

# Monthly Policy Review

May 2013

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## Highlights of this Issue

### [RBI cuts policy repo rate by 0.25% to 7.25% as inflation falls below 5% in April \(p. 2\)](#)

The Reserve Bank of India highlighted the high current account deficit, weak investment and re-emergence of inflation as risks to the economic outlook for 2013-14.

### [Standing Committee presents report on the Mines and Minerals Bill \(p. 3\)](#)

Recommendations included mandatory consultation with the gram sabha before granting a mineral concession, and that payment by coal miners to the District Mineral Foundation should be linked to royalty (not profits).

### [GoM approves setting up of coal regulator \(p. 4\)](#)

The Group of Ministers have agreed to set up a coal regulator and create a 'pass-through' mechanism for pricing of imported coal. The proposal is scheduled to be sent to the Cabinet.

### [Standing Committee submits report on the long term purchase policy of crude oil \(p. 5\)](#)

Recommendations included establishing a joint venture to import oil, diversifying import sources, shifting to term contracts and improving infrastructure at ports.

### [Government issues Ordinance amending the Indian Medical Council Act 1956 9 \(p. 5\)](#)

The Ordinance changes the composition, term and functions of the MCI, extends the term of the Board of Governors, and gives power to the centre to issue directions to the MCI on matters of policy and regulations.

### [Cabinet approves the National Urban Health Mission \(p. 6\)](#)

The Mission will focus on primary health care needs of the urban poor, facilitating equitable access to quality health care, revamping the primary public health care system, and involving community and urban local bodies.

### [Standing Committee submits report on issues related to paid news \(p. 6\)](#)

The Report dealt with some key issues that include the definition and identification of paid news, its implication on the electoral process, mechanisms to deal with the issue.

### [Public Accounts Committee submits report on fertiliser subsidy \(p. 7\)](#)

The PAC found that despite a huge expenditure on the subsidy, annual production of fertilisers increased only marginally. Findings included a huge gap between demand and supply and stagnation in urea production.

### [Cabinet expects new NBS subsidy rates to reduce P&K subsidy by 15% \(p. 8\)](#)

The Cabinet approved Nutrient Based Subsidy rates for Phosphatic and Potassic (P&K) fertilisers for the year 2013-14, which aims to reduce P&K subsidy outgo by about 15% (about Rs 4,400 crore).

### [Amendments to Multi-State Co-operative Societies \(Amendment\) Bill approved \(p. 10\)](#)

The amendments provide for the revival of 'sick' co-operative societies and the creation of a rehabilitation scheme for such societies.

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June 1, 2013

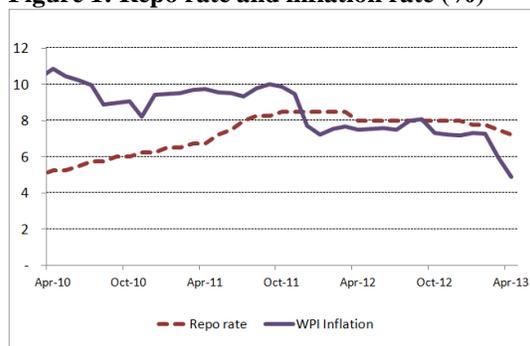
## Macroeconomic Developments

Vishnu Padmanabhan ([vishnu@prsindia.org](mailto:vishnu@prsindia.org))

### RBI cuts repo rate by 0.25% ...

In its Annual Monetary policy statement for 2013-14, the Reserve Bank of India (RBI) reduced the policy repo rate by 0.25% to 7.25% and left the cash reserve ratio unchanged at 4%.<sup>1</sup> The rate cut was a response to slowing growth and improved inflation outlook. The RBI expects economic activity to remain subdued for the first half of this year before picking up in the second half.

**Figure 1: Repo rate and inflation rate (%)**



Source: RBI; PRS.

### ... as inflation continues to decline ...

Wholesale Price Index (WPI) inflation continues to moderate, easing to 4.89% in April 2013 from 5.96% in March 2013.<sup>2</sup> The sources for the slowdown were broad-based with food inflation, fuel, power inflation and manufactured goods inflation all falling. Food price inflation was 6.1% in April (8.7% in March), a 14 month low. Fuel and power prices inflation slowed to 8.8% (from 10.2%) while manufactured goods inflation fell to 3.4% (from 4.1%). According to the RBI, inflation for 2013-14 is expected to be around 5.5%.

### ... but risks remain

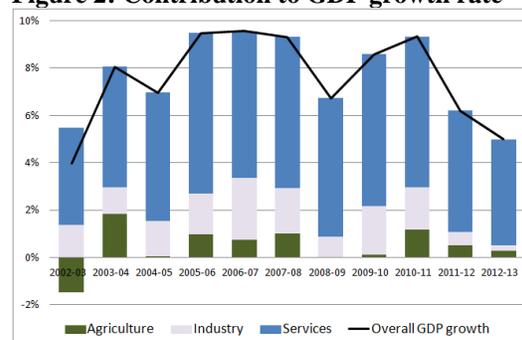
While inflation has moderated recently, the RBI believes inflation pressures could re-emerge leaving little room for further monetary policy easing. These inflation risks are a result of supply constraints in the economy, particularly in food and infrastructure. But, according to RBI, the biggest risk for the macroeconomic outlook stems from the high current account deficit, which is putting pressure on India's ability to service its borrowings from abroad. In addition, the uncertain global economic outlook could create shocks, which could reverse capital flows

into India. Finally, another risk is the lack of investment as subdued business confidence and weak business profitability have made borrowers and lenders risk averse.

### GDP grows at 5% in 2012-13

According to provisional estimates, India's real GDP growth rate eased to 5.0% in 2012-13 (from 6.2% in 2011-12) – the slowest expansion in a decade.<sup>3</sup> Growth in the final quarter of 2012-13 was 4.8%. In 2012-13, agricultural output grew by 1.9% (from 3.6% in 2011-12) while industrial output expanded by 1.2% (from 2.7%). Services output provided the biggest impetus for growth, increasing by 6.8% (7.9% in 2011-12). Per capita income for 2012-13 is estimated to be Rs 68,757.

**Figure 2: Contribution to GDP growth rate**



Source: MOSPI; PRS.

