PolicyWatch

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

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# FDI in Retail Sector: Blurred Vision

India is in the midst of a retail boom. The sector has witnessed significant transformation in the past decade – from small, unorganised family-owned retail formats to large-scale organised retailing. Indian business houses and manufacturers are setting up retail formats, while real estate companies and venture capitalists are investing in the required infrastructure. Many international brands have entered the market. With the growth in organised retailing, unorganised retailers are fast changing their business strategies.

Retailing is one of the few sectors where foreign direct investment (FDI) is not allowed at present, but the Indian government is seriously considering allowing FDI in the sector. Quite expectedly, concerns have been raised in several quarters about the desirability of such a move, as this might adversely affect employment in the country. There are also several other issues that warrant scrutiny in the ongoing debate.


Retail trading is considered to be a sector where it is probably relatively easy to start a business even with very little capital. As a result, there could be many inefficient traders and disguised unemployment. In India, this sector buttresses a huge population that would otherwise be unemployed. This is the most forceful argument against retail FDI – one in which small Indian retailers will not survive against the onslaught of global retailers.

The main problem therefore, seems to be the choice between large and small players, of big retailers displacing the small retailers, and not so much about domestic investment *versus* FDI. The idea is to see that small shopkeepers do not get displaced and employment is generated.

On the flip side, it is contended that small retailing, being mostly a family-owned business, has got concentrated in a particular population group and does not offer much employment opportunities to those who are outside this group.

Organised retailing would open up a new employment avenue for several others in both the front-end retail stores and at the back-end supply chain side. If one takes into account the jobs generated in a variety of connected and support activities – processing, construction, hardware, furnishing, packaging, data processing and management — organised retailing has massive employment potential.

For all those concerned about mom-and-pop shops closing down, one can observe the existence of such shops in the face of the Shoppers' Stops and the Big Bazaars (our domestic retail giants) that have established a foothold in urban India. Consumers don't migrate just like that; it is the value that they measure.

Corner shops score over the supermarkets by giving a personal touch, and of course, credit. In fact, the coming up of large retailers has raised the bar on service and quality provided by small retailers and has made them diversify and provide additional goods and services – a boon for consumers.

Organised retailing has its own advantages, especially of scale. Also, it allows consumers to shop for everything under one roof – yet another boon for consumers. In all this it is the consumer who benefits, with better quality goods and services at competitive prices. Organised retailing thus offers huge potential for enhancing consumer welfare.

Another beneficiary of organised retailing would be the farmer. A study done recently by CUTS (*Towards a Functional Competition Policy for India, CUTS and Academic Foundation, 2005*) shows that there is a huge gap between the prices consumers pay and the prices farmers actually receive. This is because of the chain of intermediaries between consumers and farmers, who most often behave in an anti-competitive manner.

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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Organised retailing would provide an alternative avenue for farmers and bring an end to the scourge of abusive practices of the middlemen. Further, lack of serious scale investments in cold chains and handling facilities leads to a huge national waste, and we cannot expect intermediaries and marginal food sellers to build this infrastructure. The creation of a national or even a regional supermarket network means large capital, sophisticated technology and management skills of a high calibre. Organised retailing will thus impact upon both farmers' incomes and consumers' value.

It has been also argued that the entry of large retail firms like Wal-Mart will induce them to procure from India and sell in other countries. The example of China has been cited in this context. However, it has not yet been realised that Wal-Mart would have procured from China anyway, because of cost advantages and it is perhaps, improper to draw a linkage with the company opening its outlets in the country. In fact, China became a major source of procurement for Wal-Mart much before it opened its own retail outlets there. This applies to India as well.

An associated concern is that, FDI in retailing will facilitate the entry of retail giants who could monopolise the market. Even in many developed countries, big retail chains are getting more powerful, and as they flex their muscles, manufacturers are realising the importance of dealing with them in a different manner, as compared to the regular mom-and-pop stores or neighbourhood *kirana* outlets. There have been several cases of enquiry in other countries that have found retailers using their market (buyer) power to the detriment of suppliers and competitors, and finally, the consumers.

This is a genuine concern, but the way out is to strengthen our competition law, which is empowered to address such practices, and not block outright organised retailing. The new competition law (Competition Act 2002) has been in a in limbo for quite long, and it is high time to get it moving. Meanwhile, the Competition Commission of India (CCI), through its research and advocacy activity, can keep a close tab on this emerging sector.

The government needs to carefully examine all these and other issues before taking a decision. The high point on the agenda should be to make the CCI operational.

## THEME: FDI IN RETAIL

**2005 A.T. Kearney Global Retail Development Index**

| Country | 2005 Rank | 2004 Rank | Change |
|---|---|---|---|
| *India* | *1* | *2* | *1* |
| *Russia* | *2* | *1* | *-1* |
| *China* | *4* | *3* | *-1* |
| *South Korea* | *14* | *14* | *0* |
| *Malaysia* | *18* | *19* | *1* |
| *Saudi Arabia* | *21* | *21* | *0* |
| *Mexico* | *24* | *26* | *2* |
| *Indonesia* | *28* | *28* | *0* |
| *Brazil* | *29* | *N/A* | *N/A* |
| *Pakistan* | *30* | *N/A* | *N/A* |

### India: Retail Hot spot

According to the 2005 Global Retail Development Index (GRDI), an annual study from the consulting firm A.T. Kearney, India represents the most compelling international investment opportunity for mass merchant and food retailers looking to expand overseas.

The GRDI, published annually since 2001, helps retailers prioritise their strategies. It does so by ranking emerging countries based on a set of 25 variables including economic and political risks, retail market attractiveness, retail saturation levels, and the difference between Gross Domestic Product (GDP) growth and retail growth.

Driving India's attractiveness is a vastly improved investment climate owing to the recent relaxation of direct ownership restrictions on foreign retailers. The country's retail market totals US$330bn, which is largely underserved and has grown by 10 percent on average over the past five years. It is also one of the most fragmented retail markets in the world given that the combined market share of the top five retailers totals less than two percent. *(www.atkearney.com, 08.07.05)*

### Yes or No?

On one side of the pro *vs.* anti retail FDI debate, Ravi Deol, President and CEO, FieldFresh Foods Pvt Ltd argues with the example that Indians have not given up on their native food habits consequent to McDonald's entry to the market. He feels that it has been as a spur to "raise the bar on service and quality, which has been grabbed by the likes of *Haldiram* to improve their quality".

In contrast, Kishore Biyani, Managing Director, Pantaloon Retail India is of the opinion that "foreign chains wiped out the mom and pop stores in Thailand till the government stepped in; Malaysia and Thailand have restrictions on FDI, and China relaxed norms after local players attained critical size". *(BL, 15.06.05)*

### Retail FDI: For and Against

The World Bank is in favour of opening up the Indian retail sector to FDI – a process they feel would benefit the country, in that it would help speed up integration into the world economy, as much as it would achieve a price availability for products.

However, the Communist Party of India (Marxist), reiterated its opposition to FDI in retail, arguing that, it would put to risk the livelihoods of the four crore people employed in the sector.
*(www.indiadaily.com, 13.04.05 & 07.12.05)*

# Coal to Oil


With international crude oil prices touching US$60 per barrel, the government has ordered a feasibility study on the introduction of the technology to convert coal into synthetic oil.

The Coal Ministry sent an eight-member team to Sasol Mining Company of South Africa in 2000, which converts coal to crude oil, and recommended the setting up of a task force of experts – a recommendation that was never implemented.

Coal India Ltd.was also asked to float a global tender, seeking expressions of interest, but to no avail.

The government initiated a dialogue with Sasol, but it was not willing to part with more than the first stage of the three-stage technology. *(ET, 31.07.05)*

## Excise Dilemma

The Petroleum Ministry has refused to intervene on the issue of applicability of an excise duty on petroleum products. Instead, the Finance Ministry is to decide whether the excise duty was to be levied on transfer price (the price at which refineries sell petroleum products to oil marketing companies – {OMCs}) or end price (what consumers pay).

The oil companies have been looking to the Petroleum Ministry to pursue the matter, after earlier attempts to seek a clarification from the Finance Ministry fell flat on the face. The confusion arose when the excise authorities started calculating the duty on the transfer price, which is based on the import parity and is higher than the end price. The refineries have made clear that any additional excise duty with interest and penalty would have to be borne by the OMCs, thus burdening the already bleeding companies.

*(BL, 22.08.05 & 24.09.05)*

## Shaking Hands for Power

In a bid to come closer, India and Pakistan may seek global certification on Iran's gas reserves, the second largest after Russia, once the structure of the trans-national pipeline is finalised. Representatives from the three countries are expected to meet to discuss the pricing, transit fee, quantity of gas, project specification and structure. The tripartite agreement on the pipeline project is likely to be signed by the end of 2005.

While Pakistan has estimated the project cost to be around US$5bn, India estimated it at US$7bn. Pakistan has agreed to share with India its research on different routes for the proposed pipeline.

India has appointed Ernst & Young as its financial consultant for the project. Gas Authrity of India Limited (GAIL) has been entrusted to finalise the technical and legal adviser.

*(BL, 16.09.05)*

## Subsidies Deal a Blow

The share of upstream oil companies in the subsidy on petroleum products has more than doubled under the new formula announced by the government. Upstream companies will now have to bear Rs 14,000 crore out of a total of Rs 40,000 crore underrecoveries expected to be incurred in 2005-06 because of selling petrol, diesel, liquified petroleum gas and kerosene below import parity price.

This would mean a burden of Rs 12,320 crore on Oil and Natural Gas Corporation (ONGC) (88 percent of the share of upstream companies in the underrecoveries) plus a special dividend, which would not only make up for underrecoveries, but would also cover part of the shortfall in revenue from petroleum sectors. This translates to ONGC alone bearing as much of the burden as the government.

*(BS, 10.09.05)*

## Gas Monopoly Intact

City gas distribution is set to remain a monopoly, with the regulator selecting an agency, through a competitive bidding process, which will have an exclusive area of operation.

A Committee of Secretaries, which cleared the Bill to set up the Petroleum and Natural Gas Regulatory Board, has proposed a competitive process to decide upon the distributor. The Bill would also provide for the appointment of one member to represent the petroleum sector in the Appellate Regulator for Electricity, after which it will become the appellate regulatory for the petroleum sector. The regulator will look into the reasonableness of prices, though not directly fix retail prices.

Only a common appellate body was feasible and not a common regulator, as power is a concurrent subject, and petroleum, a state subject.

*(BS 25.07.05)*

## Consortium Led Expedition

A consortium of Daewoo, ONGC, GAIL and Korea Gas Corp is looking to construct a 925 km sub-sea pipeline and get two liquefied natural gas (LNG) trains for transportation of gas found in an offshore block in Myanmar.

The consortium has recently struck 19 tonne cubic feet of natural gas, one of the largest gas discoveries in the region.

According to sources, ONGC might go alone with the project depending upon feasibility. The proposed pipeline is to be built from Sittway, Myanmar, to Haldia in West Bengal. The possibility of transporting the gas to the eastern region was perceived with more interest due to the high demand. *(BL, 28.07.05)*

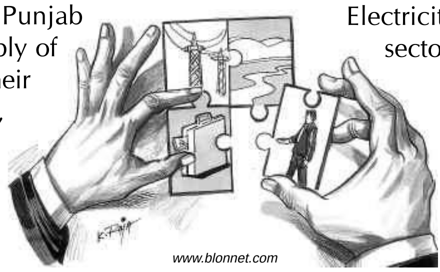
## 'No' to Mergers

A high level Advisory Committee on 'Synergy in Energy' headed by V Krishnamurthy, constituted to advise on the revamping of public sector oil companies, expressed discontent at mergers of these companies. Instead, the committee urged to strengthen the present structure by 'policy and management improvements'.

The Committee proposed the creation of a national Shareholding Trust. It has also underlined the need for an integrated energy policy, setting up of a Cabinet Committee headed by the Prime Minister. Besides, it urged the need for revamping the existing framework of supervision by various agencies by setting up a 'Pre-investigation Board'. *(TH, 12.07.05)*

# At What Cost?

Contrary to the recent decision limiting the benefit of 'energy bonus' on power bills to small and marginal farmers, the Punjab government has announced a supply of free power to all farmers who clear their bills till August 31, 2005. However, the farmers would continue getting the bills to update them on their power consumption.




This arrangement would put an additional burden of Rs.439 crore on the state exchequer as compared to Rs. 250 crore due to the 'energy bonus' scheme. This is in addition to Rs 1,100 crore given by the state to the Punjab State Electricity Board as subsidy for the agriculture sector.

