PolicyWatch

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

Volume 5, No.1 कट्स CUTS Twenty Years of Social Change 1984 to 2003 2004

Curb Wastages to Contribute 8.9% to National Income

Whether it is lectures by experts like Stanley Fischer or statements by finance ministers or analytical articles by various economists, every one talks about growth in double digits. The current buzzword is 10 percent, while there are more sceptic estimates of about 6.5 percent by rating agencies like Moody's. What is hardly spoken about is how national income can be increased and accelerated by efficiency, conservation and savings.

On the basis of the estimated 10.4 percent raise in the third quarter of 2003-04, the former finance minister, Jaswant Singh was jubilant and stated that 10 percent growth is sustainable. But the million-dollar question is: Has the economy done really well when actual figures are considered? More importantly, can a double-digit rate of growth be sustained? Further, is there something else also that requires attention to raise the income level?

To jump and dance on the estimate of 10.4 percent is also arguable. Since the base figure for the growth of 10.4 percent is itself low, it is a statistical illusion. In fact, this will only be the third time that India's economy would cross the 8 percent growth mark – it grew 9 percent in 1975-76 and 10.5 percent in 1988-89.

Our economy is, in fact, still stuck at the bar of 6-7 percent, and it is premature to claim that it has broken through this barrier. More so, because the agricultural rebound in 2003-04 has been made possible by the good monsoon of 2003. What if the monsoon fails, can we expect to achieve a double-digit growth rate? Going by the experience of past years, the answer is a resounding 'No'. This, in itself, makes a double-digit growth rate difficult to achieve with sustainability being a more difficult proposition. According to more sanguine estimates, the Indian economy is expected to grow at an average of 6.5 percent in the coming years. Moody's is not far from the truth.

Experts prescribe fiscal reforms, financial sector reforms, agricultural reforms, attracting foreign direct investment, investment in human and physical infrastructure, and reforms at the level of state governments to sustain high growth. However, while experts recommend productivity-enhancing measures to achieve a high growth rate, hardly anyone talks about taking measures to curb wastages in the economy, which would contribute significantly to gross domestic product (GDP).

Business Line

Another issue, which puzzles me a lot, is the claim made by some that a 'hire and fire' system would enable better investment flows and improve productivity, when, in fact, such legislative reforms will cover only 4.6 percent of our workforce. Moreover, a large share of organised sector output is outsourced to the unorganised sector (e.g. readymade garments sector, Bata shoes, etc.). All these factors need to be taken into account before any realistic estimate of the impact of such measures on economic growth is made. Further, even if these measures raise the growth rate of GDP, inherent wastages and poor governance will never allow GDP to reach its full potential, thus the sustenance of a high level of income and a high growth rate will be a distant dream.

The answer to the last question raised in the beginning lies in the policy of 'conservation and productivity for growth'. If the government makes effort to reduce wastages and ushers in an era of good governance, a significant amount of GDP can be saved. This is an area that quite often misses attention. A few issues are flagged below:

Non-merit subsidies: The subsidies on non-merit goods and services (such as in agriculture, irrigation, power, industries, transport, etc.) amounted to 10.7 percent of GDP (2001-02) or Rs. 20,600 crore. Poor delivery, with the undeserving getting a share, is one of the issues, which needs to be tackled headlong. Consequent savings are expected to be quite significant.

Performance-based system: Given the job security provided to government servants through Article 311, productivity levels in government departments are quite low. On the other hand, the 5th Pay Commission has raised the expenditure hugely without

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HIGHLIGHTS

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

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the concomitant pruning. It is imperative to set productivity norms and a performance-based management system, that rewards the good and punishes the bad.

Accountability: It is estimated that the government loses at least Rs. 41,000 crore due to delays in more than 300 projects, which are all above Rs. 20 crore each. Imagine the total cost of delays if all central and state government projects are examined. Ensuring transparency and proper project management will help improve accountability and ensure timely implementation of works, and deliver the crucial multiplier effect on the whole economy.

Corruption: As per estimates of Transparency International (India), Rs. 26,728 crore is wasted every year due to corruption, and it is the poor who suffer the most. It is argued that growth can be raised if institutions are made strong and decision-making is least arbitrary. It is imperative that systems are created to eliminate any discretionary power by outsourcing several government functions, and providing incentives to the anti-corruption squad, etc.

Adulteration and counterfeiting: Action on adulteration and counterfeiting is poor. One estimate suggests that while the industry loses Rs. 4000 crore annually, the exchequer loses over Rs. 2000 crore. The loss to consumers will far exceed the sum total. The problem is widespread and prevalent in almost every industry.

Road safety: Economic cost to India from road traffic crashes is estimated at three percent of GDP, while there is no serious effort to reduce the same. Attention needs to be paid to improving road design and visibility of road signs, strictly enforcing laws on drunken driving, etc.

Effective competition law: If the new competition law is effectively implemented, it could, by itself, contribute substantially to growth. A study in Australia has shown a gain of 5.5 percent of the GDP by effective implementation of competition measures, which included strengthening the competition rules.

In conclusion, if these measures are implemented, the amount saved by the economy would be roughly around Rs. 2,00,000 crore and lift the national income by 8.9 percent in one shot. Even if the economy continues to grow at an average of 6-7 percent, one can imagine the additional income that would be generated because of a wider base as well as an increase in efficiency that would follow from the above measures, leading to a higher and sustainable growth rate. This estimate is based on a back-of-envelope calculation, but it is not far from fact. Is anyone listening?

Note on New Structure of Policy Watch

Before working on this issue, we took a re-look at the existing structure of Policy Watch and felt that there was scope for improvement, as there always is. From this issue we have added new sections and modified the existing ones to widen the scope of Policy Watch and give more information on key developments on the policy front.

An attempt has also been made to make the newsletter more interactive by adding the section, 'Discussion Topic', where current policy issues would be taken up, inviting readers to provide their views and comments. The new sections are:

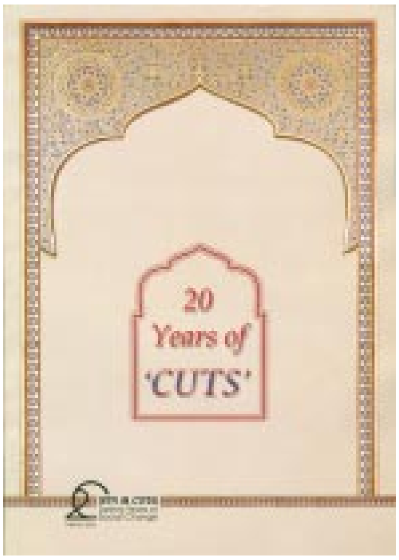
- e-governance: IT revolution is sweeping the globe and governments are being drawn into it. This section attempts to put together national experiences in e-governance for the benefit of all concerned. An occasional review of a government's website would also be done.
- Report Desk & Expert Corner: in previous issues outcome of various research reports and views of renowned experts were taken as a news item and accordingly included in related sections. Since research reports and views of experts are different from a typical news item and have different implications for policy, we have decided to put them as separate sections. While, report desk will provide information on the reports brought out by various government/non-government agencies, expert corner will present the views of renowned experts.
- Good Practice Series: this section has been introduced to disseminate information on good practices followed by government/non-government agencies to provide key lessons for others to follow.
- Discussion Topic: in this section current topics would be taken up and presented in the form of a note, where key issues for discussion would be presented. Readers are invited to give their views and comments on the issues raised in this section. In addition, readers are also encouraged to send write-ups on relevant subjects, which can be taken up in this section.

Comments and suggestions are most welcome for continuously improving the newsletter to make it more meaningful.

FROM OUR READER

"20 Years of CUTS" is an eye opener

This is to thank you most sincerely for the publication "20 Years of CUTS". Although I am not unaware of your dynamism, sincerity and sense of involvement in whatever you undertake, I was not fully familiar with the varied laurels, which CUTS and you (Pradeep S Mehta), as a founder figure, have been able to achieve over the years. "20 Years of CUTS" is an eye opener. I was thrilled to run through the pages – each of which is enlightening and interesting. Each page has a message, i.e., one should not get deterred when s/he follows a well thought out goal. If the organisation grows, the person associated with it is bound to grow. The role your organisation has been playing in the international arena, more so in regard to WTO related activities is laudable. "20 Years of 'CUTS'" bears an imprint of all that you have done and what others with name and fame have to say about. Please accept my compliments and congratulations. Do please favour me with such documents, which CUTS is known to bring about from time to time.



J.C. Srivastava
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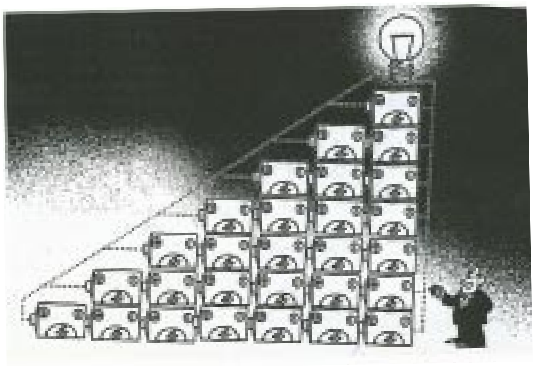
Power Grid by 2009

State-owned Power Grid Corporation of India Ltd (PGCIL) said it was taking steps to advance the completion of the Rs. 75,000 crores national power grid by three years to 2009. The project was originally expected to be completed in 2012. The power transmission utility is preparing a status report for the government, detailing its efforts to hasten establishment of the network that could carry 30,000 megawatts of power. The transmission network will address the long-standing problem of evacuating the excess capacity in the eastern region to parts facing power shortages. *(FE, 23.03.04)*



Business Standard

The order is expected to result in lower bulk power tariffs since the RoE has been cut from 16 to 14 percent across board, as well as fine-tuning of operational norms like raising of performance benchmarks for generating stations.

Performance benchmark for thermal generating station has been raised from a plant load factor of 77 percent to 80 percent and rate of incentive has been increased to 25 paise per unit from the existing 21.5 paise per unit.

In its order, CERC has also done away with the development surcharge allowed to public sector projects.

(BS, 30.03.04)

Sector Needs Rs. 300,000 Crores

The India Infrastructure Report, 2004 has predicted a fund requirement for state-owned power utilities at Rs. 100,000 crores for cash needs and nearly Rs. 2,00,000 crores for investment over the next five years.

"The financial commitments made by different agencies would be more like 'financial closure' for reforms and would provide a solid base for reforms. If such financial closure is achieved, the reforms will not be hampered or slowed down," the report has said.

The report has cited the Delhi distribution privatisation model as a success story but has suggested that the emulation of the Delhi experience in other parts of the country would depend on factors like the relative weightage assigned by local politics. *(BS, 05.03.04)*

Cabinet Glows on Rural Scheme

The Cabinet has approved a Rs. 6,000 crores' programme to electrify one lakh villages, covering one crore households, within the next two years. Merging three existing power schemes, namely, Accelerated Rural Electrification Programme; *Kutir Jyoti Yojana*; and rural electrification component of Prime Minister's *Grameen Yojana* will do this.

As per the new definition, a village would be considered electrified only if a minimum of 10 households had power connections. The scheme would involve an expenditure of Rs. 6,000 crores, of which 40 percent would be provided as subsidy and the balance as loan, to be extended by financial institutions.

As per 2001 Census, only 43 percent of the total number of rural households have access to electricity. Majority of the rural population resides in states with low levels of electrification and it is these very states that have the lowest per capita GDP. The rural electrification situation is especially severe for the eastern region of the country. *(FE, 21.02.04 & ET, 25.12.03)*

Tariff-based Bids

New power projects will soon have the option of bidding on the basis of final tariffs, which will be adopted by state regulators, instead of going by the regulated cost-plus two part tariff formula. The power ministry will soon come out with bid guidelines and model bid documents for state governments.

Under the new tariff policy power would be procured through competitive bidding. The national task force on power has laid down certain principles to invite the bids. The tariff based bids could either be invited for the entire project capacity, in which case energy charges would have to be at normative levels, or for blocks of capacity that may be inclusive or exclusive of energy charges.

The state electricity boards of the company sourcing the power also have the option of tariff-based bids to meet the peaking power requirements. Power could also be sourced on tariff-based bids without being related to a particular source of generation. *(ET, 12.02.04)*

Return on Equity Cut

Deviating from the N K Singh committee's recommendation for a two-slab return structure, Central Electricity Regulatory Commission (CERC) has announced a five-year tariff order stipulating a flat 14 percent return on equity (RoE), for all central public sector undertakings and mega private projects in the power sector. The order further states that all future projects in power generation, transmission and distribution sectors need to be structured through tariff-based competitive bidding.

Short of Power?

The Central Electricity Authority (CEA), which advises the power ministry on technical issues, has raised the question as to whether the government's ambitious target to add 100,000 Mw of power generation capacity by year 2012 would suffice to meet power shortages in the coming years.

HL Bajaj, CEA's chairman, stated in a workshop, "I am reasonably sure that our need for power is even more" referring to the target set by the government to provide power to all by the next decade.

"We have to add 10,000 Mw plus every year to meet our growth needs and may have to do some mid-course correction on account of unprecedented growth," added Bajaj. *(ET, 12.02.04)*

Penalise Poor Services!

Power sector utilities operating in West Bengal may have to pay monetary compensation to their consumers in case they fail to meet certain standards *vis-à-vis* services.

As per the recommendations of an expert group set up by the West Bengal Electricity Regulatory Commission, the proposed compensation varies from paying fines between Rs. 100 and Rs. 2,000 for delays in releasing new connections, attending to problems such as metering, unplanned interruptions in supply, failure to keep appointments with consumers, and responding to consumer complaints. *(BL, 23.02.04)*

UP Bids for Privatisation

The Uttar Pradesh (UP) government has invited bids for providing consultancy to carry out privatisation in its power sector. The government has envisaged the private sector participation in generation, renovation and modernisation, transmission, and distribution, and trading of power in the state. The consultancy assignment would include all segments of privatisation process. *(FE, 02.02.04)*

Cells to Cross Fixed-lines

Mobile phone connections will overtake fixed phone subscribers in India in the third quarter of 2004 as cellular penetration doubles from 2.7 percent at end of year 2003 to 5.2 percent by end of year 2004. The unified licensing regime will act as a catalyst for consolidation in the Indian telecom industry, which will result in not more than four large players, says a report from Gartner Inc., a global research and advisory firm.

In a separate report, Gartner Inc. has also warned that the Indian telecom bubble may burst just as it did in the US and European markets, if telecom service providers lose sight of profit and keep focusing on expanding only their subscriber base.

(ET, 24.01.04 & BS, 19.02.04)

Business Standard

Locking Horns over Tariff

The Telecom Regulatory Authority of India (TRAI) and mobile operators are headed on a collision course, with the regulator terming the hike in mobile and long-distance tariffs unjustified because of the imposition of access deficit charges.

Cellular operators may blame it on TRAI's revised Interconnect Usage Charges (IUC) regime for tariff hike, but a close look at the revised regime indicates that it has resulted in lesser cost to the cellular operators and thus increased margins in many segments. Though this does not reflect proportionally in revised tariffs.

IUC is a sum total of carriage, access deficit and termination charges, decided by TRAI, to be paid by one telecom operator to another for terminating its calls. *(FE, 05.02.04 & BS, 03.02.04)*

Norms for Intra-circle Merger

Differing from TRAI's recommendation to carry out 'detailed examination' in case of market share of the merged entity is greater than 50 percent, the Department of Telecommunication (DoT) has given its green signal for intra-circle mergers and acquisitions with a caveat that there are at least three operators within the circle and the market share of the merged entity does not exceed 67 percent.

