

# PolicyWatch

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

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## INSIDE THIS ISSUE

Reservations Should Stop .....	2
Rising GDP Growth .....	3
Bharti Guilty of UTPs .....	4
Alarm on fiat-driven Consolidation .....	15
Jobs at Risk .....	16
Bribes to Lower Judiciary .....	19

## HIGHLIGHT

Political Economy of Reforms in India – Arvind Panagariya .....	6
Potentially Pathbreaking – Vikram S. Mehta .....	12
There Is no Ambiguity in Indian Legislation – Pradeep S. Mehta .....	18
Divided We Fall – A K Bhattacharya .....	22

*“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*

## Lateral Entry into Public Services

India is perhaps the only country carrying the legacy of the *Raj* whereby an elite generalist civil services dominates the top jobs in the country, but with little domain expertise in most cases.

Sadly, Indian Civil Services (ICS) has not changed since independence, retaining most of its normative characteristics. The current recruitment procedure at the entry level is aimed towards selecting individuals with best calibre. However, over time, these bright people get lost in the vortex of a generalist system, while the Peter Principle also applies to many. Times are changing and with it the complexities of demands on a civil servant's capabilities.

The Prime Minister of India highlighted this issue at a recent gathering of alumni from London School of Economics, urging the desirability of lateral entry into ICS. This remark once again ignited a debate, when a section feels that the Government can benefit by recruiting people from non-government backgrounds, or what is called lateral entry (constituting a change within an organisation or a hierarchy to a position) into ICS. While the other line of thought still insists that traditional method is effective enough, and additional expertise can be effectuated through training.

The bureaucracy of the day is unwilling to go beyond the orthodox way of functioning. In these circumstances, lateral entry could breathe some fresh air into the system. With healthy economic growth, there is a need for diverse expertise in the Government. Lateral entry can bring innovative thinking, for effective implementation of administrative reforms. Besides, it will give the much required boost to the system and help in serving the people better.

There will be enough suitable candidates interested in applying their skills, just as I G Patel and Manmohan Singh in the past, and M Singh Ahluwalia, Ashok Lahiri, Shankar Acharya, Vijay Kelkar and R V Shahi in recent years.

From 1957 to 1977, the Government made a systemic effort at lateral entry by creating an Industrial Management Pool (IMP), wherein successful private sector managers were attracted to specialised public sector jobs. For example, P L Tandon, who left a multinational and took over the STC of India Ltd as its chairman. However, the IMP was abandoned due to arbitrariness of some appointments. Alas, rather than scrapping a well thought out scheme, efforts could have been made to rectify the drawbacks. Other successful lateral entry have been made into various departments like space, atomic energy, science and technology, etc., which have been headed by experts in their respective fields.

However, we have to be careful in allowing lateral entry in a large scale, as in the IMP experiment, it could turn into one more political tool, if appointments are made arbitrarily. It is time the Government studied the issue carefully to make appropriate provisions to attract talent from the private sector, NGOs, etc., to make the ICS effective and efficient.



## Implementing E-tendering

The Government of Haryana has decided to introduce the concept of e-tendering in the State to ensure transparent and competitive bidding.

Haryana Public Works Department (Building and Roads) would procure all contracts through e-tenders for recently sanctioned *Pradhan Mantri Gramin Sadak Yojana* (PMGSY) Phase-VII projects. Under the project, a road length of 1,085 km will be constructed involving an investment of Rs 457 crores.

It would help in minimising corruption in the tender process as human interface would be reduced to a great extent. It would also facilitate contractors to submit their bids by a click of the mouse.

E-tendering would be implemented immediately in association with Wipro Nex Tenders, which has successfully implemented it in Madhya Pradesh, Assam and Chhattisgarh, and also for agencies like Municipal Corporation of Delhi and National Thermal Power Corporation (NTPC). (BL, 05.09.07)

## Rural Employment Scheme

With six months to go in the current fiscal year (2007-08), public spending on the national rural job guarantee scheme is well short of the half-way mark on the budget allocation. Against the annual

allocation of Rs 12,000 crore, the current expenditure under the scheme has totalled only Rs 4,385 crore.

The achievement on a pro-rata basis is largely in line with the performance recorded during the year 2006-07, when total spend under various approved projects amounted to Rs 8,823 crore.

The administrative machinery from the village upwards has to be cranked up not only to accelerate expenditure under the scheme to meet the annual target but also come up with fresh schemes. The cumulative value of expenditure approved till date, on sanctioned schemes, amounts to not more than Rs 11,000 crore. (BL, 30.09.07)

## Law for Food Safety

The Central Government would bring into force the Food Safety and Standards Act by the end of 2007. The Act was passed in August 2006, got assent from the President but has not been notified for implementation.

The law was passed amid protests from NGOs and environmentalists over the quality of soft drinks sold by the multinationals all over the country.

A new bench of the Supreme Court presided by Justice CK Thakker was hearing the petition of the Centre for Public Interest Litigation when additional solicitor general Mohan

Parasaran assured the court in this regard.

The judges repeatedly asked the Government why it was dilly-dallying over the enforcement of the law.

Soft drink majors Coca Cola and Pepsi lawyers told the judges that they should not be singled out for using allegedly harmful ingredients in their products.

If the drinks were banned for using harmful raw materials, much of the products sold in the market would meet the same fate. It may not be safe to eat even chocolates as a close examination of the ingredients would show that they are not perfectly safe.

(BL, 05.09.07)

## Competition Act Changes

With a view to eliminating possible friction between sectoral regulators and the proposed Competition Commission of India (CCI), an inter-ministerial group led by the Planning Commission has suggested that a system of mandatory consultation between them be provided for in the Competition Act. This should be part of a two-level coordination committee.

Such a move would keep a check on sectoral regulators like Telecom Regulatory Authority of India (TRAI) or Securities and Exchange Board of India (SEBI) growing too close to the firms being regulated.

At a policy level, the group has called for a forum where the CCI and sectoral regulators could meet on a regular basis to increase cooperation and coordination. A mechanism for sharing information and determining jurisdiction over cases should also be evolved.

The recommendations of the group come at a time when there are rising concerns within government that once the CCI becomes operational, there may be a conflict of policies and authority between it and the sectoral regulators. (FE, 03.08.07)

## A Model Legislation

The Technical Group set up by the Reserve Bank of India (RBI) to 'Review the Legislation on Money Lending' has recommended a model legislation on Money Lenders and Accredited Loan Providers (by incorporating the best features of the domestic and

## Reservations Should Stop

A five-judge Constitution Bench of the Supreme Court considering the validity of the law providing 27 percent quota for the Other Backward Castes observed that reservation would have to be stopped some day.

The Bench comprising Chief Justice KG Balakrishnan, Justice Arijit Pasayat, Justice CK Thakker, Justice RV Raveendran and Justice Dalveer Bhandari told senior counsel Harish Salve, appearing for one of the petitioners, "It [reservation] will have to stop some day... after some years or decades. It must come to an end one day". Salve had argued that reservation could not be a perpetual one as it should end one day.

The Bench said, "If it is perpetuated, the entire object will be defeated. Since it [law] is an enabling provision it has to be time-bound. Conceptually it [reservation] has to be terminated at some point of time".

Salve harped on the need for exclusion of "creamy layer" from the purview of reservation as otherwise vested interest would be created in the society.

(TH, 15.08.07)



The Financial Express

international legislation) for adoption, particularly in those states that do not have a comprehensive legislation in place at present.

Stressing the need for examining the relevance of the legislations (passed several decades ago), the Group has recommended some modifications to the existing legislations such as quick, informal and easy dispute resolution mechanism for better enforcement; and legitimising money lending activity in States that have no such provision.

It has also stressed that the enabling provisions should provide incentives for registration and for mainstreaming the activity of money lending, besides disincentivising those that escape the law by initiating stringent action against the unregistered lenders. (BL, 18.08.07)

### Reachout to Aam Aadmi

Prime Minister Manmohan Singh asked India Inc to reach out to the *aam aadmi* by offering jobs and scholarships to the less privileged, invest in skill development, instead of giving excessive remuneration to promoters and top executives and indulging in the display of wealth.

Speaking at the CII National Conference and Annual Session, Singh asked companies to desist from non-competitive behaviour, and said the operation of cartels by groups of companies to keep prices high must end.

## Consumer Unfriendly Post

The Planning Commission has termed the Department of Post's (DoPs) proposal seeking exclusive rights to delivering letters weighing up to 150 gm as "consumer unfriendly" as the introduction of a 'price-multiple' model will force customers to pay higher charges.

The Commission's opposition have been expressed on the draft Cabinet note of the Indian Post Office (Amendment) Bill, circulated by the DoP.

The Commission has suggested the courier companies be allowed to charge 2.5 times of the ordinary mail or keeping the consumers in mind, the present proposal be dropped and the courier companies be allowed to carry the reserved category of mails and retain the current practice.



(FE, 05.08.07)

Such practices are distressing in a country where the poor are severely affected by rising commodity prices, the Prime Minister added.

The Prime Minister said Indian corporates must "resist excessive remuneration to promoters and senior executives and discourage conspicuous consumption. In a country with extreme poverty, industry needs to be moderate in the emoluments levels it adopts. Rising income and wealth inequalities, if not matched by a corresponding rise of incomes across the nation, can lead to social unrest". (FE, 24.05.07)

### Disclosure under RTI

The State Information Commission (SIC) has urged the Kerala Government to instruct public authorities, as defined under the Right to Information (RTI) Act, to go in for

proactive disclosure of information relating to them.

The Commission points out that even though proactive disclosure is mandatory under the Act, many public authorities are not doing so. As per the Commission, such disclosure will reduce the number of requests for information.

Keeping in view the cost and time elements involved in publishing and updating information through the print media, it is advisable to immediately publish the information on the official websites of the government and the organisations concerned.

The Commission also recommends publication of lists of public authorities under each administrative department in order to remove any ambiguity in the matter.

(TH, 30.09.07)

## Rising GDP Growth

The Prime Minister's Economic Advisory Council (EAC) said the economy would grow 9 percent in the current fiscal, assuming normal monsoons and other external conditions, down from 9.4 percent in 2006-07.

Presenting its economic outlook for 2007-08, the Council emphasised that growth was sustainable because a large part of it was driven by investment and not consumption. Inflation would stay at around four percent and there were no longer concerns of the economy overheating. The gross domestic product (GDP) has grown at an average 8.6 percent in the past four years, touching 9.4 percent in 2006-07.

It expected exports to slow to 18 percent in 2007-08, from 21 percent in the previous fiscal, and projected net Foreign Direct Investment (FDI) inflows to nearly double to US\$15bn from US\$8.4bn in 2006-07. The EAC,

	2006-07	2007-08 (Projected)
<b>GDP</b>	9.4%	9.0%
<b>Exports</b>	21%	18%
<b>Imports</b>	26%	23%
<b>Net FDI</b>	US\$8.4bn	US\$15bn
<b>Net Portfolio Capital Inflows</b>	US\$7.1bn	US\$12.5bn
<b>Current Account Deficit</b>	US\$89.6bn	US\$17.4bn
<b>Capital Account Surplus</b>	US\$44.9bn	US\$58.0bn

chaired by former RBI governor Dr C Rangarajan, projected the agriculture sector to grow 2.5 percent, while industrial output and services were estimated to grow a healthy 10.6 and 10.4 percent respectively. The biggest uncertainty was the amount and distribution of rainfall in this year's southwest monsoon. (FE, 16.07.07)

### Cartelisation in Prices

Major cement companies have strongly denied any attempts at cartelisation, as has been alleged by the Monopolies and Restrictive Trade Practices Commission (MRTPC).