In terms of spending, private consumption expenditure formed 56.8% of GDP in 2012-13 while government spending contributed 11.8%. Investment has weakened: gross fixed capital formation, a proxy for investment, accounted for 29.6% of GDP (30.6% in 2011-12).

## Finance

Vishnu Padmanabhan ([vishnu@prsindia.org](mailto:vishnu@prsindia.org))

### RBI announces new development and regulatory policies

As part of its Annual Monetary Policy Statement, the RBI also introduced new development and regulatory policies for the financial sector.<sup>1</sup> Some of the key initiatives include:

- **Financial inclusion and Direct Benefit Transfer (DBT):** The RBI proposes to open accounts for all eligible individuals with the support of local government authorities, seeding new accounts with Aadhaar numbers

and implementing a mechanism to monitor and review the progress of DBT.

- **Priority sector guidelines:** The loan limit for Micro and Small Enterprises is to be increased to Rs 50 million per borrower (from Rs 20 million). In addition, there will be an increase in the loan limit to Rs 50 million per borrower (from Rs 10 million) under the head of indirect finance to agriculture (this includes bank loans to dealers/sellers of fertilizers, pesticides, seeds, cattle feed, poultry feed and agricultural implements).
- **Prudential guidelines on restructuring of advances by banks/financial institutions:** The Mahapatra Committee had issued recommendations on prudential guidelines for restructuring advances provided by banks and financial institutions. Following comments on the draft guidelines issued in January 2013, the RBI will issue the guidelines within two months.
- **Banking Structure in India:** The RBI is planning to launch a policy discussion paper on the banking structure in India based on the recommendations of the Committee on Banking Sector Reforms, 1998 (Chairman: M. Narasimham) and the Committee on Financial Sector Reforms, 2008 (Chairman: Raghuram Rajan). The discussion paper would cover a wide range of issues from differentiated licensing regime for domestic and foreign banks to periodicity of licenses.
- **Lead bank scheme (LBS):** The RBI is to bring all districts in metropolitan areas under the purview of the LBS. The LBS is a mechanism for coordination between government authorities and banks to provide doorstep banking to the financially excluded segment of the population.

### Inflation index bonds to be launched

The Ministry of Finance, in consultation with the RBI, has announced the launch of inflation index bonds.<sup>4</sup> The bonds aim to protect savings from inflation and incentivise households to move away from investing in gold. The first type of instruments, capital index bonds, would be launched on June 4, 2013 via auction to institutional investors. Capital index bonds will have a fixed coupon real rate (adjusted for inflation) and a nominal principal value adjusted for inflation as measured by the Wholesale Price Index. At maturity, either the adjusted principal

or face value, whichever is higher, will be returned. The Ministry plans to issue Rs 12,000 to Rs 15,000 crore worth of bonds in 2013-14 through tranches of Rs 1,000 and Rs 2,000 crore. The bonds will be issued exclusively for retail investors in the second half of the year.

### National Skill Development Agency to be set up

On May 9, 2013, the Cabinet approved establishing an autonomous body called the National Skill Development Agency (NSDA) to subsume the Prime Minister's National Council on Skill Development, the National Skill Development Coordination Board and the Office of the Adviser to the PM on Skill Development.<sup>5</sup> The NSDA will be located in the Ministry of Finance.

The NSDA will serve as the coordinating agency for the government and the private sector's skill development efforts to meet the targets set out in the 12<sup>th</sup> Five Year Plan. In addition, the agency will anchor and operationalise the National Skills Qualifications Framework (NSQF) and act as the nodal agency for different Sector Skills Councils. The objective of the NSDA is to boost youth employability.

## Mining

*Jhalak Kakkar (jhalak@prsindia.org)*

### Standing Committee on Mines and Minerals Bill 2011

The Standing Committee on Coal and Steel submitted its Report on the Mines and Minerals (Development and Regulation) Bill, 2011 on May 7, 2013.<sup>6</sup> The Bill seeks to consolidate and amend the law relating to the scientific development and regulation of mines and minerals.

Key recommendations of the Committee are:

- Under the Panchayat Extension to Scheduled Areas Act, 1996, the prior recommendation of the gram sabha is required when a prospecting licence or a mineral concession is granted. The Committee suggested that effective consultation should be made mandatory. The Committee also observed that a valid reason should be given in case the gram sabha's views are ignored and necessary amendments should be brought into the Act.

- The holder of a mining lease will pay a specified amount of money each year to the District Mineral Foundation, for the benefit of persons or families affected by mining related operations. This amount is equivalent to 26 percent of profit in the case of coal and lignite. The Committee recommended the amount should be equivalent to royalty paid during the financial year.
- Competitive bidding, and not first-come-first-serve, should also be favoured for the grant of High Technology Reconnaissance and Exploration Licence, since it is for deep seated non bulk minerals and is specifically designed for areas where mineralisation is not known to the government. The Committee noted that the government had claimed that these deep-seated minerals require primary regional exploration. However, they were of the view that bidding should be invited in order to gain maximum value for the minerals. Furthermore, there should not be any scope for nepotism and favouritism.

### GoM approves setting up of coal regulator

News reports suggest that the Group of Ministers (GoM) have agreed to set up a coal regulator and create a ‘pass-through’ mechanism for imported coal.<sup>7</sup> The proposal is scheduled to be sent to the Cabinet on June 7, 2013. The GoM decided the following:

- **Structure of the coal regulator:** The proposed coal regulator will be entrusted with monitoring the testing, quality, supply and grading of coal. It will not regulate pricing of coal but will be empowered to resolve disputes, including those arising out of fuel supply agreements with consumers. Further, there will be an appellate authority to adjudicate on disputes between coal suppliers and buyers, including some pricing issues.
- **Cost of imported coal:** The structure of the pass-through mechanism for increasing supply of coal from external sources to the power sector has been agreed on. The incremental costs, due to costlier imported coal, would be passed on to power consumers. This structure could increase electricity tariffs for consumers.

Coal India Limited (CIL) has been unable to meet the growing demand for coal, especially from the power sector, and has had to import coal to meet its supply obligations. One of

the proposals being considered was ‘price pooling’ of coal; to make imports viable, CIL would mix domestic and international coal and sell the consignment at a pooled price to power producers, mostly private firms.

There are concerns about the effectiveness of the coal regulator as pricing would not be within its ambit.<sup>7</sup> At present, the state owned CIL, the dominant producer of coal in India, fixes pricing for coal. There is no clear pricing policy for coal. However, it has been suggested that the regulator would help stream line and create transparent non-pricing processes.