As per the guidelines, merger in the same service area has been divided into two distinct categories: fixed and mobile services. A stand-alone basic service license cannot be merged with a stand-alone cellular service license and vice versa.

On the other hand, the global research and advisory firm, Gartner Inc. expects the Indian mobile telecom sector to witness a second round of consolidation in the year 2004, resulting in the elimination of smaller operators and the emergence of top three players. *(BL, 22.02.04 & FE, 15.02.04)*

CAS In Suspended Animation

The government has suspended the implementation of Conditional Access System (CAS) indefinitely. This comes in the wake of TRAI's recommendation, which was appointed the regulator for the broadcasting and cable sector in January 2004.

In 2003, the government had amended the Cable TV Act whereby pay channels would have to be received through a set-top box. However, differences between the various stakeholders on issues relating to pricing of pay channels, revenue sharing and auditing mechanisms led to the failure of CAS in its present form.

TRAI has recommended that the controversial CAS be kept in abeyance for at least three months following opposition from all the four state governments where it was to be implemented. According to TRAI, the present system of CAS needs immediate reconsideration as cable operators are committing offences in showing pay channels without set-top boxes.

As a sop to the consumer, TRAI has ensured that payout amount from the consumer to cable operator to multi system operator to broadcaster, throughout the country, would prevail at the level, as was on December 26, 2003 regardless the implementation of CAS. On that day, the Delhi high court had directed that CAS must continue for three months on a trial basis.

(FE, BL, 28.02.04 & FE, 15.01.04)

Rules for USO Fund

The rules for the disbursal of the Universal Service Obligation (USO) Fund will soon be in place. The law ministry is currently vetting these rules. The fund administrator has also sought Rs. 2,500 crores from the government to set up the USO Fund.

It may be recalled that the Indian Telegraph Act was amended recently giving statutory status to the USO Fund. It was earlier credited to the Consolidated Fund of India.

USO Fund has been floated to support rural telephony rollout, and has, at present, collected five percent levy on the adjusted gross revenue from telecom operators.

(FE, 13.02.04)

DoT to Split

With a view to withdrawing from all "non-policy" related activities, the Department of Telecommunication (DoT) proposes to spin off the Telecom Engineering Centre (TEC) into two entities.

One entity will be merged with Bharat Sanchar Nigam Limited (BSNL) and the other will be set up as an autonomous institute to deal with all standards relating to information, communications and entertainment electronics. *(BL, 09.02.04)*

Pact Renewed

BSNL has renewed its agreement with Vidhesh Sanchar Nigam Limited (VSNL) to provide international long distance services on preferred basis for a period of one year, starting from February 14, 2004. As per the agreement, VSNL's infrastructure will be used for carrying BSNL traffic for one year.

It is now clear that VSNL will be an infrastructure provider, which will allow other companies to lease out its lines on a rupees per minute basis. *(HT, 09.02.04)*

Capping Tariff Plans

With as many as 3,925 tariff plans being reported by basic and mobile players just in year 2003, TRAI is considering a limit on the number of tariff plans being offered, in order to minimise the confusion to the consumer.

The regulator has put out a consultation paper on this issue. It notes that competitive activity coupled with flexibility in offering tariffs have led to a situation wherein a large number of plans are offered in the market. These large numbers give rise to issues involving regulatory and consumer concerns.

TRAI will also be introducing a novel software to help consumers select the tariff plan best suited to their needs.

(BL, 09.03.04 & BS, 26.03.04)

Audit Suggested

As a follow up to the recent recommendations of the Joint Parliamentary Committee (JPC) about the need for safe drinking water, the Central Water Commission (CWC) and the Central Ground Water Board (CGWB) have jointly formulated draft guidelines for auditing water in terms of its use and maintenance of its quality.

Since maintenance of water quality and its use are under the purview of the states, these two bodies have suggested the formation of water audit cells in all states, making it mandatory for monitoring. The JPC has recommended that section 2(v) of the Prevention of Food Adulteration (PFA) Act be amended to include ordinary drinking water as a 'food item.' The quality norms' formulating body, Bureau of Indian Standards (BIS) has already recommended the same standards for ordinary drinking water, as are at present being applied for packaged drinking water. *(FE, 12.02.04)*

Linking Rivers

The Supreme Court has asked the Centre to submit a status report by April 23, 2004 on the progress made so far in the project for interlinking of the country's major rivers by 2016.

A bench gave this direction after the Attorney General, Soli Sorabjee, submitted that a feasibility report regarding the peninsular component would be ready by March this year. The Centre said that the task force had already identified 30 major links in the networking of rivers to minimise the devastation caused by floods and hardships caused by draught. *(TH, 07.01.04)*

AUWSD Expanded

Realising that the urban local bodies of small towns are financially and technically incapable of taking up new schemes and maintaining the existing ones, the Centre had launched the Accelerated Urban Water Supply Programme (AUWSP) for small towns having a population up to 20,000 as per the 1991 Census. The programme was introduced in the 8th plan, initiated in the year 1993-94.

The government now plans to take up additional 200 towns under the programme. So far, there were 2,151 small towns in the country eligible to avail of central funds under the scheme. In order to meet the funding requirements for the ongoing schemes, an outlay of Rs. 200 crores has been proposed for the annual plan of 2004-05, as against Rs. 140 crores provided in 2003-04. The programme is implemented on a 50:50 funding basis by the central and state governments and priority is given to those towns having low per-capita supply, especially areas that are drought-prone or having unsafe water sources for human consumption. *(FE, 19.01.04)*

Privatisation on Cards

Piped water with a price tag is closer than we may think. The government took its first step towards privatisation of urban water supply and sanitation services by preparing detailed legal, policy, regulatory and financial guidelines for circulation to the states and other stakeholders.

The document, prepared by the Ministry of Urban Development, acknowledges and affirms that joint ventures with qualified national and international private firms will help accelerate the development of indigenous capacity, as experienced in India's highway sector.

Conservative estimates place the market size of the emerging water market in India at Rs.10,000 crore and growing. While recognising that urban reform is a state subject, the government has decided to facilitate the reform process by providing the overall framework for Central support. *(ToI, 13.03.04)*

DJB to Face Penalty!

With water supplies uncertain for the much-touted Sonia Vihar Drinking Water Project, the Delhi Jal Board (DJB) may have to pay huge penalties every month to a private company.

If construction of the treatment plant at Sonia Vihar is completed and the proposed supply of 140 million gallons of water per day is not provided from Tehri dam, DJB is liable to pay penalties of up to Rs. 50,000 a day to Degremont.

Central government officials expressed their reservations over provision for penalties in the contract saying, since water, electricity and land were provided free of cost to Degremont and even the engineering and maintenance costs were being borne, there was no room for penalties which have been provided for in the agreement. *(BS, 18.03.04)*

Improved Consumer Satisfaction

Denizens of most metros and cities in the country may cry themselves hoarse over the quality of water supply, but India's software hub, Bangalore, has seen an 18-fold increase in the satisfaction levels of its residents over the last decade.

According to a survey by the Bangalore-based Public Affairs Centre (PAC), 73 percent of the city's residents expressed satisfaction with water supply, as compared to 42 percent in a similar survey conducted in 1999 and a mere 4 percent in 1994. *(BS, 26.03.04)*

No More Free Water

The government may soon think in terms of charging soft drink companies and others for extracting ground water and using it for commercial and industrial purposes.

At present, the only charge companies pay for using ground water in soft drinks, bottled water and other products is an insignificant amount called "water cess", which is being levied by the state pollution control boards under the Water (prevention and control of pollution) Cess Act. *(FE, 03.02.04)*

Water for All: No Pipe dream!

Water supply for the larger rural population is through the piped water supply schemes and spot source water supply schemes for the smaller population areas. The rural habitations are typically classified as not covered/no safe source, partially covered/ safe source and fully covered. The priority of providing safe drinking water is determined accordingly. The Accelerated Rural Water Supply Programme (ARWSP) has utilised a mammoth Rs. 9389 crores in the last five years. Another Rs. 1,747 crores has been allocated for the year 2003-04. In January 2002, the number of habitations covered was 26,803 against a target 54,527 and the population covered was 10.5 million against a target of 21.6 million.

Coverage of Habitations Under Rural Water Supply

	No. of habitations targeted in 2003-04	Achieved*	Success%
Rajasthan	4,960	7,495	151.1
Andhra Pradesh	12,799	10,292	80.4
Jharkhand	126	36	30.9
West Bengal	6,752	1,764	26.1
Karnataka	13,637	3,243	23.8
Gujarat	1,242	236	21.2
Manipur	101	15	14.8

*as on Nov. 27, 2003

There is general recognition that implementation of a participatory and demand driven approach is required instead of a centrally managed scheme.

According to World Bank estimates, reforms initiatives have begun and if implemented without heeding political unwillingness to charge for drinking water, full coverage can be achieved by end of year 2005. *(ET, 09.01.04)*

Gas Policy Needed

Spottiswoode, the chairperson of London-based gas consultancy EconoMatters, said that India needs to first develop its gas market and grow the industry before attempting to open it up. According to her, the process of deregulation is very slow and very political in most countries. EconoMatters and its subsidiary companies provide business advice and information services to the energy and gas industry.

Commenting on the appropriate model for India, James Ball, president and chief mentor of EconoMatters said that the universal truth is that there is no perfect model. Every situation is unique. However, a well thought gas policy could be a beginning. Investors in the business need to know what lies ahead. Making a comparison, Ball said that, the UK was a mature market in 1993 when deregulation began while the Indian gas business is more like the United States in 1938 when the gas industry began to develop. *(ET, 06.03.04)*

Strategic Oil Reserves

The Union Cabinet has approved the proposal for setting up strategic oil storage facilities at three locations on the east and west coasts, at an estimated cost of Rs. 1,650 crores.

Two of the strategic storage facilities for five million tonnes of crude, sufficient for about 15 days' consumption will be located near Mangalore, while the third will be at Visakhapatanam. In addition to the capital cost of Rs. 1,650 crores for the construction of the cavern storage, Rs. 5,000 crore will be needed for the purpose of five million tonnes of crude.

The strategic storage will be in addition to the existing storage facilities for crude and petroleum products and will provide an emergency response mechanism in case of short-term supply disruptions. *(BS, 08.01.04)*

Call for Regulator

K C Pant, Deputy Chairman, Planning Commission, has called for setting up of an independent regulatory mechanism for gas pricing, before the establishment of a national gas grid.

Pant saw the existence of a regulator as a prerequisite for such a grid, so that the menace of cartelisation could be tackled effectively.

In a presentation to the Planning Commission, Gas Authority India Limited (GAIL) had made a pitch for being the sole implementing agency of the national grid. In its response, the plan experts emphasised on the regulatory aspects. Citing the Petroleum Regulatory Bill, 2002, which is pending in Parliament, they argued against granting exclusivity to GAIL in any segment of the gas infrastructure. *(BS & FE, 22.03.04)*

Planning Power Co-ops

Taking advantage of the new Electricity Act, Gujarat Gas Company Ltd. (GGCL), a subsidiary of BG India, will set up power projects pooling together between 5 and 20 small and medium sized power consumers. "We are negotiating with several companies to form a joint venture power project of about 100 Mw in Gujarat," said B S Shantharaju, managing director, GGCL.

GGCL is awaiting clarification from the government on the tax structure, particularly vis-à-vis wheeling charges, before incorporating the company, he said. BG was a significant player in the power business internationally, and as a fuel supplier there are synergies for GGCL in the power business, he added. GGCL is also promoting the combined head and power (CHP) concept among power companies. The system increases energy efficiency by using heat generated after the combined cycle process of power generation. *(ET, 06.03.04)*

Reforms to Boost Profits

The petroleum sector companies are expected to show improved results in the current fiscal with further reforms likely in the sector after the general elections. Analysts aver that the cabinet approval to unwind crossholding of public sector oil companies is also a positive factor.

"We expect the government to hike prices of liquefied petroleum gas (LPG) and kerosene post election. Additionally, as crude softens, it would result in lower losses for the marketing companies," Merrill Lynch states in its latest assessment of the oil sector refining and marketing companies.

The oil refining and marketing companies are expected to register a robust growth in earnings due to higher refining margins, inventory gains and prior period arrears. Inventory gains will help offset lower retail margins. Rising crude and product prices should help oil companies post inventory gains.

As per Merrill Lynch estimates, there is little risk for refining and marketing companies in the near term, but in the medium to long term it could be more challenging. *(HT, 12.02.04)*

Subsidising LPG

The government will provide private companies subsidy on LPG, equivalent to that given to state retailing firms on LPG.

"The finance ministry has agreed to give private LPG marketing companies a subsidy of Rs. 45.17 per cylinder," said B K Chaturvedi, the Petroleum Secretary.

Currently, the government provides state oil retailers, Indian Oil Corporation, IBP, Bharat Petroleum Corporation Ltd. and Hindustan Petroleum Corporation Ltd a subsidy of Rs. 45.17 per LPG cylinder and Rs. 1.64 per litre of kerosene, amounting to Rs. 4,700 crores annually. *(BL, 02.01.04)*

Panel on Hydrogen Energy

The Minister for Non-conventional Energy Sources (MNCES) has constituted a steering group under the chairmanship of Ratan Tata, Chairman, Tata Sons.

The brief of the steering group, set up to assist the National Hydrogen Energy Board (NHEB), is to present a report within the next four months for preparing an action plan for demonstration and commercialisation of hydrogen and fuel cell powered vehicles and power generating systems through private-public partnership.

MNCES had recently set up the NHEB to guide the Indian hydrogen energy programme. The ministry is working out the details of the NHEB roadmap, which will provide the basis for coordinated development of hydrogen energy, including production, storage, transportation, distribution, safety, standards, and applications. The road map is to be prepared and implemented under the guidance of the NHEB. *(BL, 25.02.04)*

Poll Delays Aviation Policy

With the poll dates announced and the 'model code of conduct' coming into play, the civil aviation sector will have to wait some time more for a comprehensive sectoral policy.

However, Air India's plan for fleet acquisition has already cleared the first stage with the pre-Public Investment Board giving its nod, and the project report for Indian Airlines' (IA) fleet acquisition is said to have reached the Ministry only in January this year.

The poll date announcement also means that the scheduled private sector airlines will have to wait a bit longer to fly globally. While the private sector airlines have received the nod to fly to the six SAARC (South Asian Association of Regional Cooperation) nations , they will have to wait till a new Government at the Centre clears their foray to the other parts of the world. *(BL, 02.03.04)*

Higher Personnel Cost

Indian Airlines' employee cost as a share of its operating expenses is significantly higher than that of its competitors, despite a 10.93 percent reduction in staff strength over the last three years.

According to the Comptroller and Auditor General's (CAGs) report for the year ended March 2003, IA's total emoluments have increased 16.34 percent to Rs. 1,018.50 crores in year 2002-03 from Rs. 875.45 crores in 1998-99. However, share of its operating expenses has dropped from 27.98 percent to 23.8 percent, between 1998-99 and 2002-03.

The increase in employee cost is next only to the rise in fuel cost. The revenue generated from periodical fares' revision, besides being used to meet the higher fuel cost, is being directed towards meeting the higher cost of the employees, the CAG has noted. *(BL, 11.02.04)*

Rs. One Lakh Crore For Roads

The government would be spending Rs. one lakh crores during the next few years on all round development of the road sector.