The Commission had issued notices to 14 of the largest cement manufacturing companies, following a preliminary investigation by the Commission's Director-General of Investigation and Registration (DGIR), who found that these companies indulged in cartelisation.

The investigation found that these companies used the forum of the Cement Manufacturers' Association (CMA) to decide on the terms of sale, including the prices.

(BL, 25.07.07)

### Coal Cartel under Scanner

The Coal Minister, Dasari Narayan Rao, has recommended a fresh CBI probe into charges of monopoly practices by an alleged cartel operating at the Ghewra/Dipika coal mining block in Chhattisgarh. The block, Asia's largest opencast coal mining block, comes under the South Eastern Coalfields Limited (SECL).

The CBI may be asked to examine records pertaining to the sources of the finance/audit reports to determine whether Ex-Servicemen (ESM) units allocated transportation work in the block are being used as a "front" by vested interests.

The initiative comes in the wake of an MP Committee Report indicating a nexus between SECL functionaries and private company, Aryan Coal Beneficiation Limited. The latter operates is alleged to have established

monopoly practices, by floating a string of "bogus" ESM companies.

(HT, 02.09.07)

### Probe against BCCI

The MRTPC has initiated an investigation against the Board of Control for Cricket in India (BCCI)

for threatening players joining the Subhash Chandra-promoted league with a life-term ban. It has taken *suo moto* cognisance of newspapers reports that the BCCI is threatening players.

The MRTPC has directed the DGIR to look into the threats issued by the BCCI to players joining the Indian Cricket League (ICL) and the expulsion of former cricket players by the BCCI.

The Commission suspects the BCCI of adopting restrictive trade practices (RTPs), which are banned under the MRTP Act.

As per the Commission's direction, the DGIR would also inquire into the aspects of BCCI's denial to share infrastructure with the ICL.

The DGIR has to submit its preliminary investigation report within 60 days. If the current investigation reveals that the cricket body is adopting RTPs contrary to the interest of players, the MRTPC may pass a cease and desist order against the BCCI.

(FE, 06.09.07)

### CCI to Enforce Code of Conduct

After zeroing in on cartels and companies, which restrict the play of

market forces, the CCI is now planning to bring under its purview trade and manufacturing associations that may be acting as cartels.

The CCI will only kick into action if these associations do anything to distort the market, such as enforcing their rules on consumers, fixing prices or carving out markets for members.

The Commission is also mulling over the practicability of coming out with a code of conduct for trade and manufacturing associations that would distinguish between anti-competitive behaviour and lobbying.

(FE, 22.05.07)

### Curb Cartelisation

Irked at shipping lines forming cartels to fix freight rates and other charges, the CCI has asked the Shipping Ministry to take steps to curb such practices, to safeguard the interests of Indian exporters.

The CCI pointed out that the India-Pakistan-Bangladesh-Ceylon Conference (IPBCC), which is one of the oldest shipping conferences in the world, controls about 75 percent of the traffic between India and Europe.

The IPBCC fixes freight rates and other charges, like terminal handling charge (THC), bunker adjustment factor (BAF) and currency adjustment factor (CAF), which is followed by its members, and also becomes a standard for non-members.

Since 95 percent of India's international trade by volume and 70 percent by value is through the sea route, this impact of cartel-type activity by the IPBCC on the competitiveness of Indian exports can be substantial.

(BS, 12.09.07)

## Bharti Guilty of UTPs

The country's largest mobile operator, Bharti Airtel, has been found guilty of adopting deceptive and "unfair trade practices" by the investigating arm of the MRTPC that has censured the telecom major for not making proper disclosures of the 'terms and conditions' in its subscription form for new customers.

The DGIR found Bharti Airtel guilty of adopting unfair methods during the process of acquiring new customers, which could result in losses to the consumers.

By adopting the said unfair method and by not disclosing the terms and conditions properly in writing in the application form, Bharti is taking the customers for a ride, who fall prey to the unexplained terms and conditions.

(FE, 16.08.07)



The Financial Express

# Globalisation, capitalism and inequality

– Chetan Ahya\*

The Prime Minister, Dr Manmohan Singh, at a conference on the subject of 'Inclusive Growth – Challenges for Corporate India', highlighted the rising inequality in recent years and related challenges facing the political environment. He suggested that corporate India should come forward to form a new partnership and implement a social charter in making India's society more humane and just.

Globalisation and capitalism have been the two key drivers of India's GDP growth acceleration over the past five years. There has been a pick-up in the pace of India's economic integration with the global marketplace, as reflected in fast-rising trade and capital inflows to GDP.

These two trends (globalisation and capitalism) have helped accelerate India's GDP growth to an average of 7.6 percent over the past five years from 5.7 percent in the 1990s, helping address the serious challenge of poverty. The worrying aspect of the trend in globalisation and capitalism is the rising social challenges on account of increasing inequality.

The inequality gap in wealth is even starker. Analysis indicates that India has witnessed an increase in wealth of over US\$1tr (over 100 percent of GDP) in the past four years. The three key sources of wealth accretion have been the equity market, property and gold. Stock market capitalisation has increased from US\$120bn as of March 2003 to US\$1tr as of May 2007.

Similarly, household wealth creation through residential property will have been at least US\$300-500bn. However, only an estimated 47 percent of the population own a 'pucca' house (a house wherein walls and roofs are made of stable construction materials).

The other significant asset that is held by Indian households is gold. According to estimates, the market value of India's stock of gold has



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increased by approximately US\$200bn since March 2003 to US\$370bn currently.

As mentioned earlier, strong growth rates are helping reduce poverty rates at an accelerated pace. However, as Amartya Sen argues, "a society can be Pareto optimal but still be perfectly disgusting".

Apart from this social justice and morality argument, there are a number of research papers arguing that, in the long run, a high level of inequality can hurt growth on account of socio-political tensions. More importantly, as the United Nations Development Programme points out, reduction in absolute poverty also tends to be significantly influenced by inequality of income, health and education.

The political consequences of these trends are triggering a policy response from the government. Albeit gradually, a new agenda is emerging to address the issue of increasing inequality – between the rich and the poor, between urban and rural areas and between upper and lower castes.

The government has already intervened with the intention of redistribution. The government has already initiated affirmative action by providing for quotas in higher education. It has also suggested that the corporate sector voluntarily introduces quotas for the poor caste population. Recently, the government was forced to intervene in the case of agricultural land acquisitions for special economic zone (SEZ) development. Farmers feared that they would not get a fair price for their land and that these acquisitions

would lead to a further widening of inequality. These developments led to social and political upheaval across the country, threatening to put the entire SEZ programme into disarray.

More such measures and challenges are likely to be faced in the coming years as the issue of widening inequality comes up for debate in the 17 state elections and the general election due over the next two years. A more effective solution to address the trend in inequality would be to 'balance up', with the government initiating policy measures to benefit the poor rather than enforcing affirmative action.

To be sure, over the past three years, the UPA government has initiated various measures, such as the National Rural Health Mission (NRHM), the National Rural Employment Guarantee (NREG) Act, the Bharat Nirman Programme and implemented an education cess. However, to improve the effectiveness of this effort, there is a need to shift to outcome-based investment allocations by the governments.

Although, the central government and Planning Commission are making an effort to move to outcome-based budget allocations, the impact of this approach has yet to be seen. India also needs to decentralise the implementation of welfare schemes, with greater responsibility and authority transferred to local institutions after installing the right checks to follow the outcome-based approach.

\* Executive Director, Morgan Stanley. The article appeared in the Economic Times, on September 09, 2007

# Political Economy of Reforms in India

– Arvind Panagariya\*

When reforms slow down, two explanations are commonly given: lack of consensus and vested interests. While these are powerful and plausible explanations, they also raise a curious puzzle: why do we observe periods of mega reform punctuated by long spells of inaction?

Surely neither consensus nor vested interests can shift dramatically within a short period to produce the wide swings in the pace of reforms.

In 1991-92, Prime Minister Narasimha Rao and finance minister Manmohan Singh began to lay down the foundation of systematic reforms. They did away with investment licensing as also with import licensing on capital goods and raw materials, substantially lowered industrial tariffs, opened most industries to foreign investment, dramatically reformed both direct and indirect taxes, substantially cut fiscal deficit, considerably liberalised the financial sector, and made the rupee convertible on the current account.

But by mid-1994, despite clear evidence of significantly improved economic performance, reforms came to a standstill. Congress party lost elections in May 1996 and a series of unstable governments followed. At this juncture, Prime Minister Atal Bihari Vajpayee and finance minister Yashwant Sinha came to the helm. They promulgated the New Telecom Policy, 1999, and introduced some of the toughest reforms in the sector.

On the macroeconomic front, the Vajpayee-Sinha team liberalised most interest rates, introduced greater competition in the banking sector through more liberal entry of domestic and foreign private banks, freed up several external capital account transactions and introduced the Fiscal Responsibility and Budget Management Act. Vajpayee-Sinha combine also launched reforms of the civil service pension system and the exit policy though they remain



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incomplete to-date.

In May 2004, the Vajpayee Government lost election and the reforms were once again setback. Outside of international trade, last three years have seen very limited progress in opening up the economy further. Why? Shifts in the consensus and the power of vested interests cannot explain this large shift in the policy stance.

India's parliamentary democracy plays a decisive role in shaping the policy. A leadership committed to reforms faces resistance from three quarters: opponents among the supporters of the government in Parliament, those sitting in the opposition, and the vested interests that expect to lose from the policy change. A determined leadership can often overcome resistance from all three sources.

In the beginning of its term, when the present government decided to raise foreign investment caps in telecommunications and in civil aviation, the Left Front parties eventually dropped their opposition rather than bring the government down. They only stood to lose by voting the government out.

The power of the opposition to stop the reform is even more limited. When disinvestment minister Arun Shourie proposed an ambitious agenda of privatisation in the early 2000s, the opposition accused him of corruption to derail the programme. But a determined Shourie, backed up by an equally determined Vajpayee, could successfully advance his agenda.

Even vested interests, frequently credited with blocking the reforms, have only a limited standing power. If the public views the change favourably, agitators quickly lose its sympathy. The airport workers trying to block the privatisation of Delhi airports in 2006 faced this situation and had to quickly give up their agitation. Indeed, even when the public views a policy change as detrimental to its interests, the free-rider problem in agitation works in favour of the government.

The cost of the agitation falls disproportionately on those actively participating but the benefits are diffused. Therefore, a patient government is often able to outlast the agitators. The failure of the public in 2006 to reverse the government's decision to extend caste-based quotas for admissions to private schools and colleges illustrates this point.

Many observers today hold the Left Front parties responsible for the slowdown in the reforms. While this view has some merit, the bulk of the problem resides within the ruling coalition. While Prime Minister Singh would undoubtedly like to proceed with the reforms, by all indications, the Congress party president Sonia Gandhi holds his hand back. Faced with similar challenges from within the party during his tenure, Prime Minister Vajpayee confronted his opponents and prevailed. Unfortunately, Prime Minister Singh has not done the same.

\* Professor at Columbia University. Abridged from an article appeared in the *Economic Times*, on September 27, 2007.

# The Goal of Poverty Eradication

– T N Srinivasan\*

*Useful starting points for a new approach to eradicate poverty lie in anchoring poverty lines in social norms, and in the distinction made by PPD between goods and services to be bought by households from their own resources and those to be supplied by the state, thus providing a meaningful way of distinguishing the responsibilities of households (that is, the private sphere) and those of the state (the public sphere). Since the poverty of those well integrated with income generation processes will go down in tandem with sustained rapid economic growth, apart from pursuing policies that promote rapid growth and eliminating any distortions in income generation processes, the state should focus its attention on the poor not in the economic mainstream.*



The Financial Express

The broadening of social poverty norms and new approaches for doing so could contribute greatly to addressing poverty. A tempting option is to base social norms on the rights of India's citizens. Moreover, if the rationale for many of our poverty alleviation policies, such as the public distribution system (PDS) and employment generation programmes, could be found in a rights-based approach, it would be easier to bring about a consensus around them – or at least around efficient variants of them.

