MEMORANDUM TO MINISTRY OF FINANCE, GOVERNMENT ON INDIA DURING PRE-BUDGET CONSULTATIONS ON 5th JUNE, 2014

Background

After three decades of rule by different coalitions, the Indian populace has decisively voted for itself a strong and stable government. Having obtained an absolute majority, the NDA government must address itself achieving the goal of turning India into a ten trillion dollar economy by 2030 in absolute terms i.e. not on purchasing power parity.

The government must implement competition reforms to address high inflation and achieve optimal growth, while protecting the needs of vulnerable consumers. In addition, it should introduce transparency and accountability in economic governance, and pro-actively work with the States.

Accordingly, CUTS International, an independent think and action tank involved in policy research and advocacy, has identified few of the following critical issues which must be addressed through the forthcoming budget falling directly under the Finance & Corporate Affairs Ministry, noting that there are other equally deserving issues which must be addressed:

1. Adoption and implementation of the National Competition Policy
2. Enactment and implementation of the Public Procurement Act and the National Public Procurement Policy
3. Enactment and implementation of an omnibus Financial Consumer Protection Act
4. Fixing of fiscal management practices

The issues are described in detail below.

1. Adoption and implementation of the National Competition Policy

After almost 25 years, India experienced sub-five percent growth for two consecutive years. During the last fiscal, manufacturing registered a decline of 0.7 percent. The Prime Minister has repeatedly stated his objectives of promoting more governance and less government, introducing market friendly reforms, and involving States in national endeavours.

Adoption and implementation of the National Competition Policy for India (NCP) will be a step in this direction and will show that the government intends to walk the talk. It will also promote integration of the national market in India. Measures such as GST are already in the fast track process. Additionally, Article 307 of the Constitution of India to establish an Inter State Trade & Commerce Commission should be expedited. Competitive neutrality should be promoted pro actively.

The NCP was released in November 2011 by the Committee set up by the then Ministry of Corporate Affairs, and is pending adoption since. It encourages adherence to competition principles in policies, laws and procedures of the Central and State Governments, sub-State Authorities, optimising efficiency, achieving high growth, reducing inflation, and maximising consumer welfare, in the process. The NCP complements competition law which focuses on containing anti-competitive practices and abuse of dominant position.

The NCP has been proposed on the basis of successful experiences of Australia, Mexico, Denmark, Turkey, Botswana, Malawi, et al, wherein it delivered substantial benefits that have greatly outweighed the costs. A study undertaken by Australian Productivity Commission on expected benefits of competition reforms revealed that the annual gain in real GDP was 5.5 percent and consumer gains by A$9bn due to competition reforms in the nation.

Australia, also being a federal country, had to incentivise States to adopt reforms, as we have done in the case of VAT and also proposed in in the GST. We also need to adopt a suitable financial incentive scheme enable states of adopt NCP.

Vignettes on few benefits experienced by Australia upon implementation of competition reforms	
Sector	**Benefits**
Electricity	Average real prices have reduced by 19 percent
Rail freight rates	Substantial reductions ranging from 8 percent (wheat) to 42 percent (coal traffic)
Real port charges	Reduction up to 50 percent
Telecom charges	Reduction by more than 20 percent in real terms
Retail price of drinking milk	Reduction by 5 percent in real terms, despite the imposition of an 11 cents a litre levy to fund an assistance package for dairy farmers
Source: Australian Productivity Commission, Review of National Competition Policy Reforms, February 2005	

Action desired: **Decision to adopt and implement National Competition Policy by Central government and providing incentives to States to adopt and implement the same.**

2. Adoption and implementation of the Public Procurement Act and the National Public Procurement Policy

Public procurement in India accounts for almost 30 percent of the total GDP worth US$ 536 billion annually. In spite of its huge significance, there is no legislation to regulate public procurement at the Central government level nor there exists a National Public Procurement Policy. The Public Procurement Bill tabled in the Parliament, is yet to become a law. This Bill should be enacted at the earliest so as to, *inter alia*, enhance transparency and efficiency in our public procurement system and also to help Indian companies to better access procurement markets in other countries.

The implementation of the bill will benefit from adoption and implementation of a coherent National Public Procurement Policy which addresses interfaces between public procurement and related macroeconomic policies including, but not limited to trade policy, competition policy, sustainable procurement policy, fiscal policy and the new manufacturing policy, amongst others, in order to allow decision-makers to adapt to changes in specific macroeconomic indicators. Such a policy will encourage the growth of a coherent and cohesive plan of action for all procuring departments of the government including state governments and will help in achieving more and better transparency and competitiveness of the Indian economy. It will also allow governmental bodies to determine their approach to public expenditure after assessing the macroeconomic climate under which such expenditures are to be made and by taking into account their impact on major socio-economic development objectives.

