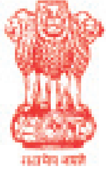

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Officer on Special Duty (Public Relations)

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राष्ट्रपति भवन,
नई दिल्ली -110004
President's Secretariat,
Rashtrapati Bhavan,
New Delhi - 110004

MESSAGE

The President of India, Smt. Pratibha Devisingh Patil, is happy to know that the Council of State Industrial Development and Investment Corporations of India, New Delhi is bringing out its Journal 'COSIDICI COURIER'.

The President extends her warm greetings and felicitations to all those associated with the Council and congratulates the Council on the launch of the Journal.

A. Datta
Officer on Special Duty (PR)

LAUNCH OF THE BOOK "DECENTRALISED ECONOMIC DEVELOPMENT"

The above book authored by Shri K. K. Mudgil, Secretary General was launched by COSIDICI as well as published by it. The book was formally released in a function at India International Centre, New Delhi on 27th February, 2010 which was attended, among others, by the Finance Secretary (*Expenditure*), Smt. Sushma Nath, IAS. The function was presided over by Shrimati Shakuntala Nath w/o late Shri Devinder Nath to whose memory the author has dedicated the book. Shrimati Shakuntala Nath while releasing the book addressed the gathering as under and we quote :-

"Shri Mudgil and dear friends!

Today is indeed a joyous occasion, because we are gathered here for the release of a remarkable book authored by Shri Mudgil. The occasion is doubly festive and significant because we are also celebrating the 72nd birthday of Shri Mudgil, who has completed five decades of dedicated and distinguished service. He is also currently, as many would be aware, the Secretary General of the Council of State Industrial Development and Investment Corporations of India, a post he has graced since 1998.

I have known Kewal Krishan for half a century, and my late husband Shri Devinder Nath and I, have always had a lot of affection for him, and his wife Prem. In addition to his sterling personal qualities and sense of conviction, over the years I realized that he was also an innovative thinker, and brought passion and zeal to his work. As an officer in the Punjab Government where he was associated with the development of small scale and village industries, to his distinguished thirty one year stint at the Reserve Bank of India, and then his tenure as Executive Director of the National Housing Bank, Shri Mudgil lost neither his enthusiasm nor his intellectual curiosity. In recent years, I have learnt of his talent for crisp and incisive writing from his regular editorials for the Journal of the Council of State Industrial Development and Investment Corporations of India (COSIDICI).

The book being released today reflects all these qualities – Shri Mudgil's profound knowledge of the field of rural development, finance and agriculture, his sharp and incisive analysis and a pleasing writing style. What shines through, above all else, is Shri Mudgil's empathy with the toiling rural masses, his concern at the trend of inequality in society, his insistence on the need for inclusive growth and distributive justice. These are the values cherished by Shri Devinder Nath and ideals that he lived by and worked for. I am therefore particularly happy to see that Shri Mudgil has dedicated this book to his memory.

COSIDICI COURIER

BI MONTHLY JOURNAL OF COUNCIL OF STATE INDUSTRIAL DEVELOPMENT and INVESTMENT CORPORATIONS OF INDIA

VOL. XXXXVIII NO. 1 **JANUARY-FEBRUARY, 2010**

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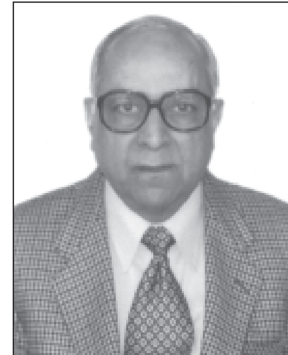
The views expressed in the journal are those of the contributors and not necessarily of the Council of State Industrial Development and Investment Corporations of India.

From The Editor's Desk

PROFESSIONALISATION OF 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".


Shri K.K. Mudgil

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 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 of 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 re-vitalization 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 B.R. Meena, IAS has been appointed as Vice Chairman & Managing Director, Andhra Pradesh Industrial Infrastructure Corp. Ltd. (APIIC), Hyderabad vice Shri B.P. Acharya, IAS.
- Shri Hemant Sharma, IAS has been appointed as Managing Director, Orissa Industrial Infrastructure Development Corporation Ltd., (IDCO), Bhubaneswar vice Shri Vishal Dev, IAS.
- Shri V.K. Ohri, IAS has been appointed as Managing Director, Punjab Financial Corporation (PFC), Chandigarh vice Shri V.K. Sharma, IAS.
- Dr. R.K. Srivastava, IAS has been appointed as Chairman & Managing Director, Delhi Financial Corporation (DFC), New Delhi vice Shri X.K. Mahto.
- Shri M. Muazzam has been appointed as Managing Director, J&K State Industrial Development Corp. Ltd. (J&K SIDCO), Jammu vice Shri B.S. Dua.
- Shri A.D. Naik has been appointed as Managing Director, Goa Industrial Development Corp. (Goa-IDC), Panaji vice Shri A.V. Palekar.

* * *

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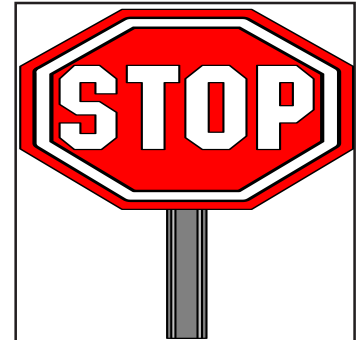
STRATEGIC IMPORTANCE OF SLFIs IN THE COUNTRY's INDUSTRIAL DEVELOPMENT

By K.K. Mudgil *

Introductory :

The Government of India's Industrial Policy since independence has been shaped broadly in terms of Industrial Policy Resolution (IPR) in 1948. That Resolution emphasized clearly the responsibility of the Government in the matter of promoting, assisting and regulating the development of industry in the national interest. It envisaged for the public sector an increasingly active role. It laid down certain demarcation of fields for the public and private sectors. It also emphasized the role of cottage, village and small scale industries to decentralize economic activities. These industries offered some distinct advantages; provide immediate large scale employment; offer a method of ensuring a more equitable distribution of the national income; and facilitate an effective mobilization of resources of capital and skill which might otherwise remain unutilized. The problem was one of devising effective policies as well as of making suitable organizational arrangements.

The 1948 Resolution was reviewed in the light of these considerations and the new Industrial Policy Resolution was adopted in 1956. In terms of this Resolution industries were classified into three Categories and the role which the state would play in each of them. The first category consists of 'industries' the future development of which will be the exclusive responsibility of the State. In the second category are *'industries'* which will be progressively state-owned and in which, therefore, the State will generally take initiative in establishing new undertakings but in which private enterprises will also be expected to supplement the efforts of the State. While the third category comprised all the remaining industries, further development of which will, in general, be left to the initiative and enterprise of the private sector. These categories were not intended to be rigid or watertight and could over-lap whenever desirable in the national interest.



With the object of accomplishing the above objectives, concrete steps were taken by the Government to promote industrialization in the country and also ensure regional industrial growth and decentralization of industrial activities in the rural and backward areas to promote equitable economic growth.