A basis for a rights perspective already exists in Part IV of the Directive Principles of State Policy in the Constitution. Poverty will surely disappear if all the rights enunciated in the Articles of Part IV can be enforced. However, they are not enforceable in a court of law and are also conditioned by the resources available to the state. Besides, only a few of them can be said to be strictly based on ethical reasoning.

It is desirable to choose a subset of core rights, based on ethical and moral considerations, and make them unconditional and enforceable. Clearly, rights of participation in the political process, justice, education and health would be core rights. Guaranteeing access to the judicial system and unfettered participation in political processes are vital. After all, a fair, speedy and efficient justice system and a fully participatory

political process are the ultimate guarantees of all rights.

An unconditional guarantee by the state of education and health does not mean that the state should also produce and distribute these and related services. Most of policy interventions intended to alleviate poverty that are aimed at providing particular goods (example: food) or services (example: education) or source of income (example: employment to the poor) need reconsideration from this perspective. For example, the PDS, through the Food Corporation of India (FCI), procures, stores, transports and distributes commodities at subsidised prices.

Although procurement prices for the PDS are distinct from the minimum support prices guaranteed to farmers, the distinction disappeared over time, leading to the politicisation of the determination of procurement prices.

The National Rural Employment Guarantee Scheme provides a limited employment guarantee and, in addition, there are several other employment generation programmes. The policy interventions in education (such as guaranteeing a primary school in every habitation with a population of 500) have been instituted without thinking through their efficacy in achieving their intended purposes. If the income poverty of the poor is the main reason for the poor not eating enough or

sending their children to work, instead of school, making appropriate income transfers to them would be far more cost-effective than the current system. That the non-poor might claim to be poor to get such transfers is not a convincing argument against a transfer scheme, given the widespread exclusion of the poor and inclusion of the non-poor in the current schemes.

Income transfers to the poor are an enabling and empowering policy, in that it enables the poor to use the transfers in ways they think would promote their interests. Since no poor individual, other than an ascetic, would ever want to remain poor for ever, the poor would surely spend a large part, if not all of the transferred income, on education, health and investments that would enable them to climb out of poverty, once and for all. Instituting a transfer policy does not absolve the state of any further responsibility in education and health.

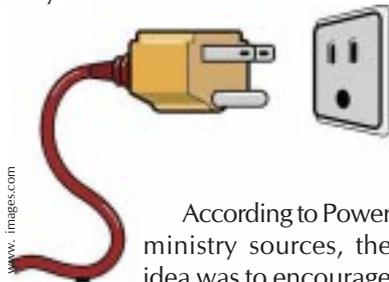
The expenditure of the poor on education and health from transferred income would be frustrated, if there are not enough accessible schools and clinics of adequate quality. Certainly, their demand could elicit supply from private sources. But, ultimately, it is the responsibility of the state to ensure that private profit-driven providers satisfy quality and cost norms, as well as fill any gaps that remain. Poverty eradication needs innovative approaches.

\* Samuel C. Park, Jr Professor of Economics at the Economic Growth Centre, Yale University  
Abridged from an article that appeared in *Financial Express*, on September 11, 2007.

• POWER

**To Light up Rural India**

The power ministry, in a serious bid to replace diesel-based projects with biomass and micro-hydel power projects in various parts of the country, has asked the state-run Rural Electrification Corporation (REC) to carry out a comprehensive study.



According to Power ministry sources, the idea was to encourage environment-friendly generation projects such as biomass and micro-hydel project and phase out diesel-based power from states and union territories.

The power generation in Union Territories is mostly dependent on diesel generation sets. The ministry has also directed REC to check the feasibility of forming a new distribution company by the National Thermal Power Corporation (NTPC)/REC to take over entire islands. *(FE, 17.09.07)*

**Preferential Tariff on Cards**

A preferential tariff scheme for corporates which produce power from renewable energy sources is likely to be in place soon.

Preferential tariff is the most efficacious way of increasing contribution of renewable energy to the grid. Some countries like Germany have been successful in encouraging renewable energy through preferential tariff.

On the time-frame for the proposed policy, efforts were on to fine-tune modalities such as convincing the distribution companies to purchase Renewable Energy (RE) at a higher price.

The production of RE has been picking up significantly. Out of total RE capacity, about 7,000 MW comes from wind energy, 2,000 MW through small hydel projects and 1,800 MW from cogeneration plants. *(BL, 26.08.07)*

**Ease Mega Power Policy**

In order to facilitate speedy execution of power projects in the country, the Government has decided to further liberalise its existing mega power policy. The ministry of power has moved a cabinet note proposing crucial amendments in the existing mega power policy.

Under the proposed revisions, it has been decided to do away with the mandatory reform condition for the power purchasing states, requiring them to undertake privatisation of distribution in all cities, each of which has a population more than one million.

Further the condition of inter-state sale of power may also be deleted. It has been proposed by the power ministry that in view of enlarged demand in states, 1000 MW can be absorbed in one state alone.

The revised mega power policy also clarified that in line with the stipulations of the Tariff Policy, all future procurement of the power has to be necessarily done through tariff-based competitive bidding. *(FE, 23.09.07)*

**India to be Power Surplus**

Electricity projects under implementation would make India a power surplus country by 2012, said power minister Sushil Kumar Shinde.

The minister said India was targeted to achieve a power surplus of 5.6 percent and peak time surplus of 0.7 percent by 2012. During the first year (2007-08) of the 11<sup>th</sup> Plan, a capacity of 1,935 MW has been commissioned till August 15, 2007.

The minister said that at present, a generation capacity of another 50,910 MW which is being monitored by the Central Electricity Authority is under execution and could be commissioned during the 11<sup>th</sup> Plan. *(FE, 20.08.07)*

**Power Sector Reforms**

The neighbouring states are reportedly taking interest in Rajasthan's power sector reforms after coming to know about the steps taken by the State's electricity companies towards self sufficiency in production, transmission and distribution during the Chief Ministers conference on

power sector held in New Delhi, on June 28, 2007.

The areas, which have elicited interest from the neighbourhood, include feeder improvement, rural electrification and agricultural connections.

Maharashtra's power distribution company has sought details about the power sector reforms carried out by the State in the recent years. It also asked for the details of the speech made by Rajasthan Chief Minister Vasundhara Raje at the conference. *(TH, 07.07.07)*

• TRANSPORT

**Non-insured Vehicles**

On an average, around 78 million vehicles are sold every year across the country but the number of motor insurance policies which are renewed the following year drops to around 40 million.

In other words, almost 38 million vehicles join the growing number of non-insured machines on Indian roads every year.

Balked by this statistic, the General Insurance Council plans to address this problem by creating a nodal agency to monitor the non-insured vehicles in the country. It is planning to set up the Indian Motor Bureau, on the same lines as the one which exists in the UK.

The Bureau would also keep a record of all the vehicles which are stolen and also look at making the underwriting related to motor insurance more scientific. *(BL, 14.07.07)*

**Airports on PPP Model**

The Government of Maharashtra will adopt public private partnership (PPP) model for building airports in seven cities of the State.

Of the seven proposed airports, the one at Shirdi will be greenfield whereas in case of other six cities, airstrips exist already but there is no airport infrastructure.

Besides Shirdi, developments of new airports have been planned for cities like Solapur, Phalton, Dhulia, Karad, Jalgaon and Chandrapur. Airports in Solapur and Jalgaon will be taken up first while the

construction on other airports would be taken up gradually.

Under the PPP model, Maharashtra Airport Development Company (MADC) on behalf of the State Government will give land on which the private party would build the airport.

(ET, 25.07.07)

### Integrated Policy for Transport

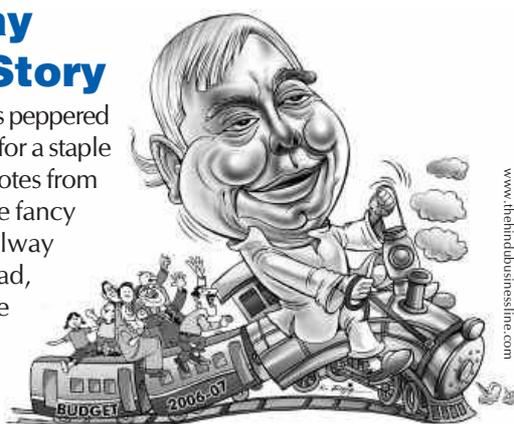
In a first of its kind of exercise, the Government is in the process of preparing an integrated transport policy for the nation, which would take into account all the four principal modes of transportation – highways, railways, airways and coastal shipping.

Taking into consideration the total transport volume of the country and the unit cost of each of these modes, the policy would decide as to what kind of improvements and changes would be required in the transport infrastructure by 2025.

The Planning Commission has commissioned RITES to conduct a study, wherein it would determine the total transport output or volume of the country. All the four transport sectors would be sending their assessments for the next five years to RITES. (BS, 06.08.07)

## Railway Success Story

Upgradation plans peppered with the recipe for a staple food item and anecdotes from rural India caught the fancy of diplomats as Railway Minister, Lalu Prasad, narrated to them the now familiar story of the turnaround of the Indian Railways.



According to Prasad the international investors were offering loans to the Indian Railways at cheaper interest rates than they offer to corporates.

“We have succeeded in breaking the myth that privatisation is the panacea to all the problems faced by government-run entities”, he said in his address to diplomats and Indian Foreign Service (IFS) probationers at the Foreign Service Institute here.

The Minister claimed that his biggest achievement was reduction in travel fares when there were recommendations by various committees to increase it by 30 percent.

Prasad said he took up the “challenge” of making the Railways a profitable venture at a time when it was mired in huge debts.

He also spelt out his “vision” for the Railways, of freight corridors, world-class stations and facilities for farmers at railway stations across the country.

(TH, 30.06.07)

## • OIL & GAS

### Politics Hits Gas

Gas transportation and distribution companies in Uttar Pradesh face uncertain future. In Lucknow, two companies, Green Gas Ltd (GGL) and Gujarat Adani Energy, are now pitted against each other over city gas distribution rights, both invested in creating city gas supply infrastructure.

Of the two, GGL – a joint venture between GAIL and Indian Oil – was a Central nominee and sunk Rs 57 crore in creating compressed natural gas (CNG) production facility and opening CNG stations beginning June 2005, but was stopped short of laying the requisite pipeline network by the previous *Samajwadi* Party Government. The company is currently incurring heavy losses.

(BL, 04.07.07)

### PNGRB Gets Chairman

The Prime Minister’s Office (PMO) has cleared the name of

Labayendu Mansingh, former Director General of Foreign Trade, as the first chairman of the Petroleum and Natural Gas Regulatory Board (PNGRB). The move comes almost a year after Parliament approved the setting up of the Regulatory Board.

Mansingh, who retired as Secretary in the Department of Consumer Affairs, will head the regulatory board. YPC Dangay, former Joint Secretary in the Law Ministry, will be the Legal Member on the Board, while Mahesh Lal, former Chairman and Managing Director of Hindustan Petroleum Corporation, will be in the Appellate Tribunal linked to the Board to settle disputes.

Ajay Tyagi, former Joint Secretary in the Ministry of Petroleum, is already functioning as the Secretary in the Regulatory Board.

The Regulatory Board is significant as the PNGRB Act, 2006, says that the board will regulate the refining, processing, storage,

transportation, distribution, marketing and sale of petroleum and petroleum products, excluding production of crude oil and natural gas.

