PolicyWatch

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

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Re-inforce People's Trust to Restore Growth

CUTS International 1983 2012

INSIDE THIS ISSUE

HIGHLIGHTS

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

We have met the enemy and he is us. This famous Pogo quote symbolises the state of our current governance melee. Among a menu of discordant happenings and noises, one arm of the government says that we can expect five percent growth, while another says it is a mistake, and we can expect higher growth. Consequently, and also due to variety of other factors, people are losing their faith and confidence, and worse, do not trust the polity or the bureaucracy or business


Times of India.

It is *inter se* also, and worsening the policy stasis. Indeed, poor leadership is the root cause of our problems. Can we salvage the situation? Yes, we can, if only the government decides to reinforce trust and confidence, and takes action rather than indulge in silly narrative and find fault with credible institutions such as the national auditor and courts.

First and foremost, the ruling coalition should find a new skipper who can command respect and confidence of people and Parliament. The second is to establish a Growth Compact co-chaired by finance minister P Chidambaram and the shadow finance minister Yashwant Sinha that can agree on a national consensus to look at growth issues only, detached from other issues.

The third agenda is to speed up regulatory reforms. There is an infrastructure regulatory reform Bill pending, which needs to be adopted, so as to improve our regulatory architecture that is neither attractive to investors nor satisfies consumers.

Fourth, a difficult task, yet to take real action on corruption issues head on. There are two critical issues that need an honest approach. The Lokpal Bill will restore the trust of people that the government is serious about curbing corruption, and proper implementation of the Chawla report will address the issue of crony capitalism and resource raj.

Closely related to this is the fifth point, of government funding of elections. This can easily bring down corruption to a large extent, because the polity will be less prone to making a fast buck by breaking all norms of propriety.

Sixthly, judicial reforms, so that delays in our justice system are curbed. Delays also breed corruption in the judiciary itself, other than causing huge discomfort to the law-abiding citizen.

Last but not the least, is administrative reforms, on which topic much water has flown but little action taken. Considering the continuing policy paralysis and actions against civil servants in various scams, even good civil servants are averse to taking decisions.

The system needs an overhaul. Many of these steps need to be taken up by the government in a proactive fashion, and with the active involvement of states. Only then can we destroy the enemy, who is among us.

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• COMMUNICATION •

Incentives for Electronics

In July 2012, the Government of India notified a scheme to promote large scale manufacturing in the electronic system design and manufacturing sector in India.

Under the Modified Special Incentive Package Scheme, the government will provide several incentives including capital expenditure, which includes expenditure on plant, machinery, equipment, tools, captive power plant, utility machines, R&D including cost of copyrights and cost of land and building.

Further, government will also reimburse central taxes and duties for 10 years in selected high-tech units and provide subsidy of 25 percent in non-special economic zone, 20 percent in special economic zone.

The companies are invited to submit the application for setting up the electronics manufacturing units under the scheme on or before July 26, 2013. *(BL, 10.01.13)*

TRAI Restricts On-air Ad Time

The Telecom Regulatory Authority of India (TRAI) has recently notified a restriction on duration of advertisement to 12 minutes in any given hour in Standard of Quality of Service (Duration of advertisements on Television Channels) (Amendment) Regulations 2013.

It is mandatory for all broadcasters to stick to the regulation and submit a quarterly report of the duration to the regulator. TRAI noted that advertisements is also a part of quality of viewing experience and hence covered under quality of service provided by the broadcasters.

The broadcasters said while none of the players were in disagreement with the overall objective of the notification, it added that any such regulation needed to be in line with the economic sustenance of the broadcasting business and should be aligned to the full value of digitisation becoming a reality.

(BL, 22.03.13)

TRAI Facilitates Competition

TRAI following the suggestions of National Telecom Policy 2012 proposed a national level or service area level separate unified wireless operating licence for telecom operators. The recommendation will increase the competition in the market and reduce the regulatory interference.

It will also reduce the revenue loss because of inconsistent classification of revenue generated by service provider. The unified licence will allow operators to focus more on operations rather than amending licence frequently.

TRAI also suggested inclusion of adjusted gross revenue definition and change in definition of value-added services, penalty clause and equity cross-holding restriction.

(Mint, 03.01.13)

Cable Landing Charges Slashed

In its recent decision, TRAI slashed the cable landing station charges, leading to 50 percent reduction in international bandwidth in the country. It will also bring down the broadband tariffs as the cost of internet service provider & long distance telephony will also go down.

In most of the countries, cable landing station charges forms about 10 percent of bandwidth cost but exceptionally in India it was about 50 percent.

Several foreign companies have complained to the regulator that companies owning most of the landing stations are keeping the charges artificially high. Although it will provide only marginal benefit to the end consumers as tariff for domestic bandwidth remains the same. *(BL, 01.01.13)*

Existing Tariff to Continue

Taking into account the feedback received from the stakeholders, TRAI has decided to continue with the existing tariff regime. It allows operators to decide the charges for telecom services without any ceiling form the regulator.

In mid-2012, telecom operators openly said multi-fold high spectrum price recommended by TRAI can lead to increase in telecom tariff by up to 100 percent.

Telecom operators had sought views of the stakeholders on the existing tariff regime for telecom and a suitable tariff framework for data services, but after reviewing the suggestions TRAI decided to continue with the exiting regime of tariff in both the services.

(ET, 14.01.13)

Prasar as Public Broadcaster

The Information and Broadcasting Ministry has set up a seven member expert committee headed by Sam Pitroda to review the relationship of Prasar Bharti with the government.

The Committee is enshrined with the responsibility to prepare a roadmap to sustain, strengthen and amplify Prasar Bharti role as a public broadcaster to ensure wider reach to a worldwide audience. It also has to propose the measures to digitalise huge archival from Doordarshan and All India Radio. *(IE, 29.01.13)*

Violation of Portability Norms

The TRAI has initiated legal action against the operators violating portability norms and proposed a penalty of ₹10,000 for every violation of norms. As per the regulation of TRAI, porting request cannot be rejected unless consumer is under a binding contract with the operator or has acquired a connection bundled with handset.

Yet, several porting request has been turned down by the operators violating the rules and no penalty has been imposed on any service provider so far. On the other hand, telecom operators are defending their position on the ground of several complexities in the implementation process.

(BL, 08.03.13)

• TRANSPORT •

New Norms for Airlines

The Aviation Ministry is in the process of finalising new norms for schedule airlines to fly in tier II and tier III cities. New norms may make it mandatory for all the airlines to have smaller turboprops in their fleet to fly to smaller towns.

Thus, Ministry has turned down the proposal of low cost carrier Indigo to import 16 aircraft in 2013. The Ministry has permitted import of only five aircrafts and asked to submit a detailed plan for induction of remaining aircrafts.

With the closure of Kingfisher airlines and reduced supply, other airlines have increased their fares by 20-35 percent. Increasing supply of aircrafts would have helped in reducing the fare but the government has done the contrary. *(ToI, 11.02.13)*

Focus on Infrastructure

The recent reforms measure by the government has indicated that upcoming budget will aim at higher growth and fiscal discipline to boost investors' confidence. Infrastructure is going to be the one of the focus area of the government to provide a momentum for the investment cycle recovery.

In current macroeconomic scenario high gestation period and volatile interest rate are making infrastructure project unviable. Therefore, the government is expected to incorporate infrastructure into priority sector lending and exempt minimum alternate tax from the sector.

(BL, 26.02.13)

Regulator for Road Sector

In order to effectively deal with disputes in highways sector Finance Minister, P Chidambaram has proposed an independent regulatory authority, a move which was welcomed by highway developers. Independent regulatory body will able to resolve the pending disputes related to land acquisitions and environmental hurdles.

Further, challenges like financial stress, enhanced construction risk, contract management issues etc will be best addressed by an independent regulator. Highway developers have welcomed the move of the Ministry.

(BL, 01.03.13)

New Plan to Link Port Rates

The Shipping Ministry plans to deregulate tariff is not reflected in the draft guideline published on the website of the Ministry. Therefore, Shipping Ministry, Tariff Authority for Major Ports (TAMP) and rate regulator will keep exercising their power over tariff settings.

According to the draft norms that are designed to link rates to market forces, TAMP will first notify a port-wise reference rate for various commodities. Such a reference tariff will typically be the highest prevailing rate that was set on the basis of guidelines framed in 2008 for handling a particular commodity in a port.

The reference tariff so set will be applicable for five years and indexed to inflation to the extent of 60 percent of the variation in the Wholesale Price Index. TAMP will also specify minimum efficiency standards for cargo terminals. Cargo handling projects will be bid out on the basis of the reference tariff. *(Mint, 09.03.13)*

Delays in Acquisition

Delays in land acquisition are one of the main reasons that highway projects are not getting requisite loans from the bank and financial institutions. The National Highways Authority of India (NHAI) has also failed to ensure handing over of 80 percent of land to the developers before the start of project.

The Minister of Road, Transport and Highways, C P Joshi suggested few measures to revive investor's interest. These include exit option to the developers and explicit freedom to lenders to step in and take over the project. The NHAI has also suggested delinking environmental approvals and forest clearance for speedy action. *(IE, 07.01.13)*

Air Asia Venture in India

Gearing up to launch services in partnership with Tatas, Malaysian low-cost carrier AirAsia has incorporated a company in India with the filing of all requisite documents with the Ministry of Corporate Affairs.

The venture, AirAsia (India) Pvt Ltd, was incorporated as an "Indian non-government company" with its registered office in Mumbai. It will be an "unlisted" company, as per the documents filed with the Registrar of Companies.

Among various documents submitted by AirAsia (India), the incorporation certificate was filed on March 28, while Article of Association, Memorandum of Association, image of airline logo and other forms were filed earlier on March 11.

AirAsia had registered the name for its Indian venture after getting the necessary approval from the Ministry. AirAsia chief Tony Fernandez has also tweeted that the company formation has been done for the Indian venture.

(ET, 31.03.13)

Green Issues!

Delays in environmental clearance have direct impact on the road developers, as it increase project cost and has a bearing on their project revenue also. National Highways Builders Federation, the highway developers lobby alleged that delays is due to policy changes in the last one-two years.

From December 2012, Environmental Ministry need details of specific areas from where developers will take soil and earth for building highway in order to give the nod. At present, about 20 highway projects are awaiting a final nod from the Ministry of Environment & Forests. *(BL, 09.01.13)*

• OIL & GAS •

Upstream Vacuum

It is welcome that there are now significant investments in the pipeline in producing oil and gas blocks such as Barmer, Rajasthan, and the Krishna-Godavari basin in the eastern offshore. Heightened domestic oil and gas output would slash imports, boost value-addition and reduce the rising trade deficit as well.

But to fast forward the actual coagulation of funds, there is a need for proactive regulation, improved transparency and the adoption of global best practices in the high-risk and capital-intensive upstream exploration and production (E&P) sector.

As per current international prices of liquefied natural gas (LNG), it would cost over US$50bn to import the equivalent volume. So, the domestic gains from stepped-up investments would be enormous.

However, the reality is that upstream regulation remains a work in progress. Also, without detailed operational manuals, codes of practices and other guidelines, simply relying on greater scope for audit makes little or no sense. The entire regulatory structure needs overhauling. *(ET, 26.02.13)*

Go Full Throttle

Partial decontrol makes political sense, given the populism-led politics in the country. However, it would not make economic sense if the liberty of oil marketing companies (OMCs) to take price-hike decisions remains only on paper. At the same time, sticking with discounted kerosene prices will incentivise adulteration of diesel with kerosene which, though subsidies for the poor, is diverted to the wrong hands.

