PolicyWatch

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

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One Year Competition Scorecard: 3 on 10

The UPA government has completed one year in office, and it is time to assess its performance on the touchstone of competition as laid out in the National Common Minimum Programme (NCMP), which states:

"The UPA government believes that privatisation should increase competition, not decrease it. It will not support the emergence of any monopoly that only restricts competition. All regulatory institutions will be strengthened to ensure that competition is free and fair. These institutions will be run professionally".

The most significant achievement over the past one year has been the implementation of the value added tax (VAT). This is a big step towards a single market for the country, and promises to remove several distortions in the market place.

The Economic Times

True to the spirit of the NCMP, certain measures have been taken to end the monopoly of incumbents. For instance, the monopoly of the Gas Authority of India Limited (GAIL) in gas pipeline infrastructure is set to end. Private operators have been allowed in the movement of container trains, thus bringing an end to the monopoly enjoyed by Concor.

Measures were taken to ensure a level-playing field in certain areas. Guidelines have been issued that put major port trusts and private terminal operators at par on tariff determination. The new Petrochem Policy seeks to address the inverted import duty structure that disallows fair competition and cripples units producing finished products.

The Planning Commission is preparing a policy paper for the establishment of an effective regulatory regime based on international best practices. There is now an appreciation of the need for setting up independent regulatory authorities in the infrastructure sector. However, certain turf issues remain unresolved. For instance, while the Planning Commission is in favour of an independent rail regulator, the Ministry of Railways is strongly opposing the move, fearful of losing its power and authority.

Civil aviation has been one of the active sectors on the policy radar. The restructuring of Delhi and Mumbai airports is underway. Private airlines have been allowed to fly to foreign destinations, providing a platter of choices and competitive prices to consumers. However, the lucrative Gulf sector continues to be reserved for the public airlines. Furthermore, domestic airlines with less than five years of experience have been kept out. Despite all efforts, the long awaited civil aviation policy and a civil aviation regulator have not seen the light of day.

Oil was another sector that generated a lot of news due to the spurt in international crude prices. It is widely recognised that there is absolutely no transparency in the pricing of petroleum products, and both the government and the oil companies continue to reap benefits from distortionary policies and practices at the cost of consumers. Against this backdrop, the government's proposal to set up a Petroleum & Natural Gas Regulatory Board is welcome.

The extention of the purchase preference policy for central public sector enterprises1 for another three years, and continuation of access deficit charge payments to BSNL are two examples of the distortion of the competitive neutrality principle.

As promised in the NCMP, the National Manufacturing Competitiveness Council (NMCC) is preparing a draft strategy paper to suggest measures for enhancing competitiveness in certain sectors. One of the competition concerns is in the polyester staple fibre industry, where the dominant player, Reliance (85 percent market share) and Indo Rama are following an exploitative pricing policy.

In several commodities, the government continues to follow an inverted duty structure that hampers the competitiveness of domestic goods. For instance, while import duty on natural rubber is 20 percent, the duty on imported finished tyres is only 10 percent. While crude palm oil attracts a customs duty of 65 percent, imported

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*

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vanaspati attracts a much lower duty of 30 percent. This phenomenon of reverse tariff escalation causes distortions in the market.

It would, therefore, be good if the NMCC also examines how government's policy and lack of an effective competition law affect the competitiveness of the Indian manufacturing industry. This also requires active involvement of the Competition Commission of India. Despite being mentioned in the thrust areas for policy implementation in six months identified by the Prime Minister's Office for 2005, the fate of the Competition Commission is still vague.

In the absence of a working competition law, the economy continues to suffer from myriad abuses. Thus, deals such as the recent one between Videocon and Electrolux that is likely to reduce competition in the lower end of the consumer durables market, go unchecked.

The brouhaha over trade margins on medicines is yet to be resolved. The country has moved on to the product patents regime, but the role of the Competition Commission to examine matters relating to abuse of intellectual property rights does not find any mention.

There is a strong need for the government to conduct a competition assessment of all its policies and practices. This calls for the adoption of a National Competition Policy to provide guidelines in maintaining the appropriate competition dimension. The need for such a policy was stated in the mid-term appraisal of the 9th Plan. Does it really matter that it was a different government that said it, but did not do anything?

The government has shown the right intent and there have been some major policy announcements, but the action on the ground is still to come. Most of the efforts have been half-hearted, which need to be reinforced by taking a holistic view so that their full benefits can be realised. Given the huge agenda that lies ahead, the real test of the government's performance has just begun.

THEME: COMPETITION PERFORMANCE OF THE UPA REGIME

Inverted Duties under Fire

The Commerce Ministry has urged the Finance Ministry to address the inverted duty structure in the Union Budget of 2005-06. Higher customs duties on raw materials and intermediates than finished products are said to be distorting domestic manufacturing cost. Inverted duty structure is impeding the export efforts, especially in the context of the free trade agreement (FTA) India has signed with Thailand, Sri Lanka and the Association of South East Asian Nations (ASEAN).


The Hindu Business Line

The India Pepper and Spice Trade Association (IPSTA) expressed its discontent with the flooding of the domestic market with imported pepper from the South Asian Association for Regional Cooperation (SAARC) countries at a concessional duty. IPSTA claims that the FTA with the neighbouring countries had given an added advantage to Sri Lanka to dump black pepper into India, which resulted in declining domestic prices.

Suggestions have also been made for the restructuring of indirect taxes for the petrochemical value chain right up to synthetic fibres. High duties on raw materials have discouraged creation of large capacities at the relatively higher ends of the twin value chains of polymers and synthetic fibres.

(BL, 13.08.04, ieport.com, Feb 2005 & FE, 20.01.05)

Retail Trade Margins in Pharma

The Department of Chemicals and Petrochemicals recently looked into the issue of overcharging by drug companies, and observed an abnormally high trade margins prevailing, particularly, in generic drugs.

The government decided to levy an excise duty on drugs after giving an abatement of 35 percent from the declared retail price. This is expected to help in controlling the huge trade margins paid by generic companies to wholesalers and retailers.

The abatement takes into account 10 percent margin to the wholesaler, 20 percent margin to the retailer and the statutory levies. In effect, excise duty is charged at 16 percent on 65 percent of the retail price.

(BL, 08.01.05 & ieport.com, Feb 2005)

Anti-dumping Notoriety

India has been notorious for initiating anti-dumping measures against importers. It is in third place with 14 initiations of new investigations during July-December 2004, registering a decline of more than 50 percent from its 33 initiations in the same period in 2003.

The Directorate-General of anti-dumping and allied duties observed that various parameters, such as significant decline in production, decline in capacity utilisation, closure of several power looms, decline in sales, drop in employment, loss of market share in demand, decline in profitability and losses to domestic industry, *prima facie*, indicated that the Indian silk industry had suffered material injury on account of dumping.

If the trend continues, it will result in an import of US$80mn worth of synthetic filament yarn from China annually. The negligible increase in filament fabric production in India only complicates matters further.

(WTO Press/406, 19.05.05 & BS, 01.06.05)

Purchase Preference Extended

The central government extended the purchase preference policy for central public sector enterprises (CPSEs) for three years up to March 2008, after which it would be terminated. The purchase preference policy gives preference to CPSEs in case of purchases made by the government departments and other CPSEs. *(BL, 01.07.05)*

India-Iran Deal

Iran has agreed to export liquefied natural gas (LNG) to India for 25 years from the end of 2009. The head of Iranian Gas Export Company said exports would start at four million tonnes per year and would build up to five million tonnes over the first year of the contract. The Indian partners in the deal would be the state-run Indian Oil Corporation (IOC) and Gail (India) Ltd.

The deal fell 2.5 million tonnes short of an original 7.5 million tonnes that India had demanded, but an Indian official said discussions were on for the extra tonnage.

Iran also offered to give IOC and its Iranian partner, Petropars, a block in the North Pars gas field, which is believed to contain over 47 trillion cubic feet of gas reserves, for production of LNG and its export to India and other countries.

(BL, 14.06.05)

Coal Price Mechanism

In a move that would have a huge impact on the power sector, the centre has agreed to the Andhra Pradesh (AP) government's suggestion to establish a regulatory mechanism for coal pricing and referred it to a Tariff Commission.

The Financial Express

AP took up this issue with the centre in the light of unilateral decision taken by Coal India to increase prices by 15 percent from June 2004, resulting in an additional burden of Rs 128 crores on AP Transmission Corporation. The problem gets accentuated for the state because 60 percent of its power projects are coal-based.

The logic behind deregulating coal prices is the sheer monopoly of production by Coal India (86 percent of the total output). *(ET, 25.06.05)*

National Gas Grid on Cards

The Parliamentary Standing Committee on Petroleum & Natural Gas has supported the implementation of the 8,000-km national gas grid project to link various supply sources with the markets in different parts of the country. With increasing availability of gas from various sources, the government should develop a national gas grid on the lines of the power grid to ensure regional balance, keeping in view the uneven availability of gas in various regions of the country.

In reply to the committee, the Petroleum Ministry said that the government is finalising a national gas pipeline policy, which envisages progressive development of a nation-wide gas grid in a competitive environment, involving both the public and private players, under a regulator. *(FE, 12.05.05)*

Two Oil Behemoths

The Planning Commission recommended, in its mid-term appraisal of the Tenth Five Year Plan (2002-07), two fully integrated public sector national oil companies, competing with each other and with private companies.

The two companies carved out of the existing six could engage in exploration and production activities in oil and gas, have downstream refining and marketing operation and invest in oil and gas equity overseas.

At present, public sector units are competing with each other and seeking vertical integration based on the public funds at their disposal. This approach leads to sub-optimal investments, which offers no strategic advantage either for the sector, or to the consumer. *(BS, 08.04.05)*

Pilot Project for Kerosene

Minister for Petroleum and Natural Gas, Mani Shankar Aiyar, has assured that the government is taking punitive action against those indulging in adulteration of diesel by mixing kerosene, and an innovative pilot project to revamp the kerosene distribution network has been approved.

The primary objective of the project is to ensure the heavily subsidised product is made available in the required quantities to the intended beneficiaries, and secondly, to cap, reverse and eventually eliminate the diversion of kerosene available through public distribution system for adulteration.

The pilot project is to be implemented in 10 percent of the blocks of the country for a period of six months, and thereafter, the working of the scheme would be independently assessed and the government will scale up to cover the entire country.

(BL, 13.05.05)

Competition at Work

Price competition and aggressive bidding by multiple petroleum refiners brought down diesel prices for the railways. The magic of the marketplace reduced diesel prices for the single largest consumer in India by Rs 1,040 per kilolitre. This has been brought about by newer refiners like Reliance, Mangalore Refinery and Petrochemicals Limited (MRPL) and Essar seeking to push sales in the bulk end of the market.

There is no reason to limit price competition to just diesel; what we need is competition and efficiency for the entire retailing of oil products, especially household fuels. Given the administered, cost-plus prices for both liquified petroleum gas (LPG) and kerosene, there is just no incentive to rev up efficiency, improve logistics and cut costs. *(ET, 12.05.05)*

Green Signal for Biofuel

High oil prices have triggered a demand for bio-fuel, ethanol blended petrol. A major hurdle was the price of ethanol. With the sugar industry agreeing to sell ethanol at Rs 19.50 per litre, this issue has been resolved. This offer is way below the Rs 22 per litre fixed in the past by the sugar industry.

Petroleum Minister Mani Shankar Aiyar asked the PSU oil companies to quickly arrive at a framework to buy ethanol from the sugar manufacturers on a regular basis. The PMO will sort out other outstanding issues between the oil companies, buyers of ethanol and the sugar industry. *(ET, 26.05.05)*

High Industrial Tariffs

According to latest energy statistics from the International Energy Agency, the Indian industry pays much higher for the power it consumes in comparison with even developed nations, such as the US, Germany and the UK, with only Japan paying more.

On the flip side, Indian households are the most pampered electricity consumers in the world, paying the lowest tariffs for the power they consume, as per the statistics available for 30 countries. The extent to which cross-subsidies are rooted in the domestic tariff structure is evident from the fact that while Indian domestic tariffs are less than half of what is paid by industry, not even one of the other 29 countries included in the survey charged industry more than domestic consumers. *(BL, 08.06.05)*

(in US cents K/h)

Electricity tariffs		
Country	**Industry**	**Domestic**
India	7	3
Belgium	4	13
Canada	3	5
Chinese Taipei	6	8
Germany	5	12
Sweden	3	8
Japan	16	23
S. Korea	6	7
Mexico	5	7
New Zealand	2	6
Portugal	6	11
Spain	5	12
UK	5	10
US	4	8

Dabhol Deal on Track

The long-drawn battle over the Dabhol power plant in Maharashtra is over, with the lenders to the project reaching a settlement with 85 percent equity holders, GE and Bechtel.

