

COSIDICI COURIER

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The views expressed in the journal are those of the contributors and not necessarily of the Council of State Industrial Development and Investment Corporations of India.



From The Editor's Desk

Professionalisation of State Financial Corporations (SFCs)

There is no denying the fact that the State Financial Corporations (SFCs) set up in the country in early 50s have done a commendable job in decentralization of industrial activities, removal of regional economic imbalances, generation of employment opportunities and removal of poverty in the rural & semi-urban areas. These Development Financial Institutions (DFIs) have developed spirit of entrepreneurship in the decentralized sector and contributed immensely towards the industrial development of the country during the last five decades. These DFIs received support and encouragement in desired measures from all corners such as Government of India, State Governments, RBI, IDBI, SIDBI etc. Ever since these DFIs came into existence they have been managed and controlled by the respective state governments. However, a disquieting feature of their working has been that despite their strategic importance in the national economy and their laudable objectives they have not been able to acquire essential business and professional characteristics in their functioning. Because of their monopoly in the field for nearly four decades, they tended to function like any deptt. of the State Government with attendant pitfalls and insensitivity. During the past two decades a number of Committees / Working Groups have been set up to study the problems of these Institutions and suggest measures for their revival. But nothing concrete had emerged so far. As a result, these important channels for providing financial assistance to the SSIs have been effective only in a few states. The underlying cause for poor performance of these DFIs was diagnosed by two of the various Committees, namely; **Khan Working Group** on "**Harmonizing the role and operations of DFIs and Banks**" and **Kapur Committee** on "**Credit to SSIs**" (1998). The Khan Working Group observed as under :-

"A thorough revamp of the management structure and an infusion of professionalism into the operations

of the SLFIs is imperative for their sustainable turnaround. The Chief Executives of SLFI, who are usually serving IAS Officers, are appointed by the State Government. It has been the practice with most of the State Governments to change the Chief Executives frequently resulting in lack of continuity at the top management level. With a view to fostering professionalism and efficiency, the CEOs of the SLIs should ideally be a professional/technocrat and be appointed by the Board and shareholders for a fixed term to whom he should be accountable for his performance".

The Kapur Committee has been rather more critical about SFCs. The Committee observed :-

"Most of the SFCs are plagued by low recoveries, indifferent management and political interference. Normally, the Chairman is a political person and the Managing Director is drawn from Civil Services. Even though the MD has to be appointed by the State Government in consultation with IDBI, (now SIDBI) yet this consultation rarely takes place before the appointment is made. As a result, appointment of MDs without considering their background etc. and their frequent transfers have played havoc with the management of these corporations".

Although SFCs Act was comprehensively amended by the Government in the year 2000, the management of SFCs continues to be the weakest area in the SFCs Act; there has been no perceptible reform in this regard except some window-dressing measures like nominations of Directors by other financial institutions and individual shareholders. Keeping the post of Managing Director and Chairman separate is bound to create avoidable complications and at times lead to friction between the two. The

Photo of shri
K.K. Mudgil

PHOTO



ideal situation would have been to appoint Chairman & Managing Director (single individual) by the State Government in consultation with SIDBI.

The very existence of an institution depends upon the quality of its management and the outlook of its staff. Over a period of time, some glaring deficiencies have crept into the managerial functioning of the State Financial Corporations. The staffing pattern of SFCs warrants rationalization and the urgent need is to change the mindset of the employees and inculcate in them a sense of loyalty, discipline and responsibility. In the wake of ongoing financial sector reforms and an aggressive competition SFCs have to face from commercial banks and other financial institutions, it is absolutely necessary that customer service in SFCs is improved to a large extent. Only those financial institutions will survive in the market, which provide efficient customer service to their clients and also imbibe best practices in their operations. With these objectives in view, COSIDICI has arranged training programmes on continuing basis for the officers of SFCs/SIDCs at the Reserve Bank's College of Agricultural Banking, Pune, where the above aspects form part of the curriculum. The employees of SFCs are required to be motivated to give their best and in that direction, the Chief Executives and other senior officers of SFCs can play a very significant role.

Ever-rising level of overdues and non-performing assets in SFCs has been a major contributory factor in crippling the financial health of these institutions. There could be no two opinions that re-cycling of funds in a financial institution is absolutely necessary for it to survive and sustain itself in the long run. If a large chunk of its resources are locked up in overdues and NPAs, it is bound to land itself in a serious crisis sooner or later. This is what has exactly happened in the case of SFCs, which have been struggling for survival. The urgent need, therefore, is to tackle the problem of rising NPAs and unless the balance sheets of these Corporations are cleansed by curtailing the NPAs either by way of recovery or write-off, their revitalization would remain a distant dream. Although these Corporations are adequately armed by virtue of Sections 29 to 32 of the SFCs Act for recovery of

their dues, these statutory provisions have somehow not helped these Corporations. This was largely on account of external pressures, political interference and long-drawn litigation.

The panacea for the present difficulties of SFCs lies in launching a special campaign for the recovery of overdues and NPAs. The SFCs may appoint special teams of officers to establish direct contact with the defaulters and explore the possibility of recovering their dues. If necessary and depending upon the merit of each case, the Corporation can resort to '**One Time Settlement**' of its dues with the defaulting units. In this connection, looking to what has happened in the past, it is extremely important that the Chief Executives of the SFCs may take the State Governments into confidence in invoking Section 29 of the SFCs Act for recovery of their dues. The recovery of NPAs along with the interest will improve the profitability of the Corporations and will also improve its capital adequacy ratio to that extent. I, therefore, strongly feel that of all the strategies, which may be perceived for reviving SFCs, recovery of NPAs should occupy a place of highest priority and all efforts should be directed towards this end. The SFCs may draw up a detailed action plan for this purpose and deploy a large number of their officers for recovering the NPAs. The progress of this campaign may be monitored by a team of senior executives headed by the Managing Director at the Head Office of the Corporation.

COSIDICI while evolving strategies for the revival of SFCs, has always emphasized the imperative need and urgency for bringing about financial and operational efficiency in the SFCs and also to improve their customer services. These Corporations require organizational, financial and managerial re-structuring to bring about necessary reforms in their functioning in tune with business environment brought about by ongoing financial sector reforms. Any step such as re-capitalization taken in isolation would, therefore, prove ineffective and futile.

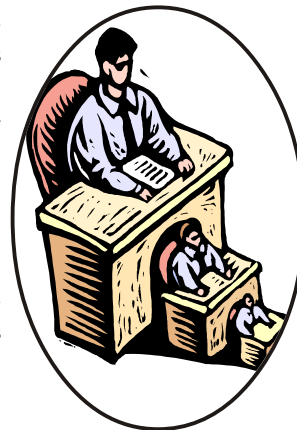


(K.K. MUDGIL)



APPOINTMENTS

- ❖ Shri Karni Singh Rathore, IAS has been appointed as Chairman & Managing Director, Rajasthan Financial Corporation, (RFC), Jaipur vice Shri Sanjay Dixit.
- ❖ Shri Majid Ali, IAS has been appointed as Managing Director, Uttar Pradesh Financial Corporation (UPFC), Kanpur vice Ms. Sunanda Prasad.
- ❖ Shri Anil Malik, IAS has been appointed as Managing Director, Haryana Financial Corporation (HFC), Chandigarh vice Shri Balbir Singh Malik.
- ❖ Shri Arvind Agarwal, IAS has been appointed as Managing Director, Gujarat State Financial Corporation, (GSFC), Gandhi Nagar vice Shri P.K. Pujari.
- ❖ Shri Rajendra Kumar, IAS has been appointed as Managing Director, The Andaman & Nicobar Islands Integrated Development Corp. Ltd. (ANIIDCO), Port Blair vice Shri Naresh Kumar.
- ❖ Shri Ajeya Kallam, IAS has been appointed as Managing Director, Andhra Pradesh State Financial Corporation (APSFC), Hyderabad vice Shri Rajan P. Watal.
- ❖ Shri A.K. Singh, IAS has been appointed as Managing Director, Pondicherry Industrial Promotion Development & Investment Corp. Ltd. (PIPDIC), Pondicherry vice Shri R.M. Pillai.
- ❖ Shri A.V. Palekar has been appointed as Managing Director, Goa Industrial Development Corporation (Goa-IDC), Panaji vice Shri Sandeep J. Jacques.
- ❖ Shri V.P. Shetty, Chairman of Canara Bank, has been designated to take charge as Chairman at the newly formed banking company IDBI.



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PROFILE OF MEMBER CORPORATIONS

PUNJAB STATE INDUSTRIAL DEVELOPMENT CORPORATION LIMITED (PSIDC)

Smt. Ravneet Kaur, IAS, is the present Managing Director of Punjab State Industrial Development Corporation Ltd. (PSIDC). PSIDC is the premier institution of the Punjab State for promotion of large and medium scale industries in the State. The Corporation combines in itself the role of an institutional entrepreneur, financial institution and a facilitator for industrial growth of Punjab. Being an undertaking of the State Government, it is the nodal agency which acts as a catalyst for development of large and medium scale industries in Punjab. It has a team of highly qualified and experienced professionals for providing full escort services for implementing projects from state of conception to commissioning. It helps in identifying, purchase/ acquisition of land, seeking approval from various state departments for change of land use and issues relating to land. It also helps in seeking temporary and permanent electricity connections from Punjab State Electricity Board. It also helps in conducting environment impact studies and getting clearances from departments of Labour and Industries. It provides help in getting clearances from the Punjab Urban Development Authority and in getting registrations with State and Central excise & taxation/sales tax authorities. It also provides help in dealing with financial institutions and banks for tying up of the financial closure of projects as, also any other assistance specific to the project relating to state/central Govt. authorities, financial institutions.

PSIDC has been able to attract many national and multinational companies in the past to set up their units in the State. Many leading foreign companies have collaborated with PSIDC in setting up of industrial ventures in the State. They include companies like Toshiba, Suzuki, Mazda, Hitachi, Toyo Jozo, JRC and OKI of Japan, Westinghouse, Repco and Harris of USA, Phillips of Holland, Ericsson of Sweden, Conrac and Zimmer of West Germany, DDS Kroyer of Denmark, Skoka of Czechoslovakia etc.

The major projects promoted by the Corporation through different companies in Public/Joint/Assisted Sector are Tractors, Harvester Combine, Light Commercial Vehicles, Diesel Engines, Steel, Colour

Picture Tubes, VHF Sets, Computer and Data Acquisition System, EPABX, Electronic Typewriters, Telephone cables, GLS Lamps and Flourescent Tubes, Furfural, Parabolic Springs, Caustic Soda, Soda Ash, Cotton Synthetic Yarn, Polyester Fibre, Wheel Rims, Figured

and Wired Glass, Terry Towel, Vanaspati, Drugs and Drugs Intermediates, chemicals and many more products. The projects have been established by acquiring sophisticated foreign technology as well as suitable indigenous technology wherever available. It has substantially upgraded the Industrial and Social Infrastructure of the State which has helped in projecting Punjab as an attractive investment destination nationally as well as globally.

During the last three years, PSIDC has floated various OTS Schemes for having speedy and bulky recoveries for the various types of loans granted by it as well as equity investments made by it in the joint/ assisted sector companies. The One Time Settlement schemes had a positive impact on recoveries and during the year 2002-03, PSIDC has recovered a sum of Rs.3,416.26 lacs towards loan and Rs.1,803.44 lacs towards equity disinvestment. In the year 2003-04, PSIDC has recovered a sum of Rs.4,595.60 lacs towards loan accounts and another Rs.23,818.89 lacs towards equity disinvestment including money received from disinvestment of Punjab Tractor Ltd. amounting to Rs.218.39 crores. During the nine months period of 2004-05 (upto 31.12.2004), PSIDC has recovered a sum of Rs.1,419.74 lacs towards loans and Rs.960 lacs towards equity buy-back.

The Corporation is also continuously in the process of financial restructuring of its finance portfolio since last few years with a view to reduce its interest burden by way of swapping of high interest rate debts with low

Photo

*Smt. Ravneet Kaur, IAS
M.D., PSIDC, Chandigarh*



interest rate debt and recently PSIDC has floated a Bond Issue of Rs.100 crore with a green shoe option of Rs.50 crores against State government guarantee with rate of interest @ 7.70% mainly for the premature redemption of a part of the 11.74%, 11.70% and 11% bonds. In this process, PSIDC is able to have substantial savings in the interest payments on its borrowings.

The process of disinvestment in Punjab Tractor Limited has been completed during the year 2003-2004 and the money amounting to Rs.218.39 crores recovered from sale of equity stake of PSIDC in Punjab Tractors Limited, has been utilised for clearance of liabilities including large portion of high interest rate debts. PSIDC is also hopeful of disinvesting its shareholding in Punjab Alkalies & Chemicals Ltd. within a very short period. PSIDC has cleared the entire loan of IDBI & SIDBI recently by way of OTS, wherein substantial reliefs by way of interest had been granted to PSIDC.

The grass root refinery project being set up at Bhatinda by Punjab Government through PSIDC is in the advanced state of implementation. This project with an original capital outlay of about Rs.9,800 crores (in the year 1998) is being implemented by M/s Hindustan Petroleum Corporation Limited. Land measuring around 2,000 acres has already been acquired for the project and its boundary wall has been completed. The State Govt. has been successful in bringing M/s Gujarat Ambuja Cements Ltd. to the states. The Company has successfully implemented Rs.140 crores cement grinding unit at Ropar with State of Art Technology based on the utilisation of fly ash available from Thermal Plant. Subsequently, the company embarked upon a major expansion programme/setting up of a new unit. The company, in a record time, has successfully

commissioned the first phase of the current grinding unit at Bhatinda involving a capital outlay of Rs.65 crores and second phase involving a capital outlay of about Rs.65 crores is likely to be commissioned shortly.

