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PolicyWatch

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

Volume 5, No. 4 | कट्स CUTS 1984 to 2003 Twenty Years of Social Change | 2004

Institutional Independence?

Functional independence is an essential precondition for attaining institutional efficacy.

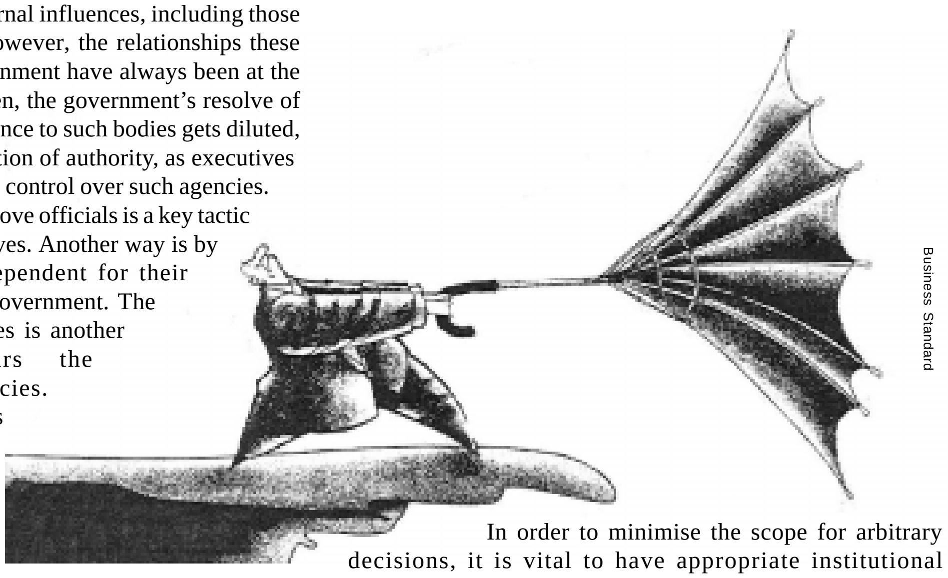
In India, several institutions have been mandated with institutional independence, either to perform a balancing act amongst conflicting interests or to fix accountability in the governance system. However, in practice, often a gap exists between the expectations and the actual performance of these institutions. The reasons for such gaps are several, and lack of functional autonomy is perceived as one of them.

Institutional independence has an inverse relationship with external influences over the authorities. The lesser the influence, the greater will be the scope for functional autonomy. There could be a host of possible external influences, including those wielded by interest groups. However, the relationships these bodies maintain with the government have always been at the centre stage of the debate. Often, the government's resolve of imparting functional independence to such bodies gets diluted, when it comes to actual delegation of authority, as executives find it difficult to abdicate their control over such agencies.

The power to select and remove officials is a key tactic used most often by the executives. Another way is by making these institutions dependent for their budgetary allocations on the government. The power to give policy directives is another provision which impairs the independence of these agencies. Admittedly, the government has the sovereign authority to express its policy and convey the same to the respective independent agencies. However, what constitutes 'policy' has been left vague and subject to interpretation in a highly arbitrary manner. Moreover, there is no mechanism to ensure that the policy guidelines are issued after a wide consultation process.

It is, therefore, desirable to define 'functional independence' in rather concrete terms. Certain parameters to examine the degree of 'functional independence' an institution enjoys are listed below. These parameters, collectively, offer a framework for designing functionally independent institutions.

- *Selection and Removal*: Choosing right people to man these bodies is most important. Removal should only be viable if found guilty in an inquiry.
- *Financial Autonomy*: Functional independence can be effective when financial autonomy is ensured. In its absence these institutions will inevitably be subjugated to the will of the controller of the budget.
- *Staffing and Outsourcing*: Empowering independent bodies to appoint sufficient and capable staff is crucial. Appointing consultants, through transparent process, is also desirable.
- *Regulation Framing*: To conduct their business, these bodies should be allowed to frame regulations within broad policy directives, subject, however, to government approval.
- *Defining 'Policy Directives'*: The ambiguity should end. It should not be left to the sole discretion of the government to define what constitutes the policy.



Business Standard

In order to minimise the scope for arbitrary decisions, it is vital to have appropriate institutional mechanisms in place, so that procedural transparency is ensured with regard to the government's role in the search, selection, appointment, remuneration, extension, removal and re-employment procedures.

The possibility of government interference in the functional domain of the authority, in the name of policy directives, needs to be qualified. Even when issuing 'policy directives', the law should make it mandatory for the government to consult the authority concerned and give it an opportunity to express its views. The government should also be required to place in the public domain the advice received from the independent authority, other comments/suggestions received and the reasons for the issue of the directives.

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

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It has been observed time and again that the presence of champions in these independent bodies can bring in significant changes in institutional efficacy. At times, these champions become instrumental in exercising the mandate actually imparted to the institutions.

Anyhow, the presence of champions cannot be a substitute for systemic arrangements. The absence of appropriate institutional arrangements might not allow such proactive individuals to get into the system, as long as the provisions, such as re-appointment of commissioners, is left to the pleasure of the government.

In fact, functional autonomy is a precondition for effective performance and the absence of it would only create the perception of the government driving from the back seat.

The degree of independence might require varying approaches, depending upon the nature and mandate of an institution. For instance, the job of an electricity regulator cannot be compared with that of the Reserve Bank of India (RBI). Be that as it may, there needs to be a common set of characteristics imparting autonomy to an institution, to make it function effectively and deliver its mandate.

Unfortunately, the approach followed by the government with regard to institutional autonomy is largely inconsistent. While the National Human Rights Commission (NHRC) and the Election Commission have been provided with reasonable functional autonomy, the Central Bureau of Investigation (CBI) is an example that is at the other extreme.

In the amended Telecom Regulatory Authority of India (TRAI) Act 2000, the government has kept its overriding power not only to issue 'policy directives' but has also gone to the extent of empowering itself with powers of superseding the Authority in certain situations. Furthermore, under the new law, the government can terminate the tenure of the members and the chairman, giving them just a perfunctory right to be heard.

Similarly, in the case of the Competition Commission of India (CCI), it is for the government to appoint the major staff for the Commission and notify the places where the Benches of the Commission shall be sitting. Even the transfer of members from one Bench situated in one city to another Bench situated elsewhere is subject to prior government approval. The government has vested itself with the power of superseding the Commission.

The TRAI and the CCI are not cases in isolation, as similar provisions can invariably be seen in several other laws. Therefore, imparting necessary functional independence is essential for empowering the institutions to perform. There is a need to follow a consistent approach in this regard.

THEME: INSTITUTIONAL INDEPENDENCE

Regulator in the Dock

The Andhra Pradesh Electricity Regulatory Commission had moved the Supreme Court against a High Court ruling that the Commission does not have the power to determine wheeling charges for generating companies.

The high court ruling came after a couple of private generating companies pleaded that the regulator did not have jurisdiction over wheeling charges. Their real complaint was the high wheeling charge that the commission had imposed, casting doubts on the impartial role of the body.

This leaves open the question: who should decide what the wheeling charges should be. If the regulator is impartial, the matter can be left to it. But what if there is bias? One way out would be to appoint independent consultants. Another would be to ensure that the regulator is genuinely independent and not a government mouthpiece. This in turn means that the power to appoint regulators must be subject to review.


The Hindu Business Line

(BS, 08.09.03)

Lucent System of Selection

Today, most of the regulatory bodies are headed by former bureaucrats, reflecting the Government's jaundiced selection process.

There is no reason why these regulatory bodies should be regarded as the exclusive preserve of bureaucrats. Why can't we have a transparent system of selection from among a wide cross-section of candidates, including the private sector?

Regulation calls for a thorough understanding of increasingly complicated issues, and for many skills, none of which has anything to do with administration.

The Government should stop viewing regulatory institutions as a retirement lounge for retired bureaucrats. These institutions are required to be staffed with sector specialists who do not need consultants to acquaint them with the sector. A pre-requisite for an efficient selection process is the need to allow market-linked compensation, reflecting the individual industry conditions.

(FE, 22.02.05)

Snippets

Expert for CCI

The Centre has insisted before the Supreme Court that the chairman of the proposed CCI should be "an expert and not a judge". It further added that, the world over such panels were considered expert bodies. Any judge on such a panel was an also expert in the field.

(BS, 27.10.04)

Rail Safety Autonomy

The Parliamentary Standing Committee on Transport has said that the Commission of Railway Safety (CRS) should be an autonomous body like the Election Commission and the Union Public Service Commission (UPSC) and not an adjunct to the Ministry of Civil Aviation as it is at present. *(BL, 04.12.04)*

Power to Petrol Watchdog

The Government has proposed to set up the Petroleum and Natural Gas Regulatory Board, which will be vested with powers to impose strict penalties on violators. A fund will also be created, which will be used to meet the personnel expenses of the Board. However, the bill which seeks to establish the board has run into rough weather after sharp criticisms from Ministries of Chemicals and Fertilizers, and Company Affairs, particularly on the autonomy of the proposed board, its powers to fix and regulate prices, and its capability to foster competition.

(FE, 09.10.04)

High-Lighted States

The States of Andhra Pradesh, Goa, Gujarat, Haryana, and Kerala, have achieved 100 percent rural electrification, while Himachal Pradesh, Jammu and Kashmir, Karnataka, Madhya Pradesh, Mizoram, Rajasthan and Tripura have accomplished more than 95 percent.

LACK OF POWER

State	No. of Villages	No. of Electrified Villages	% of Electrified Villages
UP	97,122	57,042	58.7
Bihar	38,475	19,251	50.0
West Bengal	37,910	29,650	78.0
Jharkhand	29,336	7,641	26.0
Orissa	46,989	37,307	79.0

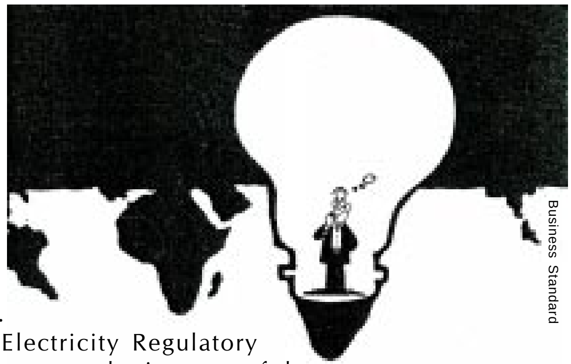
The Economic Times

However, this does not mean that all households in these states are electrified. Even in so-called electrified villages, nearly 70 percent of the households do not have electricity and power-based economic activities are minimal.

The big worries are Uttar Pradesh, Bihar and Jharkhand. In Uttar Pradesh only 57,042 out of total 97,122 inhabited villages are electrified. Bihar too presents a similar picture with only 19,251 out of 38,475 villages being electrified, and in Jharkhand only one-fourth of the state's villages have been electrified – 7641 of 29,336.

(ET, 07.12.04)

Regulatory Autonomy Assured



Business Standard

In keeping with the Centre's commitment to provide full autonomy to regulatory commissions, the Union Power Minister, P M Sayeed has assured his personal intervention with state governments to provide administrative and infrastructural support to the regulators.

He reminded the Electricity Regulatory Commissions (ERCs) to protect the interests of the consumers by laying down performance standards, preventing market domination and introducing speedy redressal mechanisms.

In another move, the Union Government is in the process of appointing members to an Electricity Appellate Tribunal for power sector disputes.

"The Government has notified the appellate tribunal and appointment of members is currently under way. The tribunal should be set up very soon," said Ajay Shankar, Additional Secretary, Ministry of Power. *(BS, 24.11.04 & BL, 22.10.04)*

Left to be Consulted

The Prime Minister, Manmohan Singh has directed the Union Power Minister to consult the left parties and state governments on the Electricity Act 2003, before bringing it to the cabinet for review.

The review would aim to amend provisions related to open access, increasing the accountability of regulators and giving enough relaxation to states in the matter of unbundling.

The Prime Minister has also instructed that priority be given to rural electrification as outlined in the common minimum programme (CMP) of the ruling United Progressive Alliance (UPA).

(BL & FE, 18.12.04)

Cross-subsidies to Stay

The new electricity policy, expected to be placed shortly, will allow producers to continue imposing higher power tariffs for industrial and commercial consumers, even while it moves towards a more targetted subsidy regime.

In a clear departure from the Electricity Act 2003, which talks about reduction and elimination of cross subsidies, the proposed electricity policy calls for reduction of subsidies but is silent on the 'elimination' front.

In a separate statement, the Prime Minister said that the irrational pricing of energy was a major cause of problems in the sector. The country must, therefore, go in for an economically rational pricing policy, with built-in incentives for consumers to conserve energy. He added that subsidies would be required, but they should be transparent and justified on clear economic, social and political grounds.

(ET, 09.10.04 & BS, 15.12.04)

10% from Renewable Sources

The Government is planning to meet 10 percent of the additional generating capacity through renewable energy sources, during the 10th and 11th Five-year Plans. This corresponds to around 10,000 MW of power.

The Government also plans to provide complete energy security to remote villages through renewable sources. Electrification of all remote villages and all households in these villages has been planned by 2012. The Government has prepared a comprehensive village energy security programme. *(BL, 05.11.04)*

Aid to Curb Losses

The Power Ministry has allocated over Rs 1,400 crore as part of efforts to encourage states to cut down on transmission and distribution losses.

"We have sanctioned about Rs 1,437 crore for 99 projects in 14 states, under the investment component of the Accelerated Power Development and Reform Programme (APDRP) to motivate states to reduce losses," said the union Power Minister P M Sayeed.

The Centre was persuading states like Uttar Pradesh, Bihar, Orissa and Jharkhand to improve, he said, adding that Uttar Pradesh has been given the highest allocation of Rs 324 crore in 2004-05.

The APDRP aims at reducing the aggregate technical and commercial losses and has investment and incentive components by which the Central Government allocates some money to the states. *(BS, 30.10.04)*

Push for Power Next

After tackling inflation and fuel prices, the Prime Minister has stepped in to push for the power sector. He has assured simplification of procedures for speedy sanctions to power projects and allotment of captive coal mines, and look into the regulatory issues of coal and gas pricing.

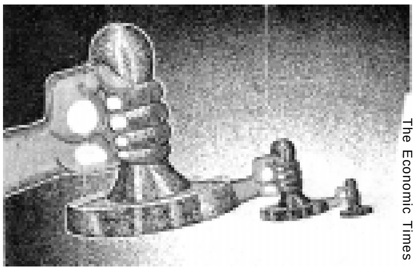
He assured support to the Power Ministry to achieve the capacity addition of 41,000 MW by the end of the 10th Plan in 2007 and 60,000 MW by the end of the 11th Plan in 2012.

The Power Ministry is also working on a Cabinet note to allow it to clear power projects upto Rs 1,500 crore. The move would expedite clearances of projects whose viability has been assessed by financial agencies and 65 percent of the project cost has been worked out.