A joint venture special purpose vehicle, formed by National Thermal Power Corporation (NTPC), GAIL, Maharashtra State Electricity Board (MSEB) and the financial institutions, is expected to file application for registration, and an integrated company would be formed with a Chief Executive Officer. The existing utility of 2,184 MW capacity would be further expanded by 2,500 MW at the same location and the overall capacity of the station would go up to 5,000 MW. *(BL, 23.06.05)*

Captive Power

With power shortages affecting much of the country, the government plans to bring in around 5,000MW of electricity into the system over the next two years by providing grid connectivity to the larger captive plants, said the union Power Minister, PM Sayeed. Captive units accounts for nearly 20,000MW and with the passage of Electricity Act 2003, owners can sell their surplus power to the grid.

The ministry has started working towards improving the efficiency of power stations with a plant load factor of less than 60 percent to improve overall output. Sayeed claimed that the ministry would achieve over 90 percent of its capacity addition target of 41,110MW during the current plan period. *(BL, 16.05.05)*

Time-of-day Tariffs

Initiating a step forward in power sector reforms, the Forum of Indian Regulators, a statutory body comprising central and state power regulators, discussed the issue of introducing time-of-day tariffs across various consumer categories, starting with industrial and commercial consumers. Time-of-day electricity tariffs entail differential tariffs for peak and non-peak hours, with consumers needing to shell out a premium for the electricity consumed during certain designated peak hours.

Some states, including Tamil Nadu and Kerala, have already taken the first step towards introducing differential tariffs across the day by installing special time-of-day meters for bulk consumers. *(BL, 29.04.05)*

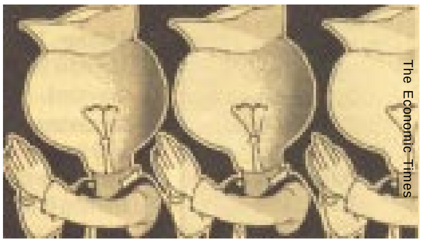
New Tariff Policy

The Ministry of Power modified the power tariff policy to incorporate a series of important changes dealing with rate of return on investment in distribution, depreciation rates, operating norms and competitive procurement of power. The changes clarify that since distribution involves higher risks, a higher return on equity should be allowed there as compared to generation or transmission.

For calculating tariffs, the policy recommends a debt-equity ratio of 70:30 for all capital based projects. Most of the states felt that the rule of 30 percent equity would not be possible for existing/older plants, which have higher equity. *(FE, 23.05.05)*

Switch Off Free Power!

The acute shortage of electricity in the country has prompted Prime Minister, Manmohan Singh to rule out free power supply, as it has been a major hurdle in additional electricity generation. Speaking at a function for the Rajiv Gandhi *Grameen Vidyutikaran Yojna* under which 74,000 villages were included to be provided with electricity by 2009, the Prime Minister also called for a political consensus on energy policy to improve the performances of State Electricity Boards.



"The challenge of economic generation, distribution and pricing of electricity has to be addressed in a non partisan manner, so that we can, in fact, ensure rapid spread of electrification across the country and can attract new investments in this vital sector", he said. *(FE & BL, 29.05.05 & BS, 05.04.05)*

At Last, Bihar Gets an SERC

Pushing ahead the much awaited power sector reforms, the Bihar government finally constituted the State Electricity Regulatory Commission (SERC), to be headed by retired judge of the Patna High Court, Justice B N P Singh. A three-member search committee will soon select the other two members of the Commission.

Apart from augmenting revenue for the Bihar State Electricity Board, the Commission will also help in promoting economic development of the state. The SERC will be empowered to determine power tariffs, which have not been revised since 1993. *(ET, 06.05.05)*

Roll Out Rural Networks

The government is considering amending the Telegraph Act to facilitate mobile operators to roll out networks in rural areas by sharing infrastructure that is funded by the Universal Service Obligation (USO) fund.

The aim is to take telephone connectivity to villages, highways and rail lines, the Communications and IT Minister, Dayanidhi Maran said. So far, Rs 1,841.50 crore has been made available to operators for rural telephony, of which, Rs 1,341.50 crore has been provided during 2004-05. For 2005-06, a provision of Rs 1,200 crore has been made for USO support.

Five percent of the revenue share, given by telecom companies to the government, currently goes towards the USO fund. *(BL, 14.04.05)*

Price Cut Repealed

The Telecom Dispute Settlement Appellate Tribunal (TDSAT) quashed the TRAI's order to reduce international bandwidth tariff by 70 percent.

The decision comes as a relief to Videsh Sanchar Nigam Ltd (VSNL), which had contested TRAI's order on the grounds that the telecom regulator had not followed an appropriate process in fixing the tariffs. On the other hand, the TDSAT's order comes as a blow to consumers of international bandwidth, including internet service providers and business process outsourcing units.

Setting aside TRAI's order, the Tribunal asked the regulator to have a re-look at the entire exercise and share the full facts and basis of calculation with VSNL in a transparent manner. *(BL, 29.04.05)*

Telecom Revolution

The total telephone subscriber base in the country, including fixed lines and mobiles, has crossed the 100 million mark. Even broadband connections have started to grow steadily in 2005. In the month of April 2005, 2 million fixed line and mobile subscribers were added and 44,000 broadband connections were provided. The teledensity of the country has reached 9.26. *(BL, 10.05.05)*

Slashing Spectrum Charges

The Telecom Regulatory Authority of India (TRAI) has recommended that existing operators should be given spectrum to offer third generation (3G) services without any additional entry fee. The telecom regulator has also suggested bringing down the annual spectrum fee from a maximum of 6 percent of the operator's revenues to 4 percent a year, which may lower mobile tariffs further.

The Hindu Business Line

To maintain the level playing field, new players will have to pay a one-time entry fee for getting 3G spectrum, which will be the same as those being paid by mobile operators under the unified access license regime. TRAI recommended setting up a Group of Ministers to monitor the allocation of spectrum. *(BL, 14.05.05)*

Financial Autonomy Denied

The Finance Ministry has shot down a proposal from the Telecom Regulatory Authority of India (TRAI) to fund its operations from the license fee collected from operators instead of the present system of receiving grants from the government.

TRAI, in turn, proposes to take up the matter again with the government, possibly at a level higher than the Finance Ministry. TRAI suggested that the government should give it 0.05 percent of the revenues collected as license fee from the operators.

Pradip Baijal, Chairman, TRAI said, "in the absence of its independent source of funding, TRAI is not able to improve the service conditions of its employees and attract necessary talent to the organisation".

According to TRAI, regulators in 72 countries are funded from license, spectrum, numbering and regulatory fees. In India, the Insurance Regulatory and Development Authority raises its revenue through cess and fees. The Security and Exchange Board of India also follows a similar approach. *(BL, 04.04.05)*

STD Calls at Local Rates

The Department of Telecom (DoT) permitted inter-service area connectivity in the states of Maharashtra, Tamil Nadu, Uttar Pradesh and West Bengal. This means, calls within these four states will be treated as local calls.

The move will have a positive impact on nearly 17.69 million subscribers in the GSM segment alone. This includes 7.5 million users in Maharashtra, 4.5 million in Tamil Nadu, 2.15 million in West Bengal and nearly 3.5 million in UP.

With a little over 42mn GSM subscribers in the country, this order will impact about 40 percent of them, besides a large base of CDMA subscribers in these states, and spur the growth of mobile telephony in these states. *(ET, 22.05.05)*

CAS Is Coming Again!

The Information & Broadcasting (I&B) Ministry decided to resurrect the controversial Conditional Access System (CAS) in the four metropolitan cities of New Delhi, Mumbai, Chennai and Kolkata. According to the union I&B Minister, Jaipal Reddy, it was agreed that a detailed scheme for implementation would be worked out by the centre in consultation with the states, "keeping in view the interest of consumers and the larger investments required by cable operators for digitisation of operations". However, the Government has not set any time-frame.

In another move, the states agreed to bring entertainment tax down to 25-30 percent. To curb piracy, video libraries would be brought under a regulatory regime of a local authority either through registration or licensing. The I&B Ministry is also mooting the idea of having a separate optical disc legislation to tackle piracy. *(TH, 17.04.05)*

TRANSPORT

Transport Regulator

The government may soon appoint a regulator for the entire transport sector covering roads, ports, civil aviation and railways to speed up decision-making, said Prithiviraj Chavan, Minister of State in the PMO.

Once ready, the proposed regulatory system will do away with the present system of having separate bills through Parliament for each of the sectors. In addition, it will speed up the machinery and boost the confidence of private investors to put money into the infrastructure sector. The proposed transport regulator is also expected to look into the critical aspect of financing. *(ET, 04.04.05)*

National Land Port Authority

The Government of India (GoI) is in the process of setting up a National Land Port Authority, which will manage the land customs stations, said Dr Christy Fernandez, Additional Secretary, Ministry of Commerce, GoI. The authority is likely to be under the supervision of the Department of Border Management in the Ministry of Home Affairs.

Meanwhile, the Commerce Ministry identified several locations in the Northeastern states as bilateral trade points. This is as part of the 'Look East' policy of the Commerce Ministry to revive traditional trade routes between the Northeastern states and neighbouring countries. *(BL, 16.06.05)*

Railways Offers Freight Sops

The Indian Railways announced tariff discounts for certain commodities moving in the under-utilised routes. The discounts will also be extended to the incremental loading of those commodities.

The move is expected to benefit cement, iron, steel and petroleum companies among others. Moreover, it has also increased the free time allotted to a user during train loading and unloading by one to two hours depending on the type of wagon used.

A rebate of 20 percent will accrue to those goods that are charged at class 140 or above when they are being transported on notified empty flow directions to generate the revenue, said the Union Railway Minister, Lalu Prasad Yadav. *(BL, 31.06.05)*

Draft Road Transport Policy

The department of road transport and highways drafted a national road transport policy that aims to ensure greater private sector participation and rationalisation of motor vehicle tax regime across states to eliminate octroi alongside implementation of value added tax.

The draft policy calls for creation of equipment leasing companies, accreditation of vehicle body builders and a differential taxation system to encourage use of multi-axle vehicles.

The proposed policy makes a strong case of state-level statutes to facilitate land acquisition, shifting of utilities, approval for cutting of trees, and control of law and order and encroachments for the on-going National Highway Development Project.

"To augment availability of resources for the sector, the budgetary resources could be leveraged to raise private investments" the draft said. *(ET, 10.05.05)*

Open Skies!

The European Union and India are all set to negotiate a new bilateral agreement that will allow European carriers unrestricted access to India. As per the proposed agreement, any European carrier can fly to India from any European country.

However, the proposed agreement will not do away with the individual bilateral agreement that India has with individual European countries.

In another development in aviation sector, India and the US signed an Air Service Agreement that would result in more commercial flights, lower fares and stronger economic ties between the two countries. This new pact will replace the 1956 agreement, which, though quite liberal, had some restrictions on the points of call as well as capacity on certain routes. *(BS, 11.05.05 & BL, 15.04.05)*

Failure to Tap Funds

Road transport officials and highways ministry are shocked at the under-utilisation of the central road fund by the states. As per statistics, the total accruals to states from the fund from 2000-01 to 2004-05 stand at Rs 4,526.68 crore. However, the total release of funds so far, which depends on progress and utilisation by states stands at Rs 3,061.88 crore. This means, when the centre is pushing infrastructure development, a balance of Rs 1,464.80 crore lies unutilised in the segment. *(BL, 15.06.05)*

CRF: Poor State of Utilisation

	CRF Accruals	Funds Released	Balance
Maharashtra	503.86	332.88	170.98
Tamil Nadu	321.12	245.08	76.04
Uttar Pradesh	435.97	205.94	230.04
Rajasthan	367.26	290.25	77.01
AP	395.72	341.60	54.12
Delhi	137.70	18.84	118.86
Karnataka	279	215.34	63.66

Period: 2000-01 to March 2005 *(Rs. crore)*

Fare War of Airlines

The softening of air fares, a shift from upper class train berths to airlines and the surge in leisure travel, driven by the entry of Air Deccan less than two years ago has gathered momentum of its own now. Consequently, the next 12-15 months may well raise a toast to the success of Low Cost Airlines (LCAs) and first time travellers in India.

www.traveleuropeguide.com

Recent Director General of Civil Aviation (DGCA) data on market share of domestic airlines indicate that the customer is voting with his feet.

So, while full service carriers like Jet Airways and Indian Airlines continue to be the biggest players in the domestic skies, it is anticipated that by last quarter of 2006, LCAs like Air Deccan, Kingfisher and Spicejet may together command a market share of 15-20 percent on a wider base. *(ET, 21.05.05)*

Green Signal to Insurance Arm

After a gap of four years, the Reserve Bank of India (RBI) is considering to permit public sector banks to set up insurance subsidiaries, provided the new ventures are widely held.

About six new licenses are scheduled to be given out to banks, which include Bank of Baroda, Punjab National Bank (life insurance) and the State Bank of India (non-life insurance).

For four years, the RBI has not been allowing public sector banks to set up insurance subsidiaries. Earlier, it allowed only the State Bank of India and private banks like ICICI Bank, ING Vysya Bank and Kotak Mahindra Bank to enter the insurance business. *(BS, 16.04.05)*


The Hindu Business Line

Independent Regulators Wanted!