M/s Grasim Industries Limited a company belonging to well known Aditya Birla Group has already implemented first phase of Cement Grinding Unit at Lehra Mohabbat (Distt. Bhatinda) at an estimated cost of Rs.75 crores and is now undertaking expansion at an estimated cost of about Rs.50 crores in the second phase. M/s Surya Medicare Ltd., a company promoted by PSIDC had successfully implemented basic drug manufacturing unit with an estimated cost of Rs.22 crores. The company is now undertaking expansion at an estimated cost of Rs.27 crores. PSIDC has also signed a Memorandum of Understanding with the GAIL India Ltd. for facilitation of liquidated natural gas pipeline and the project involves an approx. capital outlay of about Rs.1,350 crores. One project promoted by PSIDC in the assisted sector for the manufacture of IMFL with a capital outlay of Rs.1,270 lacs has been commissioned during the year 2003-04 and another project for the export of frozen meat with an outlay of Rs.2,500 lacs has been commissioned during the year 2004-05. Another project for the manufacture of frozen meat has been taken up under construction during the year and commercial production is expected to start during the next financial year. PSIDC is also in the process of development of green field international airport at Lodhowal near Ludhiana and requisite information required by Airport Authority of India, New Delhi for the purpose has already been supplied to them. PSIDC has also been appointed as a Corporate Insurance Agent recently and is hopeful of getting good business under the Scheme.



**To have friends, be a friend.
To be remembered, remember
others.
To be loved, be loving.**



MEMBER CORPORATIONS - THEIR ACTIVITIES

KSFC

State Level Seminar on Automobile Industry

Karnataka State Financial Corporation (KSFC) organised a one day state level seminar on automobile Industry on 19th November, 2004 and was inaugurated by the Hon'ble Deputy Chief Minister, Shri Siddaramaiah. In his inaugural address he mentioned that the automobile and auto component sector has maintained 9 - 15 percent growth in Karnataka second only to IT. Turned a priority sector, auto and auto parts hold the key to economic growth of the state and he called for large-scale investments. He said that the SMEs can show case their mettle since concentration on auto components by itself can accelerate the growth.

Shri V. Umesh, IAS Managing Director welcomed the delegates, participants and officers of the Corporation to the Seminar and said that the technical sessions of the seminar would throw light on the automobile industry sector and its latest development and the future needs.

The development of the automobile industry is directly linked to the development of a nation, which is very much indicated by the economic progress achieved by the developed countries today. Development of automobile industry leads to development of almost every type of industry - steel, aluminium, copper, plastics, electronics, hydraulics, machine tools, transportation, motor sports, servicing, roads and other infrastructure. One can visualize the enormous employment potential the automobile sector generates and the technological advancement this can bring about. Hence, growth in automobile sector is being considered as prime focus of development for any nation.

India is slowly emerging as a major player in automobiles sector. Looking at the size of the market and the potential the country is holding, almost every multinational automobile company has established its presence in India. During the past 3-4 years the industry is registering an annual growth rate of around 15% which is quite impressive for any developing nation.

Slowly India is emerging as a major base for automotive giants in this part of the world.

Scheme of Assistance to Construction Activity

The Rs.2,40,000 crore construction industry in the country could well see a faster growth driven by the

buoyancy in the economy and increased investments in major infrastructure projects, including roads, ports, housing and other sectors. It was estimated that about three crore people were engaged in the construction industry and this number could go up further, if the domestic home construction market caught up.

The demand for domestic housing was yet to be tapped and as per projections, there was a shortage of about 40 million homes. There is a need to look at these areas and bring in new technologies that would help to speed up projects due to new technologies and equipment.

India and China are amongst the two major nations where the Construction activity is poised for much rapid growth when compared to the developed world. Keeping this in mind, KSFC is operating the SCHEME FOR CONSTRUCTION ACTIVITY and the details of the Scheme are given below :-

Objective :

To provide financial assistance for construction of Group Housing, Commercial Complex, Software Parks, Roads, Flyovers, Bridges etc.

Eligible Borrowers :

- ❖ Firm / company, which has been in existence for atleast 5 years and proven profits for the last 3 years with no default to any Banks/Financial institutions.
- ❖ 'AAA' rating, from recognised rating agencies such as CRISIL or ICRA and ISO Certification are preferable.
- ❖ Net worth of company/firm should not exceed Rs.20 crores.

Extent of Finance :

- ❖ Upto Rs.200.00 lakhs for proprietary and partnership firms and upto Rs.500 lakhs for companies.
- ❖ The term loan not to exceed 20% of average sales of the last 3 years or / and shall not exceed 20% of estimated investments in the projects on hand.

Rate of Interest :

12.5% per annum

Repayment Period :

Upto 5 years including a moratorium of 6 months.



Security :

150% of loan amount in the form of fixed assets only. Escrow mechanism required.

Rental Discounting Scheme**Objective :**

To provide financial assistance on the strength of the rent earned by non-residential properties located within the city and municipal limits of Bangalore, Mangalore, Hubli, Dharwad, Gulbarga, Shimoga, Bhadravathi, Mysore and Belgaum subject to gross rent earned of not less than Rs.25,000/- per month. The properties located outside the Bangalore City Corporation limits will also be considered on case to case basis depending on the location and infrastructure advantages enjoyed and rent earned. The tenants occupying the building should be reputed multi-national companies, nationalised and private sector banks, all India financial institutions, insurance companies, profit making public and private sector companies which are in existence for a minimum period of 5 years and earned profits etc.

Eligible Borrowers :

Proprietary concerns, partnership firms, private/public limited companies, trusts and co-operative societies are eligible for assistance.

Limit of Assistance :

Minimum of Rs.10 lakhs and maximum of Rs.500 lakhs in the case of companies and cooperative Societies and Rs.200 lakhs in all other cases.

Extent of Assistance Rate of Interest :

The extent of assistance will be determined on the basis of rent received after deductions. The exact amount of assistance will be worked out on the basis of net present value and future rents by discounting at a rate of 14% p.a. The rate may change from time to time and it will be binding on the beneficiary of the assistance. The repayment shall be monthly instalments as computed above. In case of default, penalty at 2% p.a. over and above the contracted rate shall be charged on the defaulted amount for the period of default. The calculations of this interest shall be on monthly compounding basis.

Security :

- ❖ The assignment of the rights of the lessor to receive the rents from the tenants and execution of necessary documents.

- ❖ The personal guarantees of the promoters availing the facility as per the terms of sanction.
- ❖ The collateral security for the assistance shall be by way of first mortgage of the subject property considered under the scheme and hypothecation of movable assets like DG set, lift etc. attached to the premises.

Others :

- ❖ A tripartite agreement will have to be entered among the owner of the premises (beneficiary), tenant and KSFC.
- ❖ The property will have to be insured by the beneficiary of assistance.
- ❖ Processing Fee : The application under the scheme shall be accepted on payment of processing fee as per the norms of the Corporation besides management fee of 0.5% of the sanctioned assistance payable at the time of documentation. Further, documentation charges shall also be paid as per the norms of the Corporation.

Foreign Letter of Credit (FLC) :

KSFC has been operating the scheme of opening Foreign Letter of Credit for importing the capital goods through commercial banks exclusively for our borrowers since 1995. The scheme is operated in the HP & FS department of Head Office and the salient features are as below :

Details to be submitted by the Borrowers :

- ❖ Application Form
- ❖ Undertaking on Rs.50 Non Judicial Stamp Paper.
- ❖ Specific Import License (Goods not covered under OGL).
- ❖ Copy of Import & Export Code.
- ❖ Latest Proforma Invoice

Terms of Payment :

Upfront 25% margin money at the time of establishing the LC and the remaining payment will be arranged by KSFC by issuing Letter of Comfort.

Opening Charges :

- ❖ Rs.2,000/- fixed charges.
- ❖ Plus 0.5% of the sight FLC upto 90 days.
- ❖ Plus 0.75% per month beyond 90 days.





ACTIVITIES OF COSIDICI

Executive Committee Meeting :

The Executive Committee Meeting of COSIDICI was held in New Delhi on May 16, 2005 and was well attended. The meeting was also addressed by Shri N. Balasubramanian, CMD, SIDBI followed later by a pro-active interaction between him and the delegates of COSIDICI.

Before, CMD, SIDBI joined the meeting at 12 O'clock, the President COSIDICI had identified various issues which could be discussed by Members with CMD, SIDBI which inter-alia included restructuring of SFCs and role of SIDBI/Government of India; relaxation in the terms and conditions of Memorandum of Understanding with SFCs emphasizing bipartite agreement instead of tripartite leaving out the state government; direct lending by SIDBI posing competition to SFCs – good customers being lured away; reduction in the refinance rate on fresh refinance linking it with market trends and raising of quantum of refinance from **55% to 85%**; restructuring of old refinance outstanding bringing it down to current interest rates and then reducing **2%** interest thereon. Besides, these issues, Managing Director, WBFC also made some suggestions which included redemption of high cost SLR Bonds by raising money through non-SLR Bonds; SIDBI may be requested to subscribe to such non-SLR Bonds which would help SFCs to prematurely redeem their SLR Bonds liabilities to the banks; SIDBI may introduce adhoc credit facility to the SFCs on one month disbursement requirement being allowed earlier by RBI and SIDBI should contribute share capital in equal proportion with the state government contribution as and when shares presently held by IDBI were transferred to SIDBI. Besides, Managing Director, Kerala Financial Corporation also suggested that SIDBI may be requested to change the norms for treating loan as NPAs for SFCs etc. Vice Chairman & Managing Director, APIDC suggested that financial package extended by SIDBI to SFCs may also be extended to SIDCs.

Besides, these issues certain other issues were also discussed viz. M.D., KFC suggested that the norms for treating loans as NPAs may be changed for SFCs and the period of default may not be reduced from **180 days to 90 days w.e.f. March 31, 2006**. The need was rather to increase the period of default from **180 days to 365 days** or so.

The CMD, DFC made an appeal to the CMD, SIDBI for relaxing some of the rigid conditions of Memorandum of Understanding and pleaded that an endeavour should be made to bring all SFCs under its umbrella by entering into bipartite agreement. She also observed that it was an essential pre-requisite for the survival of SFCs that the cost of its funds was reduced and NPAs recovered through sustained efforts by launching a special campaign.



Shri Balasubramanian observed at the outset that SIDBI being apex refinance organization had a mandate not only to provide refinance facility to SFCs but was saddled with the responsibility to nurture the Small Scale Industry (SSIs) sector in the country and increase the flow of credit to the sector commensurate with its importance in the national economy. SIDBI had its own limitations in terms of its statute, government policies and regulatory frame work of the central bank. Regarding its involvement with SFCs, the CMD stated that SIDBI had all along been conscious of its role and had initiated various steps in the past for revitalization of SFCs which were considered to be important partners of SIDBI in purveying credit to the SSI sector in the country. He stated that SFCs should not over look the basic realities i.e. ownership of SFCs in the country and added that the respective state governments were the owner of these Institutions and had been managing them right from the beginning. SIDBI's role was only that of a lender and one cannot expect SIDBI to do everything for SFCs. He, therefore, exhorted the SFCs to convince their state governments to come to the rescue of SFCs and provide necessary financial relief for their re-capitalisation and revitalization. He assured that SIDBI was always willing to help the SFCs where the concerned state governments came forward to help them. Shri Balasubramanian reviewed, in brief, the performance of those SFCs (nine) which had entered into Tripartite Memorandum of Understanding with SIDBI and stated that with the relief provided by SIDBI by way of reduction in the interest rates on fresh and old refinance most of these Corporations have either already turned around



and shown net profit or are on way to turning around. Their latest balance sheets would bear testimony to the above statement.

With regard to relaxation in the conditions of MoU and confining the MoU between SFCs and SIDBI leaving out the state governments, Shri Balasubramanian categorically ruled out the exclusion of the state governments from the purview of these MoUs. He reiterated his observations that the state government being the owner of these Corporations their involvement in such exercise was absolutely necessary for inculcating financial and administrative discipline in these Corporations. He further stated that SIDBI cannot treat all the SFCs at par; there has to be a two way traffic and added that SIDBI will be willing to help those SFCs which have already agreed to follow the discipline stipulated by it and also those which are willing to fall in line. While those SFCs which were unwilling to abide by the discipline of SIDBI would have to wait till such time the state governments were agreeable to sign the MoU.

Shri Balasubramanian stated that recovery of loan was an essential pre-requisite for any Financial Institutions (FIs) to survive as recycling of funds was absolutely necessary to keep the tap flowing. He added that unless the SFCs streamline their internal functioning and strengthen its recovery machinery and recover their NPAs, no financial assistance or relief could help them survive. He told the Chief Executives to launch special campaign for recovery of NPAs which would help in augmenting their bottom line, increase in profitability and improving its solvency.

Regarding demand for raising quantum of refinance from **55% to 85%**, Shri Balasubramanian stated that SIDBI was always very considerate in acceding to the genuine requirements of SFCs and in the past it sanctioned higher refinance limit to some of the SFCs on case-to-case basis depending upon their actual lending requirements and of course subject to other things being satisfied. He, therefore, ruled out a blank increase in the quantum of refinance and assured that

all genuine requirements of SFCs would be considered by SIDBI on merit.

