There was also a small group of middle peasants who based their cultivation on family labour, with some use of hired labour. Finally, there was a large and growing class of poor, landless labourers. Both production and distribution were adversely affected by the existing state of land relations. From the early 1950s, therefore, in West Bengal as in other states of India, land reform was a concern of the Government.

Reform Movement

Until the 1960s, there was very little in terms of land reform in the state. The small measures that were undertaken, related mostly to the abolition of intermediary interests and thus small amount of vesting of surplus land, above the land ceiling. There was a growing political awareness of the need to incorporate tenants' rights into land reform. This led to West Bengal *Bargardari* Act, 1950. Whilst this provided a sharing of the output, it did not provide any security of tenure. Later on, the more comprehensive West Bengal Land Reforms Act of 1955 came into force, which mainly provided for the abolition of intermediaries and imposition of ceilings on land holdings.

The Hindu Business Line

In the post 1977 era, when the Left Front came into power in West Bengal, the reform of land relations reflected part of a more general vision of the ruling party and governing coalition in the state. The vision deemed that changes in property relations were essential for social and economic change in progressive directions, for greater empowerment of ordinary peasants and workers, and, indeed, for meaningful democracy. This created the political pressure for land reforms and indeed was one reason for the electoral victory of the Left Front Government. However, land reforms should not be seen only as a result of administrative fiat, rather, they represent the outcome of a long period of struggle by the peasantry, and the social and political mobilisation of the landless in the countryside.

These reforms took place mainly in the form of redistribution of vested land, and securing of tenancy rights. The West Bengal Land Holding Revenue Act (1979) and the Revenue Rules (1980), introduced by the Left Front Government, provided for key changes in the sharecropping system. The radical reforms initiated by the Left Front Government were supported by administrative measures, as well as extension of supportive facilities. The latter included the supply of institutional credit; supply of modern inputs like high yield variety (HYV) seeds, chemical fertilisers and improvement of water bodies (through Government as well as private-owned irrigation structures). The major change in tenant relations involved the active recording or registration of sharecroppers, who had cultivated on the same piece of land for a number of years. This registration with the Department of Land Revenue gave them permanent and inheritable rights to cultivate the land.

In the late 1970s, the Government launched a serious drive to effectively implement the rights of the sharecropper. The first objective was to provide security of tenure to the sharecropper, so that his/her livelihood was not threatened, and second, that he/she was encouraged to make permanent and more expensive improvements on the land and adopt more modern technology. In addition, some land titles were recognised to be preconditions for access to formal agricultural credit. All this was obviously intended to increase the productive capacity of the land, which could then yield a stream of higher incomes for both the tenant as well as the landlord. The registration under 'Operation Barga' also entitled the tenant to subsidised institutional credit and other support facilities in the form of cheaper inputs like seeds, fertilisers and water.

Still, what marked a departure from earlier trends was that the legislation was sought to be implemented with the active participation of the bureaucracy, workers' organisations, and panchayats. The Government officials undertook the task of informing the tenants to register themselves, through group meetings, and getting the paper work done simply and quickly. The political apparatus was also very active. The peasant organisations and local front workers played a major role in campaigning for, and implementating, the programme.

Panchayats continued to play an active role in assisting the registration process and otherwise ensuring the success of this reform by confirming that the letter of the law, and the rights of the tenants, were respected in implementing tenurial contracts. Not only have the panchayats assisted in better identification of the beneficiaries and contributed to the efficiency of the subsequent support programme to beneficiaries in terms of credit, and mini kits (seeds, etc), but they have also coordinated programmes, such as IRDP etc, and helped to augment rural incomes. Similarly, the land reforms, in turn, have enabled the panchayats to have a more democratic character, as the economic and social composition of those elected as panchayat members indicates the growing significance of small and marginal peasants along with landless workers.

Due to the fact that political activism played a major role in effectively implementing the programme, the success varied from district to district, according to the strength of the political machinery involved. It emerges that in the aggregate, the number of *bargardars* recorded in West Bengal between late 1977 and 2000 amounted to nearly one-third of the total cultivators in the state in 2001.