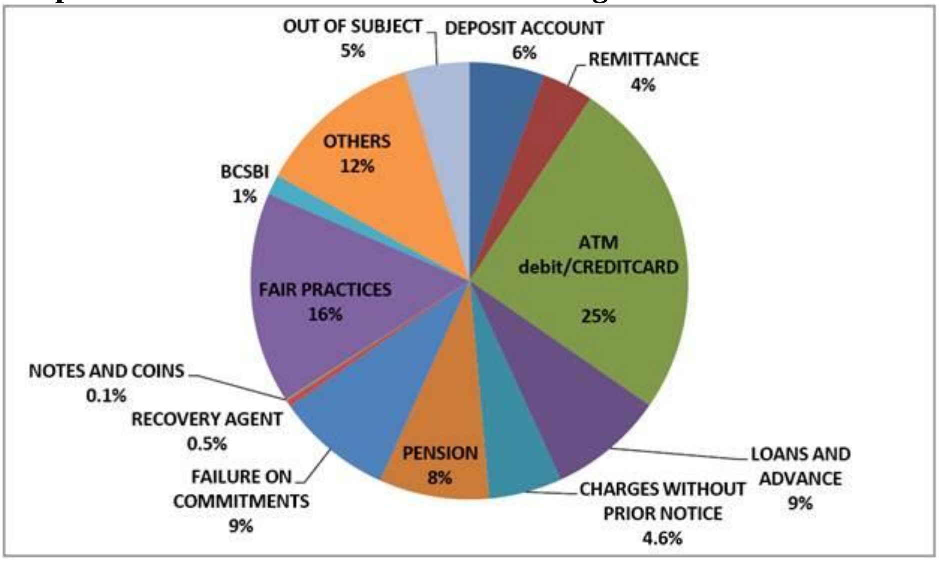
***Action desired:* Decision to enact and implement the Public Procurement Act and adoption and implementation of a Public Procurement Policy.**

3. Adoption and implementation of an omnibus Financial Consumer Protection Act

While the country has taken long leaps in other areas, financial consumer protection has historically been subjected to short shrift. Hidden and inflated charges or fees; unfair contract terms and conditions (including unfair variation of contract terms, interest rates or charges); undisclosed level of financial risk; inadequate explanation of the contract terms; sub-optimal after-sale customer service; aggressive or invasive sales techniques; breach of contract by the service provider; failure to deliver the service; exclusion from service etc. are some of the common problems still faced by consumers of financial services in India. Illegitimate money collection and ponzi schemes and sale of complex and unsuitable financial products by unaccountable financial firms have become the order of the day. Sarada and Sahara issues are cases in point.

Unauthorised fund transfers, fraudulent withdrawals from ATMs using duplicate cards, phishing e-mails aimed at extracting personal information, and data privacy violations, have registered significant increase in recent times. Going forward, there is a need for building up a robust mechanism to prevent incidents of fraud in areas of mobile/net banking and electronic fund transfer.

Complaints received in the offices of Banking Ombudsmen: 2012-2013



Source: Inaugural Address by Dr. Deepali Pant Joshi, Executive Director, RBI at the Conference of Principal Code Compliance Officers of banks on May 20, 2014

Financial inclusion is the first step towards financial consumer protection. Bank account penetration in India is only around 40 percent. The situation is worse amongst the poor and the females. Further, more than 90 percent of micro and small enterprises do not have access to formal finance.

Thus, there is an urgent need of a strong consumer protection mechanism, setting clear rules for financial institutions regarding their dealings with retail customers, and addressing financial exclusion. While experts have recommended reforms such as introduction of suitability requirements, simple and standard financial products, move to seller beware principles, and various mechanisms to enable financial inclusion for poor and small enterprises, much more needs to be done. Adoption and implementation of a strong and omnibus financial consumer protection law covering the entire sector to implement various suggestions is need of the hour.

Action desired: **Decision to adopt and implement an omnibus Financial Consumer Protection Act. Such law must take into account successful and not-so-successful practices implemented by various States and comparable jurisdictions. It should establish a new national single financial consumer protection mechanism (regulator), having state units, thus covering the entire country.**

4. Fixing of fiscal management practices

The fiscal deficit for the last financial year was limited to 4.5 percent of the GDP. This was achieved through a massive cut in the planned expenditure (around 20 percent), while the non-planned expenditure recorded an increase. Social services and rural development took the maximum hit.

Over-budgeting (*In Rs. cr, unless stated otherwise*)								
	2013-14				**2012-13**			
Expenditure	**Budgeted**	**Actual**	**Change**	**% change**	**Budgeted**	**Actual**	**Change**	**% change**
Planned	5,55,322	4,53,085	(-)1,02,237	(-)18.41	5,21,025	4,13,625	(-)1,07,400	(-) 20.61
Non-planned	11,09,975	11,10,400	425	0.04	969,900	996,742	26,842	2.77

Source: Controller General of Accounts

This indicates to the unhealthy practice of over-budgeting of planned expenditure. However, there have also been practices of under-budgeting of expenditure. The total expenditure for fiscal 2008-09 was increased from Rs. 7,50,884 cr (budgeted) to Rs. 8,83,956 cr (actuals), an increase of Rs. 1,33,072 cr, (18 percent). This was on account of additional expenditure for pay revision, food and fertiliser subsidies, etc. In addition, the government has been ever ready to sacrifice social sector and rural development expenditure, which should be priority for the country, at the altar of fiscal deficit, but shies away from avoiding unproductive populist expenditure on subsidies, pay revisions etc., even at the cost of overshooting the fiscal deficit target.

The prevailing situation calls for a comprehensive review of government planning and budgetary practices, and the long-term strategy to contain fiscal deficit. A possible start could be establishment of Parliamentary Budget Office, an independent fiscal watchdog to provide research and review support for budget, and adoption of 'balanced budget' principle. States could be given greater role in planning and implementation of the welfare schemes. In addition, a clear distinction must be made between merit and non-merit subsidies and the latter should be gradually reduced.

Action desired: **Fixing of fiscal management practices by establishment of Parliamentary Budget Office, adoption of international best practices in budgetary planning, and reduction of non-merit subsidies.**