Reacting favourably to the suggestions made by MD, WBFC, Shri Balasubramanian assured that he would consider various suggestions made by him such as subscription to non-SLR Bonds, sanction of adhoc limits etc. in proper perspective on the merit of individual SFCs to the extent possible and of course subject to after usual conditions being fulfilled.

Reacting to the suggestions made by CMD, DFC regarding **technical and financial support to SFCs** which were in the process of completing computerization and helping them evolve suitable software package, Shri Balasubramanian stated that SIDBI will provide technical and financial support to such SFCs and that the concerned SFCs may approach SIDBI in this regard.

With regard to the request made by COSIDICI for grant of special development subsidy for setting up of Information Centre and Library and for subsidizing the on-going Training Programmes, Shri Balasubramanian stated that details in this regard might be forwarded to him by COSIDICI and he would consider them favourably keeping in view his own limitations.

Concluding his observations, Shri Balasubramanian CMD, SIDBI assured SFCs that within its own limitations, SIDBI would always be willing to extend its support to SFCs not only in providing adequate refinance facility but also in extending other promotional schemes to SFCs for improving the competitive strength of SSIs.

Training :

The fifth integrated Training Programme which was conducted by the College of Agricultural Banking (RBI), Pune from May 02, 2005 to May 07, 2005 was well attended by 19 participants. The programme was well received by the participants and got an excellent overall weighted average rating of 86.6%. The participants observed that the programme was well balanced.



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THE CRUCIBLES OF AUTHENTIC LEADERSHIP

BY
J.M. CHONA*

The 20th Century was marked by the emergence of some of most powerful and controversial leaders in human history. Millions died in the death camps of the Third Reich reflecting failure of leadership. The “butcher’s bill” of the 20th Century is a reminder of why we study leadership in the first place. One consequence of the extraordinary leadership of Franklin Roosevelt was the creation of genuine weapons of mass destruction. This issue is raised in order to remember that the quality of our lives is dependent on the quality of our leadership. The context always counts when it comes to leadership. Hence it is important to examine certain issues and questions related to leadership in the context of today.

In the United States, the perception about leadership changed in some basic way on September 11, 2001. One immediate consequence of the terrorist assaults on New York and the Pentagon was to make leadership a matter for world discussion in a way it has not been since World War II. Leadership became central to the public conversation particularly when the United States has had the luxury of studying leadership with the leisurely detachment that only those in peaceful and prosperous nations can afford.

The assault on a non military target was perhaps more stunning than Pearl Harbour. Americans are still sorting out the consequences of the attacks of 9/11 and will continue to do so for decades. The collapse of the Twin Towers brought a new awareness that leadership is more than a matter of who looks best on television. Since 9/11, government officials have been scrutinized for evidence of leadership ability with an intensity usually seen only in wartime. And the media referred repeatedly to the larger-than-life leaders of World War II. The most iconic leader was unquestionably Winston Churchill who spoke the stunning line : “I was not the lion but it fell to me to give the lion’s roar”. The invocation of Churchill was not only a secular prayer for help but also an evidence of a shift in the very idea of leadership involving a return to a more heroic and inspirational definition than had been the fashion for decades. In the rubble of Ground Zero, the people did not want a leader who could organise

cross-functional teams. They longed for a leader who could be a sage and saviour to lead them out of hell.

Based on various studies on leadership, 9/11 was a compelling reminder that war and other violent crises are inevitably crucibles from which leaders emerge. It was fascinating to watch how Rudy Giuliani was transformed in the days following the attacks from the lame duck mayor of New York into “Churchill in a baseball cap” as one phrasemaker dubbed him. Whatever else 9/11 meant, it was a vivid reminder that one of the sweeter uses of adversity continues to be its ability to bring leadership to the fore. The Centre for Public Leadership at Harvard’s John F. Kennedy School of Government describes the crucible in which Harry Truman discovered that he was a leader. Contrary to the common perception that he was the one-time haberdasher whose leadership emerged only after the death of Roosevelt, Truman was tested during the Great War on the battlefields of France. And he discovered that he has a taste of leadership as well as a gift for it.

Exhaustive research on leadership indicates that leadership emerged after some defining experience or crucible. Indian Prime Minister, Indira Gandhi emerged as a strong and decisive leader from the Bangladesh crises of 1971. The large scale migration of refugees into India from across the erstwhile East Pakistan in the wake of their uprising against the authorities in Pakistan created unmanageable socio-economic problems for the Indian authorities. This phenomenon generated the seeds of an armed conflict between India and Pakistan. It became clear to her that an independent state carved out of East Pakistan would be necessary for the resolution of problems. This would involve dismemberment of East Pakistan from the State of Pakistan. She also recognised that should hostilities break out between India and Pakistan, the United States might step in to support Pakistan. Her perception was that there was a tilt towards



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Pakistan in the design of American foreign policy. To counter this, she also required a strong ally. Therefore, she worked assiduously and secretly over a period of time to enter into an Indo-Soviet Treaty of Friendship which would act as a strong bulwark against the possibility of any misadventure by the United States. Prior to the war and armed with such a treaty, she went to Washington to apprise President Nixon of the gravity of large scale illegal migration of refugees into India and the challenge it posed to the Indian authorities. And when she returned to India, she had been more than convinced that she had not been able to win over American President to her viewpoint. This was her crucible and within a few weeks after her return, hostilities broke out between India and Pakistan with the Soviet Union lending its weight behind India in terms of the Friendship Treaty. The consequence was that American President could only blink and she handed over a stunning and humiliating defeat to Pakistan. The creation of Bangladesh is thus a testimony to the political maturity and decisiveness that she displayed in the war against Pakistan.

Research also indicates that something magical happens in the crucible in the form of alchemy whereby fear and suffering are transformed into something glorious and redemptive. This process reveals, if it does not create, leadership which has the ability to inspire and move others to action. While intelligence, optimism and other traits traditionally associated with leadership may be present in all subjects, they are nevertheless no guarantee that the alchemy of leadership will take place. Countless gifted people have been broken by suffering. But the true leaders discovered themselves in their crucibles for reasons not fully understood. In spite of the searing experience, they were able to make sense of it or organise meaning around it which subsequently attracted followers. Instead of being defeated by their ordeal, each of them saw as a heroic journey thereby converting adversity into an opportunity.

The leadership model arising out of research indicates that all successful individuals demonstrated four essential competencies : (i) adaptive capacity; (ii) the ability to engage others through shared meaning, (iii) a distinctive voice and (iv) integrity. Of all these abilities, the most important was adaptive capacity. And adaptive capacity is essentially a creativity that enables to take disparate things and turn them into something new and useful. It is no accident that there is a convergence between leadership studies and studies of

creativity that seems to date back to the first studies of Darwin, Einstein and other geniuses or thought leaders. The terrorist attacks of 2001 underscored that ours is indeed one world, albeit a profoundly splintered one, and that television and more recent technologies are its primary mediators. Globalisation has created a host of new dangers that require a new kind of leadership that is, above all, collaborative. And global terrorism is only one contemporary threat that requires a multinational and collaborative response. Disease, poverty and the oppression of minorities, women and political dissidents are urgent international concerns. In the months that led up to the toppling of Saddam Hussein in 2003, much was made in media of President Bush's failure to build a global coalition. The decision of President to enter Iraq with support from only a handful of nations (U.K., Australia and Poland among them) was widely seen as a leadership more than political differences on whether American military action was appropriate only if legitimized by the United Nations. The criticism reflected an understanding that coalition building is one of the essential competencies of all leaders and in some ways the defining one.

Coalition building is also an essential element of corporate leadership. Until American business was roiled by recent corporate scandals, the Chief Executive Officers (CEOs) and other business leaders were treated as demigods whose success was a unilateral achievement resulting from their special genius. This tradition dates back to the deification of such business titans as Thomas Edison and Henry Ford and it resurged during the late 1970s when Lee Iacocca was hailed as the saviour of the American auto industry. In many ways, the rise of the celebrity CEO was a regression to the era when great institutions were perceived as the lengthened shadows of great men. Notwithstanding the contribution of Dhirubhai Ambani to the phenomenal growth of Reliance Industries in India, he recognized that it is the collective endeavour of talented people which has put this group on a high pedestal reflecting that an institution is much bigger than an individual however capable he or she is. Whatever their sphere, authentic leaders know, even if they do not bruit it around, that their power is a consequence of their ability to recruit talented persons for the collective enterprise. The Lone Ranger has never been as dead as he is today. In all but the simplest undertaking, great things are done by alliances, not by larger-than-life individuals, however powerful they may seem.



The world is never so simple that a single heroic leader, however capable, could solve its problems unilaterally. Even the Biblical tale of Noah underscores the importance of collaboration. But certainly in the world of today there is need for an unprecedented coalition building. The European Union and Asean represent the paradigmatic response to this changed reality. The pace of change is accelerating as never before. The day is all but over when a leader has the leisure to digest all the facts and then to act. Thanks to digital technology, facts can be collected and numbers crunched very quickly. Since information is always flooding in, there is no final analysis but only constant evaluation and reevaluation. Action becomes one more way to gather information which becomes the basis for further action. As psychologist Karl Weick has so eloquently put it, in such a world leaders cannot depend on maps. They need compasses. And as never before, they need allies. Forming social alliances was a strategy that the older people used to stay in touch with a rapidly changing world. The younger leaders also benefited from relationships with more seasoned and older friends. Mentoring is a variation on this primal theme that suggests a way for the young and the old to pool their wisdom and energy to their mutual benefit.

Leaders must articulate vision and set milestones. Vision is like a light house pointing the way and showing the hazards. It must ignite the imagination of colleagues and provide a rallying point to create a positive stretch. The vision should always be slightly beyond reach but not an impossible dream either. Nothing would unite the common energy of high potential team as a shared meaning. Leadership has also to be built on a strong foundation of values. If vision gives direction, values determine the boundaries and imply transparency in decisions. They transmit trust which is a very powerful cementing force. Leaders must create a culture of innovations whose ideas thrive so that high performing teams are built.

Since leaders have power, the question of whether they use it for good or ill continues to be desperately important. We could argue forever over whether Hitler was an authentic leader, or whether leadership, by definition, implies a kind of virtue. Perhaps we should reserve the word leader for those whose leadership is morally neutral or tilted towards the good. To say that the problem of how to label bad leaders distracts us from more pressing concerns is not to say that morality

and leadership are trivial matters. On the contrary, they are of the utmost importance. Ethics always counts. Humility and honesty together with unswerving commitment to the welfare of people are important qualities for a leader to sail through the muddy waters of politics. Far more urgent than the issue of what to call bad leaders is the question of how to create a culture in which despots or even plain-vanilla corporate tyrants cannot flourish. Fertile and liberating environments have two components: (i) able leaders who listen and (ii) capable followers who speak out. The corporate scandals of the past few years have caused unmitigated turbulence in the American economy thereby adversely affecting the linked economies of the world. And in nearly every case, those scandals resulted not simply from unscrupulous accounting and other crimes but from the failure of corporate leadership to create a culture of candour. Enron is a perfect example where the problem was that few were willing to speak truth to the centre of power because criticism was a taboo. Recently, Compaq CEO lost dominance of the computer market to Gateway & Dell not because he lacked talent but because he surrounded himself with a battery of yes men and closed his office door to anyone who had the courage to tell him what he did not want to hear.

One would hope that leaders in any organization would have the ego strength to accept well intentioned criticism from talented underlings. One would also hope that leaders would be wise enough to know that what they do not want to hear is often the most valuable information they can get. Executive arrogance poisons the atmosphere in an organization. It is especially deadly in idea driven organizations in which subordinates are often as talented as their leaders, or even more. In hard economic times, autocratic leaders may be able to retain talent. But as soon as the economy rebounds, talented people who do not respect the people they work for choose to head for the door. A leader may not be charismatic nor a warm and fuzzy person but just an able one whom people respect. This underscores that smart and capable people should be treated with respect not just because it is the right thing to do but because it is good business implying that leadership abilities are ultimately more important than leadership styles.

Based on the rich and varied study of leadership over the past two decades or so, it seems that the field is now on the brink of the kind of major breakthroughs that revolutionized social psychology in the 1950s and



1960s. Nevertheless, two topics, among others, need to be studied further.

Leadership And Globalization :

In a world made smaller by technology, it is more urgent than ever before that we understand symbols, values and mindsets of each other. Only then can we hope to reach consensus on common goals, particularly those relating to global peace and prosperity. One subject which requires detailed scrutiny is tribalism which is a powerful force throughout the world threatening to undermine globalization at every turn. There is no doubt that globalization has to be given a human face. Hence, it would be wrong to suggest that there would be state minimalism. Although the content of globalization is economic, it is essentially political in character. It has, therefore, to be carefully calibrated in such a manner as would allow the economy to absorb both the pace and the sequence without any disruptive effects. Hence there has to be a reassessment of the role of the state so that the issues of poverty, disease, illiteracy, sanitation etc are addressed in poorer countries through purposive interventions. Thus a co-partnership between the state and the market is necessary to accelerate globalization without disregard to social concerns. This is essential not just to understand those who oppose it but also to ensure the formation of purposeful alliances. Effective leadership would therefore increasingly depend on being able to decipher what people really mean when they do not say things that baffle us. This implies a greater interactive process between the leadership and the people so as to gauge their aspirations.