In addition, the Ministry is considering a proposal to reduce the threshold limit for mega power projects to 300 MW for thermal as well as hydro-based projects. The current thresholds are 1,000 MW and 500 MW, respectively. Mega power status allows projects to avail of tax exemptions.

(FE, 25.10.04, BS, 04.11.04 & 09.11.04)

Seeking Financial Autonomy


The Economic Times

The TRAI has asked the Government to give it financial autonomy, by allowing it to have a certain percentage of the annual licence fee paid by the telecom service providers and the cable operators, to meet its administrative expenditure.

In a recommendation given to the Government, the Telecom Regulator said such a move would enable the TRAI to meet its recurring expenditure and also have a provision for capital expenditure. "This will make the TRAI independent of government funding", the proposal says.

The regulator has suggested earmarking 0.05 percent of the annual revenues earned by the Government from telecom services for the purpose.

In a letter to the Government, CUTS has strongly supported TRAI's suggestion of granting it financial autonomy. The organisation has also suggested that the proposed TRAI Fund be used to fund consumer advocacy in the country.

(BL, 05.11.04), for further information, please go to http://www.cuts-international.org/wnciss24.htm

TRAI Chief under Fire

The Left parties demanded immediate dismissal of the TRAI Chief for his inaction in checking illegal routing of international calls. The parties claim that the illegal routing of calls by private players, and under-invoice Access Deficit Charge (ADC) payment, resulted in huge losses to the state-owned Bharat Sanchar Nigam Limited (BSNL) and the Mahanagar Telephone Nigam Limited (MTNL).

The reaction of the Left parties was provoked by a statement by the TRAI Chairman that the Regulator did not have the powers to investigate. The Left parties have argued that the TRAI Act empowers the Authority to ensure compliance of the terms and conditions of the licence.

They have demanded that the Government should order the TRAI to conduct a full-fledged inquiry into the alleged telecom scam worth Rs 550 crore, under the security clause in the TRAI Act.

(BS & FE, 07.12.04)

Broadband Policy with Speed

The much-awaited broadband policy was announced to bring India closer to high-speed, "always-on" Internet services. The policy is expected to result in three million broadband users in the country by year 2005.

However, the policy is minus two crucial ingredients, fiscal incentives to promote usage and an open-sky policy for satellite terminals. The Department of Telecommunications (DoT) also refused a key TRAI recommendation on unbundling the last mile copper networks of the BSNL and the MTNL. The Government decided against unbundling the local loop, as a similar approach had failed to promote broadband usage in several countries.

The policy precisely defines the broadband speed, so that consumers are not taken for a ride. The TRAI will monitor the speed offered by the Internet Service Providers. *(HT & TH, 15.10.04)*

Star Cannot Hold Back

The TRAI has directed the broadcasters to share content with all distribution networks, sharply bringing out the differences between rivals, Star and Zee, over the issue.

The TRAI's verdict follows complaints made to the Government by the Zee Group that Star had refused to give its channels to Dish TV, its direct-to-home (DTH) service. The Government had, then, entrusted the TRAI with coming up with directives on the issue.

After this decision, broadcasting companies like Star cannot hold back exclusive premium content for distribution networks they control and deny the same to rival networks. This 'must provide' condition is expected to provide a genuine choice to the consumers.

In a separate development, the Standing Committee on Information Technology has asked the Government to enact a relevant law to regulate the entry and growth of DTH broadcasting services. DTH in India is regulated by guidelines, and not by a comprehensive law.

(BS, 12.12.04 & FE, 15.12.04)

Mobiles Outnumber Landlines

The mobile subscriber base in India has crossed that of fixed-line numbers, to touch 44.5 million users, as of October 2004, to overtake the 43.9 million fixed-line users.

"The mobile-fixed crossover, coming within just nine years of the introduction of cellular mobile services in the country, demonstrates the power of mobile telephony to drive India's tele-density and economic objectives", said TV Ramchandran, Director General, Cellular Operators' Association of India.

According to the TRAI, the tele-density in the country has gone up to 8.24 and the unprecedented growth has been due to the fact that mobile tariffs in India are one of the lowest.

(BL, 09.11.04 & HT, 17.10.04)

Bridge Digital Divide

The DoT is working on fresh policy measures to enable deployment of the latest technologies and to offer a conducive environment to bridge the digital divide between rural and urban India.

The policy would be aimed at meeting the target of 250 million phones by 2007. It would also look at measures such as providing support from the Universal Service Obligation (USO) fund to cellular operators, said Nripendra Mishra, Secretary, DoT.

In a separate interactive session with the TRAI, telecom industry representatives called for resolving regulatory issues relating to unified licensing, broadband growth ADC review and spectrum-related issues.

(BL, 12.12.04 & FE, 19.10.04)

BSNL-MTNL Shake up

The Government plans to complete the merger of the public sector telecom companies, the MTNL and the BSNL, by mid 2005, said Dayanidhi Maran, Union Minister for Communication and Information Technology.

If merged, the combined entity will have a turnover of Rs 35,000 crore, compared to its largest private sector rival Bharati Tele-ventures, which has a turnover of Rs 5,000 crore. The BSNL and the MTNL together command over 95 percent of the fixed line market share.

The Government is exploring the option of divesting a five-percent stake in BSNL, so as to list it on the stock exchanges. This is likely to facilitate the merger between the two, as MTNL is already a listed company.

Several options are being considered, including the creation of a holding company, with which the shares of both the BSNL and the MTNL would be vested. Another option is to merge the MTNL into the BSNL.

(FE, 27.10.04 & BL, 09.10.04)

MEGA Regulator for Transport

A mega regulatory authority, for all-round development of transport-based infrastructure in the country, is finally taking shape. The relevant ministries – railways, civil aviation, road transport and shipping – have been asked to give their feedback.

The Ministries of Finance and Law, along with the Planning Commission, are working closely to evolve a common regulator for an integrated infrastructure. Apart from tackling the legal issues involved in the infrastructure sector, the proposed regulator is expected to provide a smooth flow of foreign direct investment (FDI) to meet the target of around US$150bn over a period of 10 years.

(ET, 07.11.04)

Aviation FDI Limit Hiked

The Union Cabinet has hiked the FDI limit in domestic airlines to 49 percent from the existing 40 percent, and placing the aviation FDI on the automatic clearance route.

However, foreign airlines will not be a beneficiary of the decision since they will not be allowed to pick up a stake directly or indirectly. Non-resident Indians and overseas corporate bodies will be allowed to hold 100 percent equity in domestic airlines through the automatic route.

(BL & TH, 21.10.04)

Rs 5,000 cr to Upgrade 30 Airports

Civil Aviation Minister Praful Patel has announced that the Government will spend Rs 5,000 crore to upgrade 30 airports across the country and invest Rs 25,000 crore in augmenting the fleet size of Air India (AI) and Indian Airlines (IA)

"AI and IA would remain in the public sector. A policy decision has been taken in this regard and plans are afoot to make the two carriers achieve triple digit growth in the number of passengers carried in the next three years," he said.

In a related move, the Government is considering a proposal to build five green field airports in the country which will require an investment of over Rs 6,000 crore. These are expected to come up in Goa, Navi Mumbai, Pune, Kanpur and Nagpur. *(FE, 18.11.04 & BS, 15.11.04)*

Generating Rail Revenues

The Union Government has introduced a Bill in the Rajya Sabha to establish a Rail Land Development Authority, which would enable the Railways to use its surplus land for commercial purposes for generating revenues through non-tariff measures.

The Railways (Amendment) Bill 2004 provides for consultancy, construction and management services and undertaking of operations by the Railways in the country for development of land and property.

Indian Railways earned Rs 116.5 crore from the use of railway land in 2003-2004, compared with Rs 91.5 crore in 2002-2003. Commercial development of some of the land could further increase Railways' revenue by Rs 100-200 crore over the next few years. *(BL, 21.12.04)*

Aviation Restructuring Recommended

The Naresh Chandra Committee on civil aviation has asked the government to make far-reaching changes in policies governing the country's aviation sector, including restructuring of Airports Authority of India (AAI), higher investments in improving aviation infrastructure and steps to lower the operating cost of airlines.

The Committee has recommended complete unbundling of the AAI, wherein it has suggested that the consultancy, architectural and construction wings of the Authority should be hived off as a separate company.

On corporatisation of airport managements, the committee has suggested that each of the larger airports should be managed by an independent corporate entity, while the smaller airports could be grouped together on a regional basis and corporatised.

(BS & BL, 03.11.04)

Rail Safety Autonomy

The Parliamentary Standing Committee on Transport has said that the Commission of Railway Safety (CRS) should be an autonomous body, like the Election Commission and the Union Public Service Commission, and not an adjunct to the Ministry of Civil Aviation as it is at present.

In its 83rd report on the functioning of the CRS, which was tabled in Parliament, the House panel said that in order to ensure impartial working of the CRS, it is essential that the Commission works outside the control of both the Ministries of Railways and Civil Aviation.

The Committee took exception to the fact that, on certain occasions, the Ministry of Railways neither consulted the CRS before rejecting a recommendation nor furnished reasons for not accepting the suggestions of the latter. *(BL, 04.12.04)*

Ports Authority Reviewed

The Planning Commission is considering a review of the role of the Tariff Authority for Major Ports (TAMP) as a regulatory authority, as part of its mid-term appraisal of the Tenth Plan.

The Planning Commission, in its background note on the transport sector, has said that the major thrust area was to make TAMP an appellate authority and extend its jurisdiction to minor ports too.

At present, TAMP regulates tariffs for vessel and cargo-related charges levied by the major ports. The major ports, and various private operators at these ports, have demanded that the jurisdiction of the authority be extended to minor ports also to create a level-playing field.

(BS, 25.10.04)

Toll Policy Pays off

The National Highways Authority of India's (NHAI) toll policy seems to be paying off. As per the latest data, the NHAI is expected to earn Rs 27 lakh per kilometre as toll revenue during 2004-05 while its operation and maintenance costs are estimated at Rs 15 lakh per kilometre, earning an annual surplus of Rs 12 lakh per kilometre. *(ET, 13.10.04)*

Power to Petrol Watchdog

The proposed Petroleum and Natural Gas Regulatory Board will be vested with powers to impose strict penalties on violators. The Board can also involve central investigating agencies, like CBI, to assist it.

According to the Petroleum and Natural Gas Regulatory Bill 2004, the chairperson of the Board and the other members will be selected by a search committee, which will be headed by the Member of the Planning Commission in charge of the energy sector. A Fund will be created, to be christened as the Petroleum and Natural Gas Regulatory Board Fund, which will be used to meet the staff expenses of the Board.

However, the bill has run into rough weather after sharp criticisms from the Ministries of Chemicals and Fertilisers and Company Affairs, particularly on the autonomy of the proposed board, its powers to fix and regulate prices, and its capability to foster competition.

(FE, 09.10.04)

GAIL Moots Mega Merger

Public sector gas major GAIL (India) Ltd has mooted a proposal for creating a single national hydrocarbon transmission company, which will have unified ownership of the entire network of crude, petroleum products and gas pipelines in the country.

If implemented, this proposal would bring 17,900 km of existing overland pipelines in the hydrocarbon sector and another 16,700 km proposed oil and gas pipeline under the ambit of one mega utility.

On the other front, GAIL has protested the Petroleum Ministry's plans to open up the laying of natural gas pipelines to the private sector, saying that competition in the transmission segment cannot protect consumer interests, as it is characterised by natural monopoly.

(FE, 17.12.04 & BL, 10.10.04)

APM on Oil to Continue

The Government has said that it would continue to administer the prices of sensitive petroleum products, such as diesel, liquefied petroleum gas (LPG) and kerosene, even though a decision to dismantle the Administered Price Mechanism (APM) for the oil sector came into force in April 2002.

"Instead of pretending that the APM has been dismantled, we accept that in the present circumstances, the Government has to have a major role in determining what the fuel prices are", said the Petroleum Minister, Mani Shankar Aiyar.

"We increased petrol prices to import parity and then allowed this consistency to prevail when prices were reduced. This has created an anomalous situation. This needs to be examined", said Aiyar.

(BL & BS, 19.11.04)

Industrial Gas Prices Deregulated

Industrial consumers of natural gas, cutting across all sectors from steel to automobile, glass and electronic, may have to cough up hefty fuel bills, with the Government planning to introduce differential market driven gas pricing.

It is estimated that gas prices for these consumers may go up to a minimum of Rs 5,000 per 1,000 square cubic metre (SCM) from the existing price of Rs 2,850 per 1,000 SCM. This would be first step towards decontrolling gas prices which have remained under administered price, even though the sector was deregulated. Gas prices for power, fertiliser and transportation sectors also will be regulated. *(ET, 24.11.04)*

Plan Panel for Oil Monolith

Though the Government had ruled out a mega merger of public sector undertakings in the state-owned oil sector, in its first formal view on oil public sector undertakings (PSUs) merger, the Planning Commission has recommended creation of one national company, comprising Indian Oil Corporation, ONGC, Oil India Limited and some operations of GAIL. This would result in the creation of a public sector monolith with combined profits of Rs 16,620crore on a total turnover of Rs 1,39,953crore.

According to the Plan panel, the Government can create a single upstream oil company that is primarily focused on oil and gas exploration and production activities. Besides undertaking downstream refining and marketing operations, this integrated national company can invest in equity oil and gas overseas. *(FE, 05.11.04 & 08.12.04)*

Oil Disinvestment upto 49% Open

Contrary to general opinion, the Government is open to disinvesting upto 49 percent stake in oil PSUs. Selling 49 percent and leaving 51 percent stake in Government hands still leaves the Government with enough maneuverability, mentioned a senior Government functionary.

In his opinion, setting up a National Equity Fund is the best course while proceeding for disinvestment. All proceeds from disinvestment would flow into this fund. The Government is only concerned with maintaining the public sector character of PSUs. And that will happen as long as 51 percent of the equity is in Government hands, he added.

(FE, 26.10.04)

Minister Wants Lower Petrol Tax

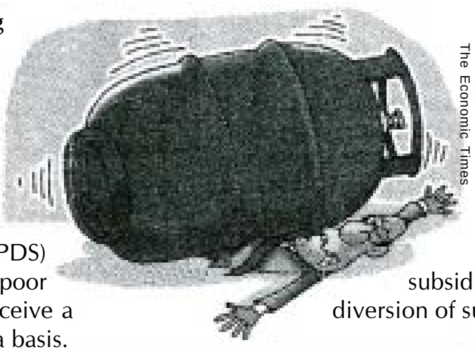
Petroleum Minister Mani Shankar Aiyar is seeking the Prime Minister's intervention to impress upon the states the need to reduce sales tax on petroleum products. In Maharashtra, this is as high as 65 percent.

Aiyar, who has been resisting any increase in prices, wants the states to share the burden of spiralling crude prices in the international market by reducing sales tax on petroleum products. *(FE, 07.10.04)*

Oil & Cooking Gas Subsidies to Go

The Government is considering policies to phase out subsidies on cooking gas while targeting kerosene subsidies for poor people. These recommendations were made in a Finance Ministry report on central government subsidies.