On the other hand, the Central Bureau of Investigation (CBI) has detected over 1.05 lakh domestic consumers who have been enjoying illegal free power for the last three years in Jharkhand. The power utility has been unable to recover as much as Rs 1,891 crore from consumers. *(BS, 07.09.05 & 31.08.05)*

### 'Dubious Role' in Light

The standing committee on energy revealed the dubious role of the Delhi Electricity Regulatory Commission in hiking power tariffs in Delhi. The Committee's report states that the regulator forced Tata Power's North Delhi Power Ltd. to effect a 10 percent hike for domestic power.

Evidence shows that the regulator had announced a 6.6 percent average increase in retail power tariff, with domestic consumers needing to shell out about 10 percent more. The worst hit were agricultural consumers who will have to shell out 19.8 percent more for power.

The Left parties have alleged an unholy nexus between the Delhi government regulator and distributors and have requested an intervention to set things right *(ET, 24.08.05)*

## PSUs Show the Way

Power reforms have finally begun to yield results. The public sector is showing the way forward in power distribution. Power utilities in 11 states, including West Bengal, Assam, Gujarat and Maharashtra have managed to reduce commercial losses, thereby saving more than Rs 4,000 crore. In fact, eight of them have managed to do so without resorting to tariff hikes.

However, the situation is not the same across the country. While Punjab recorded a loss of Rs 1,500 crore, Madhya Pradesh was at Rs 1,680 crore in 2004-05. Chattisgarh, on the other hand, has neither increased nor reduced its commercial losses, though its profit of Rs 587 crore in 2003-04 has come down to Rs 313 crore in 2004-05.

*(ET, 02.09.05 & BL, 29.08.05)*

### New Norms

The government has announced that the award of hydroelectric sites to private players for development of international projects of over 100 MW should be done through an internationally competitive tariff-based bidding process.

The guidelines issued by the Power Ministry specify that the rehabilitation and resettlement of the people affected by the project should be undertaken by the state governments.

The project developer would have to have long-term power purchase agreements of minimum 25 years tenure and comply with the provisions of the environment clearance issued by the Ministry of Environment and Forests. They must also demonstrate their commitments to the tariff through duly authenticated power purchase agreements at the indicative tariff with the distribution utilities, for at least 90 percent of the energy produced. The remaining power of up to 10 percent may be operated on a merchant basis. *(BL, 23.09.05)*

### Energy Expanse

India is exploring possibilities of emerging as a regional energy hub in South Asia. It has plans to strengthen existing grids with Nepal and Bhutan.

Talks have been initiated with the authorities in Myanmar for possibilities of setting up a gas-based power plant there and wheeling the power to India. Plans are afoot to set up a power station in Bangladesh by an Indian utility and bring in gas to run thermal stations in India. Tata Power is setting up a 1,000 MW plant in Bangladesh.

Indian utilities have also started leaving their imprint across South Asia. The National Thermal Power Corporation is preparing for a Sri Lanka foray, while Power Grid Corporation of India Ltd is working on augmenting a transmission link in Afghanistan. *(BL, 19.09.05)*

### Autonomy Intact?

In the face of stiff opposition from the regulators, the Power Ministry has decided to allow them to retain their powers even while going ahead with amendments in the Electricity Act. These amendments have been short-listed through discussions with various allies, including the Left parties. The ones proposed earlier were seen to bind the power regulators to act in accordance with the policies framed by the ministry.

The ministry has proposed competitive bidding for the selection of transmission companies to encourage competition and private participation and cutting the execution time for projects *(TH, 13.09.05)*

### Two Giants Team up

The global steel tycoon, US$22bn LN Mittal group is joining hands with India's petro giant, the US$14bn ONGC to float an energy consortium.

The details of the deal are being worked out. The joint venture, to be registered in a European Union (EU) country, seeks to acquire overseas oil equity and energy-related business like energy trading and shipping, and will concentrate primarily on countries where the LNM group has established its presence. The idea is to build on each other's strengths.

The new consortium will need clearances from government departments before it can become operational. *(ET, 22.07.05)*

## Walky Woes

The Telecom Disputes Settlement Appellate Tribunal has classified the fixed wireless telephones offered by Tata Teleservices under the 'Walky' brand at par with the wireless local loop mobile services and ordered the company to start paying access deficit charges as per the interconnection order of Telecom Regulatory Authority of India (TRAI). Tata Telservices has challenged this order in the Supreme Court.

Tata Teleservices has been offering the Walky for more than a year now, and with the TDSAT verdict they would end up paying close to Rs 300 crore to Bharat Sanchar Nigam Limited. This move might also encourage it to increase the tariff from the existing Rs 1.20 to Rs. 2.10 for a three-minute call.

*(www.outlookindia.com, 22.09.05)*

### Mobile Number Portability

TRAI has initiated the consultation process on mobile number portability, which will allow users to change their operator without altering their phone number. This will benefit subscribers and increase the level of competition, rewarding operators with the best customer service, coverage and service quality.

Although it involves little cost for operators, they are not prepared to implement the system immediately, as this would force them to offer the best services.

However, before it gets implemented, some specific issues, such as ensuring tariff transparency and amending the national numbering plan need careful consideration.

*(BS, 23.07.05)*

### Sharing Common Ground

Cell operators are planning a common mobile infrastructure and setting up of a special consumer cell to look at various grievances like billing.

With a strong base of 60 million subscribers, the Cellular Operators Association of India, the parent body of all GSM operators, has decided to check the industry's social responsiveness to societal demands for more free space in the ecosystem and better services.

As a first step, the Delhi Municipal Corporation has already asked the operators to share cell sites. The idea is to increase the sharing from the existing 30 percent to 100 percent, which would result in the saving of cost and space in the ecosystem.

Besides, the operators would also like to share other networking facilities like the use of a third party's optic fibre cable, though the concept is new to the Indian scenario.

*(FE, 23.08.05)*

### Two Sectors, One Regulator

The new Telecom Policy 2005 calls for a single regulator like the Office of Communications (Ofcom) in the UK, which handles five broad areas. This new information and communication technologies (ICT) framework is expected to hold the key to future growth and to ensure a level playing field in various facets, such as spectrum and bandwidth sharing.

Today, the ICT sector contributes to 3.82 percent of the country's GDP, and this policy framework could push it up to 5 percent by 2007.

Large operators like BSNL, Reliance and Tata Teleservices have all created a large optical fibre cable network and only 25 percent of their infrastructure is leveraged. This calls for a proper sharing methodology.

*(BL, 29.07.05)*

### Sops for Rural Areas

In a bid to encourage telecom services in rural areas, TRAI is considering a proposal to exclude revenues earned from rural telephones for the purpose of estimating the annual license fee and spectrum charges.

Currently, operators pay 6-10 percent of their adjusted gross revenue every year towards license fee and 2-4 percent as spectrum charges.

The government has set a target of 250 million telephones by 2007, which according to TRAI is possible only if operators are encouraged to roll out services in rural areas at cost-effective rates. The relaxation in levies would reduce the cost of offering services, which may encourage operators in setting up more telecom infrastructure in rural areas. *(BL, 21.09.05)*

### Transparency Tangle

TRAI has disallowed tariff plans with misleading titles, such as 'zero rentals' on the grounds that operators were continuing to charge recurring hidden monthly fee. It is of the view that such titles will be considered as lacking in transparency. Operators have been asked to comply with the order with immediate effect.

It directed operators to show all monthly fixed charges under one head for reasons of transparency. While Hutch has agreed to comply with the TRAI directive, Idea Cellular has clarified that all its advertising is transparent and explicit. *(BL, 16.09.05)*

## Increased Connectivity

The Rangareddy district of Andhra Pradesh would soon be getting a triple-play broadband connection for barely Rs 100 per month thanks to the state broadband project.

The Rs 394 crore *Aksh* Opti Fibre broadband project envisages the laying of one lakh km of Optical Fibre Cables (OFC) covering 2.75 lakh square kilometers, connecting 22,000 villages.

Hyderabad and every district headquarter will be connected in 28 weeks under phase one of the project, the second phase will cover all *mandals* in 45 weeks and in phase three, every village will be linked by the OFC. *(BL, 30.08.05)*

# Railways Lagging Behind

The status report of the Infrastructure and Project Monitoring Division shows that the Railway Ministry has about 156 central projects running behind schedules. The delay has pushed up the project cost by around Rs 6,000 crore. The revised cost of these projects has been pegged at Rs 29,420 crore against the original estimated cost of Rs 23,256 crore. According to the report, the major problem affecting the country's infrastructure has been the time and cost over-runs.

In spite of these disheartening data, the Railways got a pat from the Prime Minister for having met all its annual targets for freight and passenger earnings within the first six months. *(ET, 14.09.05)*


## Eliminating Disparities

The government is working towards introducing a formula to bring a parity to toll rates across the country. At present, there exists a wide disparity in toll rates between government-funded and private road projects, a variation of rates in different states and differences in rate revision practices in each state.

According to officials, the proposal for revision has been put before a Committee of Secretaries (CoS), which was recently set up to resolve the inter-ministerial problems faced in the construction of roads.

The CoS is also considering setting up of a safety Commissionerate in the Ministry, which is expected to lay down safety norms. *(BS, 21.09.05)*

## NHDP Plans Rehabilitation

The National Highways Development Project (NHDP) has proposed the rehabilitation of its Phases III and IV as well as upgrading of about 10,000 km of national highways to four lane dual carriageway configurations on a build, operate and transfer (BOT) basis during the 10th and 11th plan periods.

During Phase IV, NHDP has also proposed to upgrade 23,000 km of single lane to two-lane highways, strengthen 18,000 km of existing two lane highways and construct paved shoulders on BOT basis.

The government has announced several incentives to encourage private sector participation. However, the major deterrent has been the huge capital investment and worries about revenue collection. For this, it has been decided to offer a number of projects on annuity basis.

The National Highways Authority of India has formed a Special Purpose Vehicle to fund road projects and the amount spent under this will be recovered through tolls.

*(BL, 11.09.05)*

## New Policy Proposed

The government has proposed a National Urban Transport Policy with priority to public and non-motorised transport. The policy has recommended integrated land use, transport planning, segregated tracks for bicycles and pedestrians under road safety measures.

Additionally, there has also been a proposal to set up a National Urban Renewal Mission for select cities and an urban infrastructure development scheme for small and medium towns for other cities to provide reform-linked assistance for development.

*(BS, 02.08.05)*

## Using Vacant Railway Land

The Parliament has unanimously approved the Railways (Amendment) Bill 2004 to set up a Railway Land Development Authority to commercially utilise vast vacant railway lands across the country.

The Authority proposed to utilise 43 lakh hectares of vacant land to generate additional income for providing better amenities, improving safety and to utilise the surplus for commercial purposes. Some of the surplus land was kept unused, as it was required for railway expansion plans.

The Railways is expected to generate Rs 10,000 crore surplus income by the end of this year.

*(BS, 23.08.05)*

## Protests over Privatisation

The Water Transport Workers' Federation of India has called upon the ports and dockworkers to prepare for a countrywide protest action against the proposed move of the union government to privatise major ports. The working committee of the federation was of the opinion that such a step would surrender all the facilities in the sector to foreign monopolies. Instead of utilising the existing capacity of Indian ports, the government was making these ventures less viable by setting up parallel ports in the private sector.

The committee has decided to prepare a demand charter for revised wages, as the five-year period of the present agreement would expire shortly. *(BL, 27.07.05)*

# Plan for Greenfields Airports

In a move that could affect the ongoing modernisation and restructuring of the Mumbai and Delhi airports, a Parliamentary Committee has recommended the construction of a greenfield airport with more capacity and lesser investment. However, the government has not been able to come up with any concrete plan.

The government is also planning to involve the private sector in the development of 30 non-metro airports. This is in addition to the six metro airports that will also be developed through the public private partnership initiative.

On the other hand, the employees of the Airport Authority of India have threatened to go on strike to protest against the modernisation of the two airports, as this could affect air services around the country. Nevertheless, the government has taken the necessary steps to ensure smooth functioning of the airports.

*(BL, 28.09.05 & 24.08.05)*

## Creating Giants

The Finance Minister put forth a new agenda for seven leading nationalised banks, asking them to prepare proposals for consolidation through the acquisition of smaller government banks or other private ones. He


wanted to ensure that India has four to five 'giant banks' that could match any reputed financial institution in the world.

This task was seen for the big banks with assets more than Rs 50,000 crore – State Bank of India, Punjab National Bank, Canara Bank, Bank of India, Bank of Baroda, Union Bank of India and Central Bank of India.

In view of the weak financial health of thousands of Urban Cooperative Banks, the Reserve Bank of India (RBI) has also stressed upon the need for mergers and acquisitions as the only mechanism to strengthen them. *(BL, 11.09.05 & 06.08.05)*

### Irrigational Needs

A recently released National Sample Survey Organisation survey shows inadequate irrigation facilities and infrastructure available to farmers in India.