Besides the National Highway Development Project (NHDP), the government has launched another ambitious project of Rs. 40,000 crores to connect all major cities.

The project, called Pradhan Mantri Bharat Jodo Pariyojana (PMBJP), involves four-laning of 10,000 kms of road stretches, identified on the basis of traffic density, connectivity of state capitals with NHDP, and important centres of tourism and economic activity, by year 2008.

The requirement of cement on account of road development alone is estimated to be 40 lakh tonnes while that of steel is three lakh tonnes. *(FE, 17.01.04)*

Private Participation Unlikely

The National Highways Authority of India (NHAI) is not anticipating any significant private sector participation during 2004-05. In fact, in its proposal to the Planning Commission for the next fiscal, the authority has not indicated any funding coming through either the build-operate-transfer (BOT) route or the annuity mode.

Private sector participation in the second phase of the National Highway Development Project through the BOT route is expected to be less than 10 percent of the total project cost.

"Private sector funding will only come in the form of annuity projects, but even that may not be much next year" says an official. Under the annuity mode, private operators are paid fixed semi-annual fees, while in the BOT mode the traffic risk has to be borne by them. *(FE, 26.01.04)*

Railways for Long Term Contracts

The Railway Board has formed a high level committee to recommend ways to implement long-term contracts and to simplify the procurement process in Railways. Further, Research Design and Standards Organisation is to come out with a comprehensive database of vendors in a year's time to make the process efficient.

The committee, comprising senior executives from finance, stores and other departments, would look at issues such as variable pricing in long-term contracts.

It also deals with simplifying the procurement process, which at present is time consuming and elaborate, says Vijayalakshmi Vishwanathan, financial commissioner. *(ET, 10.02.04)*

Land Policy for Major Ports

A comprehensive land policy for major port trusts will be finalised shortly, most probably within a month or so. According to the Shipping Secretary, the policy, once formed and announced, would help the major port trusts develop their land assets properly.

"The minister has decided that the earnings from any port's land developed for commercial purpose either by the state government or by private developers have to be shared equally between the developer and the port trust concerned," he said.

In another move, the government has announced a revision in the dredging policy to be followed by major ports. The new policy, to be applicable for a period of three years, gives the first right of refusal to Dredging Corporation of India (DCI) in case of major ports, and to Indian companies, in general, in case of minor or private ports.

The ministry has also constituted a committee to draft an offshore development policy to streamline the regulations for the players involved in shipping, including the oil and gas sector. This move has serious ramifications in light of the increasing activities and changing demography in the offshore segment, following the new exploration licensing policy, says industry sources.

(BL, 13.01.04, & FE, 02.01.04)

Funding the Infrastructure

The government announced setting up of a Rs. 50,000 crores fund for financing projects in sectors such as power generation, sea ports, airports, roads, tourism, telecommunication and urban infrastructure.

Unlike earlier funds for this sector where a corpus was provided from the budget, this time around the government has given a more comprehensive support by way of providing guarantees, appropriate risk mitigation measures and other financial resources to ensure availability of funds at reasonable rates of interest.

Down to Earth

The proposed fund to be fully catalysed over the next three years will be managed by a consortium of financial institutions. The consortium under a lead institution will appraise major projects and ascertain their economic viability to provide credit for both term loans and working capital loans. Loans to the project would be extended at a concessional rate of 200 basis points below the prime lending rate. *(ET & BL, 01.01.04)*

Officials Caught with Dirty Money

The Financial Express

Three officials of the anti-corruption wing of the Central Excise department were arrested by sleuths of the Central Bureau of Investigation (CBI) on charges of collecting bribe.

The CBI had received a complaint from a factory in Gurgaon, Haryana about a team of excise officials demanding Rs. 1.0 lakh for not seizing finished goods on its premises. After negotiations, the corrupt officials agreed to accept Rs. 25,000 instead.

The CBI sleuths laid a trap and caught the three red-handed. During searches at their residences, documents were recovered showing collection of bribes on a systematic basis. *(HT, 13.03.04)*

Slow Pace of Development Work

The Public Accounts Committee (PAC) of Parliament has pointed out the slow pace in developing infrastructure to control pollution in River Ganga and its tributaries.

The Ganga Action Plan (GAP)-I was started in February 1985 and scheduled to be completed by March 1990. Later, it was declared that the work would be completed by 2001. However, it has now been further extended to December 2008. This clearly indicates the extremely slow pace of development work being done for the past 18 years.

The major task under GAP was to tackle pollution from municipal sewage, which accounted for about 75 percent of the river pollution. This was to be done by creating sewage treatment plants, industrial effluents' treatment plants, toilet complexes, electric crematoria and improvement of bathing *ghats* and riverfront developments.

The committee pointed out that the GAP failed to treat the river eco-system and suggested the creation of a river regulation zone under an autonomous body. It observed that only 45 percent of the grossly polluting industrial units had installed effluent treatment plants, of which 18 percent did not function properly or did not meet the technical standards. *(TH, 08.02.04)*

Discrepancy in Navaratna PSUs

The Comptroller and Auditor General of India (CAG) has found that five Navaratna Public Sector Undertakings (PSUs) overstated the value of their assets and four PSUs understated their liabilities. The detection was made during a test check on the accounts of all the nine Navaratna PSUs for 2002-03.

The aggregate value of overstatement in assets is Rs. 546.70 crore and understatement in liabilities is Rs. 152.95 crore. The CAG's report also highlighted overstatements of profit by Rs. 461.80 crore in four PSUs and an understatement of loss by Rs. 237.85 crore in one PSU.

The report observed inadequacy or ineffectiveness in the system of financial control and accounts, non-reconciliation of books and deficiencies in the maintenance of asset registers, deficiencies in cost control system and inadequate internal audit system, among others, to be the key issues in PSU accounting policies and procedures.

The CAG has asked the government-owned companies to put in place policies to prevent frauds by strengthening audit committees and improving governance. *(BL, 09.02.04 & 02.01.04)*

Mid-day Meals Take Poll Break

Five-crore upper-primary students (classes 6-8) across the country will have to wait for a new government to be elected at the Centre to grant them a mid-day meal.

This is because the Rs. 1675 crore allocated in the 2004-05 interim budget for mid-day meals' scheme can barely pay off the government's debt, and meet the needs of only primary school students (nursery to class five).

Importantly, the amount allocated will only provide uncooked grain to the 11 crore children in primary classes, after meeting the amount government owes for past mid-day meals.

The shortfall in providing cooked food to primary school students is estimated at Rs. 2125 crore. For upper primary students, as against the requirement of Rs. 2250 crore, nothing would be available from the interim budget. *(HT, 09.02.04)*

Subsidy Politics

The finance ministry and the petroleum ministry are pulling in opposite directions on petroleum subsidies. In the interim budget for 2004-05, the finance ministry announced a cut in its share of subsidy on cooking gas and kerosene by a whopping 44 percent plus.

As part of the government's overall thrust to open up the oil sector, the finance ministry thus appears to be adhering to the plan to gradually eliminate petroleum subsidies by 2004-05.

However, this does not seem to be on the agenda of the petroleum ministry as it has ruled out any hike in the retail prices of LPG and kerosene, considered to be the most politically sensitive of the petroleum products.

The upshot is that with lower budgetary support, oil marketing companies may be staring at a hit of around Rs. 9,000 crore for 2004-05. *(FE, 06.02.04)*

Code to Prevent Frauds

The Reserve Bank of India (RBI) has issued guidelines for the formulation of Best Practices Code (BPC) by banks to prevent frauds. The norms have been issued to bring about a certain minimum level of uniformity with regard to the content and coverage of the code.

As per the norms, the BPC should be a comprehensive and homogeneous document. It should take into account the instructions relating to the common fraud prone areas and their prevention issued to banks by RBI from time to time.

The code should cover all the functional areas like cash, safe custody of other valuables, deposit accounts, investment portfolio, credit portfolio, foreign exchange transactions and treasury operations.

The BPC, as formulated by select banks, lacked uniformity in their content and coverage prompting RBI to issue these norms. *(FE, 23.03.04)*

New Textile Legislation

The textile ministry has proposed a new act to empower the central government to obtain statistical data and information in respect of all sectors of textile industry to enable it to plan the growth of textile industry.

The collected data will also be made accessible to the entrepreneurs and traders for their market development.

Key features of the proposed Textile Act 2004 include:

- Obtain data and information regarding all sectors of textile industry.
- Prescribe essential markings to be made on textiles in order to protect the interest of all consumers.
- Allow imposition of non-discretionary penalties on non-compliance.
- Offences affecting the interest of consumer, like non-marking or wrong markings on textiles are to be disposed of quickly. *(FE, 15.03.04)*

No Child Labour by 2007

The government aims to ensure that all children working in identified hazardous occupations are withdrawn and join the formal education system during the 10th Five-Year Plan (FYP) period. To this end, the government has launched the National Child Labour Project (NCLP) in several districts in the country.

A major activity undertaken under the NCLP is the establishment of special schools to provide a bridge school mechanism. In these schools, formal education, vocational training, stipends, health check-ups and supplementary nutrition are provided to children in the 6-14 age group.

The Centre has made an allocation of Rs. 602 crore for the programme for the 10th FYP period. In the first phase, 100 districts across 13 child-labour endemic states were covered and 200,000 working children were brought under the NCLP.

(BS, 15.01.04)

Free Education for Poor

The government is thinking of introducing a lower and upper limit of the number of poor students 'free-charging recognised' schools would have to admit. This is based on suggestions received on an earlier draft of the free and compulsory education bill.

The revised draft also exempts newly established schools from adhering to this requirement for five years. This would allow schools to recover part of their capital cost.

Schools between 5 to 10 years of operations will have to allocate a minimum of 5 percent and a maximum of 10 percent seats to children from economically backward families. On the other hand, schools that have been around for more than 10 years would have to admit a minimum of 10 percent and a maximum of 20 percent below-poverty-line students.

The idea of introducing an upper limit was to prevent over-burdening of public schools with non-paying poor students. A lower limit will prevent schools from indulging in token gestures.

(ET, 10.03.04)

Drug Price Controls Relaxed

The National Pharmaceutical Pricing Authority (NPPA) has decided to relax norms for price monitoring of non-scheduled drugs, which account for more than 65 percent of the total domestic pharmaceutical market.

The regulator has decided not to intervene for price monitoring of non-scheduled drugs if the rise is less than 25 percent in one year.

Even if the price rise is beyond 25 percent, NPPA will intervene only if the market share of the formulator is more than 20 percent for that particular drug or the manufacturer is among the top three producers of that formulation.

The turnover ceiling for intervention of NPPA in case of these drugs has also been increased from Rs. 1.0 crore to Rs. 4.0 crore.

The move is expected to give pharma companies a little more leeway for increasing prices of these formulations in light of the rising marketing costs in an intensely competitive and dynamic market condition. *(FE, 22.03.04)*

Reforms' Watchdog for Railways

The Asian Development Bank (ADB) has hired Crisil infrastructure advisory as an external agency for monitoring a reform calendar for the Railways.

The ADB plans to invest about US$1bn in the India railway system till 2008 but has conditioned it on the railways achieving reform milestones. These include development of commercial orientation through separation of profit and cost centres and accounting reforms.

While Crisil will be the external monitoring agency, the railways will also have its own supervisory team. Crisil will review available reports and financial and other information, including accounts, operational statistics and performance indicators. The external agency will also analyse the opportunities and threats to the railway lines of business and profit/cost centres.

This is for the first time that the railways will be forced to look at changes which it has been brushing under the carpet all along. *(FE, 10.02.04)*

Identify Poorest of Poor

All states and union territories have been asked to expedite the process of identification of the 'poorest of poor' families as beneficiaries under the Antyodaya Anna Yojana (AAY) and issue of distinctive ration cards.

Identification and issue of distinctive ration cards to all the estimated number of families are yet to be completed in Delhi, Haryana, Tamil Nadu, West Bengal, Chandigarh and Pondicherry.

The scheme, launched in December 2000 for the benefit of one crore of the poorest of the poor families has now been expanded by adding another 50 lakh poorest of the poor families. This includes households headed by widows, terminally ill persons, persons aged 60 years or more with no assured means of subsistence and all primitive tribal households.

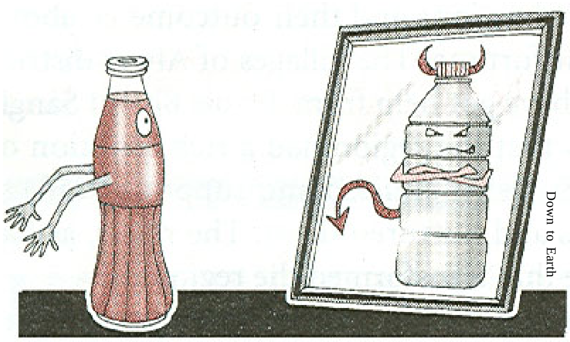
Allocation of foodgrain from the Centre under the scheme is on the basis of the number of special ration cards issued to these families. Foodgrain is provided at a highly subsidised rate of Rs. two per kg for wheat and Rs. three per kg for rice.

(FE, 14.02.04)

PestiColas

The Joint Parliamentary Committee investigating pesticide contamination in soft drinks and beverages has upheld the findings of the Centre for Science & Environment (CSE) that leading Coca-Cola and Pepsi brands contained hazardous pesticides.

Dismissing the explanations of the two leading companies, the committee recommended that the onus for maintaining quality should lie with parent companies/brand owners. The committee also wants cola companies to publish warnings against caffeine contents in the carbonated cold drinks.



The committee has called for India-specific food standards based on stringent scientific criteria in keeping with internationally acceptable norms. It has also recommended upgradation and accreditation for all food labs in the country.

The committee has asked the government to separately formulate pesticide residue limits for juices and other beverages, independent of norms for soft drinks.

The JPC report also observed that the Ministry of Health and Family Welfare failed in its duty by not taking the opinion of the Central Committee on Food Standards for laying down standards for various food items. The committee appreciated the CSE for its efforts as a whistle blower on the pesticide issue. *(BL & BS, 05.02.04 & ET, 02.02.04)*

Social Cover for Unorganised Workers

The government launched a country-wide social security scheme offering health insurance and old age pension to workers of unorganised sector. The scheme will cover all workers in the unorganised sector drawing up to Rs. 6500 per month as wages.

It will be financed by contribution from workers at the rate of Rs. 50 per month in the 18-35 age group and Rs. 100 per month in the age group of 36-50 years. Contribution from the employers will be Rs. 100 per month. The government contribution will be 1.16 percent of the national floor wage.

The Economic Times

Workers in the age group of 36-50 years will be allowed to join in the first five years if they have an identifiable employer and are willing to pay a higher contribution of Rs. 100. Self-employed workers may also join this scheme provided they pay employers' contribution also.

A worker will get a pension of Rs. 500 per month on retirement. In case of untimely death, family members of a worker will get Rs. one lakh plus pension of Rs. 500 per month. The scheme also provides a health insurance for expenses up to Rs. 30,000.

The scheme will be managed by employees provident fund organisation. Initially, the scheme will be launched on pilot basis for five years in 50 select districts including state capitals. *(FE & TH, 23.02.04, BL, 24.01.04 & BS, 16.01.04)*

Farm Sector Reforms

The Centre has come out with a model Act of creating 'land share companies' and privatising the agricultural products marketing as part of farm sector reforms.

The model Act, named as the State Agricultural Produce Marketing (Development and Regulation) Act 2003, seeks to amend the Agricultural Produce Marketing Committees (APMC).