In 1948 itself, the Government of India set up Industrial Finance Corporation of India to provide financial facilities to larger scale and medium scale industries in the country. Since its scope was confined to the metropolitan and urban areas, the need was felt to set up similar financial organisations at the state level under the management of the respective states to promote and finance industries in the semi-urban, rural and backward regions of the states. In pursuance of this decision the Government enacted a comprehensive Act called *"State Financial Corporations Act"* in 1951 for implementation in the states by the respective State Governments. Therefore, SFCs were set up under this Act in 50s. The earliest one was set up in Punjab called Punjab Financial Corporation (PFC) in 1952 and other states followed suit. The scope of these Corporations was limited to finance small scale, medium and tiny industries in the decentralized sector and these corporations were required to operate within the constraints of the SFCs Act which did not provide much flexibility in its operations. A need was soon felt by the state

* *The author is the Secretary General, COSIDICI and a Former Executive Director, RBI/NHB.*

governments that for achieving faster growth in the industrial development, the required industrial infrastructure needed to be developed in the states to encourage prospective entrepreneurs to set up industries in the states and also to encourage first generation entrepreneurs to undertake industrial activities. For creating necessary infrastructure in the state, it was felt that separate institutions with greater autonomy and operational flexibility needed to be set up to undertake these activities. Accordingly, each state had set up separate organisations namely State Industrial Development Corporations (SIDCs) to undertake development of industrial areas, industrial townships, industrial housing complexes, roads, common facility workshops etc. These corporations were also required to provide loan facilities to large and medium scale industries and could also organize large scale industrial ventures on its own or jointly in collaboration with the private sector entrepreneurs. A few states also set up separate corporations exclusively to develop infrastructure such as TamilNadu, Andhra Pradesh, Gujarat etc. While SFCs Act was enacted by the Indian Parliament, SIDCs and State Infrastructure Corporations were set up under Companies Act, 1956 to provide greater flexibility in their operations. These State Level Development Finance Institutions had played vital role in developing industries in the rural, semi-urban, urban and backward regions of the States and had been strong vehicle of economic development in the states resulting in decentralization of economic activities and removal of poverty.

In addition to setting up of Institutions at the State level, the Government of India also provided institutional framework to concentrate on specific areas of development as under **: -**

- In 1955, the National Small Industries Corporation was set up at the apex level to provide financial, technical and marketing assistance to SSIs;
- A separate institution – Khadi and Village Industries Commission was set up in 1956 with country-wide network to promote village industries;
- The Government established Small Scale Industries Board at the apex level to oversee the development of SSI sector in the country. Government also set up Small Industries Service Institute with its branches spread all over the country to provide training facilities to the entrepreneurs and technicians. Besides, a separate wing was created in MSME Ministry under the overall supervision of Development Commissioner, SSI to monitor the progress of the sector and take policy decisions;
- The Government also set up Commodity specific Boards to promote development of such industrial enterprises such as Tea Board, Coffee Board, Silk Board, Coir Board, Rubber Board, All India Handloom Board, All India Handicraft Board etc.

The above institutional arrangements at the national and states level were made to promote integrated development of industries in the country with a view to ensure balanced regional growth, decentralize industrial activities, encouraging first generation entrepreneurs, promoting equitable distribution of national wealth, generation of employment opportunities and removal of poverty. Over a period of nearly five decades, the above institutions have been playing a vital role in their respective fields and the present tempo of industrial development in the country bears adequate testimony to their impressive growth.

Strategic Role Of SLFIs In National Economy:

The requirements of a developing economy are widely divergent from those of the developed economics. An efficient financial system is required for economic development by making funds available for entrepreneurial activity—a role which has been fulfilled remarkably well by these SLFIs. Most of the Multinational Companies (MNCs) e.g. Infosys, Biocon, etc. which were denied finance by the banks due to the risk involved, were first funded by these SFCs/SIDCs in the states. A developing economy needs long-term finance mainly for development of infrastructure and the MSME sector. These require long term gestation periods and are, therefore, said to be high risk activities. Private sector is unwilling to commit such large amount of funds and for such long periods since they are more interested in

immediate return on their capital. Therefore, in order to facilitate economic progress and remove poverty, the government decided to takeover these activities. As a result the SIDCs and SIICs were set up to develop infrastructure in the states. They were established under the Company's Act to do away with the restrictive provisions of the SFCs Act so that they could perform their functions speedily. These corporations have shown remarkable performance. For example, HSIIDC has developed Industrial Parks and estates in Haryana as well as all around Delhi i.e. Faridabad, Gurgaon, Manesar, Bawal etc. These estates provide world class facilities and are sought after by global MNCs which have set up their factories here. It is also developing the Delhi Mumbai Corridor for the Centre. DSIIDC has developed affordable housing for industrial workers in Bawal and also created a housing complex for LIGs. Similar work has been done by RIICO, SIPCOT, KSIIDC, and APIIC which have helped their respective states to flourish and progress. SFCs on their part have been playing an integral role in not only financing the MSME sector but also helping the units by providing technical and marketing support. Some of the SFCs have also set up training facilities specially for the first generation entrepreneurs so as to help them achieve their goals and objectives. Such institutions can be seen all over the world. The United States of America had set up a Small Business Board with a similar agenda of developing their country's economy. The planners of that country have attributed their country's all round progress to the work of this board which enabled them to achieve the objective of holistic and inclusive growth.

Relevance of SLFIs :

The SFCs have helped to decentralise economic development, created employment opportunities, helped in developing the backward regions and promoted first generation entrepreneurs. They have assisted artisans, crafts persons, SSI units which are using simple to the most sophisticated technology. These units have also contributed to the states' progress by way of sales tax, local duties etc. The SFCs were performing very well but their fortunes turned after opening up of the economy in 1990s since the economic reforms did not embrace these DFIs. The SFCs suffered owing to indifference on the part of stake-holders to provide cheap and adequate resources to SFCs and consequently, their inability to compete with commercial banks which have access to cheap public deposits. The Government of India has of late realized the importance of nurturing SLFIs (SFCs) and provided a financial package through SIDBI besides allocating additional funds for SSIs. The Finance Minister in his budget speech last year had provided a special fund of Rs. 4,000 crore out of RIDF to SIDBI to incentivise the banks and SFCs to lend to the MSE sector. The Prime Minister has time and again stressed on the need for creating jobs and taking growth to all sections of the society. The states have realised the importance of these SLFIs by making them the nodal agencies for their states and helping them to turn around. Due to the support of the respective state Governments 10 SFCs have now become positive networth institutions. The others have paid off their dues and started financing operations. The Government of Andhra Pradesh had decided to close APIDC but a study by IIM Kolkata showed that a very important role of equity participation in small and medium sector was being fulfilled by it. The Corporation has since been revived by the state government and is now performing well. The government of Bihar had commissioned a study by Deloitte and Company regarding the relevance of BSFC. The study has vociferously recommended the need for ***"a vibrant and sustainable BSFC"*** to provide *"assistance and support to the micro, small and medium entrepreneurs who more often than not are overlooked by the commercial banking sector"*.

These SLFIs have made a substantial contribution in the country's effort to industrialise. However, India is a vast country and a lot of work needs to be done. The government of India has given various incentives in the form of tax holidays etc. to develop the backward regions. Development of Baddi—a backward region in Uttrakhand – is a shining example. It has been developed by the state of Uttaranchal's SLFI viz SIDCUL. This area was one of the most underdeveloped regions a few years ago. The scenario has changed completely with many small and big companies setting up their manufacturing plants here and providing jobs to the local people.

These institutions which were created for fulfilling critical socio-economic obligations of the states are, therefore, as relevant today as they were fifty years ago. They have played a crucial role in the promotion of first generation entrepreneurs and have recorded an impressive performance in providing financial assistance to the industries in the decentralised sector. The SSI Sector in the country today occupies a place of pride in the national economy. Currently, the sector accounts for around ***95 percent*** of the industrial units in the country, contributing to ***45 percent*** of the manufacturing sector output, nearly ***40%*** to exports and employs 42 million people. It will not be an exaggeration to say that such an impressive performance of SSI Sector has been made possible due to the ceaseless efforts of the SLFIs in the past. No other financial institutions have wherewithal and outreach to penetrate into the far-flung areas of the States for promoting small scale and tiny industrial units.