Organised irrigation is available to only half of the cultivated land, where canals cover a mere 15 percent and tube wells about 50 percent. Rivers and springs are the least common sources of irrigation in the country.

Expenditure on irrigation has been estimated to be as much as one third of the fiscal deficit of most states. Even with a spending of Rs 88,100 crore since 1950 on irrigation infrastructure, facilities have fallen short of requirements. A funds crunch and resource misappropriation have resulted in a declining use of tank irrigation, with a resultant pressure on India's groundwater irrigation resources. *(ET, 31.08.05)*

### Postal Expansion

After getting a nod from the Finance Ministry, the Postal Department has started retailing Government of India securities following a tie-up with the Industrial Development Bank of India Capital Market Services Ltd.

The Union Minister for Communications and Information Technology, Dayanidhi Maran has launched a range of services, including Direct Post, a service for the corporate sector to distribute its promotional materials, and has released an envelope of Rs 5 denomination that can accommodate A4 sized sheets. The efforts are basically to expand and diversify postal services to attract customers. While conventional letter writing has suffered a set back with the advent of the Internet, business letters and parcels have shown no such signs. *(BL, 19.07.05)*

### Poor Project Management

According to a Flash Report of the Ministry of Statistics and Programme Implementation, 12 central projects costing Rs 100 crore have reported delays in June 2005. Five of these are in the Railways and the other three are in the roads sector. The delays range between one and 17 months.

In the fertiliser sector, the Namrup plant revamp project is estimating a delay of more than four years with a cost escalation of over 80 percent, while the Tarapur three and four transmission system of power grids has reported a delay of a month and cost over-run of Rs 50 crore.

With railways, the Patna-Ganga bridge reported a delay of 17 months with no cost escalation, whereas the Kottur-Harihar project recorded a delay of eight month with a cost escalation of 90 percent. *(BL, 09.09.05)*

### Community Radio Guidelines

The Ministry of Information and Broadcasting will review the guidelines laid down for operation and running of community radio, especially with regard to allowing local advertising and news content.

The licenses for Community radio, a low power (50 watts) FM radio station operating within a radius of 6-8 km, have largely been awarded to educational institutions. A number of non-governmental organisations have been running signature campaigns against non-issuance of licenses to them.

The government is keen to encourage the concept of a community radio and about 20 stations are slated to open within a few months.

*(FE, 12.09.05)*

### Pushing Agri Insurance

The Insurance Regulatory and Development Authority has suggested setting up of stand-alone agriculture insurance companies with a reduced capital requirement of Rs 25-40 crore, a move expected to encourage more players to explore the insurance market. A similar recommendation has been put forth with respect to health insurance companies as well.

The idea has gained momentum with the World Bank's commitment to promote agriculture insurance in India. It has initiated research and invited bids from organisations for a study in this area.

Experts are of the opinion that the project would be a 'capacity creation study' where a selected research body with expertise in agriculture insurance would partner a research body in India.

*(BL, 15.09.05)*

## Non-conventional Mission

The Ministry of Non-conventional Energy Sources will adopt a mission-based approach in tapping and popularising non-conventional energy in India. It has expanded the stakeholder base by incorporating District Advisory Committees across the country to oversee improvements in renewable energy activities.

Moreover, the wind power sector is also taking steps to ensure that 25 percent of the country's power capacity is based on renewable sources by 2030. This sector is seeking adequate evacuation facilities and a long-term uniform wind energy policy. *(BL, 15.09.05 & FE, 31.08.05)*

# Issuing National Identity Cards

With an eye on security, the centre plans to allocate national identity cards to every Indian. Labelled the National Citizen Card, a pilot project is on the anvil that will roll out three million cards in the next few months. The project has the approval of the Home Ministry and the Union cabinet.

These cards will be multifunctional, with details on the medical, insurance and banking records of an individual. The super ID card is expected to take recourse to biometric devices such as digitised thumbprint and retina scans. *(BL, 22.08.05)*

## Privacy – A Contentious Issue

Even as laws are being proposed to strengthen data protection, curb video voyeurism and control sting operations, the National Association of Software and Services Companies (Nasscom) is undertaking an exercise to mobilise views on 'privacy issues' cutting across stakeholders, including civil society.

The issues to be dealt with are who is collecting the customer's data, is it being collected with his consent, how is it being stored and used, and compensation in case the data has been used in a manner that the customer did not authorise.

Legal experts have said that currently, there is no law that deals with invasion on privacy. They however add, that a 1964 Supreme Court judgment did acknowledge the right to privacy. *(BL, 30.08.05)*

## New Criterion for BPL

A programme evaluation study by the Planning Commission and the Ministry of Consumer Affairs, Food and Public Distribution has suggested that the government should do away with the methodology of identifying poor families on the basis of income or expenditure. This is because identifying income sources at the household level and measuring them with precision on such a large scale is problematic and leads to imperfect information.

The organisation asked the Planning Commission to devise an appropriate criterion for below poverty line (BPL) identification that would include only easily observable qualitative criteria relating to occupations, assets or any such indicators of economic insecurity.

To improve the delivery system and plug leakages, the study suggested that the full quota of food grains for distribution must reach outlets within the first seven days of the month, for which, doorstep delivery by government agencies is required. *Panchayati Raj* institutions must authenticate this quantity. *(FE, 24.08.05)*

## SEBI to Assume New Role

The Securities and Exchange Board of India is willing to assume the responsibility of regulating distributors of mutual funds, if circumstances were to call for such a move. These distributors now have to adhere to standards set only by the Association of Mutual Funds in India.

The market regulator is aware that a few practices followed by some distributors are often not conducive for the average investor. Hence, it has made it clear that it would not hesitate to take up the matter, provided the AMFI itself fails to address certain critical issues. *(BL, 10.09.05)*

## Single Food Regulator

The much-awaited single regulator for food processing industries will come into existence by early 2006, Food Processing Industries Minister, Subodh Kant Sahai said.

He said the proposed Food Safety and Standards Authority of India would fix food standards, regulate and monitor the manufacturing of food items. The Food safety and Standards Bill 2005, shifts the focus to quality standards from earlier requirements on norms relating to adulteration.

"The amended version would pave the way for a single law and a single regulator for the food processing industries", Sahai said. There are also provisions in the Bill to enable the *Panchayat* and the local authorities to enforce food standards, he added. *(FE, 29.08.05)*

## Investments for Village Industry

In a significant move to alter the definition of 'village industry', the government has introduced the *Khadi* and Village Industries Commission (Amendment) Bill, 2005 (KVIC) in the Lok Sabha, proposing to raise the capital investment ceiling from Rs 15,000 to Rs 1 lakh for such units.

This is expected to bring about a rise in the number of village industries eligible for assistance by the KVIC. The Bill incorporates recommendations by the Expert Committee constituted to examine the structure, functioning and performance of the KVIC. *(TH, 23.08.05)*

# Tourist Guide Exam Restarted

The Ministry of Tourism has announced plans to restart the tourist guide examination, which will be held on December 29, 2005, after a gap of nine years. The last examination was held in 1996. Two months ago, language experts had approached court with a petition that would enable them to take the examination, to qualify as tourist guides.


Two training programmes, a four-month feshers course and a one-month refresher one, are also to inculcate knowledge about Indian culture, heritage and history and prepare aspirants for the examination. The Ministry also plans to have a special quota for wives of defence personnel.

The examination will be held every two years, in a bid to streamline the need for professional guides in the country. *(TH, 04.09.05)*

# Where are the Women?


Women account for only 8.02 percent of the total number of government employees in the country, against the national average of 14.47 percent, according to official data from government agencies. Officials responsible for government employee recruitment in the Department of Personnel and Training fail to ascribe any specific cause to the blatant discrimination against women. They take recourse to indefinite statements: "the low employment rate of women in government sector is due to various social, economic and cultural factors".

Prime Minister Manmohan Singh tried to bring forth the Women's Reservation Bill in the Parliament with the sole purpose of empowering the fairer sex in the highest decision making bodies of the country, but regretted his inability to move ahead on this count. *(ET, 30.08.05 & 31.08.05)*

## India Post Transformed

The Communications and Information and Technology Minister Dayanidhi Maran made public his desire that the financial services wing of the department of posts should be transformed into a bank.

The post office savings bank does practically everything that a bank's deposit division does and has a huge retail network. Post offices are also providing value-added services like selling insurance and retailing financial products like mutual funds, including remittances, electronic fund transfer and electronic service capabilities.

The crucial difference is that they lack expertise in managing and deploying funds, which is a gap that cannot be bridged easily. The size of funds under its kitty would make it a large banking player from day one, at least on paper. *(ET, 05.07.05)*

## CCI as Nodal Agency?

A few options have come under the scanner of the Ministry of Company Affairs (MCA), which is keen to have the Competition Commission of India (CCI) as the nodal agency to determine if the rules put in place by sectoral regulators have resulted in anticompetitive practices. Instead of overlapping with other sectoral regulators, the CCI will play a useful and complementary role.

Going by the statements of a senior MCA official, the Ministry is aware that some of the sector-specific regulators may also examine competition dimensions emanating from mergers or amalgamations of licensees and there may be an overlap of jurisdiction. He added that various alternatives, which exist overseas, are being examined to resolve such conflicts between the competition authority and the sector-specific regulators. *(BL, 23.08.05)*

## Weight and Watch

If a new bill garners approval, the power of the government authorities in certifying and monitoring weighing units will be considerably diminished. Private agents, called 'Special Verification Agency' (SVA) will do the needful. Once SVA certifications are over, another bunch of inspectors will certify the 'genuineness of stamping'. The proposed bill, christened, 'The Standards of Weighs and Measures (Enforcement) Amendment Bill 2005, has been referred to the Parliamentary Standing Committee.

Currently, all weights and measure used by a dealer is stamped by the state department after due verification, with a special seal indicating the identification of the inspector and the quarter in which it is verified. The validity of such stamped weights is two years.

Section 24 of the Principal Act, 1974 is under the process of modification to accommodate private agents. 'Provided that the verification, of the weight of measure as prescribed under the Standards Act, shall be made by 'Special Verification Agency', says the amendment. *(ET, 25.07.05)*

## Ban Brings Disquiet

The ban on the use of plastic bags by the government of Maharashtra has generated much disquiet among various users, with the All India Plastic Manufacturers Association contending on its ineffectual nature. They believe that the ban does not hold water and will lose a good deal of punch before its enactment. If enacted, it will generate trouble for other segments like edible oil, *ghee*, retail food and groceries.

It has been proved earlier that the micron-specific ban is difficult to implement as plastic carry bags that were below the 20-micron mark reappeared claiming 21-micron thickness following the 1998 ban imposed in Mumbai.

"A blanket ban of plastic bags is much better than a thickness-driven ban. There are a number of alternatives including the promotion of recycled waste paper and monetary deterrents on the use of plastics…", said Dr KSM Rao, Managing Director, Ramky Infrastructure Consulting Ltd. *(BL, 26.08.05)*

# Sin Tax: Double-edged Sword

How much of anything is good? The government stands to test on this difficult question, bearing in mind the vices of cigarette smoking and alcohol consumption. An added tag is the expenditure on petro-products and the purchase of automobiles. A reduction in any of these would mean a compromise for the government – a revenue trade-off in the form of excise collections. Excise collections account for 33 percent of government revenue, and 55 percent of the collections come from tobacco products and beverages, petro-products and automobiles.

In an economy like India's, there is a need for conspicuous consumption of these commodities, to ensure that the government is able to meet its revenue targets, as the tax system is already skewed against goods where demand is relatively inelastic. *(BL, 02.08.05)*

### Drugs De-branding Opposed

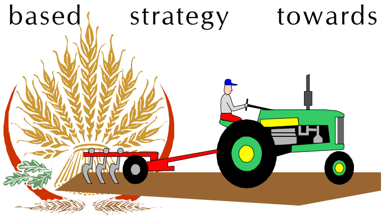
Drugs de-branding has been suggested as a means to promote generic medicines. Such a move has kicked up dust in pharmaceutical companies. It could lead to the growth of specious and counterfeit drugs. The Indian Pharmaceutical Alliance (IPA) has stated that mandatory de-branding is anti-competitive and unsafe. "The shift from brand to generic means taking the choice away from the doctor to the chemist and the margin will drive the chemist's decision, not the quality of the product", the IPA said.

The recommendations have been talked over with various industry associations and include price control of essential drugs, fixing a ceiling price based on a weighted average of the top three brands of a molecule and replacing the Drug Price Control Order with a new Drugs and Therapeutics (Regulation) Act. *(BL, 07.09.05)*

## Urging Agri-marketing Reforms

It is Prime Minister Manmohan Singh's exhortation to the states to speed up and to urgently complete agricultural marketing reforms, to ensure that farmers get a legitimate share in the final value of their produce.