So long as politics is seen to influence pricing, private companies will largely avoid the fuel retailing business. This is unfortunate, given competition is the most effective way to sustain fuel quality and keep prices consumer-friendly. *(ToI, 21.01.13)*

Formula for Price of Gas

The Rangarajan Committee has suggested mandating a price of natural gas at an average of international (US, Europe and Japan) hub prices and cost of imported LNG instead of the present mechanism of market discovery. The arm's length price thus computed would apply equally to all sectors, and should be reviewed after five years.

Since cost recovery is at root of the problems, it is proposed to be dispensed, in favour of sharing of overall revenues of contractor. The committee has also recommended that an extended tax holiday of 10 years should only be granted for blocks involving drilling offshore at a depth of more than 1,500 metres. *(TH, 03.01.13)*

Doubling Natural Gas Price

The ultimate goal for pricing of natural gas is gas on gas competition. But in the absence of a free global gas market, the Rangarajan panel formula is the best alternative. Domestically produced gas price in the country would then be around US$7-8/mm Btu at the current rate. The Ministry would serve the twin purpose of protecting consumers and fair-play to producers.

This might result in higher subsidy outgo, as the input costs for fertiliser plants, gas based power plants, ceramic and glass and other products will go up. *(BL, 23.01.13)*

Bet on Good Economics

Diesel price de-regulation sends out the right signal to the Reserve Bank of India (RBI), which had presaged further rate cuts on credible fiscal correction; it also sends right signal to rating agencies that were threatening to downgrade India's sovereign rating on account of unchecked fiscal profligacy. The move will also free funds to implement the new direct cash transfer scheme and the food security bill.

However, such a move is feared to induce a fresh inflationary impetus that will have a multiplier effect across the economy. It would also significantly affect the farmer community who widely use diesel generators & pump-sets. *(Mint, 18.01.13)*

It's 9 LPG Cylinders now

The cap on supply of subsidised LPG cylinders has been raised to nine from six a year a household and the oil marketing companies are allowed to increase the diesel prices periodically till the ₹9.60 paise a litre subsidy is completely wiped out.

It has also been proposed by the Petroleum Ministry to hike the LPG cylinder prices by ₹50 immediately and then in a phased manner over the next two years to wipe out the nearly ₹500 a cylinder subsidy. The proposal to hike the kerosene price in a phased manner is scrapped. *(TH, 18.01.13)*

India: Diesel-driven Economy

The decision to de-regulate diesel prices may be a long-term gambit by the government, but its short-term impact is being felt by many who are part of this diesel driven economy. This includes transport (65 percent), power generation industry (nine percent) and the farmer community (12 percent).

Diesel demand in India is inelastic with respect to price in the short term, because more than 90 percent of the diesel in the country is used for intermediate purposes. Only about five percent is being used for meeting the ultimate demand of consumers in power generation; substitution (& therefore, little less dependence) is possible here. *(ToI, 22.01.13)*

• POWER •

Bailout for Delhi Discoms

Delhi Electricity Regulatory Commission (DERC) has issued a statutory advice to the Delhi government suggesting bailout packages for the power distribution companies. The Commission has suggested government to take benefits of various Central government-sponsored schemes and restructuring packages. This will also provide some relief to consumers from the increasing cost of power.

This advice has been issued in lieu of past revenue losses incurred by Discoms and failure on part of Delhi government to secure benefits of financial bailout package for restructuring introduced by the Centre. Three power discoms of Delhi have already declared that they may not be able to supply power in coming months, if urgent steps are not taken to address the poor financial state of Discoms. *(IE, 15.12.13)*

UP Lines Up Power Reforms

In order to avail of the Centre's financial restructuring package, the UP Power Corporation has prepared a proposal for reforms that will be unleashed in the next few months.

The proposal, which will be sent to the State Cabinet for its approval, talks of ushering in privatisation in the distribution sector, along with commitment to increasing tariff every year. The Centre has already given UP an in-principle approval for ₹30,000 crore financial restructuring plan over a period of 10 years by a consortium of 21 banks.

The banks will provide a staggered loan of ₹30,000 crore over the next three years to help the ailing power sector come out of the red.

(FE, 17.01.13)

Panel's Proposal Opposed

The Maharashtra State Electricity Distribution Company Limited or Mahavitaran has opposed the increased wind energy costs proposed in a draft renewable energy tariff for 2013-14 by the Maharashtra Electricity Regulatory Commission (MERC).

Discoms claiming it 'irrational' on various grounds alleged that Commission has been safeguarding the interest of private investors. Mahavitaran noted that the tariff for wind energy in Tamil Nadu is ₹2.75-3.51 per unit, ₹4.23 in Gujarat, ₹4.53 in Rajasthan, ₹4.70 in Andhra Pradesh and ₹3.70 in Karnataka, but for Maharashtra, MERC has increased it from ₹3.37 to almost ₹6 per unit. *(TH, 19.02.13)*

Freight Cost adding to Tariff

In lieu of recent hike in price of diesel, the Railway Ministry has proposed increase in freight tariffs from coming fiscal year. In the budget for 2013-14, Ministry had proposed Fuel Adjustment Component, which includes regular revision of tariff and can change in either direction.

This proposed hike will impact transport cost of several commodities including coal, steel, food grains etc. The fuel cost will also impact the electricity tariff as cost of coal is expected to increase by five-six percent, due to high transport cost.

(FE, 26.02.13)

Intra-day Trading Unaccepted

In a letter to Union Ministry, Haryana Power Utilities has opposed the Intra-day power trading by bulk industrial consumers. Utilities have alleged that through intra-day bidding bulk industrial consumers are resorting to 'gaming' and 'speculation' and not adhering to the norms under open access.

As per the provision, open access consumers should notify the Utility about the power purchase by 10 am, so that Utilities can balance the availability and demand of power. Lower cost of power in open market has been attracting bulk consumers to the open access causing revenue loss to utilities, due to surplus power available under long term power purchase agreement. *(ET, 10.01.13)*

Govt Sets up Power Panel

The government has set up a National Power Committee to ensure strict discipline as well as to resolve inter-state issues in utilisation of electricity grids in the country. The setting up of the panel by the Power Ministry comes less than a year after one of the worst ever power grid failures impacted more than half of country's population. Overdrawal of electricity by some states was cited as one of the reasons for the crisis.

The Committee's role would be crucial in evolving "a common approach to issues related to reliability and security" of the power grid system in the country, against the backdrop of growing complexity in managing them. *(ET, 29.03.13)*

Will Year 2013 be the Sun for Power Sector?

Reuters

With tenders being invited to install as much as 4,615 MW solar power capacity under various state and central schemes, 2013 may well be a milestone year for India's renewable energy sector.

When most of these projects materialise, India's solar power capacity will leapfrog from the existing 1,000 MW in 2013.

Despite solar power tariff falling from ₹10.85- ₹12 per unit to ₹6-8 levels, many developers are rushing for projects as installation costs drastically came down, thanks to steep fall in equipment price.

The Centre aims to build 22,000 MW solar power capacity by 2022 through various schemes such as Jawaharlal Nehru National Solar Mission (JNNSM) while various states pursue their independent projects.

(HT, 20.01.13)

• MIXED BAG •

Holding Company for Banks

The Finance Ministry has sought the opinion of the Law Ministry on a proposal to set up a holding company for all 24 public sector banks. Such a move will require amendments to a number of existing acts, including the Bank Nationalisation Acts of 1970 and 1980, and the State Bank of India Act, 1955.

The aim behind such a set-up is to devise a mechanism to handle the growing capital requirements of public sector banks without straining the finances of the government.

To make the model viable, the holding company may borrow from overseas markets at comparatively cheaper rates so that repayment problems do not arise. The revenue model would involve dividends paid by banks. *(Mint, 17.01.13)*

Super Regulator Proposed

The Financial Sector Legislative Reforms Commission (FSLRC), which was mandated to re-write and clean up financial sector laws, has suggested a single regulator for the financial sector, barring banking.

If this suggestion is implemented, most of the existing regulators Securities and Exchange Board of India (SEBI), Pension Fund Regulatory & Development Authority, Forward Markets Commission and Insurance Regulatory Development Authority will cease to exist.

The Commission, however, felt the Reserve Bank of India should remain the monetary authority as also the banking and payment regulator. It is also recommended that RBI should over the long run be brought within the ambit of the unified regulatory agency. *(BL, 22.03.13)*

Speeding up Clearances

In a move that may cut down clearance time of infrastructure projects, the Ministry of Environment & Forests has exempted linear projects, such as roads, transmission lines and gas pipelines, from seeking consent of *gram sabhas* village bodies under the Forest Rights Act.

The National Highways Authority of India officials believe that this move could result in significant benefit, of three-four months, for pending projects.

Jayanthi Natarajan, Environment and Forests Minister said that the Ministry is supposed to give clearance to only nine percent of the total number of projects that require forest and environment nods, so it is stretching the point that this nine percent is creating bottlenecks in economic development. *(BL, 05.02.13)*

Recover Loans of Sick Firms

In a stern warning to wilful defaulters, Finance Minister P Chidambaram, has asked banks to take firm steps against affluent promoters to recover loans from sick companies owned by them. Of the gross non-performing assets of Public Sector Undertaking banks, 172 are corporate accounts of more than ₹100 crore at the end of December, 2012.

The warning comes in the backdrop of several companies, including Vijay Mallya's Kingfisher Airlines, being unable to repay bank loans.

These steps are being taken to ensure that impediments are removed and credit flow takes place, for the worrying number of stalled projects, especially in the key infrastructure sectors. *(TH, 19.03.13)*

Long-term Insurance Policies

Poor renewals (usually annual) and low levels of penetration of general insurance products in the retail line of business (includes health, home, motor insurance) have prompted insurers to move the regulator to allow issuance of longer term policies with renewal every three-five years.

The main concern that the regulator has expressed, regarding long term policies, is the need to have proper accounting in place and adequate actuarial support to calculate premiums on a long-term basis. For insurance companies, customer acquisition, printing and issuing of policies are big one-time costs. *(BL, 17.01.13)*

More Teeth for SEBI

SEBI is likely to get new powers, such as recovery of monetary penalties with the help of the Income Tax department, power to attach properties without recourse to courts, power to pass disgorgement orders and establishment of special courts to deal with criminal prosecution for violation of securities laws.

Most of these proposals, now being requested for four years, stem from the difficulties faced by SEBI while handling unauthorised collective investment schemes and its inability to recover money from the offenders.

Although, SEBI had been requesting the government to grant some of these powers for almost four years now, a mention in the Budget speech has increased the likelihood of amendments to the SEBI Act soon. *(BS, 01.03.13)*

'Water Credit' on Cards

The concept of water credit, a certificate showing that an individual or industry has saved water production or domestic use, to industries adopting water-conservation measures coupled with the introduction of water-efficiency tags on home appliances like washing machine or dishwasher is expected to get a mention in the Budget. These credits can also be traded in the international market at their current market price.

The government is also expected to outline a water regulatory body National Bureau of Water Use Efficiency, which will introduce mandatory mechanisms for water footprints and water auditing as stated in National Water Policy 2012. The quantity and quality of water and pollutants discharged to the aquatic environment and in the sewage systems would also be monitored. *(FE, 20.02.13)*

Why the Railways Needs a Tariff Regulator

Shanti Narain*

In a market-driven economy, a statutory regulatory authority to determine tariffs on objective economic criteria, ensure free competition and remove barriers to entry and exit through an appropriate policy framework is essential. If it has to retain its pre-eminent position in the national transport infrastructure, the Railways has to adapt itself to the market forces unleashed by the macro-economic policy initiatives launched since the early nineties.