Leadership And The Media :

Leadership is and always has been a performance art. Notwithstanding the rhetoric which first developed as a tool of leadership, the latter continues to involve both artifice and the perception of authenticity. Image consciousness is being viewed by leaders as a modern phenomenon. To understand leadership today, it is essential to see how the competitive pressures of the media affect the reputations and the behaviour of officials. And one cannot castigate modern leaders without at least trying to assess where spin begins and reality ends. Public would lose trust and respect for the leaders if there is a knowledge that reality is being manipulated. And how does the internet affect modern leadership, given its ability to create buzz about an individual or vilify him or her with a master stroke? There

are things we need to know in an age when television cameras can create seeming character and instant polling allows leaders to change their positions in midspeech. But occasions are not few when the media has blown trivial issues out of proportion thereby misleading the people and consequently jeopardizing the image of leaders. Concomitantly, the media would also need to exercise restraint in projecting the image of leaders in a defamatory manner. Given the dangers of an unbridled freedom to the media in a democracy, it would be apposite that it abides by a code of conduct formulated by the government.

Conclusion :

The past research on leadership brings out the fact that often leaders in talent driven organizations forget what scholarship tells us about how to manage genius. They encourage competition among colleagues, instead of the more productive competition with outside organizations. They forget that most talented people chafe at bureaucracy and hierarchy. They forget that intrinsic rewards are the best motivators. Most successful leaders were those who saw themselves not as top dogs but as facilitators. Although many had healthy egos, they were far more concerned with the quality of work rather than shows of deference on the part of their subordinates. Indeed, they did not regard others as subordinates. They saw them as colleagues or as fellow crusaders on a holy mission. These leaders saw as their primary responsibility the unleashing of talent of others so that the collective vision could be realized. And they took pride in their ability to discover and cultivate talent and to recognize the best ideas that came across their desks. A spirited collegiality is the usual mood of these great groups.

As head of the Manhattan Project, Robert Oppenheimer successfully fought the insistence by the government on secrecy within the group. He understood that the free exchange of ideas was essential to the success of the project because ideas ignite each other and create more ideas. Inside the fence, he rewarded frankness and transparency as well as utter dedication to the urgent task at hand. The result was that the atomic bomb was built more quickly than anyone believed possible. He realized that the most heroic effort is given freely and it cannot be coerced. He did not order but inspired. Whatever the arena, genuine leaders find ways to make others want to come when they are called.



POLICY POINTERS

Annual Supplement of Foreign Trade Policy 2004-2009

Unveiling the annual supplement to the five year Foreign Trade Policy (2004-09) in New Delhi on April 08, 2005. Shri Kamal Nath, Commerce and industry minister said India's exports during 2004-05 were expected to be around \$ 80 billion against the target of \$ 75 billion. The growth rate in exports would be 24% (target 16%). Exports have been growing in excess of 20% since 2002-2003. Export growth rate was 20.3% in 2002-2003, 21.1% in 2003-04 and 24% in 2004-05. He has hiked the export target for the current fiscal by 15% to \$ 92 billion from \$ 80 billion.

Specific booster initiatives announced included more concessions for exporters; setting up of inter-state trade council; removal of export cess on agricultural and plantation commodities; package for modernisation of marine sector and incentives for gems and jewellery exports and EOU (Export Oriented Unit) sectors. The initiatives also included measures for enhancing competitiveness of manufacturing sector and simplification of procedures.

Big EPCG thrust for farm, SSIs

Commerce and industry minister, Shri Kamal Nath presented an overhauled package for the Export Promotion Capital Goods scheme, with a thrust on agriculture, small scale industry, port handling services and retailing.

The farm and SSI industries would get additional benefits, as per the re-oriented EPCG scheme, outlined in the annual supplement to the Foreign Trade Policy.

The Policy has allowed concessional duty imports made by agro units under the EPCG scheme to fulfil export obligation over a longer period of time with a reduced export obligation.

This implies that the agro units would now have to fulfil export obligation of six times the duty saved over a 12 year period instead of the normal window of eight times duty saved in eight years.

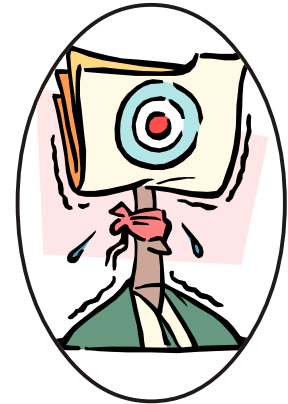
The government would now allow import of capital goods at 5% to promote capacity expansion and quality upgradation in the SSI sector.

The scheme has also be extended to the retail sector. Concessional duty benefits under the scheme have been extended for import of capital goods required for retailers having 1000 square metre shopping area, with a view to modernising infrastructure in the retail sector.

The retailers would have to fulfil the export obligation under the scheme from payments received against counter sales in free foreign exchange through banking channels as per the RBI rules.

The scheme also attempts to free those firms, making 75% exports in half or less than the original period from balance export obligation. In addition, the government has also attempted to liberalise the facility of clubbing EPCG licences.

Mr. Nath said that from now on, all EPCG licences issued under the same customs notification can be clubbed to reduce paperwork both for exporters and the government.



Cess on farm exports to be scrapped

The foreign trade policy has proposed abolition of cess on exports of all agricultural and plantation commodities presently levied by various commodity boards.

The exports of poultry and dairy products will now reap the benefits of Vishesh Krishi Upaj Yojana (*Special Agricultural produce Scheme*), which was hitherto enjoyed by exporters of flowers, fruits, vegetables, minor forest produce and their value-added products.

Shellac Export Promotion Council has been designated as the nodal agency for promoting exports of minor forest produces. It will open a separate cell to involve and encourage youth and women entrepreneurs in the export effort.

More glitter to gems & jewellery

The Foreign Trade Policy also announced a slew of measures aimed at easing export procedures in the gems and jewellery sector including a hike in the entitlement for duty free import of samples to Rs.3 lakh in a year from Rs. 1 lakh now.

"Now, companies would be able to import more samples. This is crucial because this will allow exporters access to more designs and enhance the competitiveness of firms", said Shri S. Ramaswamy, Executive Director, Gems & Jewellery Export Promotion Council Executive Director.

Also, the pre-shipment period - the time between import of gold and exporting the finished item - has been increased from 60 days to 90 days. This will be applicable both for outright purchases and purchases made on loan.

A long-standing demand of the trade that has been met is the uniform rate of duty for import of consumables at 2%. Earlier, there were differential rates applicable for gold and platinum (1%) and silver at 2%.



ECONOMIC SCENE

Core sector growth slips to 4.4%

The annual growth rate of the infrastructure sector has slipped to 4.4% for 2004-2005, against 6.2% in 2003-2004, as per data put out by the government on April 29, 2005. Sustained low rate of growth in coal, petroleum refinery products and finished steel sectors has put pressure on the core sector of the economy. The aggregate index for the month of March is 3.7%, compared with the 8.3% growth logged in last year.

Dr. Omkar Goswami, Chairperson, Corporate and Economic Research Group said unless the slow-down in some of the critical infrastructure sectors is addressed, it would be difficult to target a 7% rate of growth of the GDP, in 2005-2006. He said the government was not tackling the implementation issues, without which infrastructure investment wouldn't pick up.

The data tracks the growth rate in the six core sectors of crude petroleum, petroleum refinery products, coal, electricity, cement, and finished steel. On a month to month basis, the growth rate of the infrastructure industries has improved from minus 0.3% in February to 3.7% in March.

Trade touches \$ 186 b in 2004-05

India's foreign trade has touched \$ 186 billion during 2004-05 as compared to \$ 141 billion in the previous financial year. The additional trade of \$ 45 billion comprises \$ 28 billion increase in imports and \$ 17 billion increase in exports. According to the latest trade data released by the commerce department, India's merchandise exports registered a record growth of 24.41% in 04-05 to \$ 79.59 billion as compared to \$ 63 billion the previous year. Imports registered a higher growth of 35.62% to \$ 106 billion as compared to \$ 78 billion the previous fiscal.

Exports during March 2005 grew by 8.28% to \$8,513 million as compared to \$ 7,862 million during March, 2004. In comparison, imports during March, 2005 touched \$ 10,083 million - registering a growth of 25.52% over the March, 2004 import bill of \$ 8,033 million. In any case, imports have been growing at a higher rate during the recent months despite a larger base. The strong growth in imports as well as exports during the

recent times has already led to an increase in India's share of global trade.

Non-oil imports too registered a buoyant growth of 33.6% to \$ 77 billion in 04-05 as compared to \$ 57.6 billion in 03-04. Trade deficit for 04-05 was \$ 26.5 billion as compared to \$ 14.2 billion the previous year.

Exports touch \$ 70 billion mark

Exports in the first eleven months of 2004-05 touched \$ 70 billion registering an increase of 27% against the comparable period of the previous year. According to commerce and industry minister Shri Kamal Nath, more than exchange rate variations, the significant increase in exports has been on account of the growing competitiveness of the Indian manufacturing sector and the vigorous export-led growth strategy followed by the government for doubling the share in global merchandise trade. While in February, 2005, exports have been valued at \$ 6.7 billion, the average annual growth of exports during the last five years (1999-2004) has been 14.68%.

Direct Tax collection up 27%

Corporate tax collections up to February 15 have registered a healthy growth of 36 percent at Rs.54,436 crore as compared to Rs.40,034 crore during the period of the preceding year.

Income-tax collections grew at a more moderate rate of 15.5 percent to Rs.35,297 crore against Rs.30,559 crore in the same period last year. Overall the direct tax collection increased by over 27 percent to Rs.89,733 crore compared to Rs.70,593 crore up to February 2004.

Target-based sops for exporters this year

Granting high-growth export sectors substantial incentives, the government is planning to implement a target-based export-promotion scheme in the current financial year.



The incentives from the scheme - Target Plus - would total Rs.3,000 crore per annum. Though the scheme is part of the 2004-09 Foreign Trade Policy, it was not implemented during 2004-05 due to revenue concerns.

The incentive scheme would be of major benefit to exporters who achieve above-average growth. The scheme would benefit high-growth sectors like pharma, textiles, gems, & jewellery and chemicals.

With exports growing at a buoyant rate, the incentive will be available to exporters who achieve more than 20% growth in exports. The floor level is based on the 16% export target set for 2004-05. The incentive to exporters would be in the form of additional duty-free import entitlement.

The outgo on account of the new incentive could be in the range of Rs.3,000 crore to Rs.5,000 crore for 2005-06, based on the performance of individual exporters. The overall export growth level will also have an impact.

The main beneficiaries of Target Plus could be big corporate exporters who achieve a quantum jump in exports. This kind of growth could be expected from buoyant sectors like pharmaceuticals, information technology, textiles and chemicals, they added. Some items like iron ore, though low in value, have managed to achieve impressive growth in recent times due to high volumes.

For those achieving 100% growth, the additional duty-free import entitlement could be as high as 15% of the value of incremental exports. In the case of 20% and 25% additional growth, the additional import entitlement would be 5% and 15%, respectively.

IT Exports to grow 34%

Information technology (IT) and IT enabled services exports from the country are expected to reach

\$ 17.9 billion in 2004-05, a projected growth of 34.58 percent over last fiscal export revenue figures, according to Nasscom Strategic Review, 2005. "IT-ITES exports grew to \$ 13.3 billion in 2003-2004. The value of IT-ITES exports from India is expected to reach \$17.9 billion by the end of current fiscal", it said. This estimated growth is translating to a CAGR of 35.3 percent over financial year 2004-05. In ITES-BPO segment, which is the fastest growing area, exports are expected to cross the \$5 billion mark in 2004-05. In 2003-04, they were worth \$ 3.6 billion.

60% duty drawback rates hit garment exporters

Garment exporters have lost close to Rs.325 crore in about five weeks since the introduction of the weight-based duty drawback rates from January 19, 2005. Exporters have said they will not be able to absorb such heavy losses as they had already finalised contracts with overseas buyers on the basis of previous existing rates, and may lose the competitive edge to countries like China and Bangladesh.

The sudden reduction of 60 percent has hit the bottom line of companies. A large number of companies are turning back as exporters are not able to offer competitive prices or do not have the capacity.

Exporters have pointed out that the new rates discourage value-added exports. For one, the new rates do not distinguish between various counts, finishes, trimmings and embellishments. The new rates also do not distinguish between garments which are subject to special washes like enzyme wash, where the chemical costs are very high, and the actual duty suffered, which is almost double from the normal garments.



**If you want to really live,
start off each day by finding
something to be thankful for.**



SMALL SCALE INDUSTRIES

FM for more credit to SSIs

Finance Minister, Shri P. Chidambaram on April 07, 2005 said the government would take all possible steps to increase the flow of credit to the small scale industries.

Just like we changed the flow of credit to the firm sector, I promise you that we would turn around the credit flow to the SSIs. He said at a function to launch a performance and credit rating scheme for SSIs.

Shri Chidambaram said the rating scheme would enable a proper assessment of credit worthiness of small industries which had been the main hindrance in the flow of credit to the sector. He urged banks to continue lending to the SSI sector.

The government launched a performance and credit rating scheme for small scale industries on April 07, 2005. The National Small Industries Corporation Ltd. will work as the nodal agency for this rating system, while six independent rating agencies including Crisil, Icra, Dun & Bradstreet, Onicra, Fitch would assign ratings based on a number of parameters. The industries would have the freedom to choose the rating agency and the fee structure for rating would be devised by the respective agency.

