

CUTS IN ACTION

25 years
1983 2008
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July-September 2008

Should There Be a Cap on Credit Card Interest Rates?



While the whole world is reeling under unprecedented financial crises, a small incident which concerns most of us may have gone unnoticed. It is about what banks can charge as interest on credit card outstandings. The issue has been raised with a recent

order of the National Consumer Disputes Redressal Commission (NCDRC) against some credit card issuing banks, such as Citibank, HSBC etc., which says that there should be a cap of 30 percent.

The defendant banks have gone to the Supreme Court in appeal claiming that capping of interest rates on credit card payments is contrary to Reserve Bank of India (RBI) policy. It has been pointed out by them that the central bank has allowed banks to prescribe their own respective ceiling rates of interest in respect of small value personal loans, which would apply to credit card dues as well.

The usual interest rate is high enough but where card holders 'revolve' credit or pay the 'minimum amount' the interest is about four times more than that on housing loans. Why? Credit cards have become a vehicle for credit expansion at extremely attractive rates for the card issuers. The card users are first lured to spend money, which they can not repay due to exorbitant rate of interest that leads them into a debt trap. Later they are encouraged to convert the outstanding into a loan. The banks do so to avoid an increase to their non performing assets, which dent their balance sheets.

Lately, industry-level delinquency has been on the rise primarily because of the high interest rates. It has been reported that India's outstanding credit card debt had touched Rs 26,500 crore in May 2008, up by 87 percent from May 2007. It has also been estimated that the default rates may increase to 9.5 percent over the next two years from 7.5 percent currently.

The RBI, however, continues to hold the view that credit cards are basically a 'payment facility' and refuses to change its stand. This interpretation is over simplistic for the very purpose of a credit card is to provide credit. 'The Credit Information Companies (Regulation) Bill, 2005' clearly categorises credit card



users as 'borrowers' as do many consumer credit regulations across the world. In the case currently before the Supreme Court, the main argument of even the defendant banks is based on the fact that they treat credit card outstandings as 'small value personal loans.'

Smaller developing countries, such as Thailand had prescribed a universal cap of 18 percent as being chargeable on credit cards many years back. The minimum monthly salary requirements for credit card holders were also raised there. In South Korea too, the interest rates and quantum of advances are regulated in addition to regulations on operations and pricing.

We believe that the order of the NCDRC restraining banks from charging interest rates in excess of 30 percent is also not good. Banks should charge interest as applicable to an unsecured advance.

CUTS has been trying to convince RBI to direct banks to charge a reasonable rate of interest on credit cards for over five years now by citing examples from around the world. We hope our readers can join us in this campaign.

Pradeep S. Mehta

Pradeep S Mehta, Secretary General

Silver Jubilee Celebrations

Global Partnership for Development

CUTS, in partnership with Federation of Indian Chambers of Commerce and Industry of India (FICCI), organised a Conference, 'Global Partnership for Development: Where Do We Stand and Where to Go?', in New Delhi, on August 12-13, 2008.



Luminaries like Kamal Nath, Commerce and Industry Minister of India, trade ministers of several developing countries, heads of the World Trade Organisation (WTO) and the United Nations Conference on Trade and Development (UNCTAD) and other dignitaries from developing and developed world graced the occasion.

The panellists discussed the current state of play in the Doha Round and Millennium Development Goal (MDG-8), which need to be addressed to achieve a meaningful global partnership for development. More than 150 participants representing governments, civil society, business, media and academicians participated in the event.

<http://www.cuts-international.org/MDG-8/index.htm>

Ensuring Good Governance

In Jaipur, a 'Grassroots Change Makers Assembly' was organised on August 18, 2008 to deliberate the 'Role of Civil Society in Good Governance'. Community-based Organisations (CBOs) and NGOs, development professionals representing various sectors and areas took part in the event.

Lauding CUTS for making rural populace aware of and empowered with through 'Gram Gadar' Sumitra Singh, Speaker, Rajasthan State Legislative Assembly, pointed out the significance and prime role of civil society organisations (CSOs) in ensuring "good governance".

http://www.cuts-international.org/pdf/Event_report_Aug18,08.pdf

CUTS@WTO Forum

CUTS, in collaboration with the Commonwealth Secretariat and the Evian Group and Friedrich Ebert Stiftung, organised two sessions entitled, 'The Missing Link between Trade Openness and Poverty Reduction: The Role of the Multilateral Trading System', and 'What Future for Global Economic Governance: Potential Role of the WTO', at the WTO Public Forum in Geneva, on September 24-25, 2008.

The objectives of the sessions were to identify the feasibility role of trade liberalisation under the WTO regime for poverty alleviation and formulate recommendations for making global economic governance effective for development.

Assessing NREGS

CUTS Centre for Consumer Action, Research and Training (CUTS CART), in partnership with the World Bank, organised a State Level Dissemination Meeting under the project 'Assessing 2Qs (Quality and Quantity) Outputs of the National Rural Employment Guarantee Scheme (NREGS)', in Jaipur, on July 16, 2008.