The concept is not new to the Railways and, even before Independence, the Railway Board was discharging this function in relation to the private and state-owned railway companies operating in the country. The Indian Railway Act, 1890, which remained in force for almost a century after its enactment, had adopted the spirit of the Carrier's Act, 1865 by accepting the carrier's liability across the rail network in India.

Under the Indian Railway Board Act, 1905, the tariff regulation function was assigned to the Railway Board. In its capacity as a "regulator", the Railway Board was fixing "maxima" and "minima" rates, and within this band, the Railway administrations were free to fix their tariffs. The consumer's interests were safeguarded by setting up the Railway Rates Tribunal, which had jurisdiction to go into rating issues *vis-à-vis* the railway administrations and prevent undue discrimination in quotation of tariffs.

Tariff fixation has become such a politicised exercise that the institution is losing its importance in the national transport infrastructure

By a Separation Convention in 1924, on the basis of the Ackworth Commission Report, railway finances were separated from the general finances of the government. This commission had been set up when it was realised that the growth and development of the Railways, which was essentially a commercial activity, required a greater measure of autonomy than was available in the government's bureaucratic departmental management system.

Soon after Independence, the restructuring and consolidation of both private and public rail networks were undertaken, and the total rail network in India was nationalised and brought under seven zonal railway systems (later increased to nine). The Railway Board, which was originally set up to regulate the private and state rail networks under the Railway Board Act, 1905, was now converted into a policy formulation agency on behalf of the government – a regulator of tariffs, while also managing the operations of this nationalised rail entity. As the competition from other modes of transport intensified, a review of the Railway Act, 1879 was undertaken and the amended Act of 1989 came into force, which made two important modifications in the area of tariff fixation.

Today, the Railways has to deal with various new players that have started operating over the rail network in a transparent and equitable manner. These new players include special purpose vehicles that are providing alternative routes, or have augmented existing rail capacity or provided connectivity to new ports, besides a number of private container companies, port railways and the Railways-owned public sector units like Concor and IRCTC.

Even more importantly, the extent of government intervention through the political executive in tariff fixation, besides other day-to-day functions of the Railways, has created a situation in which the financial viability of the network is in jeopardy. The tariff policy has been totally politicised and all instruments of control provided in the Acts regulating railway operations have been rendered infructuous. The tariff structure, as it exists today, has all but lost its conceptual framework and objectivity. A situation has risen where freight rates have become extortionist in nature and have driven legitimate rail freight traffic to road and contributed to the decline in market share for totally avoidable reasons.

The structural weakness of the Railway Board's functioning as an apex executive body and a regulatory body needs correction urgently by setting up an independent tariff regulatory authority. The authority should function as a permanent reviewing body not only for streamlining the tariff structure based on rational economic principles, but also for reviewing the costing and accounting methodologies that are both transparent and based on rational economic principle.

* *Former Member, Traffic of the Railway Board. Abridged from an article that appeared in the* Business Standard, *on February 25, 2013*

Single Regulator May Cure Many Ills

Gaurav Mashruwala*

It is important know that these regulations would regulate only those that fall under SEBI's purview

The new investor guidelines by the capital market regulator, SEBI, are a welcome step in the direction of creating more professional and transparent environment in the area of investment advice in the country. For the first time, investment advisory is being recognised as a valuable service. Until now, it was perceived that advice should be rendered free for earning commission/brokerage for distributing a financial product free advice for paid distribution. These regulations segregate advisory fee and distribution commissions.

The macro picture

Need for an umbrella regulator: It is important to keep in mind that these regulations would regulate only those entities that fall under SEBI's purview. Hence, entities like insurance agents, pension advisors, chartered accountants, company secretaries, legal professionals, and so on would not fall under the purview.

Such handicap will continue to remain with all regulations due to lack of an umbrella regulator who has under it the RBI, SEBI and the IRDA. Exclusion of stock brokers, merchant bankers and portfolio managers is a surprise. Those mutual fund (MFs) distributors who are members of self-regulatory organisations are also excluded. As far as banks and non-banking finance companies are concerned, it is important for them to first obtain permission from RBI before applying to SEBI for an investment advisory license.

What does fractured regulation lead to? Any regulation that is unable to regulate all the relevant entities creates inefficiencies and remains fractured regulation. This regulation will also fall in the same category unless it is able to regulate all the entities that give investment advice. Inefficiency in the regulation will create arbitrage opportunities for financial product distributors that will get exploited at the cost of investors even though the customer is the majority stakeholder in the entire system.

Challenge for planners: Comprehensive financial planning focuses on income, expenses, assets and liabilities of a client before giving advice. There are times when the planner focuses only on estate planning or debt counselling or cash-flow management for a fee. Under such circumstances, the planner is not giving any kind of investment advice. Yet as per regulation, he will have to get registered and adhere to various compliance rules and other requirements. This will result into financial planners passing on the extra costs to the client.

The micro picture

Risk profiling: Firstly, it is important to note that there isn't any scientifically proven risk profiling theory that exists anywhere. Under the qualification and certification requirement, Sebi has mandated a few certifications. None of these certifications in their entire curriculum teach any kind of theory on how to assess the risk of a client.

While this may come as a shock to most readers, the term risk profiling is regularly used while discussing investments, it is a reality. Several entities use risk profiling questionnaires. However, if we were to question them on its scientific validity and the theory on which they are developed, there aren't any satisfactory responses.

Though it is true that investment advisors should factor in changes in internal and external environments before giving advice to clients, this should be done based on his qualifications, skills and experience and not on the basis of responses to a questionnaire. By laying emphasis on a questionnaire, the onus indirectly shifts to the responses given by the individual, which may be under the emotional influence of certain internal and external developments in his life.

Suitability: Under this section, SEBI expects investment advisors to make recommendations where the client has necessary experience and knowledge to understand the risks involved in the transactions. This will lead to a situation whereby the advisor will have to give advice not based on his qualification and experience but based on the knowledge and experience of the client.

SEBI has taken a historical step but the government has to realise that if regulations need to be made in a manner that benefits the end user, an umbrella regulator would be required.

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* *Certified Financial Planner. Abridged from an article that appeared in* the Mint*,* on *February 05, 2013*

Formula for an Unbalanced Equation

Jyoti Mukul

If the price of domestic natural gas is almost doubled next year to US$7.4 a million British thermal unit (mmBTU), little will change for those using natural gas at home and in vehicles. Retail consumers already pay a higher price for imported gas at over US$16 per mmBTU. The impact on government finances will, however, be substantial and unless the government raises the administered selling price of electricity and urea-based fertiliser, its own subsidy obligations will jump by over ₹28,000 crore.

Business Standard

The Rangarajan committee's new recommendation for domestic natural gas pricing is a stopgap solution to a deeper problem

To be sure, this revised price is only an unofficial estimate that flows from a complex formula devised by a committee headed by C Rangarajan, who chairs the Prime Minister's Economic Advisory Council. The question is, does the new formula really help producers or shortage-hit consumers? The current price of US$4.2 per mmBTU was fixed for Reliance Industries Ltd (RIL's) KG-D6 output in 2007 based on a formula linked to Brent crude oil. Like any other linkage, the pricing would have been dynamic. Indeed, the terms of the New Exploration and Licensing Policy (NELP), under which KG-D6 gas is produced, talks of 'arms-length' pricing and requires only an approval from the government.

But owing to a dispute between Mukesh Ambani-owned RIL and his brother Anil Ambani over the price of gas for one of the latter's power plants, a group of ministers imposed a five-year freeze from the day production started. This price was set after two government committees, including one under Rangarajan, studied a formula submitted by RIL but recommended changes in the process of calculation.

It should be emphasised that under the NELP regime, gas pricing has formally been approved only for RIL's KG-D6 field. Since 2007, the government has benchmarked domestic natural gas to RIL's US$4.2 per mmBTU. The price calculated through the Rangarajan formula, which is a mean of two averages comes to US$7.4 per mmBTU. The committee has officially refrained from committing itself to a likely figure in its report.

By replacing one formula by the other and recommending that the new one be in place till a free competitive market is allowed after five years, the committee has set a pricing regime that is more reflective of the realities of global energy pricing. The crucial difference though between September 2007 when the price was frozen till 2014 and now is that no cap or floor is being proposed..

Without a floor, a producer is not assured on any minimum return on investment he makes in a gas field. Besides, if the idea of not allowing free pricing in a chronic shortage market was to ensure that natural gas is not priced exorbitantly, then the Rangarajan formula does not serve the purpose without the cap. This is so since the price at which LNG is being currently sold in the country ranges from US$8 to US$11 per mmBTU and will rise to US$15 per mmBTU when imported gas from Gorgon, Australia arrives in India in two years.

In India's case, the steep fall in gas production from KG-D6 from 65 million standard cubic metre a day (mmscmd) in April 2010 to just about 25 mmscmd is attributed by many to low prices. From the government's perspective, the subsidy outgo on account of low prices of some fertilisers and power remains at the root of pricing controls on natural gas.

The country is already paying the price of this policy in terms of a power-generation crisis for lack of gas. But it is also true that with the government as a partner in RIL's field and earning a 10 to 30 percent share in the revenue remaining after meeting costs, pricing controls will also see it losing some. It will also delay a competitive gas market from emerging in the country since imported gas sellers will not be able to compete with domestic gas.

– *Abridged from an article that appeared in the* Business Standard*, on January 11, 2013*

Hike in Rubber Duty

Recent developments regarding hiking the duty on import of rubber has not gone down well with the tyre companies which consume rubber as raw material to produce final good.

Rubber SMEs in All India Rubber Industries Association (AIRIA) have came forward to support Automotive Tyre Manufacturers' Association (ATMA) following to statement made by Kerala Chief Minister Oommen Chandy that Finance Ministry has agreed upon hiking the duty from present rate of ₹20 per kg to ₹34 per kg.

The step is meant to provide breather to rubber growers in Kerala suffering from significant fall in the price of rubber during this year. However, according to rubber companies there is not much difference between domestic and international price of rubber and such harsh step would affect people associated with tyre industry in adverse manner. Association has advised that government should concentrate on other factors leading to fall in domestic price of rubber.

(FE, 07.03.13)

Compensating States

The Union Finance Ministry has decided to compensate states for phasing out Central Sales Tax (CST). The move is another effort from the part of central government to roll out much awaited Goods and Services Tax (GST) regime.

In a meeting attended by finance ministers of states, plan was chalked down to provide ₹34,000 crore to states struggling with fall in their tax revenue as a result of bringing down CST rate from four to two percent respectively at present. The states would receive this amount which includes compensation for three years starting from 2010-11, in phased manner.

(TH, 28.01.13)

Mergers & Acquisition on Rise

According to a study conducted by Thomson Reuters, activities regarding mergers and acquisition involving Indian enterprises have shown upward swing in recent times. There has been a considerable growth of 12 percent in announced M&A deals making a total of US$43.4bn.

However, completed M&A deals have fallen down by 62 percent to US$18.3bn as compared to 2012 which is lowest after 2005. Further, the acquisition of Indian companies by foreign firms has also gone down by 23.8 percent in comparison to 2011.

Material sector has contributed most (30.7 percent) in inbound acquisition accounting to US$4.7bn. On the other hand, Indian firms cracking overseas deal have gone up by 12 percent as compared to 2012 amounting to US$11.6bn.