### Standing Committee on the Coal Mines Amendment Bill

The Standing Committee on Coal and Steel submitted its Report on the Coal Mines (Conservation and Development) Amendment Bill, 2012 on May 7, 2013.<sup>8</sup>

The Bill seeks to amend the Coal Mines (Conservation and Development) Act, 1974. The Act provides for the conservation of coal and development of mines. In addition, the Act provides for an imposition of excise duty and customs duty on coal. The Bill increases the maximum excise duty that can be levied on coal from Rs 10 to Rs 50 per tonne. Part of the excise duty funds the implementation of a master plan to deal with fires, subsidence and rehabilitation in the Jharia and Raniganj coalfields in Jharkhand and West Bengal.

Key observations of the Committee are:

- The Coal Conservation and Development Advisory Committee (CCDAC), constituted to advise the government regarding formulation and implementation of national policy on coal conservation and development activity, has not played an effective role in disbursement of the excise duty proceeds to different coal companies. The Committee recommended that the funds earmarked are fully utilised for the various schemes under the CCDAC so that the physical targets envisaged are achieved.
- The burden of the enhancement of excise duty is proposed to be passed on to the electricity consumers. However, the Committee suggested that steps be taken to ensure that the expected increase in excise duty should not be passed on to the consumers of electricity and be absorbed by the coal companies.

- The Ministry should ensure that the master plan be implemented on a “war footing”, to avert the possibility of a catastrophe. The Ministry should interact with the Jharkhand and West Bengal state governments to expedite the land acquisition process and the settlement and disbursement of compensation to the displaced persons from the endangered areas of the Jharia and Raniganj coal fields.

For a PRS summary of the Bill and the Standing Committee Report, see [here](#).

## Energy

*Vishnu Padmanabhan (vishnu@prsindia.org)*

### Standing Committee report on long term purchase policy and storage of crude oil

The Standing Committee on Petroleum and Natural Gas tabled its 18<sup>th</sup> report on “Long term purchase policy and strategic storage of crude oil” on May 8, 2013.<sup>9</sup> The report examines the current state of India’s oil import policy and makes recommendations for the Ministry of Petroleum and Natural Gas (Ministry). Some of the key observations and recommendations are:

- Purchasing crude oil can be a complicated process involving significant resource commitments from Oil Marketing Companies (OMCs). The Committee suggests establishing a joint venture company, promoted by relevant Public Sector Undertakings (PSUs), dedicated to importing crude oil in line with refining requirements.
- In 2011-12, around 69% of oil was imported from the Middle East, 18% from Africa and 8% from South America. The Committee cautions against excessive dependence on any one region for imports and recommends that the Ministry should geographically diversify its resources.
- The Ministry has laid down guidelines for OMCs to import crude oil. These guidelines were last revised in 2011; the Committee recommends a review of the guidelines to account for changes in the sector since.
- Around 80% of oil purchased is through term contracts with national oil corporations. The remaining 20% is procured through spot purchase and of this, the majority is purchase of the low sulphur grade variety, useful for OMCs refinery configuration and improving

the yield in their refinery. The Committee feels that the Ministry should intervene and push for OMCs entering into term contracts for this variety of oil.

- Currently, because of guidelines issued by the Ministry of Shipping, the OMCs purchase oil on a FOB basis (whereby the OMC has to arrange the transport and insurance to cover for loss). The Committee calls on the Ministry of Petrol to ask the Ministry of Shipping to relax the guidelines for OMCs to allow for purchase on CIF/CFR basis (seller bears cost of freight).
- Between 2009 and 2012, OMCs incurred Rs 665 crore in additional costs because of inadequate infrastructure at ports. The Committee urges the Ministry to intensify their efforts to improve the infrastructure at ports handling crude oil imports.

## Health

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### Government issues Ordinance amending the Indian Medical Council Act 1956

On May 23, 2013, the government notified an Ordinance amending the Indian Medical Council Act 1956.<sup>10</sup> The Act provides for the constitution of the Medical Council of India (MCI) that makes recommendations to the central government on matters related to the recognition of medical qualifications, determining the courses of study, inspection of examinations and maintenance of a register of medical practitioners.

According to the Act, the MCI can be superseded by a Board of Governors, constituted by the central government. Due to issues in the functioning of the MCI, in May 2010, the MCI was superseded by a Board of Governors whose term expired on May 14, 2013. Earlier this year, on March 19, 2013 the Indian Medical Council (Amendment) Bill 2013 was introduced in Parliament and is currently pending.

As per the recent Ordinance:

- The Board of Governors has been given an extension of 180 days so that it can exercise the functions of the MCI.

- Within this time period (latest by November 10, 2013), the central government has to reconstitute the MCI.
- The composition of the MCI is changed to include more representation from the Union Territories.
- The term of the MCI is for 4 years and the President and Vice President cannot hold office for more than two terms.
- The functions of the MCI include taking measures to: (a) determine, coordinate and maintain the standards of medical education and practice in medicine; (b) grant or withdraw permission for establishment of medical college and course of study in medical education; (c) maintain the Indian Medical Register (in electronic form as well) and (e) ensure adequate availability of doctors to all states.
- The conditions under which the central government can remove the President and Vice-President of the MCI are specified. These include among others, abusing his position in performance of the duties specified under this Act or willfully or without sufficient cause failing to comply with directions issued by the central government and in public interest.
- The power of the central government to direct the MCI on policy matters including amending and revoking regulations made by the Council is final.
- Overseas Citizens of India are allowed to practice medicine in India.

### **Cabinet approves the National Urban Health Mission**

The Cabinet approved the National Urban Health Mission as a scheme under the National Health Mission on May 1, 2013.<sup>11</sup> Until then the National Health Mission was composed only of the National Rural Health Mission (NRHM).

The Urban Mission will focus on primary health care needs of the urban poor by facilitating equitable access to quality urban health care, revamping the primary public health care system, involving community and urban local bodies and increasing outreach. The institutional mechanism and management systems under the NRHM will be strengthened to meet the requirements of the Urban Mission.

The scheme will be implemented in 779 cities and towns with a population of more than 50,000 and is expected to cover 7.75 crore people. The Ministry estimates the Urban Mission to cost approximately Rs 23,000 crore over a 5 year period with the central government covering about Rs 17,000 crore. The funding ratio between centre and states will be 75:25. For the North Eastern states, Jammu and Kashmir, Himachal Pradesh and Uttarakhand, the ratio will be 90:10.