An important reason for keeping SFCs afloat is to maintain the flow of credit to SMEs. The percentage share of the MSMEs in non-food bank credit declined considerably ***15.1%*** in 1990-91 to ***6.5%*** in 2006-07. Similarly, the SME credit in total priority sector advances declined sharply to ***17.9%*** at end-March, 2006 compared with 43.6% at end March 1998. This steep decline was largely owing to increased loan flow to retail and corporate sectors. This trend continues unabated. As per the Third All India SSI census (2001-02) only 14.2% of the registered and 3.09% of unregistered MSMEs availed of bank finance. It is futile to expect banks to be enthusiastic about lending to SSI sector for fear of NPAs. At best, banks may lend to the existing units; they will not be keen on financing new ventures i.e. first generation entrepreneurs - the constituency that SFCs were intended to serve. Widespread closure of SFCs could thus impact adversely on a dynamic segment of the Indian economy and undermine industrial growth. Though SCBs have opened branches in semi urban and rural areas it is seen that the Credit Deposit Ratio of commercial banks has been abysmally low. If one looks into the statistics of providing credit to weaker sections in such areas like small and marginal farmers, agricultural labourers, artisans, small traders etc. involvement of commercial banks is almost negligible. There is, therefore, a strong case for compelling the commercial banks to open a general line of credit to SFCs to bridge the gap in the stipulated CD ratio. It is in the context of these realities that one has to appreciate the relevance of SFCs in the country.

Need For Diversification Of Activities Of SLFIs:

In the wake of economic liberalisation and financial sector reforms, the financial sector has undergone a sea change making it difficult for DFIs to continue with their traditional role of long-term financing. Recognising the difficult situation they are in, the other DFIs (*like IDBI, IFCI, ICICI etc.*) have made a gradual move towards diversifying their portfolio into other related sectors like banking, investment banking, housing finance, insurance etc. with a clear move towards universal banking. Consequently, long-term loaning, primarily to industries, has become relatively less important. In view of the emerging business environment, the state level financial institutions can no longer afford to remain away from the main stream. They must make conscious efforts to diversify their business portfolio in order that they may not entirely depend upon the traditional long-term operations. With the shrinking margins and non-availability of cheap resources, the cost of funds of these institutions has been rising as compared to commercial banks and other financial institutions, rendering their operations unviable. There is, therefore, an imperative need that the SLFIs take up some other lending activity and also undertake non-fund based operations.

One such suggestion is that SIDCs/SFCs may undertake housing finance activity and set up housing finance subsidiaries to provide housing loans to individuals, institutions and government employees in their respective States. DSIIDC has already made low cost housing facilities for industrial workers. The SLFIs are having strong base in the States and are very well-equipped with the necessary staff and infrastructure facilities and functioning through the network of their regional offices and branch offices. They are most suited to take up this new activity of housing finance. The Government of India have accorded a high priority to the dispensation of housing loans in the rural and semi-urban areas and have announced a large number of fiscal incentives in the last two Budgets.

For example, the ceiling in respect of deduction of interest on borrowed capital invested in the acquisition or construction of a house has been enhanced to Rs.1.50 lakh, the ceiling on the amount eligible for rebate on the repayment of principal of housing-loan has been increased to Rs.20,000/- and 40% depreciation has been allowed on new dwelling units purchased by the corporate sector for its employees. The Government of India have also announced 2% interest subsidy on the housing finance made available to BPL families in the rural areas and the NHB is providing refinance to eligible housing finance companies for their lendings in the rural areas on comparatively lower rate of interest. These incentives and support-measures undertaken by NHB have gone a long way in reducing the cost of housing loan and consequent impetus to the house-building industry.

The housing finance business has been considered to be the most safe business inasmuch as the incidence of default ranges between 2% to 4%. Since the housing-loans are advanced against the mortgages of properties and the borrowers in this country have generally an emotional attachment to their properties, the recovery of housing loan has been very encouraging, which has prompted almost all the commercial banks to enter this field in a big way.

The other activity, which can also be undertaken by SIDCs/SFCs which is largely non-fund based, is to market insurance products of life and general insurance companies as corporate agents in area of their operation. By virtue of their business operations in the field of industrial development, SIDCs/SFCs are generating substantial volume of general insurance business themselves. As a result of the opening up of the insurance sector, vast potential exists in rural, semi-urban and urban areas in the states for mobilisation of the insurance business. The outreach of the existing insurance companies in such areas is very limited. Since SIDCs/SFCs are very well-equipped with the necessary staff and infrastructure facilities and are well-organised institutions managed by the State Governments, they can very conveniently take up this new line of activity and diversify their business operations. The SIDCs/SFCs would in this way earn substantial income by way of commission from the insurance companies which could improve their profitability. APSFC and KSFC have already forayed into this segment successfully.

Future Perspective – Merger Of SLFIs – Their Conversion Into LABs :

An opinion has been gaining ground that in the wake of liberalization and financial sector reforms coupled with de-regulation of banking sector, only those financial institutions would survive in the long run which have access to public deposits to ensure perennial availability of adequate and cheap resources. No doubt, the commercial banks have opened large number of branches in the rural and semi-urban areas. But these banks were more interested in mobilizing deposits and investing these resources elsewhere. They are depriving such areas of much needed finance for development activities. These banks are reluctant to finance the rural sector for fear of their NPAs going up. An apathetic low credit deposit ratio of these banks is pointer towards this situation. There was thus a great need to professionalize the SLFIs and their merger into a single strong unit. Since these SLFIs were performing more or less similar functions their merger into one strong unit appear to be absolutely necessary in view of fast changing global scenario and to enable them to face competition from commercial banks. In view of their growing need for cheap and adequate resources and inability of refinance institution and Govt. agencies to provide the same, it has often been pleaded by COSIDICI that in order to allow these merged institutions access to public deposits/perennial resources, these may be converted into Local Area Banks by the Govt. of India/RBI and give them banking licence at par with commercial banks. The SLFIs are having strong base in these States and deep outreach in the rural areas and are well-equipped with the necessary staff and infrastructure facilities and functioning through the network of their regional offices and branch offices. They are most suitable and appropriate agencies to perform the role of a LAB. These banks would be able to mobilize adequate resources on their own and would not be dependant upon refinance agencies. Further,

they would deploy these resources in the same area and able to maintain impressive Credit Deposit Ratio (CDR) besides deploying its surplus staff in its banking arm.

There has of late been a general trend not only in India but all over the world to bring about consolidation/amalgamation/merger among the financial institutions to create bigger entities to face emerging competition. A few small private sector banks in India such as Times Bank, Bank of Punjab, Centurian Bank, Global Trust Bank etc. have already been merged with strong banks. Even there is current thinking that small public sector banks could be merged with strong banks to reap economies of scale; State Bank of Saurashtra has already been merged with SBI. IDBI and ICICI have already merged themselves with their banking arms to expand their operations. Further, a few foreign banks such as Grindlays Bank, American Express Bank, etc. have voluntarily merged with strong banks.

The SLFIs are an integral part of the financial system of the country and are pregnant with immense potentialities of growth. These institutions have been playing a strategically vital role in the industrial development of the country and bringing about balanced regional growth and move towards *"inclusive growth"*. The need of the hour is to strengthen them to address the national objective of accomplishing financial inclusion. Only then can the dream of a robust economy with strong foundation and inherent strengths be realized. The measures listed above would go a long way towards achieving this goal.

* * *

LETTER TO THE EDITOR

DO: NO:PA/MDHFC/2010/15238
Dated : 5th March, 2010

Dear Editor,

I am happy to learn about the publication of your book titled ~ ***"Decentralised Economic Development"***. The book deals with many issues such as rural development, farm crisis, agriculture credit, relevance of SLFIs, economic reforms, poverty and the relationship between corruption and decentralisation. The suggestions provided in the book would indeed, help to understand better the links and channels between corruption, decentralisation and economic development. It would certainly prove to be very effective in raising the standard of living of the people in rural and semi-urban areas and would also help SLFIs in their future role.

Kindly accept my congratulations.

With regards,

Yours sincerely,

Sd/-
(DHEERA KHANDELWAL, IAS)
MANAGING DIRECTOR,
HARYANA FINANCIAL CORP.
CHANDIGARH.

SPECIAL ECONOMIC ZONES

By
Aradhana Aggarwal *

Given the severity of the global crisis, and the collapse of global trade after that, it's hardly surprising that India's exports have also taken a big hit. For the first time in nearly a decade, merchandise exports recorded a single-digit growth of 3.4 per cent in dollar terms to touch $168.7 dollar in 2008-09 over the previous year's $163.1 billion. Growth for services export also crashed to 12.4 per cent against 22 per cent in 2007-08. Exports for Information Technology (IT) and IT-enabled Services (IITeS) clocked a 14.6 per cent growth, significantly lower than the average of 30 per cent in the previous few years.