(FE, 03.01.13)

FIPB Approves FDI

Nine foreign direct investment (FDI) proposals accounting to ₹1,140.14 crore have been cleared by the Foreign Investment Promotion Board (FIPB). The proposals which have received green signal by the board include foreign equity for insurance broking and developing defence electronic system.

In addition to this, the Board has also forwarded proposal of IKEA, a Swedish single brand retail giant, to establish 25 retail stores in India worth ₹10,500 crore, to Cabinet Committee on Economic Affairs (CCEA). The IKEA's proposal has been forwarded to CCEA as FIPB cannot clear proposal which is more than ₹1,200 crore in value.

Further, the Board has also rejected 11 applications including Telenor's proposal to establish joint venture company, among others.

(FE, 01.03.13)

Manufacturing to Benefit

In a post budget meeting organised by industry associations, Union Finance Minister P Chidambaram has made it clear that investment allowance is limited to manufacturing sector and will not be extended to any other sectors like services etc.

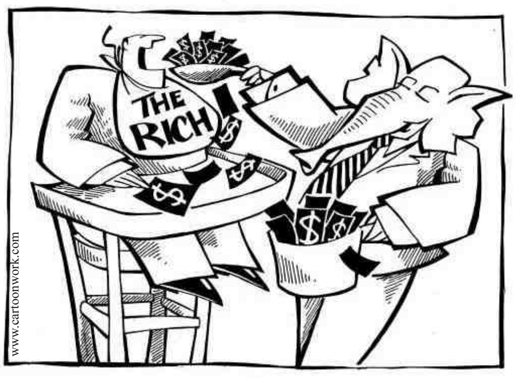
Responding to suggestion made by Confederation of Indian Industry (CII) member Naresh Trehan that allowance should be allowed for other sectors like healthcare also, Chidambram stated that tax benefit is targeted at enhancing manufacturing in the country.

Naina Lal Kidwai, President, Federation of Indian Chambers of Commerce & Industry, was of the opinion that minimum limit of investment required for getting allowance should be brought down to 10 crores from proposed 100 crores so that small and medium enterprises could be benefitted.

Answering to it Chidambram said that such a move would make monitoring difficult for finance ministry.

(TH, 04.03.13)

Stop Subsidising the Rich



Current economic condition marred by high inflation rate, overflowing fiscal deficit, high interest rate, lowering growth rate, etc. calls for some effective measures from the part of government to bring economy back on track.

According to experts for accelerating growth rate, interest rate should be brought down, however RBI seems to have different idea as it is waiting for fiscal deficit to come down. In the recent past, the government has taken some steps to keep fiscal deficit under control by reducing subsidy and expenditure on welfare schemes.

But the fact remains that these steps are directly affecting the interest of poor people. The government still seems to be shying away from taxing super rich people who avail various subsidies/benefits while acquiring resources for their production.

The government should relinquish such practice and start charging genuine price for resources. This would allow our country to improve on economic front.

(TH, 29.01.13)

Rays of Hope for Economy

Sudipto Mundle*

It is the beginning of a new year. Low growth, persistent high inflation and policy paralysis have been the dominant themes of the past year. Fortunately, thanks to recent enabling changes in the political arithmetic of Parliament, in particular the marginalisation of Mamata Banerjee, we are beginning to see the first signs of an economic turnaround.

Everybody is bullish on India in the long term. Our large, young population is our greatest asset. Over the next three decades it will help drive down the dependency ratio and push up the rate of growth. But for this rosy scenario to be realised, we need to adequately educate and skill our young workforce, and invest in enough infrastructure, plant and machinery to employ them productively. These long-term policy priorities are quite clear. The challenge is to successfully navigate our way around the short-term barriers and stay focussed on the long-term priorities for high growth.

On the external front, the immediate danger is the US fiscal cliff. Political brinkmanship has taken us right to the edge. If the US economy were to go over that edge, it could bring the whole global economy crashing down. Nor do the markets it seems; so far there is no panic. In the end, the Democrats and Republicans are likely to come to some deal. Despite that, recovery in the US is likely to remain slow.

Recent policy activity like on retail FDI promises that government is getting back to business

In India, high inflation persists along with low growth. Wholesale price inflation of over seven percent is way above the RBI`s comfort level, and consumer prices have been rising at double-digit levels for nearly three years now. I cannot recall any other period in the recent past when this has happened. Ten percent was considered the *Lakshman Rekha* for inflation tolerance in India. Once it was crossed, there would be protests and demonstrations across the country.

That has changed. Protests against price rise have had little political traction this time. How come? We are probably in a wage-price spiral now. Money wage increases seem to be keeping pace with price increases even in the unorganised sector, where workers are the lowest paid and usually the worst affected by inflation. Such data that we have on wage movements suggests this.

The RBI has deployed all the tools it has to bring down inflation, but high inflation has persisted. That makes it difficult to lower policy interest rates to stimulate growth, especially if the fiscal deficit remains above the target.

The main initiatives for fiscal consolidation are likely to feature in the forthcoming budget for the next fiscal. Those initiatives will be critical for the resumption of high growth. The principal factor that has led to the recent decline in investment and growth is the loss of investor confidence arising from policy paralysis during the past two years. That scenario is now changing.

Chidambaram`s early moves on the tax policy side, setting aside GAAR and re-interpretation of tax laws with retroactive application, have been followed by the recent flurry of policy activity on FDI in multi-brand retail, new bank licensing and the land acquisition Bill. There may be infirmities in the details of the new policies, but the overarching message is loud and clear. The government is getting back to business. This is beginning to restore confidence, as is already evident in the stock market. This process now needs to be reinforced with a strong programme of fiscal consolidation.

It will be some time before the turnaround is fully established. However, sooner rather than later the underlying bullishness on India is likely to re-emerge and the country will be back on the long-term path of high growth. That should be the high note on which we start the New Year.

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* *Emeritus Professor, National Institute of Public Finance and Policy, New Delhi. Abridged from an article that appeared in the* Times of India*, on January 01, 2013*

MDG Targets Missed

India is likely to miss the chief targets of the Millennium Development Goals (MDGs) as per the recent report by the Ministry of Statistics and Programme Implementation. The poverty ratio is expected to be 26.7 percent by 2015.

India was required to halve the percentage of population below poverty line by 2015 from the 1990 level of 47.8 percent. The infant mortality rate is expected to be reduced to 43 per thousand by 2015 compared to 44 in 2011. The target of 27 per thousand by 2015 shall be clearly missed by a wide margin.

The Millennium Declaration was adopted at the Millennium Summit, held in the framework of the 55th General Assembly of the United Nations. *(IE, 01.01.13)*

Freedom of Press in Shackles

The 2013 World Press Freedom Index has India placed at 140 in a list of 179 countries. India has slid down nine places in the ranking compared to 2012 and this is the lowest rank since 2002. The reason for this poor ranking has been cited as increasing impunity for violence against journalists and growing internet censorship.

The Index, published by Reporters Without Borders, has been topped by Finland, Netherlands and Norway. Turkmenistan, North Korea and Eritrea are at the bottom of the list. Influential countries from all over the world have fallen in the index, with a noticeable general decline in freedom of information in South Asia.

It is clear from the rankings that democracies provide better protection to press than countries where human rights are flouted. *(TH, 31.01.13)*

Slums have Better Amenities

A recent survey, based on Houselisting and Housing Census 2011 conducted by the office of the Registrar General and Census Commissioner claims that slum residents have better access to drinking water and electricity than their counterparts in urban non-slum areas.

The Union Ministry of Housing and Poverty Alleviation said that the census helped the government get an accurate view of the slum numbers in the country which turned out to be lesser than expected. In million plus cities, the concentration of slums has been found to be 38 percent. *(TH, 22.03.13)*

Public to Spend on Health

People are funding 68 percent of the health spend in India. Even though India got US$775mn as Development Assistance in Health (DAH) in 2010, it amounts to only 1.6 percent of the total expenditure on health in India.

The financial DAH includes contribution from bilateral development agencies, such as the World Bank (IDA and IBRD), Asian Development Bank (ADB), African Development Bank etc.

For most countries receiving the DAH, it constituted less than 10 percent of total spending by governments. However, in certain countries in Asia and Western and Southern Africa, global health funds provided amounted to more than half of total government health expenditure. *(ToI, 25.02.13)*

Turnaround in Indian Economy

The Organisation for Economic Cooperation and Development (OECD) has predicted that the Indian and Chinese economies are headed for a turnaround. OECD's Composite Leading Indicator (CLI), which indicates turning points in an economy, inched up to 97.9 in November, 2012 from 97.8 in October 2012.

In the US and the UK, the CLI are pointing towards economic growth firming. CLIs for Italy, Germany, France and the Euro Area as a whole, reflected stabilisation in growth prospects.

Among others, fiscal deficit is a major concern for the Indian economy. The Finance Minister P Chidambaram suggested a fiscal deficit of 5.3 percent of GDP in 2012-13 was "doable", followed by 4.8 percent in 2013-14 and further gradual reductions to 3 percent by 2016-17. *(IE, 15.01.13)*

UN Predicts India's Growth

India has been projected to have an economic growth of 6.1 percent in 2013 by the United Nations. However, the exports and capital investments are likely to be much better than in 2012. Investment demand is expected to respond to a more accommodative monetary policy stance and slightly improved business confidence.

According to the UN, India had huge growth potential in the long term. Monetary tightening would not be the right tool to contain inflation. The UN also expresses optimism that the Reserve Bank of India would ease policy in the coming months. *(BS, 18.01.13)*

Disasters Caused Loss to India

India faced over Rs 1,000 crore (US$185mn) losses due to the adverse winter weather in January, according to a report. The Global Catastrophe Recap report, released by Impact Forecasting, the catastrophe model development centre at Aon Benfield, reviews the natural disaster perils worldwide during a particular period.

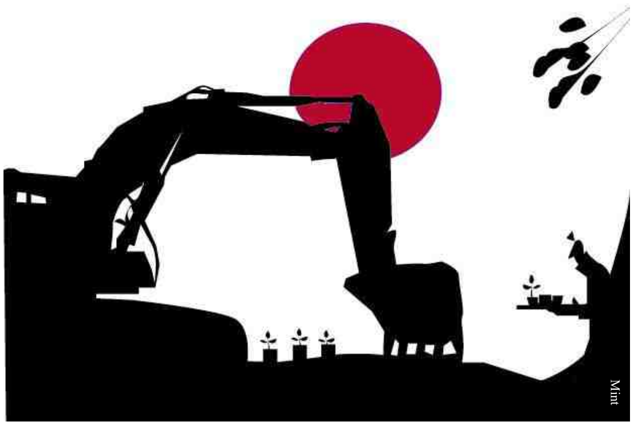
It also said there were 329 deaths collectively in India, Bangladesh and Nepal due to cold wave. Unlike other nations, India does not have a catastrophe pool.

Due to this, in the case of a natural disaster, insurance companies have to pay out from their own reserves. This results in a big hit for both insurers and the reinsurance companies, who make huge payouts during such situations. *(BS, 19.03.13)*

CSR Spending: An Anti-democratic Idea?

Shankar Jaganathan*

Indian firms with revenue of M1,000 crore, or net worth above M500 crore, or profits above M5 crore are required to spend two percent of their last three years' average profits on CSR. Even though this law is yet to take effect, it has in no way reduced the intensity of debate.