The report has argued that domestic LPG and Public Distribution System (PDS) kerosene subsidies have not reached the poor population. Instead, the urban areas receive a larger kerosene subsidy, on a per capita basis.



The Economic Times

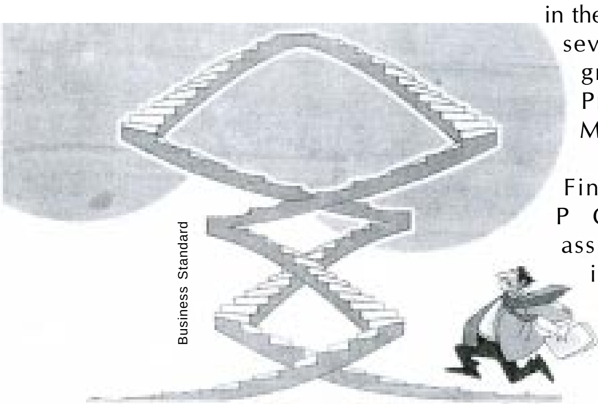
The Finance Ministry has asked for allowing a market environment for encouraging fair and healthy competition to expand the supply and availability of competitively priced kerosene and LPG.

Coupons may be issued to poor ration card holders to purchase kerosene from retailers at subsidised prices. This will also discourage diversion of subsidised kerosene to other sectors.

(ET, 25.12.04)

Infrastructure Regulatory Framework Promised

The government is planning to set up a regulatory framework for infrastructure that would be transparent, independent and based on international best practices. This would create the necessary environment to attract US$150bn FDI in the sector for achieving seven-eight percent growth, announced Prime Minister Manmohan Singh.



Business Standard

In another move, the Finance Minister, P Chidambaram has assured overseas investors that all FDI proposals in the infrastructure sector will be cleared by his government within seven days.

(ET, 20.10.04 & FE, 11.10.04)

Attracting Private Sector

The Union Government has announced the creation of a special cell in the Water Resources Ministry to attract private sector participation in water management and to fine-tune the National Water Policy.

The cell would strive to attract the private sector to come up with innovative projects in the water sector, the Water Resource Minister, Priya Ranjan Dasmunshi, said.

The Minister listed the Water Ministry's priorities in the next financial year, which included setting up of a special cell for speedy clearance of private water projects, making rainwater harvesting mandatory prior to environmental clearance, and persuading states to contribute their share to central schemes.

(BL, 20.11.04 & 22.11.04)

Unprecedented Funding for Infra

India is drawing up plans to use some of its almost US$120bn of foreign exchange reserves to fund domestic infrastructure projects. The initiative has no precedent elsewhere.

India spends just US$2bn a year on its road network, compared with US$30bn spent in neighbouring China. Under the plan, India's central bank would issue a bond of between US$10bn and 15bn, the proceeds of which would go to a public infrastructure fund, which, in turn, would attract private capital.

Critics of the plan say it would be an inappropriate use of India's foreign exchange, as it would add to India's already high fiscal deficit, which is roughly 10 percent of gross domestic product (GDP), if both central and state deficits are included. *(FT, 16.10.04 & BS, 01.12.04)*

PPP Guidelines

The Central Government has issued new guidelines for extending support to public private partnership (PPP) in infrastructure. The guidelines state that the viability gap funding could assume various forms, including capital grants, subordinated loans, operations and management support grants or interest subsidies.

A mix of capital and revenue support could also be taken into consideration under the guidelines, for developing infrastructure.

The funds would be disbursed contingent to agreed milestones and the same would be provided in installments with at least 15 percent (of the funding) to be disbursed only after the project is fully functioning, as per the guidelines.

(HT, 22.12.04)

Delays Cost Transport & Power

It is well-known that government machinery moves at a snail's pace and delays in execution of projects are the rule rather than the exception. It is also known that crores of rupees are wasted due to such delays.

A detailed estimate by Team Manmohan tracked nearly 600 government projects and found that nearly 284 of them were behind schedule, while 149 do not even have a date for commissioning. The net result is an expected increase in costs for these projects, leading to an avoidable expenditure of Rs 47,453 crore.

The worst sufferers are key infrastructure sectors like railways, highways and power. Lack of funds has hit 36 of the monitored projects while land acquisition-related hitches led to delays in 27 cases. Delays in award of contracts and supply of equipment were among other reasons. *(ET, 17.11.04)*

Loan for MP's Water Systems

The World Bank has signed an agreement for a US$340mn loan for Madhya Pradesh (MP) to improve its water structure.

The project is expected to benefit more than two million people living in the selected river basins of Chambal, Sindh, Betwa, Ken, and Ton through improved productivity of water. It is expected to increase agriculture land under irrigation and create substantial both on-farm and non-farm employment opportunities.

The project also considers rehabilitation and modernisation of selected existing irrigation and drainage assets in the five river basins. *(ET, 02.12.04)*

Rs 25,000 cr Infrastructure Project

The state of Uttaranchal is embarking on a massive infrastructure project with private sector participation. The project, which includes setting up a special economic zone (SEZ), an airport and a tourism resort, will entail an investment of over Rs 25,000 crore.

A consortium of companies including Hochtief Airport of Germany, Meteksan Sistem of Turkey, Ooms Avenhorn of the Netherlands, Adani Exports, and Vavasi Telegence will be private sector partners in the venture.

As per the plan, the consortium will set up the SEZ at Pant Nagar along with a ski resort in Munsiyari. The project also includes the development of Pant Nagar Airport to facilitate both passenger and cargo traffic. *(BS, 13.10.04)*

Documenting Natural Resources

The entire nation's natural resources are going to be documented for the first time in a census. Expected to be ready by 2006, the census will also be updated, hopefully every five years, to map the changing nature of India's natural resource reserves.

Terming it as a 'seminal move' for providing information about India's natural resources, Mukund Rao of the Indian Space Research Organisation (ISRO) mentioned that this is the first time that something like this was being attempted at a nationwide level. "This has been done before but only in small pockets" he added.

Carried out by the National Remote Sensing Agency (NRSA) and ISRO, the census data would be available online at three different user levels, namely general individual users, the government and commercial users. *(HT, 04.10.04)*

PSU Revival Policy Soon

The Government has initiated the process of formulating a comprehensive policy for reviving sick PSUs. The policy would chalk out guidelines to identify PSUs worth reviving.

The policy will be executed by the proposed Board for Reconstruction of Public Sector Enterprises.

In the case of sick PSUs, the Board for Industrial & Financial Reconstruction (BIFR) formulates a revival scheme wherever feasible. A comprehensive policy on sick PSUs will do away with the present adhocism, said officials. The policy formulation is in pursuance of the national common minimum programme (NCMP).

There are a number of PSUs, which have been incurring losses for a number of years. In many cases, the entire net worth stands eroded. As many as 68 cases, where the net worth was negative on March 31, 2003, are registered with the BIFR. *(FE, 23.10.04)*

Insurers to Disclose

The Insurance Regulatory and Development Authority (IRDA) has tightened financial disclosure norms by asking general insurers to give details of the reserves maintained for claims that have been paid but not reported adequately in the books of accounts.

In a circular to all general insurers and reinsurers, IRDA Chairman, CS Rao has said that the insurers have to furnish details of reserves kept for 'incurred but not enough reported' claims (IBNR) for all categories of business including fire, marine, cargo hull, motor, engineering, aviation and health.

The regulator also directed the appointed actuaries to furnish their comments on the claim procedures followed by the insurers. *(FE, 25.11.04)*

Shelter for the Poor

While the volume of home loans has increased manifold in the past 15 years, the housing needs of the poor and low-income groups remain unaddressed.

According to the RBI, although credit to the housing sector has been robust since the late 1990s, through scheduled commercial banks as well as housing finance companies, the economically weaker sections of society experience around 90 percent shortage in housing, as per the Tenth Five-year Plan.

Margin money, which is a proportion of the loan to be brought in by the borrowers, is one of the reasons for low financing to weaker sections. In order to solve this problem, the National Housing Bank is promoting India Mortgage Credit Guarantee Corporation (IMCGC), an entity that will guarantee the payment of the principal and interest by the borrower to the lender. *(BL, 30.11.04)*

Fostering Backward Districts

The Union Minister of State for Planning, M V Rajasekharan, said that the Government has identified 137 backward districts for development, and Rs 45 crore will be spent on each of them.

He said that 37 of these districts, which are affected by extremist activities, are in the border areas of the North-eastern States. Most of the remaining districts have very high schedule caste/ schedule tribe populations, and agriculture wages and output are the lowest.

Under the programme, "best practice models", such as agriculture in Punjab and education in Kerala, will be identified for implementation in other states. He further stressed on the need to strengthen the *panchayati raj* system to develop these districts. *(BL, 29.11.04)*

Expert for Competition Panel

The Centre insisted before the Supreme Court that the chairman of the proposed Competition Commission of India (CCI) should be "an expert and not a judge".

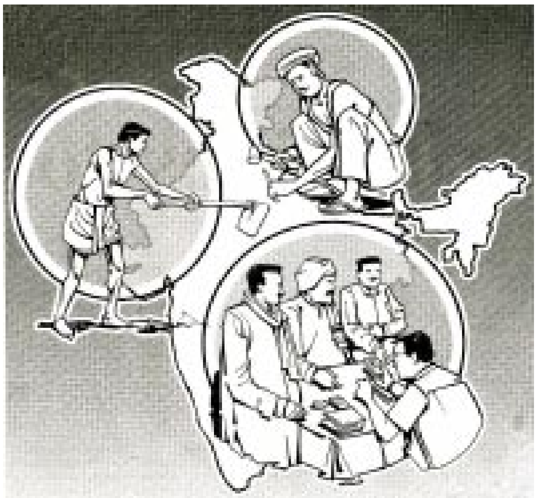
Insisting on a judge to head the body would effect the composition of other regulatory bodies like the TRAI and the Securities and Exchange Board of India (SEBI). It further added that the world over such panels were considered expert bodies. Any judge on such a panel was an expert in his field.

The three-judge bench remarked that since the panel performed adjudicatory functions, it could not be left to the expert alone. The government has suggested establishing an appellate tribunal to hear appeals against orders passed by the commission. *(BS, 27.10.04)*

Employment Guarantee Bill

The Union Cabinet approved the draft National Rural Employment Guarantee (NREG) Bill, to be introduced during the winter session of Parliament.

The Bill aims to enhance livelihood security to poor households in rural areas, by guaranteeing at least 100 days of casual employment annually at a prescribed wage rate, to one member of every poor rural household.



The Hindu Business Line

The scheme will be implemented in 150 districts initially and it would be extended to all rural areas of the country after evaluating its performance in the chosen districts. The wages of labourers would be fixed by the Centre. The focus of the scheme will be on asset-creating public works programmes, and all other existing programmes will be restructured to be part of the scheme. *(BL, 16.12.04 & BS, 29.09.04)*

In a Bill Blow-up, a unique Parliamentary briefing, CUTS has highlighted some areas of concern, such as: lack of specificity about where and when the scheme will apply, no guarantee for minimum wages, inadequate safeguards for women, only one member from each household (vaguely defined) is eligible, the states, most of which are nearly bankrupt, are required to meet 30-40 percent of the cost, focus is only on specific types of works, it gives maximum discretion and power to the Centre to modify or restrict every aspect of the law and finally, urban areas are not covered. The Bill Blow-up, goes on to discuss the different implications of the scheme and suggests areas where the Bill needs reworking.

(For more information, go to www.cuts-international.org/pdf/Bill-Blowup-2-2005.pdf)

Producers to Display Cola Contents

The Rajasthan High Court banned the sale of Pepsi, Coca-Cola and other soft drinks, unless the manufacturers displayed on their bottles a list and percentage of contents in the drinks. According to the bench, since people paid to buy the product, the consumer should know whether it was safe. The companies should display on the bottles a list detailing the quantum of various contents in their soft drinks.

The Economic Times

The petitioners had pointed out that despite adverse comments by a Joint Parliamentary Committee (JPC) and the non-government organisation (NGO), Centre for Science and Environment (CSE), on high pesticide residue in Pepsi and Coca-Cola, the companies were not yet informing citizens about the contents of their soft drinks. The CSE had found many hazardous chemicals and pesticide residue in the soft drinks during its lab tests. *(BL, 09.10.04)*

Unified Food Law

A regulatory body unifying 16 laws pertaining to food safety, hygiene and food control management will be mooted during the budget session of Parliament. This will be combined with formulating a new policy for the food processing industry. The regulatory body could eliminate confusion on standards and quality, said Subodh Kant Sahai, Union Minister for Food Processing and Industries.

The Ministry is planning to introduce an integrated food law with a view to implementing "one law, one window and one regulatory authority" in the country, added Sahai. A committee consisting of a group of ministers has been constituted to submit the proposed law.

Currently, the various laws related to the food sector fall under the purview of seven ministries. Sahai noted that multiple laws and regulations prescribed varied standards regarding food additives, contaminants, colours, preservatives, and labelling.

A comprehensive law is meant to regulate and promote orderly growth in the food-processing sector. The Centre proposed to set up state-level task forces with a view to giving a fillip to the food processing industries. There is also a proposal to assist states in setting up quality laboratories.

(ET, 09.11.04, BL, 05.11.04 & 27.11.04)

Integrated Rural Health Care

Prime Minister Manmohan Singh has given the go-ahead to Health and Family Welfare Ministry's Rs 8,000-crore integrated rural health care scheme. The project will be implemented in 17 states by early 2005.

The Rural Health Mission (RHM) will become the nodal programme of the Family Welfare department. The existing population stabilisation, reproductive and child health and immunisation programmes will be merged into it. The project will also seek to deliver safe drinking water, nutrition and sanitation in the rural areas.

The initialisation period for the RHM in the 17 states is five years. Based on a constant monitoring of the scheme during this period, other backward states in the county will also be introduced to the programme. *(BS, 22.11.04)*

More Micro-credit under Regulator

The Union Government is thinking of introducing a regulatory mechanism, under which a part of the total credit available in the Indian financial system will be lent through NGOs and micro-credit organisations, said P Chidambaram, Finance Minister.

The Minister opined that the micro-credit system was the best in which the poor and needy would get loans, as banks could not directly provide loans to the poor. He added that the Government is emphasising on micro-credit because of the good credit worthiness of self-help groups (SHGs).

The Government had set a target of constituting additional two lakh SHGs by 2005-06 and another two lakhs in subsequent years. *(BL & FE, 29.11.04)*

Law on *Lokpal*

The Prime Minister, Manmohan Singh, said his Government had "mandated" the setting up of an administrative reforms commission to prepare a blueprint for revamping the public administration and asserted that there was a broad agreement to bring the office of the Prime Minister under the ambit of the *Lokpal.*

Stating the absence of the *Lokpal* at the Centre was affecting the working of *lokayuktas* at the state-level, Singh called for "urgently" enacting a law in this regard.