He advocated a movement away from the traditional grain-based strategy towards



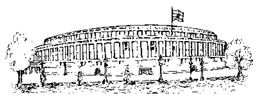
diversification for Indian agriculture – to keep up with changing customer preferences and to ensure higher returns for farmers.

The possibility of converging the resources under the *Bharat Nirman* and the National Employment Guarantee scheme with those of the Ministries of Agriculture and Water Resources should be explored with the purpose of increasing the agricultural asset base.

*(BL, 28.09.05)*

## Parliamentarians' Forum Floated

A parliamentary forum on economic policy issues has been floated by five MPs cutting across party lines. Yashwant Sinha of the Bharatiya Janata Party, Suresh Prabhu of the Shiv Sena, NN Krishnadas of the Communist Party of India (Marxist), Madhusudan Mistry of the Congress and Dinesh Trivedi of the Trinamool Congress. CUTS, is playing host to the initiative.



The forum is expected to be 'non-partisan and informal', where MPs will be able to air their views on a periodical basis on economic issues, such as trade, competition, regulatory reforms, investment and their cross linkages. The aim is to discuss varying standpoints on core economic policy issues reflected in and out of the Parliament and the media. *(TH, 22.07.05)*

### The Secret is Out

A copy of the draft of the National Environment Policy, which was marked 'secret' and submitted to the Cabinet for clearance by the Ministry of Environment and Forests, has been obtained by EC-Watch, and posted on the web site of the Environment Support Group.

Over 70 citizens' groups and individuals had written to the Prime Minister, demanding that the document be made public before its finalisation. They pointed out that making the document covert and inaccessible is a violation of the Right to Information Act that commits the government to 'publish all relevant facts while formulating important policies or announcing the decisions which affect the public'.

But the Ministry still disregarded this public demand and marked the document 'secret'. *(BL, 31.08.05)*

### Workers Welfare in Mind

The National Commission for Enterprises in the Unorganised Sector has recommended that the government bring in the Unorganised Sector Workers Social Security Bill, 2005, and the Unorganised Sector Workers (Conditions of Work and Livelihood Promotion) Bill, 2005, for the welfare of workers in the unorganised sector.

The two Bills taken together would go a long way in creating a much needed floor for providing a measure of social security and minimum acceptable standards of work conditions. These Bills would be complementary to the Bill on employment guarantee, the acting Chairman of the Commission, Dr K Jayashankar said. *(BL, 22.08.05)*

### Helpless, Hapless Consumers

The Consumer Protection Act (COPRA) was passed by the Parliament in 1986, with the intention to settle consumer cases within 90 to 150 days, but they drag on for years.

As per an official account, on an average, it may take a consumer more than five months to get an issue resolved through consumer courts. Only five to eight percent of consumer disputes are decided within three months.

The proposed Consumer Authority could perhaps help to reduce the backlog of cases and strive to generate a measure of relief for the average consumer. India is the only country that observes March 15 as National Consumer's day.

*(FE, 11.09.05)*

### Ad Ban Challenged

A petition that has been moved in the Madras High Court has challenged a central Act and subsequent rules seeking to prohibit direct or indirect advertisement of tobacco products in the media.

In the petition, the Editor-in-Chief of The Hindu, N Ram, sought to declare the rules as *ultra vires* of Articles 14 (equality), 19(1)(g) (freedom of expression) and 246 (jurisdiction of Parliament and legislatures) of the Constitution. He said that public health, a state subject, was not a ground for imposing restrictions on the freedom of speech.

Ram alleged that under the mask of safeguarding public interest, the Act interfered, arbitrarily, with private enterprise and imposed unreasonable and unnecessary restrictive codes on lawful trade. *(BL, 20.08.05)*


## Whistle-blowing Computers

Technology seems to provide the answer to tackle the growing tentacles of corruption effectively. This is evident in a country like India where bribes worth Rs 21,068 crore are paid annually. Technology could serve as the dividing line between the citizen and the government official.

A case in point is the Railways, where corruption has come down significantly following the computerisation of tickets issue, according to the findings of the Centre for Media Studies, New Delhi.

The other department, where computers could well bring in some transparency and accountability is that of the Police. And that's a point worth considering. *(FE, 15.07.05)*

### Networking *Panchayats*

The *Panchayati Raj* Ministry is banking on the Planning Commission and the Finance Ministry to help it amass over Rs 1,000 crore in the next two years for the installation of computers in 2.4 lakh *panchayats*, for the purpose of linking them with one another and with a national *panchayat* portal. The Eleventh Finance Commission has recommended grants of Rs 8,000 crore for the period 2000-05.

Apart from interlinking, the programme would guarantee employment to at least two from each *gram panchayat*, who would be trained to operate the computers. The ministry would soon enter into a Memorandum of Understanding with the state governments for completing work within the stipulated time frame. *(TH, 15.07.05)*

### E-Procurement for Rajasthan

Rajasthan is geared up to be the first north Indian state to secure all its requirements, practically everything – from services of engineering firms and furniture to stationery – that the government and its offices might need, online. This online service is termed as e-procurement, and the concept is one that has been introduced through the Rajasthan Urban Infrastructure Development Project with the help of the Department of Information and Technology.

E-procurement enables the bidder to access bid documents from anywhere in the world, where applicants are given digital signatures to take part in the online tendering process. An immediate benefit would be the saving of the government's monetary reserves, and the other is the lid put on corruption. *(HT, 02.07.05)*

### RailTel on a Roll

RailTel, a public sector undertaking under the Railways Ministry, is drawing out plans to provide spin-off benefits of laying 42,000 km of optical fibre cable (OFC) along tracks in the next three years. This would streamline the signaling system in over 4,000 stations and also give a fillip to high-speed broadband connectivity for end-users. Railway stations across the country will then be equipped with Internet cafes and ATMs.

Till August 2005, OFC had already been laid over 27,560 km and commissioned over 23,398 km, connecting 2200 towns and cities and strengthening the safety system of the railways. *(www.newkerala.com., 30.09.05)*

### Planning Knowledge Centres

National Alliance Partners, the umbrella body constituting about 150 Indian and foreign NGOs and institutions has suggested policy recommendation for the implementation of Mission 2007, for the setting up of a Village Knowledge Centre (VKC) in some 600,000 villages.

The implementing agencies have suggested deployment of enhanced technologies and infrastructure beyond the dial-up connectivity existing now. The other recommendations are the use of unutilised capacity for the setting up of 100 satellite radio channels. The VKCs shall primarily dispense information on topical areas like agriculture, animal husbandry, fisheries, health, education, rural enterprises and disaster management. Renewable energy sources would be implemented, where there is an absence of conventional power. *(FE, 18.07.05)*

### E-gov, a Concrete Possibility

The urban development ministry is working on its project of e-governance in urban local bodies to improve overall work culture and to infuse transparency in decaying municipal bodies. The draft is currently under consultation, and will cover eight services and management functions, including payment of property tax and other utility bills. It has been submitted to the Planning Commission for in-principle approval.

The mission was to be launched in the 35 cities with a population of more than one million people, and go on to all the 388 cities with more than 100 thousand people. The total implementation cost of the project between 2005 and 2010 is estimated to be Rs 1,861 crore. *(ToI, 09.09.05)*

## Government on e-Governance

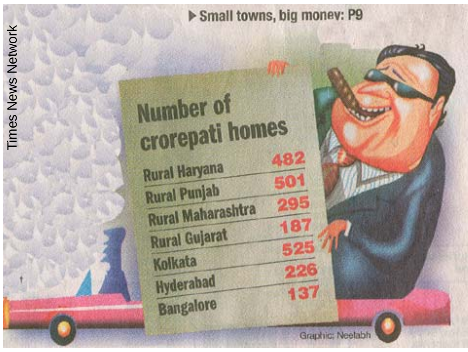
Dr Shakeel Ahmad, the Minister of State in the Ministry of Communications and Information Technology, during the Monsoon Session in Parliament, stated that the government proposes to introduce a facility for distributing e-mail tellers through post offices in all of the major cities.

He said that the facility for transmitting messages via e-mail has been introduced, available through a network of over 650 e-post centres, in all the post offices of the country. Such a facility has been in operation since January 30, 2004.

Dayanidhi Maran, Minister of Communications and IT said that there are 922 computerised post offices in the rural and tribal areas, out of which, 58 have e-mail facilities in the form of 'e-post service'. The Department of Posts is also currently implementing the Tenth Plan Scheme to computerise 7700 rural and tribal Departmental post offices, and should hopefully be done by the end of the Tenth Plan (2007). *(parliamentofindia.nic.in)*

# Rural Rich Outweigh the Urban

Metropolises like Delhi and Mumbai account for about half of the 20,000 crorepati households in India. Kolkata, often berated as a has-been city, has more crorepati households than Bangalore and Hyderabad put together. A survey by National Council of Applied Economic Research (NCAER) on India's rich tore apart the myth that the country's wealthy is concentrated in cities.




In Haryana, the number of rural households with annual incomes above Rs 1 crore is more than the number of crorepati urban homes. In fact, with 482 crorepatis, rural Haryana beats Bangalore, which has only 137 crorepatis. In Punjab, there are almost as many crorepatis in the villages and small towns (less than five lakh population) than in the big cities.

*(ToI, 16.09.05)*

## Far East Touchstone

Rural India is all set to follow the Thai one village one product model for encouraging small enterprises, and the Chinese model for setting up rural business hubs. The idea is to devise an Indian model combining both.

There are at least 6,000 block *panchayats* in the country and the government plans to set up about 60 rural hubs soon.

Nine states have already been identified with four segments – handicrafts and handlooms, agri-produce and processing, small power plants and bio-fuel production – selected on the basis of availability of local resources, needs of the local population and relative absorptive capacity.

The idea is not confined to local production alone, but also to marketing – talks for which have already been initiated with Confederation of Indian Industry (CII). The programme will be initiated with the active involvement of the public and private sectors and the *panchayats*. *(FE, 10.07.05 & 07.08.05)*

## A Cause to Rejoice!

The per capita income at current prices has recorded a growth rate of 11.1 percent estimated at Rs 23,308 in 2004-05, compared to Rs 20,989 in 2003-04. In real terms also, it is estimated to attain a level of Rs 12,416 in 2004-05 from Rs 11,799 in the previous year. The per capita income at current prices has been steadily rising over the last five years.

The real GDP grew by 6.9 percent during 2004-05. The national income at current prices for 2004-05 also showed an increase of 12.6 percent.

*(FE, 30.08.05)*

## Double-digit Growth

There seems to be a consolidation drive in the tractor industry. A significant move was the takeover of Eicher Group's business by Tractor and Farm Equipment for Rs 310 crore, vaulting it to second position.

The Indian tractor market has 11 players competing hard for a fat slice of the market. An inorganic growth strategy would certainly be logical for major players to increase their market share, and it would not only provide multinational players a foothold in the domestic market, but also enable them to take advantage of Indian market as a low cost manufacturing hub.

The tractor industry recorded a growth of about 30 percent to 2,47,531 units in 2004-05, compared to 1,91,673 units in the previous and is expected to touch 2,70,000 units in the next. *(BL, 12.09.05)*

## Disinvestments Dumped

The government has formally decided to call off the disinvestments of stakes in 13 publicly owned companies to avoid the privatisation of profitable state enterprises, and to keep up the spirit of the National Common Minimum Programme.

A clash broke out between the Congress Party and its Communist party allies, over the sale of a 10 percent stake in Bharat Heavy Electrical, a state controlled group.

The government has also called off sales of equity stakes in Shipping Corp. of India, Engineers India, Balmer Lawrie & Co, Sponge Iron India, Manganese Ore India, Rashtriya Chemicals & Fertilisers, Hindustan Paper, National Building Construction, National Fertilisers, Engineering Project India and State Trading Corp. Instead, the government is concentrating on the divestment of the non-navratna public sector units. *(FT, 17.08.05 & ET, 22.07.05)*

## Post-Reform Blues

Experts have pointed out that the disparity in GDP growth and employment has widened among regions in the post-reforms period. While living standards improved a lot faster in the 1990s as compared to the 1980s in most states, the opposite happened in Assam, Bihar, Orissa, Punjab, Rajasthan and Uttar Pradesh.

Stagnation in employment growth is yet another feature of the post-reforms period. Goa and Kerala registered a negative growth in the 1990s, while seven more states recorded less than one percent growth in employment. The downslide in employment has come packaged with wage disparity. *(FE, 17.09.05)*

## Migrant Remittance Effusion

The money sent home by migrant workers from the developing world reached close to US$200bn, last year. The amount exceeded that received by way of foreign aid and FDI. Migrant remittances have been consistently fuelling economic growth by providing foreign exchange resources.