Land share companies will be created with owner-cultivators, giving their land on lease to a company that would provide technological package, seeds and other inputs and also purchase the produce at a predetermined price. However, only the owner farmers would be allowed to cultivate the land so as not to divest them off their land.

The Act also permits private companies and cooperative sector to establish direct marketing centres for farm produce and to develop supporting services for farmers. The Act thus seeks to eliminate well-entrenched *ahartiyas* (commission agents) who have been in marketing of farm produce for ages in the country.

Other reforms include promotion of contract farming and expansion of marketing credit system of negotiable warehouse receipt system through forward and futures markets. *(BL, 12.01.04)*

Family Planning Insurance

The government is preparing to come out with an insurance cover aimed at minimising the risk of the entire nation against an impending calamity of a different kind – population explosion.

The policy would provide a cover to all persons who willingly undertake family planning measures or any medical intervention that takes away a person's ability to procreate.

The benefits under the policy would, however, not flow to parents who decide to give up their reproductive abilities but to their children. Children born to such couples would be eligible for several benefits including comprehensive health cover for a specified number of years.

There is likely to be a cut-off on the number of children of a couple who would be eligible for benefits.

The framework for the policy is being worked out by the Health Ministry in consultation with the insurance division of the Ministry of Finance. The ministry is also looking at offering maternity-related insurance cover. *(BL, 09.03.04)*

Commission on Farmers

The government has set up a National Commission on farmers. The commission will have a tenure of two years and would suggest measures for improving the conditions of farmers and agriculture sector in the country.

The terms of reference of the commission includes:

- Review the status of Indian agriculture and assess the conditions of different categories of farmers in various regions.
- Identify factors responsible for imbalances and disparities and suggest measures for achieving sustainable and equitable agricultural development.
- Examine the issues of agricultural technology and input delivery mechanism and suggest a farmer friendly framework for extension of new technologies such as biotechnology.
- Examine the issues of existing pricing and marketing policies and legal framework for improving the incomes and welfare of farmers.

The commission will also address changes taking place in the national and international economic and trade environment with a bearing on livelihood sustainability and viability of small agricultural holdings. *(FE, 11.02.04)*

Organic States

Several states in India are on way to declare themselves "totally organic." This includes Uttaranchal, Sikkim, Nagaland and Meghalaya who are planning a total ban on the use of chemicals in agriculture operations.

They hope to fetch premium prices from the domestic and export markets for their agriculture produce. The export of organically grown products from India started recently and its share in the global market is negligible giving much scope for expansion.

Mizoram has already declared itself "totally organic" and Sikkim is likely to follow within the next five years. While Uttaranchal has established an Organic Commodities Board to promote organic farming, Madhya Pradesh has identified about 3300 villages where only organic farming will be practiced.

India is among the 39 countries where organic farming regulations are in place. Though the number of registered organic farms is only 5347, environment-friendly agriculture is said to be practiced on a much larger scale. However, there is no organised market for organic produce in the country. *(BS, 25.03.04)*

State Brief

Forest Department Pulled Up

The Comptroller and Auditor General (CAG) has pointed out massive discrepancies in the non-recoveries, short recoveries and other losses of revenue to the Department of Forests, Government of Himachal Pradesh in its report for 2002-03.

Irregularities were detected in 151 cases and the department incurred a loss of Rs. 25.19 crore due to non-recoveries under various heads.

According to the report, the state incurred losses due to non-recovery of royalty, sales tax and penalty, incorrect application of export permit fee, less extraction of timber, illicit felling of trees, non-recovery of launching fee, non-levy of interest and unauthorised marking of trees in timber distribution to the genuine right holders. *(TH, 03.03.04)*

Cyber Tools for Cops

Cops in the country are going to be armed with three indigenously developed cyber-forensic tools. The Centre for Development of Advanced Computing (C-DAC), in close coordination with the Hyderabad-based National Police Academy (NPA), has developed the products 'E-mail Tracer', 'Trueback' and 'Cybercheck'.

The tools would be handy for investigators in tackling cyber crimes including credit card frauds, money laundering, cyber pornography, on-line gambling, email abuse and cyber defamation.

While similar tools, developed in the UK and the US, were available to the Indian police, it was impossible to achieve legal validation of these at court since their source codes remained inaccessible. On the other hand, the digital evidence seized and acquired through the tools developed by C-DAC would be acceptable in courts of law in India.

The new products have been designed in tune with all procedures, requirements and specifications detailed in the NPA manual for investigation on cyber-crimes.

(FE, 19.02.04)

In Search of an Asian IT Agenda

The second summit of IT ministers in Asia was held in January this year. The event brought together ministers and representative of 32 countries, the quest being to devise a common IT agenda for the region.

The summit was conducted in two separate formats – industry forum and the thematic agenda of the meet. Business leaders from the region participated in the industry forum to share their experiences and best practices.

The meet recommended the setting up of Community Information Centres (CICs) across Asian nations. The Indian government would share its experience in setting up such a network in the northeast. There was also an agreement on standardisation of IT applications.

Security of the information infrastructure was also highlighted and establishment of a National Computer Emergency Response Team (N-CERT) in every country was emphasised. The need for strategic tie-ups among the N-CERTs to share information and response strategies was also agreed upon. *(FE, 23.02.04)*

e-Post to Bridge Digital Divide

The Department of Posts has introduced a nationwide e-Post service with a view to bridging the digital divide and bringing the benefit of the Internet technology to people living in rural and other remote areas.

e-Post is a service under which printed or even handwritten messages of customers are scanned and transmitted as email through the internet. At the destination offices, these messages are printed, enveloped and delivered through postmen like other letters, at the given postal addresses.

For this purpose, e-Post centres have been set up in the post offices, covering all the districts and major towns. These e-Post centres are equipped with Internet connection, computers, printers and other necessary equipment. The current rate for the e-Post service is Rs. 10 per page per addressee.

e-Post service is, however, not limited to the e-Post centres. It can be availed of from any post office in the country. Irrespective of whether a customer is in a metropolis or in a remote village, he can send and receive e-Post messages.

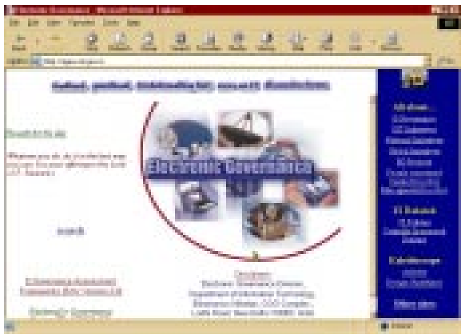
Messages booked at other post offices are sent to e-Post centres for scanning and dispatch. Similarly, messages received at e-Post centres for areas beyond their delivery jurisdiction are printed and sent to the concerned post offices for delivery.

Besides availing e-Post service through post offices, customers can also access the e-Post portal <www.indiapost.nic.in> by registering as a user and making payment through the pre-paid card available from selected post offices and other outlets. e-Post messages can also be sent to email ID(s) anywhere in the world. *(BL, 31.01.04 & www.indiapost.nic.in)*

e-Governance: Is the Government Serious?

The government has set up an Electronic Governance Division in the Department of Information Technology (DIT) as an initiative to accelerate the usage of IT in all spheres of governance. An e-Governance website <http://egov.mit.gov.in> has also been set up by DIT.

The website provides information on National e-Governance Action Plan, initiatives taken by DIT, national initiatives, global initiatives, information on e-Governance projects, and Ministry agenda for e-Governance.



The national initiatives' link gives a list of central government ministries, departments and states that have taken steps in the area of e-governance.

Andhra Pradesh has been one of the frontrunners among states in e-Governance. However, it is shocking to see that the link for Andhra Pradesh opens a 'blank' page. It is more shocking to see that the web page was last modified on July 07, 2003 whereas the home page mentioned that the website was last modified on March 25, 2004 (we browsed it on April 27, 2004).

The web page providing information on e-Governance projects undertaken by various organisations was last modified on January 20, 2003. It is appalling to see that the information regarding the projects undertaken for Andhra Pradesh Government is given as on 12/2/99. More than five years have gone by, but nobody in DIT has made an effort to update the information!

According to a recent estimate the central and state governments spent US$1.0bn accounting for 9 percent of IT spending in India in 2002-03. One can imagine the amount government has spent in creating such websites for providing useful information to the public, but has been a total waste for want of proper maintenance.

This is yet another instance of taxpayer's money being wasted by the government. It is high time government agencies spend scrupulously and make efforts to maintain existing initiatives by establishing necessary support mechanisms.

Springing a Fiscal Surprise

The government is on course to project a lower than budgeted fiscal deficit of 5.6 percent of GDP. This outcome is backed by a tight leash on expenditure and disinvestment proceeds in excess of Rs.15,000 crore.

Business Standard

Another big factor was the growth in the GDP, which grew 8.4 percent in the second quarter of 2003-04 and the momentum is expected to continue in the next two quarters. Numerically this means a higher base or denominator, which will result in reducing the fiscal deficit as a percentage of GDP.

According to the Planning Commission Deputy Chairman K.C. Pant, the government could afford to maintain a certain level of fiscal deficit in order to finance public investment in infrastructure. Pant said that there might be no immediate need to undertake 'severe fiscal correction' measures if the medium-term growth prospects remain unchanged. Once investment demand starts picking up, the government will have to reduce its fiscal deficit.

(FE, 16.01.04)

Challenge Wheat Patent

The Supreme Court has issued notices to the ministries of commerce, industry, law, agriculture and environment on a public interest litigation accusing the government of not objecting to American seeds multinational Monsanto claiming patent of Indian wheat landrace before the European Patent Office (EPO). Three NGOs, namely Greenpeace International, RFSTE and Bharat Krishak Samaj jointly filed a petition on January 27, 2004.

The PIL had pointed out that in 1990 Unilever had applied for a patent of wheat derived from the traditional Indian variety 'Nap Hal' before the EPO. In 1998, Monsanto acquired Unilever's wheat division and five years later the patent on wheat was granted to Monsanto.

The concerned minister had clarified to the Parliament that the variety on which Monsanto was getting a patent had nothing to do with the Indian variety.

(BS, 23.02.04 & ET, 13.02.04)

Confusion Over SEZ Sops

The Finance Ministry has been asked to notify rules for the interim period for Special Economic Zones (SEZs) – till the separate legislation on SEZs does not come into force.

The move has been prompted by the government's decision to take back the duty entitlement passbook (DEPB) benefit provided to domestic SEZs. DEPB credit aggregating Rs. 150 crores has been given to exporters by development commissions in SEZs following the policy announcement. However, the policy cannot be operationalised until legislation is in force or the rules are framed. As a result, recovery proceedings have been started against suppliers who had availed DEPB on the raw materials supplied to SEZs. The affected suppliers, in turn, are asking the concerned SEZ units to shoulder the financial burden.

The finance ministry has now been asked to notify the rules, for the interim period, so that the benefit can be given at least with prospective effect. However, a clear picture will emerge only when the proposed SEZ Act is enacted. Once the proposed legislation is enacted, the concerned tax concessions cannot be withdrawn or diluted without amending the Act. The government feels that the Act would give comfort to investors about the stability of policy in the long term.

(ET, 19.02.04)

Tonic to Push Trade

Major initiatives in the area of trade facilitation and trade liberalisation were perceptible in the Annual Exim Policy announced by Arun Jaitley, the commerce minister. He has freed import of gold and silver, allowed deemed export facility for items having zero customs duty, relaxed norms for discharge of export obligation and extended duty free import benefits to heritage hotels. Jaitley also rewarded exporters with a good track record by launching a Gold Card Scheme for them, which would provide them access to export credit on the terms to be worked out by the RBI. For the aggressive ones, the minister promised to set up a National Export Insurance account to help them undertake high value projects abroad.

The government has also allowed import of all kinds of capital goods including office and professional equipment under the duty free entitlement scheme. To offset high cost of power, the government has allowed duty free import of fuel by actual user duty free replenishment certificate (DFRC) scheme. The government has reduced payment of composition fee for extension of export obligation linking it to duty saved amount.

Launching of the long-awaited electronic data interchange (EDI) system was also announced by the Directorate General of Foreign Trade. The facility will enable exporters to file all their papers through the Internet, as the system will recognise digital signatures.

(FE & BL, 28.01.04)

Swan Song for FIPB

The Finance Minister, Jaswant Singh announced the winding up of the Foreign Investment Promotion Board (FIPB). Now FDI proposals will go to the Reserve Bank of India for automatic clearance. Where the proposals involve added complications, such as applicability of Press Note 18 that calls for a no objection certificate from an existing joint venture partner in case the foreign investor seeks to set up a fresh subsidiary, they will be tackled by the concerned administrative ministry, or, when required, by the Cabinet Committee on Economic Affairs (CCEA).

Criticising the winding up of the FIPB, PriceWaterhouseCoopers' executive director, Vivek Mehra, said that it would lead to confusion because of lack of uniformity in policies of the administrative ministries and would compel the foreign investor to interact with over 30 windows instead of one.

(BS, 29.01.04 & ET, 11.01.04)

Tribal Drug Trademark Hijacked

A Kerala-based research institution, Tropical Botanical Garden and Research Institute (TBGRI), plans to challenge an American company that has obtained a trademark for the herbal drug 'Jeevani' developed by it.

The drug, developed and based on traditional tribal medical knowledge, was patented in India in 1996. However, taking advantage of the loopholes in India's mechanism to protect the rights of its rich biodiversity, the New York based NutriScience Innovations LLC has registered 'Jeevani' as a fatigue-busting wonder drug under the US Trademark rules without TBGRI's knowledge.

TBGRI had sold the manufacturing and marketing rights of the drug to a Coimbatore based company for a period of seven years. As per the agreement, a portion of the proceeds from its marketing was to go directly to the tribals. However, any illegal marketing of the drug is likely to spoil this profit sharing agreement.

(BL, 14.02.04)

Fiscal Fitness: To Return Debt

Finance Minister Jaswant Singh has decided to pre-pay US$3.5 bn to the Asian Development Bank (ADB) and World Bank (WB) by the end of March. Government's total stock of external liability, which includes stock of debt and interest rates, as of September 2003 is estimated at US$110bn.

Both ADB and the World Bank have said that they would increase their lending to India in the next few years. Last month WB announced that it will double its lending over the next four years for India to US$8 bn.

Should India pre-pay with one hand and take fresh loans with another? Dr. Jayanta Roy, senior adviser of the Confederation of Indian Industry (CII) said more loans from multilateral agencies would boost the country's growth prospects as the money could be used for various infrastructure and other projects.

(FE, 30.01.04)

India Pips China

India's Gross Domestic Product (GDP) growth rate for the third quarter of 2003-04 is estimated at 10.4 percent as against 9.9 percent of China and 9.8 percent of Argentina.

The Central Statistical Organisation data revealed that the double digit growth during October-December 2003 came on the back of a robust 16.9 percent growth in agriculture, forestry and fishing. Good monsoon rains have made the agricultural rebound possible. Industry has also performed well, recording a growth of 6.5 percent, over and above 6.8 per cent for the third quarter of 2002-03. The story is even better with regard to the services sector, which has grown by 7.6 percent, 9.8 percent and 9 percent, respectively, during the first three quarters of 2003-04.