"There is a broad agreement that public functionaries directly or indirectly elected by and responsible to the public such as members of parliament and ministers, including the Prime Minister, should be brought within the purview of the legislation," he said.

In a related development, *Lokayuktas* have recommended changes in the Prevention of Corruption Act, to provide for an independent institution (such as President, Governors, Central and State Vigilance Commissions) to be the sanctioning authority in respect of any offence under the Act.

(BS, 30.09.04 & FE, 22.11.04)

No More 'Inspector *Raj*': SSI Bill

The draft of a comprehensive Bill for the small-scale sector will be introduced in the winter session of Parliament, said Mahabir Prasad, Union Minister for Small Scale Industries (SSIs), pertaining to agro and rural.

The Bill will lay down the framework for the development of the small-scale sector and seeks to cut "inspector *raj*", said Prasad. The Bill will seek to make it mandatory for inspectors to give a 15-day notice prior to inspection. It also recommends that no routine inspection shall be carried out more than once in five years.

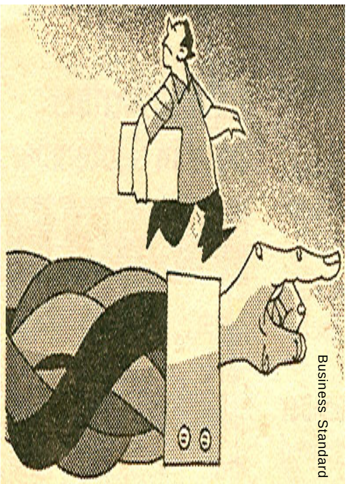
It proposes the setting up of the National Small Enterprises Board that will advise the Centre in formulation of the small enterprises development policy. The Board will recommend measures to improve marketing of products of small enterprises in the country and abroad.

(ET, 15.11.04)

Cutting Red Tape

The Uttar Pradesh Development Council, a high-powered body established by the Government of Uttar Pradesh, is said to play a decisive role in framing policy in the state. Its recommendations are treated as sacrosanct by the state's bureaucracy and implemented with great speed.

Set up in October 2003, on its agenda are policies on infrastructure development; energy; industry and services; and developing Lucknow as an IT and business process outsourcing (BPO) hub.



Some bureaucrats argue that the council has cut through red tape and quickened the decision-making and implementation process. However, others say that the council is usurping the bureaucracy's power of decision making, and bureaucrats should vet all the council's proposals.

Local businessmen too are wary of the council's functioning. They allege that businessmen who have become members of the council, push policies that are favourable to their business interests.

The supporters argue that the council has played a very useful role in transforming the image of UP as a state dedicated to development in general and economic development in particular. The council has strong credibility as its membership consists of prominent entrepreneurs from various fields and different parts of the country.

(BS, 08.10.04)

RBI to Reveal Bank Penalties

In a move that will help protect investors' and depositors' interests, the RBI has decided to disclose the details of penalty and other actions taken by it against banks. The new directive also asks banks to disclose details of such penalties in their annual reports.

Currently, the RBI is empowered to impose penalty on a commercial bank under the provisions of the Banking Regulation Act for contraventions of any provision or non-compliance with any requirements of the Act.

Though the RBI often levies penalties based on inspection reports on banks, this information is not always published.

(BL, 21.10.04)

Pension Regulation Not by IRDA

The Government has decided to introduce a Bill for setting up a regulator for the pension sector. Finance Minister, P Chidambaram said the new legislation would empower the Pension Fund Regulatory and Development Authority to appoint pension fund managers.

The proposed legislation will clearly demarcate the pension sector from the ambit of IRDA, which had pitched for controlling the sector.

The legislation will also lay down guidelines on the number of pension fund managers who will be allowed to enter the sector, prudential norms, investment criteria and the capital requirement for the fund houses. At present, there is an interim pension regulator.

(ET, 12.11.04)

Perform for Chair Promotion

The Ministry of Finance has decided to set performance as a criteria for lateral shifts. This would make public sector chairmen perform. The move will be a shift from the earlier policy of promoting professionals based on seniority only, to sought-after and coveted postings like bigger banks.

An example of this was seen in the case of Canara Bank where V P Shetty was posted as Chairman and Managing Director from UCO Bank. Shetty was responsible for turning around the weak Kolkata based bank during his tenure.

Among the parameters that are likely to be considered are growth in the balance sheet of the bank under the leadership, creation of assets, and improvement in profitability. *(ET, 27.11.04)*

First MDG Report

The Government will prepare the first millennium development goals (MDGs) report by the end of 2004-05. The report, to be prepared by the Ministry of Statistics and Programme Implementation, will indicate India's compliance with the development goals set by the United Nations at the millennium summit in September 2002.

As part of MDGs, there are 18 targets and 48 indicators. Out of these, 35 were social indicators, said Oscar Fernandes, the Minister of Statistics and Programme Implementation. He further added that the Ministry has taken steps to provide a statistical profile of these indicators for its proper monitoring till 2015.

MDGs include halving the 1990 poverty and malnutrition rates, increasing net school enrolment to 100 percent, enhancing education ratio to 100 percent, reducing under-five mortality by two-thirds, reducing maternal mortality by three-fourths and reversing loss of environmental resources. The targets are to be achieved by 2015. *(FE, 04.11.04)*

New Norms for MPLADS

The Statistics and Programme Implementation Ministry will be reworking some guidelines of the MP Local Area Development Scheme (MPLADS).

Presently, each MP is entitled to Rs 2 crore per year for development projects in his/her area, with an upper limit of spending per project being Rupees 10 lakh. For long, MPs have been complaining that the limit was not enough as a particular project may require a budget of more than that amount. This has prompted the rethink on guidelines, and the idea is to change the upper limits.

The Ministry also released a special software for monitoring the work done under the MPLADS. This will make it transparent with details on spending and contracts as well. *(FE & BS, 26.11.04)*

SEBI Gets Stronger Teeth

The Securities Laws (Amendment) Ordinance, 2004, has given more powers to the SEBI. Its penal powers have been further strengthened, with respect to the imposition of penalties on depositories and intermediaries related with it. The regulator can now impose penalties upto Rs one crore for violations.

However, the amendments have given an opportunity to the penalised person or entity to challenge these penalties in the Securities Appellate Tribunal (SAT). The amendments also provide greater powers to the market regulator with respect to regulation of stock exchanges. It can impose a penalty of up to Rs 25 crore for violations by stock exchanges.

(FE, 27.10.04)

Tackling Cyber Crime

Cyber crime is an increasing concern, especially in matters of investment. To restore the confidence of multinational corporations (MNCs) and encourage further outsourcing of jobs (to India), certain loopholes need to be addressed, according to the National Association of Software and Services Companies (Nasscom), which is working on a new draft proposal on cyber laws.

To help tackle cyber crime, Nasscom had taken up a pilot project with the Mumbai police, whereby a cyber crime laboratory has been set up. Considering the success of the pilot project, the initiative will soon be rolled out to other important IT cities in the country.

The country is soon going to have benchmark norms for best practices in cyber security. This will consequently enable it to enhance its security standards and improve its credibility in the global IT industry. The benchmarks, expected to be in place by early 2005, are considered 'vital' for India's success in IT-enabled services, according to Nasscom.

(ET, 23.10.04 & 05.12.04, FE, 08.12.04)

ITC Plans *eChoupal* Expansion

ITC, the Tobacco Company, which has established a strong rural network through its *eChoupal* (web-enabled kiosk in rural areas) initiative, is planning to extend it to other villages. A *choupal* is a village centre where people gather to meet, discuss and network; the *eChoupal* is the point where farmers can acquire relevant information.

The company is working in close association with about 80 Indian agri-input corporations from all sectors, to form a single marketing channel. These corporations provide their services/ products through the *eChoupals*, enabling farmers to procure their needs all under one roof, just by the click of a mouse.

The tobacco major is working to expand the initiative to 15 states covering about one lakh villages, e-empowering one crore farmers. Currently, the initiative covers 21,000 villages in six states, qualifying 24 lakh farmers. As part of its strategy, ITC has decided to bring a self-sufficient scheme right from providing seeds to marketing. *(FE, 24.11.04)*

TCS to Digitally Certify AP Schemes

Andhra Pradesh (AP) has become the first state in the country to procure a Certifying Authority to issue co-branded digital certificates.

State-owned Andhra Pradesh Technology Services (APTS) has signed an agreement with Tata Consultancy Services (TCS), one of India's digital Certifying Authorities, to enable issue of co-branded digital certificates.

The agreement will enable APTS to act as an Issuing Authority of digital certificates for users of all e-governance initiatives undertaken by the state government. The applications include e-Procurement, e-Seva, SmartGov, etc.

(FE, 02.10.04)

Dial Your Troubles Away

The Government of Gujarat has initiated a scheme, 'Tele-Fariyad' for citizens' complaints. Under the scheme, the Government has allotted a dedicated four-digit number, and a complaint can be registered about any state process, by dialling the number.

The complaint is transcribed directly to the Chief Minister's office. If it is not dealt with in a reasonable amount of time, the complainant could end up face to face with the Chief Minister in order to resolve the problem.

The scheme is in addition to the "State-wide Attention of Grievances by Application of Technology" (SWAGAT), in which the Chief Minister himself takes up complaints that have not been addressed at the district level or involve certain policy matters that require top-level decision-making. *(BL, 22.11.04)*

Computerised Complaint Facility

Taking forward the concept of e-governance, the Delhi Police launched a computerised complaint tracking and monitoring system to help people keep a tab on the status of complaints. The system connects 34 investigating units of Delhi Police, across nine districts, into which details of each complaint is fed and a unique identification number given. The aim of the system is to modernise the Delhi Police Force, as well as to restore public faith in its standing and modus operandi.

(BL, 25.11.04)

Punjab *e-sewa* Serves 30,000

In Punjab, a rural e-commerce project, set up by a Jalandhar-based entrepreneur, has done what Government e-governance schemes have failed to do. The "*Jagriti e-sewa kendras*" provide villagers information on agriculture, as well as bus and rail tickets, transfer money, send e-mail, and many more.

Within three months, the project has been adopted in five districts. The project involves setting up of rural information kiosks in nodal villages and other viable locations across the state. Each centre is franchised to educated young people or ex-servicemen in an area, and serves a population of about 30,000.

Besides providing guidance and information, the centre runs on multiple revenue streams, such as sale of mobile phones and calling cards. However, the venture is still struggling to flourish. The entire turnover of the centre is not more than Rs one lakh a month, on which a franchisee makes around Rs 6000.

(ET, 22.10.04)

Streamlining E-governance

E-governance should include simplifying procedures, particularly in case of departments and areas where there is significant customer interface, before the processes are shifted from the real space to the virtual. These suggestions were made by Sam Pitroda, member of the National Advisory Council in a meeting at the Planning Commission.

He further suggested that the Planning Commission should be in charge of process re-engineering, requiring necessary changes in business rules of ministries, which are currently responsible for any process changes.

The Economic Times

In a related development, the central government announced the State-wide Area Network (SWAN) Policy in October 2004 to give a fillip to creation of infrastructure for e-Governance in the States. The scheme is expected to provide a high speed, high capacity reliable government-to-government network connectivity upto the Block level. It would help the States in providing faster, more accessible services to citizens and businesses.

(BS, 08.10.04 & 15.12. 04)

US$150bn in 10 Years

Finance Minister P Chidambaram announced the setting up of a three-member Investment Commission, headed by Tata Group Chairman, Ratan Tata, in the India Economic Summit 2004. The other two members are Housing Development Finance Corporation (HDFC) Chairman, Deepak Parikh, and Chairman of I-One-Source and Ashok Ganguly, former Chairman of Hindustan Lever Limited (HLL).

The Commission would aim at attracting investments worth US$150bn in the next 10 years, with thrust on infrastructure, financial services and agriculture sectors. *(FE, 05.12.04)*

Tatas on Acquisition Spree

The year 2004 was the time for acquisitions for India Inc, which went on a buying spree, spurred by the quest for globalisation and buoyant market conditions.

The Tata Group was on the forefront of acquisitions with two major deals – snapping up of Tyco Global Network by Videsh Sanchar Nigam Ltd. (VSNL) and acquiring Singapore based Natsteel by Tata Steel Ltd. Tata Steel Managing Director Mr. B. Muthuraman said the company's acquisition of Natsteel would provide an easier access to the emerging Asian markets. Another major buy for the group was the acquisition of South Korea- based Daewoo Commercial Vehicle Co. Ltd. (DWCV) for Rs 465 crore by Tata Motors. Even group subsidiaries like Tata Tea Ltd. pitched in with takeovers during the year.

(FE, 28.12.04)

New Initiatives for PSBs

The Government is contemplating new initiatives to bring changes in the banking sector. Public Sector Banks (PSBs) are evaluating consolidation as one of the strategies to increase competitiveness, said P Chidambaram.

Barring a few exceptions, most PSUs, in which the Government has diluted its stake, have done very well post privatisation. The fate of their employees too can be said to be much better, as companies are healthier and surviving on their own steam, not on largesse from the Government Chidambaram also said that consolidation is a timely response to augment efficiency, which would lead to income generation and add to the GDP of the country. *(FE, 15.12.04 & ET, 10.12.04)*

Controlling Drug Prices

Even as the Government attempts to rein in the prices of generic medicines, the Union Minister for Chemicals and Fertilisers Ram Vilas Paswan, said that he was not for price control on drugs, as long as the prices did not hurt consumers.

Taking into account the cost of production incurred by drug companies, he urged pharma companies to exercise 'self-control' over their prices, so that generic or chemically equivalent medicines would not be as expensive as the original branded medicine.

On the other hand, the Indian Drug Manufacturers Association (IDMA) has urged the Government to let competition in the market control drug prices.

(BL, 03.11.04)

Postal Department Miffed

The Department of Posts (DoP) is resisting the entry of courier and express cargo multinationals into the country. The DoP has opposed the attempt by both Global Express and Logistics Major, DHL and Federal Express to set up wholly owned subsidiaries in the country. It argues that the DoP is bearing the entire responsibility of fulfilling the USO, while courier companies capture the creamy segment of the market.

The Government, however, struck down the DoP objections and permitted multinational companies to set up wholly-owned subsidiaries in the country.

(ET, 17.12.04)

External Aid Trickles in Again

There has been improvement in the flow of external aid following a change in the stance of the Government with regard to aggressive pre-payment of external debts. The flow of external aid, which was reversed during 2002-03 and 2003-04, has started trickling in again.