However, the agencies will have to intimate their rating fees to NSIC at the time of empanelment. The SSI ministry would reimburse 75 percent of the fee charged for the rating subject to a ceiling of Rs.25,000, Rs.30,000 and Rs.40,000 for industries with turn over upto Rs.50 lakh, Rs.200 lakh and over Rs.200 lakh, respectively. The ratings by different agencies would be similar to avoid confusion. These ratings would be valid for a period of one year from the date of issue of the rating letter.

108 items taken off SSI list

A total of 30 textile and hosiery items have been dereserved this year from the list of items set aside for exclusive manufacture by small scale sector list followed by 27 from the electrical machines appliances and apparatus category. In the rubber products category, as many as 20 items have been dereserved, while in mechanical engineering category 13 items have been taken off the list.

In electronic equipment and components category, seven items have been taken off the SSI list, and in plastic products category, six items have been dereserved. Four items in auto parts, ancillaries and garage equipment category and one item in bicycle parts category have also been dereserved. In all, 108

items have been taken off the list of items reserved for small scale sector in 2005-06 budget. The total items reserved for SSI sector now stands at 497.

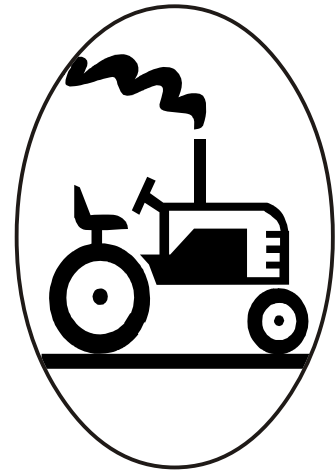
In knitted cotton products category, six items have been dereserved, in woollen products 10 items and in knitted synthetic products, 10 items are no longer part of the SSI list. Manufacture of stove wicks, cotton belting, belt lacing and cotton measuring tapes have been opened for medium and large sector.

In rubber products category cycle and cycle rickshaw tyres and tubes, latex foam and foam products, balloons and canvas hoses have been dereserved. In mechanical engineering category, all but one item that have been dereserved are agricultural implements.

SME Bill plans to increase investment limit to Rs.5 cr

The government will raise the investment limit for small scale units from Rs.1 crore to Rs.5 crore in the Small and Medium Enterprises Development (SMED) Bill which will be presented in the current session of Parliament. However, sectors like pharma and biotechnology with investment limits of Rs.5 crore will see no change with the passing of the Bill.

“For the first time, the government has defined medium enterprises as those which have an investment in plant and machinery between Rs.5-10 crore in the Bill”, a senior official said. The Bill will provide statutory backing to the price and purchase preference policy for the sector.



Now, Crisil to rate SSIs

The rating agency, Crisil has signed a Memorandum of Understanding (MoU) with the National Small Industries Corporation (NSIC) for launching the country's first performance and credit rating for the small scale industries (SSIs).

SSIs considered to be the backbone of the Indian industrial set-up account for about 40% of the industrial output besides contributing 35% to the export earnings. Besides helping to borrow at more competitive rates, a rating is also expected to help firms solicit business from customers, establish the firm with suppliers and help in seeking business as a representative or franchisee.

Besides finding a mention on the Crisil's website, the SSI's rating would also be printed in Rating Scan - a publication from Crisil - which is used as reference for lending by bankers.

Crisil has said that the entire process of rating would take about a month from the time of receipt of all necessary information. The documentation involves the SSI registration certificate, partnership deed/memorandum of association, copy of audited financials, brief write-up about the products, details of subsidy and tax concessions, quality certificates and export awards.

The rating would be done on two factors - the performance capability and financial strength. While the performance capability would be measured as highest, high, moderate, weak, and poor the financial strength would be measured as high, moderate and low.

The fee for the rating exercise is based on the turnover of the firm. It will be Rs.45,000 for firms with turnover upto Rs.2 crore and Rs.60,000 for companies with higher turnover. NSIC is giving subsidy of Rs.40,000 for covering the fees.

SIDBI inks credit pact to bail out SMEs

The SIDBI has contracted a line of credit and a technical assistance component from a multilateral consortium led by the World Bank to finance SME development. The SIDBI has adopted a cluster development approach for the \$ 100 million LoC from the world Bank and Euro 43.5 million from KfW, Germany's state-owned development Bank. Besides, the DFID has contributed £ 20 million, GTZ (Germany) and SECO (France) have provided a Euro 5 Million technical assistance component.

The SIDBI has identified 10 clusters across the country which it will support. These include auto components (Pune, Chennai and Gurgaon), woollen knitwear (Ludhiana), hand tools (Jalandhar), food processing (Pune), Pharma (Indore), foundry (Howrah and Coimbatore) < surgical instruments, IT/BPO, biotech and engineering.

SSI scheme for ISO 9001 certification

In order to encourage standardisation of items produced in the small scale sector, the ministry of SSI has taken up a scheme under which 75% of the cost incurred by a SSI unit for acquiring ISO-9001/ISO-140001 certification is reimbursed. The scheme has benefitted 7,226 units so far. However, the ministry has fixed the maximum reimbursement amount to Rs.75,000 minister of small scale industries, Shri Mahabir Prasad told Parliament on March 24, 2005.

The government has established regional testing centres (RTCs) in the four metros - New Delhi, Kolkata, Mumbai and Chennai - and seven field testing stations (FTSs) to assist small scale industries in testing and certification of their products as per quality standards of different countries. The seven FTSs are located at Jaipur, Bhopal, Kolhapur, Hyderabad, Bangalore, Pondicherry and Changancherry.

In order to create awareness among small scale entrepreneurs regarding the ISO-9000 quality management system and provide information on it the ministry is running certifications training programmes. These are being run through the various small industries services institutes (SISIs) and RTCs located in various states. These certification programmes deal both with recognised quality standards on management as well as on environment standards of different countries.

SIDBI VC to invest from Rs.500 crore SME growth fund

The Small Industries Development Bank of India Venture Capital is planning to invest in about 10 companies from its Rs.500 crore SME Growth Fund. This fund was launched by SIDBI Venture Capital in October, 2004 for a period of eight years and has so far invested in three companies from the pharmaceuticals, transport sector and alternative fuel sector, Mr. Kumar Kapur, CEO, SIDBI VC said in New Delhi on April 15, 2005. SIDBI has drawn upon 10% of the funds from this.



SIDBI will also invest in another 3-5 companies from the existing Rs.100 crore venture capital fund (VCF) set up in 1999 for a period of 10 years.

SIDBI VC expects a 20% rate of return in the long run. This evens out as some companies may give a return of 40% while others may give even 12.5% and some others may not work out at all.

SIDBI targets a direct lending of about Rs.5,000 crore by the end of this year, SIDBI CMD, Shri N. Balasubramanian said. He was speaking at a seminar on SMEs in knowledge-based industries. *"In the past fiscal we achieved the total lending of Rs.3,200 crore which we plan to take upto Rs.5,000 crore"*, the Chairman said. This implies a 56% growth in its direct lending to SMEs.

"We are looking at centralised loan approval to certify for credit worthiness of a loanee", Mr. Balasubramanian said. The credit rating scheme soon to be launched by SIDBI would be beneficial to as many as 113.95 lakh small scale industries in terms of lower cost of funds, which could ultimately result in increased profitability.

Union Bank SSI advances up

Union Bank of India has covered 2,247 small scale industry units under the credit guarantee fund for small industries, which provides guarantee cover against default upto 75% of the credit facilities granted. The total amount covered has increased by 90% to Rs.50.37 crore as on March 31, 2005. The bank's advances to SSI units were at Rs.3,765.77 crore, registering a growth of 20% during 2004-05. Union Bank has identified the small and medium segment as a thrust area because of the growth opportunities and employment potential the sector offers.

De-reserved items sport high growth rates

De-reserved items in the small scale sector like ice-creams, biscuits, synthetic syrups, vinegar and

auto components have shown tremendous growth in terms of production, according to a report prepared by Dalal Consultants and Engineers Limited for the government.

For instance, synthetic syrups have recorded a growth rate of 13% post de-reservation in 1997. The report says that all the segments showed marked improvement in the quality of products over 1996-97 to 1999-2000.

The ice-cream segment has shown a growth of 8% post de-reservation and the monopoly of a few players has ended providing consumers choice and better quality products. The companies have now started abiding by IS-5839 norms for ice-creams.

Another major consumer good that has seen tremendous growth is biscuits. Biscuits have grown 8.6% and this is largely due to product diversification.

Rice-milling has also benefited through modernisation of technology in existing mills. The product quality has significantly improved, as per the report, as corporates have ventured into marketing and export of milled rice. Poultry feed has also seen capacity expansion since it was de-reserved in 1997.

Post de-reservation, spot lamp and stop lamp assembling in the auto sector has recorded a growth of about 15%, ornamental fittings for automobiles 9% and other car fittings like ashtrays 5% growth.

The report has concluded that employment as a whole increased in the de-reserved items studied. New technology was inducted and the number of units increased despite the closure of unviable ones, Shri Anupam Dasgupta, Secretary, Ministry of Small Scale Industries said. It has also led to skill enhancement of workers.



**Love, humility, prayer,
and communication
solve all problems !**



LEGAL ISSUES

Loan Recovery Made Easy

State Financial Corporations which try to recover loans from small and medium industries often meet with stiff resistance and prolonged litigation. Facts of individual cases have led to varied results in the courts. Recently, the Supreme Court tried to sort out the law regarding sale of borrowers' assets under the State Financial Corporations Act in *Karnataka State Industrial Corporations Vs. Cavalet India Ltd.*

An earlier judgement of the court in *Mahesh Chandra Vs. Regional Manager* (1993) had put severe restrictions on the power of the financial corporations under Section 29 of the Act on sale of defaulting units. For instance, it had required the defaulter to be associated or consulted at every stage in the sale of the property. This had resulted in further delay in the realisation of the dues by sale of assets.

The new judgement emphasised the right of state corporations to take coercive steps to get the money back. Although the corporations are not like ordinary money-lenders or a bank, the basic relationship is that of a creditor and a debtor. *"A corporation is not supposed to give loan and then write it off as a bad debt and ultimately go out of business", the judgement said. "It cannot be called upon to pump in more money to revive and resurrect each and every sick unit irrespective of the cost involved. That would be throwing good money after bad money to private account."* The judgement quoted *UP Financial Corporation Vs. Gem Cap* (1993), which stated that *"financial corporations are not sitting on King Solomon's mines, but they too have to borrow monies from government and other financial institutions and pay interest thereon"*.

In the present Karnataka Corporation judgement, the Supreme Court laid down nine principles for the guidance of high courts, state financial corporations and borrowers. According to the main proposition, courts have no say in the matter between the corporation and its debtor except in two exceptional cases : (a) when there is a statutory violation on the part of the corporation, or (b) where the corporation acts unfairly or unreasonably. The Supreme Court advocated a hands-off policy in commercial matters, saying that the courts should not

risk their judgement for the judgement of the bodies to which that tasks is assigned.

The Supreme Court went to the extent of stating that the courts should not interfere in the decision of the financial corporation even if it was wrong. It is not for the courts or a third party to substitute its decision, however more prudent, commercial or business like it may be, for the decision of the financial corporation. The only exception is when the corporation acts in a malafide manner. In the matter of sale of property, the dominant consideration is securing the best price. To achieve this, there should be maximum public participation in the process of sale. Public auction may not be the only mode to achieve this; other transparent and acceptable modes like tender and negotiations also can be adopted.

In a strong statement in favour of state corporations, the judgement said *"Fairness cannot be a one-way street. The fairness required of the financial corporations cannot be carried to the extent of disabling them from recovering what is due to them. While not insisting upon the borrower to honour the commitments undertaken by him, the financial corporation alone cannot be shackled hand and foot in the name of fairness"*.

The present judgement effectively overrules the Mahesh Chandra judgement. Some High Courts continued to follow that decision though the Supreme Court had subsequently limited that judgement to the facts of that case. The Karnataka High Court view in this case was one such instance. It had relied on the Mahesh Chandra case and asked the Corporation to repeat the entire sale process following the guidelines in that out-dated decision. However, the new judgement has plugged all scope for such deviations by High Courts. Thus, the process of recovery of loans has now been rendered less tedious.



NEWS FROM STATES

Maharashtra signs 8 power MoUs

Maharashtra has signed Memorandum of Understanding (MoU) with eight developers in April for capacity addition of a record 8,500 mw to 9,300 mw. These developers would have to sell power through a bidding process and 50% of it within the state.

The list of developers includes Tata Power Company (1,800 mw), Reliance Energy Ltd. (4,000 mw), Jindal (1,000 mw), Essar (1,000 mw), GMR (1,000 mw), Ispat (1,000 mw) and Spectrum Technologies USA (500 mw). These promoters are expected to prepare detailed project reports and complete necessary formalities within a year.

Maharashtra Budget

Across the board concession in stamp duty rates, hefty concessions in housing for the poor, subsidies in educational and housing loans, a Rs.1,000 crore allocation for Mumbai, 3% more D.A. to government employees and for good measure, an additional grant for Marathi film-makers, are some of the highlights of the budget presented by the Maharashtra finance minister, Shri Jayant Patil. There are no new taxes.

This year's budgetary exercise, however, is expected to result in a revenue surplus of Rs.40 crore for the state exchequer.

The budget also promises to bring the state's fiscal deficit down from last year's Rs.13,500 crore to Rs.8,000 crore.