In the crisis-ravaged external sector, special economic zones (SEZs)—the most controversial industrial clusters in the country—emerged as the only source of solace. Belying prediction that the crisis would completely derail their future prospects, SEZs registered an impressive growth in export, investment and employment generation. Notwithstanding the fact that SEZs have also been severely affected by the crisis, their exports recorded an increase of 36.4 per cent in dollar terms from $16 billion in 2007-08 to $22 billion in 2008-09. Of this, $4.63 billion (21 per cent) was accounted for by those 91 SEZs that had been newly notified (notified under the SEZ Act 2005)—this was 2.7 per cent of the total national merchandise exports.

They bettered their performance in the first half of the current financial year (*April-September*). While national merchandise exports were down by 28.5 per cent as compared to $108.9 billion during the corresponding period of the previous year, SEZ exports already reached $18.5 billion in this period as against $21.9 billion in the whole of 2008-09. Interestingly, the operational, notified SEZs the number of which increased to 101 as on September 30, 2009, accounted for 52.85 per cent ($9.8 billion) of the total SEZs export during this period.

Critics argue that IT/ITeS exports have remained the mainstay of SEZs' export performance and that these exports would have happened even in the absence of the SEZ policy. According to them, SEZs export statistics create an illusion that it is the SEZ policy that is responsible for the increased exports. However, sectoral disaggregation of SEZ exports does not fully support this argument. Despite the fact that most newly notified SEZs are in the IT/ITeS sector, trading and manufacturing accounted for almost 50 per cent of their total exports in 2008-09. In the first half of 2009-10, manufacturing exports from these SEZs increased by almost 500 per cent while IT/ITeS exports exhibited a growth of mere 55 per cent. As a result, the share of non-IT/ITeS exports in total exports from newly notified SEZs increased further to 66 per cent. Clearly, once economic growth picks up, SEZs are expected to become a hub of manufacturing exports from India.

When DLF sought permission to scrap an IT SEZ near Delhi, many predicted that this was just the beginning and that many more promoters would follow DLF. However, the prediction proved wrong. As of August 2008, the number of formally-approved SEZs was 577, which stood at 573 as of December 15, 2009. Of the 573 formally-approved SEZs, 347 notified SEZs attracted an investment of Rs. 117, 223 crore and generated direct employment for 214, 724 people.

In a recent study on the economic impact of SEZs, based on field research of the SEZs of eight states, I have found that the upcoming SEZs have the potential of benefiting the economy by promoting new knowledge-intensive industries;

* *The Author is Associate Professor, Department of Business Economics, University of Delhi.*
Courtesy : Business Standard

augmenting existing industrial clusters/industrial states; diversifying the local industrial base and localizing global value chain.

However, as expected, these benefits are not evenly spread. Only five states—Gujarat, Andhra Pradesh, Karnataka, Maharashtra and Tamil Nadu—seem to have benefited by the policy due to their political will of diversifying their economies. They alone accounted for almost 96 per cent of exports in 2008-09. Jamnagar, Mundra, Ahmedabad Apparel and Essar Hazira in Gujarat; Biocon Limited and Suzlon Infrastructure in Karnataka; Fab city, Divi's lab, Apache and Brandix in Andhra Pradesh; SIPCOT, Cheyyar and Flextronix in Tamil Nadu and Moser Baer in UP are some of the examples of highly successful non-IT/ITeS zones that contributed significantly not just to augment exports but also to diversify them.

India was the first country to have set up its export-processing zones. It was followed by Taiwan, Korea, Malaysia and China. While India failed to capitalise on the first-comer advantage due to an extremely cautions approach and a lack of well–defined strategy, SEZs played a defining role in creating conditions for rapid industrialisation in all these countries. Though there were some success stories in India, the impact was minuscule at the macro level. Inspired by the Chinese success, in 2000, the EPZ scheme was upgraded to the SEZ policy through a revision in the Export-import Policy 1997-2002. Though the new SEZ policy introduced some basic changes in the earlier policy, response to these changes was not encouraging.

With a view to instilling confidence in investors, the SEZ Act was enacted in 2005. But the SEZ saga soon went sour with a fierce nationwide debate over the usefulness of SEZs. It touched upon almost every aspect of SEZs from social issues, like land acquisition, labour rights and environmental protection, to economic issues, like their impact on government revenue, equity, employment, trade and foreign exchange earnings.

However, the story did not end there. In 2008, the global economic crisis hit the world. This was the acid test for SEZs. We need to evaluate the performance of SEZs against this backdrop. Braving these controversies and several adverse policy decisions, SEZs have played a very important role in promoting and diversifying exports, and have proved that they are not in such a desperate state as has been predicted by doomsayers.

* * *

REMEMBER, WE ALL STUMBLE, EVERYONE OF US. THAT's WHY IT'S A COMFORT TO GO HAND IN HAND.

PROFILE OF MEMBER CORPORATIONS

ANDHRA PRADESH INDUSTRIAL INFRASTRUCTURE CORPORATION LIMITED (APIIC)

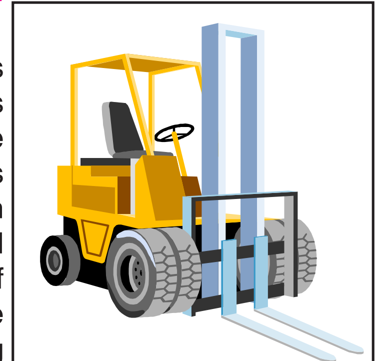
Andhra Pradesh Industrial Infrastructure Corporation Ltd. (APIIC) was incorporated on 26th September, 1973 with Authorised Capital of Rs.20.00 crores and paid up capital of Rs.16.33 crores. APIIC is a wholly owned Undertaking of Government of Andhra Pradesh.

Vested with the objective of providing industrial infrastructure through the development of industrial areas, the Corporation has so far developed more than 300 industrial parks areas spreading over an extent of about 1,21,655 acres(including allotted area). Besides, the Corporation is also developing sector focussed parks like apparel park/food processing parks/ leather parks, Special Economic Zones in the state. The Corporation has also constructed 3500 industrial sheds, 4800 dormitory units, 466 commercial shops.

With the advent of economic liberalization the Corporation has reoriented itself to the changing needs of economy and assumed the role of facilitator. To its credit the Corporation has developed Hi-Tech city with a private promoter. The corporation is the principle facilitator in Mega Projects like Special Economic Zone, Visakha Industrial Water Supply, Gangavaram Port, Convention Centre, Mega Industrial Parks at Parawada, Pashamylaram Financial District Hardware Park at Hyderabad.

The Corporation has to its credit the execution of civil works for various Government Departments. It has executed works covering Referral Hospitals, Navodaya Schools Polytechnic Buildings Court Complex, Building and Hostel for Indian Institute of Information Technology. Government entrusted the responsibility of constructing Games Stadia and Games Village for the National Games on Project Management Basis. The Corporation is the Nodal Agency for Government Sponsored scheme like Growth Centres, Export Promotion Industrial Parks, Integrated Infrastructure Development Centres.

Industrial Parks :



The Industrial Areas range from 15 acres to 2500 acres. The Corporation has presence in each and every Mandal Head Quarters of the District. A large number of leading industrial houses have their presence in these Industrial Areas. Some of them are BPL Engg., Kirby Building Products, Asian Paints, GVK, ITW Signode, Aurobindo Pharma, Widia India, Raasi Refractories, Lanco Kondapally Power Corporation, BSES Andhra Power etc.

The Industrial Areas are equipped with approved layouts, internal roads, water supply and power supply. The Corporation has also encouraged setting up Common Effluent Treatment Plants at Jeedimetla and Patancheru and also Total Solid Disposal Facility near Jeedimetla.