The Urban Mission will provide the following:

- One Urban Primary Health Centre for every 50,000 to 60,000 people
- One Urban Community Health Centre for five to six Urban Primary Health Centres in big cities
- One Auxiliary Nursing Midwife for a population of 10,000 people
- One Accredited Social Health Activist (ASHA worker) for 200 to 500 households.

According to the Ministry, under the Urban Mission the following outcomes are expected:

- Reduction in Infant Mortality Rate
- Reduction in Maternal Mortality Ratio
- Universal access to reproductive health care
- Convergence of all health related interventions.

## **Information Technology**

*Alok Rawat (alok@prsindia.org)*

### **Standing Committee submits report on issues related to paid news**

The Standing Committee on Information Technology presented its report on the “Issues Related to Paid News” in the Lok Sabha on May 6, 2013.<sup>12</sup> The Standing Committee report dealt with the definition and identification of paid news, reasons for its proliferation, its implication on the electoral process and existing mechanisms to deal with the problem.

While agreeing that media should be free from state control, the Committee urged the Ministry of Information and Broadcasting (MoIB) and other stakeholders to strengthen oversight and redressal mechanisms. Key observations and recommendations made by the Committee are:

- The Press Council of India (PCI) defines paid news as any news or analysis in print or electronic media for a consideration in cash or kind. The Committee recommended that the MoIB formulate a comprehensive legal definition of ‘paid news’. It also asked the MoIB to suggest measures for usage of ‘circumstantial evidence’ in proving incidence of paid news.
- The Committee identified corporatisation of media, desegregation of ownership and editorial roles, emergence of contract employment and poor wage levels of journalists as key reasons for the rise in incidence of paid news.
- It recommended mandatory disclosure of ‘private treaties’ and details of advertising revenue received by the media houses. It also recommended that the MoIB ensure periodic review of editor/journalist independence and wage conditions.
- The Committee found existing regulators like the PCI and Electronic Media Monitoring Centre to be ineffective in countering the prevalence of paid news. It described the self-regulatory industry bodies like the News Broadcasting Standards Authority and Broadcasting Content Complaints Council as an ‘eye wash’.
- The Committee recommended establishment of either a single regulatory body for both print and electronic media or enhancing the punitive powers of the PCI and setting-up a similar statutory body for the electronic media. Such regulator(s) should have the power to take strong action against offenders and should not include media owners.
- The Committee observed that existing penal provisions have not served as an effective deterrent for the practice of paid news and stricter penal provisions are needed. It endorsed the proposal by the Election Commission of India to amend the Representation of the People Act, 1951 to include paid news in electoral setting as a corrupt practice and also include publishing of paid news as an electoral offence.

For a PRS summary of the Standing Committee Report, see [here](#).

## Chemicals and Fertilisers

### PAC submits report on fertiliser subsidy

*Sakshi Balani (sakshi@prsindia.org)*

The Public Accounts Committee (PAC) submitted a report on the fertiliser subsidy and its effect on the annual production of fertilisers on April 30, 2013.<sup>13</sup> Fertilisers such as urea are controlled and subject to controls on price distribution. Complex fertilizers such as Di-Ammonium Phosphate (DAP) and Nitrogen, Phosphate and Potash (NPK) are decontrolled, although their costs are subsidised to enable access to farmers.

The PAC found that both controlled and decontrolled fertilisers are, in effect, subject to implicit control by the government. This is done to ensure a uniform sale price for farmers, which is substantially lower than the cost of production/import, and to ensure proper targeting of the subsidy. An examination of the subsidy revealed that despite a huge amount of expenditure incurred by the government, annual production of fertilisers increased only marginally. Key findings are as follows:

- The subsidy on imported fertilisers during the years 1998-99 to 2008-09 increased from three percent to 47 percent of the total subsidy. While the assessed requirement of fertilisers increased by more than 70 percent during this period, the total production increased by only 11 percent. The Committee observed certain incongruities between expenditure and production: (i) a huge gap between demand and supply, (ii) failure to incentivise an increase in the domestic production of fertilisers, particularly with the introduction of the new pricing scheme (NPS), and (iii) a virtual stagnation in the production of urea during the last five years.
- The PAC found that there was no monitoring mechanism in place to ensure that states were assessing the requirement of fertilisers in a scientific manner. The requirement was generally enhanced by five to 10 percent over the previous season’s/year’s consumption without a proper assessment of the need for fertilisers. The Committee mentioned that an accurate assessment of demand for each fertilizer across the country would be critical to make the required amount available at the right time.

- In 2003, there was a change in the urea subsidy policy regime from individual unit based pricing (Retention Pricing Scheme) to group based pricing (NPS). The NPS sought to create greater transparency, uniformity, and efficiency in subsidy disbursements to urea units and inducing the urea manufacturing units to take cost reduction measures and be competitive. However, the PAC found that the change in regime did not cause any significant increase in either capacity or production of urea, leaving the country dependent on imports. It observed that the subsidy on imported fertilisers during the years 1998-99 to 2008-09 increased from three percent to 47 percent of the total subsidy. Moreover, production of urea during the same period registered a negligible increase of 3.5 percent.
- The audit also found that the group wise weighted average cost of production of urea also increased substantially by 83 percent to 120 percent during the NPS period. The Department attributed the increase in cost of production of urea to the increase in cost of energy input, which was beyond the control of NPS implementing authorities. The Committee found that the high increase in the energy cost of the domestic urea manufacturing unit amounted to Rs 4010 crore during 2010-11 and Rs 9,127 crore during 2011-12. It urged the Department to find workable solutions to the extant policies governing allocation of gas and coal so that new investments could be attracted.

### Cabinet approves NBS rates for P&K fertilisers for the year 2013-14

Alok Rawat ([alok@prsindia.org](mailto:alok@prsindia.org))

The Cabinet approved Nutrient Based Subsidy (NBS) rates for Phosphatic and Potassic (P&K) fertilisers for the year 2013-14 on May 1, 2013.<sup>14</sup> As per the NBS policy, the government fixes subsidy rates for various nutrients for P&K fertilisers every year. In contrast, the government periodically fixes the Maximum Retail Price (MRP) for urea, which is not covered under the NBS policy. The difference between MRP and normative cost is paid to the urea companies as subsidy.