Rajasthan to set up knowledge corridor

The Rajasthan government has proposed to set up a knowledge corridor along the national highway connecting Delhi to Jaipur. The plan envisages colleges along the highway. Infosys has shown a keen interest in the state.

Apart from the IT sector, the government has also indicated its inclination to promote agri-business in a big way, with focus on high-value added segments like horticulture and medicinal plants.

Rajasthan government proposes to almost double its plan spending to more than Rs.8,000 crore for these projects. The new programmes are estimated to add to Rajasthan's debt burden, which may touch Rs.60,000 crore by the end of the current fiscal.



Meghalaya gets a tax-free budget

Meghalaya finance minister Shri Donkumar Roy presented a tax free budget, running a deficit of Rs.98.62 crore on March 24, 2005.

Stating that the budget is "people-friendly", Shri Roy said it aimed at overall progress and development of the state's economy, with major thrust on the rural sector.

The approved plan size for the current financial year has been fixed at Rs.800 crore. The thrust is on agriculture and allied sectors - rural development, power, road communication, education, health, water supply, urban development and social welfare, including nutrition and housing.

Besides, the North-Eastern Council (NEC) has sanctioned Rs.335.48 lakh for citrus fruit production and Rs.308 lakh for expansion of strawberry cultivation in the state.

The minister said while no new taxes have been proposed, the value added tax system will be introduced in Meghalaya soon. The transition to the new tax regime would bring the "desired revenue growth".

Some additional sources of resource generation would be imposition of "limited water user charges" for irrigation works and a Meghalaya Fiscal Responsibility Bill. The government would continue in its efforts to achieve self-sufficiency in egg, meat and milk production.



State-wise consolidation of sponsored RRBs on course

Public sector banks like Central Bank of India, Bank of India, Union Bank of India, Bank of Baroda, Punjab National Bank, etc. have embarked on state-wise consolidation of regional rural banks sponsored by them. This consolidation exercise is likely to see the number of RRBs currently 196, in the country being halved.

The consolidation strategy will give RRBs the size advantage to drive higher volume of business, reduce costs as fewer controlling offices, will be required in each state, and allow for mobility of staff across districts.

Mumbai tops NPA list, Delhi is distant second

Maharashtra, which houses Mumbai the financial capital of the country, accounts for the highest amount of corporate loan defaults in the banking sector. Corporates in the state owe Rs.37,396 crore as dues to banks and financial institutions as on March 31, 2004.

Delhi is second in the defaulters' list with Rs.13,399 crore outstandings. The total amount of bad loans in the banking sector stood at Rs.96,084 crore at the end of 2003-04, of which the largest chunk - Rs.52,101 crore - was with public sector banks, followed by private and foreign banks with stressed assets of Rs.22,357 crore.

Banks and FIs have already filed suits for recovery of Rs.62,639.54 crore of the outstanding amount. Though they have been successful in recouping substantial dues, fresh non-performing assets are being added up simultaneously.

SHG in AP to get loans at 3% rate

In a bid to reduce the financial burden on the self-help groups (SHGs), the Andhra Pradesh government has decided to provide bank loans at 3% interest rate, rural development minister, Shri D. Srinivas announced in the state Assembly on March 09, 2005.

The interest subsidy is being implemented under the Indira Kranthi Padam. The government has already issued guidelines about the method of reimbursement of the interest subsidy given to SHGs subject to a maximum ceiling of 6% interest.

The scheme, to be implemented with retrospective effect, is applicable to all loans extended by banks on or after July 1, 2004. There are about 2,24,635 SHGs

which obtained finance from the banks to the tune of Rs.917.84 crore since July 1, 2004, which are eligible to avail the incentive, provided they are regularly repaying the principal and interest amount.

Plan panel okays Rs.11,000 crore M'rajshtra Plan

The Planning Commission approved the Plan size of Rs.11,000 crore for 2005-06 for Maharashtra. Originally the state government had prepared a plan size of Rs.10,586 crore.

Nearly 56% of the Plan outlay is expected to be financed through receipts of the state and balance 44% from non-budgetary resources.

The state Governor has directed that Rs.3,880 crore should be earmarked for back-log removal in sectors other than the irrigation sector and Rs.4,685 crore outlay be allocated in the irrigation sector in the annual Plan of 2005-06. As per the Governor's directives of December 15, 2001, the current fiscal 2005-06 becomes the last year for the liquidation of backlog.

NABARD steps up aid to Tamil Nadu to Rs.2,809 cr

The National Bank for Agriculture and Rural Development (NABARD) has increased its sanctions in Tamil Nadu to Rs.2,809 crore in 2004-05 up 20% from Rs.2,340 crore last year. It also sanctioned Rs.7 crore for Pondicherry last year.

Nabard sanctioned a consolidated limit of Rs.710 crore to co-operative banks and Rs.82 crore to Regional Rural Banks in TN to meet the crop loan requirements of farmers against Rs.366 crore last year.

1 district central co-operative banks, including those not eligible to get funds, were sanctioned Rs.459 crore during the year under liquidity support scheme. This was to reschedule the existing loans of the farmers who faced continuous drought for three years and to clear their dues to money lenders and others.

Nabard also gave a new line of credit for Rs.214 crore to co-operative banks. This was to provide refinance for the loans granted for agricultural purposes against security of gold.

TamilNadu to set up cashew export zone

The TamilNadu government and the Agricultural and Processed Food Products Export Development Authority signed an MoU on April 12, 2005 to set up a cashew



export zone in Cuddalore with an investment of Rs.10.36 crore.

The project is to expand cultivation using new technologies and establish modern processing units. It is expected to generate jobs for 20,000-25,000 people and double the export of cashewnuts to Rs.100 crore from the present Rs.50 crore.

Currently, about 40,000 tonne of cashew is produced from 95,500 hectare in Cuddalore, Thanjavur, Perambalur, Pudukkottai and Sivagangai districts. TN cashew is exported to Malaysia, Singapore and the US.

UP giving a major push to tourism

The Japan Bank of Industrial Cooperation (JBIC) has sanctioned Rs.632 crore to the Uttar Pradesh government for the development of the major Buddhist centres of pilgrimage in the state. This loan will be utilised for the second phase of the development of the Buddhist circuit in UP.

The agreement between the JBIC and the Union ministry of finance has been signed in New Delhi. In the first phase of the programme, in UP implemented in the 1990s and funded by the Overseas Economic Cooperation Fund, the overseas funding agency of the government of Japan, the outlay was Rs.77 crore.

The first phase included strengthening and widening roads, developing wayside amenities and water supply, electrification and landscaping etc. in major Buddhist centres in UP.

The second phase of the project covers major Buddhist centres including Sankisa, Shravasti, Kapilvastu, Gorakhpur, Varanasi, Sarnath and Kushinagar.

The second phase aims at improving the infrastructure, providing utilities, tourism development, and poverty reduction. It is expected to be completed by 2011.

The second phase will be a major boost for the tourist inflow in UP from Japan, South-east Asian states, and Sri Lanka said Shri Partha Sen Sharma, Director, Tourism. After Central Asian countries and Afghanistan, UP is richest in terms of Buddhist centres.

The internal rate of return from the project has been estimated at 20.4 percent.

Highlights of the new investment policy of MP

In order to achieve higher growth levels and to facilitate fresh investments to the state, the Madhya Pradesh Government has unveiled the Industrial Promotion Policy 2004 and Action Plan for a period of five year, w.e.f. April 01, 2004.

The new investment has accordingly been laid down along the lines of its industrially advanced neighbouring states. To make Madhya Pradesh a prosperous state, it is essential that rate of economic development should be increased. The achievement of the desired growth rate would only be possible when the development of industries and service sector take place.

Employment generation is one of the major objectives of the new policy. An initiative for this purpose has been taken in the state to launch a new employment scheme for the educated unemployed youth belonging to middle-income group.

The Objectives :

- ❖ To make state administration industry friendly by simplifying rules and procedures;
- ❖ To accelerate the pace of industrialisation and make Madhya Pradesh industrially a leading state;
- ❖ To maximise employment prospects;
- ❖ To attract NRI and foreign investment by developing world-class infrastructure;
- ❖ To create congenial environment for the development of small, medium and large industries;
- ❖ To ensure balanced regional development by generating employment in the non-farm sector;
- ❖ To chalk out special packages for removing industrial sickness;
- ❖ To integrate the different employment oriented schemes in order to provide employment opportunities on a sustainable basis;
- ❖ To rationalise commercial tax rates to make the state's industries competitive vis-a-vis industries in other states;
- ❖ To provide direction to industrialisation, keeping in view the available local resources and the existing industrial base;



- ❖ To ensure private sector participation in the state's industrialisation;
- ❖ To financially strengthen the undertakings of Department of Industries, enabling them to play a pivotal role in the promotion of industries.

The Strategy :

Providing incentives and facilities in the state to achieve objectives of Industrial Promotion Policy and ensuring effective implementation of planned strategy.

Uttaranchal tops in hydel projects

Uttaranchal has set up 75 small hydro projects under the subsidisation scheme of the ministry of non-conventional energy sources (MNES). The projects will generate 72.45 MW of electricity. In addition, 38 projects of about 26 MW are also being implemented.

Andhra Pradesh and Arunachal Pradesh, with 57 projects each, rank second in the list of states with the highest number of small hydro projects set up under the scheme. In Arunachal Pradesh, an additional 55 projects with 51.87 MW capacity and five in Andhra Pradesh are being set up.

Subsidy is available to small hydro projects, of upto 25 MW capacity, in both the public and private sector. Shri Vilas Mutemwar, Minister of State for Non-Conventional Energy Sources, informed the Lok Sabha that 522 projects aggregating power generation of 479 MW have already been set up under the scheme. Of the 522 projects, 66 have been set up for electrification of 104 remote villages and 51 more such projects are being implemented for 156 villages.

Small and mini hydel projects have the potential to provide energy in remote and hilly areas where extension of the grid system is uneconomical. MNES currently provides incentives for detailed survey and investigation, detailed project report preparation, interest subsidy for commercial projects and capital subsidy for small hydro projects in the Northeast, and renovation and modernisation of old power stations and for development of water mills. The estimated potential of small hydro projects existing in the country is about 15,000 MW. MNES has created a database of potential sites for small hydro projects and 4096 such sites with an aggregate capacity of 10,071 MW have also been identified.

Himachal Pradesh, Uttar Pradesh, Punjab, Haryana, Madhya Pradesh, Karnataka, Kerala, Andhra Pradesh, TamilNadu, Orissa, West Bengal, Maharashtra and Rajasthan have announced plans for setting up commercially viable small hydro projects through private sector participation. The facilities to be provided include wheeling of power, banking, attractive buy-back rates and third party sale.

Uttaranchal tops the list of states with the highest number of small hydro projects. A total of 29 projects totalling 1,792 MW have been set up for the electrification of 59 remote villages. Thirteen more projects, with a capacity of 840 MW, for the electrification of 68 villages, are also in the pipeline.

Himachal Pradesh comes next with 18 villages electrified by 16 small hydro projects, followed by Arunachal Pradesh with 6 projects implemented and 33 under implementation.



**Success doesn't run around
begging to be discovered.
Like buried treasure, only
the most believing and
persevering find it.**



INFRASTRUCTURE

Mega food parks in Delhi, 4 other states

The government has decided to set up five mega food parks in Assam, West Bengal, Maharashtra, Delhi and Karnataka. These parks would coordinate the activities of 43 food parks already set up.

Releasing the vision, strategy and action plan for food processing industries till 2015, minister Shri Subodh Kant Sahai, however, said that the progress of 43 food parks is "not satisfactory".

Mr. Sahai said that food parks are working at convergence with other related schemes of the government like agri export zones.

The vision document envisages increasing the market size for processed foods from Rs.4,60,000 crore in 2003-04 to Rs.8,20,000 crore in 2009-2010 and to Rs.13,50,000 crore in 2014-15. It estimated that this process of expansion of the market size will generate additional employment of approximately 82 lakh (50 lakh by 2010 and 32 lakh in 2010-15). This includes direct employment of 18 lakh and indirect employment of 64 lakh.

The investment required in building the processing capacity, infrastructure and market development is estimated at Rs.99,700 crore (Rs.59,700 crore by 2010 and Rs.40,000 crore in 2010-15). This assumption in the investment estimation is based on the 10% projected annual growth of the consumption of processed foods and that the consumption will triple in 2005-15. The sources of the investment will be a combination of equity from processing industries, loans from financial institutions, foreign direct investment and government funding.

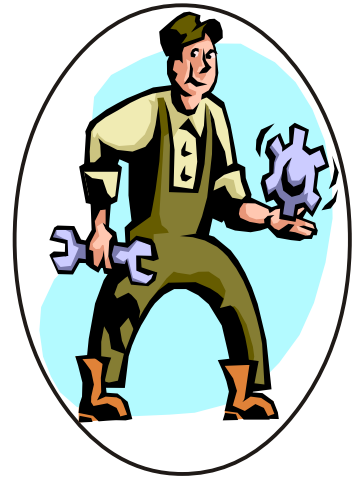
SEZ tax norms come in for flak

The Export Promotion Council for Export Oriented Units (EOUs) and Special Economic Zone (SEZs) has expressed concerns over the government's proposed amendment in Section 10A of the Income-Tax Act. As per this proposal, no tax deduction will be available for an undertaking which begins manufacturing after March 31, 2009 in any SEZ.