India's economy has grown over 8 percent only twice in the past – it touched 9 percent in 1975-76 and grew to 10.5 per cent in 1988-89. *(BS & BL, 31.03. 04)*

Peace Dividend

The Pakistan government is expected to move diesel out of the negative list to facilitate imports of the product from India. India has offered to export some parcels of diesel to meet part of the diesel shortfall in Pakistan. Pakistan has also shown interest in cooperation in the hydrocarbon sector and CNG and Coal Bed Methane. *(ET, 14.01.04)*

Wider Border Trade

The north-eastern states have urged the Centre to take advantage of the free trade agreements (FTAs) recently signed with Thailand and the ASEAN block, and facilitate border trade with the neighbouring countries by improving the infrastructure like rail, road, air and waterways connectivity with these countries, as well as reliable and modern telecom linkages. *(FE, 22.01.04)*

Top Five Firms' Output 16% of GDP

India's top five business groups account for nearly 16 percent of the country's GDP. Their cumulative turnover of Rs. 358,793 crores during the last fiscal is about 15.94 percent of the country's GDP (estimated at current prices to have been Rs. 2,249,493 crores in 2002-03).

While the Indian Oil Corporation (IOC), along with IBP, accounts for nearly six percent of the country's GDP, the two private players in the top six, the Reliance and the Tata groups, together account for nearly five percent of India's GDP.

(BL, 28.03. 04)

State Briefs

J&K Relief for Private Sector

In its new industrial policy that shall remain in force for the next 11 years, the J&K government is extending incentives to the private sector for developing infrastructure. Some new elements have been introduced to make investments in the state's industrially backward blocks more attractive.

Says Sasaraman, J&K's industries' commissioner. "Apart from changing the duration of the policy from five years to over a decade, we have introduced four new elements in the new policy. The State will bear 30 percent of the investment requirement to a maximum of Rs. 30 lakhs in case of expansion of the existing units; sustain the costs of brand promotion for three years; and give 30 percent subsidy, to a maximum of Rs. 25 lakhs, for pollution control devices and setting up of common treatment plants for a cluster of units." The state has already changed the prices of land that it offers to the investors in a chain of industrial estates. On the capital investment subsidy (CIS), J&K has decided to offer 30 percent, to a maximum of Rs. 30 lakhs, for units being set up in backward blocks. *(ET, 28.01.04)*

Branding for SSIs

The Federation of Small Industries of Rajasthan (FASIR) stated that it was contemplating creation of a consortium for promoting branding of SSI-manufactured products for marketing in an organised manner. This move was still in the initial stages. It stated that such a move had become essential, especially in view of the shrinking markets and the closure of over one lakh SSIs in the past three years, which employed lakhs of workers in Rajasthan, said KL Jain, FASIR President. *(HT, 26.03.04)*

BIMST-EC Evolve Agreement

The member countries of the BIMST-EC Free Trade Area comprising India along with Bhutan, Myanmar, Sri Lanka, Thailand and Nepal have evolved a framework agreement to strengthen and enhance economic, trade and investment co-operation among themselves.

Business Standard

As per the agreement, in trade in goods, the products, except those included in the negative list, would be subject to tariff cut or elimination on two-tracks. In the fast track, India, Sri Lanka and Thailand would complete tariff cut or elimination to other developing countries between July 1, 2006 and June 30, 2009, while to the least developed countries (LDC), the deadline would be shortened between July 1, 2006 and June 30, 2007. For Bhutan, Myanmar and Nepal, the duty cut or elimination on export products from the developed countries would be between July 1, 2008 and June 30, 2011 and to export products from LDC the deadline would be from July 1, 2006 to June 30, 2009.

Members agreed to a progressive elimination of discrimination among themselves except for measures permitted under specific Article of the World Trade Organisation (WTO) General Agreement on Trade in Services (GATS). The members have also agreed to progressively liberalise the investment regime through a positive list approach and to create a transparent and competitive milieu in the investment area. *(BL, 12.02.04)*

Corporate Governance

The government is contemplating to set up a national foundation for corporate governance. The foundation will primarily encourage research capability on corporate governance. It will also provide key inputs for developing laws and regulations with the objectives of maximising wealth creation and fair distribution of wealth.

Business Line

According to the proposal, the foundation will also work with regulatory authorities at multiple levels to improve implementation and enforcement of various laws related to corporate governance. *(FE, 21.02.04)*

SEBI Calls for Streamlining

The Securities and Exchange Board of India (SEBI) has called for "streamlining the system of corporate governance" to ensure greater good for a far greater number – in short, a better deal for all stakeholders of a corporate entity.

SEBI is expected to firm up its views on new corporate governance rules as amendments to clause 49 of the Governance Rules had been stalled after protests from industry. Subsequently, the Narayana Murthy Committee was asked to have a second look at some of the controversial proposals.

The amendments aimed at strengthening the responsibilities of audit committees, improving the quality of financial disclosures, including those related to party transactions and proceeds from initial public offerings. It also required boards to adopt a formal code of conduct, a whistle blower policy and improve disclosures related to compensation paid to non-executive directors.

SEBI is also in favour of certain industry bodies turning themselves into self-regulatory organisations (SROs) to ensure disclosure compliance. According to the market regulator, the key word in corporate governance now was 'disclosure'. *(BS, 12.03.04 & BL, 14.02.04)*

Paper to Simplify Companies Law

The government will draft a concept paper soon to simplify the Companies Act, 1956 after incorporating provisions of the present law, suggestions by various bodies and other relevant laws so that it is implemented in totality.

The initiative of drafting a concept paper comes after the Companies (Amendment) Bill, 2003 was introduced in the Rajya Sabha, the Upper House of Parliament, last year and sent back by the Cabinet for redrafting in October 2003. The Bill was mired in controversy with many of its provisions being strongly opposed by corporate and industry chambers.

The contentious recommendations included the prohibition of multi-layered routing of investment through subsidiaries, fixing the age of retirement of the company's chief executive officer at 75, reserving seats for women in the company's board and requirement of approval of all shareholders for transfer of shares. *(BS, 12.02.04)*

Probe against Ispat

The government has ordered a probe against steel giant Ispat Industries for alleged exposure to Rs. 8,500 crores of public funds, erosion of net worth and high-accumulated losses.

Department of company affairs has referred the case to the Serious Frauds Investigation Office (SFIO), which has been set up to look into large-scale fraud and misappropriation of funds by companies.

Ispat Industries has been referred to SFIO due to large amount of funds involved and the fact that it had eroded almost its entire net worth. Since the SFIO was set up late last year, Ispat is the fifth case to be referred to it for thorough investigations. *(BS, 11.02.04)*

IRDA to Issue Norms

The Insurance Regulatory and Development Authority (IRDA) would soon issue corporate governance guidelines for insurers, and warned that it would penalise agents and insurance companies who were offering rebates to sell their policies.

The guidelines would make the board of directors accountable for the day-to-day functioning of insurers. IRDA would also harmonise the corporate governance rules with those of other regulators like the SEBI.

The insurance market regulator has also ruled out the possibility of a review of the new rates of agency commission and brokers' remuneration that come into effect from April 2004. *(BS, 09.03.04)*

Shareholding Disclosures

The capital market regulator, SEBI has proposed to amend provisions of the disclosure requirements relating to the shareholding pattern of companies.

The new disclosure format does away with the term 'promoters' and replaces it with 'controlling interest.' The proposal also states that disclosure must cover 100 percent shareholding.

According to the proposed provisions, companies will have to file with SEBI the shareholding pattern for each quarter of the year within 15 days of each quarter ending. In addition, the company should file these forms within two days of change of one percent or more in the shareholding of any entity in the 'controlling/strategic holdings' group. *(BL, 06.02.04)*

Mega Merger Mooted

The employees union of IFCI have opposed government's move to merge the country's oldest financial institution with Punjab National Bank. The union has instead proposed a mega merger of four development financial institutions – IFCI, IDBI, IIBI and IDFC – to create a stronger and diversified institution.

The union argued that the creation of a single institution could have better focus, wider national reach, rationalised manpower, diversified portfolio and can also bring down non-performing assets (NPA). It would also end inter-institutional competition.

The association suggested that the merged entity could be provided with funds at concessional rate and allowed to accept cheaper deposits, so that it can withstand global economic pressures. It said that the merged institution could also operate like special purpose vehicles with mandate to function as "economy multiplier" and not as a profit centre. *(FE, 24.03.04)*

Infarm to Check Price Fall

In a novel attempt, the Farmers' Movement (Infarm) based in Kottayam district has made use of the recent changes in the provisions of the Companies Act to float a company that is neither a private limited company nor a public limited one, but a producer company, in an effort to help farmers join hands and check the fall in price of spices.

Unlike in conventional limited liability companies, the members of the producer company will have only one vote per member. Infarm is planning to raise an initial share capital of Rs. 10 lakhs and set up about 50 farmer groups, mostly in Idukki district, to kick off the venture.

The company is planning to procure spices from farmers, especially pepper, ginger, turmeric and cardamom, which are all witnessing depressed prices in recent times, and provide a marketing set up after value addition. *(ET, 03.03.04)*

Impact of Reforms on Poverty

A study by United Nations Conference on Trade and Development (UNCTAD) in India reveals that Maharashtra, Tamil Nadu, Gujarat, Karnataka, Andhra Pradesh and Punjab are better integrated into the global process and have also witnessed the highest reduction in poverty rates.

In the case of agriculture, the study highlights that as compared to external sector reforms, domestic reforms would have a greater impact on rural poverty, which would be significant for India where the majority of poor live.

UNCTAD also notes that developing countries would stand to gain hugely if agricultural protectionist and trade distorting measures in developed countries are addressed. The study is also categorical that most of the gains from trade liberalisation such as poverty reduction would result from India's own reforms.

Contrary to the perception of services providing employment only for the highly skilled, the study estimates that nearly two-thirds of the employment in services sector might consist of low or medium-skilled people.

The study also shows that rather than adopting traditional approaches such as global or universal free trade, differential liberalisation could yield maximum poverty benefit for India. *(BL, 12.01.04)*

Start-ups Add Jobs

17mn jobs were created in India by new enterprises in 2003, which was the second highest in the world after China, where 84 million jobs were created by new businesses, according to the Global Entrepreneurship Monitor report of the London School of Business.

The report finds a marginal increase in entrepreneurship in India in 2003. Nearly 18 percent of India's population in the age group of 18-64 is engaged in some sort of entrepreneurial activity. This is much above the global enterprise average of 10 percent. Among the developed countries only the US has an entrepreneurial base of above 10 percent of its working population.

The number for countries like Germany, Japan and France hovers around 5 percent. China also lags behind India on this count with 12.5 percent entrepreneurs in the specified age group. *(BS 02.02.04)*

Most Attractive Destination

US business consultancy AT Kearney prepared a list of the top dozen countries for service-sector jobs, which increasingly are being off-shored from higher-cost environments in developed economies. India remains the most attractive destination for multinational companies looking to transfer office jobs overseas in search of higher profits.

The simple reason behind this is that in addition to a young, cheap and abundant workforce, India excels in education, producing two million proficient English-speaking graduates each year, with strong technical and quantitative skills.

China now occupies second place in the Offshore Location Attractiveness Index prepared by the consultancy firm, and scores poorly in areas of intellectual property piracy, bureaucratic red tape and English-language skills.

The report found that lower wages do not represent the only competitive threat posed by developing countries. It concluded that US and Germany, in particular, perform poorly against many offshore locations when it comes to mathematical, scientific and reading skills.

Malaysia came third and the Philippines ranked sixth. Despite relatively high wages, Singapore, Canada and New Zealand filled the no.5, 8 and 12 slots, respectively. *(BL, 31.03.04)*

Cheers! Indians Pay Lowest

Indian consumers pay the lowest in the Asia-Pacific region as far as spending on *dal-roti* is concerned. China is 20 percent costlier than India and the Philippines is 50 percent dearer. A basket of 15 consumables including bread, egg, milk, sugar, flour, local cigarettes and a Big Mac burger costs US$10.13 in India while it costs US$12.18 in China.

China is cheaper than India in only three staple products – rice, noodles and cooking oil. In other food products such as sugar, flour, chicken, bread, milk and eggs, India is up to 50 percent cheaper in most of the cases.

In case of consumer goods, China seems to have an edge over India, as branded food such as Coca-Cola, and beer are 50 percent cheaper, while local cigarettes are 38 percent lower in cost.

The main factors behind this may be the difference in labour productivity, productivity of land or purchasing power between the average consumers in the two Asian giants or the differences in the dollar exchange rate among Asian currencies. *(FE, 06.02.04)*

India Global R&D Destination

India will witness considerable research and development (R&D) interests from technology majors across the globe, says a study jointly commissioned by the Department of Information Technology and certain Indian industry associations.

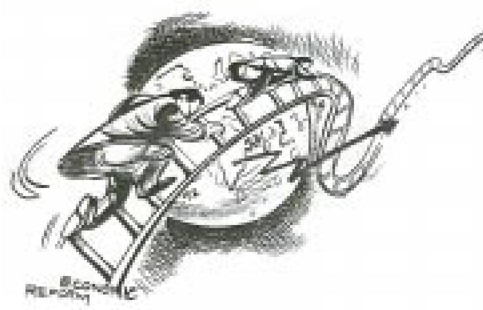
The study results indicate that India would see increased growth in merchant and offshore R&D in IT, communication and electronics. The models that are likely to succeed range from joint research to collaboration to complete outsourcing of R&D and product development.

The study also points out an increased need to create an R&D ecosystem that will possess essential factors for R&D growth. These factors include, among others, vertical specialisation, strong legacy in basic and applied research and international collaboration. *(FE, 12.01.04)*

UN Applauds Reform Model

The 15-member UN commission on Private Sector and Development convened by Secretary-General Kofi Annan launched its report "Unleashing Entrepreneurship: Making Business Work For The Poor."

The Commission has commended the model of economic reforms followed by India, which led to multinational corporations becoming instruments of development along with domestic industry and entrepreneurs.



Business Line

The report notes that in the developing world, countries like India have been very successful in achieving rapid growth and overcoming poverty over the past 20 years. Further expansion is required in sustaining private sector investment so that it becomes the main driver of accelerated growth essential for reducing poverty.

It calls on the governments to create an enabling environment for the development of a competitive private sector, including rule of law and a level playing field for all.

The Indian market experience demonstrates that private sector players driven by market-based incentives have the capacity to contribute to important development goals. Multinational companies, in particular, benefit from nurturing links with local entrepreneurs and small companies. *(FE & ET, 03.03.04)*

Singapore Least Corrupt

Business Standard

Singapore is the least corrupt nation in Asia. India and Indonesia are among the worst. However, most of the countries in the region have shown improvements in dealing with the problem, according to a survey of foreign business executives.

The survey, carried out in Jan-Feb 2004 by the Political and Economic Risk Consultancy, shows perceptions of corruption have improved sharply in China and Thailand and slightly in several other countries.

Using a scale with zero the best possible grade and 10 the worst, more than 1,000 expatriate businessmen and women working in Asia were asked to rate how bad they view the problem of corruption in the country they are working in, as well as in their home countries.

Perceptions of corruption improved in 8 of the 12 Asian countries covered in 2003. Singapore topped with a score of 0.50, whereas India and Indonesia, with scores of 8.90 and 9.25 respectively, rounded up the worst performers. *(FE, 05.03.04 & ToI, 03.03.04)*

India Slips in Globalisation

India's ranking slipped from 57th to the 61st slot (second-last) in the Globalisation Index 2004. AT Kearney conducted the study, covering 62 countries, in collaboration with the Foreign Policy Magazine.

The major reason attributed to this slip is the decline in foreign direct and portfolio investment volumes to India, as well as tensions with neighbouring Pakistan and ethnic violence in Gujarat under cutting investor confidence.