Governments asking big firms to spend money on social; causes is an idea that needs to be carefully debated

The concept of CSR emerged in economies where there was excessive focus on corporate business responsibility. For instance, in social democratic societies such as Nordic countries, the concept of CSR is quite nascent and is focused more on sustainability and innovations, as the basic social security needs of health, education and old-age relief are taken care of by the state. Even in continental Europe, where some kind of state socialism prevails, CSR has limited appeal. The role of the private sector in these economies is to pay taxes which then fund social programmes.

The reason for this is not too difficult to fathom. The primary business responsibility of a company in such a setting is restricted to earning a profit by conducting its affairs legally. Social concerns were not addressed despite visible and pressing need as this was seen to infringe personal freedom.

Three distinct views to justify CSR have emerged in these liberal economies. Initially, CSR spending was seen as an optional marketing expense, essential for building a brand and goodwill in the public at large, potentially seen as a group of customers or employees.

Gradually, as the pressure to spend increased in companies operating in certain sectors such as mining and energy that used natural resources and caused noticeable pollution, a new logic emerged. CSR was seen in the light of social contract theory.

Around the end of the second millennium, a third view emerged. This is an interesting viewpoint whereby CSR was seen as businesses serving the base of the pyramid. Depending on who you are talking to today, all the three views are common.

The Indian government's mandate for CSR spending by big Indian companies must be seen in this larger context. The present government, with the so-called common man as its primary focus, had two options to fund its social programmes. Increasing tax rates on the private sector was one option. The other option was to mandate CSR spending by big firms. Given that India is today a de facto liberal economy, with its glaring inequalities of all hues we need to evaluate this decision to mandate such spending by contrasting it with the alternative of raising tax rates for the private sector.

A debate close in reference to the Indian debate is the one in Sweden on granting tax exemptions for charitable contributions. This issue was debated not once or twice, but thrice, in 1979, 1991 and 2008. The issue in focus was whether public money should be spent by private organizations or was it better spent by a democratically elected government. The proponents for charity deduction advanced the view that providing tax deduction will increase the flow of funds to charity, which is socially beneficial. In contrast, opponents viewed tax deduction for charity as reducing tax collection, thereby transferring public revenue into private hands.

Given that mandating CSR spending instead of increasing tax rates transfers public revenue and responsibility into private hands, can this move be seen as undemocratic and in need of a review?

Looked at in the larger context of the development in the last two decades, is this a continuing sign of the government abandoning its primary responsibility?

Viewed sceptically, the right to education with its 25 percent reservation clause, promoting public-private partnership to provide basic infrastructure and essential services and now mandating CSR spending, seems to further this idea. Against this background, should there not be a larger debate on what is a better option, to increase corporate tax rates instead of mandating CSR spending by firms?

* *Former Corporate Treasurer, Wipro Ltd. Abridged from an article that appeared in the* Mint, *on February 25, 2013*

Need for Speedy Justice

Prime Minister Manmohan Singh, during Golden Jubilee celebrations of Bar Council of India in New Delhi, urged the lawyers and the judges to work together to provide speedy justice to people, so as to ensure rule of law and to further the Constitutional objectives.

While raising concerns over the large pendency of cases in courts, he acknowledged the responsibility of the government to work with legal fraternity to build a 'strong and effective' justice delivery system.

Chief Justice of India, Altamas Kabir and the Law Minister, Ashwini Kumar showed concerns about falling standards of legal profession. He also stressed on the need for adopting alternative dispute resolution mechanisms. *(IE, 16.02.13)*

JNNURM for New Projects

The proposal to continue the Jawaharlal Nehru National Urban Renewal Mission (JNNURM) for new projects to be sanctioned until March 2014 has been approved by the Cabinet. The sanctions were to end in March 2013. This will enable provisions for creation of urban infrastructure, particularly in small and medium towns in all states.

Cabinet Committee on Economic Affairs (CCEA) has approved using proceeds from the stake-sales of state-run companies to recapitalise public-sector banks and insurance companies and to subscribe to the shares of public sector companies to retain majority.

CCEA also approved recommendations by inter-ministerial task force on budgetary ceilings for annuity commitments under public-private partnership projects across sectors. *(Mint, 18.01.13)*

Homes for Rural Poor

Ahead of the Lok Sabha elections due in 2014, the UPA government is ready with another flagship, entitlement-based programme, this time promising homes to the rural homeless.

The draft National Right to Homestead Bill, 2013, which hopes to enable this welfare measure is ready for inter-ministerial consultation and will be circulated among ministries and states on March 18, 2013.

The Right to Homestead Bill is being readied, even as another ambitious entitlement-based legislation continues to hang fire and is yet to get Parliament's nod. Both laws could be electorally crucial for the Congress ahead of key state elections this year and Lok Sabha polls due next year.

The draft promises every landless and homeless poor family in rural areas a homestead of not less than 0.1 acre or 4,356 sq ft, much on the lines of its marquee Mahatma Gandhi National Rural Employment Act that promises 100 days of employment to each rural household every year. *(IE, 13.03.13)*

Direct Cash Transfer for Delivery of Subsidies

The underprepared infrastructure and logistic arrangements; such as no savings-bank account of number of poor families, slow *Aadhaar* penetration, under-developed IT systems of banks to implement cash transfers through *Aadhaar*, lack of clarity on a system-integrator to implement the scheme; may lead the UPA government to put its ambitious plan of rolling out cash transfer schemes for delivery of major subsidies to the needy, before the next general elections.

Three major subsidies, i.e. oil, fertilisers and food, account for 95 percent of country's subsidy bill and 15 percent of the Central budget. Under 2012-13 budget, subsidy bill should be 1.9 of the country's GDP and it is projected that it would be 1.2 percent of GDP in 2016-17.

This proposed reduction in subsidies coupled with delay in implementation of the cash transfer scheme seems like a tall order, with the three major subsidies to be last in being shifted under the scheme.

(FE, 14.12.12)

Tussle on 'Creamy Layer' Cap

Members of other backward classes (OBCs) earning over ₹6 lakh annually will not be eligible for reservations in jobs and education with a group of ministers deciding to raise the 'creamy layer' bar from ₹4.50 lakh as part of the revision done every four years.

The increase, however, marks a setback for the 'backward lobby' of ministers that blocked the proposal for fixing creamy layer at ₹6 lakh in the Cabinet in June 2012, arguing it did not reflect inflation. 'Creamy layer' is the income limit beyond which OBCs are not eligible for quotas.

While there were murmurs that the bar be raised further, the Finance Minister P Chidambaram argued that keeping the quota net too high would crowd out the genuinely poor and the needy among backwards.

(ToI, 16.03.13)

Ease Traffic Congestion

To ease traffic congestion in centrally located business areas and congested areas in the city, the Urban Development Department of the Central Government has suggested levying 'congestion charges' from the users of private vehicles.

The State Government will decide modalities of identifying congested areas and charging amount. It has suggested State Government to promote cycling and effective public transport for decongesting the traffic jams.

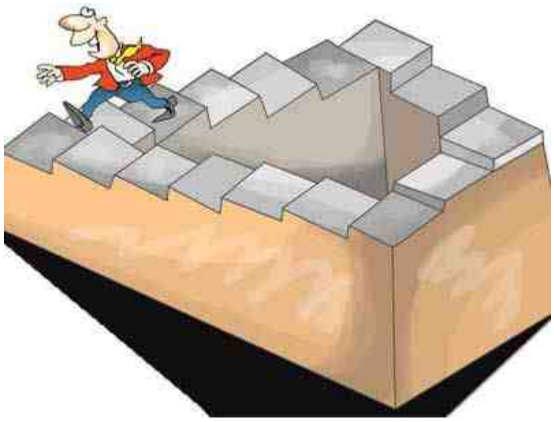
Urban Development Department secretary Sudhir Krishna has directed to issue necessary instruction to all concerned authorities for identifying the most congested areas in their cities, getting a proper study done on various aspects of congestion charges as per city requirement.

(BL, 01.02.13)

Learning to Get Things Done

Arun Maira*

Local, lateral and learning are three lessons from, abroad that can overhaul our pitiful public governance



Economic Times

Frustration of citizens with the apathy and inefficiency of India's government institutions is spilling on to the streets. The first rallying cry was corruption. Now it is the safety of women. Police, justice, administration and public services, essential for good governance, are corroded by inefficiencies and corruption. They lack the grammar of good management: accountability to stakeholders, efficient use of resources and respect for deadlines.

Citizens want leaders who are not merely good politicians but good managers. So, chief ministers who campaign on a credible platform of good management, like Narendra Modi and Nitish Kumar, will win polls. While *aam aurat* and *aam aadmi* are protesting on the streets, our economists are raising alarms about the state of India's finances.

They demand political will to reduce fuel subsidies, increase power tariffs and re-engineer the food subsidy system. However, politicians without a credible record of good management, anxious to stay in power, are wary of risking voter anger by imposing good economics on people.

One cause of India's simmering political and economic crises is bad management of public institutions and citizen services. India has many professional politicians and many good economists. What it lacks is good management of public institutions.

Good management practices relevant for India's governance can be found in China, Malaysia and Japan, amongst other places. The popular perception is that things get done in China because a single strong political party enables the centre to control top-down in a way that India's political leadership cannot. The truth is that there is much greater devolution of powers to the provinces and cities in China than in India. In China, the centre sets targets and gives considerable freedom to provincial and local leaders in implementation.

Then it assesses outcomes, learning from experiments and rewarding good performers. But Indian states and cities are struggling to be rid of micro-management from the centre, one-size-fits-all solutions and management of inputs rather than outcomes. Large organisations, as governments everywhere are, have to be divided into more manageable parts: ministries, programmes and schemes. They generally lapse into silos and boxes, with impenetrable walls around them, making collaboration very difficult.

Therefore, processes to ensure convergence must be installed and managed. In India, the approach to convergence is to kick problems to the top, which then becomes the bottleneck for coordination, or to attempt convergence by committees, whose recommendations are implemented desultorily, if at all.

Transparent tracking mechanisms for progress are agreed upon. Thereafter, problem-solving meetings of stakeholders are convened when necessary to find solutions to roadblocks. If the key lesson from China for management of a large country is to get local, and the key lesson from Malaysia for the management of multi-stakeholder systems is to build lateral connections amongst stakeholders, the lesson from Japan is to institutionalise rapid, widespread learning.

The architecture of large systems' governance, in all three examples, is based on three principles: three 'Ls'. The first 'L' is to devolve responsibilities and build capabilities of 'local' units. The second 'L' is deliberate creation of 'lateral' coordination processes, in the Malaysian example.

The strength of the total quality movement in Japan also was in its lateral connections. The movement 'scaled up' by creating forums in which many organisations, including competitors, learned from each other. The third 'L' is a systematic management of the process of 'learning', visible in all three examples. The test of a good learning system is its ability to learn and improve faster than others.

In conclusion, we should stop making the country's size, federal structure and democracy explanations for poor governance and tardy implementation of projects. India's governance needs a strong dose of good management. We

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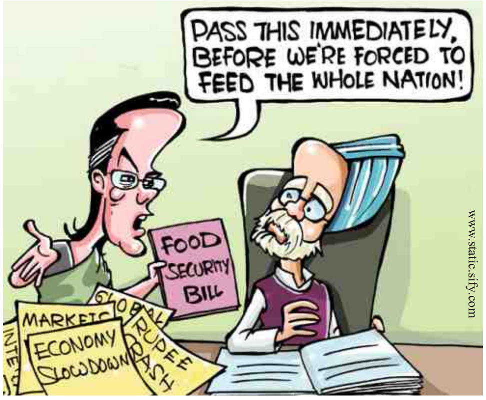
* *Member, Planning Commission, Government of India. Abridged from an article that appeared in the* Economic Times*, on January 14, 2013*

Food Security Bill Cleared

The Standing Committee on Food, Consumer Affairs and Public Distribution has cleared the Food Security Bill with recommendations nearly matching those made by the Sonia Gandhi headed National Advisory Council, boosting prospects of the ruling party in next elections.