"In the draft SEZ Bill, there is no cap for availing income tax exemption on setting up of units in the SEZs. Now the amendment in the Finance Bill has introduced a cap in the new investment. This will certainly discourage investments in SEZs", Shri L.B. Singhal, Director General of the Council said in a release on March 01, 2005.

Dry port, SEZ for tea in Bengal

In a move to position North Bengal as an industrial hub in line with the Centre's "Look East" policy, the West Bengal government has decided to appoint a consultant to draw a roadmap to improve infrastructure in the region. Also on the cards are plans to set-up a Special Economic Zone for the tea industry and a container port at Siliguri.



The consultant will be appointed to study the untapped potential of North Bengal and the infrastructure bottlenecks to improve the investment climate in the region and *the Centre has agreed to fund the study*", Shri Ashok Bhattacharya, state minister for urban development, said in Kolkata on April 02, 2005.

The state government has already identified 100 acres of land for the SEZ and West Bengal Industrial Infrastructure Development Corporation is already working on a project report. "The tea SEZ project will require an investment of about Rs.50-70 crore", said Mr. Bhattacharya.

West Bengal currently has four SEZs - the leather complex at Bantala, the Falta export zone, the gem and jewellery park and Wipro facility at Salt Lake - and has received an in-principle approval for the Kulpi port.

The container port at Siliguri has been planned on the private-public-partnership model. The Rs.30 crore facility will come up on 45 acres of land. "We already have 2-3 proposals from private parties and will finalise the partner within three month's time," added Mr. Bhattacharya.

Exports from Cochin SEZ up 58%

Cochin Special Economic Zone (SEZ) has posted a 58% jump in exports making its turnover cross the Rs.600 crore level to reach Rs.638 crore during the last fiscal.

According to CSEZ statement, there was also a jump in employment generation from 6,000 to 7,500 which gave it the status of employing the highest number in the state.



It was the electronic hardware sector that continued to dominate having a share of 46% in the exports. Two companies, Sun Fiber Optics and Crisind Electronics of the Nest group won global awards from the GE group. The engineering sector showed a 42% growth with exports touching Rs.37 crore.

Tycon Electronics as part of doubling its capacity would be investing Rs.25 crore. Leela Lace in the readymade sector and Tata Ceramics posted a growth of 38% and 37%, respectively.

In the backdrop of the Vallarpadam trans-shipment terminal, there were several projects expected to come up in the zone. As a forerunner, a global cigarette major would be making Kochi its distributing hub.

Operational SEZs have attracted investors in TN

Nokia will set up a manufacturing plant in Tamil Nadu which managed to attract the mobile major by giving it a Special Economic Zone (SEZ) status.

A tax holiday for the first five years of commencement of business, and a tax rebate for the subsequent five years are a major attraction for companies to set up base within an SEZ. The TamilNadu government has been very active in according SEZ status to major industrial parks in order to attract investment and in turn, boost exports.

The state already has four SEZs apart from the Nokia facility in Sriperumbudur, which was recently promised SEZ status. It has the prestigious Madras Export Processing Zone that was converted into an SEZ in January 2003 in Chennai, besides the Ennore SEZ, Mahindra World City on the outskirts of Chennai, and the Nanguneri Hi-Tech park in Tirunelveli.

The MEPZ SEZ, established in 1984, houses nearly 90 units from across various sectors including IT, textiles, gems and jewellery and leather within the zone. The zone has been consistently increasing its exports over the past few years. During fiscal 2005, exports from the zone had gone up to Rs.1,376 crore from Rs.1,035 crore in the previous year.

Mahindra World City, another SEZ, is an integrated business city promoted through a public-private partnership. It is corporate India's first SEZ to have three sector-specific SEZs like IT (services and manufacturing), apparel and fashion accessories and auto ancillaries. The township has attracted 25 firms including software giant Infosys, Mastek, Ascendas, TTK iotech and Kryome. It has, so far, sold 300 acres of the 1,400 acres earmarked for it.

Nanguneri hi-tech park has also started seeing activity. The project is to be developed by ATMAC Ltd., a joint venture between Infac India Group LLC and Tamil

Nadu Industrial Development Corporation (TIDCO). The hi-tech park, which was given SEZ status, had a delegation from ATMAC Ltd, the US based promoter of the project and other funding agencies from Europe and US. *"The master plan of the project is complete, topography is done. Once the financial closure is done, work will start"*.

Ennore SEZ, is being set up by way of a three-way joint venture among TIDCO, Infrastructure Development Finance Company Ltd. (IDFC) and Ennor Port Ltd. (EPL). The SEZ, spread across about 4,250 acres of land, would be developed in two phases. Ennore SEZ is expected to attract major foreign and domestic players especially from sectors like auto components and IT.

AP to develop one SEZ in each district

The Andhra government plans to aggressively pursue the Centre's policy on SEZs to improve employment opportunities in the state. An ambitious policy to promote more SEZs - one in each district - is being worked out. The exclusive policy will focus on specific products in the form of industrial clusters.

The government is looking for private entrepreneurs to take up SEZ projects under public-private partnership (PPP) mode. Depending on the investment and employment generation capabilities of the project, the state will extend incentives, apart from providing land.

It is pointed out that it would be difficult to attract all the industries in one place. Instead, the government has to scatter the SEZs wherever industrial clusters thrive. Keeping this in view, the new SEZ policy is being prepared - proposing a leather export cluster in the form of SEZ at Nellore, an automobile spare parts cluster at Chittoor and similar product specific clusters in different parts of the state such as garments and food processing.

Plans are afoot to develop another SEZ in Kakinada adjacent to the Kakinada Port. This will facilitate promotion of units engaged in conversion by adding value such as petroleum products, aluminium, and iron ore. There are plans to provide infrastructure through the PPP mode, such as trail, road, sea-port and airport linkages.

Provision of skill-based training for personnel of prospective units and civic amenities is being envisaged. Also, industries in the SEZs are eligible for incentives including relaxations in taxes and domestic tariff area (DTA) benefits.

Further, the state is also planning to extend liberal norms in case of customs, labour laws, and repatriation of profits besides deployment of expatriate staff, if any. The government hopes to create new jobs to the tune of 20 million in the next 15 years and an industrial growth of the order of 11% with the setting up of SEZs.



Meanwhile, the existing Visakhapatnam Special Economic Zone (VSEZ) is seeking 200 acres to expand operations. The zone is spread over 360 acres with units ranging from information technology to diamond cutting. During fiscal 2004-05, the VSEZ reported an export turnover of Rs.585 crore as against last year's Rs.450 crore.

Sector-specific units on the ascend in West Bengal's road ahead

There were mixed result for special economic zones (SEZ) in Bengal last fiscal. The Falta SEZ in the southern outskirts of Kolkata experienced a dip in export earnings, while Manikanchan, the gem and jewellery park in Salt Lake, began operations with an export volume of Rs.96 crore during the first six months.

Past performance points out the need to overcome several bottlenecks. However, these have not deterred exporters and industry bodies in Bengal from lobbying for more SEZs. Plans are afoot to set up such zones in Haldia, a township south of Kolkata, and in Jalpaiguri, in North Bengal. Work is in progress for Kulpi SEZ and Kolkata leather complex; both were recently approved by the government.

Sources point out that the pathetic road link between Kolkata and Falta is deterring units from setting up units in the SEZ. The state government has now taken up a project to overcome this hurdle, using funds from Department for International Development (DFID).

Good infrastructure Kerala – gives itself a first mover advantage

No state perhaps, got as much mileage out of the SEZ bonanza as the port-state of Kerala. Its SEZ turnover grew as high as 58% last year. For the first time, Kerala's economic growth rate outstripped the national average last fiscal. The swinging difference came from SEZ-export buoyancy. This, even as Kochi has the smallest of Centre-run SEZs.

In a back-of-the-envelope estimate, exports through Cochin Export Processing Zone (CSEZ) stand at about 9% of Kerala's total exports, compared 4-5% in other states. Apart from the output of the 100% EoU linked to CSEZ, the zone also achieved a Rs.638 crore turnover in 2004-2005. "The only issue, now, is land", said Shri Paul Antony, development commissioner, CSEZ.

The Vallarpadam transshipment terminal has induced a range of investors from an Irish linen manufacturing unit, a tea blending unit, a natural fibre dye house, and a global cigarette distributor, to make a beeline for space at Kochi SEZ.

The Centre has announced a Rs.1,510 crore port-based SEZ in tow with the Rs.2,118 crore Cochin Port

Trust (CPT) expansion. The state has got clearance for a free-trade and warehousing zone alongwith this second SEZ. Dubai Port Trust, already a partner in CPT development, has evinced interest in grooming the warehousing zone.

It is the two parks under Kerala Industrial Infrastructure Development Corporation (KINFRA), electronics at Kochi and food processing at Mallappuram, that get sector-specific SEZ status. Kinfra has 16 theme-parks under it that the state wants to push under the sector-SEZ programme.

"SEZ status would ensure 18-20% growth in food-processing exports and 30-40% in electronics", says Kinfra Managing Director, Shri Gopala Pillai. Two-thirds of Kerala's exports come from food processing.

Karnataka Policy in place but not the pvt. partner

In line with the Centre's policy to develop special economic zones (SEZ), the Karnataka government introduced a similar policy in 2001-2002.

The state has plans to establish a general SEZ and a sector SEZ for textiles in Hassan. "The general SEZ would be spread over 2,500 acres and the sector specific SEZ over 500 acres", said officials from Karnataka Industrial Areas Development Board (KIADB).

"According to policy, an SEZ can be formed with public-private partnership (PPP), or the state government could do it alone. We are taking the PPP route. The Infrastructure Development Corporation (Karnataka) Ltd. is responsible for the bidding process to finalise the private partner", said officials.

"Out of the 2,500 acres, 1,000 acres are ready with basic facilities of power, water, and motorable roads. As soon as the private partner comes in, we can allot space", said Shri Gokulram, Principal Secretary, state industries and commerce deptt. The textile SEZ is ready for allotments.

Alongwith this, the government will establish a 500 acre SEZ exclusively for IT companies in Mangalore. The state is looking at establishing an exclusive SEZ for electronic hardware near the proposed International Airport at Devenahalli. Over Rs.700 crore will be invested on the development of infrastructure alone.

During the past 10 years, Karnataka has established an electronic city to promote electronic and IT companies, which has helped in the development of IT industry in the state. Similarly, the state has established an export promotion industrial park in Whitefield, to attract export oriented units.



ALL INDIA INSTITUTIONS

Monetary & Credit Policy 2005-06

The RBI's Annual Policy Statement 2005-06 announced by Dr. Y.V. Reddy, Governor, RBI on April 28, 2005 emphasised that *"the System has to recognise interest rate cycles and strengthen risk management processes to cope with eventualities so that financial stability is maintained and interest rate movements transited in a non-disruptive manner"*. It left the bank rate and CRR unaltered at 6% and 5% respectively.

The bank has placed the real gross domestic product (GDP) growth in fiscal 2005-06 at 7% and the inflation rate, on a point-to-point basis, in the range of 5-5.5%.

Some of the highlights of the Policy are as under:

- ❖ Status quo on interest rates on savings bank, NRI deposits, small loans upto Rs.2 lakh and export credit;
- ❖ Increase in deposits of commercial banks set at Rs.2,60,000 crore;
- ❖ Non-bank credit projected to increase by 19%;
- ❖ With effect from August 6, non-bank participants, except PDs, will be phased out from call/notice money market;
- ❖ Minimum maturity of certificates of deposit reduced from 15 to 7 days;
- ❖ RBI to issue guidelines on M&A between private sector banks and with NBFCs;
- ❖ Banks urged to refocus on deposit mobilisation and empower depositors.

RBI issues 2-stage guidelines for securitisation of assets

The assets of a bank, after their transfer to the special purpose vehicle (SPV), should stand completely isolated from themselves, even under bankruptcy, says the draft guidelines on securitisation of standard assets unveiled by RBI.

The SPVs and holders of beneficial interests in their assets shall have no recourse to the originator.

The latter too cannot enter into an agreement to repurchase.

The originator should not hold shares more than Rs.5 lakh or 10% of the capital of the trustee company, whichever is less. Even the pass through certificates (PTCs) issued by SPV should be rated by a rating agency, registered with Securities and Exchange Board of India (SEBI), which will be reviewed after every six months.

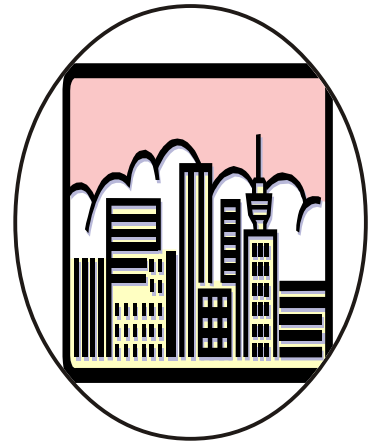
As per the draft guidelines, for a transaction to qualify as securitisation, it has to follow a two-stage process. In the first stage, there should be pooling and transferring of assets to a special purpose vehicle (SPV). In the second stage, repacking and selling the security interests representing claims on incoming cash inflows from the pool of assets to the third party investors should be effected. To enable the transferred assets to be removed from the balance sheet of the seller, it is necessary to isolate assets to undertake 'true sale' from the seller to the SPV.

The guidelines mention that banks should not maintain effective control over the transferred assets through any agreement that entitles banks to repurchase or redeem them before their maturity.

An option to repurchase fully performing assets at the end of the scheme, (where the residual value of such assets has, in aggregate, fallen to less than 10% of the original amount sold to the SPV) could be retained by the banks and would not be construed to constitute effective control.