Ireland was ranked the most global nation followed by Singapore, Switzerland and the Netherlands. South Asia remained the world's least integrated region, with weaker global links.

As per the survey, economic integration dropped to the lowest level since 1998, reflecting slow economic growth in many regions as well as the effects of heightened travel alerts, stringent security at ports and airports, corporate scandals and the jarring terrorist attacks in Indonesia and Kenya. India's downslide is also attributed to the drop in travel and tourism.

The positives for India included a 136 percent expansion in the number of Internet users and the highest remittances received by any country anywhere in the world, totalling US$14.7bn in 2002.

(FE & ET, 28.02.04)

India Gets Poor Billing

India has been ranked 119th in the Digital Access Index (DAI) developed by the International Telecommunication Union (ITU) to measure access to information and communication technology (ICT) in 178 countries. China is better placed at 84th. Even the Philippines at the 99th and Sri Lanka at the 105th slot are ahead of India.

The top five countries in terms of ICT access are Sweden, Denmark, Iceland, South Korea and Norway.

The DAI measures the overall ability of individuals in a country to access and use ICT. The indicators cover five areas, namely availability of infrastructure, affordability of access, educational level, quality of ICT services, and Internet usage.

The results of the index point to potential stumbling blocks in ICT adoption and can help countries identify their relative strengths and weaknesses. For tracking the future advancement of ambitious emerging economies, the DAI will be a useful tool. *(BL, 21.11.04)*

Rich Benefit From Subsidies

There are large inequalities in health outcomes and in government subsidies to the poor sector, says the World Bank report on Health Policy Research in South Asia.

The richest 20 percent capture about 31 percent of subsidies meant for the poor, while 20 percent of the poorest could use only 10 percent of the services. Health subsidies are not particularly well targeted to the poor in India, especially the poor who live in rural areas and in poorer states.

It was also found that providing insurance cover to the poor is a challenge. The report also stressed on the lack of a proper regulator in the healthcare sector. The poorer states have poor quality regulatory systems that, in turn, may promote low quality of care.

According to the report, there may be a case for developing additional government facilities and for improving the regulatory regime that overseas the provision of healthcare. *(BL, 10.01.04)*

Service Quality Below Norms

The quality of service (QoS) provided by cellular and fixed-line service providers has not shown much improvement during the quarter ended December 2003, according to the survey carried out by TRAI.

Out of the 10 QoS parameters for mobile operators, only two, namely, accumulated down time of community isolation and period of all refunds, showed improvement in performance compared to the previous quarter.

The report notes that for all the service providers the parameter "percentage of billing complaints resolved within 4 weeks" has shown deterioration in performance.

In terms of provision of telephone connections only Shyam Telelink, Rajasthan and HFCL, Punjab have met TRAI's QoS requirement of providing connection within seven days of registration for exchanges declared "on demand." *(BL, 06.03.04)*

Funds for Sustained Growth

Federation of Indian Chambers of Commerce and Industry (FICCI) conducted a survey on the long term financing needs of the Indian industry and the role of development financial institutions (DFI).

It has asked the government to make a portion of long-term funds such as provident fund, pension savings fund and postal savings available to the DFI to facilitate corporate financing for mid-sized companies seeking fresh investment.

The survey findings show that there were thousands of mid-sized Indian companies looking for fresh investments for which they needed long-term competitive finance. It also says that the long-term debt market should be developed so that in future the market itself is in a position to support DFIs.

89 percent of the respondents from 248 companies cutting across various sectors indicated their plans for fresh investments in the near future and also voiced their preference for debt financing and called for the revival of DFI.

(ET & TH, 26.03.04)

Growth of Per capita Income

Stanley Fischer, Vice Chairman, Citigroup, while delivering a lecture at the India Policy Forum said that the biggest challenge before the policy makers in India is to formulate strategies for accelerating growth of per capita income and taking it closer to the per capita income in rich nations.

India's per capita income, which is currently 7.5 percent of the per capita income in developed countries, should be increased to 80 percent in half-a-century.

He also emphasised the need for increased investment, particularly in housing and urban infrastructure, so as to achieve 8-9 percent GDP growth rate. He stated that a great deal has been achieved since 1991, but had India opened up earlier, the country's GDP would have been higher. *(FE, 27.03.04)*

Play a Proactive Role

India should play a proactive and constructive role at the WTO negotiations by persisting with its liberalising approach domestically in all key areas, according to Aaditya Mattoo, Lead Economist, World Bank.

WTO process is particularly valuable in pushing reforms beyond the level, which is unilaterally possible. This is because when a country gets access to foreign markets it can use that leverage domestically, and the need to have a domestic leverage makes it a credible bargainer abroad.

India is an emerging power in terms of its stakes across-the-board and this role naturally suggests taking a more proactive and constructive engagement in WTO.

He stated that India has significant and actual potential in agriculture exports alongside a growing interest in securing access to foreign markets as is evident in services, in manufacturing and potentially in agriculture.

Mattoo cautioned it would be a mistake to hold back the domestic reform process to retain negotiating coinage. Instead, negotiating process must facilitate growing faster than one can.

He pointed out a paradox on India's stand on agriculture. On the one hand, India, which has a comparative advantage in agriculture, adopts policies the net effect of which penalises rather than helps this sector. Yet it takes a position in the WTO, which is focused on retaining the right to protect the agriculture sector.

So far, the WTO dispute settlement system has enabled developing countries to enforce their rights. India could enforce its rights by withdrawing its obligations under trade related intellectual property rights (TRIPs) if other trading partners do not fulfil their obligations.

(BL, 23.02.04)

Super-regulator Difficult

Decision making in the economy cannot be independent till there exists conflict in the framing of economic, monetary, and fiscal policy, said Bimal Jalan, Former RBI Governor. He was speaking at a function organised by the Bombay Management Association.

He also pointed out that the creation of a super-regulator for financial markets is difficult, keeping in view the fact that there is too much diversification in the financial sector.

Lauding the strength of India's economic situation, he added that economic growth seen in current times is distinct from that experienced in earlier periods. This is because Indian policy decisions need no more be dependent on external eventualities, and there is both optimism in exporters' attitude and emergence of a strong entrepreneurial class.

(BS, 17.01.04)

Global Regulator for Internet

There is a need to put in place an international regulatory authority for internet, as it is impacting various aspects of society in all countries, said Andrew Graham, Chairman of the Advisory Board of Oxford Internet Institute, while delivering a talk on "The Internet and Society."

He suggested this against the background of a change in regulatory framework in countries like UK and India, in view of the convergence of IT, communications and broadcasting technologies.

He called upon Indian companies involved in e-governance projects to increasingly focus on content and reliability of information that will make it relevant to society. He further stressed that availability of accurate, precise and up-to-date information is a major issue and can be taken care of by setting up Internet kiosks, which will make access more affordable.

According to Graham, ICT revolution is sweeping the world and has resulted in an increased usage of Internet and expects the accession rate to be almost 1.0bn by 2005.

However, he pointed out that getting ICT to rural masses in India would be a major problem. He suggested Indian companies to focus on wireless technologies to make information easily accessible. *(FE, 12.03.04)*

Strategy for Globalisation

To meet the challenges of globalisation, India should voice its concerns and cooperate with other developing countries and simultaneously try to strengthen its comparative advantages. This two-fold strategy has been suggested by C. Rangarajan, Chairman of the 12th Finance Commission, while speaking at the convocation of an institute on international studies.

He added that India should resist the temptation to blame globalisation for all its failures. He further suggested that opting out of globalisation is not a viable choice; instead India needs to stay within the system and fight. For this, an appropriate framework needs to be evolved to extract maximum benefits out of international trade and investment.

The Hindu Business Line

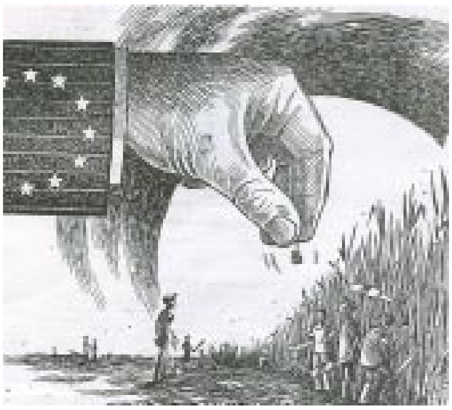
Rangarajan also listed a set of demands to be pursued by India at the WTO negotiations. These include:

- establishing symmetry between movement of capital and natural persons;
- delinking environment standards and labour related considerations from trade negotiations;
- zero tariffs in industrialised countries on labour intensive exports;
- adequate protection to genetic or biological material and traditional knowledge;
- prohibition of unilateral trade and extra territorial application of national laws and regulations; and
- effective restraint on industrialised countries in initiating anti-dumping and countervailing action against exports from developing countries. *(FE, 28.03.04)*

Subsidies in Farming Sector

In view of the deteriorating fiscal health, World Bank suggests India to target subsidies and go for greater investment in rural areas, rather than extending irrational subsidies to the farm sector to counter the effect of subsidies being given by developed countries.

World Bank's director for agriculture and rural development, Kevin M Cleaver, in an interaction with the media, said the total support extended to the farm sector in Organisation of Economic Cooperation and Development (OECD) countries is about US$315bn per year. Out of this, US$235bn is the direct support to farm producers.



Financial Times

He suggested that developing countries, particularly the G-22, should ask for phasing out the direct subsidy component for ensuring fair practices in global trade.

He observed that returns to private investment in agriculture in developing countries were low and this was primarily due to low global prices caused by heavy subsidies and support given by OECD countries.

He regretted that the total assistance given by the developed countries and the inter-governmental agencies to agriculture in developing countries was just a minuscule of US$50bn as compared to the total support of US$315bn given in OECD countries.

(FE, 29.01.04)

Cost-effective Public Services

Improving tax collections and providing public services in a cost-effective manner are some of the adjustments required on the fiscal front in India to make higher economic growth rate sustainable, according to Francois Bourguignon, Chief Economist, World Bank.

He added that efforts should be made to put value-added tax (VAT) into practice and to get rid of public debt by increasing the productivity of public services, rather than cutting down the services rendered to the public.

He stressed that the rate of fiscal deficit must slow down in order to increase the growth prospects of the economy and said more investments must be made in infrastructure, energy and transport sectors.

He further emphasised on the need to improve the investment climate and that India must ensure to invest more directly on social sector development so as to enable poverty reduction that might be obtained in higher economic growth.

(BL, 05.02.04)

Initiatives to Increase Exports

The Indian economy has to grow at 12 percent per annum, if the country has to achieve its target of cornering one percent of the world trade by 2007, according to L Mansingh the Director General of Foreign Trade.

He added that there would be no difference between exports and domestic markets, as we have to compete with global products even in the domestic markets. The domestic industry also could not seek protection citing that imported products were of inferior quality because there were no mandatory quality parameters for most of the Indian products. So far, only 160 Indian products have quality parameters.

He stressed on higher value addition and initiatives by state governments as some measures to enhance exports. He suggested construction companies of Andhra Pradesh could utilise the opportunity offered by Libya and Iraq in the construction sector.

Prof. CS Venkata Ratnam, Director of Gitam Institute of Foreign Trade said that exporters needed an enabling infrastructure, quality packaging and management of export risk. RJ Vaidyanathan, Andhra Bank's General Manager pointed out the increasing difficulty in getting export credit from foreign banks because of the higher processing fee.

(BL, 26.03.04)

Global Role for India

While addressing the CII, Lord Swaraj Paul, Chairman, Caparo Group of the UK, said India should focus as much attention on education and health as on industry and finance to be part of the developed world.

According to him, India should look at playing a greater role in world affairs and should address the world's problems.

The Indian economy is propelled by the service sector. Agriculture and manufacturing have been overtaken. Though the growth is marvellous, the traditional sectors must not be lost sight of since more than 60 percent of the population is in rural areas.

India is a leader in information technology and has a large reservoir of qualified people. Foreign trade is on the increase. Apart from these developments, India needs to invest in its people. Developed country status is based on what a country does for all the people.

He added that the world is recognising India because of its performance. The successes of non-resident Indians in the west have helped showcase India's capabilities. It is in Indian hands to ensure that the potential is realised.

(BL, 03.01.04)

Experts Call for Good Governance

Noted economist, Bibek Debroy has tried to answer certain questions regarding India and its governance in his three books - India: Redeeming the Economic Pledge; Agenda for Improving Governance; and The India Mosaic: Searching for an Identity.

Shankar Acharya, Former Chief Economic Advisor, pointed out the government's failure to pay enough attention to administrative reforms. Vijay Kelkar, advisor to Finance Minister, felt the need to give adequate attention to institutions while designing policies.

Shubhashis Gangopadhyay, founder-director India Development Foundation, pleaded for individual-centric reforms. He said that it would be difficult to deal with corruption without modifying policies that bred corruption.

(FE, 29.03.04)

Acces to Welfare Schemes

According to the World Bank's India Country Director, Michael Carter, there are several constraints affecting the outreach of the government's well-intended programmes for improving access to services for the poor.

He suggested ways and means to improve outreach by ensuring timely access to programmes through simplified institutions and processes and rationalising subsidies so that they are better targeted to the poor.

He also pointed that as India's population continues to urbanise, it would be critical for the government to provide an improved system for services' delivery and governance.

He noted that improving access to services for the poor is one of the shared goals of the development community and the government, having been embodied in the Millennium Development Goals.

(BL, 20.01.04)

SAFTA: A New Beginning in South Asia

At the 12th Summit held in Islamabad, Pakistan in January 2004, foreign ministers of SAARC agreed to set up a South Asia Free Trade Area (SAFTA). It is expected to bring free trade to the region by 2006. The agreement will be operational following its ratification by the seven governments.

SAFTA requires the developing countries in South Asia (i.e. India, Pakistan and Sri Lanka) to bring their duties down to 20 percent in the first phase of the two-year period ending in 2007. In the final five-year phase, ending in 2012, the 20 percent duty will be reduced to zero in a series of annual cuts. The least developed countries (i.e. Bangladesh, Bhutan, Maldives and Nepal) will get an additional three years to reach zero duty level, i.e. till 2015.

The agreement specifically lays down that special concessions or preferences in bilateral and multilateral agreements will not be given to the SAFTA members on most favoured nation (MFN) basis. Thus, the duty-free status under the Indo-Sri Lankan free trade agreement will not be extended to Pakistan. In other words, SAFTA has reversed the MFN principle of the WTO to that of the most disfavoured nation (MDN).

However, the treaty was arrived at after some hard bargaining. It is to be recalled that a draft SAFTA treaty was prepared at the 11th Summit, held in Dhaka, Bangladesh in 2000. Differences on the following subjects were holding up an agreement:

- reduction and gradual revocation of tariff and non-tariff barriers;
- technical assistance;
- flexibility to the least developed countries to allow them to enlist a higher number of "negative products"; and
- an appropriate revenue compensatory mechanism, raised by Bangladesh and Nepal, as customs is a major source of revenue in these countries.

Several measures were also introduced to protect the local industry from unfair competition across the border. Safeguards can be put into place to stop a sudden surge in imports, which can cause injury to the domestic industry. Elaborate rules of origin will be put into place to prevent duty-free entry of goods of third country origin. And, an elaborate list of sensitive goods will be annexed to the SAFTA treaty and they will be out of the tariff elimination exercise.