The Infrastructure and Regulatory Council under the Confederation of Indian Industry (CII) suggested that the government set up financially and administratively independent regulators for all major infrastructure sectors.

The apex industry body specified that the work of these regulators must be independent of what the Competition Commission has been mandated to deliver. It stressed the need for autonomy, accountability and professionalism in these regulatory bodies. CII also recommended that the selection of the chairman and members in the regulatory body must be through transparent and pre-defined methods. *(BS, 23.05.05)*

Urban Renewal Mission

As a part of the National Urban Renewal Mission, the centre has drawn up a plan to boost infrastructure development in 60 cities including 7 mega cities. The total expenditure will exceed Rs 1,20,000 crore over the next five years with a Rs 5,500 crore outlay in 2005-06 alone. The Union Cabinet will soon clear a proposal that will set up a National Steering Group to execute the renewal mission.

With the centre providing 25-75 percent of funding for the projects – the percentage depending on the population of the city and certain other criteria – the mission would cover physical infrastructure, such as water, lighting, sanitation, energy and housing. *(ET, 19.05.05)*

Investment Regulation

The Forward Markets Commission would regulate the investment to be made by banks and mutual funds in commodity futures, once investment through these channels is allowed. Currently, the matter is under consideration of the Law Ministry, according to Consumer Affairs Secretary, Labanyendu Mansingh.

The Government of India tabled a Bill in the Parliament, proposing to amend the Banking Regulation Act. The Bill intends to include commodity futures in the definition of approved securities that banks and mutual funds can invest in. The Forward Contracts (Regulation) Act is also being carefully scrutinised for amendment to facilitate the foray of banks and mutual funds in this sector. *(BS, 21.05.05)*

Tie-ups for Micro-Insurance

The Insurance Regulatory Development Authority (IRDA) will allow a life insurance company to tie up with a non-life insurance company to spin-off micro-insurance products. It will also introduce regulations to promote micro-insurance and create guidelines that stipulate the insurance cover in unit-linked insurance products.

"We are in the process of bringing out a regulation that will provide an infrastructure within which micro-insurance can be developed in a proper manner. For such products the regulator will allow a tie up between a life and a non-life insurance company so that a composite product is available to the rural poor through a single window", said TK Banerjee, member, life insurance, IRDA. *(BL, 21.04.05)*

Lending Long

Banks should expand their credit portfolio to increase lending to small and medium industries, said the Prime Minister, Dr Manmohan Singh, while addressing a function to mark the bicentennial celebrations of the State Bank of India.

He said that there is shortage of credit to the small and medium industries and the agriculture sector. Long-term finance is a major area of concern. Therefore, the country needs an active debt market to satisfy the long-term capital requirements of large and medium industries. The bank should also spearhead the widening and deepening of the market for rural credit and meet the needs of small and marginal farmers, said Dr Singh. *(BL, 05.06.05)*

Post Offices as Retail Stores

Westside and Marks & Spencer might face competition from rural India! With post offices in the hinterland doubling up as stores, they could well be the largest retail chain at least in terms of sheer numbers.

Of the 1.56 lakh post offices across the country, 1.30 lakh are in rural areas. These post offices will sell everything from mobile SIM cards to tea and coffee. Post offices selling products and services will get a commission. The objective behind the retail post scheme is to increase the revenue earnings of the postal department.

An average post office in India offers its services to 21.17 km of area and serves nearly 6,614 people. No one can rival such a network, said Suvendu Swain, Director of Indian Post. Since the core strength of post offices lies in their connectivity and the personal rapport the postman has with every house in the village, retail post is expected to be a successful venture. *(HT, 14.06.05)*

No Smoking!

The government has announced a ban on the screening of tobacco products in movies and tele-serials from August 1, 2005. Six provisions have been included in the existing law, which require mandatory display or prominent scroll containing warning when use of tobacco products is shown.

Further, the new provisions also ban sale of tobacco by minors and through vending machines. India is one of the countries that have ratified its framework convention on tobacco control and is working towards formulating a 'national tobacco control programme'.

A high level committee comprising MPs, officials from information and broadcasting and health, has been formed to deal with surrogate advertising on a case-to-case basis.

(FE, 31.05.05)

Outlays vs Outcomes

The Finance Ministry has ordered high-spending ministries like rural development, power, health and family welfare and education to submit monthly accounts of their spending in order to ensure that outlays on programmes match with outcomes.

This is one step forward for the government's directive to all the central ministries to avoid spending more than 33 percent of their outlays. The government had also initiated a comprehensive exercise to strengthen the role of financial advisors in the entire central ministry to curb expenditure. This is basically an attempt to put in place mechanisms to measure development outcomes of all the programmes through formulation, appraisal, approval and implementation.

(BS, 05.06.05)

Regulated Microcredit?

The government is actively engaged in drafting legislation to regulate micro finance institutions, which would increase credibility of these bodies. The draft is supposed to be put up for public debate inviting suggestions from all stakeholders. It is expected to lend legal sanctity to the suggestions without curbing the basic tenets of micro finance.

However, Dr. C Rangarajan, Chairman of the Economic Advisory Council to the Prime Minister felt that there must be a system of self-regulation rather than going for regulation directly. Even the RBI opposes the idea for a separate regulator on the grounds that most of the microfinance portfolio will remain under the banks and NBFCs, which come under the regulatory framework of the RBI.

(FE, 03.05.05 & BS, 02.06.05)

Frontiers of Knowledge

The government has constituted a National Knowledge Commission with communication expert, Sam Pitroda as its Chairman to "sharpen India's knowledge edge" and promote excellence in the education system.

The Commission in addition to interacting with various ministries will advise the Prime Minister on matters such as institutions of knowledge production, use and dissemination.

It is also expected to suggest ways in which the government's knowledge capabilities could be made more effective, making the government more transparent and accountable to the public.

(ET, 02.06.05)

MPLADS Faces Opposition

At a time when the government was engaged in preparing new guidelines for the MP Local Area Development Scheme (MPLADS), the National Advisory Committee (NAC), after having a detailed discussion, recommended scrapping of the scheme to facilitate greater decentralisation of power.

The NAC has also come out with an alternative in case of opposition from political adversaries. It is of the opinion that if MPLADS is to continue in the present form, the funds should be allocated to local governments and their utilisation should be under their control.

(TH, 13.06.05)

Stem Cell Cure Authentic?

The Parliamentary Standing Committee on Health and Family Welfare has asked the government to check clinics promising cure for various diseases using stem cells.

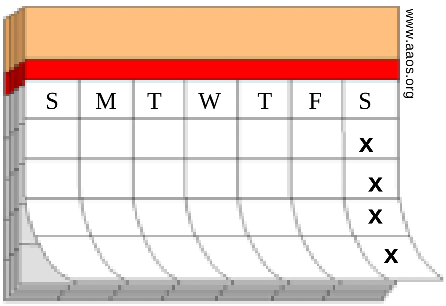
The Committee had sought the views of the Director General of the Indian Council of Medical Research (ICMR) on the authenticity of the claim by stem cell clinics to cure diseases such as muscular dystrophy, neuromuscular disorder, stroke, liver cirrhosis and diabetes. As per ICMR very few centres have approached it for approval. ICMR reported that Delhi-based NuTech Media World had failed to submit a detailed procedure and protocol even after several reminders.

The government is engaged in finalising the draft guidelines to help regulate stem cell research in the country. It envisages the setting up of a multi-disciplinary National Apex Committee.

(BL, 02.05.05)

Working Weekend!

The President A P J Kalam has asked the judges of the Supreme Court and High Courts to work on Saturdays to reduce the huge load of pending cases.



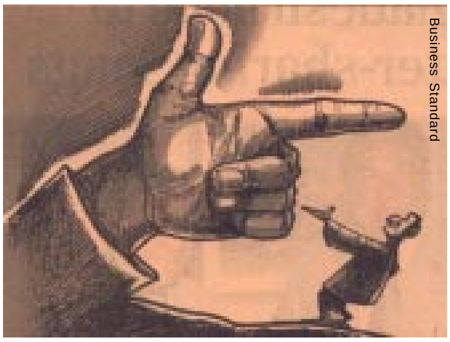
The figures show an increase in the pendency of cases in the High Courts from 3 million to 3.4 million, and from 20.6 million to 23.4 million in District Courts, while the number in the Supreme Court came down from 36,000 in 1995 to 30,000 in 2004.

The President said that if the judges take up the pending cases by giving every Saturday and two additional working hours on all working days, the huge backlog could be minimised substantially. He also advocated for exemplary penalty for seeking undue adjournment and initiating frivolous litigation.

(TH, 01.05.05)

Labouring for Core Staff

The government is all set to bring in labour reforms shortly, wherein corporates would be given the flexibility to bifurcate their employees into core and non-core.



While stringent norms would protect core employees, non-core employees would be taken off the ambit of labour laws. Consequently, corporates, public sector enterprises, government departments, ministries and autonomous bodies will have power to hire and fire non-core employees. Core employees would be shielded by labour laws.

The main idea has been to protect the interests of the employees while giving corporates flexibility on fresh recruits and non-core staff. The proposal comes close on the heels of the amendments to the Labour Laws Act of 1988 approved by the Union Cabinet early in May 2005.

(HT, 24.05.05)

Cut in Quota Proposed

The government has proposed to reduce the quantity of wheat given to families below the poverty line from 35 to 25 kg/month. There is also a proposal to increase the price at which wheat will be sold to families above the poverty line by about Rs 200 per tonne to depress demand. More importantly, the Food Corporation of India may even raise the price of wheat in the open market and insist that buyers bear the cost of transportation. This is sure to dampen demand.

The plan to cut ration shop allocations will only push up open market prices and make the poor spend more. This proposal is under debate, as it would mean exposing the poorest sections to high prices just when they need maximum protection.

(ET, 06.06.05)

Environmental Concern

45 public interest groups have launched an Environment Clearance Watch (EC Watch) to monitor clearances granted to projects by the Ministry of Environment and Forests (MoEF). The idea is to have centres to monitor environmental clearances all over the country and share information and resources.

An agitation called '*Dilli Chalo*' is also expected to be launched to challenge the MoEF's proposed reforms on environmental clearance. This is coming at a time when the MoEF is busy examining the entire process of Environment Impact Assessment (EIA).

"The EIA notification offers public hearings as a forum to listen to the people's concerns but this space is manipulated by project authorities and government agencies to suit their needs", said a report titled 'Eleven Years of the Environmental Impact Assessment Notification, 1994. How Effective Has it Been? by Kanchi Kohli of Kalpavriksh Environmental Action Group. *(TH, 07.06.05)*

Drug Regulator on Cards

The government is about to make drug regulation more stringent to ensure quality. There is a proposal to set up an independent drugs regulatory authority, the complete structure of which will be ready in two years. This move is expected to seal the chances of drug firms selling with state governments' licences, without securing the mandatory marketing nod from the drugs controller general of India.

Health and Family Welfare Minister, Dr. Ramadoss met with the US food and drug commissioner and decided that in the first phase, the Indian health ministry will replicate the mechanisms operational in the US Food and Drug Administration (FDA) and tie up with them in the second. India is the biggest manufacturer of FDA-approved pharmaceutical products outside US and therefore this move was essential to keep pace with the growth in manufacturing.

(ET, 24.06.05)

Powers to Insurance Council

The IRDA has been promised self-regulatory powers for Life Insurance Council, an industry association of life insurance companies. Among the issues that Life Insurance Council would address would be prohibition of rebates of commission and training agents. C S Rao, the chairman of IRDA said that since regulation inhibits innovation, the best way to reconcile the two is to self-regulate – make innovative products transparent and keep policymakers fully informed.

The IRDA sub-committee for stand-alone health insurance companies has recommended that the capital requirement be reduced from Rs 100 to 25 crore and FDI limit be raised from 26 to 51 percent. These recommendations are aimed towards encouraging the formation of 15-16 new stand-alone health insurance companies – the minimum number the committee believes will be required for the revival of the sector. *(ET & FE, 09.08.05)*

You've Got the Power

A Bill seeking to provide Right to Information to all citizens, after much debate and several rounds of drafting, received approval from both the houses of Parliament. The passage of the Bill would create opportunities for the people of India to participate in the democratic governance and empower them to monitor and expose corruption.

This would demand from the government a better system of maintaining records and a more effective and speedy system of grievance redressal.

The Right to Information Act, 2005 will be applicable to the centre, state governments as well as local bodies. Further, it also provides for access to information from security and intelligence agencies on matters relating to corruption and human rights violations. *(TH, 13.05.05)*

Overhaul Agriculture

Major reforms are being initiated in the agriculture sector in order to make the Indian farmer globally competitive. This was seen as essential in a situation where reforms are as important for the individual farmers trying to improve his/her living standards with limited resources and knowledge of the market, as they are for the private sector seeking profitable investments in the agri-business sector.