The net inflow of external assistance (net of repayments) during the first quarter April-June 2004 totalled Rs 462 crore as against an outflow of Rs 1,380 crore in the corresponding period last year. There was also a significant improvement in net aid transfer during the first quarter of the current fiscal. *(FE, 29.09.04)*

Booming Textile Exports

The Indian Government has set a target to raise the textile exports to US$50bn, from US$10bn-US$12bn, by 2010. Manufacturers are cautious of investing further because of existing labour laws, which need to be flexible to take into account cyclical employment. Quality is another issue. The Union Textile Ministry is planning to ensue 100 percent implementation of quality certification for small textile units across the country.

According to the officials of Apparel and Handloom Exporters Association (AHEA), frequent changes in quota policy and reduction in duty entitlement pass book (DEPB) rates by the Government, along with the lack of proper infrastructure, affect the competitiveness of the Indian garment exporters in the international market.

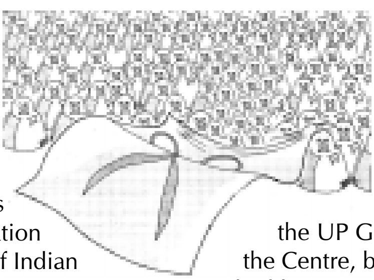
(FE, 09.10.04, 02.11.04 & 25.11.04)

Expert Group for Steel Prices

Triggering off speculation over Government intervention in steel prices, Union Steel Minister, Ram Vilas Paswan, said that an expert working group had been constituted to develop a generic trigger mechanism to deal with price rise of bulk construction materials. He said that the group was studying and analysing various parameters of contractual provisions in this connection.

While washing his hands off the dual pricing scheme, Paswan conceded that prices of most categories of steel increased marginally in October 2004, mainly due to global conditions and domestic revival in construction and other steel-related activities after the monsoons. *(ET, 21.12.04)*

Views on VAT



Business Standard

As Value Added Tax's (VAT) deadline is approaching, Stephen Howes, the lead economist of World Bank, Delhi, said that VAT would be the single most important revenue reform for the States.

VAT panel chairman, Asim Dasgupta said, "A panel would soon be set up as a national body, comprising representatives of apex chambers such as the Confederation of Indian Industries (CII), the Federation of Indian Chambers of Commerce and Industry (FICCI), the Associated Chambers of Conference and Industry of India (Assocham), and trade bodies like Confederation of Trade Associations (CTA), and *Bharatiya Udyog Mandali*." He announced that the existing incentives for trade would be allowed for one year after implementation of VAT.

The Uttar Pradesh (UP) Agriculture Minister, Ashok Bajpai, emphasised that the UP Government had no differences on VAT with the Centre, but preferred to take traders into confidence, as had been promised during elections, before going ahead with the new tax system. *(FE, 02.11.04, BL, 16.12.04 & 21.12.04)*

Free Trade Pacts

There is considerable debate surrounding India's move to sign bilateral trade agreements with countries across the globe. An analysis of the 34 countries with which India has signed Free Trade Agreements (FTAs) or plans to sign, shows that only 11 have a share of more than one percent in the

country's total trade. Moreover, these are such small countries that it seems difficult to imagine how trade between India and these countries could grow substantially over time.

However, there are positives as well. For one, India is now moving towards agreements with some of its bigger trading partners like China, Japan, Singapore and the United Arab Emirates, which are among India's top ten export destinations.

(BL, 21.12.04)

Snippets

The Prime Ministers of India and Japan, Manmohan Singh and Junichiro Koizumi respectively, agreed to set up a multi-disciplinary group to enhance economic ties focusing on trade, investment and information technology.

A phenomenal 1,06,201 cases of income tax, central excise and customs duty recovery, involving more than Rs 30,507 crore were pending in various courts and tribunals as on June 30, 2000, according to data given to Parliament. The Government introduced the National Tax Tribunal Bill, 2004 in Parliament for setting up the National Tax Tribunal, whose role would be to expedite resolution of tax related cases and also facilitate early recovery of tax arrears.

The proposed Employment Guarantee Scheme to be implemented initially in 150 backward rural districts may cost just about Rs 7,500-8,000 crore, according to Planning Commission estimates.

According to a recent Reserve Bank of India (RBI) circular, any transaction where multinationals buy into Indian companies or where fresh issue of shares is made to a foreign company, approvals from the Foreign Investment Promotion Board (FIPB) and the apex bank need not be sought by the foreign entities. This is, of course, subject to foreign direct investment sectoral caps.

The Government is considering scrapping the policy of fixing petrol and diesel prices every fortnight and may instead opt for revising the rates every quarter or even half yearly so as to avoid frequent price changes.

The RBI asked banks to formulate comprehensive and transparent policies for the immediate credit of outstation cheques. The policy formulated in this regard should clearly lay down the liability of banks by way of interest payments, due to delays for non-compliance with the standards set. Compensation by way of interest payment should be made without any claim from the customers.

Heavy tractor loans forced small and marginal farmers of Punjab to commit suicide, reveals a State Government report. Punjab farmers were under a collective debt of over Rs 9,314 crore.

The Central Government is likely to announce a scheme to channel black money into a dedicated fund, which could be used for funding the Government's social sector programme.

When asked what is the difference between India and China, Union Minister for Commerce and Industry, Kamal Nath, said that China sells what it can produce while India produces what it can sell.

(FE, 06.10.04)

Backward States Get More

The Twelfth Finance Commission (TFC) report on the sharing of taxes between the Centre and States for 2005-10 was submitted to President APJ Abdul Kalam.

The TFC Chairman, C Rangarajan, said that the Commission has addressed all the issues mentioned in the terms of reference – tax devolution, grants, debt relief, flow of funds to urban and local bodies and calamity relief. The Commission has ensured that economically backward states get higher share of Central pool of funds for their development. There is a separate chapter on restructuring public finances of both Centre and States, he added. *(FE, 17.12.04)*

Govt., Banks Fail on Promises

Farmers are not yet the beneficiaries of cheaper credit, despite repeated assurances from the Government and understanding with the bankers. The flow of credit to the rural sector is also likely to fall short of target in the current year.

The bankers too have failed to keep up their commitments to contain interest rates to '+/-2 percent ' of the prime-lending rate (PLR) on loans extended to the self-help groups under the rural self-employment scheme.

Speaking about the plight of the farmers receiving crop loans with heavy interest burden, Krishan Bir Chaudhary, Executive Chairman, *Bharat Krishak Samaj* (Indian Farmer's Society), said that when banks can extend loans for purchase of cars at reduced interest rates of 7 to 8 percent, and for house construction or purchase at interest rate of 7.25 percent with recovery period of 20 years, why can't it charge cheaper interest on crop loans.

(Indian Society For Sustainable Agriculture Newsletter, 24.10.04)

Economic Legislations Review

The Government has decided to set up a standing committee, during the second meeting of Prime Minister's Council on Trade and Industry, to review all economic legislations and rules on continuous basis. The committee will have representation from both the Government and the industry.

The issue of reservations in the private sector also came up. Prime Minister Manmohan Singh asked industries to work towards affirmative action in their companies, otherwise government would have to find ways to fulfil its responsibility. Infrastructure development, employment generation, skill up-gradation, issue of ending inspector *raj* and over-regulation were on top of the agenda.

(FE, BL & ET 04.12.04)

FM Moots Common Regulator

P Chidambaram, said that the Finance Ministry is working towards having a single regulator and a common set of regulations for securities and commodity markets, with a view to integrating them further.

The Government is also keen to develop India as a global outsourcing hub for financial services and a trading hub for the global bullion and currency markets. A separate regulator is also being proposed for the pension sector. *(FE, 29.10.04)*

Bhopal Victims Awaiting Justice

Bhopal is still mourning its dead, with little hope of getting out of the shadows of the biggest ever man-made industrial disaster at the Union Carbide Corporation's (UCC) pesticide formulation plant, two decades after the incidence.

There were three major aspirations of the people in the aftermath of the tragedy that has so far claimed 20,000 lives. The first was monetary compensation, the second, punishment to the perpetrators of the crime and the third, a credible assurance against future disasters.

The UCC got away with a meagre financial offering of US$470mn, which is far below India's 1984 claim of US$3bn for an initial estimate of 3,000 deaths. Meanwhile, the hope of getting the UCC Chairman, Warren Anderson, and other officials to face a criminal trial had also been dashed years ago. *(ET, 03.12.04)*

Press Note 18 Must Continue

The FICCI and CII have urged the Prime Minster, Manmohan Singh, for continuation of Press Note 18, stating that such a provision is necessary for Indian investments to be safe.

Press Note 18, issued by the Ministry of Industry in 1998, applies to joint venture companies with foreign partners. This rule prevents foreign partners from setting up wholly-owned companies in the country engaged in the same line of business where the joint venture company operates, without a prior no objection certificate from the Indian partner.

According to the FICCI, in most cases of joint ventures, the foreign partner usually imposes a lot of restrictive provisions on the Indian partner that eventually affect the profitability and future growth of these companies. These include forced sourcing of components from suppliers selected by the foreign partner, restriction on export under Indian brand names, rights to patents and R&D of the Indian joint ventures. *(BL, 06.10.04)*

Standards for Soft Drinks Mooted

Purity standards for soft drinks are to be finalised by a panel of the Bureau of Indian Standards (BIS) soon.

The Carbonated Beverages Sectional Committee, Food & Agriculture Division (FAD) 14 of BIS, in a meeting, decided to form a smaller core committee that would evaluate views received from interested parties and fix standards. This decision was taken at a BIS committee meeting after points of dispute between industry and consumer groups remained unresolved.

Consumer groups wanted "health protective standards" for the caffeine used in soft drinks and standards for the final product sold. They also wanted soft drink makers to have labels (on bottles) that indicate the implications of caffeine in the same font size as the name of the soft drink. Besides, they wanted labels in regional languages, as soft drinks have penetrated rural markets, where literacy and awareness levels of consumers remained low. *(BL, 27.10.04)*

FMCG Counterfeit Big in Delhi

Speaking to the media on the eve of the Consumer Day (23 December), M K Sharma, Vice Chairman of Hindustan Lever Ltd (HLL), said the Indian Fast Moving Consumer Goods (FMCG) market is estimated at Rs 60,000 crore and counterfeiting costs the government a revenue loss of Rs 900 crore in unpaid excise duties and sales tax and costs the consumer goods industry Rs 2,500 annually.

According to a study done by ACNielsen-ORG, counterfeits and pass-offs were most rampant in Delhi, Punjab, Haryana and Uttar Pradesh. Delhi is the capital of counterfeit products for the last three years, accounting for about 50 percent of the production.

"While one aspect is the loss to the industry and to the government, the consumer also gets a sub-standard product, which is unsafe and untested," said Sharma, adding that companies also lose goodwill. Although counterfeit products were sold at half the price to retailers and wholesalers, the consumers paid the same price as for the original. "What is really needed is a law with more teeth and rigorous enforcement", Sharma emphasised. *(BL, 22.12.04)*

Simpler Exit-scheme Soon

The government is working on developing a simplified exit-scheme for companies that would enable them to exit within a period of sixty days.

This scheme would be based on the 'learnings' from the erstwhile Simplified Exit Scheme (SES), introduced earlier in May 2003 that did not attract much attention on account of procedural difficulties. According to Premchand Gupta, Union Minister of Company Affairs, discussions are underway with various trade and commerce institutions and experts to evolve a 'workable and balanced' scheme.

The Ministry is reported to pass the new scheme through an administrative order, and not wait until the amendments to the Companies Act are made. *(BS, 08.11.04)*

CG of Insurance Imperative

The IRDA is contemplating formulation of regulations on the role and functions of the board and directors for the companies in the insurance business.

T K Banerjee, one of the members of the IRDA, reported that corporate governance (CG) norms are being formulated and would be in operation soon. This, he added, was imperative with the opening up of the insurance sector and the resultant convergence of financial products. *(BL, 27.11.04)*

Stricter Norms for Companies

The Ministry for Companies Affairs is likely to put forward a proposal which will require companies to disclose the purpose and utilisation of funds raised by way of public deposits in their balance sheets.

Concerned over the number of complaints received on defaults in repayment of deposits raised by companies, the Ministry had set up a high-level committee to prepare a strategy paper on protecting the depositors' interest and making public deposits a much safer avenue for investments. According to sources, the paper is likely to suggest the formation of an ombudsman, with nominees of the Ministry, the SEBI, the RBI and recognised investor associations, to monitor defaulting companies.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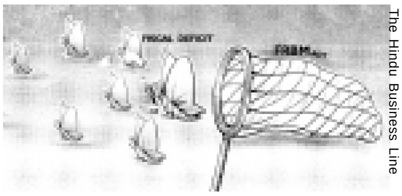
There is also a further proposal that such defaulting companies should be debarred from accepting or inviting any deposits. The existing Companies Act currently only restricts them from inviting deposits and not from accepting deposits. *(BL, 28.11.04)*

FICCI Favours FRBM Laws in States

India's growth and human development will take a hard knock unless the productive expenditure across states is drastically improved through restructuring and revenue reforms, according to the study 'State Finances in India: a Move Towards Sustainability' by FICCI.



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The study has expressed concern over the steady rise in the debt to GDP ratio of the states in the past decade. States such as Bihar, Uttar Pradesh, Madhya Pradesh and Rajasthan have run up high debt levels in the process.

Legal mechanisms on the lines of the centre's Fiscal Responsibility and Budget Management (FRBM) Act have been suggested by FIICI to put state finances on an even keel. The study has recommended steps to ensure that all states set deadlines for the reduction of revenue deficits. *(FE, 19.12.04)*

WB Lists out Fiscal Reforms

The World Bank (WB) has suggested a host of institutional reforms designed to strengthen India's Centre-State fiscal transfer system.

In the report titled 'State Fiscal Reforms In India: Progress and Prospects,' the WB has suggested that the Finance Commission be made a permanent body. It has also recommended an overhaul of the role of the Planning Commission with respect to state finances.

The report has noted that one major source of difficulty in implementing reforms in the system of Centre-State transfers is that different central actors determine diverse components of central transfers.

The Bank has argued that making the Finance Commission a permanent body (as it is in Australia) would improve coordination and data collection. It has also recommended that the responsibility for compiling timely state level fiscal data be entrusted to a single agency.

On examining the role of the Planning Commission with respect to state finances, the report has made a case for elimination of the distinction between "Plan" and "non-Plan" expenditures. It also held that the practice of providing Planning Commission approval for a 'Plan size' for each state has little justification. *(BL & FE, 23.11.04)*

India No. 3 in FDI

India has leapt up the ranks of the world's most attractive investment destinations, to third place from 15th two years ago, according to a survey by management consultants AT Kearney.

China still remains the most attractive destination for FDI, leading the US for the third year running. In fact, for the first time, India has displaced the US to become the second-most favoured FDI location among manufacturing investors.

The executives, who were surveyed, viewed China and India as different markets – China as a manufacturing hub and growing consumer market, and India as the world's leading business process and IT service provider.