The agreement is seen as a step to unlock the huge potential for economic cooperation between the South Asian nations. But its implication will be far greater for the region than just raising trade volumes. As trade is liberalised under the SAFTA, the volume of exports and imports is expected to increase substantially over the years. Apart from lower duty, the proximity of markets will guarantee a lower transportation cost, and, by extension, a fall in the unit price of merchandise imports.

What is more significant is that the signing of the SAFTA will not pave the way for building a trade block among the SAARC nations. In the post-WTO era the global trade and economic conditions have been changing rapidly with regional blocs acquiring an enormous clout in the global trade. The regional grouping of the SAARC nations will help to consolidate and develop a strong bond among the members to contend with the global market forces increasingly manipulated by developed countries.

It is good news for consumers as well. Take for example, the case of tea import by Pakistan. The country consumes an estimated 140mn kilogram of tea a year. Nearly three-fourth of this is brought from far away Kenya when its immediate neighbours, India together with another SAARC nation, Sri Lanka, can meet its entire requirement.

Not only that the imported goods will be cheaper, these countries will now have a better chance to raise their export trade. The scope is enormous. For example, Indian imports from SAARC nations constituted less than one percent of its total imports. And, India's exports to SAARC nations constituted less than five percent of its total exports during the last decade.

Experts believe that the SAFTA is based on an economic philosophy, which takes into account the nuances of economic theories of trade and development as well as practical realities at national, regional and global levels.

The agreement takes cognisance of the region's specific economic realities in a manner consistent with its member's global trade-related commitments and obligations. It also shows an understanding that the causality between trade and development runs in both directions.

However, in spite of this breakthrough and its great potential, the treaty is a far cry from the vision projected by the Eminent Persons Group (EPG) in its report to the SAARC Heads of Government in 1998. This vision document laid out a roadmap with distinct milestones – achieving an FTA by 2008, a Customs Union by 2015, and an Economic Union by 2020.

The SAARC leaders are still unable to muster the political courage to embrace it. The treaty arrived at Islamabad makes no mention of a customs union or an economic union. A major limitation of the Islamabad agreement is that it leaves out trade in services.

Another major deficiency is that it leaves unnegotiated far too many things critical for the success of SAFTA. These include:

- formulation of Rules of Origin (RoO);
- preparation of the sensitive (or the negative) list;
- creation of a fund to compensate the least developed countries for loss of revenue from the elimination of customs duties; and
- identification of areas for providing technical assistance.

[Compiled from articles by Muchkund Dubey (TH, 10.01.04); Ram Upendra Das (FE, 12.01.04); Arun Goyal (ET, 10.01.04); & Tushar K. Mahanti (12.01.04)]

Share in India's total exports (imports) %

Country	2002-03	2001-02	2000-01	1999-00	1998-99	1997-98	1996-97	1995-96	1994-95	1993-94	1992-93
Bangladesh	2.10 (0.09)	2.29 (0.11)	2.10 (0.16)	1.73 (0.16)	3.00 (0.15)	2.25 (0.12)	2.60 (0.16)	3.30 (0.23)	2.45 (0.13)	1.93 (0.08)	1.92 (0.04)
Bhutan	NA (0.04)	0.02 (0.05)	0.00 (0.04)	0.02 (0.04)	0.03 (0.01)	0.04 (0.03)	0.07 (0.09)	0.05 (0.09)	0.04 (0.06)	0.04 (0.01)	0.01 (0.01)
Maldives	NA (NA)	0.06 (0.00)	0.02 (0.00)	0.02 (0.00)	0.03 (0.00)	0.02 (0.00)	0.03 (0.00)	0.05 (0.00)	0.06 (0.00)	0.04 (0.00)	0.04 (0.00)
Nepal	0.57 (0.46)	0.49 (0.69)	0.41 (0.50)	0.41 (0.38)	0.37 (0.34)	0.49 (0.23)	0.50 (0.16)	0.50 (0.13)	0.46 (0.13)	0.44 (0.12)	0.39 (0.11)
Pakistan	0.39 (0.07)	0.03 (0.13)	0.25 (0.13)	0.25 (0.14)	0.32 (0.51)	0.41 (0.11)	0.47 (0.09)	0.24 (0.12)	0.22 (0.18)	0.29 (0.19)	0.27 (0.59)
Sri Lanka	1.76 (0.15)	1.44 (0.13)	1.36 (0.09)	1.36 (0.09)	1.32 (0.09)	1.40 (0.07)	1.43 (0.12)	1.26 (0.11)	1.39 (0.11)	1.30 (0.09)	1.34 (0.06)
SAARC	4.82 (0.81)	4.62 (1.11)	3.79 (0.92)	3.79 (0.80)	5.05 (1.10)	4.60 (0.56)	5.08 (0.62)	5.41 (0.70)	4.61 (0.62)	4.04 (0.49)	3.97 (0.81)

Source: ET, 12.01.04

Debate: Is India really shining?

India appears poised on the threshold of a new economic revolution. Or so it is being made to believe by the rest of the world. But it will take a lot more than mere optimism to pull off the Indian dream. What should be our priorities?

Three cheers for a year of stunning statistics and a bubbly spirit. But, I warn against complacency and against under-estimating the menacing divides that are raising their hydra heads. Yes, India reached the top position in the world in prevalence of foreign technology licensing where China stood 54th in the Global Competitiveness Report. We stood 2nd in technology transfer sub index when China stood 29th. And not surprisingly, India stood 2nd in the world on availability of scientists and engineers while China stood 64th. The euphoria over 'BRIC', which predicts that India may overtake Japan's economy by the year 2032, is reaching a crescendo. But we must not lose sight of the unfinished agenda of reforms and the emerging threat of a growing pool of unemployed.

Yes, we are adding 100,000 IT professionals each year, 300,000 engineering graduates and 450,000 science graduates. While we have reached the critical mass of quality human capital at the upper ends of the spectrum, the entire lower end remains vulnerable and could threaten the fabric of our great democracy. This dangerous human capital divide must be bridged at a war footing and now, or else, we will permanently lose the unique advantage of having the youngest population in the world today. The gigantic force of productivity of our youth across stratas could be lost forever.

The most serious challenge of the next five years lies dormant in the statistics of the 'Tenth Five-Year Plan'. While the economically active population in India grew from 31.1 million in the 1950s to 83.5 million in the 1990s, the number of unemployed reached the staggering figure of 34.85 million in 2002 and is expected to climb to 40.47 million in 2007. Even the employment elasticity in India has fallen from 0.52 during 1983-94 to 0.16 during 1993-2000.

The tenth plan document ominously states that growth of employment during the plan period will be inadequate even to meet the additional numbers joining the labour force and far too short to meet the backlog of employment. Thus, the political leadership must focus deeply on strategic repositioning of our reforms agenda to meet this major employment challenge.

FICCI has coined an acronym called LITPIT: labour reforms (L), infrastructure (I), lowering of transaction costs a'la inspector raj (T), power (P), interest rate (I) and heavy indirect tax burden of 33-44 percent (T). All these need to be urgently addressed in the year 2004.

Amit Mitra
Secretary-General, FICCI

As I look to 2004, I think the Indian dream is tantalisingly within reach. The most important ingredient to keep the momentum going is to believe in us and display the political will and leadership to reach our goals.

What propels the feel-good factor is real performance on many fronts – an economy that is getting free of government micro-management, low interest rates, modest inflation, a confident and educated middle-class and a raring-to-go industry that is prepared to take on the world.

While agriculture remains static and in need of infrastructure and policy reforms, the manufacturing sector continues to fuel India's growth, having emerged competitive post an era of reengineering, research and development (R&D) and innovation efforts. The main contributors have been automobiles, steel and cement. The much talked about services sector though remains the prime driver of the economic euphoria – consistently maintaining high growth rates. The boom in telecommunication, financial services, IT and tourism has primarily led this.

First, there is need to break out of bureaucratic and ideological constraints that shackle growth. Political ideology evidently does not partner well with the reform agenda. Throw in the complexities of coalition politics prone to defections and splits and the anti-incumbency factor, and it is increasingly difficult to maintain cohesion and unity on ideology alone. The only undisputed election plank is the economic agenda.

The feel-good factor is clearly palpable in the Indian villages too and progress can be measured for example, in the national highway projects that are visibly linking India's corners, the new airports, schools and hospitals. Rural India, on its part, is holding its elected officials responsible for basic resources needed for a decent standard of living. Having tasted the tangible benefits of development, the polity will certainly cause a bottom-up ideological shift accelerating the development agenda.

The basic purpose of development is to enlarge people's choices and enable all to lead long and healthy lives, to be knowledgeable, to have access to the resources needed for a decent standard of living and to be able to participate in the community. We need more initiatives such as making education compulsory and providing mid-day meals, which has successfully boosted literacy levels. Education will remain the indispensable spur to higher employment, technological innovation, social change, and improved productivity – all key imperatives for sustained economic prosperity.

Rajeev Bakshi
Chairman, PepsiCo India

Indians have good reasons to feel confident. Our economy has grown 5.9 percent per year since 1980, making it the fifth fastest growing major economy in the world over a 23-year period.

We may be well behind China, but remember that the West created its industrial revolution at a 3 percent growth rate over 100 years. More recently, our population growth has begun to slow, and in 1998 it was down to 1.7 percent compared to its historic 2.2 percent growth rate.

Literacy has also begun to climb — it reached 65 percent in 2000 compared to 52 percent in 1990, with the biggest gains taking place among women and the backward states.

More than 200 million Indians have risen out of destitution since 1980 as the poverty ratio has declined to 26 percent. And we may have finally found our competitive advantage in our booming software and IT services. Finally, all this has happened amidst the most appalling governance. Imagine, what might happen if governance improved.

Our national weakness is governance. We have to recognise that our past failures were less due to ideology and more due to poor management. Hence, we have to focus more on the reform of our institutions than on policies. This is a much tougher job. India Shining will have a hollow ring unless we sustain vigorous reform of our institutions, including the control of our disgraceful fiscal deficit.

To India's entire political class, Brutus' famous words in "Julius Caesar" (about "a tide in the affairs of men") should be a timely warning: That we stand at a crucial moment in our history when the stars appear to be on our side. If we do not seize the moment and improve our governance and accelerate the reforms, then history will not forgive us.

Gurucharan Das
Former CEO, Procter & Gamble

ET, 30.12.03

Public Enterprise Reforms: A Success Story in Andhra Pradesh

Background

The Government of Andhra Pradesh (GoAP) has committed itself to a policy of economic reforms and liberalisation with a view to ensuring a high rate of economic growth and improvement in quality of life for its citizens. As a part of this process, GoAP intends to withdraw from sectors best operated by the private sector while retaining its responsibility as a prudent regulator to ensure social equity and fair competition in the new circumstances. Public enterprise reforms have been central to the good governance agenda of Andhra Pradesh.

Efforts before 1999

The history of reforms of public sector enterprises in Andhra Pradesh started with the process of restructuring and divestiture of manufacturing enterprises, which can be traced back to mid-eighties. In 1989, the Government privatised Allwyn Nissan to Mahindras and in 1994, the Refrigerator Division of Hyderabad Allwyn Ltd. was privatised to Voltas Ltd., followed by Hindupur sugar unit of Nizam Sugar Ltd. in 1998. These efforts at privatisation were, however, in the nature of ad-hoc decisions and not a part of deliberate policy of the State.

The Initiative Since 1999

The State Government launched the public enterprise reform (PE reform) programme in 1998-99. Main rationale was to reduce government support to inefficient loss making state level public enterprises (SLPEs), which were diverting scarce resources away from government's health and education budgets and undermining future prosperity of the citizens of Andhra Pradesh. GoAP seeks to achieve the following objectives by public sector reforms:

- Foster sustainable economic and social development and a competitive market economy that encourages investment, employment and trade;
- Rationalise government's investments in public enterprises and restrict it to areas in which government's intervention is needed;
- Increase ownership, management and control of economic activities by the private sector;
- Bring in modern technology, management practices, accountability and private investment for value addition;
- Utilise resources released by privatisation for poverty alleviation, education, health, and development of infrastructure and technology; and
- Promote effective corporate governance, autonomy and accountability in those limited number of enterprises in which government would retain an interest.

Implementation Arrangement

To implement the public enterprise reform policies and decisions effectively, GoAP established an Implementation Secretariat in the Department of Public Enterprises. The Implementation Secretariat is an autonomous body, which plans and recommends the strategy for reform programmes to the cabinet sub-committee and implements the same once the strategy is approved. The mandate given to the Secretariat is to ensure a transparent and fair process to strategise and implement public enterprise reforms in the state.

In order to give requisite thrust to the programme of public enterprise reforms and privatisation, the state government included PE reform as one of the components of the Andhra Pradesh Economic Restructuring Project (APERP) funded by the World Bank. The Department for International Development (DfID), UK also provided parallel finance for technical assistance to strengthen the institutional framework in public enterprises' department and also to design and implement the Social Safety Net Programme (SSNP) to minimise the social impact on the workers affected by the Reform Action Plan.

With a view to elicit public opinion, a draft strategy paper was prepared and released to the public in January 2001. The draft strategy paper was the result of wide consultations with managing directors of state level public enterprises and cooperatives, and administrative secretaries concerned. The paper was discussed both at district level and state level workshops. To enable wide participation of various trade union leaders, an exclusive meeting was organised in February 2001.

The Result

The State Government is implementing PE reforms in phases. In the first phase, 19 small and medium size public sector enterprises were identified for restructuring, downsizing, privatisation or closure. Under Phase-II action plan, 68 enterprises are slated for restructuring.

Ever since 1998-99, when the reform programme began, till February 2004, a total of 54 units have been either privatised, restructured or closed. Of these 54 units, 11 enterprises have been privatised, 22 have been closed down, downsizing the staff has restructured 12 units, and the GoAP has divested its stake in 9 units.

Fiscal gains

Fiscal impact analysis study of 41 enterprises included in Phase I and II of PE reforms reveals the following:

- Government to save nearly Rs. 1282 crores after netting off the cost related to voluntary retirement scheme (VRS), debt repayments etc., averaging Rs. 256.4 crores per annum.
- Nearly Rs. 50 crores would be saved annually, which GoAP infuses in Nizam Sugars Ltd., through inter corporate loans.
- State's commitment for the guarantees estimated to be issued during the five-year period (2001-02 to 2005-06) to the extent of Rs. 608 crores (Rs. 486 crores at discounted value) would also be saved.

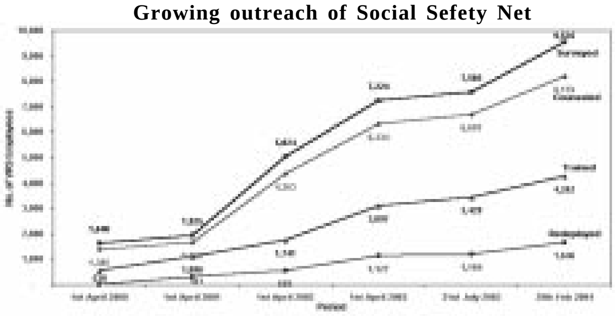
Reforms with a Human Face

Any reform programme is almost always a painful process. This is particularly so in the case of public enterprises. The enterprise reform programme entails job losses bringing in its wake trauma for the employees. In order to mitigate this social impact, the state government evolved a VRS and special compensation package (SCP), which provides for an attractive severance package and SSNP. The government's approach has been to ensure that interests of all stakeholders viz. employees, suppliers and consumers are protected with minimum adverse impacts.