At new NBS rates, the subsidy on Di-Ammonium Phosphate (DAP) and Muriate of Potash (MOP) would be Rs 12,350/tonne and Rs 11,300/tonne, respectively (Rs 14,350/ tonne and Rs 14,440/ tonne respectively in 2012-13).

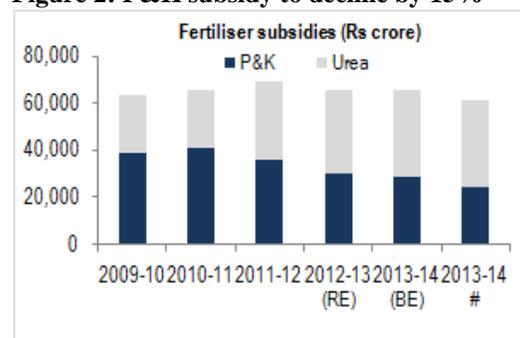
**Figure 1: New NBS rates for 2013-14**

NBS rates	2013-14	2012-13	Change
Nitrogen (Rs/kg)	20.9	24.0	-13.0%
Phosphate (Rs/kg)	18.7	21.8	-14.3%
Potash (Rs/kg)	18.3	24.0	-23.6%
Sulphur (Rs/kg)	1.7	1.7	0.0%
DAP subsidy (Rs/tonne)	12,350	14,350	-13.9%
MOP subsidy (Rs/tonne)	11,300	14,440	-21.7%

Source: Ministry of Chemicals and Fertilisers

Under the NBS policy, P&K fertiliser manufacturers and importers set the domestic MRP for their products in accordance with international prices of these fertilisers. Despite a decline in international prices of P&K fertilisers, commensurate declines in domestic MRPs have not been observed. Hence, the government has mandated P&K fertiliser manufacturers and importers to submit certified cost data while claiming subsidy. In case the government finds MRPs to be unreasonable, the subsidy may be restricted or denied. If the government discovers an abuse of the subsidy mechanism, a fertiliser company's grade(s) of fertilisers or the entire company itself may be excluded from the NBS scheme. The government expects new NBS rates to result in about 15% reduction in P&K subsidy outgo (about Rs 4,400 crore) for the year 2013-14 and at least Rs 1,500 and Rs 1,000 per tonne decline in prices of DAP and MOP from their current levels.

**Figure 2: P&K subsidy to decline by 15%**



# - Under new NBS rates

Source: Ministry of Chemicals and Fertilisers; Ministry of Finance; PRS

## External Affairs

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### Chinese Premier visits India

Mr. Li Keqiang, Premier of the State Council of the People's Republic of China, was on a State

visit to India from May 19, 2013 to May 22, 2013. Some of the key issues discussed were:

- **Border issues:** The Special Representatives of the two countries on the Boundary Question (India and China have a disputed border) would continue negotiations and seek a framework for a fair, reasonable and mutually acceptable settlement in accordance with the Agreement on Political Parameters and Guiding Principles.<sup>15</sup> Pending the resolution of the boundary question, the two countries agreed to work together to maintain peace and tranquillity in border areas in line with previous agreements.
- **River water concerns:** China will provide India with information of water level discharge and rainfall in respect of three hydrological stations on the mainstream Brahmaputra river during the flood season.<sup>17</sup>
- **Trade:** While striving to realise the trade turnover target of US\$ 100 billion by 2015, the two countries agreed to take measures to address the issue of trade imbalance.<sup>15</sup> India's trade deficit with China for 2011-12 was US\$ 40 billion.<sup>16</sup> The measures include cooperation on pharmaceutical supervision including registration, stronger links between Chinese enterprises and Indian IT industry, and completion of phytosanitary negotiations on agro-products. An agreement was signed to strengthen mutual cooperation in trade and safety of buffalo meat, fishery products and feed and feed ingredients.<sup>17</sup> Chinese enterprises were encouraged to invest in India and participate in India's infrastructure development.
- **Energy:** India and China have agreed to carry out bilateral cooperation in civil nuclear energy in line with their respective international commitments.<sup>15</sup>

### Outcomes of India-Japan Annual Summit

The Prime Minister of India, Dr. Manmohan Singh, visited Japan between May 27, 2013 and May 30, 2013 for the Annual Summit of the Prime Ministers. Key outcomes from this summit were:<sup>18</sup>

- **Defence co-operation:** Bilateral exercises between the Indian Navy and the Japan Maritime Self-Defence Force will be conducted with increased frequency. The first one was held in June 2012 off the coast of Japan. Both countries decided to establish a Joint Working Group to explore the

modality for the cooperation on the US-2 amphibian aircraft. This aircraft has dual-use qualities (civilian and military) and could land on the high seas.<sup>19</sup> This is a significant development as it is one of the few occasions where Japan has offered to sell such dual use equipment with both military and civilian applications to a foreign country.<sup>20</sup>

- **Infrastructure:** The two sides will co-finance a joint feasibility study of High Speed Railway system on the Mumbai-Ahmedabad route. A Shinkansen Rail system (Japanese High Speed Rail System) will be implemented in India based on India's infrastructure priorities, commercial viability and financial resources. Consultations will be held to draw up a road map for upgrading the speed of passenger trains on the existing Delhi-Mumbai route to 160-200 kilometres per hour (Semi-High Speed Railway system).
- **Nuclear energy:** Negotiations for an Agreement for Cooperation in the Peaceful Uses of Nuclear Energy will be accelerated towards an early conclusion. The importance of an effective national export control system conforming to the highest international standards was highlighted. The countries are committed to prepare the ground for India to become a full member in the international nuclear export control regimes: the Nuclear Suppliers Group, the Missile Technology Control Regime, the Australia Group and the Wassenaar Arrangement.
- **Maritime security:** The two countries are committed to the freedom of maritime navigation and unimpeded commerce based on the principles of international law, including the United Nations Convention on the Law of the Sea, 1982.