Even the mid term appraisal by the Plan Panel has recognised the need and recommended that irrigation and water management alone would require a whopping Rs 110,000 crore over the next seven years. The need for a new legislation for the farm sector was emphasised, which would enable contract farming on a commercial basis.

(BS, 07.04.05 & ToI 02.04.05)

CBI Raids the Corrupt

In the second nationwide swoop, the Central Bureau of Investigation (CBI) carried out raids at 60 places against various senior government officials suspected of indulging in corrupt practices and recovered lakhs of rupees in cash.

A disproportionate assets case was registered against an executive engineer for allegedly amassing assets over Rs 1.21 crore. The CBI has claimed to have recovered cash worth Rs. 1.3 lakh from his residence. Raids were conducted at six places in New Delhi against a Deputy Commissioner of Police, in charge of Supreme Court security. Furthermore, one person was arrested for allegedly selling fake stamps and letterheads of CBI. *(ToI, 07.04.05)*

EGS Funds Under-utilised

With one exception of the Employment Guarantee Scheme (EGS), most of the programmes in Maharashtra suffer from scarcity of resources. EGS has unspent funds amounting to more than Rs 9,000 crores with an annual addition of Rs 3,000 crores. Accrual to this scheme takes place through specific taxes and levies on land revenue and sales tax, plus statutory grants.

A cash-strapped government treats the EGS money, raised specifically to fund its implementation, like a cash cow to be used at will. However the Employment Guarantee Act, 1977 disallows such diversions.

Since 1975, expenditure on EGS has been increasing. But annual receipts and grants have far outpaced that. *(TH, 06.06.05)*

Target Misplaced

A study carried out by the Planning Commission shows that leakages from the targeted public distribution system (TPDS) are higher than those in the public distribution system (PDS), which it was meant to replace.

Under TPDS, about 36 percent of the grain is siphoned off the supply chain and 22 percent is going to those above the poverty line. Leakages and diversion to unintended beneficiaries, results in only the remaining 42 percent of the subsidised grain reaching the poor.

Although the TPDS has resulted in greater participation of consumers and higher off-take of grain by the poor, the change over from PDS to TPDS has neither led to a reduction in budgetary food subsidies nor has it been able to benefit the large majority of food insecure households.

(BS, 15.06.05)

Revive *Panchayati Raj*

Panchayati Raj Minister, Mani Shankar Aiyer is determined to bring in a revolution in rural India by the establishment of rural business hubs. He believes that the 300 odd centrally run schemes, if run through the *Panchayati Raj* Institutions (PRIs), could help achieve "*poorna swaraj*" as envisioned by Mahatma Gandhi. The ministry had already sent a list of 150 recommendations to all Chief Ministers on devolution of powers to these institutions.

Even the internal structure of PRIs needs an audit system to build accountability and reduce corruption. Some of the state ministers suggested the setting up of a National Accounting Standards Board for PRIs along with an audit commissioner or similar bodies.

(TH, 17.05.05, FE, 01.04.05)

Tightening Control

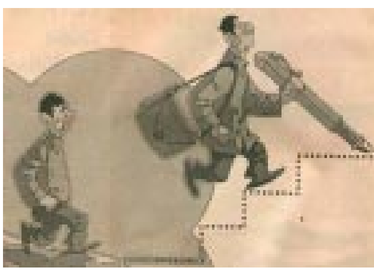
The government has decided to tighten its control over various not-for-profit entities, such as educational institutions and hospitals that are currently availing various income-tax exemptions for their charitable activities.

The Taxation Laws Amendment Bill 2005, among its other suggestions, proposes to make an audit compulsory for charitable entities with a total income of more than Rs 50,000 per annum and they would have to file returns if their total income exceeds Rs one lakh per annum.

The Bill also provides that the Central Board of Direct Taxes would lay down rules and guidelines by which an organisation, university, college or other institutions would apply for and receive exemptions from the Income Tax Act related to expenditure on scientific research. *(BL, 12.05.05)*

A Taste of Performance Culture

As India steps towards a free-market environment, state-owned organisations and government bodies are tuning their HR policies to make them performance-oriented. Governments of Kerala and AP, State Electricity Boards of Andhra Pradesh, the Punjab, Haryana, Indian Oil Corporations, and the Department of Sales Tax, Delhi have sought professional help from consulting firms.


The Economic Times

A consultancy firm, Ernst & Young that is helping organisations to accomplish this task said that while the broad HR goals for both private and public sectors are the same, the latter demands a different approach to planning and implementation, as both the sectors face different sets of challenges. Limited availability of data and scope of activities are the major constraints observed in public sector enterprises. *(ET, 31.05.05)*

e-Chaupals Network Indian Villages

The ITC e-chaupal network aims to cover over 1,00,000 Indian villages, representing a sixth of rural India and linking up more than 10 million farmers over the next decade. At present, the e-chaupal network empowers over 3.1 million farmers (including marginal farmers), enabling them to readily access crop specific, customised and comprehensive information in their native language via vernacular web sites. The network helps farmers access prevailing Indian and international prices and price trends for crops, along with expert knowledge on best farming practices and micro-level weather forecast.

The availability of bulk information on agriculture will greatly improve the decision-making ability at the rural level, helping align agricultural production better to market demand and upgrade quality and productivity.

ITC Ltd, in its second phase of e-chaupal, plans to open 30 more rural sector malls in 2006, after having established the first of its kind at Sehore in Madhya Pradesh. *(BS, 02.06.05 & 19.06.05)*

IT in Judiciary

Equipping the Members of the Bar with a computerised environment and online delivery system is the need of the hour, as tech-savvy foreign lawyers are ready to invade the country.

H R Bhardwaj, Union Minister of Law and Justice said that an e-governance cell has already been set up within the Law Ministry. A provision of Rs 400 crore has been made to modernise the High Courts and the District Courts. The District and Sessions Courts of Rajasthan have already been provided with e-mail and Internet connectivity by National Informatics Centre (NIC), Rajasthan.

As the problem of mounting cases is getting difficult to manage, miscellaneous matters could easily be tackled through the Alternative Dispute Resolution, a fast track system of speedier justice.

(BL, 19.04.05 & www.nic.in, 27.06.05)

Seamless Connectivity

TRAI plans to send a proposal to the government for allowing cable operators in rural areas to offer basic telephony and internet services. The government will issue guidelines and decide whether the cable operators can offer services outside the ambit of the unified license. It has also suggested a reduction in the license fee and spectrum charges for rural cellular services.

TRAI is planning to allow cable operators to have tie-ups with telephone service providers or set up their own infrastructure. They can provide the last mile connectivity through their networks, though the wire used by them will need to be changed to accommodate additional services. *(BS, 27.05.05)*

Tech-savvy *Panchayats*

The Electronic Industrialisation Infrastructure Development (EIID), a scientific society under Ernakulam District *Panchayat* of Kerala, entered the IT world by taking up a unique model of e-governance. It is providing guidance to three *gram panchayats* in the district to establish information networks as part of their plan projects. The EIID is using freely available software with open source codes with Linux Operating System and PostgresSQL for Relational Database Management.

As the data entry work reaches the final stage, the project will have a database, which will cover basic government offices like *panchayats*, villages, primary health centres, agriculture offices, schools and veterinary centres.

In this new system, the local self-government institution will be a custodian of a computer aided data base server of all primary data relevant to any government office in the state.

(http://www.darpg.nic.in/content/upload/egovexp69.doc)

Rural Schools in Cyber World

Five secondary schools in the hinterland of Satara welcomed a computer for the first time. These are the used computers donated anonymously by successful sons of the soil who have moved out of the villages, and now "want to give something back to their roots". The idea is to encourage the students to get rid of the fear of machines.

28,000 secondary schools are waiting to bridge the digital divide. Pradeep Lokhande, Director of Rural Relations, wonders how to get there, since only 3 of 900 corporates responded to appeals for donation.

Only schools with a trained computer teacher are selected for the gift. So far, students in 12 schools have benefited since 1999.

(www.darpg.nic.in/content/upload/egovexp70.doc)

SPICE Up!

Chief Minister of Pondicherry, N Rangasamy inaugurated the issue of permanent Caste Certificates at the pilot location of Villianur in May 2005. The software application, SPICE (Software Package for Issue of Permanent Caste Certificate), was developed for this project by NIC, Pondicherry.

The certificates have a validity period of 15 years in contrast to the normal certificates that have a limited validity of 1 year. Salient features include the capturing of a photograph through digital camera and fingerprints using biometric devices, which are later used for authentication. *(www.nic.in, 24.06.05)*

Himachal on Tech Path

The system of Computerised Online *Jamabandis* (land records) at Bangana, Himachal Pradesh was inaugurated on June 16, 2005.

Till September 2004, land records of 325 villages of Bangana had been made online and copies were available for distribution. On 16th June 2005, 66 records were due for rewriting. Changes were being fed into the computer the very next day with the help of *HimBhoomi* software. In the manual system, this process was supposed to be completed by September 1, 2005, but the software helped in accomplishing the task in one day. *(www.nic.in, 17.06.05)*

Kick-starting SEPC

The Commerce Ministry has taken the first step towards operationalising the Services Export Promotion Council (SEPC) by appointing L.B. Singhal as its Executive Director. Singhal is currently the Director-General of Export Promotion Council for export oriented units and special economic zones.

The council would formulate policies and work out strategies to enhance exports of all major services. The council would cover all the 160-odd services, including entertainment, health, tourism, education, hospitality, consultancy, legal and accountability services notified by the WTO except software services and hotels, which have separate export promotion councils.

Since services account for about 50 percent of the country's GDP, an export promotion council for this sector was first proposed in the five-year Foreign Trade Policy 2004-09.

(BL, 27.04.05)

To Peace and Prosperity!

Announcing a cooperative and strategic partnership for peace and prosperity, Prime Ministers of China and India, Wen Jiabao and Manmohan Singh have signed several agreements, including the border issue, passenger flights, expanded military cooperation and efforts to boost trade.

Relations between the nuclear powers have been steadily improving, and their rapid emergence as economic superpowers forms a strong foundation for greater cooperation. But there is still a long way to go and an end to the border dispute could still be years off, although both sides appear to be moving towards accepting the status quo along their frontier. *(Reuters, 11.04.05)*

Rejection of Exports

In a stern move, the US rejected as many as 251 Indian export consignments in May 2005 on various quality parameters, such as unsafe colours, improper labelling and for containing salmonella and aflatoxin. The EU also rejected 16 food consignments from India in May 2005 and one in early June.

Even Poland, UK, Germany, Lithuania and Italy rejected Indian exports on account of the presence of toxins and illegal colour. The Executive Director of Centre for International Trade in Agriculture and Agro-based Industries (CITA) said that India should also enforce stringent quality norms to deter sub-standard imports.

(FE, 16.06.05)

Increasing Agri-Investments

The government has decided to step up investments in agriculture through introduction of marketing reforms for promoting public-private partnership, Agriculture Minister Sharad Pawar told the Lok Sabha.

Several measures such as increase of rural credit, special programme for dry land farming, increasing public investment in agriculture research and strengthening rural infrastructure and irrigation have been initiated, he said. To ameliorate the lot of farmers in the wake of suicide cases, several measures like issuing of standing guidelines to banks for providing relief to farmers in areas affected by natural calamities have been taken.

(FE, 03.05.05)

Trade Dominates Foreign Policy

Economic diplomacy has taken a big leap forward in the first year of the UPA Government. India's growing clout in the global arena is evident from the fact that at least eight heads of states including the Chinese and the Russian, have visited New Delhi.

Two trade pacts, with Chile and Thailand, have been inked in 2005. Significant headway has been made in engaging ASEAN to make India a partner in its proposed free trade agreement with member countries.

The growing recognition of India as an indispensable partner by the international community is reflected, particularly in the 25-member EU seeking a strategic partnership with India. *(FE, 09.05.05)*

Ballooning Trade Share

Prime Minister, Manmohan Singh called upon captains of trade and industry to work towards increasing India's trade to US$500bn (1.5 percent of global share) by 2010 from the present US$200bn.

In line with the buoyant growth witnessed in recent times, India's foreign trade has touched US$186bn during 2004-05 as compared to US$41bn the previous financial year, a distinct increase to 0.82 percent at the end of 2004 to 0.66 percent in 2000.

In a move to address important trade issues, the reconstituted Board of Trade has decided to set up five working groups on export promotion schemes, trade facilitation, sectoral initiatives, manufacturing bottlenecks, and special economic zones. Kamal Nath, Commerce and Industry Minister, expressed confidence that it would be possible to achieve this target. The thrust, he added, would be on increasing agricultural, marine and leather exports. *(ET, 29.04.05 & FE, 18.06.05)*

New Rules for Retailing

The government is planning to divide retailing into separate categories, setting the stage for the flow of FDI into the sector. As part of the organised retailing policy, the government is trying to fashion ground rules before the likes of Wal-Mart and Tesco land in India.