In contrast to the programme of tenancy reform, the process of land redistribution started much earlier in West Bengal. The two United Front Governments, that were formed in West Bengal in the late 1960s, showed some initiative in following the ceiling legislation and occupying of vested land by the Government. The United Front Government showed great intelligence, with the help of political activists, in devising ways of identifying and procuring illegally occupied land. As a result, the land redistribution movement transformed into a peasant's movement in the countryside, and between 1967 and 1970, an additional 600,000 acres of such land was redistributed. The fall of the United Front Government brought an end to that phase. In fact, much of the redistributed land was reoccupied by the landlords. It is noteworthy that the process of land redistribution continued into the 1990s, when it virtually disappeared from the agenda of all other state governments and certainly from the national policy agenda.

Individual Experience with Land Reforms

Sukul Tudu was a landless labourer in the Birbhum district, from a very poor, scheduled caste family. In the mid-1990s, he became a *pattadar*, receiving one *bigha* of land, as part of the land distribution process, and became a cultivator. In 2000, he was able to borrow Rs 29,000 to set up a small poultry business, as part of the local *panchayat samiti's* scheme to encourage such diversification. This activity has been very successful, and Sukul's household income has increased manifold in consequence. The family of four (including his wife and two sons) now lives in a *pukka*, two-storeyed house, with electricity and a range of consumer durables, including a telephone and a television. Sukul is an active participant in *Gram Sabha* meetings, and plans to educate his sons, even though his wife remains illiterate.

Effects of the Reforms

The most significant effect of the land reforms has clearly been the unleashing of productive forces, which has led to a dramatic expansion in agricultural output growth. This has made West Bengal the most agriculturally dynamic state in India, in the last two decades of the 20th century. There is strong evidence that the economic, social and political domination of the landlords in rural West Bengal has declined, and that the more traditional forms of oppression by landed groups, which are still found in other parts of eastern India, are no longer prevalent in the state.

West Bengal is, to date, the only state in India, with the exception of Kerala, to have undertaken both tenancy reforms and redistributive land reforms. The combination of land reforms, as well as the reorganisation and greater emphasis on panchayats, created the framework for the same by spreading the use of inputs through extensive construction of unsurfaced rural roads, as well as through their dispute settlement and intermediary roles. The Left Front Government organised elections to the panchayats in 1978, after a period in which they were effectively moribund, and became the first state in the country to have effectively functioning panchayats and regular elections to the panchayats every five years.

There has been a substantial growth in the small-scale unorganised sector's manufacturing and service activity in the rural areas of West Bengal over the 1990s. Manufacturing output in the state, as a whole, has increased by nearly seven percent per annum in the most recent period. The land reforms have had some effect, in terms of improving the basic conditions for expansion of education and health. There have been substantial changes in tenurial contracts, and the growth of fixed-rate tenancy suggests both that there is an improved bargaining position of the tenants, as well as the greater ability of small tenant cultivators to provide their own inputs and take on the risks of cultivation for more profitable activities.

It is not easy to determine the extent to which land reforms have been responsible for spectacular turnarounds in West Bengal, since a number of catalysts have worked simultaneously in bringing this change-about. After analysing the essential historical background that led to the whole reform process, agricultural reforms in West Bengal produced some desirable reforms through the interlinkage and interface of several variables. These are Operation *Barga*, decentralisation of decision-making, conflict resolution through the panchayats, and spread of modern inputs to the poorer sections of cultivators. None of these variables can be viewed on a stand-alone basis.

Yet, every success highlights some weaknesses which need to be looked into, for fruitful replications across Indian states and similar countries elsewhere. Whilst democratic decentralisation could very well be replicated given the right political will, the weakness which came to the forefront is the neglect of wage demands of other major poor stratum, namely agricultural labourers.

(Compiled from West Bengal Human Development Report, 2002)

Offshoring and Outsourcing: Are there any Benefits?