As per the survey, while India is likely to attract a large number of projects, it may not attract large amounts of FDI, because services are not capital intensive. The survey suggests that investors favour China over India for its market size, access to export markets, government incentives, favourable cost structure and macroeconomic climate. *(FT & FE, 13.10.04)*

Highest Fuel Price

If high petrol and diesel prices are a burden on Indian consumers, then highly-subsidised kerosene and cooking gas try to make up for it.

A comparison of the pricing of petroleum products in the sub-continent reveals that consumers in Pakistan, Bangladesh, Sri Lanka, and Nepal pay substantially more for kerosene and cooking gas than the Indians. They may be poorer than India, but these countries seem to have moved to a completely market-determined pricing policy.

The pricing structure in India is, however, skewed against petrol and diesel consumers. Multiple taxes on petrol have ensured that the selling price of petrol is more than double its original price (without customs and excise duties and sales tax). *(FE, 01.12.04)*

State Reforms Commandments

A WB report has come out with 13 commandments to enable state governments and the Centre to deal with fiscal reforms for achieving development goals.

The suggestions are aimed at reining in expenditure, particularly the wage and pension bill, improving revenues through more efficient tax systems and better sharing of resources between the states and the Centre, and fiscal discipline.

Though there has been an improvement in the fiscal condition of some states after the crisis of the 1980s, the overall trend is that revenue deficit is not going down and debt levels continue to increase. Indian states are among the most indebted in the world.

Of concern is the manifestation of a "reform fatigue". For instance, the reversal of reforms by many state governments after the last elections. While some state governments have enacted fiscal responsibility legislations, most have not acted on it. According to the report, there is no choice but to follow the 13 commandments, if the fiscal deterioration has to be arrested. *(BL, 22.12.04)*

State of Competition

Healthy competition can help states progress, as per the State Competitiveness Report 2004, brought out by the National Productivity Council. The report says, "the guiding principle has shifted from entitlement to competition."

The report used 95 socio-economic and technological criteria to rate states on five competitiveness factors: economic strength, business efficiency, governance quality, human resources and infrastructure.

Where overall competitiveness is concerned, Maharashtra emerges at the top, followed by Punjab, Gujarat, Karnataka and Kerala. States that are at the bottom include Assam, Uttar Pradesh and Bihar. *(FE, 31.12.04)*

India Performs Poorly on GCI

India may have moved up on AT Kearney's Index of attractive destinations for FDI, but it remains stuck firmly where it was in 2003, as far as the World Economic Forum's (WEF) competitiveness indices are concerned.

India's Growth Competitiveness Index (GCI), which aims to gauge an economy's ability to achieve sustained economic growth over medium-to-long-term, has improved marginally. Its Business Competitiveness Index (BCI), which evaluates the underlying microeconomic conditions defining the current sustainable level of productivity, is the same as that of 2003.

India has done poorly on all the three constituents of GCI: the quality of the macroeconomic environment, the state of public institutions and technological readiness. *(BS, 14.10.04)*

SSI: Greater Employment Potential

The small scale industries (SSI) sector, despite lack of demand and shortage of working capital, has generated more employment per rupee of investment than the organised sector. Nearly eight percent of SSI units are sick, however, their average investment-output ratio is almost at par with that of the organised sector. This is brought out by the third all-India SSI census.

An investment of Rs one lakh in the SSI sector generated 139,000 jobs as against 20,000 in case of large-scale companies.

Sickness in the sector was attributed to reasons including power shortage, problems with labour, equipment and non-availability of raw materials, and management related issues. *(FE, 04.10.04)*

Comparative study

Type of sector/ indicator	Small scale	Organised/ large
Employment generation on an investment of Rs 1 lakh	139,000	20,000
No. of people employed by investing Rs 5 lakh	700,000	100,000
Investment-output ratio	An investment of Rs 48,000 yields an output of Rs 1 lakh	An investment of Rs 43,000 yields an output of Rs 1 lakh

The Financial Express

Greater Economic Freedom

India has been ranked 68th out of 123 countries by Vancouver-based Fraser Institutes' Economic Freedom of the World (EFW) Index 2004. The index measures the "degree to which policies and institutions of countries are supportive of economic freedom" i.e. freedom to compete, personal choice, voluntary exchange and security of private property.

India has come out with flying colours among neighbouring South Asian Association of Regional Cooperation (SAARC) countries. It has the highest score of 6.3 out of 10, while Nepal has the lowest (5.6).

The report says India has improved its score since 1990. However, it laments that "labour markets in India have remained untouched by the wave of liberalisation". Only Nepal and Myanmar have more rigid labour markets than India in this region. The report blames the restrictive labour laws and industrial dispute rules for the jobless growth being witnessed by India.

As regards business, the report finds India still heavily regulated. The worst area of business regulation is price control by government, directly or indirectly, over many goods and services. *(FE, 12.11.04)*

Tough to do Business in India

When it comes to doing business across the globe, India still presents the most challenging obstacle course for entrepreneurs. Compared with global benchmarks, it is as difficult to start a business in the country, as it is to keep it running or even to close it down.

For instance, it takes about 89 days for a business to get registered formally in India, as against the global benchmark of just two days in Australia. Further, it requires an astounding 10 years for a company to go through the insolvency process in India, as against just four months in Ireland, a World Bank study has revealed.

It emerges from the study that tiresome entry procedures for starting business, inflexible regulations governing hiring and firing of workers, inefficiencies in property registration, legal hurdles in enforcement of contracts, lack of access to credit and the extensive amount of time taken for winding up sick businesses are some of the areas where companies face big setbacks when doing business here.

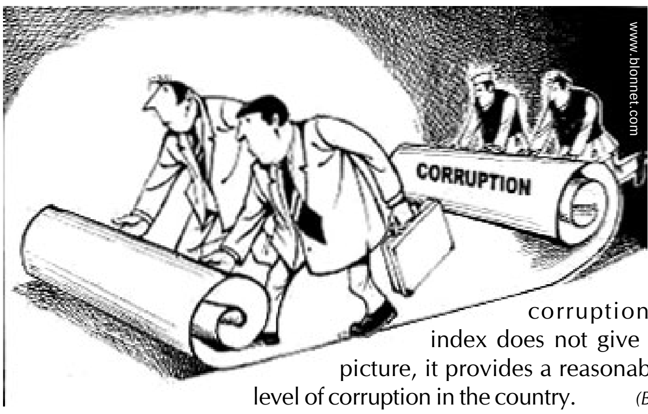
(BL, 30.09.04)

Corruption on the Rise

India has slipped further in the corruption perceptions index (CPI) in 2004 and is ranked 90th on a list of 146 countries, according to Transparency International ratings. India was ranked 83rd in 2003.

India shared the 90th slot with Russia, Nepal, Tanzania, Malawi, Gambia and Mozambique. The title of the most corrupt country has been claimed jointly by Bangladesh and Haiti. Finland retained its image as the "cleanest" country.

According to the Chairman of Transparency International India, the kind of corruption the ordinary person faces in India is something that is not even heard of in the developed countries. Bribery in government-procurement related contracts and other activities cost India tax-payers a whopping US$7000mn, according to the report.



Though the corruption perception index does not give the complete picture, it provides a reasonable idea of the level of corruption in the country. *(BS & TH, 20.10.04)*

Shady MPs

A study by the Bangalore based Public Affairs Centre (PAC) reveals that almost one-fourth of the over 540 people elected to India's Parliament in 2004, face criminal charges ranging from murder to extortion and even rape.

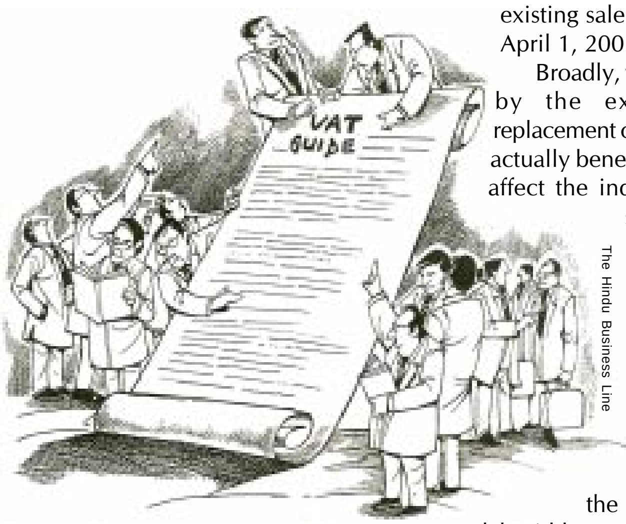
The report is based on affidavits filed by politicians before they fought polls to the lower house of Parliament, under a new rule enforced by the Supreme Court to improve transparency and probity in public life.

Indian election laws allow politicians facing criminal charges to run for public office, debarring them only in case of convictions, which are rare in an overloaded and imperfect judicial system.

More than half the members of the lower house of the Parliament have assets of over Rs 50 lakhs, in a country where a quarter of the 100 crore-plus population lives on less than Rs 50 day, the PAC study finds. Real estate is the most popular asset. MPs of Congress Party, for long the country's party of power, account for more than half the assets of all MPs. The Communists have the least wealthy lawmakers. *(FE, 31.10.04)*

Debate on VAT

Economists like Dr Ashok Mitra and Prof Nirmal Chandra have called for a fresh debate on the impact of value added tax (VAT), which is set to replace the existing sales tax structure from April 1, 2005.



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Broadly, the questions raised by the experts are: will replacement of sales tax with VAT actually benefit the states? Will it affect the independence of the states in a federal structure?

Citing the fiscal and legal dimensions of such a move by the centre, the experts opined that this may further debilitate the financial muscle of debt-ridden states.

According to Prof Chandra, the concept of a uniform VAT rate among states in a federal structure was sheer myth. The experts fear that VAT may even introduce greater regional imbalances. *(BL, 04.11.04)*

Need for Goods & Service Tax

India needs goods and service tax (GST), not only to solve its fiscal problem, but to also move to a high growth path, opined Vijay Kelkar, former advisor to the Finance Minister.

The GST is an all-encompassing 20 percent tax he has proposed on goods and services we consume, to be shared between the centre and states. In one go, it will replace octroi, stamp duties and other assorted taxes that actually add up to nearly 30 percent; are difficult to collect; and encourage evasion and corruption. Even Pakistan, Bangladesh and Sri Lanka have switched to GST.

According to him, the next two decades are a once in a lifetime opportunity for high growth, because the demographics are such that India will have its highest-ever share of the working population. After that, the society will start to grey.

In India, with services virtually not being taxed, most of the burden falls on sectors like manufacturing. The high taxes are killing its growth and preventing it from tapping foreign markets. *(IE, 04.10.04)*

Under-investment in Social Sector

The Indian economy has suffered from a chronic under-activity of the Government in some fields (particularly in basic education and primary healthcare), while being over-active in others (for instance, licence *raj*), said Nobel Laureate Prof Amartya Sen. While the 1992 reforms attempted to address the latter problem in a visionary way, it did not go far enough in addressing the former one.

The present Government seems to be much more committed to removing that imbalance. The under-investment in the social sector is now more fully recognised.

On the Employment Guarantee Bill, Prof Sen cautioned that there are questions of financing and resources; the division of the burden between the Centre which has to bear much of the costs and the states, which have to take much of the actions. Besides, there are problems of implementation, including prevention of corruption, which has much potential whenever money changes hand.

Prof Sen observed that education and healthcare, as well as expansion of physical infrastructure, directly add to the productive capabilities of the people. Employment itself will not do this, and there is need for effectively channelling the work that would be supported by employment guarantee schemes.

(FE & BL, 18.12.04)

Independent Water Regulator

Experts, who had gathered for a workshop on "Governance and Regulation in Water Sector" stressed on constituting an independent water regulator and rationalising tariff for water sector reforms.

Taking the example of Rajasthan, it was mentioned that despite having different costs of supply in different cities, the revenue in the entire state is almost the same – an indicator that rationalisation of tariff is urgently needed.

The purpose of having a water regulatory mechanism is not to privatise the operations but to make them financially viable, thereby attracting private initiative and the development of essential infrastructure.

Sharing the experiences of the Australian regulatory model, Paul Reiter, Executive Director of International Water Association, said independent regulators had given excellent results in the last 10 years, whereby operational expenditure had come down and water tariff had also reduced in some cases. *(HT, 22.11.04)*

Accentuating Agro-forestry

Prominent environmentalists, experts on agro-forestry and afforestation feel that the national vision of bringing 33 percent of the geographical area under tree cover can be realised through agro-forestry.

Participating in a National Workshop on Agro-forestry, experts also feel that farm-grown timber and wood should be removed from the negative list of exports to promote agro-forestry.

Agro-forestry should find an important place in the schemes being funded by the Union Ministry of Environment and Forests. It should also be included as an important sub-component of the National Employment Guarantee Scheme aimed at providing rural employment.

The participants suggested that there should be organised marketing through the Government and active participation of the agro-forestry based wood industry.

(TH, 24.11.04)

Corruption Distorts Competition

Corruption seriously distorts competition and market forces, resulting in loss to the honest entrepreneur, consumer and state exchequer, says Jayaprakash Narayan, national coordinator of the *Lok Satta* movement and *Janadesh*.

Corruption in indirect taxes has horrendous consequences. An honest entrepreneur is harassed and sometimes driven out from business. What's more, those manufactures that collude with the taxman and evade all taxes, end up with a reduced cost of production, giving a serious threat to honest entrepreneurs.

Fortunately, corruption has declined significantly over the decades. Wherever new technologies ensured transparency, rent-seeking disappeared. Computerised reservation of rail tickets is one example. Besides, fair competition and dismantling of the licence *raj* dramatically reduced corruption. *(FE, 03.11.04)*

Rural Employment Bill Diluted

Participants who gathered at the seminar on "Employment, Rights of the Working People and Democracy" criticised the Central Government of sabotaging the NREG Bill by diluting its provisions.

While the draft, approved by the National Advisory Council, made it applicable across the country, it would be implemented in the notified areas with no guarantee for minimum wages, said Jean Dreze, a leading development economist. He added that the Bill had been made "poor-centric", whereas the fundamental principle of the Employment Guarantee Act was to make it a universal act and not restrict it to just the poor households.

Expressing unhappiness over the provisions of the Bill, Indira Jaisingh, Supreme Court lawyer, said that confining employment to one member of the family would deprive women of employment, as men would be given preference in a household.

Rajender Sachar, the former Chief Justice of the Delhi High Court and human rights activist, expressed surprise that the Government was not guaranteeing any minimum wages for the employees under the scheme. *(TH, 18.12.04)*

Victim of Subsidy

The fertiliser sector was a victim of subsidy and not the culprit, opined K A Nair, the President of Godavari Fertilisers and Chemicals Ltd. He wanted the Government to either take into account the cost structure in determining the subsidy content or route the subsidy directly to the farmers.

In a separate statement, FICCI has appealed to the Government for a consistent policy on fertilisers and announcement of subsidy scheme well before the season. The Government should assess the requirement of all types of fertilisers much before the season and also announce the quantum of subsidy on each class of fertilisers to be distributed to farmers. This would enable the importers to negotiate well for reasonable prices.