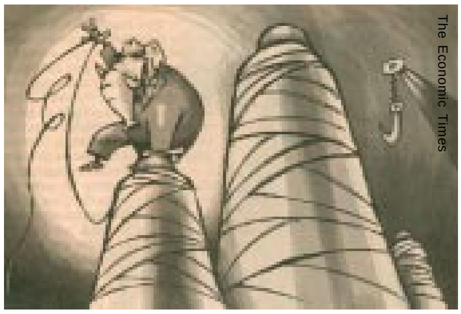
To ensure that the small players are not crowded out, the idea of putting geographical restrictions on large retailers has also been suggested. The government has asked the Ministry of Consumer Affairs to prepare a detailed note on organised retail. The ministry is studying existing rules and regulations, which have a bearing on large-format retailing.

(ET, 20.05.05)

India among Winners

India and China would emerge among the winners in the post-quota regime in the textile and garments sector, according to a study carried out by Exim Bank.

The determinants of increase or decrease in market share in the medium-term would, however, depend upon the cost, quality and timely delivery of the products, the study said. In the long-run, there were possibilities of contraction in intra-EU trade in textile and garments and reduction of market share of Turkey in EU and market share of Mexico and Canada in the US, providing more opportunities for developing countries like India.



In most of the quota products imported by the US, India was one of the leading suppliers of readymade garments. Though China was a major competitor, the unit prices for most of these product groups were high, which provided opportunities for Indian business, the Exim bank study noted. *(FE, 16.04.05)*

Boosting Jute Exports

The National Jute Policy 2005, unveiled on April 15, 2005 aims at augmenting jute and jute products exports from Rs 1,000 crore to Rs 5,000 crore by 2010 through a multi-pronged strategy.

The highlights of the strategy include creation of the National Jute Board, which would rectify the lack of coordination among multiple jute-related organisations and be a facilitator rather than a regulator for the sector and to operate the Jute Technology Mission, approved by the Planning Commission in the first half of 2005. It is also proposed to incorporate the Jute Export Promotion Council in the proposed Jute Board.

Responding to questions, the Union Minister of Textiles, S Vaghela said that the ministry had sought Rs 350-400 crore from the Planning Commission for modernisation of the jute sector. The government was trying to revive ailing jute mills by referring them to the Board for Industrial and Financial Reconstruction. *(BL, 16.04.05)*

New Policy Framework

Finance Minister, P Chidambaram has promised to come up with a new comprehensive policy on financial services by September 2005. The new policy will cover banking, pension, insurance and capital market.

Addressing the annual session of the CII, the Minister sought support in formulating the policy. He urged industry to hold dialogue with political parties, state governments, trading and exporting communities and the banking sector to ensure that its views were taken into account.

He said the doors would be kept open for foreign institutional investments, FDI, foreign remittances and enhanced earnings from tourism and services exports. *(BL, 18.05.05)*

Slipping Competitiveness

According to a world competitiveness ranking report by Switzerland based IMD, India has slipped five notches to 39th rank in 2005 from previous year's 34th. China too has come down to 31st rank from previous year's 24th, despite a robust GDP growth of 9.5 percent. According to the IMD report, the US is the largest direct investor abroad and the rapid expansion of Asia has accelerated the process.

India's performance in the fast growing information technology has come up for praise, particularly technological infrastructure investment in special economic zones such as Bangalore and Mysore. *(FE, 14.06.05)*

Curbs on Chinese Silk

India recently initiated anti-dumping investigations against import of silk fabrics from China. The Directorate General of Anti-dumping and Allied Duties said there was prima facie evidence of silk fabric being dumped by Chinese exporters.

The move has threatened prospects of value-added silk exporters from India. They fear that the move will encourage smuggling from across the border. "There is a shortage of satin silk fabric in the country, which is one of the main fabrics used for value-added exports. Even the quality of Indian chiffon and georgette are inferior compared to Chinese silk. In such a situation, any move to impose anti-dumping duty will be counter-productive", Silk Garment Exporters' Association patron P Jacob Samuel said.

According to experts, the government should help domestic raw silk producers and weavers improve the quality of their products rather than trying to protect them. *(ET, 02.06.05)*

Gain from Indo-Pak Trade

Consumers across the border would be the biggest gainers of any move towards formal and fair trade between India and Pakistan.

Prabir Sengupta, Director, Indian Institute of Foreign Trade, was certain that formal trade between the neighbours would benefit Pakistani consumers and Indian exporters greatly.

Pradeep S. Mehta, secretary general, CUTS and Nagesh Kumar, Director-General, Research and Information System for non-aligned and other developing countries shared the opinion that consumers in Pakistan are paying a huge price for commodities that are going from India but routed through a third country.

The Federation of Indian Chambers of Commerce and Industry estimated bilateral trade at US$200-250mn, while trade through a third country was estimated at US$1bn along with contraband trade of US$1-2bn. The revenue loss for India and Pakistan was estimated at US$200-400mn. *(BS, 19.04.05)*

No Escape!

In a judgement that has wide implications for corporate India, the apex court has ruled that companies can no longer claim 'blanket immunity' from prosecution, and the court can impose fines on them.

The judgement assumes significance in the backdrop of the large-scale financial irregularities, which have hit corporate India in the recent past. A plethora of files could now be turned open against firms like ANZ, Grindlays Bank, StanChart bank, and others involved in the stock scam of 1992.

The decision has received mixed reactions from the legal fraternity, and has put the corporate sector on the back foot! *(FE, 06.05.05)*

CG – An Investment

Securities and Exchange Board of India (SEBI) supremo M. Damodaran has called on companies to analyse the cost of compliance with corporate governance norms from the perspective of investment in protecting the interests of the shareholders rather than as expenditure.

He added that the Ministry of Company Affairs was committed to implementing strict compliance norms to ensure protection of stakeholder interests. Recognising enforcement of CG norms as a major challenge before the regulator, Damodaran was hopeful that the Indian Inc. would play a pro-active role and set high benchmarks. *(BL, 01.04.05)*

Dutch Firms Found Wanting

A report commissioned by the India Committee of The Netherlands and jointly carried out by the Consultancy and Research for Environmental Management and Partners in Change, an NGO, has revealed that hardly any multi-national Dutch company involves its Indian daughter company for developing their official corporate policy or code of conduct.

The report further added that these companies are unconcerned, when it comes to checking if the production in their sub-contracting chain was being carried out in line with internationally agreed labour and other human rights and environmental standards.

The report has raised a contentious issue regarding the lack of clarity amongst Dutch companies and their Indian subsidiaries as to who would bear the responsibility for addressing corporate social responsibilty issues. *(FT, 24.05.05)*

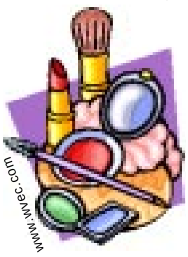
Independent Directors

SEBI has warned companies to get prepared to face the music, if they violate the norm of appointing the requisite number of independent directors. However, there seems to be disagreement between the recommendations of SEBI and the JJ Irani Committee, working on the new Companies Act, on the proportion of independent directors in a company's board.

While SEBI, according to Clause 49 compliance, stipulates at least a half of the members of the board of directors to be independent, the JJ Irani Committee recommends that independent directors should constitute at least a third of the board of listed and unlisted companies. *(FE, 08.05.05 & BS, 01.06.05)*

Cosmetics to Come Clear

The Drugs Consultative Committee has decided to include labelling of ingredients on cosmetic products under the labelling norm of the Drugs and Cosmetics Rules, 1945. Cosmetics would now have to list out the ingredients on the labels.



This follows a controversy in Mumbai when the authorities challenged claims made by Johnson & Johnson for its baby oil that were not fully authenticated.

The move to include cosmetics under the Drug and Cosmetic Rules is a step in the right direction for ensuring the labelling and quality/safety profile of the products. A decision has also been taken to register imported cosmetics, just like imported drugs. *(BL, 25.06.05)*

Three Mantras

Social scientist Dipankar Gupta of the Jawaharlal Nehru University has prescribed three *mantras*, for corporate social responsibility (CSR) initiatives to be successful, which should directly impact the effectiveness of a company's operations.

First, CSR can only be sustained if a company relies on its core competence. Excel Industry, an agro-based company, leveraged its expertise in dealing with solid waste and volunteered for recycling Mumbai's garbage. This initiative benefited the company as well as the community, besides earning Excel enormous reputation as a business house.

The second mantra is community driven CSR. Lipton, in Etah, started a veterinary hospital in the region from where it procured milk. This helped Lipton get an assured supply of milk, kept the dairy farmers happy, and brought prosperity to the region.

The third mantra is consumer driven CSR, whereby a company can create new consumer expectations through innovation and turn the heat on its competitors. Body Shop created greater value by making all its products free from animal extracts. *(ET, 26.05.05)*

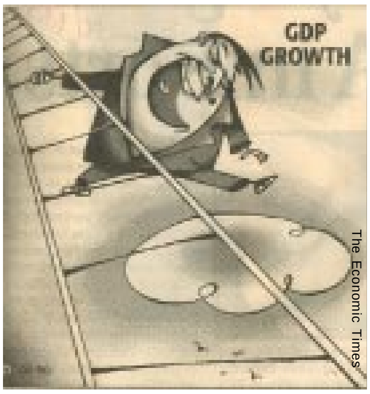
Real-time Disclosures Please!

Rating agencies want listed companies to disclose defaults on a real-time basis in the settlement of obligations, and to them, absence of such critical information in public domain is a disservice to the investor community at large.

Material information of a company defaulting on obligation of payment of interest or principal on a due date needs to be conveyed to stock exchanges, agencies have demanded. They argue that in most global markets, corporates are required to disclose default information within 24 hours of the due date. In India, companies however, shy away from making incidents of defaults public.

(Academy of Corporate Governance Journal, April-June 2005)

EAC's Prescription



The Prime Minister's Economic Advisory Council (EAC) has asked the government to initiate reforms in the labour and infrastructure sectors to ensure that the country achieved at least seven percent growth in the current fiscal.

In its monthly report, it has taken note of sluggishness in the manufacturing sector in recent months and cautioned that steps need to be taken to perk up investment and improve business confidence in the economy. It urged the government to move forward with policy initiatives to bring about higher investment by the private corporate and public sector. The panel does not have high expectations from agriculture this year, given the high base of the previous year.

The panel, headed by C. Rangarajan, is also planning to prepare a special paper on financial sector reforms with a focus on improving the efficiency and strength of this sector. *(BL, 10.06.05)*

Legal Framework Vital

CII, in its report, said that a stable and clearly defined legal and regulatory framework is vital for attracting private sector participation in the infrastructure sector.

The consultation process between the public and private sectors and the mechanism for dispute resolution between the infrastructure providers and the users of these services had not been up to expectations, it added. Another problem highlighted has been the failure to separate regulation and dispute resolution from administration, in order to avoid conflicts of interest.

One major recommendation has been the establishment of autonomous regulatory agencies with independent funding and professional staff as a possible solution to this impasse. *(BL, 03.05.05)*

Leverage Buying Power

The National Manufacturing Competitiveness Council (NMCC) has recommended in its report that when organisations such as defense, railways, Air India and Indian Airlines buy their requirements from abroad, they should insist on transfer of technology to Indian companies.

These organisations should leverage their large purchases to get Indian companies some share of the business, said V. Krishnamurthy, Chairman, NMCC. He cited the example of Malaysia, which wanted as much local sourcing as possible when it tendered for 20 frigates recently.

The report also recommends a new scheme for the small-scale sector, which is likely to be modeled on a similar scheme in the US, called Trade Adjustment Assistance, which is a 'cost-sharing federal assistance programme'. The elements of the programme include assistance to firms affected by import competition through part funding of their restructuring efforts. *(BL, 06.04.05)*

Repeal Land Ceiling Act

The repeal of the Urban Land Ceiling Act (ULCA) and rationalising of property tax all over the country will not only facilitate foray of foreign companies in retail, but also create a multiplier effect for agriculture, manufacturing and food-processing and create employment for a minimum of 50 lakh people in these sectors in the next 4-5 years. This was revealed from an assessment by the Associated Chambers of Commerce and Industry (Assocham) on the impact of prototype laws, such as ULCA and Property Tax on retail business.

Assocham pointed out that the opening up of the retail sector would see a spurt in the number of malls, which will go up from the existing 50 to over 300 by 2010. Further, the number of townships will also go up substantially and a massive demand for cement, steel, electric wires will be generated. *(BS, 20.06.05 & BL, 20.06.05)*

Indians Right on Top

An online survey on Global Consumer Confidence and Opinions conducted by market research major ACNielsen said that 88 percent of the Indians surveyed felt that the economy would do well over the next 12 months. This was ahead of consumers in China and Hong Kong who polled 80 and 71 percent, respectively. The index compares confidence levels across countries based on three parameters – job prospects, personal finance and spending desires.

79 percent of Indian respondents also felt the economy performed well over the last six months. On issues like job prospects in the next 12 months, 18 percent believed that the prospects were 'excellent' while 69 percent felt that prospects were 'good'.