(BS, 23.06.07)

### Rising Gas Monopolies

The recently constituted PNGRB has raised concerns over emerging monopolies in the gas transportation and marketing business.

The Board has written to the Petroleum Ministry, asking it to take steps to break these monopolies, by immediately unbundling the transportation and marketing divisions of the gas companies.

It has also asked the Ministry to consider taking its share of gas in kind and auctioning it to the gas companies.

This will create a semblance of a gas market and, moreover, prevent a gas producer from monopolising the entire business, from gas production to city gas distribution. (BS, 23.08.07)

### Determining Market Prices

The Planning Commission, which has been directed by the Prime Minister to provide an independent view on the gas pricing and allocation issues, has held that the market prices of gas should be determined by an independent regulator.

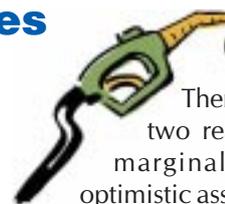
Bids received from power and fertiliser companies cannot be taken as market-driven prices, as the fuel costs for both the sectors are passed on automatically to the consumer.

The PNGRB is not empowered to have any say in the fixing of gas prices. The Board can only intervene in the cases of RTPs, which could impact the Government's share of profit production. *(ET, 10.07.07)*

### India's Oil Reserves

How long will India's oil reserves last? Just another 19.3 years at the current rate of production, according to the BP Statistical Review of World Energy 2007, released by the British multinational. In 2006, the same study had said that India's reserves would last about 20 years. The lower estimate now reflects the country's inability to add to its proven oil reserves.

However, compared with BP's review five years ago (in 2002), when the country's oil reserves were projected to last 17.8 years, the current year's estimate is an



improvement.

There are basically two reasons for this marginally more optimistic assessment.

The first one is the increase in the estimated domestic proven reserves, to 5.7 billion barrels, as of end-2006, from 4.8 billion barrels, as of end-2001.

The second one is the almost stagnant production level in this period. The country produced 0.807 million barrels of crude oil a day in 2006, compared with 0.780 million barrels in 2001.

*(BL, 16.06.07)*

### • MIXED BAG

#### SAZs for Farmers

In a bid to prevent prime farmland from being used for industrial purposes, the Government is mulling over setting up special agriculture zones (SAZ), which would first be set up across suicide prone districts in the country.

The Government has already identified 31 such districts in Kerala, Andhra Pradesh, Maharashtra and Karnataka. The move comes on the recommendation of renowned agriculture scientist.

The main purpose of a SAZ would be to ensure that prime farmland is used only for agricultural purposes and also to safeguard the ecology of the area. Besides, it would address the economic problems of the debt-stressed farmers and the families of the deceased farmers. *(FE, 06.09.07)*

#### SEZ to Attract Investment

The SEZs, formally approved by the Government, are expected to attract investments worth over Rs 3,00,000 crore by 2009-2010. According to the estimates of the Commerce and Industry Ministry, an additional four million jobs are likely to be created in the zones in the three years.

The Government has approved 386 proposals and given an in-principal clearance to 183 proposals. Among the States, Maharashtra has managed to attract the largest number

of SEZs, followed by Andhra Pradesh, Karnataka, Tamil Nadu, Haryana and Himachal Pradesh.

As per the figures released by the Commerce and Industry Ministry, a total of 142 SEZs have already been notified and over Rs 46,705 crore have been invested in these zones.

*(ET, 08.09.07)*

#### Investment in Infrastructure

India will need an investment of US\$475bn during the 11<sup>th</sup> Plan, ending 2012, to upgrade infrastructure, so as to sustain an economic growth of nine percent every year, the Finance Minister, P Chidambaram said.

The bottlenecks in infrastructure were pulling down the GDP growth by one to two percent every year. However, with the increase in domestic savings, investment and inflow of capital from other countries, the Government was confident of achieving the target.

Chidambaram said that, with a sustained GDP growth of around nine percent, India would eradicate poverty in 20 years and emerge as the world's third-largest economy.

*(FE, 18.08.07)*

#### Pharma Faces Regulators' Heat

The National Pharmaceutical Pricing Authority (NPPA) plans to issue show-cause notices to drug companies for increasing the maximum retail prices of 331 drug packs beyond the permissible limit.

Dr Reddys, Emcure, Torrent and Cadilla are among the major drug companies whose products figure in the list. While 279 notices are of a preliminary nature, seeking explanation from the companies on the apparently abnormal price rise, 52 are of a serious nature.

In the case of 52 notices, the companies will either reduce the prices, or let the NPPA prescribe the maximum retail price. *(BS, 23.05.07)*

#### States to Mainstream PPP

The Finance Minister, P. Chidambaram, has urged the members of the Parliamentary Consultative Committee attached to his Ministry to persuade the State Governments to mainstream PPP in infrastructure development.

While addressing the Consultative Committee meeting, Chidambaram said that the States should take full benefits of the various schemes and initiatives of the Finance Ministry.

The Finance Minister also said that, for providing financial support for quality project development activities to the states and the central ministries, a corpus fund titled 'India Infrastructure Project Development Fund' (IIPDF), with initial contribution of Rs 100 crore is being set up. It would be a revolving fund that would get replenished through the refund of 'investment' through success fee earned from successful bid projects.

*(BL, 06.09.07)*

## RBI Lend US\$5bn

The Reserve Bank of India (RBI) will lend US\$5bn to the government from a staggering foreign exchange reserve of US\$212bn for the improvement of infrastructure.

The RBI's decision follows the assurance of the Finance Minister, P Chidambaram, that the borrowed forex reserves would not be spent in the domestic market that could lead to increase in money supply and later inflation.



According to sources, the Government has assured a guaranteed return of more than 3.5 percent on US\$5bn borrowing. The Finance Ministry has also taken legal opinion to ensure that these funds could be utilised by the Government.

(ET, 01.07.07)

## COMMUNICATION

### Relief from Unsolicited Calls

In a step that could provide major relief to a large number of telephone subscribers across the country from unsolicited telemarketing calls, the Centre had informed the Supreme Court that guidelines and regulations to check the menace of unsolicited calls would be in place by September 05, 2007.

The 'National Do-Not-Call Registry', proposed by TRAI will facilitate the setting up of a national database and contain list of telephone numbers of all such subscribers who do not want to receive the unsolicited commercial calls.

Earlier, a bench comprising justices AK Mathur and PK Balasubramanyam, while expressing anguish over the "toothless regulations", had observed that there was a need for stricter punitive action.

(FE, 27.07.07)

### Telecom at Grassroots

Telephone connectivity is likely to be provided to all the 66,822 villages by November 2007 under the *Bharat Nirman* programme. The performance of extending telephony to rural areas was progressing "extremely well".

To increase rural tele-density about 80,000 towers will be installed

by May 2008 to facilitate mobile and other wireless services in rural areas. Besides, efforts are on to provide broadband services to cover two lakh villages in 5000 blocks across the country.

The final goal is to create five crore rural connections by 2007 and increase this to eight crore connections by 2010 and provide broadband connections in every village by 2012.

(FE, 13.07.07)

### Hybrid Formula for low Bill

Under increased pressure from the cable industry and broadcasters, TRAI has decided to roll back its plan to lift the freeze on the prices of cable bouquets. The ban is in force since 2003. TRAI will, however, raise the price slightly to account for inflation during the last two years.

According to sources, TRAI is planning to come out with a hybrid formula to ensure lower bills. For consumers, TRAI is likely to fix a bundle of pay and free-to-air channels that the operators will have to offer at a price fixed by the regulator.

Under the hybrid model, TRAI will increase the prices of individual channel bouquets by five-seven percent keeping in mind the inflation, while continuing the overall freeze on the prices of channel bouquets.

(BS, 20.09.07)

## TRAI Frames Regulations

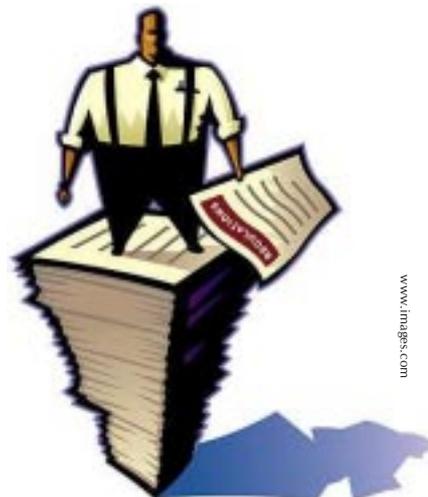
The Telecom Regulatory Authority of India (TRAI) has issued regulations pertaining to the quality of service issues so that interests of direct-to-home (DTH) subscribers could be protected and the new operators gear up their operations from the very beginning.

As per the regulations, the DTH operator will have to formulate schemes to offer the set top box (STB) to its subscribers on outright purchase, hire-purchase and rental basis. TRAI may also prescribe suitable schemes in this regard in future, if necessary. The regulation will come into effect from December 01, 2007.

The operator, while formulating scheme for hire-purchase, will make provisions for refund to be given to subscribers if they choose to return the STB. This facility, together with the rental scheme, is expected to provide commercial interoperability to subscribers, in addition to technical interoperability, which is already there in DTH licensing conditions.

The operator cannot disable the STB even if the subscriber opts out of its service. Currently, there are around 3.2 million pay DTH subscribers, compared to 70 million cable TV subscribers.

(FE, 31.08.07)



## Potentially Pathbreaking

– Vikram S. Mehta\*



*In the history of every nation, there are events and decisions that, with the benefit of hindsight, can be said to have altered the trajectory of its development and the behaviour of a large number of its citizens. The Partition of the subcontinent is an obvious example for India, the adoption by Nehru of the “command and control” state-directed model of economic development in the 1950s is another and the end of the Licence Raj and onset of liberal economics in the 1990s is one more.*

The 123 agreement, if eventually legislated, will also, in time, be seen to have had comparable impact. This is not because it will have secured us the fuel for nuclear energy, nor because it will have brought us formal recognition as a nuclear power, nor indeed because it will have cemented our relations with the US, but because it re-ordered national priorities to place economic growth, social stability and environmental protection firmly above military prowess on the policy agenda. It will be because, by removing the roadblocks that prevent us today from accessing “cutting-edge” technologies, it will have given us the boost to be a competitive 21<sup>st</sup> century economic superpower. It will be because it will have strengthened our national security more than had our decision-makers continued to see security through the conventional prism of bombs and bullets.

Critics of the 123 agreement argue that the deal will abridge our sovereignty. They rail against the constraints placed on our freedom to “test” more nuclear bombs and the conditionalities related to fuel supply. I am not sure I fully understand the intricacies of the juridical and technical debate. But, I do know that, in today’s global and connected world, the conventional notions of sovereignty have been stood on their head and that those critics who believe that a closer affiliation with the US will compromise our sovereignty must introspect honestly as to whether their view reflects the reality of the 21st century geopolitics or is simply ideological atavism. If it is the latter, then clearly no amount of reasoning will shift their position. But if it is the former, then perhaps they should contemplate the experiences of the Soviet Union, Russia and America.

The Soviet Union was a nuclear superpower, but “lost” its sovereignty. It did so not because of external aggression but, inter alia, the economic and social costs of seeking nuclear parity with the US. Russia inherited the bulk of the Soviet nuclear arsenal, but, whilst its economy stumbled, it was hardly “secure”. It acquired its current standing only after it had set its economic house in order. The US is, undoubtedly, the strongest military power in the world. But, time and time again, weaker nations have cocked their sovereign nose at the US. It is struggling to subdue the Taliban and its Iraq campaign is a political and military disaster. The international influence of the US does not flow from the Pentagon. It flows from the depth of its civic institutions, the size and potential of

its market, the excellence of its educational system and the superiority of its technology.