## Home Affairs

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### CAG submits report on disaster preparedness in the country

The CAG submitted its report on disaster preparedness in India on April 23, 2013.<sup>21</sup> It found that despite a disaster preparedness system that came into effect with the Disaster Management Act 2005, there are critical gaps in the level of preparedness for various disasters. Further, the apex planning and supervisory body,

the National Disaster Management Authority (NDMA), was also found to be ineffective in its functioning in most of its core areas. Key findings from the audit are:

- **Legislative and institutional framework:** The National Executive Committee had been set up under the Act to assist the NDMA with its functions. The CAG found that the Committee had not met after May 2008, although the country faced many disasters since that date. This affected the evaluation of disaster preparedness at all levels of government.
- **Planning disaster preparedness:** Under the Act, the National Committee may prepare a National Plan for Disaster Management that shall need to be approved by the NDMA. The CAG found that the Plan had not been formulated even after six years of the enactment of the 2005 Act.
- The Act specifies that the NDMA shall lay down guidelines or issue directions to the concerned ministries and state governments regarding measures to be taken by them in response to a disaster situation. The audit revealed that no measures were taken to make the National Guidelines binding on states in preparation of state plans.
- **NDMA:** The Act allows for the constitution of an Advisory Committee by the NDMA to make recommendations on different aspects of disaster management. The CAG found that since June 2010, there had been no Advisory Committee to the NDMA.
- Among its functions, the NDMA is responsible for laying down policies, plans and guidelines for disaster management to ensure timely and effective response to disaster. The audit found that the NDMA was not performing several functions as prescribed under the Act. These included recommending provision of funds for the purpose of mitigation and recommending relief in repayment of loans or for grant of fresh loans.

### **Standing Committee on the North-Eastern Council (Amendment) Bill**

The Standing Committee submitted its report on the North-Eastern Council (Amendment) Bill, 2013 on May 30, 2013.<sup>22</sup> The Bill seeks to amend the North-Eastern Council (NEC) Act, 1971 to allow changes to its composition and the tenure of its members. It also aims to empower

the NEC to discuss and advise state governments on issues of mutual interest to two or more states in the region, particularly on issue related to economic and social planning, and transport and communication.

The Standing Committee adopted most of the Bill's provisions and recommended its passing. It also suggested the government review the functioning of the Ministry of the Development of the North-Eastern Region and devise a mechanism to strengthen it. This would enable the Ministry to coordinate with implementing agencies and complete schemes meant for the North-Eastern Region in time.

## **Agriculture**

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### **Amendments to the Multi-State Co-operative Societies (Amendment) Bill approved**

The Cabinet approved amendments to the Multi-State Co-operative Societies (Amendment) Bill 2010, currently pending in the Lok Sabha.<sup>23</sup> The Bill amends the Multi-State Co-operative Societies Act, 2002, which regulates multi-state cooperative societies i.e. cooperatives which serves the interest of members in more than one state. The Bill seeks to allow the constitution of interim boards, grant the Central Registrar power to modify bye-laws, and permit the constitution of an election authority to conduct elections. The Standing Committee on Agriculture submitted its report on the Bill on December 20, 2012 and was of the opinion that several provisions of the Bill contravened the Constitution. According to the Ministry, the official amendments aim to ensure that the provisions of the Bill are in conformity with the provisions of the Constitution (Ninety-Seventh Amendment) Act, 2011. The Act adds co-operative societies to the Constitution.

The Bill provides that the Central Registrar may declare a multi-state co-operative society "sick" and constitute an interim board for a period of up to five years. It defines a "sick co-operative society" as one which has accumulated losses equal to or exceeding the total of its paid-up capital, free reserves and surpluses and has also suffered cash losses in the current financial year and the one preceding it.

The amendments propose to create a provision for the revival of sick societies. Once the central registrar declares a co-operative to be sick, the central government shall create a scheme for the rehabilitation and reconstruction of such a society. The scheme shall be approved by the general body. The centre may also reorganise the board of a sick society with persons experienced in the field of co-operatives, management finance and any other area relating to such societies.

For a PRS summary on the Bill and the Standing Committee report, see [here](#) and [here](#).

## Rural Development

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### Cabinet approves changes to the National Rural Livelihoods Mission (Aajeevika)

The Cabinet approved changes to the National Rural Livelihoods Mission (NRLM).<sup>24</sup> NRLM aims to bring poor families (Swarozgaris) above the poverty line by ensuring a sustained level of income over a period of time. This objective is achieved by organising the rural poor into self help groups (SHGs) through the process of social mobilisation, training and capacity building, and the provision of income generating assets. Some key changes to the scheme include:

- **Delinking target groups from BPL list:** Under the existing NRLM framework, only rural households included in the official BPL list could be targeted. The list was formulated in 2002 and has not been updated since. Earlier, individuals were drawn from the BPL list to form SHGs. As per the changes to the scheme, NRLM target groups shall be delinked from the BPL list. Now these target groups will be determined through a well-defined and transparent process of Participatory Identification of the Poor (PIP) at the level of the community. The list that is finalised through the PIP process will be vetted by the gram sabha and approved by the gram panchayat. The PIP process will have a set of exclusion criteria, automatic inclusion criteria and deprivation indicators to enable poverty ranking in a participatory manner.
- **Interest subvention to women SHGs:** Pursuant to the announcement made by the Finance Minister in the Budget Speech for

2012-13, the Cabinet approved interest subvention to women SHGs, enabling them to avail loans up to three lakh rupees at an interest rate of seven percent per annum. As per the changes to the scheme, women SHGs that repay loans in time will receive an additional three percent subvention, reducing the effective rate to four percent.

- **Change in the pattern of financial assistance:** Earlier under the scheme, financial assistance to poor households was provided in the form of a capital subsidy linked to bank credit. According to the Ministry, it was felt that this did not create a perpetual and viable capital base at the SHG level and was open to misuse. The Cabinet thus approved the withdrawal of capital subsidy to SHGs, to instead provide financial support to SHG federations and livelihoods organizations of SHG members in ‘intensive’ blocks through a grant called Community Investment Support fund. This fund could be used by federations to advance loans to SHGs and to undertake common socio-economic activities.
- **Setting up of a national level society to oversee implementation:** The Cabinet also approved the establishment of an agency at the national level to implement the scheme, called the National Rural Livelihoods Promotion Society (NRLPS) under the Societies Registration Act. The NRLPS will act as the technical support unit of NRLM and will be responsible for building capacities of the state rural livelihood missions in planning, implementing and monitoring the programme. According to the Ministry, the structure of NRLPS shall enable access to high quality professional support, provide flexibility to create partnerships and facilitate innovations. It shall serve as a knowledge center for rural livelihoods for the state missions. Further, it will provide an opportunity for formally involving state governments in decision-making, by nominating them to the Executive Committee of the Society.