Last year, US$126bn in remittances was sent worldwide through formal channels such as banks, which could even be accounted as US$200bn if informal transfers are counted. 42 percent of total remittances through formal channels flow into Asia. *(FE, 13.09.05)*

### Tying a Knot

India and UK have recently decided to unite on a wide range of economic issues, including civilian nuclear energy and the hydrocarbon sector. This is a step towards India's commitment to attract foreign direct investment worth US$10-15bn, annually.

To mark 'a very special relationship' that exists between the two countries, an agreement has been signed on an overall energy policy, a new air services and on intellectual property rights. The two countries have also agreed to intensify co-operation on the frontier areas of science and technology and the knowledge sector.

Furthermore, to deepen the relationship, they have also launched a financial and economic dialogue at the Finance Minister's level and finalised several MoUs and agreements. *(BL, 09.09.05)*

### Manufacturing Matters

A high-powered panel set up to probe manufacturing problems has come out with a draft strategy to achieve a 12 percent growth in the sector. The panel has identified ten elements for long-term manufacturing strategy, including an enhanced focus on competitiveness, favourable climate for domestic and foreign investments, and intensive studies of the sectors having potential to garner a major share of the global market.

The National Manufacturing Competitiveness Council in its draft report has identified 10-12 constraints, which includes infrastructure, power, labour issues, reversing duty structure, dismantling inspector raj etc. According to the Chairman, a 12 percent growth is essential to deal with the employment problem because it will generate 1.6-2.9 million jobs annually. It is to be noted that manufacturing accounts for only 17 percent of India's GDP, unlike many Southeast Asian countries, where the figure is 25-35 percent.

*(BS, 27.09.05)*

### Move for a Mega Merger

To achieve a synergy in operations, the Aditya Birla Group has planned to merge Indo Gulf Fertilisers and Birla Global Finance with Indian Rayons Ltd., forming a new entity called Aditya Birla Nuvo. For every single share of Indian Rayon, shareholders of Indo Gulf Fertilisers and Birla Global Finance will get three each.

Post restructuring, the turnover of Indian Rayon will increase by Rs 750 crore to Rs 2,611 crore. The new entity will include the telecom, information technology, fertilisers and insurance businesses. The boards of the three companies have met and approved the consolidation proposal and the swap ratio.

*(BS, 12.09.05 & ET, 12.09.05)*

## Bulwark for Tradition

India can now look forward to protecting its traditional knowledge against exploitation.

The effort comes when multinational pharmaceutical companies are looking at biological resources and traditional knowledge to replenish their depleting research pipeline. India is strategising to get international patent offices in the US, EU and Japan to accept India's documented knowledge as a non-patentable domain called 'prior art'.

The Law Ministry is vetting the draft for an agreement with the European Patent Office, which means that drug makers are unlikely to get patents in the 30-nation block, if the underlying knowledge is documented in India.

The defensive protection of traditional knowledge and genetic resources is part of a game plan, which also involves evolving modern medicines from traditional knowledge. *(ET, 12.09.05)*

### Meeting Fiscal Challenges

Despite the need for more funds for the Bharat Nirman scheme and the Rural Employment Guarantee scheme, the government is fully confident of achieving the target set forth in the Fiscal Responsibility and Budget Management Act, of wiping out revenue deficit by 2008-09. Major fiscal challenges are subsidy management and raising resources for meeting the NCMP objective.

On fiscal reforms, the Finance Minister, P Chidambaram said the government had undertaken measures in expenditure management and had come out with an Outcome Budget that measured the results of Budget outlays for various schemes. On expenditure reforms, the government had imparted greater flexibility to various departments in managing their expenses. Moreover, the Finance Minister has directed the expenditure department not to approve any outlay if a measurable outcome within a time-frame is not specified.

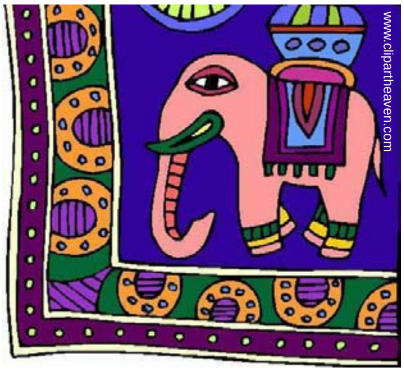
*(BS, 15.09.05)*

## Weaving in Success

India's textile exports to the US and EU have shown a remarkable increase after the elimination of quotas. India's exports to the US achieved a growth of 29.5 percent, while it has increased by nearly 75 percent in the EU. India's traditional competitors like Pakistan, Indonesia and Turkey have recorded a lower growth during the first half of this year.

India's exports of items like cotton yarn, knitted fabrics and home textile products have registered positive growth.

It has been anticipated that with fresh restrictions being put on China by the EU and an imminent threat of further restrictions being imposed by the US, Indian exporters of textiles and garments have good opportunities to increase their sales in these markets. *(FE, 02.09.05)*



### Bagging the Booty

India has earned Rs 40,000 crore extra from the global commodity boom in 2004-05 as compared with 2003-04. The monthly foreign trade data from the Directorate General of Commercial Intelligence and Statistics show a huge 128 percent increase in iron ore, 86 percent in petroleum derivatives, 73 percent in ores and minerals, 64 percent in metals and four percent in agricultural goods over the same period. Moreover, the good news is that the momentum is expected to be kept up in 2005-06.

But, India's farmers and agri-exporters could well see dismal days ahead. The main reason for the decline in world prices was the bumper crops of several agricultural commodities after many years that increased supplies substantially. *(ET, 19.08.05)*

### Paper in Pulp

The paper industry is banking on the national forest policy for survival. The proposed policy will permit planting of trees in wastelands and degraded lands by the private sector.

The industry has shown a commendable growth, but is facing shortage of raw material base, the primary issue for growth. While 57 percent of paper produced worldwide is from wood, only 14 percent of the wood felled is consumed by the paper industry. For India, the figure is only 3 percent. The absence of proper collection system and alternate use of waste paper also makes the establishment of large mills based on waste paper really difficult.

Besides, there has been no greenfield project in the last 20 years due to heavy financial constraints.

*(FE, 13.07.05)*

### Value 'Adding' Tax

Like Jharkhand, four other BJP-ruled states may also implement Value Added Tax (VAT) from January 1, 2006.

The move is significant in the light of former Finance Minister, Yashwant Sinha's statement, at the BJP meet in Chennai, that all BJP-ruled states would be adopting VAT at the same time.

Jharkhand's decision vindicates Finance Minister, P. Chidambaram's recent statement that all states that had not adopted VAT so far would do so by the end of the year.

Himachal Pradesh had registered an increase of 20 percent in revenue in just three months after the implementation of VAT. It is clear, that introduction of VAT would definitely strengthen the financial position of the states. *(FE, 25.09.05 & TH, 11.07.05)*

### Backyard Beckons

The three Indian states, Orissa, Jharkhand and Chhattisgarh are emerging as the biggest investment destinations in the world, leaving behind the current global industrial hotspots like Guangzhou and Shenzhen in China. The three states have already received investment commitments of nearly US$40bn.

Among the big proposals already in queue are Tata Steel's US$2-3bn plant in Chhattisgarh, Essar group's US$1bn plant and Jindal Stainless Steel's US$1.5bn plan in Orissa. The reason for so many ventures is the massive jump projected in the domestic demand for steel.

While the big concerns are scaling up their operations in a massive way, the small ones are fast becoming unviable. This would lead to a situation where only a handful of players would be able to survive.

*(ET, 09.07.05)*

### Barriers upon Barriers

EU's anti-dumping actions and the non-tariff barriers against Indian products have recently become a major concern, according to the trade minister, Kamal Nath. The stringency of standards and the complex rules, coupled with frequent use of trade defense instruments were evolving as blockades to enhancing economic co-operation.

As a result, Indian entrepreneurs have been finding it difficult to penetrate markets in these countries.

EU's Trade Commissioner, Peter Mandelson has urged to create conditions in India to attract greater amounts of investment. He also invited India to join hands with the EU and plead the case in the forthcoming Hong Kong Ministerial for a greater openness in global trade.

*(ET, 08.09.05)*

### Placing the Lid on *Vanaspati*

Under the Indo-Sri Lanka Free Trade Agreement (FTA), duty-free imports of *vanaspati* from Sri Lanka are likely to be capped at 2,50,000 tonnes.

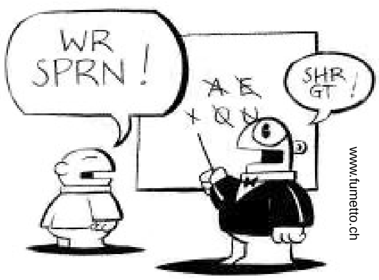
The decision is a follow-up to the recommendations of the KT Chacko panel that had expressed concern over the rising duty-free imports of *vanaspati*.

Subsequent to the surge, India had urged Sri Lanka to avoid approving *vanaspati* units in the country for exports to India. Sri Lanka had approved the setting up of 10 units and consented to not giving approval for any new ones. Each of these units will now export 25,000 tonnes per year, totalling 2,50,000 tonnes in export.

*(FE, 19.08.05)*

## SMEs Cope with Competition

According to a survey on business prospects by CII, small and medium size enterprises (SMEs) have witnessed a substantial increase in investment for coping with the growing competition. Of the




1000 respondents, 930 plan to increase their capital investment.

The SMEs expect business situation in the country to improve within six months in terms of production, capacity utilisation and turnover.

The survey also revealed certain limiting factors to growth such as high cost of funds and lack of working capital. A few respondents felt that lack of demand, plant capacity and political instability as factors inhibiting their output.

*(ET, 23.08.05)*

## Is Cost Auditing Needed?

The government is set to assess if, cost accounting of manufacturing and processing companies is needed in a free market economy and to decide upon the future of the Cost Audit Branch (CAB) attached to the Company Affairs Ministry.

CAB has so far notified cost record keeping norms for 44 sectors including cement, telecom, electricity and petroleum. The Ministry of Company Affairs has set itself the task of assessing whether the CAB is at all required, as cost related data is getting more and more irrelevant in the era of lesser subsidies, lesser state control over prices and a cost-conscious corporate world.

However, it had emerged from an earlier review exercise that some of the other sections of the government wanted to enlarge the scope of the CAB. Observers feel that in case CAB is retained, it would be given more and more powers and made to meet cost auditing targets.

*(ET, 27.08.05)*

### For Tighter Disclosure Norms

The Ministry of Company Affairs (MCA) intends to tighten the disclosure norms for the acceptance of deposits in its sustained attempts to protect investor interests and dissuade companies from defaulting on repayment of deposits.

The Minister of State for Company Affairs, Prem Chand Gupta, has conveyed to officers in the Ministry that companies accepting deposits would have to inform the Registrar of Companies. He also suggested that in the absence of such a provision under the existing legal rubric applicable to companies, the government would consider a clause to make the above mandatory. Strict actions would be taken against companies siphoning off funds collected from the public.

MCA sources suggested that the government has been working hard towards developing a better regime of investor protection; some of the measures already in place include online filing of complaints against defaulting companies by investors and depositors, and the establishment of an Investor Protection Cell.

*(BL, 02.09.05 & 04.09.05)*

### PSUs Fair Poorly

*The Economic Times* has published the outcomes of its recent corporate governance survey with rankings for Indian companies. While private sector firms like Infosys Technologies, Tata Steel and Wipro lead the list – public sector units (PSUs) do not find a mention in the top 10. State Bank of India is the highest placed PSU, occupying the 13th spot on the list, followed by ONGC at the 15th and BPCL at the 20th, respectively.

The 'G-Cube Model' was used to assess the corporate governance of these companies. The model employs parameters like accounting quality, value creation focus, fair policies and actions, communication, effective governing board and reliability in assessing excellence in the area of corporate governance, apart from analysing the opinions of fund managers and top broking houses. The results were compiled to establish the overall rankings.

Experts feel that corporate governance has come a long way, particularly in the last three years in the country, especially with increasing pressure from foreign institutional investors, who have pumped huge amounts of money into Indian companies. *(ET, 19.08.05)*

### Recommendations in Line

The new National Manufacturing Competitiveness Council (NMCC), recommends easier norms to fire workers, and a reduction in the number of 'pointless' inspections, among various other measures – to enable India to compete with super powers like China in the global manufacturing hub.

The NMCC also calls for the 'full managerial and commercial autonomy' of public sectors companies, in the light of allegations of ministerial meddling at the ONGC, India's energy champion. Besides, it prescribes that the country's manufacturing sector needs to grow at the rate of 12 percent, in order to maintain a steady GDP growth rate between eight and ten percent.