Delay caused a problem of rise in prices, and often cancellation of orders. Piece meal approach like shifting from retention pricing scheme to group retention pricing scheme will be of no avail.

(FE, 04.10.04 & BL, 09.11.04)

Creating Demand for Labour

Blaming earlier policies for discriminating against labour intensive sectors and leading to significant deceleration in employment, Planning Commission Deputy Chairman, M S Ahluwalia said that policies should focus on generating demand for labour and increasing productivity.

Sounding apprehensive about the benefits of employment schemes of the Government, Ahluwalia said any number of employment programmes would not benefit more than five million of the 400 million labour force of the country directly.

Be that as it may, it is important to recognise that employment programmes have an important supportive role to play in the economic system, by providing low-end employment for minimum economic security.

He highlighted the need for a complete revamp of industrial training facilities through public-private partnership, so that curriculum was designed according to market demands. *(FE, 10.12.04)*

Inadequate Workforce Data

A vast majority of Indian women work throughout their lives. The irony is that this fact is not officially recognised. Statistics on workforce participation rates continue to show low figures for women workers.

National data collection agencies accept the fact that there is a serious underestimation of women's contribution as workers. One of the reasons for this huge discrepancy between the recorded data and the facts is that the information is confined to monetised work.

Consequently, most of the work that women do – collection of water, fuel and fodder, cooking, care of the children and elderly, and unpaid work on family land or in family enterprises – is made invisible and not considered in national estimates.

On the earnings side, there is no infrastructure for implementation of minimum wage legislation in sectors like agriculture and home-based work, where women workers are concentrated. There is not a single state in India where men and women are paid the same wage for the same work. *(FE, 24.11.04)*

Right to Information Act, a Must

If democracy has to be truly participatory and the country has to progress, the people have to be empowered with the tools to monitor their lives with the right to know, to ask questions and get answers, says Aruna Roy, a member of the National Advisory Council.

Enforcing the accountability of the state is based on a fundamental democratic right to know and transparency is of utmost importance. The Right to Information campaign was begun by the poor, fighting for their right to live, and it was then consolidated by people outraged by the squandering of resources, she added.

The previous Government, in response to a Supreme Court directive, passed a toothless Freedom of Information Act, but failed to notify the act for two years. Certain amendments have been suggested by the National Advisory Council to make the Act more progressive and giving it the required teeth. However, the bureaucracy has expressed reservations on some amendments.

The Prime Minister, with his genuine concern for improvement in 'delivery systems' and 'governance', should drive the notification of a law, which would ensure transparency, accountability and people's right to get straight, honest answers, to their questions. Otherwise, we will continue to spin in the balloon of unkept promises. *(TH, 02.12.04)*

Time for Bold Reforms

The time was opportune for the country to go forward with "bold reforms" by taking advantage of policies aimed at global integration, said P Chidambaram.

Restoring the health of public finances is one of our topmost priorities. He further stressed that more fiscal steps would be taken, if

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needed, to stem inflation. Fiscal and monetary measures, such as cutting customs and excise duties on petroleum products and steel, as well as increasing the cash reserve ratio of commercial banks have already been adopted for reining in prices. *(TH, 18.11.04)*

Regional Development in India

Nitya Nanda*

Unity in diversity! This is how many people have described India. Indeed, the variation across 29 states and six Union Territories is enormous in terms of physical geography, culture and economic conditions. Also, there are enormous differences even within the states. While we take pride in the geographical and cultural diversity, the divergence in economic conditions can hardly be a cause for satisfaction. Obviously, the new Government at the Centre intends to address the issue, which has got significant attention in its Common Minimum Programme.

The per capita state domestic product (SDP) varies from the poorest State, Bihar, at about Rs 6,300, to the richest, Maharashtra, at about Rs 23,400, almost four times. Growth performance has been equally varied, with low growth rates in the state per capita income in the poorest States like Bihar, Orissa, Uttar Pradesh and Assam and much higher growth rates in relatively better-off States like Maharashtra, Gujarat, Tamil Nadu, Karnataka and West Bengal.

A few important questions arise: To what extent do they reflect differences in economic policies at the state and Centre levels? To what extent are they determined by non-economic factors? How will the ongoing economic reforms impact on these – will the reforms tend to make the rich states richer, with the poor states lagging even farther behind, or will the market reforms lead to a reduced disparity across the states?

Incidentally, the issue is not particular to India only and it has been discussed and debated in the context of many other countries and regions. Several studies of high-income market economies, undertaken during the 1990s in the US, Japan and regions within Western Europe, found evidence of a strong blending among regions. Anyhow, such convergence could not be found in China. During the initial phase of economic reforms, the dismantling of the communes and partial liberalisation of food production gave a boost to the food-producing regions. In the later phase, when international trade became the driver of growth and industrialisation picked up, the coastal regions became the major beneficiaries and the trend continues till date.

In India, the economic reforms, initiated in the 1990s, did not touch the agricultural sector. However, in the post-reforms era, the fast growing major States are Maharashtra, West Bengal, Gujarat and Tamil Nadu, all being coastal. It may, on the other hand, be noted that the first impetus to national growth came via the Green Revolution, which led to sharp increases in grain productivity in States like Punjab and Haryana. While these were the two richest States in 1990-91, their growth rates of per capita SDP in the 1990s were not only lower than in the 1980s, but they also, in both the cases, actually fell below the national average. After 1991, it seems that the market forces and international trade have been playing a larger role.

In China and India, it appears that geographical variations across regions may lead to a change in economic conditions. One may, of course, wonder why the experience was so different in the US, Japan and Western Europe? In Japan, 97 percent of the population lives within 100 km of the coast, whereas 89 percent of the Western European population, on an average, lives within 100 km of the coast or a navigable waterway. The US, it would seem, is much more like China or India, with a large proportion of the land area far from the sea. Yet, surprisingly, 65 percent of the US population lives within 100 km of the coast or an ocean-navigable waterway.

The most likely site for sustained manufacturing growth in India, like China, is along the coast, especially in four States: Maharashtra, West Bengal, Tamil Nadu and Gujarat. Four other states – Karnataka, Kerala, Andhra Pradesh and Orissa – also have a significant coastline, though they have not been able to take advantage of this so far. But, they have a significant future in the long run. Manufacturers in interior regions can certainly service the domestic market, particularly in consumer goods, such as processed foods.

High-tech services, such as the information-and-communications-based industry, or financial services, are almost always reliant on availability of highly skilled labour. The most important State for the service sector activities is, undeniably, Maharashtra, as it combines the country's financial centre with an important IT-based industry. Other key States include Tamil Nadu, Karnataka, Delhi, and, to a lesser extent, Andhra Pradesh and West Bengal.

The tourist sector can also be a source of export-led growth. The tourist potential is, of course, very much geographically determined, as it depends on the physical environment (e.g., beachfronts), the presence of historical sites and easy access to transport modes, especially international airports.

Regional disparity, it appears, is going to stay. In China, there is a restriction on internal mobility of labour, which is not the case in India. Nevertheless, agriculture being the mainstay of a large majority of our population and people being rooted to land, migration is not yet able to offset geographical factors. In any case, people living in extreme poverty and without education are unlikely to find significantly better opportunities outside their states. Thus, the landlocked backward states require huge public investments, especially in education, so that agriculture and agro-based industries get a boost. They also need to develop better transport and communication linkages with coastal cities/states. Migration, on a larger scale, will take place at a later stage, when there is a meaningful structural shift in favour of non-agricultural sectors, to take care of regional disparity.

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* *Policy Analyst, CUTS C-CIER*

Is Reservation in the Private Sector Warranted?

The NCMP has emphasised the need for affirmative action for the socially disadvantaged sections of the people in the private sector. Accordingly, a Group of Ministers (GoM) has been formed to look into the issue. The Prime Minister, Manmohan Singh, is in favour of a national policy on job reservation for the weaker sections in the private sector, though not by legislation.

Industry is, however, against any form of reservation or job quota being forced upon them. The CII has come up with an alternative to job quotas in the private sector, which involves uplifting the skill set and employment generating ability of the disadvantaged sector. The debate continues. Here are some views:

Reservations will be a Grave Mistake

A three-pronged strategy has to be adopted to bridge the gap between scheduled castes and scheduled tribes and the more privileged strata of our society.

Stunning data reveal that the educational conditions of scheduled castes and scheduled tribes are abysmal. The Government must first of all take urgent action to correct this situation and the private sector will be only too happy to get engaged in this job.

The second dimension of correcting wrongs must focus on entrepreneurship development efforts, targeting the disadvantaged. Loan programmes and guarantees, and capital access programmes (CAP) etc have to be introduced with accountability and transparency.

Thirdly, the Government must consider offering substantive incentives such as tax breaks and preference in government procurement to any enterprise that has a certain prescribed degree of representation of the disadvantaged community in its work force.

Such a three-pronged strategy is well tested in the world and consistent with the overall government approach of "competition with a human face". Reservations and quotas would be a grave mistake, the ramifications of which will distort and cripple the private sector in the midst of rising global competition.

Amit Mitra
Secretary-General
FICCI

Reservation has Increased Employment

The arguments behind the industry opposition to reservation in the private sector are neither based on economic theory nor empirical fact.

Firstly, anti-discrimination strategies of market intervention in the form of reservation/affirmative action improve market competitiveness, economic performance and access of discriminated groups to jobs. Thus the argument by the industry that discrimination strategies reduce competitiveness and efficiency is a myth, not supported by theory.

Secondly, the industry argument that discrimination in employment is absent, precluding introduction of affirmative action, is another myth. Sample studies show that a mere one-third of the private sector recruitment is done in a transparent manner, through advertisements of posts and employment exchanges.

Thirdly, public sector reservation has not helped the deprived, and, therefore, alternative strategies are necessary is another myth. Public sector reservation has significantly increased employment for the scheduled castes/scheduled tribes.

Their last argument is that alternative policies will serve better than reservation policies has some justification. However, education alone will not help unless it is supplemented by fair access to jobs to discriminated groups.

Sukhdeo Thorat
Director,
Indian Institute of Dalit Studies and Professor of Economics, JNU

Provide Benefits to Deprived

Employment — whether private or public — is a means of social levelling.

A deliberately conscious attempt to secure it to those who were designedly denied the same in the past is an attempt to do social and economic justice to them, as ordained by the Preamble and the mandate of Article 16 of the constitution. To enforce the principle of affirmative action in the private sector has become a compulsion when the public sector is being dismantled so rapidly.

The Government should also give affirmative discriminatory treatment to business owned and controlled Dalits and most backward classes in its procurements. It is not only jobs but business opportunities that need to be opened to *Dalits.*

Rajinder Sachar
Former Chief Justice, High Court, Delhi, and also former president, Peoples Union for Civil Liberties (PUCL), India

Reservation is Poor Remedy

The Government should realise that that the continuing dependence of the Indian state on reservation to empower the deprived is a confession that it has made no headway in ending inequality of opportunity in access to quality education and jobs. Without any accompanying movement of social awakening among the target communities, reservation has degenerated into no more than a race for systemic spoils, which has only served to create new layers of elite.

There is need for a popular Renaissance, besides, of course, enhancing delivery. Only within that scheme would reservation, if it's used judiciously, cease to be a mere political rhetoric. *(Editorial, ET, 07.10.04)*

Industry Must Lead

Calling for job quotas in the private sector is a facile tokenism, in the absence of concerted action to raise individual skills and accumulate social capital among the oppressed castes. Therefore, policy intervention is required to draw all groups into the mainstream of growth and empowerment. However, it has to be designed to avoid either impairment of efficiency or reinforcement of perceptions of group inferiority. The experience of five decades of quotas must be honestly reviewed before any new initiatives.

The failure of official schemes of affirmative action is no excuse for industry inaction. Since liberalisation has given the private sector not only greater freedom and dynamism, but also the role of prime mover in wealth creation, it has new responsibilities. It should take the lead, rather than wait to respond to governmental initiatives.

(Editorial, ET, 08.12.04)

Grameen Bank: Rural Poor can Bank upon*

Introduction

Grameen (Rural) Bank Project was born in the village of Jobra, Bangladesh, in 1976. In 1983, it was transformed into a formal bank, under a special law passed for its creation. It is owned by the poor borrowers of the bank, who are mostly women. Borrowers of *Grameen* Bank at present own 94 percent of the total equity of the bank. Remaining 6 percent is owned by the Government.

The origin of *Grameen* Bank can be traced back to 1976 when Professor Muhammad Yunus of the University of Chittagong launched an action research project to examine the possibility of designing a credit delivery system to provide banking services targeted at the rural poor. The Grameen Bank project came into operation with the following objectives:

- Extend banking facilities to rural population of both men and women
- Eliminate the exploitation of the poor by money lenders
- Create opportunities for self employment in rural Bangladesh
- Bring the disadvantaged, mostly women from the poorest households, within the fold of an organisational format which they can understand and manage by themselves
- Reverse the age-old vicious circle of "low income, low saving and low investment", into a trajectory of "low income, injection of credit, investment, more income, more savings, more investment, more income".

Grameen Bank has reversed conventional banking practice by removing the need for collateral and created a banking system based on mutual trust, accountability, participation and creativity. *Grameen* Bank provides credit to the poorest of the poor in rural Bangladesh, without any collateral.

Grameen Bank vs Conventional Bank

Grameen Bank methodology is almost the reverse of the conventional banking mode. Following are a few important points of distinction between the two systems:

***Grameen* Bank**	**Conventional Bank**
It methodology is not based on assessing the material possession of a person, it is based on the potential of a person.	Conventional banks look at what has already been acquired by a person.
Its objective is to bring financial services to the poor to help them fight poverty, stay profitable and financially sound.	Its objective is to maximise profit.
It gives high priority to women. 96 percent of *Grameen* Bank's borrowers are women. Their branches are located in the rural areas.	Conventional banks focus men. They try to locate themselves close to business districts and urban centres.
There is no legal instrument between the lender and the borrower. There is no stipulation that a client will be taken to the court of law to recover the loan.	Conventional banks go into 'punishment' mode when a borrower takes more time to repay a loan.
Under no circumstances can total interest on a loan exceed the total amount, no matter how long the loan remains unpaid.	Charging of interest does not stop unless specific exception is made to a particular defaulted loan. Interest charged on a loan can be multiple of the principal, depending on the loan period.
All interests are simple interests in *Grameen* Bank.	Interest on loans is generally compounded.

Functioning of *Grameen* System

Intensive discipline, supervision, and servicing characterise the operations of the *Grameen* Bank. The rigorous selection of borrowers and their projects by the bank workers, powerful peer pressure exerted on these individuals by the groups, and the repayment scheme based on 50 weekly installments, contribute to the operational viability of the rural bank system designed for the poor.

Grameen credit gives high priority on building social capital. It is promoted through formation of groups and centres, developing leadership quality through annual election of group and centre leaders, who elect board members, even though the institution is owned by the borrowers.