The messages are clear. The greatest threat to a country’s sovereignty comes not from without – the expansionist aspirations of an adversary – but from within, the fallout of economic mismanagement, social dislocation and political bankruptcy. The determinants of national interest are a composite of relationships covering politics, economics and society. The country’s military strength is only one component of this interwoven fabric. The 123 agreement is path-breaking, because it acknowledges this inter-relationship. It is path-breaking because it contemporises the notion of sovereignty and national security.

Critics have pointed out that, even under the most optimistic of scenarios, nuclear energy will only contribute seven percent to our energy requirements by 2020-25. So why, they ask, is the Government risking so much for apparently so little? They are, of course, right. The percentage contribution of nuclear power will be small. But, they are wrong in presuming that the benefits of this agreement will flow only towards the development of nuclear energy. The fact is that it will throw open a broad spectrum of technological options. We must not forget three realities. One, the Indian economy is hugely dependent on hydrocarbons. This dependence will continue for the foreseeable future. Two, the linkage between economic growth, energy demand and environmental degradation has to weaken, if we are to safeguard ourselves against the worst consequences of global warming. And three, technology is the key to economic and social progress.

The 123 agreement should be supported not simply because it rewrites the paradigms on sovereignty and security, but because it provides the springboard from which India can forge the crucial technological partnerships on which sustainable growth can be built. These partnerships could cover a broad spectrum of activities, including medicine, agriculture, industry and services.

In energy, in particular, they could facilitate the “greening” of fossil fuels (such as coal to liquids and gasification) and the development of practical, commercially viable and affordable alternatives to hydrocarbons (such as hydrogen fuel cells, cellulosic bio fuels, thin film solar and nuclear energy).

\* Chairman of Shell Group in India. Abridged from an article that appeared in *Financial Express*, on September 04, 2007.

## Telcos: Call for more growth

– Prashant Singhal\*

The liberalisation of the Indian telecom sector has been one of the most successful ones and has led phenomenal growth since the late '90s. Today, the country boasts of being one of the five largest networks in the world, with 20 percent telecom penetration level and staggering net additions in the range of 6 million mobile subscribers per month.

While the growth has thus far been largely limited to the affluent urban pockets of the country, the next wave of growth is slated to come from rural areas. Riding on the enormous population which resides in these untouched regions, the government and the industry stakeholders expect the country to double its penetration levels to 40 percent+ by the close of 2010.

While the country has one of the lowest tariffs in the world and has witnessed a steady decline in the average revenue per user (ARPU) levels in the past few years, it is worth contemplating what the effects of further expansion would have on the margins of the operators.

At present, large Indian operators can be said to have much lower earnings before interest, taxes, depreciation and amortisation margins as compared to their Asian peers. Having said that, it is important to highlight the fact that the regulatory impositions including levies such as license fees, spectrum charges, access deficit charge (ADC), service tax, etc. on the Indian service provider stand at a whopping – 30 percent and is much higher than those experienced by its counterparts in the other countries, thus explaining the visible and much talked of gap.

Hence, going forward, the government's intervention by way of rationalising this burden together with introducing a single levy mechanism could play a crucial role, leading to more affordability of



telecom services by the masses by way of tariff reduction.

However, if the present situation were to continue for the next few years, the operators could still expect an increase in their margins, owing to the scale of growth and the opportunities available in the vast untapped territories. The volumes of net additions that are expected would negate the effects of falling ARPU coming out of the marginal low value users. The industry expects large Indian telcos to witness revenue growth at the rate of 20-25 percent uptill 2010, rendering ARPU measurement redundant.

In terms of the effects on costs, operators are expected to increasingly resort to sharing of infrastructure, thus controlling their capital as well as operating expenditures, further justifying the rollout in the Indian hinterland. Additionally, the falling costs of the unshared electronic components will further benefit the operators' attempt at overall cost control.

Operators would also need to further outsource or centralise a range of non-core activities such as billing, customer relationship management (CRM) and finance functions bringing in more avenues for effective cost-saving mechanisms.

Having dwelt upon the predominant mobile growth

prospects of the players, it is worth mentioning the ancillary opportunities at an operator's disposal today, and ways of unlocking its future growth. Operators would be seen devising newer avenues of improving their topline, thus leading to the stickiness of its end consumer. Currently, the leading set of players offer all communication services covering basic, fixed line as well Internet, which leaves them with the enormous scope of introducing bundled services by way of triple play and ensuring a larger share of the end consumer's wallet.

Additionally, operators could also capitalise on their assets such as their expansive retail network and owned call-centre functions. These could be invaluable cost-saving mechanisms if let out to other non-telco businesses, as it would enable them to ride on the merits of such well-tested establishments rather than building their own from scratch.

Another opportunity which has emerged in a big way today is that of the tower business. With the required number of 3,30,000 towers by the end of 2010, operators have come to realise the potential of their tower assets and have begun spinning off their infrastructure activity into separate businesses.

All these reasons put together have led to the upbeat sentiment in the telecom market, which is further supported by the fact that the enterprise multiples of the Indian telcos are one of the highest in the globe today and are expected to continue being this way in the years to come.

Hence, owing to the unprecedented scale of growth available coupled with new opportunities in the telecom space, the Indian sector is now well on its way towards kickstarting its next phase of revolution.

\* Telecom industry leader, Ernst & Young, India. Abridged from an article that appeared in the Economic Times, on July 19, 2007

# Free Water from State Control

– Caroline Boin\* and Kendra Okonski\*\*

**Every year, World Water Week gathers experts and UN officials in their thousands, uttering vitriolic statements, holding meetings and forming alliances, but ignoring the real problem that prevents a billion people getting decent water: bad management.**



This year, the main issue was (surprise, surprise!) climate change. But, whether or not climate change will increase droughts or increase rainfall, none of these meetings will lead to better water management, because that management is generally accepted as a natural state monopoly: “Only governments can reach the scale necessary to provide universal access to services that are free or heavily subsidised for poor people and geared to the needs of all citizens,” says Oxfam.

Water, like any resource, is scarce in many places. Normally, scarcity or demand drives people to devote their time, ingenuity and money to finding more efficient ways of using resources and increasing supplies. These entrepreneurs, whether they produce or sell wheat, shoes or water, need to be able to make a living out of their business, but, in most countries, private water business is illegal.

To understand the problem with water, it is useful to look at another liquid resource: petroleum. The management of water and oil is heavily politicised, oil supply is subject to cartels and political tensions, while water is one of the most heavily regulated and controlled goods on Earth. And both are distributed unevenly across the globe: the Middle East is rich in oil, but poor in water.

Still, to a large degree, oil production, transport and use is managed largely through the market process. As a result, its price enables all market participants, from explorers to consumers, to decide how much to

use and whether to invest in the business.

Human ingenuity has been invested in discovering more oil and better ways of handling and using it, because, when there is potential for reward, people invest their own resources (effort, skill, money and time).

Thanks to such investments, oil now accounts for 40 percent of the world’s energy, supply has multiplied by more than 150 during the past century and the price has remained similar, in real terms, over that time. And, this dangerous substance is transported safely to every corner of the world.

As with oil, water requires processing and transport. Water for households or industry generally requires treatment. It must also be transported from wells and reservoirs, whether by human, animal or mechanical labour or via pipes. And, once water has been used, it needs to be properly disposed of or it can exacerbate the spread of diseases, such as cholera, and even contaminate clean water.

If water were oil, entrepreneurs would pounce upon myriad opportunities to find new or better ways to treat, distribute, use and recycle it. But, unlike oil, water is rarely subject to market processes. Without the benefits of competition, water policy is determined by lobbying, corruption and inefficiency.

This explains why in most poor countries, from Pakistan to Peru, farmers pay a subsidised price for

water. This causes waste and shortages, usually to the detriment of the poor, who must spend their own scarce time and money in pursuit of other sources of water. For instance, 30 percent of India’s urban population lacks access to municipal water. Around the world, slums rarely have any municipal supply.

So, like with any other goods or services, the unconnected obtain water from entrepreneurs who use pushcarts, donkeys, water tankers or even private pipes: the World Bank estimates that half of urban residents in poor countries get their water from such private suppliers, especially in slums, from South American aguateros (independent small-scale providers of water) to African jerrycan vendors.

The key to solving water scarcity in urban areas could lie with these innovative entrepreneurs. Yet, they are usually prevented from providing water more widely, because their businesses are illegal or “informal.” Water is a more basic human need than oil, so humans deserve the full benefits of the market process.

This suggestion infuriates the many activists and politicians who believe that water is somehow special (unlike food, clothing and shelter) and must remain in government hands: “Water privatisation simply doesn’t work” and governments should “invest instead in public solutions to the global water crisis,” says the World Development Movement, which includes Oxfam and Christian Aid as partners.

So, the poor must remain the victims of water policies created in their name, but formed by corruption and cronyism. Instead of being a political, emotive issue, the solution to water scarcity is to free it, so water can benefit from the economic forces of supply and demand and the startling power of innovation and enterprise.

\* Research Fellow in the Environment Programme at International Policy Network, London.

\*\* Environment Programme Director of IPN.

Abridged from an article that appeared in the *Economic Times*, on September 26, 2007.

**Fewer Price Control**

While seeking lesser price controls on drugs, Confederation of Indian Industry (CII) and Organisation of Pharmaceutical Producers of India are of the view that regulatory action against companies should stop till a drug policy is finalised.

In November 2006, the Ministry of Chemicals had sent the draft pharma policy to the Cabinet which increased the span of control on 354 essential medicines, besides the existing 74 drugs under Drug Price Control Order, 1995.

The National Pharmaceutical Pricing Authority (NPPA) should be strengthened, while industry is seeking relaxation of the stringent guidelines.

Recently, the NPPA shot off price control orders to major companies including Ranbaxy, Novartis, Nicholas Piramal. Industry is also unhappy that the annual threshold limit of price increase in decontrolled medicines has been brought down to 10 from 20 percent.

Meanwhile, CUTS Centre for Competition, Investment & Economic Regulation (CUTS C-CIER) suggested that the Competition Act should be used to stem anticompetitive practices in the market, and medicines should be promoted in generic names rather than the brand name. (ToI, 13.09.07)

**Monopoly-free Media?**

A 20 percent ceiling on cross-media restrictions across print, electronic and FM radio sector is believed to be in the offing with the Government mulling the restrictions to prevent vertical monopolies in the broadcast sector.

The Government plans to include the restrictions in the proposed Broadcasting Bill, which would be one of the focal points of its discussion with the industry.

If implemented, the proposal could come as a trouble-maker for media houses like Bennett, Coleman & Co Ltd (BCCL), the publishers of *The Times of India*, that also has interest in FM radio and television (Times Now and Zoom).

Others that could be affected are the newspaper publisher *Hindustan*

*Times* that runs radio channel through its subsidiary HT Music and Entertainment Company as well as the *India Today* Group that runs news channels like *Aaj Tak* and *Headlines Today*, apart from having a stake in FM radio. (FE, 19.07.07)

**Open Farm Gate to FDI**

International companies like Pepsi, Coca-Cola and even Cargill may soon be able invest directly in the country's agriculture sector. This follows the government's plans to open up the agriculture sector to foreign direct investment (FDI), thereby allowing overseas companies to directly undertake and invest in farming.



The landmark proposal, initiated by the Agriculture Ministry, has found support in both the finance and the commerce & industry ministries. Permission to let foreign companies own farms will, however, come with strict riders, including clauses that disallow the displacement of labour or farmers.

The government is also looking at steps to provide access to foreign funds through external commercial borrowings (ECBs) and other investment options in the farm sector.