Many, however, fear that the recommendations will be shelved, unless the government shows greater political will to take on the vested interests that oppose them.

*(FT, 27.09.05)*

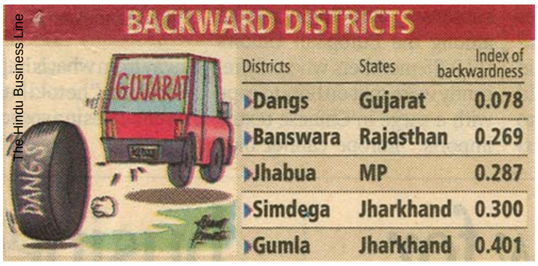
## Investor Protection Fund


An expert panel under the chair of Justice MH Kania (former Chief Justice of India), appointed to look into the amendments of the Securities and Exchange Board of India (SEBI) Act has suggested the introduction of a separate 'Investor Protection Fund', under the Act.

The Investor Protection Fund would be on the lines of the subscriber education and protection fund, under the Pension Fund Regulatory and Development Authority. This Fund would be for investor education and awareness and for compensation to the small investors in respect of fraud, or misrepresentation, or misstatements by companies or intermediaries, and would be administered by SEBI.

Further, the panel recommends that SEBI initiate adjudication proceedings against entities for furnishing false information knowingly. As of now, SEBI has no powers to take action when the intermediary provides wrong information.

*(BL, 13.07.05)*




| Districts | States | Index of backwardness |
|---|---|---|
| Dangs | Gujarat | 0.078 |
| Banswara | Rajasthan | 0.269 |
| Jhabua | MP | 0.287 |
| Simdega | Jharkhand | 0.300 |
| Gumla | Jharkhand | 0.401 |

# Index of Backwardness

The poorest district of India is Dangs in Gujarat. Two more districts of the state, Dohad and Panchmahals, are among 20 of the poorest in the country.

As per the ranking of 447 districts, prepared by the Planning Commission, the index of backwardness incorporates the percentage of the population of scheduled castes and scheduled tribes, agricultural wages and the output for every farmhand.

The ranking will aid the government in identifying the districts for implementing the national rural employment guarantee scheme. The government proposes to implement the scheme in 200 districts in the first phase. The scheme, which seeks to provide 100 days of guaranteed employment to a family in a year, will gradually be extended to the other districts. *(FE, 20.09.05)*

## Information Security Alert

A survey titled 'Report on Information Security Baseline 2005' conducted by the Confederation of Indian Industry (CII) has revealed that there is now a greater realisation of the need for information security. The survey, covering about 100 companies, sought to assess the information security awareness among organisations and the level of its implementation.

Only 11 percent of the respondents did not have password-protected data. Also, 100 percent of the respondents used some form of anti-virus, anti-spam, and anti-worm software. While a high 89 percent took regular back-ups, about 63 percent even had disaster recovery plans in place. *(FE, 11.09.05)*

## Top-notch India?

According to a study titled 'India's Cutting Edge in Services' conducted by the Associated Chambers of Commerce and Industry (Assocham), the country could well double its current market share and acquire six percent of global information technology services and software by 2008-09.

India will also be providing services to the EU and other countries of the developed world by 2020. It has been estimated that by then, there will be a surplus of 47 million IT professionals in the country whose skills can be put to optimum use.

The study has stated that by 2020, there will be a dearth of people in the working age group in the developed world owing to declining birth rates. So concerned is the EU on this issue, that it has underscored the need to review immigration policies. *(TH, 11.07.05)*

## Way off Mark

Despite being successful on the economic front, India is likely to miss the millennium development goals, as stated in the Human Development Report 2005 released by the United Nations Development Programme (UNDP).

The report said that India had reduced the incidence of poverty, based on income parameters, from about 36 percent in the early 1990s to 25-30 percent. But evidence suggested that growth pick-up had not translated to an equivalent decline in poverty.

More serious was the human development legacy, particularly pervasive gender inequalities, rural poverty and inequalities between states, exacerbated by inadequate public health provision. *(BS, 08.09.05)*

## Foul Play in Bt Cotton Sales

A report released by the Monitoring and Evaluation Committee (MEC) set up by civil society organisations has alleged that transgenic seed companies have resorted to false and misleading claims and unethical practices to sell Bt cotton to farmers.

Earlier, a team of scientists from the Nagpur based Central Institute of Cotton Research had proved that the Bt cotton becomes ineffective to bollworm after 110 days.

For the moment, the MEC has called for accountability mechanisms to put in place, to ensure that aggressive and unethical practices used by the Bt cottonseed corporations are put under check. *(FE, 01.08.05 & 22.09.05)*

## Labelling Obligatory

The Indian Council of Medical Research (ICMR) has called for mandatory labelling of genetically modified foods in a report it has submitted to the government. It said that imported foods containing traces of genetically modified organisms (GMOs) should be tested for their safety in the laboratories in the country.

The permissible limit of the presence of GMOs in food as proposed by ICMR is higher than that proposed by the EU. The EU has fixed the permissible limit at 0.9 percent while ICMR has fixed it at 1 percent. ICMR has said that labels on GM foods should disclose the necessary information relating to the origin of the transgene and the processes involved. *(FE, 28.09.05)*

# R&D Focus on India

The influential Wharton Business School publication, *'Knowledge@Wharton'*, has brought out a special section on India, where it says that the country could well emerge as a powerhouse for research and development (R&D), with the US and Europe outsourcing such operations. It is beginning to be realised that India is not only a location for clinical trial, but also a hub for basic research.

Yet, India faces major challenges as it attempts to grow into an R&D powerhouse. According to the publication, there are three hindrances. The first, which is improving steadily, is the intellectual property regime, or rather, its perception. The second and third blockages are the brain drain and the low levels of basic research. Despite some top universities that teach and research well, they are insufficient for a country of this size. Others, including the IIMs, lack motivation. *(BL, 27.08.05)*

### India Tenth Largest

It is an official announcement that India is now the tenth largest economy in the world. As per the latest World Bank report, India is ranked so, dependent upon its absolute GDP size, which is US$692bn and growing over six percent annually.

The rapid growth has been possible, given reform-oriented governments, manufacturing revival, the unceasing fast pace of the services sector and larger foreign investments.

This report comes at a time when Indian stock markets are drawing attention from investors worldwide for their transparency and gains achieved through smart marketing. The country has also witnessed increases in its investment expenditure and demand. Save for China, few economies in the world are growing as rapidly as that of India's. *(ET, 14.07.05)*

### Subsidies Strain

The Ministry of Finance has stated in its 'Quarterly review of the trends in receipts and expenditure in relation to the Budget' for April-June 2005, that major fiscal challenges are to be confronted. They include the management of subsidies, funding the food-for-work and employment guarantee programmes, and neutralising the decline in non-debt receipts due to debt relief to the states under the Twelfth Finance Commission.

The Finance Minister, P Chidambaram pointed out that the economy was showing remarkable resilience, in the face of high international crude prices and a series of natural disasters. With industry growing at a healthy double-digit figure of 10.3 percent, forex reserves of US$132.9bn and inflation gradually decelerated to 4.1 percent in June 2005 compared with the beginning of the year, the prospects for growth look good. *(BL, 25.08.05)*

### Health at a Price

The PHD Chamber of Commerce and Industry (PHDCCI) has stated that health insurance in India is set to become a Rs 25,000 crore industry by 2010. Reasons accountable are lifestyle-induced diseases like cancer and cardiac diseases, which could be 30 percent of in-patient ailments. This figure is expected to rise with increased HIV infections and an increase in the number of senior citizens.

PHDCCI estimated the sector to treble itself within the next 10 years if insurance companies offered a right blend of targeted products. Insurance products would have to widen their scope much beyond hospitalisation, and cover domiciliary treatment.

Despite the Insurance Regulatory and Development Authority's (IRDA) counsel, the government has not legislated lowering the minimum capital norms for exclusive health insurers. A move of this nature can well attract newer companies to the sector. *(BL, 12.08.05)*

## No Relief for the Poor

The much-hyped targeted public distribution system (TPDS) for supplying food grain to BPL families appears to have failed. The findings of the programme evaluation organisation have concluded that the transition from universal PDS to targeted PDS has neither benefited the poor nor helped reduce food subsidies.

58 percent of the subsidised food grain released by the central pool does not reach BPL families. Identification errors, non-transparent operation and nefarious practices are the reasons to account for this.

The study advocates that an alteration in the methodology for identifying poor families and plugging leakages in the delivery system could improve the system.

According to the study, for one rupee worth of income transfer to the poor, the government spends Rs 3.65. *(FE, 24.08.05)*

## Caught Red-handed

India wears the tag of the 'most bureaucratic red tape' in the South Asian region. An International Finance Corporation report, 'Doing Business in South Asia in 2005' stated that India ranks second in the region for procedures and time required to enforce a contract. India is ranked below all the South Asian countries – 25 notches below China, but still above Afghanistan!

Though the country has climbed eight places higher than last year, it is still heavily burdened with procedural and regulatory obstacles.

On the brighter side, the report said that India had initiated a variety of reforms in 2002-04, while suggesting measures to make them more effective.

India scored the highest in the region (tied with Nepal) in difficulty of dismissing an employee and in rigidity of employment. The report takes into account regulations and reforms using parameters such as degree of regulation, tax compliance, time and cost to enforce a contract, legal protection of property, labour flexibility, investor protection and ease of trade across borders.

*(BL, 14.09.05 & FE, 24.09.05)*

### High on Energy

Residential energy consumption for purposes other than transport accounted for 50 percent of the increase in consumption – two billion tonnes of oil equivalent worldwide in 2001 – over the 5.6 billion tonnes consumed in 1991.

The data released by the International Energy Association cited a major difference in energy consumption between the developed and the developing countries. In the US, energy consumed for residential purposes accounted for less than 20 percent of the increased energy consumption during the period. The figure for China was 67.2 percent, while it was 72.5 percent for India. Countries like India and China consume much more energy per unit of GDP than the developed world.

*(BL, 02.09.05)*

# Organise the Unorganised

The National Advisory Council (NAC), headed by Congress President Sonia Gandhi has suggested a cess to fund the social security needs of the approximately 37 crore workers in the unorganised sector. Though the draft bill titled 'The Unorganised Sector Workers Social Security Act 2005' talks of tripartite contributions by the employers, workers and the government, it also said that there will be floor level schemes funded by the centre by way of a cess.

Such a scheme would include health, life, permanent disability insurance and maternity benefit without contribution from the worker, and as well as a contributory old-age benefit scheme, including pension.

The draft also proposes the setting up of a national Social Security Authority for the Unorganised Sector and employment exchanges. *(BL, 26.08.05)*

### Can't Bank upon Policies

The World Bank held various policies of the government responsible for a highly inadequate supply of finance to the rural poor in a report titled 'Scaling-up Access to Finance for India's Rural Poor'.

High fiscal deficits, the government's domination of rural finance institutions, persisting weaknesses in the regulatory and legal framework and populist policies have resulted in the distortion of risk/return signals and a dilution of the credit-creating role of rural banks.

The report also pointed out that the RBI restricts the entry of new non-service area bank branches into the service area, by requiring them to obtain a no-objection certificate from the service area branches, which is not easily forthcoming. *(BL, 19.09.05)*

### Accolades from ADB

The President of the Asian Development Bank (ADB), Haruhiko Kuroda expressed his appreciation for the performance of the Indian economy. ADB's positive outlook on the Indian economy for future growth comes at a time when the Bank is ready to revise downwards its forecast of the growth projections for the other developing Asian countries. He announced that ADB is considering a major step-up in the assistance to projects in India, with the total assistance between 2006 and 2008 being in the range of US$6.5-7bn.

Kuroda emphasised the importance of the private public partnership route of financing infrastructure projects, though they may not work in rural areas. A Joint Work Force would be formed along with the Indian government, he said, to improve implementation and disbursement of project assistance.

*(BL, 01.09.05)*

### Call for Reforms

At the JRD Tata Memorial Lecture organised by the Associated Chambers of Commerce and Industry (Assocham), Wipro Chairman, Azim Premji suggested the adoption of a multi-pronged strategy comprising immediate initiation of land reforms, overhauling of the country's power sector, health and primary education, to economically and socially transform India. He sought rationalisation in property taxes to boost economic activity in the housing and retail sectors, which would create immense employment opportunities.

Reforms in the power sector, the biggest resource drain on the economy, could impact the fiscal deficit of states greatly.