The success of this approach shows that a number of objections to lending to the poor can be overcome if careful supervision and management are provided. The landless have benefited the most, followed by marginal landowners. This has resulted in a sharp reduction in the number of *Grameen* Bank members living below the poverty line, 20 percent compared to 56 percent for comparable non-*Grameen* Bank members.

Unique Features

- Since the bank does not wish to take any borrower to court in case of non-repayment, it does not require the borrowers to sign any legal instrument.
- Loan recovery rate for *Grameen* Bank is 98.85 percent.
- *Grameen* Bank finances 100 percent of its outstanding loans from its own funds and the savings of its depositors. *Grameen* bank has decided not to take donor money or even take loans from local or external sources in future.
- Grameen Bank's interest rate is lower than government rate.
- Even beggars can become members of the grameen bank. It offers interest free and long term loans to beggars.
- Scholarships are given to the children of *Grameen* members, with priority to the girl child.
- The system has a Grameen Network of companies such as *Grameen* Telecom, *Grameen* Software Ltd., *Grameen* Star Education, *Grameen* Enterprise, *Grameen* Trust and a few others.
- Since formally becoming a bank in 1983, *Grameen* has given out nearly 16 million such tiny loans, and enjoys an unparalleled customer loyalty. The on-time loan repayments exceed 98 percent. Defaults (bad debts) are less than one-half of one percent. This bank of the poor thus outperforms all other banks in Bangladesh and most banks around the world.

The International Profile of Grameen Bank

The Bank enjoys a very high international profile. Various UN agencies, private foundations, US and European governments and many private individuals deposit money with the Bank, which makes up its lending-base.

In Australia, the Grameen Cash Management Trust is set up to invest the savings. The return is comparable (usually higher) to the interest paid by major Australian Banks on equivalent at-call and term-deposit accounts.

Impact on Poverty Eradication

54 percent of *Grameen* borrowers have crossed the poverty line and another 27 percent are very close to it. For those who do not perform well, poor housing in rain-soaked Bangladesh and chronic ill-health are identified as the major reasons

Housing

The Bank also provides a US$300 ten-year housing loan. A family would qualify for this loan if the land title is in the wife's name. So far, more than 350,000 houses have been built with this loan. The interest on the housing loan (8 percent) is cross-subsidised from the interest earnings on the 'working capital' loan.

The engineers and economists of the Bank could not believe themselves when their US$300 house was awarded the prestigious Architecture Award by the jury of the Swiss-based Aga Khan Foundation. In the glittering world of architecture, this award normally goes to stunning multi-million dollar designs.

Medicare

The *Grameen* Bank is experimenting with a medicare scheme, the cost of which even the Bangladeshis can not believe: members will pay a premium of US$1.25 per family per year, and 2 US cents for each visit to the clinic. This will cover 40 percent of the cost of the scheme. The remaining 60 percent of the cost will be sought from the Bangladesh government and foreign donors.

Beyond Banking

Through its massive credit programme the Bank has created a whole new rural economy with 20 billion taka (half a billion US dollars) in circulation among the rural landless.

To implant a solid foundation underneath this high velocity economy, the Bank created an institution called SIDE *(Studies - Innovation - Development - Experimentation)*. The purpose of SIDE is to integrate the economy-of-the-poor with the country's mainstream economy and to mobilise the transfer of capital from the such economy to the poorer rural sector. This is what separates the *Grameen* Bank from aid and charitable organisations.

Grameen Shiksha (rural education)

Grameen Shiksha has been conducting Life Oriented Education Programmes, Pre-school/Child Development Programmes, Early Childhood Development Programmes and Arsenic Mitigation Programmes. Students who succeed in reaching a certain level of education are given higher education loans. By February 2005, 5,498 students received these loans.

Concerned Women for Family Planning (CWFP)

It provides family planning services on a door-to-door basis; maternal and child healthcare training; skill development and income earning activities. What had begun as a programme to distribute contraceptives in the slums of Dhaka has now grown into an organisation dedicated to providing primary and reproductive healthcare, microcredit and vocational training to women, and also improving the lives of urban adolescents.

Beyond Bangladesh

Bangladesh is *Grameen*'s experimentation site where its Economic and Social Development Model is developed, tried and fine-tuned. The vision is to "replicate" an appropriately customised variation of this model in each and every country of the world where poverty exists.

At present there are 168 *Grameen* Bank replications in 44 countries. One new *Grameen* Bank replication is created some where in the world each week. The plan is to take credit to half a billion poorest people (100 million poorest families) of the world by the year 2005, and to all of world's 1.3 billion poor by the year 2025.

Grameen Telecom's Village Phone Programme

Grameen Phone is a commercial operation providing cellular services in both urban and rural Bangladesh, with approximately 40,000 customers. A pilot project of *Grameen*Phone to enable women members of the bank to retail cellular phone services in rural areas currently involves 950 village phones providing telephone access to more than 65,000 people. *Grameen* Telecom staff has announced that when its programme is complete, 40,000 village phone operators will be employed for a combined net income of US$24mn per annum.

This programme has been chosen from more than 200 nominees for the Development Gateway Foundation's first-ever Petersberg Prize.

Conclusion

Today, *Grameen* Bank has become one of the most well-known microcredit banks in the world. The *Grameen* Bank drastically changed the perception that the poor are unsuitable for financial services, or even need government hand-outs. They are now the model on which many micro-finance institutions have based their operations.

According to a study conducted jointly by the World Bank and the Bangladesh Institute of Development Studies (BIDS), the *Grameen* Bank has generated a number of benefits both at the household and village level. At the household level, programme participation has enabled members to enhance their assets and networth. For example, a programme participating household owns 56 percent more resources and 51 percent more networth than a non-participating household. The incidence of poverty is substantially reduced among programme participants. Through increased membership and lending, the Bank has reduced its subsidy dependency from 23 percent of subsidy per taka lending in 1987 to 12 percent in 1993. Nearly 55 percent of its 1,039 branches are operating profitably.

As of July 2004, *Grameen* Bank had 3.7 million borrowers, 96 percent being women. With 1267 branches, *Grameen* Bank provides services in 46,000 villages, covering more than 68 percent of the total villages in Bangladesh. Grameen Bank's positive impact on its poor and formerly poor borrowers has been documented in many independent studies carried out by external agencies including the World Bank, the International Food Policy Research Institute (IFPRI) and the Bangladesh Institute of Development Studies (BIDS).

** Source: www.grameen-info.org*
www.gdrc.org
Summary Paper from the Grameen Support Group, Australia

Does Free Power Really Help Farmers?

Introduction

Creation of irrigation facilities has played a significant role in making India self-sufficient in food production. This was done primarily through energising wells by offering electricity either for free or at highly subsidised rate.

However, this policy had produced several undesirable outcomes as well, including misuse of electricity, poor recovery of user charges, depletion of ground water, and many more.

By the early 1990s, most of the State Electricity Boards (SEBs) found it difficult to sustain with piling financial losses, partly attributed to the policy of supplying free or highly subsidised electricity to the farm sector. It has been argued that more than helping the poor farmers, this policy served the objectives of electoral politics.

Nevertheless, the farm sector in India requires government support for several reasons. Even the commitments that India had made at the WTO, allow extending government support to the agriculture sector more that what is being done presently. Yet, the crucial issue remains whether electricity is among the most efficient carriers to extend government support to the targeted beneficiaries.

Some Facts

In 1996, 65 percent of those who were fortunate enough to have land were net food purchasers. Of these, only 40 percent irrigated their farms. Therefore, those who did not irrigate would receive very little actual benefit from a power subsidy.

Free electricity, combined with the absence of regulation on ground water use, has led us to a disastrous situation of rapid depletion of ground water. Unfortunately, there is no incentive, or even awareness, for farmers to rationalise on the use of water and electricity. Moreover, the system is such that there are no means of monitoring whether the benefits are actually being delivered to the targeted beneficiaries. Therefore, in effect, there is no check on the consumption of electricity and the purposes for which it is being utilised.

On an average, India's SEBs charge farmers just 10 percent of the cost of electricity. Strong disincentives exist for the SEBs to supply electricity to the farm sector, as a result of which farmers often get even lesser supplies than what they are promised.

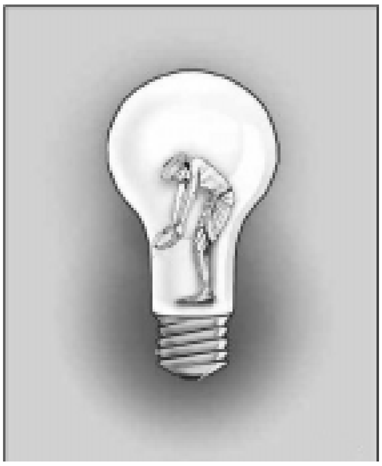
Though the Electricity Act 2003 provides for metering every consumer, agricultural consumers remain un-metered by and large. Supplies of free electricity, or at highly subsidised rates, to un-metered consumers often hide the operational inefficiencies of the utilities, as operational losses can conveniently be attributed to the farm sector.

Some Opinions

Virtually there is no such thing as "free power" for anyone. The money being used for subsidies comes directly from the pockets of Indian citizens, including its very poor.

Observing that the volume of resources going into subsidies was large and that the existing system did not help small farmers, Montek Singh Ahluwalia, Chairman, Planning Commission of India, said it would be better for farmers if resources went into investments.

Ashok Gulati, former member of the Prime Minister's Economic Advisory Council, opined that giving free power is irrational and perhaps an economic disaster, which has made all State Electricity Boards financially sick, and led to unsustainable mining of ground water and distorted the cropping patterns towards water-guzzling crops.



www.thehindubusinessline.com

K Rosaiah, State Finance Minister in Andhra Pradesh, says that "the Government wanted to review its policy of free power to farmers not due to monetary constraints but because it has led to many unexpected developments, such as the increase in unauthorised power connections leading to overloading of the distribution system. The unexpected load on the system has resulted in increased failure of distribution transformers."

Does low or zero level tariffs for agriculture benefit poor farmers? Evidence from a survey in 2001 by the World Bank suggests that farmers in Haryana pay heavily for the existing policies in terms of burnt out motors and low reliability. The study found that improvements in quality of supply could more than compensate farmers for a quadrupling of tariffs; smaller farmers would especially benefit.

A study of Karnataka (Howes and Murgai, 2003) based on the 54th and 55th National Sample Survey (NSS), from the late 1990s, illustrates that a farmer with irrigated land (just 28 percent of all farmers) is only half as likely to be poor as the farmer without irrigated land, a much larger group that makes up 83 percent of the poor.

The Larger Issue

It appears that the Government is following a piece-meal approach with regard to supporting the agriculture sector, and offering electricity for free is just one component of this.

What is actually required is policy reform in the agriculture sector. Government should decide about the comprehensive support package it wants to extend to the sector, and then do that in the most efficient manner possible.

In this context, the ability of electricity networks to deliver government support to the identified people is debatable. Probably, offering electricity for free is not the most efficient way of supporting the identified people, leave aside the other undesirable consequences, such as ground water depletion.

Issues for Discussion

- Whether the policy of offering 'free' electricity is the best way to support the farm sector?
- Whether poor farmers actually have access to the so-called 'free' electricity?
- Are there better and more efficient ways to support the farm sector?
- Promoting conservation and utilisation of surface water for irrigation would minimise the consumption of electricity for agriculture.
- Instead of continuing with the blanket approach, the Government should differentiate the level of support to be extended to various categories of farmers.

References

Abuse of power: Free or even subsidised power to farmers is a bad idea - it doesn't even help the poor, by Jeremy Carl, Hardnews, January 2005 (http://www.teriin.org/features/art228.htm)

Other information in the article has been taken from newspapers BL, TT, FE, ET, ToI, TH over the period from June 2004 to Jan 2005

Forthcoming Publications…

ReguLetter

It has been generally observed in various parts of the world that business lobbies have expressed resentment over adoption of competition law. The cover story of the current edition of ReguLetter, the quarterly flagship newsletter of CUTS Centre for Competition, Investment & Economic Regulation (C-CIER), turns the above observation on its head to show that an effective competition law can benefit business as well, by protecting their interests too. In the section on competition law, the current edition focuses on the Turkish competition regime.

(Subscription: Rs 150/US$30 per annum)

'Regulatory Framework for Infrastructure Sector in India': Seminar Report

In collaboration with the Planning Commission of India, CUTS organised a seminar on 'Regulatory Framework for Infrastructure Sector in India' on January 14, 2005, at New Delhi, to facilitate brainstorming amongst stakeholders and contribute to the Planning Commission's ongoing work on developing an appropriate regulatory framework for the infrastructure sector in India. This report carries the recommendations and discussions that took place during the seminar.

Forthcoming Events…

Workshop on State Competition and Regulatory Agency

CUTS and the Department of Food and Civil Supplies, Government of Rajasthan, are jointly organising a workshop on April 30, 2005, in Jaipur, to discuss the proposal for setting up a State Competition and Regulatory Agency to regulate various service sectors in Rajasthan.

The need for having such an agency is felt to address the local-level competition abuses. By promoting effective regulation and fair-trading, the agency will ensure competitive outcomes in various service sectors.

As a result of the initiative taken by CUTS, the Government of Rajasthan has constituted a committee to prepare a draft of the State Competition and Regulatory Act. This one-day workshop is expected to provide necessary inputs to the committee for preparing the draft bill.

Representatives of all stakeholders, including service providers, consumer groups, and government departments will be invited to the workshop.

Retreat on Regulatory Accountability and Independence

A Retreat is being organised by CUTS on May 7, 2005, New Delhi, to discuss the issue of regulatory accountability and independence in India.

The experiences with independent regulation have so far been of a mixed nature in India, and the most critical issues these agencies are encountering relate to their accountability and independence.

The Retreat will deliberate upon these issues, in particular on how to strike the right balance between independence and accountability to enhance the effectiveness of the regulatory regimes.

Members of Parliament, senior lawyers, former as well as serving regulators, retired judges and other experts are expected to participate in the Retreat. The retreat is being organised at the behest of Shri Yashwant Sinha, former Finance Minister and member of Rajya Sabha.

From Our Readers/Visitors Desk...

It was a great experience to see such a well structured and maintained office with a large group of highly dedicated individuals. It has been a pleasure to work with Mehta and his team.

Laveesh Bhandari
Indicus Analytics

It was wonderful to meet the young colleagues of CUTS. With my best wishes to them.

Vijay Kelkar
Chairman, India Development Foundation and Former Adviser to the Finance Minister, Govt. of India

It was a real pleasure receiving our friends from CUTS in Sao Paulo during UNCTAD XI and now we are starting a very interesting joint project on IBSA strategies, a second of IBSA agricultural views, and I hope many others in the future. Thank you very much for your kindness and hope our co-operation will be very fruitful.

Marcos Jank
ICONE, The Brazilian Institute for International Trade Negotiations

SOURCES

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

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