(FE, 05.07.07)

**FDI Undergoes Fine-tuning**

Informing that foreign direct investment (FDI) equity inflows in India have witnessed a steep hike in the first quarter of the current financial year, Union Commerce and Industry Minister Kamal Nath said the FDI policy was undergoing the "streamlining process".

The Minister said all these FDI inflows were "first mile investment" which means that the companies would further increase their investments in the months and years to come. Besides Delhi and Mumbai, Bangalore, Chennai and Hyderabad were the other regions that had received the maximum FDI inflows.

Nath also informed that during 2006-07, the FDI equity inflows remained at US\$15.7bn as compared to US\$5.5bn received during 2005-06, a growth of 185 percent as compared to the previous year. (TH, 18.08.07)

**India Sets Standard**

India is now setting the standard for reforms in South Asia, with an explicit policy objective to become a leading business-friendly economy, says the *Doing Business 2008* – the fifth in an annual report series issued

**Alarm on fiat-driven Consolidation**

Dr C Rangarajan, adviser to the Prime Minister's Economic Council, warned that the consolidation in the Indian banking sector driven by fiat would not succeed particularly if it is accompanied by restrictions on the normal avenues for reducing costs in the merged entity.



While addressing the first RK Talwar memorial lecture on 'The Indian Banking System Challenges Ahead' organised by the Indian Institute of Banking & Finance, he asserted that any meaningful consolidation among the public sector banks must be driven by commercial motivation of individual banks with the government and the regulator playing, at best, a facilitating role.

On the capital adequacy issue, Rangarajan said that Basel II norms would enhance the required capital of banks.

The most important facet of risk in India or for that matter in most developing countries markets remains the credit risk. He emphasised the need for improvement in the customer service. (FE, 31.07.07)

by the World Bank and International Finance Corporation (IFC).

India increased access to credit by expanding credit bureau coverage to individuals as well as businesses. It also introduced an electronic registry for security rights granted by companies.

The report finds that the time to obtain a business licence in India ranges from 159 days in Bhubaneswar to 522 in Ranchi. The time to register property ranges from 35 days in Hyderabad to 155 in Calcutta.

If the top score among Indian cities in each of the Doing Business indicators were used for the country as a whole, India would rise 55 places in the aggregate country rankings.

(FE, 26.09.07)

### New Mining Policy

The new mining policy, currently being deliberated upon by a group of ministers (GoM) is likely to attract US\$2bn foreign direct investment per year in the sector.

The new policy will do away with red-tape in awarding mining leases, and will facilitate smooth operations right from prospecting to mining.

The new policy will also consider the demand of mineral-rich states to restructure the royalty on iron ore, shifting from the current tonnage-based royalty to an *ad valorem* price-based structure.

It is hoped that the Indian mining sector would be able to create up to one million new jobs in the next five years after the policy comes into effect.

(BS, 04.07.07)

### Study to Assess the Impact

The Government has embarked on an ambitious study to gauge the overall impact of FDI across sectors and regions. The National Council of Applied Economic Research (NCAER) has been mandated by the Department of Industrial Policy & Promotion (DIPP) to carry out the comprehensive study over a nine-month period.

The Government has mandated another research body, Indian Council of Research in International Economic Relations (ICRIER), to carry out a study on the impact of retail giants on the unorganised sector, which constitutes 96 percent of retail market share.

Largely considered a move to placate Left parties, which have been raising doubts over the impact of FDI on overall economic growth, the study will also provide a basis for reviewing the FDI policy more comprehensively across all sectors, including SEZs.

(FE, 03.08.07)

### Another Review of FDI

Another review of India's FDI is on the cards. The review will try to "further simplify the policy which is already very liberal" and remove 'overlapping' of the relevant norms noted by the authorities in certain areas.

A thinking is also there whether a new mechanism should be set up to monitor post-approval compliance of the foreign investor with the FDI policy and take remedial action whenever required.

This is wholly avoidable as this will merely add another layer to the bureaucracy that already engages itself in largely redundant regulatory oversight of FDI inflows.

Apparently, sections of the government, especially the finance ministry which comprises the Foreign Investment Promotion Board (FIPB), feel that FIPB's and RBI's current job of screening FDI proposals prior to letting entry will not suffice to fully implement the law.

(ET, 25.06.07)

### Ease Press Note 1

Foreign companies with existing joint ventures in India may find it easier to set up their independent businesses in the country.

The Finance Ministry is in the favour of diluting the government regulation (Press Note 1, 2005) which bars multinationals from setting up their own companies in a similar line of business without the permission of the Indian joint venture partner, if the joint venture was set up before 2005.

A lot of time is being taken up in dealing with corporate battles where the Indian partner blocks the foreign partner's plan of going solo by not giving a no-objection certificate (NoC). Under the current guidelines, the government cannot ignore such complaints.

More than 50 percent of all proposals that come to the Foreign Investment Promotion Board (FIPB) for clearances are from foreign companies seeking approval for their independent plans.

(ET, 05.06.07)

## Jobs at Risk

As many as 80 lakh jobs are at the risk of being lost due to loss of export business because of the appreciation of the rupee. If the government does not take steps immediately to check the rupee's rise, about US\$12.5bn of exports would be lost in the current year, estimates the Federation of Indian Export Organisations (FIEO).

With the US running a current account deficit of seven percent of GDP, the dollar would only slide further. The only option with Indian exporters is to balance the impact with cost-cutting and moving up the value chain.

The rupee has appreciated by more than 14 percent from its low of 47.04 touched in July 2006. More than half the appreciation came over in the past two months, resulting in erosion of export realisation by 12 percent for chemical industries, 6-6.5 percent for textile industries.

Exports are likely to fall by 20-25 percent for processed food and agro-based products, electronics and electrical goods too.

(BL, 03.07.07)



# Indian Business: Local to Global

– P Chidambaram



The India story is now too well known to you. What is not known is the fact that innovation and leadership in Indian business go back over a hundred years. India's most famous business house, the Tatas, started their steel mill exactly one hundred years ago. Even before that, Indian business leaders had ventured into cotton textiles, jute and banking. All the factors of production – land, capital, labour and organisation – were present in India, yet India missed the industrial revolution.

Why local? Before independence, in 1947, the levers of the economy were in the hands of the British and they did not allow any Indian entrepreneur to grow, except under the shadow of a British company. After 1947, the Indian preference for Fabian socialism expressed itself in the form of myriad controls. The first controls on foreign exchange were imposed in 1947. In 1955, export and import trade was severely restricted. Practically, nothing could go out and nothing could come in, unless one was willing to violate the law.

There was an extensive licensing regime in the manufacturing sector that restricted capacity, production, product mix, marketing and prices. The regime also deprived Indian business of capital and technology – but it gave the “entrepreneur” a captive market and protected his business against competition. It was not surprising that most businesses preferred to remain local. Nevertheless, under the surface, there was latent creative, innovative and

entrepreneurial energy. What changed everything for Indian business was the shock of liberalisation. In 1991, in the space of six weeks, exports and imports were, by and large, made free; exchange controls were relaxed; licensing of manufacture was virtually abolished; and Indian business was put on notice that the earlier dirigiste model would make way for an open and competitive economy. Indian business responded in three different ways.

In the first category, an entrenched group of largely family-owned businesses got together to oppose liberalisation. While some quickly withdrew from the group, others persisted and they now operate as small players. In the second category, many businesses quickly restructured and, in many cases, shed some businesses and focused on their core competence.

They became lean and competitive. Younger family members took over, engaged consultants, brought in professional managers, accessed the capital market, introduced new products and services, and learned to operate in a competitive environment. In the third category, first-generation entrepreneurs turned up. They foresaw quite early the opportunity in India and were willing to take risks. Many companies currently in the list of the top 10 or top 50 did not exist 15 years ago.

Meanwhile, more policy changes were underway. Between 1991 and 1996, and again between 1996 and 1998, the laws and regulations governing the economy were overhauled. After some initial hesitation, more reform measures were undertaken between 1999 and 2002. The present Government that assumed office in May 2004 has continued the process of reforms, especially in the infrastructure sector, capital market, the financial sector

and taxation. Indian business has responded to these changes with remarkable agility and speed. The factors that encourage Indian business to go global are the need to procure natural resources, ensure energy security, access new technology, seek patents, leverage R&D capabilities, obtain a new product mix, find a strategic partner, build complementary businesses, establish forward and backward linkages and enlarge the balance sheet and raise cheaper global capital.

Besides, many Indian companies are driven by innovation. To keep its competitive edge, such a business has to secure a global presence. Infotech and biotech companies are taking that road. There is also the desire to excel and it is but natural that a world-class or a world-size company seeks a world presence. These companies have plenty in common: smart management, low costs and – increasingly – aspirations to join the elite ranks of multinationals.

It has helped that India's GDP has been growing, on average, at the rate of 8.6 percent since 2003-04. The reforms in the Indian financial markets have led to efficiency gains in financial intermediation and leading business houses are able to borrow cheaply in the Indian market.

Once a country reaches a certain level, outward investment takes place. Till 2005-06, Indian firms' outward investment was very modest. In that year, outward investment was US\$2.9bn. In the next year, 2006-07, it shot up to US\$11bn. FDI flows into India also shot up to a new high of nearly US\$20bn in 2006-07. The two stages of accelerated FDI inflows and accelerated FDI outflows appear to have converged in India, marking a break with the conventional IDP theory. If Michael Porter's principle is recalled, then it is not nations that compete, it is companies that compete. The acquisition urge has seized Indian companies, big and small.

*This is an extract from Indian Finance Minister P Chidambaram's Wharton Leadership Lecture, delivered on September 27, 2007, at Wharton School, University of Pennsylvania, US.*

# There Is no Ambiguity in Indian Legislation

– Pradeep S Mehta\*



**The growing fear that the decision would have an impact on future R&D within the country is a pettifogging ploy**

Novartis is upset with the Madras High Court for its judgement striking down its patent on its drug Glivec, used to treat blood cancer, because it was really not an invention, but the same stuff, with marginal add-on value. However, Novartis will not challenge the judgement. This has led to a huge debate in the country on the future progress in R&D of drugs and pharmaceuticals in India.

Novartis had challenged Section 3(d) of the Indian Patent Act, which deals with such situations, and argued that the provision is arbitrary and inconsistent with the World Trade Organisation's Trade-related Aspects of Intellectual Property Rights (TRIPs) Agreement. Novartis and many other pharma giants argue that this unfavourable judgement would undermine incentives for pharmaceutical innovation, incremental innovation in particular.

Why was such a decision taken? The Indian Patent Amendment Ordinance, 2004, is perhaps the only law in the world that included a provision to protect public health from companies who seek extension of their patents by marginal value addition. The law states that "patents would not be given for the mere discovery of a new form of a known substance which does not result in the enhancement of the known efficacy of that substance or the mere discovery of any new property or new use for a known substance or of the mere use of a known process, machine or apparatus, unless such known process results in a new product or employs at least one new reactant".

Parliament, in its wisdom, incorporated this clause to address the sham of patent life extension, while ensuring patentability of known substances, when the inventor is able to demonstrate enhancement of known efficacy. In other words, this provision promotes incremental innovation, but restrains evergreening. Albeit difficult to discern evergreening from incremental innovation, in practice, though, the so-called evergreening process is importantly different.

To legally draw a line to differentiate these two is a Herculean task. To follow the usual practice of referring the laws of rich countries in this matter does not arise, as India is the first in the world to legally address this problem. But, if we go by the WHO report of the Commission on Intellectual Property Rights, Innovation and Public Health, 2006, Section 3(d) is legally sound. The report says legislation, through this provision, tries to make a distinction in law between evergreening and incremental innovation. Moreover, the TRIPs Agreement gives complete freedom to WTO members to use this flexibility.