The overall objective of the meeting was to propagate the

effectiveness of Social Accountability tools and share the key findings of the assessment among policy makers, in order to improve service delivery.

<http://www.cuts-international.org/pdf/Event-Report-SLDM-Jaipur-16July08.pdf>

Making Grassroots Aware

CUTS Calcutta Resource Centre (CUTS CRC) with the support of the Royal Norwegian Embassy, New Delhi, organised a State Level Advocacy Workshop under the project entitled, 'Mainstreaming International Trade and National Development Strategy in India' in Kolkata, on July 05, 2008.

The main objective of the workshop was to make the grassroots stakeholders aware of various aspects of international trade and its probable impact on the agricultural sector.

Growth via Competition

CUTS, in association with the International Network of Civil Society on Competition (INCSOC), organised a seminar entitled, "Enhancing Development through a Competition Culture", in New Delhi, on August 14, 2008.

The seminar provided CSOs, business associations and legal fraternity an opportunity to get acquainted with new approaches developed by the international competition community to help enhance understanding on competition issues.

On this occasion, a CUTS publication, 'Enforcing Competition Law in India: A Toolkit' was also released by Amitabh Kumar, Director General, Competition Commission of India (CCI).

<http://www.incsoc.net/past-event.htm#event01>

African Trade Strategy

CUTS Africa Resource Centre (CUTS ARC), Lusaka, and FES Kenya organised a two-day regional conference on 'Joining Forces in the Global Trading Arena – Formulating African Trade Strategy', on July 24-25, 2008.

The main objective of the conference was to discuss and provide the modalities for formulating a joint African Trade Strategy (ATS) that can further Africa's integration and its beneficial interaction with the rest of the world trading economy.

Monitoring MDGs Progress

George Cheriyan of CUTS CART attended a 'National Consultation on Local Monitoring of MDGs', organised by the United Nations Development Programme (UNDP) and Participatory Research in Asia (PRIA) in New Delhi, on September 29-30, 2008.

The purpose of the consultation was to examine the existing methodologies of citizen and civil society engagement in drawing a practical approach to prepare a composite framework for monitoring MDGs progress at the below-state level.

Right to Food Network

Angela Mwape Mulenga of CUTS ARC attended a regional Conference on the 'Right to Food and Voluntary Guidelines', organised by an NGO, United Sisters at work, with the support of Food First Information & Action Network (FIAN) International

and Bread for the World (Pain Pour le Monde), in Cotonou, on July 09-11, 2008.

The objective of the conference was to launch the 'Right to Food Network' in Africa and establish a network that would help a permanent and continuous dialogue among human rights activists.

Tools for Policy Analysis

Purnima Purohit of CUTS Centre for International Trade, Economics & Environment (CUTS CITEE) participated in a 'South Asian Training Programme on Computable General Equilibrium (CGE) Modelling', jointly organised by the South Asia Watch on Trade, Economics and Environment (SAWTEE), Nepal, and South Asian Network on Economic Modelling (SANEM), Bangladesh, in Kathmandu on July 14-18, 2008.

The workshop provided an introduction to applied (numerical)

general equilibrium models constructed using General Algebraic Modelling System (GAMS). It targeted young researchers in South Asia to introduce the tools for policy analysis, with the help of real data and use of numerical modelling for simulation analysis of theoretical models.

Inclusive Globalisation

Bipul Chatterjee of CUTS CITEE attended the first Geneva Trade and Development Forum, organised by the Geneva-based IDEAS Centre, in Crans-Montana, during September 17-20, 2008.

The objective of this Forum was to deliberate on various issues relating to inclusive globalisation. Bipul was a part of three working groups: agriculture and food security, trade in services and trade facilitation for small and medium-sized enterprises (SMEs).