On software services in the country, Premji said the salary differential among software professionals between the US and India was a great arbitrage opportunity on which the initial success of the industry was built. Similar opportunities have risen today in the business process outsourcing industry and in pharmaceutical and biotech research. *(BL, 31.08.05)*

### Merger of Oil Giants Ruled Out

To avoid destructive competition, it has been felt that if the oil and gas companies in India were integrated into one or two large entities, the country would hold a much better chance of competing with world leaders like Chevron, SaudiAramco and Gazprom. The Krishnamurthy Committee on 'Synergy in Energy' constituted six months ago to work out merger options for consolidation of the oil sector has noted in its report that a merger would not be advisable as they generally occurred world wide during times of low oil prices, and between companies that were already vertically integrated – a means for eliminating excess workforce and duplicate facilities.

In the Indian context, despite some efforts at vertical integration, the oil PSUs retain their distinct areas of competence. This would make any consolidation plans futile. The Committee has also ruled out a merger on the grounds that it is likely to lead to loss of jobs. *(FE, 12.07.05)*

# Sustaining Seven

Discussing the subject 'The 7 percent growth economy: Does the government really matter?' at the Annual Economic Summit 2005 of the Bengal Chamber of Commerce and Industry, Asim Dasgupta, West Bengal Finance Minister said that everybody wanted economic reforms, but it should be with a "social outlook".

Dr. Arvind Virmani, Director of the Indian Council for Research on International Economic Relations, said that over the last 15 years, the internal opposition suffered by every coalition government, coupled with the inefficiency and corruption among politicians and bureaucrats, has hampered its ability to make a dent on something as basic as poverty.


Prof. Abhirup Sarkar from the Indian Statistical Institute and Dr. Ashok Desai, Consultant Editor of a Kolkata-based daily, were both doubtful about 7 percent growth. They gave the existing political scenario as the most apparent reason. *(BL, 07.08.05)*

# "Obsession with China is Silly"

*Economist, Nobel Laureate, former Master of Trinity College, University of Cambridge and now Lamont Professor at Harvard, Dr Amartya Sen is, arguably, India's best-known global intellectual. Back home in August to release his new collection of essays — 'The Argumentative Indian: Writings on Indian History, Culture and Identity', Sen spoke to the Financial Express. Some Excerpts…*

***It's treated almost as a given today that India is the next superpower. But however large our economy becomes in absolute numbers, a whole swathe of countries will have citizens living better lives than we will. Yet there seems to be a constricted debate. If anyone says, 'India is not going to be a superpower in the next 10 years', he's accused of being negative. There's no middle ground, you're either at one end or the other.***

One way to judge the progress of a country is to look at the lives of the people there – whether they are educated, well fed, get medical treatment, enjoy freedom of expression and literary creation, whether there is opportunity of creativity. That is a very different perspective from the superpower perspective. It is, to me, a much better way.

The idea of India being a superpower can't be interpreted to mean being enormously more powerful than everybody else, like Alexander with the vanquished tribes all around him.

Whatever increases in India's economic position and political importance occurs, will occur with other countries also making progress. This intense obsession of how we can catch up with China is silly. We should take joy in the fact that a poor country is making progress. If I have a concern, it is that there is other progress I would like to see in China, in having a multi-party democracy.

A 'me versus you' view is not very healthy.

***Your book talks of how India can learn from both, China's post-reform judicious use of the market, and pre-reform investment in social infrastructure. There are some who tend to interpret the 2004 election results as a negative vote on economic reforms. Manmohan Singh has had difficulty in furthering reform. Do you sympathise with his predicament?***

I think sympathy wouldn't be the right word. My position on Manmohan's understanding of political economy has been that he has been absolutely right in wanting reforms. Apart from getting over the license *raj*, more constructive things like education, healthcare and infrastructure are part of his priorities. I would like to see him succeed.

There are all kinds of other issues, like the role of foreign enterprises. The government has a good vision on the need for India to play its part in a globalised world.

Now I'm not taking the view that the Left should necessarily support the government on everything. The purpose of a democracy is to present your perspective, rather than prematurely seek agreement. But as a member of the coalition, the Left also has a responsibility. When the Left expresses disagreement, it is not right necessarily to interpret that, as the media often does, as a severe strain. That's part of democratic politics.

*(FE, 19.08.05)*

# India has a Well-developed Market for the Public Office

*— Jayaprakash Narayan*

Earlier, in India, politics was a byword for sacrifice and privation. But, immorality rules the roost today, and those politicians who swim against the tide are the exceptions to the rule.

As per news reports, two young men of Mumbai, both scions of political families have purchased a 4.8 acre property of Kohinoor Mills in a competitive bidding process at an astronomical price of Rs 421 crore. In a market economy, it is no sin to be wealthy. But this transaction points to two things. The first is that political families are amassing wealth of no mean proportions, and second, politics is now big business.

A party in power or a politician no more needs to rely solely on entrepreneurs, traders and license seekers for election funds. Today, vast amounts of money are raised through political office and control over the levers of power. A part of this is 'invested' in elections and in a no-holds-barred competition to gain the marginal vote. It goes without saying that gargantuan proportions are spent on all the evil means that serve such a purpose. Once power is regained, multiple returns are assured.

Gone are the days of the license *raj*, when wealth creators paid off politicians to obtain the right to do business. Now, politicians are the entrepreneurs in public affairs and in private capacity.

Thus, the pincer of political nepotism has gripped core areas, where the state's failure is glaringly apparent. Policing and justice administration are now 'privatised'. Money is hoarded by settling disputes and dispensing rough and ready 'justice', using the public office as a screen. The process distorts the market, undermines public confidence in wealth creation, erodes the rule of law, sets an abhorrent example to our youth and stunts economic growth.

No palliative can arrest this scourge. Creating a system that allows the best and the most public-spirited to get elected and survive in power through honesty alone, and overcoming institutional rigidities to allow competent delivery are the two great challenges today. Will we wake up?

*(Abridged from FE, 22.07.05)*

# The National Rural Employment Guarantee Scheme

*As India needs something more lasting than patchwork policies to help its millions of poverty stricken people, the government passed the National Rural Employment Guarantee Act, (NREGA) 2005, with an allocation of Rs 40,000 crore. Creation of durable assets and strengthening the livelihood resource base of the rural poor is an important objective of the Act.*

## Salient Features

- The state governments shall provide not less than 100 days of work in a year to every rural household whose adult members volunteer for unskilled manual work.
- Notwithstanding anything contained in the Minimum Wages Act, 1948, the Centre may specify the wage rate, provided that it is not less than Rs 60 per day. Under no circumstances shall the labourers be paid less than the wage rate.
- If an applicant is not provided employment within 15 days of application, he is entitled to a daily unemployment allowance.
- The *panchayats* at the district, intermediate and village levels shall be the principal authorities for planning and implementation.
- The central and state governments shall share the expenses of the scheme.
- The centre may, on receipt of any complaint regarding the issue or improper utilisation of funds, cause an investigation and order stoppage of release of funds.
- The centre may, in consultation with the Comptroller and Auditor General of India (CAG), prescribe arrangements for audits of the accounts at all levels. All accounts shall be made available for public scrutiny.
- The scheme is to focus on water conservation and harvesting, drought proofing, irrigation facilities, land development, flood control and all-weather roads – all in rural areas.
- Cost of the material component of projects shall not exceed 40 percent of the total project cost.
- The scheme shall not engage a contractor for implementation of the projects.
- As far as possible, manual labour shall perform a task and not machines.
- At least one-third of the beneficiaries shall be women.
- Employment shall be provided within a radius of five km of the village. Or, it must be provided within the block, along with ten percent extra pay.
- Safe drinking water, shade for children and a first-aid box shall be provided at the work site.

*(www.rural.nic.in)*

### Creator's Concern

The new 'anti-corruption' clause is misguided and counter-productive. It undermines the incentives that people have to 'blow the whistle' in the event of corruption. It also gives the government sweeping powers to stop releasing funds in a selective manner, even without adequate evidence. What is required instead, is to strengthen transparency measures and enable people to monitor the works.

The Act must be seen, along with the Right to Information Act 2005, as an integral part of the battle for restoring accountability in rural development programmes. The premise of the Act is that every adult has a right to basic employment opportunities at the statutory minimum wage. It is a political initiative based on the state's responsibility to protect the right to work. Corruption should not be used as an excuse to abdicate this responsibility – it can and must be fought.

***Jean Dreze,*** *Former Member, National Advisory Council, and chief architect of the scheme*

*(ToI, 13.08.05 & www.indiatogether.org, 20.08.05)*

### Changing the Face of Rural India

The National Rural Employment Guarantee Bill (NREGB) that is being taken up must be regarded as the insightful economic legislation of post-independent India.

Criticism against the scheme centres around two arguments – too costly, and too many fresh opportunities for corruption. Neither should be allowed to derail the initiative. Corruption can never be rooted out, but if labour representatives and the *panchayats* together manage the schemes, it may be limited. As regards the fiscal cost, the expenditure would range from 0.6 percent (modest estimate) to 1.5 percent of the GDP (most extensive formulation). Though this is not a small amount, it is justified if employment generation and poverty eradication are seen as worthwhile goals.

The key to the desirability of the scheme is the creation of meaningful and long-term asset creating activities.

***Pulin B. Nayak,*** Professor of Economics, *Delhi School of Economics,*

*(BS, 18.08.05)*

### Minimum Wage Must be Treated as Sacrosanct

The question of what wage rate is to be paid is a highly complex one. Fixing the minimum wage at Rs 60 has not been justified. There is tremendous variation in the statutory minimum wage rate across states, with Kerala leading the list at Rs 126 and Meghalaya at the bottom with Rs 26.

The states bear only 25 percent of the cost of work material and the Centre will bear the entire burden of the wage bill. Since the overall cost of the scheme is closely linked to the wage rate, the government may have wanted to fix a ceiling to protect itself from unwarranted increases in state specific minimum wage. Instead, the Centre has pegged the minimum wages at a lower level as an easy way to keep its fiscal commitments to a minimum.

In spite of these fisc-oriented arguments, there are enough legal, political and economic reasons to revert to the draft's proposal that workers must be paid nothing less than the minimum wage in force in their state.

***Siddharth Varadarajan,*** *Journalist,*

*(TH, 23.08.05)*

# Experiences on Renewable Energy Sources in India – The Case of Solar Energy

## Background

In India, the renewable energy movement took off in the early 1970's. However, the real initiative was taken when the Commission on Additional Sources of Energy (CASE) was created in 1980 followed by Department of Non-conventional Energy Sources (DNES) in1982.

During the 1990s, faster growth of renewable energy needed greater attention and hence, DNES was converted into Ministry of Non-conventional Energy Sources (MNES) in 1992. According to government estimates, the country's share in global energy consumption was anticipated to increase from 4.4 percent in 2001-02 to 6.36 percent in 2021-22.

## Non Conventional Energy Sources and Demands

Traditionally, in India like in most other developing countries, thermal and hydropower have been used to meet the rising energy demands. But the government gradually realised that a focus only on traditional or conventional energy sources would not be able to take care of the energy demand in the country. Renewable energy refers to energy from the sun (thermal and solar photovoltaic systems), biomass (direct burning, gasification or machination, including municipal solid waste), small hydel power plants upto 25 MV station capacity, wind, tide, wave, geothermal, etc.

India today has among the world's largest programmes for renewable energy. In the Eighth Five Year Plan (1992-7), approximately 1050 MW of power generating capacity, originating from renewable energy sources was allocated. In the Ninth Plan (1997-2002), the accent was on according commercialisation and development of entrepreneurship in all renewable and non-conventional energy schemes and plans. By 2012, the MNES has the stated objective of propping up 24,000 MW from renewable and non-conventional energy.

## Solar Energy – a Success Story!

The activities facilitated by the MNES on solar energy in various parts of the country have had tremendous success, especially through the involvement of state agencies. The agency that stands out for setting a precedent in this regard has been the West Bengal Renewable Energy Development Authority (WBREDA).

Established in 1993, WBREDA was mandated to diffuse useful knowledge in various fields of alternative energy and thereby, to deal with problems related to rapid depletion of conventional energy sources and the ever increasing level of pollution caused by the use of conventional methods of power generation.

WBREDA has been actively associated in implementing a number of solar energy projects in West Bengal, in cooperation with the local self-government in rural areas (*panchayats*), universities, research institutions, NGOs and community based organisations. Thanks to WBREDA, 400 villages in the state have been electrified by the solar photovoltaic (SPV) route.