Public Private Partnership Projects :

Is a partnership between the public and private sector for the purpose of delivering a project or service traditionally provided by the public sector.

Essentially an arrangement to mobilize financial resources and expertise from private sector to meet the growing demand for infrastructure services

Projects :

- Hyderabad Information Technology and Engineering Consultancy (HITEC City-Cyberabad)
- Mind Space Project

- Integrated Township & Convention Centre
- Visakhapatnam Industrial Water Supply Company
- Jawaharlal Nehru Pharma City, Visakhapatnam
- IT/ ITES SEZ, Vijayawada

HITEC City-Cyberabad :

- First Major PPP project with L&T & APIIC in1996
- 89 % equity by L&T and 11 % by APIIC in shape of land
- Project area - 158 acres
- Total built up area - 18.08 lakh sft.

Cyber Towers - 5.25 lakhs sft - fully occupied

Cyber Gateway - 7.83 lakhs sft - fully occupied

Cyber Pearl - 5.00 lakhs sft - fully occupied

- Total Investment - Rs.450.00 crores
- State of the art facilities, dedicated power supply
- Successful and sustainable PPP model-putting

Hyderabad in Global I.T map

- More than 100 MNCs operating and using facilities
- Employment Generation of more than 65000 persons

Mind Space Project :

- A Special Project for IT & IT enabled services
- Project area 110 acres at Madhapur
- APIIC Ltd & K.Raheja Corpn. P Ltd have jointly promoted the project with 11 % and 89 % equity, respectively
- Modular Buildings with built up space of 4 million sft completed
- Total investment is around Rs.2000 crores with employment generation of about 45000 persons
- Secured approval for IT/ITES SEZ

Integrated Township & Convention Centre:

- 3 SPVs are formed for execution of the projects.
- APIIC Ltd and Emaar Holdings hold 26% and 74% equity in all 3 SPVs.
- Hyderabad International Convention Centre was built on an extent of 15 acres.
- Besides equity, APIIC Ltd shall receive 2 and 3% Gross Annual Revenue as lease rentals.
- The Golf Course with Boutique Hotel is developed on an extent of 235 acres.
- The assets will revert to Govt. of A P after 66 years of lease without any encumbrances.
- Convention centre was inaugurated in Jan, 2006.
- Break-even in the 2nd year of operation as against normal period of 4 to 5 years.
- Business Hotel commenced operations in Mar, 2006.
- 18-hole Golf was started in April 2008.
- Integrated Township Project is under execution and model homes and villas are
- Constructed.
- 703 flats in 8-blocks - construction works commenced and expected to allot by March 2010.

Visakhapatnam Industrial Water Supply Company :

- Project designed to meet the industrial water needs of the RINL, NTPC, VMC
- Project formulated under B O O T
- Promoted by APIIC, L&T, IL & FS,VMC & PSL
- Project cost Rs.453 crores
- Project envisage drawals of 5 TMC of water from River Godavari & 5 TMC from Yeleru
- Project commissioned in Dec., 2004
- The SPV is restructured with GVMC and APIIC as the promoters with the exit of all private players

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MPFC

Scheme for Micro Enterprises

MPFC introduces as special scheme to increase flow of credit to Micro enterprises in the state of Madhya Pradesh. In order to be eligible under the scheme, the applicant shall have to comply with the following **: -**

- Registered as Micro Enterprises with District Industries and Trade Centre
- Must be operating in its owned premises
- Must be in continuous profit for last three years.
- Must have a three year satisfactory payment track record with Financial Institutions and/or Banks.

The medium term loan will be provided for creation of fixed assets and/or to meet the working capital requirement of the unit.

PROMOTERS' CONTRIBUTION

The applicant shall invest promoter's contribution not less than 40% of the cost of project and loan shall not be more than 60% of the cost.

SECURITY MARGIN

Overall security shall be kept in view and a minimum security margin of 40% on prime security shall be insisted upon. Further additional security to the extent of 25% in case of new borrowers and 10% is case of existing borrowers shall be mandatory.

PERIOD & RATE OF INTEREST

The short term assistance will be extended for a maximum period of 36 months (inclusive of off period). Applicable rate of interest in the scheme is 9.75% p.a. payable quarterly. In the event of default in payment of interest as well as principal, a penal interest @ 4% shall be charged.

REPAYMENT

Principal shall be paid in Ten suitable quarterly installments after an initial moratorium of 6 months.

SECURITY DOCUMENTATION

- A loan agreement shall be executed by the party & assets of the concern shall be mortgaged as primary as well as additional security.
- Personal guarantee of the promoters and/or one financially sound person.

FEE

- Personal guarantee of the promoters and/or one
- The concern shall submit a proposal to the Corporation alongwith processing fee @ 0.05% of the assistance sought. Balance processing fee @ 0.20% shall be collected at the time of issue of sanction letter.
- The concern shall deposit up-front fee @ 1% of the loan amount at the time of first disbursement of loan.

OSFC

OSFC to resume lending to MSMEs

OSFC has signed the tripartite agreement with the Orissa government and the SIDBI. It will soon hold discussions with SIDBI and start lending to the SSIs. SIDBI has obtained its board approval to open a line of credit for OSFC and the board of OSFC has also approved the proposal to resume lending to the small scale sector.

OSFC, which has assisted more than 28,000 MSMEs in Orissa, helping in the generation of over 2,00,000 jobs in the state, hopes to advance around Rs. 20 crore to the SSIs in the remaining months of the current fiscal.

"We will be holding discussions with SIDBI pertaining to the Business Plan and Resource Forecast in next couple of days and hope to start lending by the end of this month," Shri Kabindra Nath Khatai, Managing Director of OSFC, said. OSFC has already started identifying potential borrowers to resume its lending activity. The tripartite agreement signed in the middle of November last year has enabled the state-owned lender to get refinance from SIDBI, as OSFC was able to attain a positive net worth and capital adequacy ratio (CAR) of 6.25 per cent. Apart from getting a new line of credit, OSFC will be able to repay the outstanding loan of about Rs. 140 crore to SIDBI.

The infusion of Rs. 352 crore by the state government and the support provided by SIDBI in restructuring outstanding loans have gone a long way in turning around the health of OSFC.

* * *

NEWS FROM STATES

PUNJAB

Rs. 150 cr/yr for Punjab industries

The Punjab government is to set aside Rs. 150 crore per annum for creating and upgrading of industrial infrastructure in the state. The state industries minister Shri Manoranjan Kalia, said a dedicated fund of Rs. 150 crore per annum was being planned for creating and upgrading of industrial infrastructure and for contribution of state's share in central government's schemes like cluster development, common facility centres and R&D marketing. A package of incentives had been given to IT, bio-technology units and agro-based industries. The government will provide land to these units at concessional rates. 13 special economic zone (SEZs) projects have been approved by the Centre for the state and two SEZs have already been notified.

Shri Kalia hoped that SEZ Act 2009, which has been enacted will facilitate the development of SEZs in Punjab. The procedure for approval of mega projects has been made simpler and transparent to ensure simplification and transparency in these projects.

Rs. 1,388-cr plan to clean Punjab rivers

Punjab chief minister, Shri Parkash Singh Badal has unveiled a Rs. 1,388-crore plan for the cleaning of river Satluj (Rs. 1,076 crore), Beas (Rs. 222 crore) and Sirhind canal (Rs. 90 crore) to provide clean water from river and canal system within the next two years. Out of total Rs.1,388 crore, project worth Rs. 676 crore had been approved and detailed project reports (DPR) for the 717 crore were under preparation.

The CM said pollution of river system was because of the municipal and industrial waste falling directly into these rivers or indirectly through the drains. All the stake holders comprising local government department, pollution control board and the industry had been taken into confidence to undertake this project within the time frame. Shri Badal also said that PPCB had been entrusted with the task to ensure suitable technology and insure zero discharge in the canal from Bhakra Beas Management Board, National Fertiliser Ltd., Punjab Alkalies & Chemical Ltd., Ropar Thermal Plant. This step would help in providing clean water to affected districts of Ropar, Ludhiana, Sangrur, Barnala, Bathinda, Moga, Mansa, Faridkot, Muktsar and Patiala. The PPCB had also been asked waste water for irrigation purposes.