SIDBI to develop clusters in Gurgaon

SIDBI has entered into an agreement of Rs.1,000 crore with the World Bank for a project aimed at enhancing the flow of credit to small and medium enterprises (SMEs) to improve their efficiency and profitability.



SIDBI has identified 25-30 “model clusters”, in which business development services would be promoted over three-five years for the larger benefits of SMEs under this project. In the first year, it has targeted 10 such clusters, out of which three would be developed in Ludhiana for textiles, Jalandhar for handtools and Gurgaon for auto components.

“With the banking division of the ministry of finance playing the role of nodal agency in this project, the Rs.1,000 crore endeavour would ease the flow of credit to SMEs in the country, which need funds for expansion in order to compete at global levels”.

The project includes a line of credit of Rs.700 crore, technical assistance of Rs.200 crore, and risk-sharing facility of Rs.100 crore. Forty percent of the line of credit would be directly financed by SIDBI, while the rest would be provided by participating banks to SMEs.

SIDBI-Nabard tie up to boost micro credit

SIDBI & Nabard are teaming up to expand the country's micro-credit network and penetrate deeper to the grass-roots. SIDBI has recently identified five new models for a more broadbased credit expansion. These are the self-help group (SHG) model, Gramin and Asa models of Bangladesh, the joint liability group model and the individual credit lending model.

Till now Nabard alone has been working on credit linking self-help groups. A large number of SHGs have been linked to commercial and co-operative banks by Nabard in the process. “SIDBI on the other hand has been extending credit to small entrepreneurs in both urban and rural poor through micro-finance institutions”, SIDBI Chairman Shri N. Balasubramanian said. Since SIDBI has identified a broad-based model it is now interested in working hand-in-hand with Nabard to reach especially those below poverty line (BPL).

“SIDBI is considering whether it should partake of the Rs.200 crore fund set up under Nabard for capacity building of financial institutions and providing equity support to small entrepreneurs”. The corpus of the fund has been raised from Rs.100 crore to Rs.200 crore in the recent Budget announcement made by finance minister, Shri P. Chidambaram.

SIDBI to join hands with BoI, PNB for loan disburseals

SIDBI is joining hands with commercial banks to extend working capital loans to the small and medium

enterprises (SMEs) as it is not permitted to do so on its own under the current SIDBI Act.

The finance ministry has given its green signal to allow SIDBI to extend working capital funds to SMEs directly but this will require amendments to both the Banking Act and the SIDBI Act. SIDBI has started work on a draft plan for the working capital scheme. SIDBI is not under the Banking Regulation Act and consequently doesn't fall under Negotiable Instruments Act which prevents it from extending working capital loans directly.

Even though SIDBI will be allowed to extend working capital on its own once the amendments are made, it will continue to partner with commercial banks for providing loans. Commercial banks have a larger network and, therefore, their outreach is better. “SIDBI is also going to increase the number of its branches in various small scale sector clusters all over the country” Chairman SIDBI said.

RBI issues draft norms on bank transactions of NPAs

The Reserve Bank of India on April 12, 2005 said a bank can purchase / sell non-performing assets from/ to other banks only on ‘without recourse basis’ and the transaction should be concluded only on cash basis.

In its Draft Guidelines on purchase/sale of Non-Performing Assets, which will be applicable to banks, financial institutions and non-banking finance companies, the RBI said, a non-performing asset in the books of a bank will be eligible for sale to other banks only if it has remained a non-performing asset for atleast two years in the books of the selling bank. A non-performing financial asset should be held by the purchasing bank in its books at least for a period of 15 months before it is sold.

The entire credit risk associated with the non-performing financial assets should be transferred to the purchasing bank. Selling bank should ensure that the effect of the sale of the financial assets should be such that the asset is taken off the books of the bank and after the sale there should not be any known liability devolving on the selling bank.

Banks should ensure that subsequent to sale of the non-performing financial assets to other banks, they do not have any involvement with reference to assets sold and do not assume operational, legal or any other type of risks relating to the financial assets sold. Consequently, the specific financial asset should not



enjoy the support of credit enhancements/liquidity facilities in any form or manner.

Each bank has to make its own assessment of the value offered by the purchasing bank for the financial assets and decide whether to accept or reject the offer. Under no circumstances can a sale to other banks be made at a contingent price whereby in the event of the shortfall in the realisation by the purchasing banks, the selling banks would have to bear a part of the shortfall.

The guidelines state that an asset may be deemed to have demonstrated its performing status with reference to cash flows estimated while purchasing the asset. The selling bank shall pursue the staff accountability aspects as per the existing instructions in respect of the non-performing assets sold to other banks.

Nabard projects Rs.4,000 crore investment for bio-diesel

An investment of Rs.4,000 crore is needed for 5% blending of jatropha curcas oil with diesel for converting it into bio-diesel, Nabard said.

"We are waiting for the government clearance for moving ahead with funding to support this area. As for each lakh hectare of land would need Rs.200 crore," Nabard Deputy General Manager, Shri B.P. Nautiyal said at the national workshop on 'Adaptation of alternative fuels in the Indian transport sector.'

Arcil acquires Rs.15,000 cr worth NPAs in 18 months

During its 18 months of operation till March 2005, the Asset Reconstruction Company of India Ltd. (ARCIL) has acquired dues aggregating over Rs.15,000 crore. Of this around Rs.4,500 crore has been acquired from 17 banks who were working capital lenders and Rs.11,000 crore from six financial institutions. The acquisition price offered by Arcil works out to 24% of total dues. Arcil's acquisition upto March, 2005 comprises 68% of operating units, where the investors have the opportunity to get good returns from the investment made by them in Arcil.

There are eleven cases that have been settled with borrowers, where 100% settlement amounts have been received and distributed to the security receipts (SR) holders. In some large cases, strategic investors have shown keen interest in management/business buyouts. Arcil has taken possession of six assets in accordance with powers given under the SARFAESI Act, 2002. The institution has recovered more than Rs.35 crore from a few borrowers.

While the diamonds industry is at the bottom of Arcil's assets list, textiles tops the list. The other sectors whose assets constitute the major portion of Arcil is pharma, consumer products, iron & steel, engineering, cement, paper, construction, packaging, aluminium, chemical, cable, food, auto ancillaries and hotels. The acquiring of NPAs is skewed in favour of textiles because the acquisitions in initial phase were restricted to Gujarat and Maharashtra due to stamp duty issues.

SASF settles non-performing asset cases worth Rs.1,500 cr

The Rs.9,000 crore stressed assets stabilisation fund (SASF), set up by the government to take over the non-performing assets (NPAs) of IDBI Ltd., has already settled accounts having a net asset value (NAV) of Rs.800-850 crore, for a realisable amount of Rs.1,500 crore. The payment will be recovered over a three year period.

According to the source, apart from NAV, the fund has also been successful at recovering a negotiated interest component. *"Most of the loans were term loans for developmental projects in steel, infrastructure and textiles, extended at an interest rate of about 18-20%. We have been able to recover not only the asset value of the NPA, but also an interest component at a negotiated rate of about 8-10%".*

Till March 31, 2005 (from October, 2004, when it became operational), the fund has managed to return around Rs.206 crore to the government.



**True success can only be achieved
in partnership with God.**



MISCELLANY

Only one in four Indians poor

The all-India poverty ratio went down from 26.1 percent in 1999-2000 to 24.9 percent in 2003.

Rural and urban areas, however, continued to perform differently. While rural poverty went down from 27.1 percent to 25.2 percent, urban poverty went up marginally from 23.6 percent to 23.95 percent.

The two sets of figures, however, are not comparable. This is because the figures for 1999-2000 are based on a quinquennial large sample round, which is used officially to estimate poverty, while the others are thin sample rounds, not always used to calculate poverty figures. The rough poverty figure calculations are based on scaled-up poverty lines. While the rural poverty line has been scaled up using the consumer price index for agriculture labourers, the consumer price index for industrial workers has been used to scale up the urban poverty line.

The all-India figures are based on the estimate that the rural population constitutes 74.8 percent of the total population. The average monthly per capita expenditure in 2003 in rural areas was Rs.554 compared with Rs.1,022 in urban areas.

The survey covered 150,000 people in rural areas and 62,000 in urban areas all over the country. The average household includes 5 and 4.5 persons in rural and urban areas, respectively.

What is foreign trade policy ?

Most of the country's export-promotion measures are contained in the Foreign Trade Policy (FTP) which came into being on August 31, 2004 - replacing the Export-Import Policy which was the bible for exporters for decades. The five year policy is updated every year in line with international trade trends and India's response to these developments. The first update of the current FTP too was updated earlier this month.

Which arm of the government is responsible for the FTP ?

The FTP is formulated and executive by the Directorate General of Foreign Trade (DGFT) which was known till 1991 as the Chief Controller of Imports & Exports (CCI&E). The DGFT functions under the department of commerce. The ministry of commerce

and industry coordinates with various arms of the government to provide inputs for export/import policies.

What is the primary role of FTP ?

Exporters either obtain licences from the DGFT for duty-free or concessional import of capital goods and raw-materials so that they have access to inputs at internationally-competitive rates. The other option is to pay the duties and claim them back as duty draw back. In either case, the basic idea is to export only goods and services, and no taxes. With the country moving forward on the liberalisation road for the past decade and half, strategies to promote exports are slowly coming out of the cumbersome maze of bureaucratic procedures that engulfed all government policies before 1991.

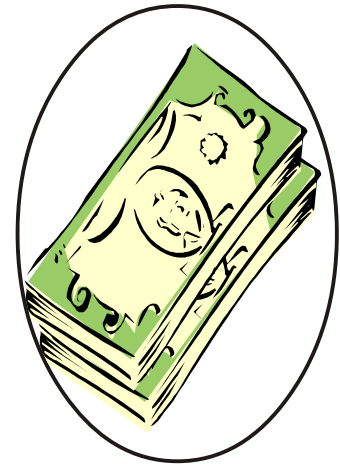
What are the incentives available for export promotion ?

A number of windows have been designed to execute the concept of now exporting taxes. Over a period of time, each option has developed into a typical strategy. For example, SEZs are enclaves that provide a duty-free environment so that exporters can compete with rivals from other countries on an equal footing. The zones are exempted from tax on imports. Like SEZs, Export-Oriented Units (EOUs) are also exempt from taxes. While SEZs are location-specific, EOUs can up in any part of the country.

What are the new windows of export promotion linked to a location ?

The concept of not exporting taxes has now been extended to establish Free Trade and Warehousing Zones, a new window announced in the Foreign Trade Policy, meant to create trading SEZs. This move is in line with encouraging trade, including imports and not just exports.

The other new concept is Agricultural Export Zones. So far, 48 AEZs have been approved in 19 states by



Department of Commerce. These zones enjoy benefits similar to SEZs / EOUs.

What are the various types of export promotions measures under FTP ?

The Export Promotion Capital Goods (EPCG) Scheme gives the manufacturer facility for import of capital goods for export production at concessional rate of duty (5%) against a certain level of export obligation over a period of time.

Duty-free import of inputs for exports is allowed under Advance Licence. Duty Entitlement Pass Book (DEPB) and Duty Free Replenishment Scheme/Duty Certificate (DFRC) Scheme. Advance Licence, for example, is granted for import of inputs without payment of customs duty.

The DEPB is designed to neutralise the incidence of basic customs duty on the import content of export product. This is provided by way of grant of duty credit against the export product at specified rates. The DEPB Scheme which was notified on 01.04.1997 consisted of (a) Post-export DEPB and (b) Pre-export DEPB, The pre-export DEPB Scheme was abolished w.e.f. 01.04.2000. Under the post-export DEPB, which is issued after exports, the exporter is given a duty entitlement Pass Book at a pre-determined credit on the FOB value. The DEPB allows import of any items except the items which are otherwise restricted for imports.

What is DFRC ?

It refers to the Duty Free Replenishment Certificates Scheme which was introduced from 01.04.2000 replacing Transferable Advance Licensing

Scheme. The scheme is available to merchant exporters as well as manufacture exporters. However, it covers only items which are covered under standard input-output norms notified by DGFT.

What is deemed exports ?

Deemed exports refers to those transactions in which the goods supplied do not leave the country and the payment for the goods is received by the supplier in India. Those holding any licence permitting duty-free imports can use this facility to receive local goods without having to pay duties instead of importing.

What is registration-cum-membership certificate (RCMC) ?

RCMC is a certification granted to an exporter by an Export Promotion Council (EPC) or other competent authority.

How do QRs work ?

QRs mean Quantitative Restrictions. QRs refer to specific limits imposed by countries on the quantity or value of goods that can be imported or exported. QRs are non-tariff measures which are taken to regulate or prohibit international trade. QRs specifically refer to measures such as licensing requirements for exports/ imports; quotas, ceilings.

How are export/import products classified ?

ITC (HS) refers to Indian Trade Classification (Harmonised System). It is a system of classification of products for the purposes of export and import.



It's humbling to think how infinitesimally small we are compared to God, and more humbling still to comprehend that He created us to be His Friends.



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PROFESSIONALISATION OF SFCs
THE CRUCIBLES OF AUTHENTIC LEADERSHIP
ANNUAL SUPPLEMENT OF FOREIGN TRADE POLICY
108 ITEMS TAKEN OFF SSIs LIST
LOAN RECOVERY MADE EASY
NEW INVESTMENT POLICY OF MP
SIDBITO DEVELOP CLUSTERS IN GURGAON