## Law and Justice

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### Amendment to Parliament (Prevention of Disqualification) Act, 1959

The Cabinet has approved amendments to the Parliament (Prevention of Disqualification) Act, 1959.<sup>25</sup> The amendment will exclude the Chairperson of the National Commission for the Scheduled Castes and the Chairperson of the National Commission for the Scheduled Tribes from incurring any disqualification for being a Member of Parliament (MP).

The 1959 Act lists certain offices of profit under the central or state government, which do not disqualify the holders for being a MP. The Chairperson of the National Commission for Scheduled Castes and Scheduled Tribes is exempted from disqualification under this list.

The National Commission for the Scheduled Castes and Scheduled Tribes was bifurcated into two independent Commissions: the National Commission for the Scheduled Castes and the National Commission for the Scheduled Tribes in 2003. Hence, an amendment was required to exclude the Chairperson of these two Commissions from incurring any disqualification for being a MP.

### Standing Committee Report on Readjustment of Constituencies Bill

The Standing Committee on Personnel, Public Grievances, Law and Justice submitted its Report on the Readjustment of Representations of Scheduled Castes and Scheduled Tribes in Parliamentary and Assembly Constituencies Bill, 2013 on May 2, 2013.<sup>26</sup>

The government promulgated an Ordinance in January, and the Bill was introduced in the Budget Session of Parliament to ratify the Ordinance. As the Bill was not passed within six weeks of the commencement of the Budget Session, the Ordinance has lapsed.

The constituency boundaries were redrawn in 2008 based on the 2001 Census. Each state had reserved a number of constituencies for Scheduled Castes (SCs) and Scheduled Tribes (STs) based on their proportion of the population of the state. The constituencies where they had the highest share of the population was reserved for SCs and STs. Between the Census of 2001 and May 31, 2012, several castes and tribes have been included and excluded from the list of SCs

and STs, and consequently, the proportions have changed. The Bill empowers the Election Commission to readjust Parliamentary and Legislative Assembly constituencies to reflect these changes.

The Committee in principle agreed with the provisions of the Bill and recommended that the Bill be passed. The Committee also made the following observations:

- The Election Commission of India and other related agencies give effect to the provisions of the Bill in accordance with the procedure prescribed in the Bill.
- The readjustment exercise will only result in an increase or decrease of a few reserved seats of Scheduled Castes and Tribes. It will neither change the number of constituencies nor will it be a delimitation exercise.
- Constituting a fresh Delimitation Commission does not seem appropriate since it was dissolved in 2008 after executing its mandate. Hence, the Election Commission should undertake the readjustment as envisaged under the Bill.

For a PRS summary of the Bill and the Standing Committee Report, see [here](#).

## Education

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### Committee constituted to draft Bill for administration of all central universities

The Ministry of Human Resource Development has constituted a three member Committee to draft legislation for the administration of all central universities.<sup>27</sup>

Earlier in 2010, the government had set up a committee chaired by Prof. N. R Madhava Menon to suggest measures to increase the financial and institutional autonomy of higher educational institutions such as central universities, Indian Institutes of Technology (IITs) and Indian Institutes of Management (IIMs). The committee had recommended that the legislative framework for central universities needs to be revised and subsumed into one single Act to cover matters related to their governance structure, administration, finances and relationship with statutory authorities.

Based on these recommendations, the committee has been tasked to prepare a draft bill which will be discussed in the Council of Vice Chancellors of central universities.

## Civil Aviation

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### Dholakia Committee recommendations on cost-cutting at Air India accepted

The Ministry of Civil Aviation had constituted a five-member committee, headed by Professor R.H. Dholakia to suggest various measures for cost cutting and optimal utilisation of resources in Air India.<sup>28</sup> The Committee in its report submitted to the government in April 2013, made 47 recommendations. These recommendations are aimed at:

- Rationalisation of food and maintenance costs, repair & overhaul costs.
- Dynamic pricing and zero commission.
- Flights not meeting variable costs need to be restructured or withdrawn.
- Optimal utilisation or monetisation of underutilised assets including aircrafts.
- Rationalisation of manpower placement and control of staff costs and overheads.
- Strong accountability at all levels, efficiency audit and private investments in the long run.

The government has accepted the Committee's recommendations. Implementation of these recommendations is expected to generate savings of about Rs 500 crore in the next six months. Air India has constituted a committee to implement these recommendations in a time-bound manner.

## Environment

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### MoEF disallows establishment of dolphinarium

In a recent circular, the Ministry of Environment and Forests (MoEF) has disallowed the establishment of dolphinariums in India.<sup>29</sup> The rationale is that Gangetic dolphins are an endangered species who do not survive well in captivity.

Until now, a dolphinarium was considered a zoo under the Wild Life (Protection) Act, 1972. A zoo can be operated with the recognition of the Central Zoo Authority, if the Authority is satisfied that it is in the interest of the protection and conservation of wildlife. The Gangetic dolphin and Snubfin dolphin can be acquired by a zoo only with the permission of the Authority.

The central government has declared Gangetic Dolphins as its national aquatic animal with a view to protect these endangered species.<sup>29</sup> These marine mammals have been recognised to be highly intelligent and sensitive, and do not survive well in captivity because it alters their behaviour and causes extreme distress.

Based on these considerations, the MoEF has decided not to allow the establishment of dolphinarium in the country. This includes a restriction on the import or capture of marine mammal species for commercial entertainment, private or public exhibition and interaction purposes.<sup>29</sup>

## Tribal Affairs

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### Tribal forest dwellers empowerment scheme launched

The National Scheduled Tribes Finance and Development Corporation (NSTFDC) has launched a scheme for the economic upliftment of Schedule Tribe forest dwellers.<sup>30</sup> The Scheduled Tribes and Other Traditional Forest Dwellers (Recognition of Forest Rights) Act, 2006 empowers traditional forest dwellers to hold the forest land for habitation or for self-cultivation or collecting minor forest produce. Most of the Scheduled Tribes need financial support for the productive utilisation of land for their livelihood.

