



Regulatory Bodies

 drishtiias.com/printpdf/regulatory-bodies-1

This article is based on **“To mitigate the crisis, rethink role of regulators”** which was published in Hindustan Times on 24/03/2020. It talks about how a crucial role is played by financial and economic regulators during a crisis situation for its mitigation.

The economic impacts of the **pandemic coronavirus disease (Covid-19)** may last longer than its health effects. The global economy was stabilising before the spread of Covid-19, but now it has started showing its impacts on global economies.

The Organisation for Economic Cooperation and Development (OECD) estimates that the pandemic will lead to a **1.5% slowdown in global growth**. **The World Trade Organization (WTO)** also expects a “substantial” impact on the global economy. The **economic impact on India** will be more profound because most jobs are informal, State capacity for disaster response is low, and health care is far from universal.

In this context, the significance of regulatory bodies becomes more apparent for early recovery and mitigation of crisis emanating from Covid-19.

Role of Regulatory Bodies

- India liberalised industries in the 1990s and handed over sectoral governance to regulatory bodies. These bodies played a constructive role in ensuring the free and fair market.
- Post 1990, Privatisation saw the advent of the 'Indian Regulator' that became the 'nurturer' and 'parent' of its sector. The regulators **incentivised private investment** by giving them functional autonomy and shielding them from interference.
- Also, regulatory bodies have shown that empowered regulator can bring fruitful results:
 - Steps taken by **Reserve Bank of India (RBI)** in tackling the liquidity crisis and management of increasing Non- Performing Assets (NPAs).
 - **SEBI** has also been instrumental in taking quick and effective steps in light of the global meltdown and the Satyam fiasco.

- However, improper regulation or failure of regulatory bodies in smoothening the interaction between markets and the State may lead to a new crisis. For example,
 - **AGR issue:** In October 2019, the Supreme Court demanded that telecom companies pay statutory dues worth ₹1.47 lakh crore to the central government.
 - These dues didn't pile up overnight but stem from a 15-year-old dispute over sharing of revenues between telcos and the government. A well-regulated industry would not be subject to such a large fiscal shock.

Regulatory Bodies

- These are independent governmental bodies established by the government in order to set standards in a specific field of activity, or operations and then to enforce those standards. Regulatory agencies may or may not function outside direct executive supervision.
- The main functions of the regulatory body are typically identified as follows:
 - Regulations and guides
 - Review and assessment
 - Licensing
 - Inspection
 - Corrective actions
 - Enforcement.
- Some examples of regulatory bodies in India are: Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), National Bank for Agriculture and Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), Food Safety and Standards Authority of India (FSSAI), Central Drugs Standard Control Organisation (CDSCO), Competition Commission of India (CCI)

Issues with Regulatory Bodies in India

- **Populist pressure:** In India political populism often overtakes the economic agenda. This casts a shadow on regulation. There are constant interferences in the functioning of regulatory bodies by the ruling political parties.
Eg, Interventions of government in the RBI functioning
- **Selection of non- experts:** The selection of non-experts to lead the regulatory bodies may bring lack of efficiency in the functioning of such bodies. Recently, this issue was raised when the former Finance secretary was appointed as RBI chairman.
- **Inefficient review mechanism:** The review mechanism of the functioning of the regulatory bodies under the aegis of parliamentary committees is not very robust.
- **Recommendations made by Regulatory Authorities are rarely implemented.**

- Presence of many regulatory bodies causes overlapping of powers. For example:
 - Environment- Central Pollution Control Board (CPCB) and National Green Tribunal (NGT).
 - Controversy between SEBI and IRDAI over Unit Linked Insurance Policy.
 - Education sector- All India Council for Technical Education (AICTE) and University Grants Commission (UGC).

Some Suggestion for Regulatory Bodies

- Regulatory organisations should undertake a **self-evaluation** of themselves once in a few (say three) years, and put out the conclusions in the public domain for informed discussion and debate.
- Genuine **functional autonomy** would also have to be reinforced with **financial autonomy** by putting in place a system where regulatory organisations are not dependent on government departments for financial support.
- Functional autonomy without corresponding accountability is a sure recipe for chaos. Thus, there is a need to make sure such bodies imbibe the ethos of **transparency and accountability** in the functioning of the bodies.
- The **appointment** of persons to head regulatory organisations should be attempted in a far more **transparent manner**.
- Many countries have adopted techniques like **“Regulatory Impact Assessments”**. India can also mandate such techniques through legislation and thereby preserve economic value.

Regulatory Impact Assessments (RIA)

Regulatory Impact Assessments (RIA) is a systemic approach to critically assessing the positive and negative effects of proposed and existing regulations and non-regulatory alternatives. As employed in OECD countries it encompasses a range of methods. It is an important element of an evidence-based approach to policymaking.

Conclusion

Many studies suggest that Covid-19 has caused a huge economic loss and will continue to do so in the immediate future. Today, among many experts there is a consensus that we may be headed for not just a slowdown, but perhaps even a recession.

Thus there is a **need for empowered regulatory bodies** which can steer regulations to make sectors of the economy robust and smoothly mitigate the economic impacts of the pandemic Covid -19.

Drishti Mains Question

Empowered Regulatory Bodies are significant in the mitigation of an economic crisis. Discuss.