The practice of outsourcing and offshoring has been rising rapidly and is expected to have a huge impact on the way business is managed. In this section we take up the topic of offshore outsourcing to raise issues pertaining to this management challenge as well as its impact. Readers are invited to send their comments and suggestions

Introduction

Shifting jobs to lower-wage countries a form of what is known as offshore outsourcing or offsourcing is an increasingly popular practice, seeking to cut operating costs. The issue has become highly emotional because of outsourcing's two dramatically different effects: it leads to layoffs and dislocations for thousands of workers, whilst economists say it will ultimately strengthen the economy. This has led to considerable anxiety in some segments of the workforce that feel vulnerable to competition from well-educated workers abroad, willing to work for, in some cases, one-tenth of the wages paid to the native citizens.

All roads lead to India. That is the feeling around the world, as the country catches the attention of global majors across a range of industries looking to outsource production & processes. Their reasons to come to India are manifold – from the need to cut costs, to being closer to the market, or simply to leverage the engineering skills of a large English-speaking work force for competitive advantage and a good legal framework.

There is also the phenomenon of 'insourcing', which is being touted as a job creator. According to this view, the jobs that US firms outsource to various developing countries, are largely offset by the jobs that foreign firms 'insource' to workers in the US. In this vision, outsourcing and insourcing are roughly offsetting, with the economy, in general, benefiting from the greater efficiency that both practices allow.

What the Reports Say

Deloitte Research's second annual Global Offshore Survey (2004) reveals that by the end of 2005, around US$210bn of the operating costs of 100 of the world's largest global financial service institutions will be offshored, resulting in cost savings of over US$71bn for them. The survey adds that India has emerged as the undisputed location for offshoring in the financial services industry. Around 80 percent of all financial services offshoring already takes place in India. In response to clients' needs to have better management control over outsourcing processes, 17 percent of large Indian third-party vendors today operate out of a near shore facility. For example, to service a US client better, they set up shop close-by, say in Canada

Forrester Research's report, in November 2002, had cited that 3.3mn jobs would move out of the US by 2015. That forecast has been raised slightly to 3.4mn. The near-term increase is driven by a combination of four factors: a) the visibility of the offshore phenomenon has encouraged more conservative companies to experiment with going offshore b) the broadening of IT services offered by offshore vendors, like Wipro and Infosys; c) the establishment of captive offshore centres by user companies for business process outsourcing (BPO); lastly, onshore IT technology and and services vendors setting up shop in countries like India, China and Belarus, to develop or maintain products or provide lower-cost services.

Issues for Discussion

- If the companies are truly saving money and thereby increasing shareholder wealth, is this move such a bad thing?
- Is movement of work offshore the primary reason for recent job losses and slow pace of hiring?
- Does an economy really benefit by this process?

According to the special report circulated by the US Chamber of Commerce, entitled "Jobs, Trade, Sourcing and the Future of the American Workforce", in trade, both the trading partners are supposed to gain as they leverage their competitive strengths for mutual gain. This explains precisely why outsourcing benefits both India and the US. The recent economic downturn, domestic business impediments etc, are the primary reasons for recent job losses and the slow pace of hiring, not the movement of work offshore.

Although America has, overall, lost jobs since the start of the decade, the vast majority of these job losses are cyclical in nature, not structural. Now that the economy is recovering, after the recession of 2001, so will the job picture, perhaps dramatically, over the next year.

Outsourcing (or "offshoring") has been going on for centuries, but still accounts for a tiny proportion of the jobs constantly being created and destroyed within America's economy. The process allocates resources money and people to where they can be most productive, helped by competition, which lowers prices. In the long run, higher productivity is the only way to create higher standards of living, across an economy.

Conclusion

According to an estimate, the number of US jobs sourced overseas amounts to a small fraction of the nation's 138mn workforce. When it comes to trade in services, "insourcing" beats "outsourcing" by nearly US$60bn, annually. Media reports and political rhetoric aside, the unemployment rate among Americans with a four-year college degree, is just 2.9 percent. Also, the recent extension of worldwide sourcing, from manufacturing to white-collar IT jobs does not threaten America's technological leadership – yet its serious slippage in education and broadband application does. By 2010, America will not have a shortage of jobs, but rather a shortage of workers.