Voluntary Retirement Scheme

Number of employees availed VRS (up to Feb'04):	---	22,228
Amount disbursed under VRS	---	Rs. 321.39 Crores
Employee's availed SSNP facility (up to Feb'04):		
Employees counselled	---	8176
Employees trained	---	4262
Employees redeployed	---	1646

Growing outreach of Social Sefety Net



GoAP has undertaken a social safety net programme with a view to enhance the skill sets of the workforce that has been relieved from employment through VRS. SSNP provides hope for the future for unemployed workers through skill improvement and/or orientation for self-employment. SSNP also does liaison, interface and collaborates with government and non-government agencies for redeployment of the VRS workforce.

Key Factors of the PE Reforms

If the savings generated through privatisation, closure and/or restructuring is one big success story, so is the manner in which it has been achieved against all odds. Ever since 1998-99, when the reform programme began, till date a total of 54 units have been privatised, restructured or closed. This achievement has brought Andhra Pradesh under sharp focus and attention of almost every other state government mainly on account of two reasons: one for the results and another for the creation of a credible disinvestment process that others want to emulate. Among the key success factors are:

***Strategy*:** The process of divestment needs to be packaged in a form that not only silences opposition but also brings in support from stakeholders. The Implementation Secretariat first put on the block the sugar mills. Initial resistance to the process disappeared the moment farmers began to get prompt payment and a higher price from the new and more professional management. Thus, the choice of enterprises to begin the process should be those that turnaround fast and generate support from the stakeholders. Once the process gets accepted, pushing through otherwise difficult cases becomes a lot easier.

***Transparent Process*:** A major threat to the disinvestment process is litigation. To avoid this, a transparent process, which infuses confidence in the system, is a pre-requisite. GoAP is committed to ensuring that there is full public disclosure of information regarding privatisation in AP. The Implementation Secretariat issues regular reports on its activities and the results of privatisation programme so as to keep the stakeholders informed.

***Generate Competition*:** The Implementation Secretariat took care to generate competition among the bidders. But for this, it could not have got Rs. 124 per share for its stake in Godavari Fertilisers Ltd. It also managed to sell four units of Nizam Sugar located in Naxalite-infested areas for Rs. 65 crores, though initial bids were as low as Rs. 17 crores. Leveraging competition did all this.

***Political Will*:** GoAP is committed to PE reforms. Despite initial stiff resistance and incurring the wrath and anger of the unions, employees and different sections of the people, the state government started the process of privatisation of unproductive and unwieldy public sector units. Now a stage has arrived when the privatisation programme in Andhra Pradesh is being widely praised and is being looked upon as a model worth emulating. The programme has received attention throughout India, and won accolades from international agencies for its success, fairness and transparency.

An achievement that is smoothening the progress is the near consensus that there is no alternative to reforming the highly inefficient public sector, which is gobbling up scarce resources that can otherwise be gainfully deployed in social sectors and used for employment generation programmes. The units that have been privatised are doing well and have mostly turned around.

Restructuring of Hanuman Junction Sugars and Adilabad Spinning Mills

Hanuman Junction Cooperative Sugar Mill

- Commenced in 1983 with a crushing capacity of 1250 tonnes cane crushed per day (TCD).
- Performance of the mill unsatisfactory from the inception due to poor capacity utilisation, low recovery and high cost of production.
- Accumulated losses of Rs. 23.45 crores as on March 31, 2001.
- Taken over by Delta Sugars Limited in September 2001 for Rs. 11.40 crores.
- Crushing capacity enhanced to 1800 TCD from 1250 TCD.
- Recovery rate of sugar from cane reached 10 percent as against the previous figure of 8.9 percent during government ownership.
- Improved work efficiency resulted in cane crushing of 2.31 lakh tonnes in 2002-03.
- Benefit to farmers: cane price now paid at the rate of Rs. 868/ton of sugarcane supplied as compared to Rs. 738/ton earlier and payment within 14 days' period.
- 250 of the 337 employees have been re-employed. Retraining provided to 87 workers who took VRS under the Social Safety Net Programme.
- Employment opportunities for over 10,000 transport operators engaged in transporting cane to the sugar mill.
- Sugarcane area increased by about five times to 14,500 hectares from 3,000 hectares.
- GoAP has earned more than Rs. 2.5 crores in the form of revenue and taxes since the privatisation of the mill.

Adilabad Cooperative Spinning Mill

- Established in 1980 under the cooperative sector with a capacity of 25,088 spindles.
- Closed down in 1999 owing to increasing losses and unviability.
- Accumulated losses amounting to Rs. 327 lakhs as on 31st March 1991 as against the total paid-up share capital of Rs. 208.40 lakhs.
- All 682 employees provided VRS.
- Privatised and handed over to Sri Astalaxmi Spinning Mills in October 2001 for a sale consideration of Rs. 4.54 crores.
- New owners made an investment of Rs. 7.5 crores for revival of the unit.
- Attained 85 percent capacity utilisation and diversified into a range of products.
- Revived employment opportunities for over 700 workers including 150 from the erstwhile workforce. 250 women employees recruited for the first time.
- 218 ex-employees who availed VRS provided training in seven different skill disciplines to ensure redeployment.
- Contributed more than Rs. 3.54 crores to the revenues of the government.
- New management exploring low-cost financing options for increasing production and introducing latest technology.

Institutional Independence

Professional Education in India: The Question of Autonomy

Certain incidents in recent memory such as the issues of IIMs' fee-cut or the proposed merger of Infrastructure Development Finance Corporation (IDFC) with State Bank of India (SBI), raise eyebrows towards the government's commitment to preserving institutional autonomy. In this section, we take up the topic of institutional autonomy by providing information specifically on the IIMs' fee-cut issue. Certain questions for discussion are raised at the end. Readers are invited to send their comments and suggestions.

Introduction

Indian Institutes of Management (IIMs) are the premier management schools of India, located in the cities of Ahmedabad (IIMA), Bangalore (IIMB), Indore (IIMI), Kolkata (IIMC), Kozhikode (IIMK) and Lucknow (IIML). They award post-graduate diplomas in management (PGDM) with various specializations.

The Government of India, Ministry of Human Resources and Development (MHRD) in collaboration with the respective state governments and the Indian industry established IIMs as autonomous institutions. The institutes are registered as a society with a Board of Governors to oversee their functioning. The Board has representatives from the Government of India and respective state governments, the IIM society, the IIM faculty and the industry.

Key Facts

India produces about a third of the world's output of MBAs through 950 B-schools with an annual output of over 75,000 graduates in management.

The fees for a two-year postgraduate programme in IIMs has increased from Rs. 3,000 in 1983 to Rs.30,000 in 1993, and to Rs.1.5 lakhs in 2003.

Data for the past two decades shows almost no change in the family background of IIM students, with around 20 percent coming from low-income families, around 60 from middle-income families and about 20 from high-income families. Some students take education loans to finance their studies. The average starting salary has gone up from Rs. 75,000 for the 1991-93 batch to Rs. 7.0 lakhs for the 2001-03 batch.

A quick look at IIM seats shows that between 1997-98 and 2002-03, the number of seats at IIMA rose from 192 to 350; at IIMB from 200 to 310; at IIML from 187 to 240; at IIMK it quadrupled to 126, whereas a new institute IIMI was created with 114 seats.

What the Ministry says:

It needs to be emphasised that for both MHRD and IIMs, the issue is not whether IIM education should be accessible to poor students. On that, both are agreed. The debate is about whether such accessibility should be through low fees or through loans/scholarships. The MHRD is insistent that it has to be through fees.

The ministry says that the decision to reduce fee is accompanied by a move to double seats, which will make top managers available to the nation. The ministry argues that the reduction in fees is necessary because publicly funded institutions have to provide a benchmark for privately funded institutions. The government is basing its argument on the recommendation of the UR Rao Committee report. However, it should be noted that the committee referred only to institutions governed by the All India Council for Technical Education (AICTE) and not IIMs and IITs. For AICTE governed institutions, it said the fee should be between Rs. 20,000 and Rs. 40,000.

MHRD is of the opinion that the premier institutes take up more research and consultancy projects to augment income and look beyond the corporate sector to produce social managers.

Current Controversy

MHRD Proposes	*IIMs Counter*
Reduce the fee for IIM students to Rs. 30,000 a year, same as that of IIT students	Cost to society of producing an IIM student is Rs. 3 lakh, that of IIT student is Rs. 1.5 lakh
IIM faculty should teach for the global average of 12 hours a week, not three hours	IIM teachers also spend five hours on administration besides 44 hours of other work
Raise teacher-student ratio to 1:10. IIMs are overstaffed with as many employees as students	Most IIMs have implemented voluntary and continuous downsizing since 1992
Top-class management education should be available to all at affordable rates	Education loans and scholarships are already taking care of this. Students who take loans to study at the IIMs pay it back within two years

Likely Implications of Implementing Ministry's Decision

The implication of MHRD stand would be that about 3000 students in the six IIMs would have to pay Rs. 30,000 a year though the expenditure per student is at least Rs. 3.0 lakhs. The fee reduction for IIMs will cost the exchequer Rs. 110 crores a year. The ministry has promised to make up for any income shortfall with government grants, whereas the fact is that allocations of non-plan grants, the main resources of IIMs have come down by around 50 percent over the last two years.

The decision would also imply that the ministry's control would extend to deciding the number of teaching hours, the teacher-student ratio and a common admission test and the administering authority.

IIMs stand:

The IIMA board decided to maintain the status quo with regard to fees and enter into a dialogue with the MHRD to find an amicable solution to the fees and autonomy issues. IIMA also filed an affidavit before the Supreme Court opposing the "unilateral" decision of the MHRD to reduce fees. IIMA maintained that the fee cut imposed by the ministry was in violation of the time-honoured process of deciding fees by the board of governors of the institute. IIMB also submitted an affidavit objecting to the fee cut directive.

In case of IIMC, whereas the chairman of the board of governors agreed to a fee-cut with certain caveats, the faculty at IIMC got enraged at this decision and questioned the legality of this decision. The faculty council of IIMC also moved an application of impleadment at the Supreme Court.

IIML, IIMK and IIMI have officially accepted the MHRD's order on fee cut.

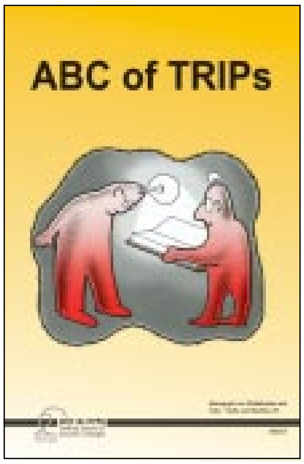
Issues for Discussion

- Is the MHRD justified in subsidising higher education?
- Given the availability of education loans and an average starting salary of Rs.7.0 lakhs, does the issue of affordability really arise?
- Is the ministry justified in proposing that IIM teachers should conform to the global average of 12 hours of teaching every week?
- Is fee the most important issue facing IIMs or the government? Are there any other more important issues?
- With the emergence of a large number of private B-schools, is there a need to create an independent regulator/watchdog for these institutes?

(Compiled from India Today 23.02.04; news clippings from ET, FE, BL, ToI, IE between Jan – May, 2004)

__Monograph__

The ABC of TRIPs



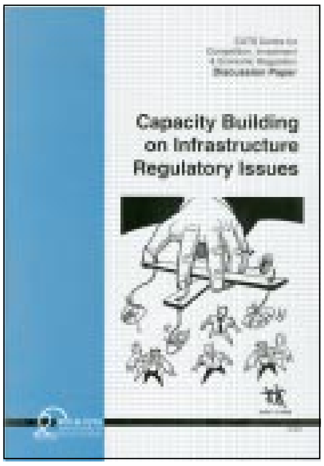
The ABC of TRIPs is a booklet on the Agreement on Trade-Related Intellectual Property Rights (TRIPs), a new accord, which came along with the World Trade Organisation (WTO) in 1995. Intellectual Property Rights (IPRs) were never a part of the General Agreement on Tarrifs and Trade (GATT) and business interests pushed this agreement

Intellectual property (IP) is a type of "intangible" property comprising of rights in inventive and creative work, traditional knowledge (such as music, dance, medicinal properties of plants) and works that are used to distinguish goods and services in the market place. Intellectual property Rights (IPRs) are rights awarded by the society to individuals or organisations over these creative and inventive works. They specify a time period during which others may not copy the innovator's idea, allowing him or her to commercialise it and recover any investment on research and development.

This monograph gives a brief history of the TRIPs Agreement and also outlines the conventions and treaties that are in place. The aim of this monograph is to explain in simplest of words the structure and implications of the TRIPs agreement, especially for developing countries. It also addresses the question of patenting life forms. *(Suggested Contribution: Rs. 50/US$10)*

__Discussion Paper__

Capacity Building on Infrastructure Regulatory Issues



With the opening up of the Indian economy in 1991, it was felt that regulation in the newly privatised sectors was crucial to ensure a level playing field for the new entrants and also to curb monopolistic practices. For, without a regulatory mechanism in place, the very objectives for which economic decontrol was sought in the first place may have been negated. For the regulatory authority to be able to carry out its tasks in a desirable manner, it will be essential that it possess the required base to perform various functions. This calls for capacity building of personnel, who will man the regulatory body. The capacity of any institution to manage internal system is crucial to its taking forward its objectives and aims. Without the required capacity and skill the regulatory mechanism will degenerate.

The role of civil society is critical in shaping regulatory capacity. It helps in resource mobilisation and experience sharing, which in turn, helps regulatory agencies to form a strong platform from where they can build further. This document is intended to kick-start debate among the stakeholders – Government, regulatory bodies and civil society – to catalyse an appropriate regulatory environment in India. *(Suggested Contribution: Rs. 100/US$25)*

Towards a Functional Competition Policy for India (FunComp)

Competition policy is an integral part of economic policy. Sadly enough India does not have a competition policy but only a competition law first in the form of the Monopolies and Restrictive Trade Practices (MRTP) Act, 1969 and now the recently enacted Competition Act, 2002. Concerns have been expressed that a lack of awareness about competition policy, and the nature and extent of prevalence of different types of anti-competitive practices in India will pose a major challenge.

Against this backdrop, CUTS has undertaken the Functional Competition Policy Project (the FunComp Project) as an attempt to fill this gap and help the Government of India to come up with a Competition Policy that would be 'implementable' as against one that is 'ideal'. The report, to be prepared in six months time will be in the form of a discussion paper, which would highlight the issues that could lay out a road map for further research in future.

In order to implement the project, CUTS has engaged various experts in the area, who have been brought under an informal body called the national consultation group (NCG). The Steering Committee of the project consists of renowned experts from academia, media and government officials. Twenty-two chapters/topics have been identified as the proposed structure of the report covering competition policy scenario in India as a whole as well as in select sectors. Select experts from NCG have been assigned the task of writing the chapters.

A brainstorming meeting was held in March 2004 at New Delhi to discuss the proposed topics and exchange views of experts. A discussion group by the name of FUNCOMP has also been created to enable interaction among the members of NCG and to generate meaningful discussions. Presently, chapter writing is on. Writers have been asked to submit the first draft of their chapters by June-end. These would be forwarded to anonymous referees for quality control. Writers will finalize the chapters after incorporating comments and suggestion received from referees and other members of NCG.

The project report will be published as an edited volume and is expected to be released in October 2004 at New Delhi at a national level conference. The findings from the project will be used to generate awareness on competition issues in the country. Road shows (a series of meetings) are planned in select cities in November 2004 for wider dissemination and outreach.

SOURCES

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

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

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