At the top of the index was India, with a score of 127, followed by New Zealand and Ireland. The global average score was 92. *(BS, 20.06.05)*

Bribery in Bihar

Bihar is at the bottom of the list in Transparency International's first state-wise survey of corruption in the Indian bureaucracy. This survey was conducted along with the Centre for Media Studies (CMS) in 356 villages spread across 151 districts in 20 States and covered 11 public services. Bihar also has the distinction of having the most corrupt public distribution system. The highly literate Kerala is the least corrupt state.

Himachal Pradesh, Gujarat, Andhra Pradesh and Maharashtra follow Kerala as the least corrupt of states surveyed to find out how much a common man has to pay as bribes to avail himself of public services. The survey reveals that common citizens pay bribes of Rs 21,068 crore every year. *(BS, 01.07.05)*

Remodelling Corporate Laws

A paper on reform of business laws and administration of justice, prepared by FICCI and the Bar Association of India, recommends revamping of the country's judicial landscape to facilitate effective and speedy justice for prompt and unfettered business decisions by the corporate sector.

Remodelling the Companies Act, the Takeover Code and the Competition Act with a view to formulating a road map for future business growth is a key element, the paper said. It urges the creation of a mechanism to ensure more transparency and prevention of any misuse of funds through transfers from one company to another.

(BL, 27.04.05)

World Bank Plan for TN

Tamil Nadu has achieved faster economic growth and poverty reduction than the Indian average in the 1990s. India's fifth largest state – in economic terms – however, has a lot to do in terms of development, says a World Bank report on the state.

Repeated droughts and growing water shortages have heightened the importance of structural transformation in Tamil Nadu. For faster growth, the Bank identified some priority reforms, which include labour market flexibility, a more responsive urban land supply scheme, a more efficient tax policy and administration and continuing reform of entry and operation. Power sector reforms, infrastructure development and labour reforms are recognised as needing immediate attention.

Financing mechanisms with targeted use of state government contribution and guarantees would have to be developed.

The World Bank is most active in Andhra Pradesh, Uttar Pradesh, and Karnataka, which, with a combined population of about 300 million, account for around one third of India's poor people. A key focus of the work has been supporting fiscal reforms, reducing corruption and increasing accountability of state governments.

(BS, 22.06.05 & www.worldbank.org)

India One up on China

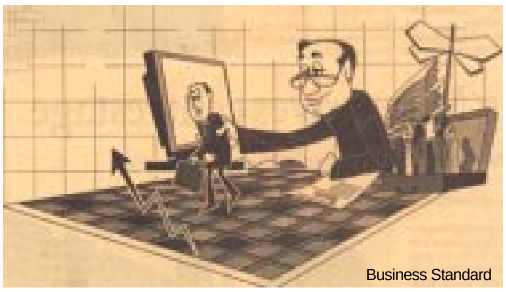
In the long run, India will overtake China in economic growth owing to home-grown entrepreneurship, stronger infrastructure to support private enterprise and companies, which compete internationally with global firms, according to a media report written by Yasheng Huang, professor at the Massachusetts Institute of Technology and Tarun Khanna, professor at Harvard Business School.

The report said that India is superior in utilising its resources, thus contributing to economic performance. India has also developed a much stronger infrastructure to support private enterprise. Its legal system, while not without substantial flaws, is considerably more advanced, the two argued.

(www.rediff.com, 29.06.05)

Wanted: Ministry of Employment

The country's labour force growth of 2 percent a year needs 8 million new jobs just to keep unemployment frozen where it is. With an employment elasticity of GDP of 0.15 and an incremental capital output ratio of 3.75, creation of 8 million jobs needs a sustained nominal GDP growth of 13.6 per cent and investments of US$125bn, according to Manish Sabharwal, Chairman of Teamlease, India's largest staffing solutions company.



Business Standard

"These numbers are practically impossible to achieve and we can't have massive job creation unless we raise the employment elasticity of GDP", says Sabharwal.

One immediate solution could be to merge the ministries of HRD and labour and rename the new entity Ministry of Employment. Sabharwal feels this would help reorient the focus from preserving jobs to creating jobs.

(BS, 22.04.05)

Eternally Indebted

Almost half – 48.6 percent – of farmer households in India are indebted, with the degree of indebtedness being fairly high in states like Andhra Pradesh, Tamil Nadu and Punjab, according to the NSSO's (National Sample Survey Organisation) first ever situation assessment survey of the farmers in India. Out of a total of about 210 million households, 89.3 million farmer households were indebted in 2003.

In Andhra Pradesh, 82 percent of farmer households are indebted, followed by Tamil Nadu with 74.5 percent. Punjab reported 65.4 percent indebtedness among farmer households, whereas Meghalaya had just 4 percent.

More than half of indebted farmer households have taken loans for the purpose of capital or current expenditure in farm business, said the report. Marriages and ceremonies are the next major cause of indebtedness.

(BS, 05.05.05)

States' GDP Per Capita Ranking

Ranked by per capita GDP in 1993-94, the top five states were Punjab, Maharashtra, Haryana, Gujarat and Tamil Nadu. Ten years down the line, Maharashtra has moved closer to Punjab and Gujarat has overtaken Haryana for slot three.

These shifts probably indicate that the reforms did more to spur the non-agricultural sectors than the agricultural ones. Agriculture in Punjab and Haryana grew slowly over the period 1993-94 and 2001-02, by 16 percent and 11 percent respectively, slower than the national average of 17.4 percent. Their industrial and services sectors kept them in their ranks.

States that had a large and dynamic industrial and services sectors grew more rapidly than those where agriculture has predominance. The striking success stories in this category are Karnataka and West Bengal. The per capita GDP in these two states grew by 44 and 37 percent respectively. *(BL, 09.06.05)*

No Free Water for Farming

The agriculture sector has deteriorated after 1996 and its growth rate has slipped from 3 to less than 2 percent. The reason for this is the lack of policies encouraging investment in agriculture and irrigation. According to Montek Singh Ahluwalia, Deputy Chairman, Planning Commission, the notion that water should be supplied free is completely mistaken. An appropriate policy to encourage optimal use of a resource that is fast becoming scarce is necessary.

Food grain production is above the level that the economy can absorb. Therefore, diversification into poultry, horticulture and dairy is required. As export of agri- products can generate high income for farmers, there is a need for research and institutional change.

Ahluwalia stressed the need for special purpose vehicles as a means to utilise India's ample foreign reserves for infrastructure projects.

(BL, 25.06.05)

Cost-Competitive Industry

FICCI has outlined a multi-pronged agenda to unshackle corporate India from the stranglehold of the 450-odd economic and commercial regulations. The move aims to make industry cost-competitive and boost confidence of foreign investors.

Vast numbers of compliance requirements cause greenfield projects and expansion plans to run into delays and cost over-runs. FICCI president Onkar S Kanwar was of the opinion that the Indian industry was looking at streamlining the system and struggling to cut cost, while being burdened with high litigation costs.

While increasing courts and the number of judges and rationalising procedures is important, the government must also enact a flexible and user-friendly Companies Act.

(FE, 05.05.05)

Against PSBs Consolidation

The eight-member independent commission, chaired by former Union Finance and Commerce Secretary, on banking and finance was set up to examine the vulnerability of the banking system. The commission, comprising of mostly eminent left wing economists, feels consolidation is not necessary for Public Sector Banks to compete with the new generation private or foreign banks. There is no evidence to support an automatic association between large size and profitability.

The argument that the threat to domestic banking arising from an increase in foreign banking presence should be dealt through consolidation of domestic banks, which would also serve to strengthen them and make them global players, is without logical or empirical basis.

(FE, 31.05.05)

Jalan's Recipe

In his new book "The Future of India – Politics, Economics and Governance" Dr. Bimal Jalan, Member, Rajya Sabha, and former RBI Governor, has stressed the need for greater interface between the inter-related areas of politics, economics and governance. Their combined effect on the functioning of democracy is the key to economic success. If India has to achieve its full potential, all three have to work in harmony.

It has been proved in the last two general elections that what a government achieves economically does not influence electoral results. Economic reforms per se would not usher in growth, but what would really matter would be the outcomes. There is no certainty that the present euphoria will last unless there is political will to seize the new opportunities that are available.

Dr. Jalan suggests steps that can be taken to smoothen the path to progress – ways to strengthen the Parliament and the judiciary. He calls for a series of political reforms that would see greater accountability among union ministers and ways to curb corruption and enhance fiscal viability.

(BL, 17.06.05 & 30.05.05)

Freedom from Hunger

Dr Kirit Parikh, member of the Planning Commission, said that many solutions have been suggested to deal with hunger and poverty but they do not work because they rely on the market, and the poor are outside the market. Non-market solutions also have not worked well because of the failure of governance at various levels.

Outlining the solutions, Dr Parikh said that skills, assets and opportunities for remunerative jobs and livelihoods can abolish poverty and hunger in a more sustainable way. But the most important thing is to create alternative job opportunities where more income is available. So, a well thought-out plan to abolish hunger can push economic growth in a direction where a lot of productive jobs are created.

He alleged that jobs created by the anti-poverty programmes are mere palliatives for the short-term.

(FE, 13.06.05)

How Big is the Dragon?

India's textile and garment exporters feel that the prospect of China swamping the US and EU markets at the cost of India was a gross overestimation. According to D K Nair, Secretary General, Indian Cotton Mills' Federation, it would be quite inappropriate to speculate on India's gaining or losing wholly from China's market moves.

Dr R K Dhawan, Chairman, Northern region, Federation of Indian Export Organisation (FIEO) said that India can increase and gain through exports, but its gains will be mostly from the abolition of the Multi-fibre Agreement (MFA) and not from China's losing markets.

There are significant differences in international markets where textile products of both countries are traded. China's industry is known for its mass production items that are priced very competitively; whereas India's strength is in handling small orders for casual fashion wear.

(FE, 04.06.05)

Job Prez-cription

The president, A P J Abdul Kalam, listed out schemes that could generate about 56mn jobs in five years. Among the significant areas was bio-fuel generation; the country's abundant wasteland can be used to grow bio-fuel plants. "11 mn hectares can yield a revenue of Rs 20,000 crore a year and provide employment to over 12 mn people for plantation and extraction". The use of new technology for wasteland reclamation, and water harvesting has the potential to create more than 20mn jobs. The bamboo mission could be very useful in creating market opportunities in the northeastern states.

The healthcare and textiles and clothing industries are other areas where large scale development and employment generation can be expected. The President is of the opinion that the creation of village knowledge centres, enhanced rural finance, programmes like 'Providing Urban Amenities in Rural Areas' (PURA), interlinking of river, etc must be encouraged for maximum employment generation. *(FE, 07.04.05)*

Hunger Estimates Challenged

Prof. Utsa Patnaik, a leading economist from Jawaharlal Nehru University, has challenged the official estimates of hunger in India. The majority of academics and government officials, as well as the Planning Commission make two claims: first, that there is oversupply of food grains relative to demand and thus food grains should be cut back in favour of diversification; second, that poverty is declining in India in the era of reforms.

The factually correct position, according to her, is precisely the opposite. There isn't an oversupply of food grains, but a drastic decline in effective demand because of an abnormally fast loss of purchasing power over the last six years. Poverty is very high, affecting at least 3 quarters of rural and over two-fifths of the urban population. *(FE, 18.04.05)*

Policy for Rural Housing

Assocham has called for a national housing and habitat policy to promote rural housing under the *Bharat Nirman* project.

The housing finance companies, which were required to provide three percent of their incremental profit for the housing sector since 1988, had not been able to achieve the desired results due to non-availability of funds. Assocham suggested that the number of housing finance firms should be more than doubled to benefit the rural populace.

The Chamber's findings also reveal that people in villages have been more punctual in repaying the principal and interest amount disbursed compared to those in the urban areas. *(TH, 06.06.05)*

…For Smooth Sailing

Azim Premji, Chairman of Wipro Ltd. has expressed dissatisfaction over the lack of progress in the development of new seaport facilities in the country.

He noted that the country has experienced unparalleled improvements in the telecom sector, especially in wireless telephony. Private investment was also underway in the roads and airport sector. However, no such development is witnessed in the seaports sector and port congestions may prove costly to the country in the long run. He also identified water and power as the two other areas that need immediate attention.

Maintaining quality, focusing on core competitiveness, stressing on team work by being sensitive to different cultures and world class leadership are the key internal factors for creating a world class enterprise. *(BL, 05.04.05)*

Quality over Quantity Please

A report of the group on investment credit from the RBI, scripted by Y S P Thorat, Managing Director, NABARD admits that the agricultural sector in India is poorly funded.

The Gross Capital Formation (GFC) in the public sector has declined by about half, to 23 percent between over two decades. GCF in the private sector, on the other hand, moved up from 55 to 77 percent.

The ratio of GCF to GDP is an important indicator of the efficiency in the use of funds. Separate calculations for the public and private sectors clearly indicate better fund utilisation in the private sector.