This entire dispute arose merely because of a lack of clarity on how to determine the "enhancement of a substance". This was not addressed by the High Court in its verdict, giving ample scope for future litigation in this area. But, the growing fear that the decision would have an impact on future R&D within the country is a pettifogging ploy.

Under our Act, patents are granted for 20 years, according to the WTO's timeframe, to sufficiently remunerate an inventor. Even after this, if an inventor creates a modified version of the original product, with improved efficacy, then the law explicitly recognises it under Section 3(d).

What it restrains is the practice of extending the patent term beyond 20 years, by tweaking the composition of the original product without any enhanced efficacy. In other words, it tries to restrain the firm's monopoly.

What the current situation demands most is minor clarification of this controversial provision, to avoid future challenges. The ideal situation would have been for the Madras High Court to come out with its own interpretation, after due consultation with the patent and health authorities, of Section 3(d) in its verdict. However, it has not done so. On the contrary, in its verdict, it claimed that the provision does not suffer from vagueness, ambiguity or arbitrariness and contains reasonable in-built protection for patent applicants—a statement which cannot be denied.

But, for a better understanding, either we can wait for a similar dispute to be raised in court, or could come up with an addendum in the law, giving greater clarity to the provision, by setting up some criteria for judging the enhanced efficacy of a new drug. Nevertheless, none of these steps are imperative, as the provision is consistent with the TRIPs Agreement.

\* Secretary General, CUTS International.

Abridged from an article that appeared in *Financial Express*, on August 20, 2007.

## Bribes to Lower Judiciary

Transparency International has come out with a shocking revelation that the estimated amount paid in bribes to the lower judiciary in India during 2006 is around Rs 2,630 crore. The Global Corruption Report 2007 deals with corruption in judiciary in 32 countries, including India.

The Report says, "Corruption has two manifestations: one is the corruption of judicial officers and the other is corruption in the broader justice system. In India, the upper judiciary is relatively clean, though obviously there are exceptions. Proceedings are in open court and

documents are available for nominal payment. There is an effective system of correction, in the form of reviews and appeals. There is a high level of discretion in the processing of paperwork during a trial and multiple points when court clerks, prosecutors and police investigators can misuse their power without discovery."

The Report pointed out that the Centre for Media Studies, which conducted a countrywide survey in 2005 on public perceptions and



experiences of corruption in the lower judiciary, had found that bribes seemed to be solicited as the price of getting things done.

(TH, 26.05.07)

### India's Rank on Corruption

India has shown a marginal improvement in perceived levels of corruption over 2006, according to Transparency International's annual Corruption Perception Index (CPI) for 2007.

India registered an integrity score of 3.5 in 2007, against 3.3 in 2006 and 2.9 in 2005. The country is ranked 72<sup>nd</sup> among 180 countries.

In 2006, India was at the 70<sup>th</sup> position in the list of 163 countries while it stood 88<sup>th</sup> in the list of 159 countries in 2005.

Unlike the developed countries, where corruption is restricted to higher levels, in India, corruption is rampant at the grassroots.

(BS, 26.09.07)

### SSA Fails to Meet Objectives

The Government feels that *Sarva Siksha Abhiyan* (SSA), flagship programme for universalisation of education, has failed to meet its objectives and led to dilution of the very concept of school and schooling.

It has been pointed out that the quality of education imparted under the SSA is of poor quality and the level of attendance, as well as learning, has been found to be abysmally low. Contrary to earlier Government data, almost 50 percent children in the 6-14 age group are still deprived of elementary education.

Given the drawbacks, the Government is planning to transform the SSA into a national mission for

quality elementary education in the current Plan period. The Government is also mulling over the introduction of a regulatory framework for the private schools, to ensure equality in schooling.

(FE, 24.08.07)

### Disparities on the Rise

Halfway to the 2015 deadline for achieving the Millennium Development Goals (MDGs) to lift people out of poverty, a UN MDG 2007 Report points to the widening economic disparities and underscores the need for political leaders to take urgent and concerted action.

The Report points out that climate change will have serious and social impacts, which will impede progress towards the MDGs.

The disparities also exist within countries where populations – in rural areas, children of mothers with no formal education and the poorest households – were not making enough progress to meet the targets of MDGs.

(TH, 03.07.07)

### Energy Deficient

The KPMG report on India's energy outlook is timely, given that the sector has failed to attain traction, despite repeated efforts to kick-start reforms and boost growth. Of particular concern is the need to facilitate investments of US\$120-150bn over the next five years.

The coal industry has failed to meet the targets for two successive

years now. A proposal to grant infrastructure status to the industry is still mired in consultations. The story is similar in the power sector, which missed meeting its Tenth Plan targets by wide gaps.

The share of the private sector is still only 11 percent of the installed capacity. The oil and gas scenario is no better. Burdened by the subsidy bill, the profitability levels of companies have dipped and Oil and Natural Gas Corporation (ONGC) has failed to make any major discoveries in the last two decades.

(FE, 18.05.07)

### Escalating GDP

As per the mid-August Report of the International Labour Organisation (ILO), India's growth is set to contribute significantly to global gross domestic product (GDP) from now until 2020.

The Report contends that if Asia continues to grow at the historical rate of 4.6-4.7 percent, it would account for a growing share of global GDP – up from 24.7 percent to around 30-31 percent in 2020.

Within the region, India and China would be the big drivers of growth, as in the run up to 2006. India's share of Asia's GDP is expected to rise from 7.2 percent to 8.7-10 percent by 2020.

China's share of world GDP in 2020 has been estimated at 9.7 percent at an annual growth rate of 8 percent.

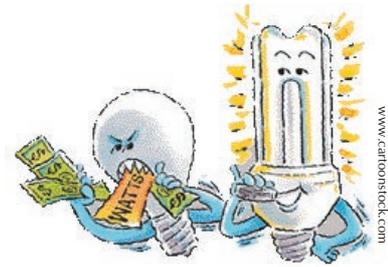
(ET, 30.08.07)

# Adopt Bangladesh Standard Time, Save Energy

– D Balasubramanian\*

**Winston Churchill boasted: “The sun never sets on the British Empire”. This dramatic statement was true, since the empire extended from Australia on one side to Canada on the other.**

**When it is dusk in Bengal, it is dawn in the Barbados and as the sun rises in the Andamans, it is setting in the Falklands, all once British colonies. In an ironic twist, it is now said that the sun never sets on the Indian diaspora.**



## Shape of Earth

Churchill’s claim was possible because the Earth is round. Had the Earth been flat, clocks at all places would show the same time. It also helped Churchill that the Earth spins daily on its own axis.

Of course, it would not have mattered whether it spun around East to West or the other way around. But, it did matter that it rotated not North to South or the other way around. Longitudes matter for time zones, latitudes do not.

## Novel Experience

And, it is a novel experience for Indian parents, flying by Korean or Singapore Airlines, to visit their children in Silicon Valley to find that they started today and reached there yesterday. Of course, they lose this gain upon return.

People in large countries experience a difference between what the clock says and what the sky says. When it is dawn in New York, the sun is yet to rise three hours later in Seattle. Clocks will have to be adjusted to account for this. This is how the various time zones have been arranged, Eastern Time in the US is a full three hours ahead, or advanced, than Pacific Time.

Even in India, we can feel the time difference. As the sun rises in the appropriately named Arunachal Pradesh, it is still dark in Ahmedabad.

It is this point of ‘saving daylight’ that concerns energy experts in India. We are a large enough nation to have two time zones.

Yet, we use a single time zone all over. Would it not be better to set the clocks across India appropriately, to be in tune with the sky?

After all, farm animals and plants set their activities with the skylight and we could gain by adjusting our clocks, so as to save time and energy.

Then, there are seasonal variations in light and dark, sunrise and sunset. Winter days tend to be shorter and summer days longer.

Here again, setting the clocks in tune with the sky would be natural, convenient and saving on energy. Europe and the US shift their clocks by an hour every April and October in order to save daylight and economise on energy.

Would it not be useful for India to do so too? The Planning Commission had suggested last year that we in India do this, so as to save daylight and reduce peak load electric power.

Arguments raised against it are that it would increase the risk of train accidents across the time zone boundaries and, perhaps, even promote separationist (or secessionist) tendencies.

Some have also argued that the “savings in energy are not large enough to justify the increased risks that two time zones would entail”. Discussions on setting up time zones and daylight saving time (DST) in India have turned into debates and disagreements.

## Two Humps

Power consumption per day occurs not uniformly, but shows two

humps, one in the morning hours and the other in the evening, and the double hump picture is seen all year round – winter and summer alike.

Shifting IST by 30 minutes would make the evening hump come earlier and a little lower in value, due to the fact that daylight is still on. This gain of daylight, throughout the year, the authors show, leads to a 16-percent drop in power consumption in the evening hours by industry and commerce.

Of course, it would also mean switching on the lights earlier at homes in the winter mornings, particularly in West and North India.

But, if school timings are suitably adjusted in winter, the inconvenience of sending children to school in the dark can be avoided.

Advancing IST will continue to save expensive evening energy, increasing year by year with increasing domestic consumption.

“The only investments needed are for planning for the starting year of the programme and its subsequent monitoring and evaluation”.

## Many Benefits

Besides energy saving, the move will help mainstream the Northeast, reduce street crime, increase outdoor activities and reduce the use of floodlights for sporting and other events, increase professional productivity and bring India in conformity with most regions of the world (which differ in their clocks from the UTC by integral hours).

\* Astrologer, Sri Agathiyar Nadi Jothida Nilayam  
Abridged from an article that appeared in *The Hindu*, on August 23, 2007.

# “To Develop, We Have to Explore a Lot of Innovative Ideas”

– G Srinivasan\*

*With the Planning Commission appointing the former Economic Counsellor and Director of Research at the International Monetary Fund (IMF) Dr Raghuram G Rajan to head the high-power Committee on Financial Sector Reform (CFSR) in India, the UPA Government has sent an unequivocal message that it means business for initiating the much-needed action on this crucial plank of the market economy. At a time when the country is cruising on a high-growth trajectory, the need for bridging the huge deficit in infrastructure, both physical and social, is crucial to make growth inclusive to a majority of people whom the reforms have bypassed. What better way to do this than to find innovative ways to marshal funds for development? “In order to develop, we have to explore a lot of innovative ideas. What is encouraging is a number of States are experimenting. If we have a national passion to innovate, things can happen”, said Dr Rajan.*

## Excerpts from the Interview

### On Financial Inclusion

We should re-examine the ways we have been trying to include people in growth and see whether old ways have worked and if they have not, we should be prepared to accept new ways of reaching them. It makes sense to give the poor choices.

Access to credit for the very poor is one area where we have not done well. Innovative approaches could be tried for taking deposits and delivering loans, through points of purchase - for instance, the e-choupals, the retail shops that have started coming up. South Africa is allowing cell-phone companies to offer credit and take deposits.

Also, if the Government is giving subsidies, can we think of more effective targeting? For example, could we identify the truly poor and offer to transfer to the bank, making the loan some fraction of the loan amount, perhaps after the recipient makes the initial repayments?

If carefully structured, it is not just the public sector banks which could provide the loans, even the private sector may be willing to make loans for them. Some of these “solutions” may not work. But we need to experiment.

### On the Indian Economy

Nine percent GDP growth is not a mirage. Some of it has come as a result



**Access to credit for the very poor is one area where we have not done well. Innovative approaches could be tried for taking deposits and delivering loans through various points of purchase.**

of the past reforms and some of it is coming as a result of the continuing changes in the private and public sectors, in ways we do not quite see, but cumulatively add up to quite a bit. The private sector certainly has improved its efficiency considerably. The Government has been reforming in different ways - not just the Centre but the State Governments too. The question is whether the pace of reform is enough.