Under the Bill, 75 percent of rural population and 50 percent of urban India should be identified as single category of beneficiaries with uniform entitlement at 5kg per person a month.

Concerns are being raised that the Central government should come out with a method for fair and transparent division of 75 and 50 percent population because some states are economically better-off than others. The state governments are given flexibility of extending coverage beyond prescribed numbers, out of their own resources, to cover more population.

The panel has also given other important recommendations to minimise corruption and increase food availability. *(Mint, 18.01.13)*

Regulator for Real Estate

The Housing Ministry will soon revise the Real Estate Bill, after builder lobby groups termed impractical, the clause requiring builders to use 70 percent of the money collected for a project, for that project, to avoid delays.

The Bill seeks to establish a regulatory body for real estate sector to ensure transparency in property transactions, protect consumers and to vet agreements between the buyers and builders to ensure that developer fulfills all the conditions mentioned in the agreement.

The developer will be allowed to launch a project only after getting all the requisite approvals, including environmental clearance, clearance of sanction plan and civil aviation clearance. *(Mint, 21.02.13)*

States to be on Board for GST

Finance Minister, Chidambaram, during pre-budget consultations with state finance ministers, said, he would outline amendments to the Constitution for introduction of the goods and services tax if a consensus is reached amongst the state government.

The Constitutional (Amendment) Bill, 2011 for the introduction of GST, tabled in Parliament and referred to the Standing Committee on Finance, is still pending due to lack of consonance amongst Centre and States.

The states also raised concerns over the long-standing issue of compensation for reduction in the rate of the central sales tax. Chidambaram said that it would depend on the Centre's fiscal situation. He also requested for fast-track clearances for investment proposals. *(IE, 17.01.13)*

Bill to Protect Street Vendors

A large number of street vendors and their representatives from different States will organise a "Street Vendors' Parliament" demanding enactment of the Street Vendors (Protection of Livelihood & Regulation of Street Vending) Bill, 2012, in the Budget session of Parliament.

National Association of Street Vendors of India, said several MPs, livelihood and labour rights activists and trade unionists are expected to address the street vendors expressing their support.

Describing the Central legislation being sought as a "critical social and political need of urban India," Association coordinator Arbind Singh said "an effective law would act against the continuing rights abuse and forced eviction of vendors which are currently going on in several cities including Delhi, Mumbai, Surat, Vadodara, Ahmedabad, Jaipur, Ludhiana, Chandigarh, Lucknow and Kolkata". *(TH, 09.03.13)*

Ensuring Farm Bio-security

In a bid to screen imported agricultural products for diseases or pests and protect bio-diversity, agriculture minister Sharad Pawar introduced a Bill in the Lok Sabha for establishing an authority that will ensure bio-secure global trade.

The Agricultural Bio-security Bill, 2013, intends to put in place a better regime of quarantining and controlling pests and even 'exotic species' that are finding their way into India.

The bill also points out that advances in genetic engineering leading to the introduction and release of living modified organisms or their products require proper assessment and management.

The authority's mandate will cover four sectors of agricultural biosecurity: plant health, animal health, living aquatic resources (like fisheries) and agriculturally important micro-organisms. The proposed law is set to ensure farm bio-security of the country for common benefit and for safeguarding the agricultural economy. *(FE, 12.03.13)*

SEBI Amendment Bill on Anvil

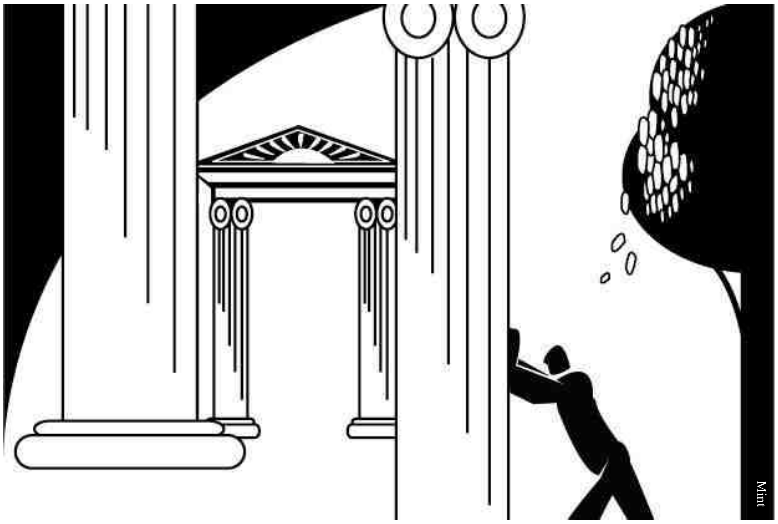
The Rajya Sabha passed the Securities and Exchange Board of India (Amendment) Bill, 2013. The SEBI amendment Bill seeks to consider retired high court judges for the post of presiding officer of the Securities Appellate Tribunal (SAT), a statutory body that hears appeals against SEBI orders.

Currently, only a serving or retired Supreme Court judge or the chief justice of a high court can be appointed SAT chief. Finance Minister P Chidambaram told the House that the present criterion has made it impossible for the government to fill the post. The post has been lying vacant for over a year now.

The government has also moved an ordinance seeking to broaden the criterion, which would enable a retired high court judge with seven years of experience to be appointed SAT chief. *(BS, 11.03.13)*

Far Reaching Changes in Powers of the Banking Regulator

Ashvin Parekh*



We will now see more banks in the private sector which will increase competition in the banking space as well as deepen financial inclusion, which has been the focus area for regulators and policymakers

The Banking Laws (Amendment) Bill, 2011 passed by the Parliament will make far reaching changes in the power accorded to the regulator. While on one hand it paves the way for issuance of new banking licences and greater play for foreign banks in the wholly owned subsidiary form, on the other hand it provides power to the RBI to supersede the boards of banks and inspect the books of accounts of associates including holding company, subsidiary company, joint venture, an enterprise that controls the composition of the board of directors or other bodies governing the banking company and any other entity able to obtain economic benefits from the activities of the banking company.

Among other changes, the Bill also raised the voting power of the shareholders from 10 to 26 percent for private banks and from 1 to 10 percent for public sector banks. In addition, the Bill also allows private banks to issue preference and bonus shares. This Bill also keeps banking mergers and acquisitions within the purview of the Competition Commission of India. Furthermore, the Bill also increases the authorised capital of the banks and it can be increased or decreased with the prior approval of the regulator.

Overall, the Bill provides an enabling environment for the banking sector to increase capitalisation and grow into larger organisations. It also clears the way for enabling environment for RBI to issue the guidelines for new banking licences in the private sector by giving it the powers to inspect the books of accounts of associates and supersede the board. Since the new banks will have to be focused on financial inclusion, they will need to have strong business models to be successful as there is a very strong element of cross-subsidisation that will need to be built in the model.

The biggest impact of the Bill is expected to be the powers granted to the regulator. Since the new banking licences were announced almost two years back, the regulator has maintained that intra-group exposures present a huge regulatory challenge especially in case applicants which are part of large conglomerates and unless the regulator has access to records of all such associates within the group, the risks to the bank would be difficult to be segregated from the other businesses of the group.

Now the regulator has powers to check all books of accounts of connected entities as well as supersede the board of the bank in case of any irregularity.

The removal of stamp duty for a foreign bank converting to wholly owned subsidiary is a substantial incentive for foreign banks who are seeking a larger play in the banking sector. Under the current laws, foreign banks are required to pay 20-30 percent tax as capital gains and stamp duty when transferring branches to a new legal entity. The development will promote growth of operations of foreign banks in India.

The Bill will provide a stable regulatory environment with adequate powers and oversight to the regulator for further development and growth of the banking sector into the grassroots of the economy as well as create large-sized banks which would be comparable to banks globally in terms of assets and balance sheets.

The increase in number of banks would lead to more competition and better pricing for the retail customer both for deposit as well as credit products as the newer banks innovate to garner market share. Overall the Bill provides an enabling environment for the regulator and the development and growth of the banking sector.

* *National Leader-Global Financial Services, Ernst and Young. Abridged from an article that appeared in* the Mint, *on January 01, 2013*

New Drug Policy Soon

The government is considering of rolling out new Drug Price Control Order (DPCO) from March, 2013. The new DPCO, 2012 would help government to fix retail prices of 640 packs of essential medicines.

It will replace the existing mechanism and will complement recently announced drug pricing policy for deciding upon method and other criteria for determining the price of drugs in domestic market.

The new drug pricing policy is aimed at fixing the price of 348 essential drug formulation applying arithmetic average of prices of all drugs in that segment with at least one percent market share.

On the other hand, National Pharmaceutical Pricing Authority (NPPA) has declined the request of multinational drug companies to raise the price of drugs taking into consideration new policy.

(BS, 02.01.13)

Linking Patented Drug Prices

A government panel has proposed that prices of patented medicines be based on the country's per capita income, a move that would substantially reduce prices of costly drugs made by global pharmaceutical firms.

The proposal, which seeks the input of other government agencies as well as industry groups, could provoke the ire of Big Pharma, which has clashed with India over protection of intellectual property price regulations for generic drugs, and compulsory licences for costly medicines.

A panel formed under the ministry of chemicals and fertilisers has recommended setting up a committee to negotiate with drugmakers to fix prices of costly drugs used to treat deadly diseases such as cancer, HIV and hepatitis. The proposal is the latest in a series of measures taken by India to make medicines more affordable for country's 1.2 billion population.

(ToI, 27.02.13)

Negotiable Price for Drugs

A panel formed by government has suggested for negotiated pricing policy for expensive patented drugs. So far, there is no pricing mechanism for imported drugs in India and government is mulling over introducing this new method of pricing.

According to reports, government would form a committee headed by chairman of National Pharmaceutical Pricing Authority (NPPA) for deciding upon prices of patented drugs.

Experts opine that the introduction of such mechanism will be favourable for big pharma companies as it would help them in making their case stronger against compulsory licensing of costly drugs resulting into failure for government in making them affordable.

(Mint, 27.02.13)

Low Growth in Pharma Sector

Pharmaceutical sector in India has witnessed slowest growth rate of 5 percent in the fourth quarter. Such a low growth rate in sector was last recorded two years ago. These figures has been released by All India Organisation of Chemist and Druggists (AIOCD) which shows that there has been steep fall in the sale of anti-infective and respiratory drugs which generally contribute to substantial portion of drug market.

Generic drugs making inroads in market along with slowdown in new patient detection in chronic therapies and lower respiratory infections are seen as the potential reason behind this downfall in growth. Also the fall has occurred after one month of announcement of new drug pricing policy and drug companies fear that the trend will further continue once the new policy is implemented.

(ET, 16.01.13)

Clinical Trial Deaths

The Supreme Court of India has condemned Central Government for showing apathy over increasing number of clinical trial deaths in country. The apex body has come hard on effective implementation of supervisory and scrutiny mechanism for experiment of new drugs on human.

Supreme Court has referred to Parliamentary Committee's report which highlights major involvement of foreign pharma companies in carrying out clinical trials on human subjects. The report also talks about poor implementation of regulatory mechanism regarding clinical trials.