Some of the initiatives that WBREDA has been involved with are as follows:

- Encouraged the participation of private sector in developing public-private participation projects on renewable energy sources in various parts of the state.
- Set up *Aditya* Solar Shops – two in urban areas, and two in rural areas in order to make solar energy products easily available to the people.
- Working in Sagar Island (the largest island among hundreds that constitute the delta of the River Ganges in the southernmost part of West Bengal) since 1996, and has set up 11 small solar power plants on the island and its neighbouring areas.
- Each of these small solar power plants has its own mini-grid system that distributes electric power to the surrounding villages. These grids are managed by cooperative societies, comprising of villagers, who are the users of the power themselves. The societies are responsible for selecting the consumers, choosing the routes for the distribution lines and setting the tariffs in consultation with WBREDA.

## Non-Government Initiatives

Social Work and Research Centre (SWRC) is an NGO based in Tilonia, Rajasthan. SWRC pioneered work on solar energy since 1986 and electrified the 80,000 square feet of its Barefoot College, which was established as an initiative to educate and train unemployed, illiterate and semi-literate village youth, as barefoot engineers.

Barefoot solar engineers, from different part of the country, have been trained by SWRC to fabricate and install solar home lighting systems using SPV systems. Today, due to the efforts of SWRC, more than 200 KW of solar energy is generated across the country.

More than 12,000 households in over 350 villages across 10 states have been covered by SWRC in providing solar photovoltaic home lighting systems. This includes, over 1500 families in the remote areas of Ladakh who are being provided light in the bleakest months of winter.

## Conclusion

While a lot has been done, a huge amount of work still remains to be done to extend the benefits of non-conventional energy sources, especially solar energy to the remote parts of the country. The need is, however, to have an adequate policy framework in place with an aim to provide impetus through streamlining the structure of renewable and non-conventional energy sources. Initiatives taken by WBREDA and SWRC should encourage government and non-government agencies to act fast and meet the energy demands of the Indian population, a large part of which still remain miles away from the glow of an electric lamp!

*(Information in this article has been collected from mnes.nic.in, www.wbreda.org/about.htm and www.barefootcollege.org)*

# Regulation of Private Educational Institutions: Yes, but How?

*The issue of government interference in privately run educational institutions in matters of admission and fixation of fees has been an area of concern among various sections of the academia and politics. Is imposing upon private institutions the best way to fulfill the social objectives of the government?*

## Background

The author, Prof Jandhyala Tilak, of a report titled 'Privatisation of Higher Education in India', published by the International Higher Education in 2002, notes with dejection that for the first time, the government had classified secondary and higher education as 'non-merit goods', for which subsidies would be drastically reduced. A reflection of this is seen today, when the state is depending on, but nonetheless, coercing private institutions to fulfill its social objectives of providing higher education to its teeming millions.

The Supreme Court (SC) ruled, in August 2005, that private unaided institutions had an "unfettered fundamental right to choose students and procedure thereof, subject to it being fair, transparent and non-exploitative". The Court allowed them to device their own fee structure, but made it clear that capitation fees and profiteering would not be allowed.

The question that arose then, mostly from political circles, was about the responsibility of private institutions towards the underprivileged in the society they serve. Such a ruling, they argued, would be a great blow to social justice. Thus, overriding the judgement, the Cabinet passed the 104th amendment to the Constitution, which inserted Article 15 (5), providing reservations for the Scheduled Castes (SC)/Scheduled Tribes (STs) even in private unaided educational institutions. The first four sections of Article 15 had laid out the responsibilities of state funded institutions towards the economically weaker sections of society.

- What is the legitimacy of the State imposing upon private institutions?
- What is the incentive structure for new domestic/ foreign institutions in the General Agreement on Trade in Services (GATS) regime?
- What are the areas of focus for regulation of educational institutions?

The central legislation, Private Professional Educational Institutions (Regulation of Admission and Fixation of Fee) Bill, 2005 states that aided and unaided private professional institutions would have to reserve seats for economically weaker sections of the society, conduct their admission process and fix fees according to stringent norms set out by the University Grants Commission (UGC) or the responsible state authority.

## Discussion

Various experts have been rather uniform in expressing that this new legislation replaces the market entirely. The general argument, along the lines of the SC ruling, says that the state has the right to bear on aided educational institutions, but the regulation of every aspect of the running of private institutions that do not even receive aid from them is completely untenable.

The alleged profiteering by certain private educational institutions and the doubtful quality of education dished out by many of them surely calls for some regulation; but are fixing fees and quotas the most efficient methods of addressing this market failure?

It is argued that if the State fixes both the price and the quantity of the service, the market will not clear and the result will be either rationalising or parallel market operations. It might lead to regulatory capture by creating incentives for institutions to invest unproductively on trying to control the fees and admissions committee. Needless to say, some of these costs will be passed on to the consumers of higher education. On the other hand, if the UGC were to fix fees at unrealistically low levels in the interest of equity, institutions will try to cut corners, and hence, quality will suffer.

Reservations *per se* may not be a problem for private institutions if the state pays for those who require subsidies. But, if the state fixes ceilings for the fees of students who join under the reservation quotas without offering compensation, the private institutions would not even be able to recover costs and may be forced to undertake drastic measures that compromise on quality. Under a situation when quality higher education is largely on private shoulders, such a step is sure to force many institutions to shut shop and provide a disincentive for the setting up of new ones.

Ideally, if students are opting for an institution by choice and employers are recruiting them, then not much else is required. Management education in India is a good example of a sector where regulation has become irrelevant. If detailed audited statements are made available to anyone interested, this might take care of a large part of the transparency concern.

## Conclusion

The President of India, Dr Abdul Kalam and many others who have ambitions for the country, foresee the building of a knowledge society for India. But, a revolution in information technology that would be required for such a purpose cannot come about with higher education being put as far down on the priority list as it seems to be today.

At the present stage of the demographic transition that India is in, over 60 percent of the population is under 24 years of age. A significant share of this young population is likely to demand higher education in the near future. With appropriate policies on the domestic front and well-thought through offers and commitments on international fora, higher education can well be turned into a sector that presents immense opportunities for growth and development. So, the need of the hour is for the government to ensure the provision of good quality education that is accessible and affordable. As such, is regulating admission and fixing fees the best way forward?

# Better Regulatory Framework for Economic Development – How?*

## Introduction

Since the early 1990s, there has been a paradigm shift in the approach to economic management in India. Market-regulatory agencies, such as sector regulators and competition authority have been set-up in the country to ensure a predictable regulatory environment and participatory decision-making. However, popular perception is that regulatory agencies have not been able to live up to their expectations. Amongst the most cited reasons are:

- Lack of autonomy and accountability in regulatory agencies
- Incapacity to attract capable professionals due to legislative provisions and prevailing practices

Presently, in most cases, regulatory autonomy is being curtailed as a measure to ensure accountability, which is resulting in sub-optimal outcome.

Overlap between policy and regulation is a major impediment to regulatory autonomy. A certain minimum distance between the regulators and the line-ministry concerned is desirable to ensure that the latter does not unduly influence the former. The selection and appointment of regulators is one of the most crucial issues that need to be addressed upfront. Providing protection against a possible discretionary dismissal would also go a long way to ensure functional autonomy to regulators. Financial autonomy of regulatory agencies is equally important, as the relevant line-ministry may use this instrument to curtail the functional autonomy of regulators.

The current provision of regulators submitting annual report to the legislature is not sufficient to hold them accountable in an effective manner. Setting up an appellate body for each regulatory agency is also not desirable; it can lead to forum shopping in similar cases, and inconsistent decisions at the appellate level.

Seven critical issues affecting regulatory autonomy and accountability were identified and discussed at length in a three-session policy roundtable organised by CUTS in 2005. The following sections provide the recommendations that emerged out of the discussions.

## Policy vs. Regulation

The objectives and scope of regulation and the powers of the regulator in the enabling legislation need to be spelt out clearly and regulatory agencies should work within the framework spelt out in the legislation. A clear distinction between 'policy' and 'non-policy' issues should be drawn. Regulators should be involved in the evolution of policy and consulted before the issuance of policy directives. Government should put the comments received from the regulatory authority and other stakeholders in the public domain and provide reasons for issuing the directives.

## Interface with the Line-ministry

Regulatory agencies should be made autonomous by legislation so that undue interference by the line ministry can be avoided. A Parliamentary Committee on Regulation and Competition should be established as the reporting authority for all regulatory agencies. Their domain should be confined to systemic issues only, and not the individual decisions and orders of regulators.

## Selection and Appointment

A committee consisting of eminent people needs to be constituted to select regulators for various agencies at the central and state levels. Proper manpower planning should be done to ensure that selection of a regulator is made in advance of a position falling vacant, and applications should be invited as against pre-determined selection criteria. Regulators should be given a fixed tenure of five years with a maximum age limit of 60 years for appointment. The prevailing practice of granting sinecure positions needs to be discouraged, and experts and young professionals should be encouraged to apply for high positions in these bodies.

## Removal

Member of a regulatory agency should be removed only in case of a proven guilt or inability established in a judicial probe by a sitting judge of the Supreme Court. The proposed Parliamentary Committee on Regulation and Competition should initiate such probe, whenever necessary.

## Appellate Bodies

A common appellate tribunal with regional benches should be established for a broad set of regulators. The law should provide for appeal against a regulator's decision before the Common Appellate Tribunal first, and then to the Supreme Court. The appeal should be made on points of law only. The power to deal with disputes should be with the regulator, not the Appellate Tribunal.

## Accountability

The proposed Parliamentary Committee on Regulation & Competition should be the reporting authority. Regulatory agencies should submit an activity and outcome report to the legislature through this Committee. A Consumer Advocacy Fund should be created to build the capacity of consumer/civil society groups to raise consumer concerns more effectively and to act as an external watchdog. Political parties and the government should give their feedback as stakeholders to the regulator whenever it is sought. They should participate in the open discussions/ hearings conducted by the regulator.

## Financial Autonomy

Regulatory agencies should be allowed to generate resources on their own through a fee, cess, etc. The financial requirements proposed by the regulator should be linked with their work plan for a certain time period and approved by the Parliament. Regulators should be given the liberty to hire required staff and appoint consultants in a transparent manner.

These touchstones of 'regulatory autonomy and accountability' will go a long way in enhancing regulatory efficacy and facilitate economic development.

**"Better Regulatory Framework for Economic Development: How?", CUTS C-CIER Policy Brief, December 2005, http://www.cuts-international.org/pdf/Better-Regulatory-framework.pdf*

## From our Readers

I was interested in your article in the Volume 5, No. 4 issue of Policy Watch, 'Regional Development in India'.

Certainly, in the United Kingdom, where I was born and brought up, issues of regional disparity continue to concern the economists and politicians. These take several forms, but I would like to highlight four specific areas.

- the rapid depopulation causing the Scottish highlands to become a 'fragile economy', according to a BBC report
- the sharp economic decline of the industrialised cities during the second half of the twentieth century – Lancashire, West Yorkshire, Sheffield, etc.
- the sharp decline in primary industries – Cornwall, for instance
- the economic disparities within urban areas.

**David Hopkins,**
Uttaranchal

I would be very happy to join the Parliamentarians' Forum and I think it will be of immense benefit to me as a member of the Parliament. I am also thankful to you for sending valuable information on various issues and bills, which come up in Lok Sabha.

**K. Francis George**
MP, Lok Sabha,
Idukki, Kerala

## Publications

### ReguLetter

(Volume 6, Issue 3/2005)


The latest issue of ReguLetter, the flagship newsletter of C-CIER, has dealt with regulatory autonomy and accountability in its cover story. The point of argument is that there is an optimum distance that must be maintained between the regulatory body and the concerned government ministry.

The competition concerns in the sugar sector in Pakistan and the linkages between competition policy and intellectual property laws in the Vietnamese context are well delineated in the special articles carried in this issue.

The competition scenario in Chile makes for an interesting case study for the specific consumer protection set up that it has. The section on 'About a Competition Law' looks into this.

## Advocacy

### Parliamentarians' Forum on Economic Policy Issues

***Good Economics is Good Politics***


CUTS is hosting a 'Parliamentarians' Forum on Economic Policy Issues', (PAR-FORE) formed at the behest of five Members of Parliament – Yashwant Sinha, Suresh Prabhu, NN Krishnadas, Madhusudan Mistry and Dinesh Trivedi – cutting across party lines. This forum is gaining popularity, with 40 MPs already part of it. The forum is proposed to be an informal and non-partisan platform to facilitate discussions among MPs on core economic policy issues to accelerate consensus on both the content and process of reforms.

CUTS formally launched this forum on December 7, 2005 at New Delhi, taking up discussions on two important issues:

- India's Stand at the Forthcoming Sixth Ministerial Conference of the WTO in Hong Kong
- Regulatory Autonomy and Accountability

In order to facilitate discussion on these topics, short 'Issue Notes' have been prepared, which end with a few questions that Parliamentarians would be expected to address in their discourse inside and outside of the Parliament.

*(http://www.cuts-international.org/parliamntary_forum.htm)*

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.**