SHORT CUTS

- Rajesh Kumar of CUTS Centre for Competition, Investment and Economic Regulation (CUTS C-CIER) participated in the Public Hearing on 'Measures for Restraining the Prices of Electricity in Short Term Sale/Trading', organised by the Central Electricity Regulatory Commission, in New Delhi, on September 29, 2008.
- Victor Ogalo and Daniel Okendo of CUTS, Nairobi attended an 'ISO National Workshop on Consumer Involvement in Standardisation', organised by the Kenya Bureau of Standards (KEBS), in collaboration with Consumer Information Network (CIN), on September 22-23, 2008.
- Amit Chowdhury, Madan Lal Keer, Neetu Joshi and Madan Giri Goswami of CUTS Centre for Human Development (CUTS CHD) attended a training programme on 'Inclusive Quality Education', organised by Save the Children in Jaipur, during August 25-29, 2008.
- Anutosh Biswas of CUTS CITEE attended a training programme on 'Monitoring and Evaluation of Development Projects' organised by International Resources for Fairer Trade (IRFT), Mumbai in Bangalore, on August 04-07, 2008.
- Jayeeta Sarkar and Selina Kabir of CUTS Calcutta Resource Centre (CUTS CRC) attended a Workshop on 'Opportunities and Challenges of Geographical Indications (GI) Protection' in Kolkata, on July 25, 2008.
- Gideon Rabinowitz of CUTS, London attended a Commonwealth Secretariat meeting in London on July 25, 2008, to review their recent and future work on trade policy.
- Atul Kaushik of CUTS, Geneva attended the conference entitled 'What's on the Table? Putting Fair Value on the Doha Round', organised by the German Marshall Fund (GMF) of the US, in collaboration with the Centre for Trade and Economic Integration (CTEI) and the Graduate Institute, Geneva (HEI) in Geneva, on July 24, 2008.
- Dharmendra Chaturvedi and Amar Deep Singh of CUTS CART attended a 'State Level Capacity Building Workshop for NGO Personnel on Tobacco Control', organised by the Rajasthan Cancer Foundation with the support of Health-related Information Dissemination Amongst Youth (HRIDAY) in Jaipur, on July 19, 2008.
- Siddhartha Mitra of CUTS participated at the CESifo Venice Summer Institute workshop on 'Reforming Rules and Regulations: Laws, Institutions and Enforcement' in Venice on July 18-19, 2008. He made a presentation on '*How Vital Is Regulatory Independence: The Telecom Sector in Developing Countries*'.
- Pradeep S Mehta of CUTS attended the ninth session of the Inter-governmental Group of Experts on Competition Law and Policy in Geneva, on July 15-18, 2008.
- Mehta of CUTS made a presentation on '*Competition Policy: Institutions and Procedures*', at the 'Third European Conference on Competition and Regulation' in Greece, on July 04-05, 2008.

CUTS Now at Geneva

CUTS Geneva Resource Centre (CUTS GRC) was inaugurated by Valentine S Rugwabiza, Deputy Director General, WTO, on July 16, 2008. Addressing the gathering, she stated that inauguration of the Centre as a pro-trade, pro-consumer and, most importantly, pro-development organisation, is a truly good news for the WTO and the trade and development community of Geneva.

Lakshmi Puri, Acting Deputy Secretary General of UNCTAD highlighted UNCTAD's long and fruitful relationship with CUTS whereas Pradeep S Mehta took the participants through the difficult but revealing periods that CUTS has passed all along – from its inception in 1983 to its present role of an international, credible



L to R: Valentine Rugwabiza, Pradeep S. Mehta and Lakshmi Puri at the launch meeting

southern organisation – and called the inauguration of CUTS GRC a dream come true.

The first initiative of CUTS GRC is the project entitled, 'Fostering Equity and Accountability in the Trading System (FEATS)', which was also launched on the occasion.

VISITORS

Name	Comments
Gopal K Pillai Commerce Secretary of India	A very good Initiative of CUTS. I wish them all success in this endeavour.
Ravi Bangar DPR, Indian Mission to the WTO	All the very best to CUTS on this initiative.
Roger Nellist, Deputy Head, Growth and Investment Group, Investment Climate Team Leader, DFID, London	As a close partner with DFID, we wish you all the very best for pursuing your important agendas in Geneva.
Buddhadeb Ghosh Economic Research Unit, India Statistical Institute 203, B T Road Calcutta	Without the informal invitation from CUTS, I would have missed such a wonderful NGO, where people asked questions which helped me to find answers which I pondered over decades in solving India's poverty, inequality and growth puzzle.
R S Ratna Professor, Centre for WTO Studies Indian Institute of Foreign Trade New Delhi	I have visited CUTS office and was pleasantly surprised to see the professional culture of work. Usually, it is very rare in the CSOs. The people here are knowledgeable and well-versed with the latest challenging issues. Its resource centres and the web-portal is one of the best. CITEE site is another excellent work done – all recent WTO, RTA and developmental issues and updates are available. I have also been enriched by their work and issue papers during my tenure in the Department of Commerce, Government of India in the past, and I am sure this will continue in my present posting as well.
M A Tashim Chief Executive Officer, Bangladesh Foreign Trade Institute, Dhaka	The scope and depth of the work of CUTS is simply breathtaking. I am looking forward to a long and productive association with CUTS.
Mohammad Ali Patwary Joint Secretary Ministry of Commerce Government of Bangladesh	On visiting CUTS office, I take this opportunity to say that this organisation is really a centre for excellence with regard to trade-related issues. I wish further glorious issues of the organisation.
Lichia Saner Yiu President, Diplomacy Dialogue, Centre for Socio-Eco-Nomic Development (CSEND), Geneva	25 years of hard work, in exchange for the opening of bureaucratic system, and 25 years of dedication brought about greater engagement of people in the process of making our societies more equitable and inclusive place for all. I wish CUTS and its members continued success and tangible achievements. I am glad that we could be a small part of the process.
Raymond Saner Director, Diplomacy Dialogue, CSEND, Geneva	CUTS, born in India, is unique because of subsequent hard work, commitment to quest for equity, professionalism, international partnership and intensity. I wish CUTS, its staff and founder many more years of growth, success and world citizenship.