HARYANA

Solar systems light up rural Haryana

Haryana Renewable Energy Development Agency (Hareda) has initiated a programme of installation of solar photovoltaic (SPV) street lighting systems in villages having 50% or more concentration of SC population. This is with the aim of catalysing economic and social upliftment of such villages. The agency has already installed about 2,950 SPV street lighting systems in around 280 villages in three phases. Recently phase IV of the project has been approved by the ministry of new and renewable energy (MNRE). Under Phase IV, installation of 987 SPV street lighting systems has been sanctioned in 35 villages of four districts having 50% or more SC population.

Phase IV was sanctioned and includes Gurgaon, Faridabad, Bhiwani and Jind. The installation of street lighting systems in these districts will cost around Rs. 2.28 crore. Out of the total cost, the ministry of new and renewable energy will provide Rs. 94.75 lakh and remaining Rs. 134.24 lakh will be provided by the welfare of schedule castes and backward classes department, Haryana.

In phase I, 222 villages of districts Panchkula, Ambala and Yamunanagar were covered and 1,489 SPV street lighting systems were installed at a cost of Rs. 3.81 crore. The cost was shared between MNRE and welfare of scheduled castes and backward classes department, Haryana. In Phase I, about 314 SPV street lights were installed in 12 villages of districts Rohtak and Jhajjar at a cost of Rs. 70.65 lakh.

Haryana set to increase fish harvest

Haryana has been awarded the second position in per unit fish productivity in the country. Haryana agriculture minister Shri Paramvir Singh said the fisheries department had set a target of bringing 20,000 hectare of water area under fish farming by stocking 4,000 lakh fish seeds by the end of the 11th Five Year Plan (2007-12) from 16,275 hectare at present. It is aiming to harvest 88,125 tonne by the end of the 11th Five-Year Plan. On productivity, the target had been pegged at 5,300 kg/hectare/year in 2009-10 from 5,200 kg/hectare /year in 2008-09. The fisheries department had earned revenue of Rs. 50.08 lakh up to November, 2009, against Rs. 49.36 lakh during 2008-09, despite drought-like conditions in the state.

The state government had set up 18 Fish Farmers Development Agencies to extend technical and financial assistance to farmers who had either taken village ponds on long lease, or had excavated ponds on own land. Panchayats were earning more than Rs. 20 crore/annum from lease money.

The department had set up fish health care centres at district level. Similarly, aquatic labs had been set up at all government fish seed farms to enhance per unit fish seed productivity by reducing the morality rate in young fish juveniles. 114 field offices were working to extend technical and financial help to fish farmers. There were 15 fish seed farms to government sector and 16 in the private sector to meet the demand for fish seed.

Haryana to become power surplus by '11-end'

Haryana would be self-sufficient in power by the end of 2010 and a year later, it would be in a position to provide electricity to other states, chief minister Shri Bhupinder Singh Hooda said. While 600-mw Yamunagar project has already started power generation, other projects are also coming up fast. The state government also has decided to celebrate the current year as "Urja Varsh" to lay focus on generation of power in the state. As a result of concentrated efforts being made to increase generation of power, there would not be any shortage of power by year-end. A 600-mw Deenbandhu Chhotu Ram Thermal Power Plant, Yamunanagar has already started functioning.

Haryana to take part in Isro project

Haryana is one of the five states selected under major Remote Sensing and GIS Application project entitled *"Space-Based Information Support for Decentralised Planning (SIS-DP)"* of Indian Space Research Organisation (Isro).

Haryana has been selected for the implementation of the project in the first phase besides Andhra Pradesh, Assam, Kerala and West Bengal. The project will provide information and communication technologies (ICT) enabled geo-spatial platform involving local bodies to carry out developmental activities under Panchayati Raj in a decentralised, speedy and transparent manner. The project aims to harness the space technology and the information systems at the local bodies to create information base and provide services.

It will include thematic mapping of the state on 1:10K scale. The expected output of the project would be a GIS database on various resources and infrastructure, digital resource atlases, reports and development of information system to cater to the needs of various line departments and stake holders.

Underground pipelines to save water in Haryana

The agriculture department of Haryana has undertaken an initiative to install underground pipeline systems in fields that can save up to 20-25% water used during irrigation. Rs. 14 crore has already been invested into the Rs. 25-crore project.

These pipes are 2.5 ft to 3 ft deep and are directly connected to the tubewells and the fields. *"This way wastage of water occurring through open channels is avoided and the farmers can utilize additional land (earlier occupied by open water channels) for cultivation purposes. Also the problem of weeds during rainy season can be taken care of through the underground pipeline system,"* said Shri Duggal. The agriculture department is also providing 50% subsidy on installation of the system or up to Rs. 60,000 to each beneficiary.

Haryana allocates Rs. 92.50 lakh for energy conservation

Haryana government has allocated Rs. 92.50 lakh for implementation of a scheme to promote energy conservation practices in agriculture sector. Under the scheme, financial assistance at the rate of Rs. 400 per Horse Power (HP) is being provided to farmers who install ISI or at least 'four star' rated pump sets in their tube wells.

At present most of the farmers in the state are using locally made pump sets for agriculture purposes. About 30 to 35% electricity could be saved by replacing these with optimum capacity sets, another 10 to 15% electricity could be saved by installing ISI marked reflex valve, replacing steel pipe of rough surface with RPVC pipe, using long bend in place of 90 degree sharp bend and by keeping the delivery pipe at a height of three feet above the ground level.

Riding on the wave of Industrial Policy

Haryana has been steadily climbing the investment ladder and presently, projects worth Rs. 90,000 crore investment are under implementation which, when completed, will give the state's economy a major push. Data available indicates that the number of large and medium units in the state as of now are 1,351, with over 80,000 small scale industries, giving manufacturing an added fillip. As per the state industries department, as many as 1,000 projects in the state are running with foreign/technical collaboration and so far foreign direct investment catalysed is to the tune of Rs.9,243 crore.

Haryana, secretary industry, Shri Y. S. Malik says that the new industry policy is proposed to be announced sometime in March 2010. It is expected to lay stress on increased investments in the state as well as focus on employment generation. To meet the ever increasing demand from the industry, some of the existing Industrial Estates are being expanded which includes IMT Manesar, Bawal, Sirsa, Barwala, Karnal and Saha. Haryana State Industrial and Infrastructure Development Corporation (HSIIDC) is undertaking the development of Kundli-Manesar-Palwal Expressway (Western Peripheral Expressway) project in the state on BOT basis. This is a 4/6 lane access controlled expressway with a total length of 135.65 km.

DELHI

Budgetary allocation for Games raised

The Delhi Government has enhanced its budgetary allocations by Rs. 2,723 crore to Rs. 25,760 crore to meet funds shortage for projects such as roads, infrastructure and buses in the city before the start of the commonwealth games.

The government has decided to enhance its plan outlay from Rs.10,000 crore to Rs.11,300 crore in revised estimates for the fiscal year 2009-2010 whereas total budgetary provision for the current year will go up from Rs.23,043 crore to Rs.25,760 crore.

HIMACHAL PRADESH

Himachal incentives for expediting hydel projects

The Himachal Pradesh government has decided to give incentives to hydro electricity projects in the state, which are completed ahead of the scheduled period, chief minister Shri Prem Kumar Dhumal told the state assembly. Under the incentives system, if the project completed a year before the stipulated five-year deadline, the power firms will have to provide only 11% free power to the state instead of the mandatory 12%. Similarly, for every year delayed after the completion date the power plants will have to supply 1% additional free power above the mandatory 12%.

States better than Centre in fiscal prudence

Better fiscal management by the states helped them not only cut revenue deficits from a peak of Rs. 63,407 crore in 2003-04 to just Rs. 7,018 crore in 2005-06, but also roll out a surplus of Rs. 24,387 crore, Rs. 43,405 crore and Rs. 7,336 crore in the last three years. Therefore, states have also reduced borrowings and brought down their debt liabilities at a much faster pace than the Centre.