Under this scheme, NSTFDC will generate awareness, provide training and assist in market linkage apart from providing financial assistance at a concessional rate of interest of six percent per annum to the beneficiaries. The financial assistance would be made available through 33 state channelising agencies of NSTFDC and through refinance agreements with certain PSU Banks/Regional Rural Banks.

A Radio Partnership MoU was also signed between the NSTFDC and All India Radio to

generate awareness of Scheduled Tribes related schemes.

## Shipping

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### CCEA approves major ports in West Bengal and Andhra Pradesh

The Cabinet Committee on Economic Affairs (CCEA) has approved the proposal of the Ministry of Shipping for setting up a major port at Sagar Island in West Bengal through the Public Private Partnership (PPP) mode.<sup>31</sup> The Ministry of Shipping will appoint the project consultants, initiate the bidding process and finalise the project structure in consultation with the West Bengal government and the Planning Commission.

This project envisages a deep draught port at Sagar Island, enabling docking of large-sized vessels and alleviating the need for heavy maintenance dredging at Kolkata and Haldia ports. CCEA also approved the proposal to commission a techno-economic feasibility study for setting-up a major port at Dugarajapatnam in Andhra Pradesh. The proposed port will provide an alternative to the Visakhapatnam port.

## Defence

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### Long range maritime reconnaissance and anti submarine aircraft arrives

The Navy has received the first of eight Boeing P-8I Long Range Maritime Reconnaissance and Anti Submarine Warfare aircrafts from Boeing.<sup>32</sup> The remaining seven aircraft on order will be delivered over the next two years. The Indian Navy is in process of procuring an additional four P-8I aircraft under the option clause.<sup>32</sup>

The design of the P-8I aircraft is based on the commercially available Boeing 737-800 (NG) airframe. This is the Indian naval variant of the P-8A Poseidon that Boeing has developed for the US Navy. The aircraft is equipped with foreign and indigenous sensors for maritime reconnaissance, anti submarine operations and electronic intelligence missions. The radar can detect ships and submarines within a radius of 200 nautical miles, and the aircraft can be fitted

with missiles and torpedoes to attack enemy submarines and ships within the same radius.<sup>33</sup>

Its performance is expected to be better than the Russian TU 142 planes, which form part of the existing fleet of the Indian Navy. With the induction of the Boeing P-8I aircraft, the TU 142 aircraft will be phased out in the next five years.

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<sup>3</sup> “Provisional estimates of Annual National Income, 2012-13”, Ministry of Statistics and Programme Implementation, Press Information Bureau, May 31, 2013.

<sup>4</sup> “Government Decides to Launch Inflation Index Bonds (IIBs)”, Ministry of Finance, Press Information Bureau, May 15, 2013.

<sup>5</sup> “Setting up of the National Skill Development Agency (NSDA)”, Cabinet, Press Information Bureau, May 9, 2013.

<sup>6</sup> “36<sup>th</sup> Report: The Mines and Minerals (Development and Regulation) Bill, 2011”, Standing Committee on Coal and Steel, May 7, 2013.

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<sup>7</sup> “Ministers’ panel approves setting up of coal regulator”, Mint, May 29, 2013. “Ministers’ group finally okays Bill to set up coal regulator”, Hindu Business Line, May 29, 2013.

<sup>8</sup> “37<sup>th</sup> Report: The Coal Mines (Development and Regulation) Amendment Bill, 2012”, Standing Committee on Coal and Steel, May 7, 2013. <http://www.prsindia.org/uploads/media/Coal%20Mines/SC%20Report-%20Coal%20Mines%20Bill.pdf>.

<sup>9</sup> “18<sup>th</sup> Report: Long term purchase policy and strategic storage of crude oil”, Standing Committee on Petroleum and Natural Gas, May 8, 2013. [http://164.100.47.134/Isscommittee/Petroleum%20&%20Natural%20Gas/15\\_Petroleum\\_And\\_Natural\\_Gas\\_18.pdf](http://164.100.47.134/Isscommittee/Petroleum%20&%20Natural%20Gas/15_Petroleum_And_Natural_Gas_18.pdf).

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<sup>11</sup> “National Urban Health Mission (NUHM) as a submission under the National Health Mission (NHM)”, Ministry of Health and Family Welfare, Press Information Bureau, May 1, 2013.

<sup>12</sup> “47<sup>th</sup> Report: Issues Related To Paid News”, Standing Committee on Information Technology, May 6, 2013.

[http://164.100.47.134/Isscommittee/Information%20Technology/15 Information Technology 47.pdf](http://164.100.47.134/Isscommittee/Information%20Technology/15%20Information%20Technology%2047.pdf).

<sup>13</sup> “81<sup>st</sup> report of the Public Accounts Committee on fertilizer subsidy,” Public Accounts Committee. April 30, 2012.

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<sup>14</sup> “Fixation of Nutrient Based Subsidy (NBS) rates for Phosphatic and Potassic (P&K) fertilizers for the year 2013-14”, Press Information Bureau, Ministry of Chemicals and Fertilisers, May 1, 2013.

<sup>15</sup> “Joint Statement on the State Visit of Chinese Premier Li Keqiang to India”, Ministry of External Affairs, May 20, 2013.

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<sup>16</sup> Export-Import Databank, Ministry of Commerce and Industry.

<sup>17</sup> List of documents signed during the State Visit of Chinese Premier Li Keqiang to India (May 19-22, 2013), Ministry of External Affairs, May 20, 2013.

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<sup>20</sup> Transcript of Media Briefing by Foreign Secretary in Tokyo on Prime Minister's Japan Visit, Ministry of External Affairs, May 29, 2013.

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<sup>24</sup> “Cabinet Approves Changes to National Rural Livelihoods Mission (Aajeevika)”, Press Information Bureau, Ministry of Rural Development, May 6, 2013.

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<sup>26</sup> “59<sup>th</sup> Report: The Readjustment of Representation of Scheduled Castes and Scheduled Tribes in Parliamentary and Assembly Constituencies Bill, 2013”, Standing Committee on Personnel, Public Grievances, Law and Justice, May 2, 2013. <http://www.prsindia.org/uploads/media/Readjustment%20of%20representation%20of%20scheduled%20castes%20and%20scheduled%20tribes/SCR-%20Assembly%20Constituencies%20Bill,%202013.pdf>.

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<sup>29</sup> “Policy on establishment of dolphinarium”, Ministry of Environment and Forests Circular 20-1/2010-CZA(M)/2840, May 17, 2013.

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