The quality of credit in the public sector is also suffering in several ways – expenditure on revenue account is mounting, thus drawing funds away from capital expenditure. Term credit, which facilitates investment in agriculture, seems to be declining in importance. *(BL, 25.06.05)*

Insulated from Global Swings

The Indian economy is insulated from episodes of global financial instability, as the country has over the years built resilience to shocks due to international oil prices and inflation and is less vulnerable to output volatility, according to RBI Governor, Dr Y V Reddy at the eighth meeting of the Bank of International Settlements (BIS) Working Party on Monetary policy in Asia.

The Hindu Business Line

Over the years policymaking is becoming more globalised as cyclical changes are becoming more synchronised, especially since the 1990's. The multiple indicator approach followed by the RBI was a logical outcome of the multiple objectives that characterise the monetary policy framework. In addition, he drew the attention towards the data gaps in the conduct of monetary policy in the country. *(BL, 08.06.05)*

Infrastructure is the Key

- Omkar Goswami

The Congress led UPA government has completed one year in office – a year that has been quite satisfactory on the economic front. Despite a less-than-average monsoon, India may well end up with slightly over seven percent GDP growth for 2004-05. In spite of significantly hardened oil prices, the industry is trotting along quite nicely, with almost eight percent growth, the services continue to grow at a rate above 8.5 percent and notwithstanding higher energy as well as raw material prices, companies will post a sizable growth in profits for 2004-05. Yet, as a pragmatic economist, the Prime Minister must be thinking about the sustainability of economic growth, and grappling with a key question: "What can India do to ensure that it forever alters its growth trajectory from an average of 6.1 percent that it achieved between 1992 and 2004 to seven percent and then, perhaps, even eight percent over the next decade or so?"

The Economic Times

The issue really reduces to just one word: "infrastructure". No doubt, some sectors have been doing incredibly well. The mobile telephone is one such success story. Thanks to the private sector-led triple-digit growth in mobile phones, our tele-density has doubled from under five percent a few years ago to close to 10 percent today. There are now almost 60 million mobile subscribers, and the number of mobile phones outnumbers landlines. Yet, the fact remains that China had 344 million mobile users and another 319 million fixed line subscribers in Feburary 2005, which translated to a tele-density of 25.9 percent for mobiles and another 24.9 percent for fixed lines – or 50.8 percent in all.

Many would also consider our highway programme to be a success story. After all, 4,611km of the 5,846km, which comprises the golden quadrilateral, have been completed, and another 1,235 km are under implementation. However, another fact is that only 692 out of 7,300km of the North-South-East-West corridor have been completed. One may note that there is a sense that the pace of construction and awarding of contracts has slowed down since elections were announced last year. If we compare ourselves with ourselves, we may have done well. But we only need to compare ourselves with China to realise how much more we need to do. By 2004, China already had over 25,000 km of modern multi-laned, tolled highways, much of which was financed by FDI.

The same goes for the case of ports in India. While there have been improvements compared to a decade ago, we still have a long way to go before being in the same league as Shanghai, Tanjung, Johore, Penang or Colombo, leave aside Singapore. For instance, while India handled less than 10 million twenty-foot equivalent units (TEU) of container cargo, China handled over 50.

The power situation is too embarrassing to speak of. Though the beneficial enabling effects of the Electricity Act, 2003 are in place, there just isn't enough power generation, transmission and distribution on the ground. The fact that 60 percent of Indian manufacturing entities need to have their captive power generating units or gensets, says it all. In China it is 16 percent, in Brazil 17 percent and even in Pakistan it is 42 percent.

A recent study conducted by the World Bank suggests that in order to maintain the Tenth and the Eleventh plan targets, the investments needed in roads, power, railways, ports, airports and telecom for the next decade will be Rs 1,914,300 crore - of which the central government may at best be able to finance Rs1,360,100 crore. There is no way we can sustain even a seven percent GDP growth rate over the next five years without a push in infrastructure.

Unfortunately, it is a very desperate business, with each sector falling under different, often overlapping ministries. There is lack of sufficient coordination and accountability in the real sense. Barring the numbers given in plan documents, there are no clear infrastructure plans, targets and defined implementation schedules.

In order to give infrastructure its due share of importance, there has to be a signal that the ownership lies at the highest level of government. There is a need to have an infrastructure secretariat reporting to the Prime Minister, which will not only monitor the status of projects in different sectors but also convene meetings once every two months between the PM and the concerned infrastructure ministers.

This secretariat would certainly ensure consistency in policies, quickly identify problems and refer them to appropriate levels, and most importantly, regularly monitor progress. Such an arrangement would go a long way to demonstrate the government focus on infrastructure. If properly executed, it would prove that implementation is the key.

NR Narayana Murthy has rightly pointed out "Profits are an opinion, cash in the bank is a fact". Similarly, "policies are words, infrastructure on the ground is a fact".

(Abridged from an article in ET, 25.04.05)

One-year Milestone of the UPA Regime

Management Successes:

- Teetering between a WTO deadline and the Left opposition, the passing of the Patents Bill was nothing short of a miracle.
- Managing to rebuild the economy after the Tsunami far better than the neighbouring economies. India leveraged the disaster to prove it is no longer a passive third world recipient of aid but in a position to disburse it.

Coups:

- The UPA took the NDA initiative on the peace process with Pakistan further, braving the threats and reprisal killings in Kashmir.
- The PM sprang the announcement to scrap the Press Note 18 (which gave draconian powers to Indian partners of foreign investors) on unsuspecting ministers, as a measure to increase foreign investment in India.

Incomplete Tasks:

- Not much headway has been made with labour laws despite talks with the trade unions and industry.
- The entire FDI regime is being reviewed and the government hopes to do a lot, once it has the go-ahead from the Left.
- The idea was to eliminate unwanted subsidies and target the poor and needy. A policy paper was prepared and tabled in the Parliament, but awaits action.

Fiascos:

- The government thought of legislating for the private sector to take in SC/ST employees, but backtracked since it would have to write HR policies for MNCs. The idea to have a "dialogue" on the issue has also meandered away.
- The government saw the Naxal problem as a socio-economic one and wanted to talk about it. Once the Naxalites converged on Andhra Pradesh and killed a top Police official, thinking in this direction stopped.

Embarrassment:

- In both Goa and Jharkhand, the governors were so eager to swear in Congress governments to power, that they overlooked the minor issue of whether or not the Chief Ministers had a majority.

(BS, 21.05.05)

Just Pass Marks

A year in Indian politics is a very short while for tangible achievements even for those who are familiar with it and hold long experience, as has been the case with the UPA government. There are two dimensions to the manner in which performance can be evaluated.

The first, "control" dimension, is about whether or not the government is able to judge the factors that will impact the medium term performance of the economy, put in place mechanisms that protect the economy and create opportunities. The threat posed by the global oil scenario is a case in point. While Indian energy needs will intensify and oil process cannot be controlled, the way forward is to minimise our dependence on it. The government has shown initiative by locking oil supplies through outward foreign investment, and utilising domestic natural gas.

The second dimension is that of "action". This includes things that were under the control of the governmental and of those that it did or failed to do. The implementation of VAT is one of its achievements. But it has failed on the power sector since a solution is not in sight and industrial growth cannot be achieved without increases in power availability.

Therefore to be fair to the UPA government, it has had its share of achievements and deserves a "pass" for the past year.

Subir Gokarn,
Chief Economist, CRISIL
(BS, 09.05.05)

Far from Satisfactory

Singh himself is fretting that out of 40 odd promises made in the Common Minimum Programme, 30 have not been kept. According to a report compiled by the Prime Minister's Office in April, progress on only four promises is described as 'satisfactory'. The four promises relate to setting up of a commission for the welfare of minorities, establishment of a North East Council, arranging for crop and livestock insurance and some schemes for village electrification. On things like reserving 33 percent of parliamentary seats for women, making state-owned banks fully autonomous, reviewing the Electricity Act of 2003 and reserving jobs in the private sector, there has been no movement at all.

Among the Ministries that have attracted maximum flak are Shivraj Patil's Home, Arjun Singh's HRD, Sharad Pawar's Agriculture, Meira Kumar's Social Justice & Empowerment and P M Sayeed's Power. Trains get derailed with monotonous regularity and no action is taken against Laloo Prasad. The list of UPA's shortcomings is endless.

M V Kamath,
Prasar Bharati
(newstodaynet.com)

FM's Confession

Presenting the performance report of the UPA government for last year, the Finance Minister, P Chidambaram claimed to have kept the GDP growth at 6.9 percent and projected a three percent growth in agriculture. The balance of payments situation is not as vulnerable owing to a comfortable foreign exchange reserves despite a widening trade deficit. International credit rating agencies also corroborate this and have upgraded their investment ratings for India.

The government has been able to control the price line through various monetary and fiscal measures; the Wholesale Price Index (WPI) came down from 8.7 percent to 5 percent.

He claims that progress in infrastructure – telecom, roads, ports, aviation, steel and power – was a success story. Shortage of coal had been a limiting factor and so the next major reform would be in the coal sector.

(TH, 27.05.05)

Creating Democracy in the Power Sector

Background

Power is one of the most important constituents of infrastructure, the performance of which directly impacts the overall economy.

In India, electricity has been accorded a high priority since independence, which has resulted in a phenomenal growth and exemplary progress in the sector. However, in time, the power sector succumbed to the changing social and political pressures and ploys from strong vested interests.

Lack of awareness among consumers compounded the problem and virtually no effort was made either by the government or the utility to educate them. Absence of any formal mechanism for the engagement of stakeholders led to distrust between the consumers and the utility. Consumers have often been the most neglected segment in the state-owned and operated electricity sector. They were not provided with the institutional mechanism required to raise concerns to policy circles. Indeed, the situation was a lose-lose proposition for utility as well as the consumers. The state-owned utilities have been on the verge of bankruptcy, thanks to the poor recovery of user charges and operational inefficiencies. The sector has been moving towards a downward spiral of poor recovery of user charges, sub-optimal investment, inefficient infrastructure and poor services.

The power system in Rajasthan was characterised by problems of frequent service interruptions, high system losses, unexpected voltage and frequency swings, restrictions on demand, poor cost recovery and heavy commercial losses.

There was a dire need to reinvigorate the sector. In 1996, the Conference of Chief Ministers approved the Common Minimum National Action Plan for Power, which included establishment of the Electricity Regulatory Commissions (ERCs) at the central and state levels. Promulgation of the ERC Act, 1998 by the government of India paved the way for the establishment of a State Electricity Regulatory Commission to set standards for the electricity industry in the state, which included quality, continuity and reliability of service, and also to ensure a fair deal to the customers.

Reform Scenario in Rajasthan

The power system in Rajasthan was characterised by problems of frequent service interruptions, high system losses, unexpected voltage and frequency swings, restrictions on demand, poor cost recovery and heavy commercial losses, which was no different from situations prevalent in the rest of the country. The Rajasthan Electricity Regulatory Commission (RERC) was an outcome of the reform process. As an autonomous regulatory authority, it regulates power purchase and procurement process of the transmission and distribution utilities, determines tariff for electricity transmission and supply, promotes transparency, efficiency and economy in the operation and management of the power utilities, encourages competition and helps the power sector attract private capital for development.

It was realised that it would be beneficial to have an institutional mechanism where the regulator, the utility and the consumers would understand and share each other's concerns.

Provision of institutional mechanism to raise concerns is the most significant improvement that the inception of the regulatory commission has brought in for common consumers. As a part of the reform process, the RERC took several measures for consumers' grievance redressal. Fora such as Complaint Centre, District Level Forum and Corporate Level Forum were set up. An ombudsman was also appointed for the consumers who were harried by non-redressal of their grievances by the forum. A charter of consumers' rights with regard to supply of safe, reliable and efficient power to the consumers has also been published.

Although these measures are aimed at addressing the concerns of the consumers, ignorance about the provisions hampers their efficacy. None of them provides for education of the consumers, which is very important in a complex issue like power. Further, the concept of independent regulation assumes that all stakeholders are capable of representing their interests before the regulator effectively. However, in practice this does not hold true. Absence of an appropriate forum to raise concerns of consumers also stunts the ability of consumer groups to do the needful.

It has been realised that until consumer representatives acquire capacity to represent consumer interests effectively, creation of institutional space for representation would have little meaning.

CUTS-FES Involvement

Realising the significance of involving consumers in the reform process and with the view to fill the stated gaps, CUTS, along with Friedrich Ebert Stiftung (FES), a German Development, conceptualised a programme – *'Involvement of Consumers in Power Sector Reforms'*. It adopted a three-pronged strategy, in association with its network partners at the grassroots level for the purpose, especially because the benefits of reforms did not reach consumers. The consumers believe that, despite the reforms, the quality of services remained poor coupled with substantial tariff hikes. The attitude and behaviour of the staff of the utility remained the same – uncompromising, discourteous and inefficient while responding to complaints. Apparently, it was a continuance of the mistrust that prevailed in the pre-reform era. There was no platform to bring the utility and consumers together and help them do away with mutual distrust and find solutions to various problems collectively. The three-pronged strategy was:

- advocacy at policy level to achieve greater institutional space for consumers' concerns
- establishing a network at the grassroots level to create institutional spaces for consultation at each level
- creating an effective two-way communication system.