So, while the central revenue deficit touched a decadal high of 4.5% of GDP in 2008-09, states have been able to whittle down their collective peak revenue deficit of 2.7% of GDP in 2001-02 to a revenue surplus in the last three years.

States have achieved reductions in their revenue deficits by following a two-pronged strategy of boosting tax revenues and reducing the share of wages & salaries. This model has even allowed them to boost social sector spending that is vital to the growth of a knowledge economy. The states' own tax revenues rose from 5.5% of GDP in 2000-06 to 6.2% in 2005-09, even as they reduced their dependence on indirect taxes from 87.4% to 84.8% in the same period. The introduction of Vat helped improve the Vat-GDP ratio by 0.5 percentage points to 3.1% of GDP.

Consequently, states were able to raise the share of expenditure financed from their own resources from 41% in the first half of the decade to 46.2% in the second. While state liabilities went down by 5.5 percentage points to 27.1% of GDP in the last four years, that of the Centre came down only by 4.1 percentage points to 58.9% of GDP. On the expenditure side, the major gain was that states have been able to shrink key ratios. The aggregate expenditure to GDP of states has fallen by one percentage point to 16.7% of GDP, even while the central government's spending ratio continued to rise and even exceed that f states. The best part is that states have been able to bring down the share of wages & salaries in their total revenue expenditure from 31.1% in the middle of the decade to 29.4% by 2008-09, even while spending on operations & maintenance went up from 8.8% to 9.8%. As a result, state governments substantially increased the share of social sector expenditure in their total expenditure from 29.6% to 37.2%.

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LIFE IS VERY SHORT

AND ONE SHOULD NOT SHORTEN

IT BY UNPLEASANTNESS

QUESTIONS OF CYBERQUIZ ~ 22

1. What is the electronic version of the End-user License Agreement called ?
[a] eAgreement; [b] Shrinkwrap agreement; [c] Clickwrap agreement; [d] Virtual agreement.

2. The benchmark of artificial intelligence, in which a human judge cannot distinguish machine responses from human responses, is called :
[a] Turing test; [b] Fuzzy test; [c] Metcalfe test; [d] Babbage test.

3. MPEG is a set of standards for audio and video compression established by the Joint ISO IEC Technical Committee on Information Technology. What does the acronym stand for ?
[a] Motion Picture Experts Group; [b] Moving Picture Experts Group; [c] Multi Picture Enhancement Guideline; [d] Motion Picture Enhancement Guideline.

4. Which of the following computer languages is in fact a backronym ?
[a] BCPL; [b] BASIC; [c] B; [d] Oberon.

5. About which Indian Thomas Friedman wrote in the *Time* in April 2006, “It was his insight that the global playing field was being “leveled” by technology that inspired me to write the book The World Is Flat.” ?
[a] N.R. Narayana Murthy; [b] Nandan Nilekani; [c] Shiv Nadar; [d] Vinod Dham.

For Answers See **Page No. 27**

THE TRUE MEASURE OF A MAN IS HOW HE TREATS SOMEONE WHO CAN DO HIM ABSOLUTELY NO GOOD.

DO YOU KNOW ?

TENURE OF RESERVE BANK OF INDIA's GOVERNORS		
SIR OSBORNE A SMITH	:	APRIL 01, 1935 TO JUNE 30, 1937
SIR JAMES BRAID TAYLOR	:	JULY 01, 1937 TO FEBRUARY 17, 1943
SIR CHINTAMAN D. DESHMUKH	:	AUGUST 11, 1943 TO JUNE 30, 1949
SIR BENEGAL RAMA RAU	:	JULY 01, 1949 TO JANUARY 14, 1957
K.G. AMBEGAONKAR	:	JANUARY 14, 1957 TO FEBRUARY 28, 1957
H.V.R. IENGAR	:	MARCH 01, 1957 TO FEBRUARY 28, 1962
P.C. BHATTACHARYYA	:	MARCH 01, 1962 TO JUNE 30, 1967
L.K. JHA	:	JULY 01, 1967 TO MAY 03, 1970
B.N. ADARKAR	:	MAY 04, 1970 TO JUNE 15, 1970
S. JAGANNATHAN	:	JUNE 16, 1970 TO MAY 19, 1975
N.C. SEN GUPTA	:	MAY 19, 1975 TO AUGUST 19, 1975
K.R. PURI	:	AUGUST 20, 1975 TO MAY 02, 1977
M. NARASIMHAM	:	MAY 02, 1977 TO NOVEMBER 30, 1977
Dr. I.G. PATEL	:	DECEMBER 01, 1977 TO SEPTEMBER 15, 1982
Dr. MANMOHAN SINGH	:	SEPTEMBER 16, 1982 TO JANUARY 14, 1985
A. GHOSH	:	JANUARY 15, 1985 TO FEBRUARY 04, 1985
R.N. MALHOTRA	:	FEBRUARY 04, 1985 TO DECEMBER 22, 1990
S. VENKITARAMANAN	:	DECEMBER 22, 1990 TO DECEMBER 21, 1992
Dr. C. RANGARAJAN	:	DECEMBER 22, 1992 TO NOVEMBER 22, 1997
Dr. BIMAL JALAN	:	NOVEMBER 22, 1997 TO SEPTEMBER 06,2003
Dr. Y.V. REDDY	:	SEPTEMBER 06, 2003 TO SEPTEMBER 05, 2008
Dr. D. SUBBARAO	:	SEPTEMBER 05, 2008 ONWARDS.

* * *

UNION BUDGET AT A GLANCE : 2010-11

The Hon'ble Union Finance Minister, Shri Pranab Mukherjee presented the Union Budget for 2010-2011 in the Parliament on February 26, 2010. He reported that the fiscal year 2009-10 was a difficult one mainly due to the slowdown in the growth rate in the 2nd half of 2008-09 as a result of the financial crisis faced by the world. The growth rate of GDP in 2008-09 was only 6.7% and in the last 2 quarters about 6%. However the economy posted a remarkable recovery due to the substantial fiscal stimulus provided by the Central Government. As a result the economy grew by 7.9% in the 2nd quarter of 2009-10 thus underscoring the effectiveness of the policy. The growth rate is expected to be 7.2% in 2009-10 with the industrial & service sector growing at 8.2% and 8.7% respectively according to the advance estimates of Central Statistical Organisation. A major concern during the 2nd half of 2009-10 has been the emergence of double digit food inflation mainly due to supply-side bottlenecks in some of the essential commodities and the sub normal south-west monsoons. The government has set in motion steps to bring down the inflation to better management of food security. The major challenges faced by the government in the coming years are to revert to the high GDP growth path of 9% and to harness economic growth to make development more inclusive.