The court was in favour of banning all fresh clinical trials of new drugs but kept its decision on hold as Additional Solicitor General Siddharth Luthra assured court that Union Health Secretary would personally monitor proper implementation of regulations.

(ToI, 04.01.13)

MCI Slammed on Generic Drugs

The recent Medical Council of India (MCI) circular urging doctors to prescribe generic drugs has been slammed by the medical practitioners. Generic drugs are any drug marketed under its chemical name without advertising.

Doctors argue that the drug regulatory mechanism in the country is opaque and cannot be trusted to ensure quality of non-branded medicines. They said that such a move would only further the interests of chemists. Doctors said there is more to branded drugs than their differential pricing and that brands are in a way an assurance of quality.

Dr Anoop Misra, Chairman of Fortis Centre for Excellence for Diabetes, said that two factors are involved in prescribing drugs: quality and cost. Pharmacology says generic drugs are of the same quality as the branded ones. *(IE, 04.02.13)*

Pharma Policy 2012 and Its Discontents

S Srinivasan and Anan Phadke

Following to order of the Supreme Court in a public interest litigation (PIL) filed by All India Drug Action Network (AIDAM) and others in 2003, the Government of India has finally come up with new National Pharmaceutical Pricing Policy (NPPP) in December, 2012. The new policy would allow the government to put all 348 medicines in the National List of Essential Medicines (NLEM) under price control. It took almost a decade and number of consultation between government and various stakeholders to arrive at the new pricing policy.

However, the new method of calculating the price of drugs known as market based pricing (MBP) mechanism is quite different from the present method of determining price. The present method known as cost based pricing (CBP) includes cost of raw materials, cost of conversion and maximum allowable post manufacturing expenses (MAPE) of 100 percent including profit of producers and distribution cost.

The new mechanism suggested by the government for deciding upon ceiling price of essential medicine would be arithmetic average of all brands which have more than 1 percent of market share. The government has decided to follow this formula despite the fact that Supreme Court has advised to follow the older cost based method. However, the suggestion made by Supreme Court is not binding and hence government is all set to adopt the new method.

The main issues that raise concern over the concept of market based pricing is that government has failed to substantiate the reason behind scraping cost based mechanism which is still applicable to determine the prices of telecom services, electricity, autorikshaws etc. It is hard to understand sudden change of mind to introduce market based pricing for medicines.

Secondly, the market based pricing might lead to overpricing of the drugs due to various reasons:

(i) absence of any sort of relationship between cost of production and ceiling price arrived at by MBP;

(ii) information asymmetry among patients leading to prices being fixed taking brand value into consideration rather than actual cost of production resulting in to ceiling price to be high and letting pharma companies earn supernormal profit;

(iii) market price of pharma products are often affected by brand promotion by companies which also includes unethical practices adopted by firms to promote their products'; and

(iv) any price ceiling that has no relationship with cost of production is irrational and hence deciding upon price of drugs by any such mechanism would be completely out of place.

Thus, it is advisable to the government to revisit its decision of adopting market based pricing of goods like drugs which has direct impact on public interest at large.

The National Pharmaceuticals Pricing Policy 2012 has a new method for determining the price ceiling, called a market-based pricing mechanism

Another issue that makes the entire idea very absurd is that data regarding market price of drugs is gathered by IMS health which is not a government or neutral agency. On the contrary, it is a private company, which uses to get inputs regarding pharmaceutical market from information provider related to pharmaceutical industry itself.

Another aspect related to these data is that it is neither comprehensive nor reliable. In addition to this World Health Organisation has also questioned the validity of IMS Health data for taking decision on prices of medicines.

Further, NLEM 2011 includes 348 drugs but the total number of molecules being used in India exceeds 800. So it could be concluded that event the expanded list of 348 drugs does not includes many important drugs. Many of these are used for tertiary healthcare treatment. Thus it is highly recommended for government to form a committee to expend the existing list of essential drugs.

Taking all these facts under consideration it would be wise from the part of government to invite further deliberations in order to improve upon various aspects related to the NPPP.

– *Abridged from an article that appeared in the* Economic & Political Weekly, *Vol - XLVIII No. 01, January 05, 2013*

Diesel Price Rise to be Benign

Planning Commission Deputy Chairman Montek Singh Ahluwalia opines that the diesel price hike shall have a “benign” impact on inflation. He said that when there was a supressed price and the price was raised, the people who were paying that higher price will have less money left to buy other things and that will soften the pressure in the market on other prices.

However, analysts differ over this assertion and inflation would only show an increasing trend rising to 7.5-8 percent in the second half of 2013.

Ahluwalia further said that Reserve Bank (RBI) will take into account factors like government's determined action to curb subsidy and the decline in inflation while announcing monetary action in its next policy. *(BL, 19.1.13)*

Corporates Running Banks

Allowing corporates to run banks is a risky move according to Arvind Virmani, the former Chief Economic Advisor (CEA) to the Union Government. He urged the government to take calculated risk, but not excessive risk.

He said there might be more benefits from increasing competition among the public sector banks, which could be achieved by diluting government stake in them.

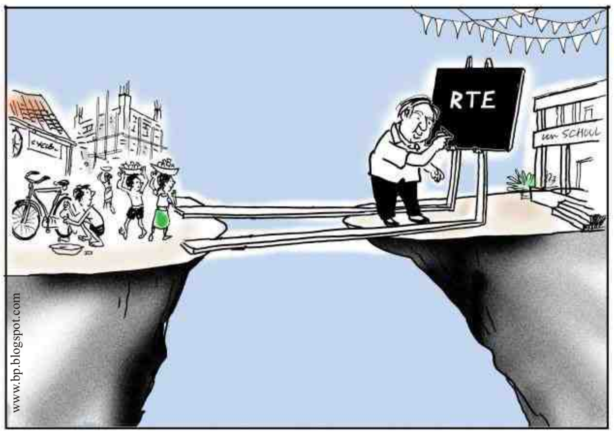
It can be noted that countries such as the US and South Korea do not allow industrial houses to establish banks.

Dr. Virmani admitted the move might have been aimed at boosting 'investor sentiment' at a time when credit rating agencies are threatening to classify Indian debt to junk status, and at a time when the current account deficit had breached the four per cent of GDP mark. *(TH, 21.2.13)*

EDUCATION SECTOR

Right to Education Deadline Ends

Kritika Suneja



The deadline for meeting the infrastructure provisions under the Right to Education came to an end, with widespread apprehension about the closure of schools which have failed in implementing them. Even as the Human Resource Development Ministry has turned down request from some states to extend the deadline, reports suggest that hundreds of schools across the country are lagging far behind in implementing the infrastructure norms.

The RTE Act providing free and compulsory education to children in the age group of 6 to 14 came into effect from April 01, 2010

According to RTE Forum, a voluntary organisation working in the education field, approximately eight million children are currently out of schools and the figure could be much more. More than 30 percent schools in the country lack toilets for girls and more than five percent have no provision for drinking water. The RTE Act providing free and compulsory education to children in the age group of 6 to 14 came into effect from April 01, 2010. A three-year timeline was stipulated to ensure that all schools meet the norms as mandatory by the Act.

Schools which have failed to meet the norms face the threat of being closed down. The government had last week ruled out extending the deadline beyond March 31, 2013 for schools to meet RTE requirements even as it conceded that many states were lagging behind.

HRD Minister MM Pallam Raju was evasive when asked about the fate of the schools which fail to meet the RTE requirements after March 31, 2013, as he barely said they would ensure the requirements are compiled within the "shortest possible time".

The government had ruled out extending the deadline beyond March 31, 2013 for schools to meet RTE requirements.

Besides schools facing the prospect of closing down if they are not RTE compliant, the government also faces the threat of being challenged in court by stakeholders in the event of non-compliance.

The Central Square Foundation, headed by Ashish Dhawan, said big states such as Uttar Pradesh, Andhra Pradesh and Bihar have hardly been able to achieve 25 percent admission for students from economically weaker sections in neighbouring schools.

He said government should clarify and simplify the application and admission practices and ensure timely and adequate reimbursement to private schools. Only Rajasthan and Gujarat are the states that have made some progress in implementing the

– *The article appeared in the* Financial Express*, on March 31, 2013*

National Competition Policy

The Competition Commission of India (CCI) is unable to act against misleading advertisements as it does not have enough powers, said its member R. Prasad. Addressing a seminar on 'Competition law and its impact on industry,' organised by the Federation of Indian Chambers of Commerce and Industry, he said that after the winding up of the Monopolies and Restrictive Trade Practices Commission the practitioners of unfair trade practices were going scot free.

He urged the Centre to come out with the National Competition Policy to usher in a competitive culture. It should be given the status of Indian Penal Code or CrPC. In the theme address, M.R. Sivaraman, former Revenue Secretary said competition promoted innovation, new products and lowering of prices.

(BL, 21.02.13)

Diageo-USL Deal Approved

The CCI has ruled that the deal would give a boost to entry of premium brands in alcoholic beverage market. "Diageo's acquisition of USL may give a boost to the premiumisation strategy... The combination may increase and improve consumer choice," CCI said.

United Spirits shares rose 2.02 percent on the BSE and closed at₹1,877 post the announcement. CCI, in an order dated February 26, has approved Diageo Plc's proposed majority stake purchase in Vijay Mallya-led United Spirits, saying the deal would not have adverse impact on competition. The proposed transaction worth about US$2bn would provide much needed cash for Mallya's UB group. *(Mint, 01.03.13)*

Buyers' Pact Modified

The CCI said modifications suggested in the agreement between DLF and apartment buyers of the realtor's Belaire project would be applicable to two more projects of the company, Park Place and Magnolia. The modifications to apartment buyer agreements follow a direction from Competition Appellate Tribunal, which is hearing DLF's appeal against the fair trade regulator's ₹ 630 crore penalty and other sanctions against it.

After finding DLF abusing its dominant position, CCI had in August 2011 imposed the penalty on DLF and had asked the company to suitably modify its apartment buyer agreement to remove the unfair conditions. *(TH, 08.01.13)*

Nod to Denso Corp.-Prico Venture

The CCI has approved Japan's auto component maker Denso Corporation's proposed joint venture with Pricol Ltd, saying the deal would not have an adverse impact on competition.

Following the joint venture agreement on February 14, 2013, Denso had approached CCI for its approval.

The proposed deal involves transfer by auto component maker Pricol, of its 'Denso Technology Instrument Cluster Undertaking', relating to the four-wheeler personal passenger vehicles in Coimbatore and Gurgaon, to its subsidiary Pricol Components Ltd (PCL).

According to the agreement, upon the transfer, Denso would acquire 51 percent stake in PCL.

The regulator noted that the proposed deal would not have an adverse impact on competition as among others things, Denso and Pricol would be jointly controlling the affairs and management of PCL. *(BT, 28.03.13)*

BCCI Slapped with Fine

The CCI imposed a penalty of ₹52.24 crore on the Board of Control for Cricket in India for alleged abuse of its dominant position. The penalty imposed amounts to six percent of its average annual revenue for three years (2007-2010).

CCI has raised questions over BCCI misusing its position by blocking players who could have opted for competitive leagues such as the Indian Cricket League started by Essel Group. CCI has directed BCCI to “cease and desist” from any practice in future denying market access to potential competitors and not use its regulatory powers in deciding matters relating to its commercial activities. *(FE, 10.02.13)*

CCI Rejects Charges of AoD

The CCI has rejected a complaint that National Mineral Development Corporation (NMDC) had abused its dominant position in the iron ore market. CCI refused to order a direct inquiry, on a complaint from the Sponge Iron Manufacturers Association, that NMDC was abusing its dominant position in the market.