In infrastructure financing, if you could provide sufficient assurance of returns to investors and not make them keep thinking about unexpected changes in the rules of engagement

in the future, I think they would be very happy to invest in infrastructure. We need to work on this.

### On Poverty and Growth

My sense is that many such anti-poverty programmes have not taken into account the interests of the participants carefully, both for the recipients and for those who are delivering the services. Invariably, we find that it does not quite work and there is tremendous leakage. People who have studied this over time tend to argue that a better way is instead of treating the ultimate receivers as somebody deserving of charity, treat them as consumers and give them choices and allow them to exercise those choices.

Let us not confront them with a government-created monopoly (even a monopoly charity), where they have no possible choice. Let them create their way out and they will find very innovative and very entrepreneurial ways to sustain growth.

The National Rural Employment Guarantee Programme is best treated as an experiment. The important thing here is to treat the poor with respect and to give them the purchasing power that allows them to command respect in the marketplace, instead of constantly forcing them to be supplicants.

\* Deputy Editor, *The Hindu Business Line*

Abridged from an article that appeared in *The Hindu Business Line*, on August 29, 2007.

## Divided We Fall

– A K Bhattacharya\*

Till July 01, 1992, there used to be a ministry for energy in the Union government. The energy ministry had three departments – the department of power, the department of coal and the department of non-conventional energy sources. A reorganisation of the energy ministry took place on July 02, 1992 and the three departments became independent ministries. Did the reorganisation bring about any visible change in the way the three sectors were being supervised by the government? Those who have closely observed the functioning of these three departments in the last 15 years will point out four changes.

One, all the three departments have grown in size after they were converted into independent ministries. Two, ministerial ambitions have got a fillip. There are now more openings in the Cabinet or for ministers with independent charge. Three, civil servants have seen their empire grow. To be a secretary of one of the departments in a ministry is one thing and heading an entire ministry is quite another. And four, governance has suffered. An integrated view of the country's energy requirements has become even more difficult as coal and power are being looked at by two different ministries.

What has happened to the energy ministry is not unique. Ministerial restructuring in the last 15 years has essentially seen the creation of more ministries, more ministers and more secretaries. Till recently, there used to be a ministry for steel and mines. Now, you have a separate ministry for steel and an independent ministry for mines with a Cabinet minister. The department of company affairs used to be attached to the ministry of law and justice. For some years, the department of company affairs was attached to the finance ministry, largely because the then finance minister wanted that department to be brought under his

administrative control. And now it has become an independent ministry. Not only that, it has now been renamed as the ministry for corporate affairs.

Worse proposals for ministerial restructuring have been discussed. The idea of splitting the finance ministry into two was mooted twice during the Vajpayee government. On both the occasions, the justification for making the revenue department an independent ministry outside the ministry of finance was the demand from one of the coalition partners in



**More Cabinet berths are possible when ministries are divided, but government suffers**

the government to accommodate one of its ministerial candidates in an independent portfolio. It was fortunate that Yashwant Sinha, who was being asked to agree to such splitting of the finance ministry, disagreed with the idea. And the proposal was dropped.

The possibilities of meaningless ministerial tinkering, however, are immense. Take, for instance, the ministry of shipping, road transport and highways. It will not take long

for any government to split this ministry into two – one for shipping and the other for road transport and highways, if there are any fresh demands for accommodating any senior politician or a civil servant.

Similarly, the ministry for communications and information technology, the ministry for petroleum and natural gas and the ministry for commerce and industry are among the ideal candidates for such ministerial restructuring. The point is that all central governments in the last several years have used ministerial restructuring as an instrument for meeting political demands from within the party and from their alliance partners. Civil servants have, regrettably, played along in this game of proliferating ministries with more ministers and even more civil servants.

The ministry of coal has one additional secretary, three joint secretaries and seven director/deputy secretary level officers in addition to the secretary. The civil aviation ministry has one additional secretary, three joint secretaries, seven directors and ten deputy secretaries in addition to a secretary. The story in other ministries is similar.

And it seems no one in the government is willing to call a halt to this exercise. A new proposal doing the rounds in the finance ministry is to create a separate department out of what is now currently only a division within the department of economic affairs. The financial sector division looking after the banking and the insurance sector is proposed to be carved out as a department.

What this will achieve is difficult to gauge, except that some civil servants will have expanded their empire within the ministry. This may be less harmful than splitting the finance ministry as had been earlier proposed. But it is clearly time meaningless ministerial restructuring came to an end.

\* Resident Editor, Business Standard

Abridged from an article that appeared in Business Standard, on July 10, 2007

# The Progress Card of Citizen's Charter

– Bhanoji Rao\*

In some countries they are called brokers, in others, facilitators. The brokers not merely expedite work. They often assist those who want to circumvent formalities and conditionalities. In such cases, the broker's services are no longer manifestations of a functioning market economy; they smack of bad mindset, wrongdoing and avoidable corruption.

To address the issues comprehensively, in 1997, the Union Government launched the Citizen's Charter initiative, applicable to both the Central and State government departments. It aimed to make public service providers more accountable.



## Chartered Path

Ten years have passed since the Citizen's Charter initiative was launched. It is now time to seek answers to questions such as how effective the charters have been. Insights are available in a recent publication, India's Citizen's Charters: A Decade of Experience, brought out by the Public Affairs Centre (PAC), Bangalore.

The Department of Administrative Reforms and Public Grievances (DARPG) is the nodal agency for the Citizen's Charter initiative. The main objective of the exercise to issue the Citizen's Charter of an organisation is to improve the quality of public services. This is done by letting people know the mandate of the concerned Ministry/Department/Organisation; how one can get in touch with its officials; what to expect by way of services and how to seek a remedy if something goes wrong.

The Citizen's Charter does not by itself create new legal rights; but it surely helps to in the enforcing existing ones rights. The mandate is that each Citizen's Charter must have

10 components – vision and mission statement; business transacted; related legislation; information about department; list of services; quality standards; citizen's duties; rights and compensation; grievance redress mechanism; and citizen-friendly measures.

## Desk Review of 200 Charters

In 2006, the DARPG Web site listed 767 charters drafted by various government agencies in the country. Of these, 561 were downloaded by the PAC study team for a preliminary review, based on which about 200 were selected for desk review. Finally, 80 were selected for an extensive field survey.

The desk review of 200 charters comprised 52 in the infrastructure and financial services sectors; 50 in social development; 32 in agriculture and rural development; 30 in industry and commerce; 28 in general administration and eight in environment. For each of these charters, the PAC researchers examined the 10 components that form a part, assigned a point value for each

in such a way that the maximum score would not be more than 100. The percentage scores for each component and the overall scores for groups of Citizen's Charters are valuable information which the citizens and public officials concerned should take note of, despite the caveat that the scoring is based on subjective judgments of the researchers.

## Service with a Smile

A private airlines surprised me when I took one of its flights recently. First, the baggage check-in was taken care of by an attendant, who politely refused a tip stating that accepting it was against the airlines' policy; the woman in charge of checking requested me to take a seat and not wait and brought the counterfoils of the luggage tags and boarding pass to me.

Service providers in the public sector too can do just that and with a smile too. Also, in the spirit of the Citizen's Charter, the website should actually publicise all evaluations and, of course, the main findings of the PAC report as well.

Users' Grading of Service Providers						
Grade	Social Development	Agriculture & Rural Development	Infrastructure & Rural Development	Environment	Industry	General Administration
V. Good (9-10)	8	39	15	26	60	16
Good (7-8)	38	37	43	30	27	38
Average (5-6)	24	13	23	26	13	23
Poor (1-4)	30	11	19	18	0	23
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

\* Professor Emeritus, GITAM Institute of Foreign Trade, Visakhapatnam and Visiting Faculty, Sri Sathya Sai University, Prashanti Nilayam.

Abridged from an article that appeared in the Hindu Business Line, on July 24, 2007.

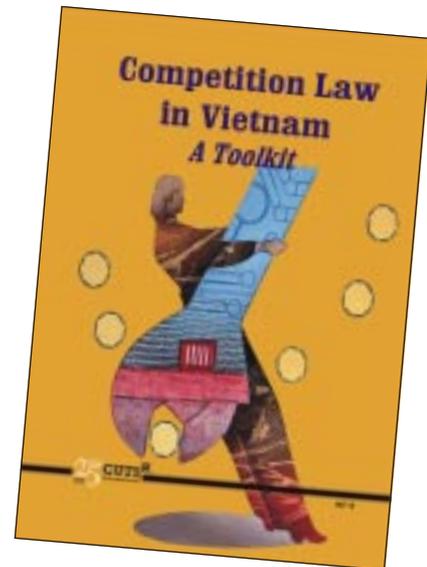


## Competition Law in Vietnam *A Toolkit*

Competition Law in Vietnam: A Toolkit, researched and compiled by CUTS and customised in the Vietnam context, is a simple and concise handbook on various implementation issues surrounding the Competition Law 2004. It provides definitions, characteristics of and mechanisms to deal with all the major Restrictive Business Practices (RBPs) and Unfair Trade Practices (UTPs) which are prevalent in the Vietnam markets currently, with real-life case studies. Wherever possible, similar cases from other developing countries have also been cited in the text, which can help the reader understand the issues through case studies.

The Toolkit analyses the constraints and challenges that the competition authority of Vietnam may face in building a healthy competition culture in the country and suggest essential elements for success.

It is meant for competition authority officials and administrators. However, it can also be useful for activists, journalists, academics, etc., as an advocacy tool, and by the business community for compliance education and self-regulation. The Toolkit examines the competition scenario in Vietnam market *vis-à-vis* enforcement of competition law against RBPs.



*Suggested Contribution: Rs 200/US\$30/VND200,000*

## Competition and Regulation in India, 2007

This Report is the result of a series of trade and regulatory projects that CUTS has undertaken since mid-1990s, especially those on competition regimes in India and elsewhere, as a natural progression in the quest for an orderly market, which could add to economic growth and create more jobs for the people.

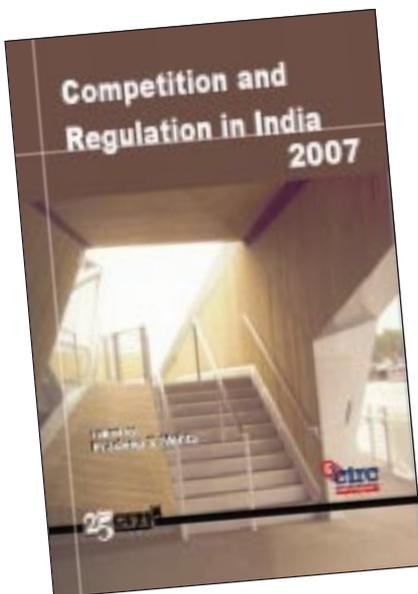
Two catalysts for this report are worth highlighting: first, the analysis of the competition scenario in India through the 7Up Project (2000-02), which did a comparative study of the competition law regimes in seven developing countries, supported by the Department for International Development (DFID), UK. This gave us an insight into how the regime functions (or not) under a variety of political economy constraints.

The second catalyst is the present Government's resolution to promote competition as a means of economic development, which was articulated in the National Common Minimum Programme (NCMP), and the President's address to the first sitting of the Parliament in 2004.

This report contains research-based analyses that will certainly stimulate a healthy debate on how the issues of competition and regulation policy are perceived. It also examines the present and future scenario in the context of competition and regulation in India. Sectoral studies of telecommunications, electricity and two social sectors, i.e., education and health, help to show the need for methodological flexibility – not just in analysis but also in implementation.

One unique feature of the report is India Competition Perception Index that measures the state of affairs in competition and regulation in India.

*Suggested Contribution: Rs 285/US\$20*



### SOURCES

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

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