(Compiled from News Clippings from BS. FE and ET, April-September'04)

In our previous issue, in "Professional Education in India: The Question of Autonomy", we had discussed about the IIM fee cut issue. The new Government at the Centre has allowed the IIMs to revert to their previous fee structure of Rs 1.5 lakh, with a provision for need-based financial assistance. *(ET, 14.06.04)*

Publications…

The current issue of this quarterly newsletter covers business opposition of competition law in various countries. The newsletter focuses on various micro, macro, corporate and sectoral issues.

It also discusses the Brazilian Experience on Independence of Regulatory Agencies, Competition Policy and Trade Liberalisation, and Namibian Competition Law.

For further details please visit our website on: http://cuts-international.org/Reguletter-index.htm

Towards a Functional Competition Policy For India

The project report comprises of 22 chapters which highlights various systemic and sectoral issues. The report is being published as two separate volumes. One is an Overview, which presents all the papers in a précis form so that a busy reader can go through them easily and get a flavour of what the issues are. The second is a more detailed report, with all papers offered in greater depth.

For further details of the report, please contact Academic Foundation at academic@vsnl.com, www.academicfoundation.com

Forthcoming Events…

Seminar on
"Regulatory Framework for Infrastructure Sector in India"
New Delhi, India

Over a decade after India launched economic reforms, poor and inadequate infrastructure continues to remain a major obstacle to achieving high and sustained economic growth. To boost investments in the infrastructure sector and ensure good quality and accessible services, the Central Government has asked the Planning Commission to prepare a policy paper, indicating what the regulatory structure should be for infrastructure sector.

Against this backdrop, CUTS International is organising a one-day national seminar on "Regulatory Framework for Infrastructure Sector in India", in collaboration with the Planning Commission at New Delhi, India, on January 14, 2005. The seminar would deliberate on the existing regulatory framework in the country, and provide useful inputs to the Planning Commission and the Government of India.

For further details please visit our website on:
http://www.cuts-international.org/RptRegFrmwork140105.htm

International Conference on
"Moving the Competition Policy Agenda in India"
New Delhi, India

India is at the crossroads of implementing a new competition law. However, the country is yet to have a stated competition policy. Against this backdrop, CUTS has undertaken a research project to develop a Functional Competition Policy for India, as an attempt to fill the gap and help the Government of India to come up with a Competition Policy that is 'implementable'. In this regard, CUTS-CCIER is organising a two-day international conference at New Delhi, India, on January 31 and February 1, 2005, to present key findings of the research project, facilitate exchange of national and international experiences, and draw a framework to implement the competition policy agenda in India.

For further details please visit our website on:
http://www.cuts-international.org/movingcomp-policy.htm

Outreach Seminars in Various Indian Cities

Following the release of the report on Functional Competition Policy for India, CUTS-CCIER is organising one-day outreach seminars in select Indian cities in the month of February/March 2005. The cities are New Delhi, Ahmedabad, Mumbai, Kolkata, Chennai, Bangalore, Hyderabad, Lucknow and Jaipur .

The main objective of these seminars is to maximise outreach through media people who are working on economic policy issues, and target various stakeholders such as Policy Makers, Politicians, Trade Unions, Civil Society Organisations, Academia and involve them in the process to have better understanding of the competition scenario.

These Outreach Seminars would create networks and advocacy with various experts and organisations; and generate mass awareness on competition issues.

For further details please visit our website on:
http://www.cuts-international.org/forthcoming-events.htm#devmarketsfeb3

SOURCES

BL: The Hindu Business Line, **BS:** Business Standard, **DH:** Deccan Herald, **ET:** The Economic Times,
FE: The Financial Express, **FT:** The Financial Times, **HT:** Hindustan Times, **RP:** Rajasthan Patrika, **TH:** The Hindu

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