Rejecting the complaint, fair trade regulator CCI said prima facie there is no collusion between NMDC and other private parties which led to anti-competitive issues. The Commission is not convinced that there existed a deliberate reduction in production in view of the Supreme Court orders.

(BL, 01.03.13)

Hyundai gets HC Stay

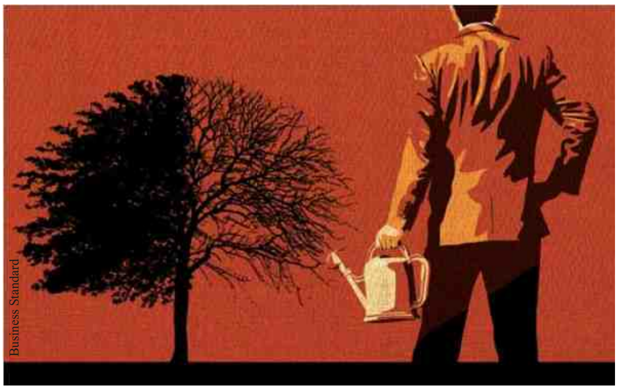
In a major reprieve, Hyundai Motor India has obtained a stay order from the Madras High Court against CCI legal proceedings on alleged anti-competitive practice of selling spare parts at higher prices. Hyundai was among the 17 carmakers that the commission is investigating.

The company argued that CCI had suo moto expanded the scope of investigations to the entire car industry even though it had originally received a complaint against three carmakers Honda, Volkswagen and Fiat. ACCI source said it will challenge the order before a higher bench. "We are considering challenging the order in higher court," said a senior official from the CCI requesting anonymity.

(ET, 20.02.13)

Is the Worst Over?

Nitin Desai*



Growth revival will be more tentative, inflation sharper, and external pressures more acute than pronouncements suggest

Is the worst over? The finance minister and his chief economic adviser believe that the economy has bottomed out, that growth is now on an upswing and that inflation is coming under control. The prime minister assures us that in two or three years we will be back on a high-growth path. How plausible are these statements?

The plausibility of the prognosis about growth and inflation in 2013-14 depends on three things: whether the Union Budget numbers will pan out as projected; whether the current account deficit will continue to be financed by foreign direct investment and inflows from foreign institutional investors; and whether business sentiment has recovered enough to revive investment.

The corporate sector seems to have reacted favourably to the Budget. The stock market remains a tug of war between the bulls and the bears; no decisive move emerges one way or the other since nothing in the earnings figures or investment intentions justifies any uptrend or downtrend.

The projected deficit for 2012-13 is lower than what was anticipated a few months ago, but that is largely on account of a drastic cut in Plan expenditure in this fiscal year. The other big problem is the current account deficit, which is the difference between gross national expenditure and gross national income - in effect, our national dissaving, which is financed through borrowings or drawing down reserves.

The assurances about the prospects of high growth in the medium term rest on two factors. The first is the rate of investment that, even now, is over 32 percent of GDP. Even with a capital-output ratio of four, this translates into eight per cent. However, one must recognise one big difference between the kind of high growth in the 2004-09 period and the nature of growth in the years ahead.

The next phase will have to depend more on manufacturing and related infrastructure, and those have much higher capital-output ratios. Thus, some downward adjustment in the growth potential associated with any given level of investment is necessary.

The other factor that leads to a belief that we are somehow predestined for high growth is the so-called demographic dividend - the growth in the proportion of working-age people in the population. But realising this dividend involves major shifts in the growth process.

First, the locus of growth has to shift from the south and the west to the north, where the bulk of the increase in the working-age population will take place. Second, high growth will have to generate more jobs proportionately than it has done in the past. Third, the new workers will have to be imparted the skills needed for these jobs.

Fourth, employment-intensive growth may require a much greater emphasis on small and medium enterprises, which have not done too well lately. Fifth, sustaining employment-oriented growth in a non-inflationary manner requires adequate food availability underlining the importance of boosting agricultural growth.

Sixth, this sort of growth also means more rapid urbanisation, and that will generate a huge demand for urban infrastructure investments. So, the next phase of growth will be very different from the corporation-focused growth in established industrial centres that drove the 2004-09 growth process.

What, then, does the evidence suggest? Borrowing the language of the Indian Evidence Act, one can say that a reasonable man would consider it prudent to act on the supposition that the revival of growth will be more tentative, the control on inflation more tenuous and the pressures on the exchange reserves and the rupee will be more acute than what the official pronouncements suggest.

Prudence also requires that we take the predictions of eight and nine per cent growth in the medium term with a pinch of salt, await the outcome of the next election, and live with uncertainty about our economic future till then.

* *Former Under-Secretary to the UN. Abridged from an article that appeared in* Business Standard, *on March 20, 2013*

Narasimha Rao's Patience, Political Deftness Laudable

Late Narasimha Rao, who was fondly called PV by many, will be remembered for his many contributions to the nation foremost amongst which, in my opinion, is his sterling success in taking the nation to the next level of reforms in 1991. These economic reforms enabled the nation to traverse the path of realisation of its economic potential. He assumed the reins of the Prime Minister of India at a time when the country was confronted by severe economic problems.

Faced with the financial crisis, in an unprecedented and courageous move, he departed from the usual policy of appointing a senior political leader as the finance minister. Instead, he appointed Manmohan Singh, our present prime minister, as finance minister. He gained rich experience in policy-making as the economic affairs secretary and Reserve Bank of India governor.

He was entrusted as the doctor, with the responsibility of nursing and strengthening the economy. Rao displayed great foresight in making this choice and as the present bears witness, this was a brilliant decision that could not have come at a more appropriate time.

Rao gave Singh full freedom to navigate the crisis and introduce far-reaching economic reforms. He lent full support to Singh and the two together, took the nation on a path that has made India an economic powerhouse that the world today admires. In fact, Rao had himself spearheaded the move for dismantling the licence regime as the prime minister, while holding additional charge of the industry ministry.

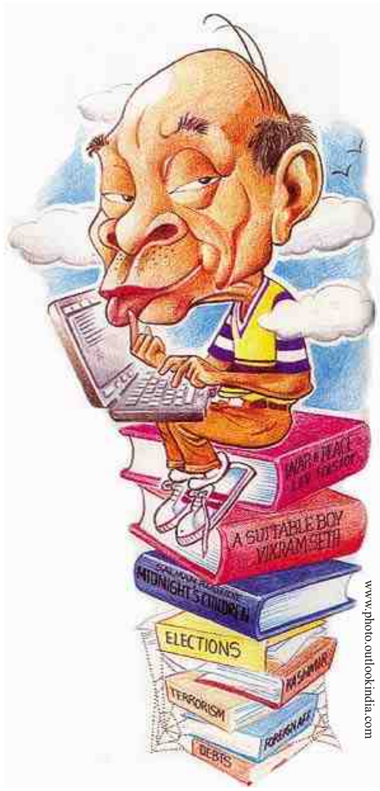
The nature of the economic reforms appeared to some as revolutionary and encouraged many to oppose them. But it did not dampen the enthusiasm of Rao who faced strong political challenges to sustain these reforms. It required the strong courage and conviction that he displayed in abundant measure.

But the adoption of the policy of liberalisation did not signal the end of the role of the state in pursuing the important task of social development. This is where the pragmatism of Rao was writ large. While he recognised the need for a greater role for the private sector in the development of the nation's economy, he simultaneously emphasised the importance of state intervention in the development of human capital that was given the position of primacy in the Eighth Five-Year Plan.

Towards the achievement of this goal, emphasis was laid on employment generation, literacy, education, health, drinking water and provision of adequate food and basic infrastructure. The government was fully willing to take the primary responsibility for providing the basic elements that would help the development of human capital.

Another important decision was India's accession to the WTO in January 1995 and Rao's role in it was pivotal. The Uruguay round of multilateral trade negotiations, wide ranging agreements including the creation of WTO to subsume General Agreement on Tariffs and Trade had come to a halt and India's position under the then government of V P Singh was hesitant and ambivalent.

The implications of India acceding to an all-encompassing multilateral trade regime met with strong domestic opposition. I, as the then commerce minister, signed the multilateral WTO trade agreement at Marrakesh in April 1994, along with other nations.



Rao had a unique functioning style. He understood the virtue of patience and depending on the exigencies of the situation, he was ready to wait till he achieved consensus. When he decided to refrain from acting, it was with a singular purpose.

It was his unique style and political deftness that made him successful in leading a Congress minority government after the 1991 general elections that gave the Congress party 232 members of Parliament in the 10^{th} Lok Sabha. Yet his government survived for the full five-year term and he achieved his feat laying the foundation for politics based on consensus.

– *Edited excerpts from President Pranab Mukherjee's speech at the memorial lecture on Late P V Narasimha Rao in Hyderabad on December 31, 2012. The Speech appeared in the* Business Standard, *on January 06, 2013*

ReguLetter


REGULETTER
Desperate Times Calls Drastic Measures

The January-March 2013 issue of ReguLetter encapsulates 'Desperate Times Calls Drastic Measures' in its cover story. The provisions of Intellectual Property Rights (IPRs) are considered to achieve economic, social and technological improvement for a country in all aspects. Among the instrument of IPR, patent is the most contentious issue deliberated widely at the international level. Patents are mostly debated for their role in pharmaceutical industry.

A special feature by John Plender states that the corporation has become less of a commitment mechanism, more of a control device.

There is another special article by John Authers which poses a question: is innovation a good thing? Normally it is one of those things, like virtue, spinach or motherhood that are deemed good almost by definition. But there is an exception for the world of financial services.

This newsletter can be accessed at: www.cuts-ccier.org/reguletter.htm


BRIEFING PAPER
Effect of Direct Benefit Transfer Scheme on Competition in the Market

Effect of Direct Benefit Transfer Scheme on Competition in the Market

This Briefing Paper throws light upon specific developmental objectives that could be achieved through proper implementation of the scheme. The paper focuses upon how direct transfer of cash would help establishing developed and competitive market, especially in rural India. It also deals with factors that could lead to a more conducive environment for infusing competition in the market. Finally, it discusses the international experiences related to direct transfer of cash to the poor and what lessons India could learn.

This Briefing Paper can be viewed at: www.cuts-ccier.org/pdf/Effect_of_Direct_Transfer_of_Cash_on_Competition_in_Market.pdf

Ensuring Sustainability of Off-Grid Projects

The Policy Brief discusses the need to introduce off-grid power systems as a viable option to overcome challenges in access to power. This is in response to a felt need to enable access to consistent quality and quantity of power that in turn, can be expected to reinforce other developmental initiatives, further correlated to costs in the immediate and long-term. The paper cites some cases that reveal challenges in establishing such off-grid systems, substantiated with tried and recommended solutions. These insights are presented through the policy lens essential for appropriate mainstreaming of off-grid systems.

This Policy Brief can be viewed at: www.cuts-ccier.org/pdf/Ensuring_Sustainability_of_Off-Grid_Projects.pdf


POLICY BRIEF
Ensuring Sustainability of Off-Grid Projects

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- Content
- Number of pages devoted to news stories
- Usefulness as an information base
- Readability (colour, illustrations & layout)

SOURCES

BL: The Hindu Business Line, **BS:** Business Standard, **BT:** Business Today, **ET:** The Economic Times, **FE:** The Financial Express, **HT:** Hindustan Times, **IE:** Indian Express, **TH:** The Hindu, **ToI:** Times of India, **WSJ:** Wall Street Journal

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