FES became a willing partner of CUTS to provide activity-based support in this endeavour. The CUTS-FES model seeks to involve consumers in reforming the power sector in Rajasthan for a mutually beneficial association of all the stakeholders. Since the resources were not sufficient to launch the programme in the entire state, it was decided to start the programme on a pilot basis in six select districts. One partner organisation was selected in each of the six districts, which was supposed to undertake activities like formation of consumers' groups at the village level and their capacity building.

In order to operationalise the above-mentioned strategy, CUTS-FES focused on:

- Consumers' awareness about the reform process, including their rights and responsibilities
- Capacity building of network partners and other civil society organisations on regulatory issues
- Sensitising the other stakeholders like utility, politicians, media, consumers, *panchayati raj* institutions (PRI) representatives, block and district administration officials and regulators
- Information generation
- Raising policy issues at appropriate forums

CUTS-FES mobilised and organised the people with a view to empowering them, breaking the culture of silence and dependence and converting the ignorant consumers from passive recipients to active participants in the development process.

The programme was launched in August 2001 with a time frame of three years. Success of the programme was linked to the efficacy of the network partners. CUTS and FES were to support these activities. The entire network was supposed to facilitate the upward as well as downward flow of communication. While the downward communication is used for information dissemination, the upward communication facilitates information collection.

For developing the capacities of its network partners and grassroots level civil society organisations, a series of workshops were planned. They provided a common platform where all the stakeholders, including consumers, consumer activists, PRI representatives, block and district administration officials, political leaders, officials of utility and regulators, were targeted.

Information was also disseminated through published materials, which were further distributed by the network partners. Research studies and information collection by CUTS for identifying issues to be taken up at the policy level was accomplished with the help of partners. The media was involved to bring various issues to the public domain. CUTS-FES mobilised and organised the people with a view to empowering them, breaking the culture of silence and dependence and converting the ignorant consumers from passive recipients to active participants in the development process.

Pursuant to the ERC Act 1998, RERC after consultation with the state government, constituted the Commission Advisory Committee, comprising of 21 members. CUTS was nominated to this Committee.

Impact Assessment

The CUTS-FES programme was an attempt to bring consumers' concerns into active consideration in the policy arena. It has enabled the engagement of citizens in policy making, and the organisation of service delivery. With enabling regulatory framework in place, it has achieved considerable successes.

The process of reforms cannot achieve the desired results overnight, nor can changes be brought about overnight. Implementation of the pilot programme has offered a valuable learning: having critical mass of capable consumer representatives is imperative to bring about desirable changes in policies and regulations.

The World Bank's Water and Sanitation Programme for South Asia has carried out an impact assessment of the project and has documented the initiative as a 'good practice' to raise consumer voice and client power to make service providers accountable.

The report observes, "NGO-state relationship is often promoted by a realisation on the part of the state that there is lack of proper institutional mechanism for its own agenda. The reform process in Rajasthan had also not paid adequate attention towards developing institutional space for citizens' engagement, while it realised that the consumer was the centre of its activities".

The programme facilitated attainment of minimum consensus among political parties on power sector reforms as well. While inaugurating the launch workshop of the CUTS-FES programme, Dr. Chandrabhan, the then Minister for Industry and Energy, Rajasthan, stated: "power reforms cannot achieve their end objectives without active participation of consumers and a greater consensus among political parties on the reforms". Leaders of major opposition party also participated in the workshop and a minimum consensus on some of the issues could emerge.

The report mentioned, "the strength of the model is that it serves the interests of all the stakeholders within the given regulatory framework. The RERC receives inputs regarding consumers' concerns, the government can shed its tendencies for taking populist measures without compromising its political agenda, distribution companies can expect better revenue realisation and cooperation from consumers and the consumers can expect an improved service delivery and better interaction with the utility."

NGOs, often called the fourth sector, have emerged in a big way in the developing countries and now the larger question revolves around the issue: how should the state and NGO relate to each other? The CUTS-FES model suggests one answer.

Mid-Term Appraisal

The Planning Commission's Mid-Term Appraisal (MTA) is a reality check on the ambitious Tenth Plan growth rate target of 8.1 percent for the period 2002-07. The scaling down of the GDP growth rate target to 7-8 percent was inevitable. The MTA final document has not confined itself to the limits of appraisal; it is a platform that lays out a comprehensive agenda for reform and has recommended 58 priority areas of action to be undertaken by the government. What remains to be seen is how much consensus there is and how far these recommendations are feasible, given the current political context.

Recommendations

- Expand tax base, integrate service tax with commodity excise
- Rationalise taxes further and introduce user charges
- Expand VAT to include petroleum products
- Cut peak customs tariff to 10 percent from 15 percent
- Make modernisation schemes, like Technology Upgradation Fund Scheme, WTO compliant
- Allow FDI in retail
- Restructure irrigation departments
- Amend the Agricultural Produce Marketing Committee Act
- Include regulation of upstream sector in petroleum Bill 2004
- Allow foreign operators to recover oils and gas from marginal fields
- Introduce price competition in all petroleum products
- Restructure Coal India by dismantling the holding company structure
- Extend autonomy to individual coal companies and allow them to compete
- Remove coal from essential commodities list and allow trading
- Make competitive bidding the basis for all future power projects
- Make project finance the norm rather than corporate finance

On Economic Growth

The most talked about aspect of the report is that the GDP growth target has been reduced to 7-8 percent from the initial 8.1 percent. This has been done with a view to achieving greater credibility. The average growth for the first three years of the Plan period is 6.56 percent. To make the target of 8.1 percent, the remaining two years would have to see 10.4 percent growth each! This is a tall order even for normal conditions. Add to that the fact that many experts are foreseeing the strong possibility of an industrial downturn for the coming year, after three years of successive robust growth.

Public Investment Scaled Down

Resource constraints have forced the Planning Commission to scale down investments by 12.5 percent in crucial areas. "Public investment has fallen seriously short of target in the first two years of the plan, especially in agriculture, manufacturing, electricity, public administration, social and personal services, and it appears unlikely that these backlogs can be made up in the remaining three years", the MTA said, justifying the reduction. Communication is the only sector in which the MTA has increased its public investments by over 30 percent.

Are the Recommendations Acceptable?

Mainly for these two reasons, it has been said that the MTA has passed a very important test of integrity. An eternal dilemma that economists and other professionals in government have to deal with is whether or not advice should be given based on a judgment of the best policy option, regardless of political acceptability. It is only when the best options are articulated that it is possible to assess the costs that politics imposes on economic performance. The MTA has clearly come down in favour of this approach.

It may also be argued that if the recommendations are not politically feasible, then no matter how economically sound they are, they will remain just that – recommendations. After all, an economy is not run by economists – it is politicians who are running the show here. This takes away most of the shine from the MTA.

Labour reforms should pave the way for improved growth as the Industrial Disputes Act is amended to allow easier retrenchment. The amendment should cause an immediate inducement to hire more workers in the manufacturing sector, which will contribute to growth through higher consumption spending. A good example of an area where it may be difficult or impossible to see real action.

Too Late?

This report has come too late to be of direct relevance as a mid-course appraisal of the Tenth Five Year Plan. What it does is to take the policy recommendations that have come out of deliberations of various groups and combine them into a comprehensive blueprint for the Eleventh Plan (2007-12), recognising the fact that the benefits of any change will be reinforced or diluted if others are made or not made.

Among the recommendations reported, there are none that are new or original. But the reason they have been made, is that they have not been implemented yet. It needs to be remembered that is it very difficult for this kind of all-or-none approach to economic development to work in a representative democracy. So the good intentions of one group of leaders are sacrificed at the altar of the aspirations of another. The gargantuan exercise that the think-tank undertook in August 2004 should not go down as just another periodic exercise in futility. The government must give it the attention it deserves and implement the recommendations with due consideration. Or is the government in a position to do more than just pay lip service to the advice contained in the MTA?

(The information in this article has been taken from FE, ET and BS over the period May-June 2005)

In Media

The Competition Game

In the beginning of 1990, there were about 30 countries with a competition law, but now the number is about 100, informs Vijay Kelkar in his foreword to a new book from Academic Foundation (*www.academicfoundation.com*), titled ***Towards a Functional Competition Policy for India: An Overview*** edited by Pradeep S. Mehta.

The book is a compilation of more than a score chapters written by experts and the topics covered include evolution of competition policy, the Competition Act, mergers and acquisitions, cross-border competition issues, competition in agriculture, manufacturing, and so on. Another chapter studies 'competition abuses at consumer level' and focuses on 'tied-selling in healthcare and education services'.

On 'competition and professional services', T.C.A. Anant states that the key feature is that the services, supplied through individuals, are highly idiosyncratic in character, and so services are strictly not comparable across consumers. This characteristic lays the ground for different types of market failure, which can be due to informational issues, both asymmetric and imperfect, or externalities, comments the author.

A book to keep pace with.

(BL, 04.08.05)

> It was a pleasure going through your book, *Towards a Functional Competition Policy for India*. The book has come out very well. It would be useful for our management students. I am also recommending this book to the HCM library and to the University of Rajasthan for its wider use.
>
> ***Ashok Bapna***
> *Director, IILM Academy of Higher Learning, Jaipur Campus*

CUTS Institute for Regulation & Competition

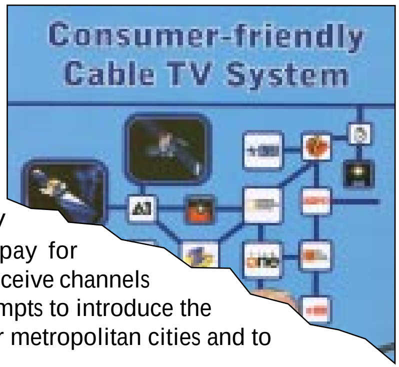
Preliminary research indicates that Asia and Africa conspicuously lack institutional capacity to enhance the knowledge base and cater to the rising demand for trained personnel in economic regulation, competition policy and commercial diplomacy. In an attempt to fill this gap, CUTS aims to establish the CUTS Institute for Regulation & Competition, a resource centre on these and related issues in Jaipur, India. CIRC will run as a not-for-profit institute and aim to be self-sufficient over time.

A Governing Council, chaired by Dr. C. Rangarajan, has been constituted. An academic council and a management committee for product designing and other administrative purposes are being defined.

Programmes that will be offered are doctoral programmes, masters degrees, diploma courses, certification, training courses. It will also offer consultancy services to regulatory bodies, governments and businesses, organise seminars, conferences, workshops on the subject and visitors programmes.

Latest Publications

Consumer-friendly Cable TV

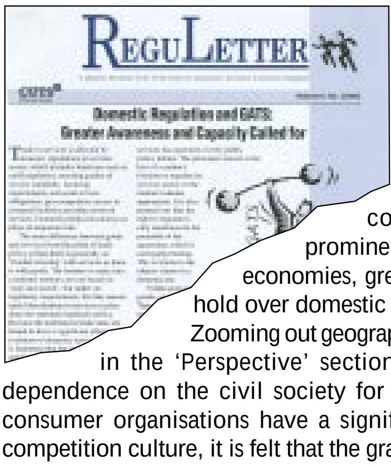


CUTS conducted an all India survey on cable TV industry in 2003. It showed that despite relatively strong consumer awareness in the country, the cable TV sector is a seller's market. Consumers pay for channels they do not watch, and may not receive channels they would like to pay for and watch. Attempts to introduce the conditional access system (CAS) in the four metropolitan cities and to freeze cable charges failed miserably.

This research report explores various issues of concern related to the cable TV sector and analyses them in the light of the several surveys conducted by CUTS to assess the structure of cable TV market in four metros, gauge the level of influence cable operators have on consumers and to find out the consumers' perception of CAS. It finally makes certain recommendations towards ensuring a consumer-friendly cable TV system. *(Suggested Contribution: Rs 100/US$15)*

ReguLetter

(Volume 6, Issue 2/2005)



ReguLetter is the flagship newsletter of C-CIER, which reports and analyses competition-related issues from around the world. The latest issue discusses the inter-linkages between domestic regulation for a developing country and the General Agreement on Trade in Services (GATS) commitments. Given that services figure prominently on the economic profile of many growing economies, greater awareness on these issues and a strong hold over domestic policy are called for.

Zooming out geographically, a look at regional competition policy, in the 'Perspective' section, yields new insights into their essential dependence on the civil society for formulation and implementation. Though consumer organisations have a significant role to play in promoting a healthy competition culture, it is felt that the gravity of this need has not been appreciated.

It has special articles, 'Giving the Consumer a Voice in Competition Law' and 'Competition Policy and Developments in the Mauritian Banking Sector'. A special four-page insert details out the major projects that C-CIER has implemented and other activities it has been involved in. *(Subscription: Rs 150//US$30 per annum)*

SOURCES

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

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