The table below gives estimates and revised figures of revenue and expenditure for the last year i.e. 2009-2010 and the figures proposed for the next 2010-2011 and deficits of revenue, fiscal and primary as percentage of GDP **:**

S.No.	ITEM	2009-2010 (BE)	2009-2010 (RE)	2010-2011 (BE)
1.	**Receipts:**			
	(a) Revenue Receipts	614497	577294	682212
	(i) Tax Revenue (Net to Centre)	474218	465103	534094
	(ii) Non-Tax Revenue	140279	112191	148118
	(b) Capital Receipts	406341	444253	426537
	(i) Recoveries of Loans	4225	4254	5129
	(ii) Other Receipts	1120	25958	40000
	(iii) Borrowings & Other Liabilities	400996	414041	381408
	Total Receipts (a) + (b)	**1020838**	**1021547**	**1108749**
2.	**Expenditure**			
	(a) Non-Plan Expenditure	695689	706371	735657
	(i) On Revenue Account of which,	618834	641944	643599
	(ii) Interest Payments	225511	219500	248664
	(iii) On Capital Account	76855	64427	92058
	(b) Plan Expenditure	325149	315176	373092
	(i) On Revenue Account	278398	264411	315125
	(ii) On Capital Account	46751	50765	57967
	Total Expenditure (a) + (b)	**1020838**	**1021547**	**1108749**
3.	**Revenue Expenditure**	897232	906355	958724
4.	**Capital Expenditure**	123606	115192	150025
5.	**Revenue Deficit**	282735	329061	276512
		(4.8)	(5.3)	(4.0)
6.	**Fiscal Deficit**	400996	414041	381408
		(6.8)	(6.7)	(5.5)
7.	**Primary Deficit**	175485	194551	132744
		(3.0)	(3.2)	(1.9)

The break-up of estimated receipts and expenditure both under the revenue and capital heads in terms of percentage is given as under **:**

S.NO.	RECEIPTS		EXPENDITURE	
A.	**Tax Receipts**	**57**	**Revenue Expenditure**	**53**
	Excise Duties	10	Defence	11
	Customs Duties	9	Subsidies	9
	Corporate Tax	23	State Share of Taxes and Duties	16
	Income Tax	9	Non-Plan Assistance to States & UTs	4
	Other Tax	6	Other Non-Plan Expenditure	13
B.	**Non-Tax Receipts**	**43**	**Capital Expenditure**	**47**
	Borrowing andOther	29	Central Plan	21
	Non-Debt Capital Receipts	3	State Uts Plan Assistance	7
	Non Tax Revenue	11	Interest	19
	TOTAL	**100**		**100**

Highlights of the Budget :

Micro, Small & Medium Enterprises

- High Level Council on Micro and Small Enterprises to monitor the implementation of the recommendations of High-Level Task Force constituted by Prime Minister.
- Allocation to be increased from Rs.1,794 crore to Rs.2,400 crore for the year 2010-2011.
- The corpus for Micro-Finance Development and Equity Fund doubled to Rs.400 crore in 2010-11.
- National Skill Development Corporation has approved three projects worth about Rs.45 crore to create 10 lakh skilled manpower at the rate of one lakh per annum.
- An extensive skill development programme in the textile and garment sector to be launched by leveraging the strength of existing institutions and instruments of the Textile Ministry to train 30 lakh persons over 5 years.
- Extension of existing interest subvention of 2% for one more year for exports covering handicrafts, carpets, handlooms and small and medium enterprises.

Agriculture Growth

- Government will follow a four-pronged strategy, covering

(a) Agricultural production

- Rs.400 crore provided to extend the green revolution to the eastern region of the country comprising Bihar, Chattisgarh, Jharkhand, Eastern UP, West Bengal and Orissa.
- Rs.300 crore provided to organise 60,000 “pulses and oil seed villages” in rain-fed areas during 2010-11 and provide an integrated intervention for water harvesting, watershed management and soil health, to enhance the productivity of the dry land farming areas.
- Rs.200 crore provided for sustaining the gains already made in the green revolution areas through conservation farming.

(b) Reduction in wastage of produce

- ❖ Deficit in the storage capacity met through an ongoing scheme for private sector participation — FCI to hire godowns from private parties for a guaranteed period of 7 years.

(c) Credit support to farmers

- ❖ The target set at Rs3,75,000 crore for agriculture credit from banks.
- ❖ In addition to the ten mega food park projects already being set up, the Government has decided to set up five more such parks.

Infrastructure

- ❖ Rs.1,73,552 crore provided for infrastructure development which accounts for over 46% of the total plan allocation.
- ❖ Allocation for road transport increased by over 13% from Rs17,520 crore to Rs19,894 crore.
- ❖ Rs.16,752 crore provided for Railways Rs.950 crore more than last year.
- ❖ IIFCL's disbursements are expected to touch Rs9,000 crore by end March 2010 and reach around Rs.20,000 crore by March 2011.
- ❖ Plan outlay for the Ministry of New and Renewable Energy increased by 61% from Rs620 crore in 2009-10 to Rs1,000 crore in 2010-11.
- ❖ Solar, small hydro and micro power projects at a cost of about Rs.500 crore to be set up in Ladakh region of Jammu and Kashmir.
- ❖ One-time grant of Rs.200 crore to the Government of Tamil Nadu towards the cost of installation of a zero liquid discharge system at Tirupur to sustain knitwear industry.
- ❖ Rs.200 crore provided as a Special Golden Jubilee package for Goa to preserve the natural resources of the State, including sea beaches and forest cover.
- ❖ Allocation for National Ganga River Basin Authority (NGRBA) doubled in 2010-11 to Rs.500 crore.

Financial Sector :

- ❖ An apex level Financial Stability and Development Council to be set up with a view to strengthen and institutionalise the mechanism for maintaining financial stability.
- ❖ Rs.16,500 crore provided to ensure that the Public Sector Banks are able to attain a minimum 8% Tier-I capital by March 31, 2011.
- ❖ Government to provide further capital to strengthen the RRBs so that they have adequate capital base to support increased lending to the rural economy.
- ❖ Government has introduced the Companies Bill, 2009 in the Parliament to replace the existing Companies Act, 1956, which will address issues related to regulation in corporate sector in the context of the changing business environment.

Inclusive Development :

- ❖ The spending on social sector increased to Rs1,37,674 crore in 2010-11, which is 37% of the total plan outlay in 2010-11.
- ❖ 25% of the plan allocated for the development of rural infrastructure.
- ❖ States to have access to Rs3,675 crore for elementary education under the Thirteenth Finance Commission grants for 2010-11.
- ❖ Plan allocation to Ministry of Health & Family Welfare increased from Rs19,534 crore in 2009-10 to Rs.22,300 crore for 2010-11.
- ❖ Appropriate Banking facilities to be provided to habitations having population in excess of 2000 by March, 2012.
- ❖ Rs.66,100 crore provided for Rural Development.
- ❖ Allocation for urban development increased by more than 75% from Rs.3,060 crore to Rs.5,400 crore in 2010-11.
- ❖ Allocation for Housing and Urban Poverty Alleviation raised from Rs.850 crore to Rs1,000 crore in 2010-11.

- Scheme of one per cent interest subvention on housing loan upto Rs10 lakh, where the cost of the house does not exceed Rs.20 lakh extended up to March 31, 2011.
- Rs.1,270 crore allocated for Rajiv Awas Yojana as compared to Rs150 crore last year.

Direct Taxes :

- Income Tax slabs for individual taxpayers to be as follows :

Income upto Rs.1.6 lakh	Nil
Income above Rs.1.6 lakh and upto Rs.5 lakh	10 per cent
Income above Rs.5 lakh and upto Rs.8 lakh	20 percent
Income above Rs.8 lakh	30 percent

- Deduction of an additional amount of Rs 20,000 allowed, over and above the existing limit of Rs1 lakh on tax savings, for investment in long-term infrastructure bonds as notified by the Central Government.
- Contributions to the Central Government Health Scheme allowed as a deduction under the IT Act.
- Current surcharge of 10% on domestic companies reduced to 7.5%.
- Rate of Minimum Alternate Tax (MAT) increased from the current rate of 15% to 18% of book profits.
- Benefit of investment linked deduction under the Act extended to new hotels of two-star category and above anywhere in India to boost investment in the tourism sector.
- Limits for turnover over which accounts need to be audited enhanced to Rs60lakh for businesses and to Rs15 lakh for professions.
- Limit of turnover for the purpose of presumptive taxation of small businesses enhanced to Rs.60 lakh.
- To facilitate the conversion of small companies into Limited Liability Partnerships, transfer of assets as a result of such conversion not to be subject to capital gains tax.

Indirect Taxes :

- Rate reduction in Central Excise duties to be partially rolled back and the standard rate on all non-petroleum products enhanced from 8% to 10% ad valorem.
- The ad valorem component of excise duty on large cars, multi-utility vehicles and sports-utility vehicles increased by 2 percentage points to 22%.
- Restore the basic duty of 5% on crude petroleum; 7.5% on diesel and petrol and 10% on other refined products. Central Excise duty on petrol and diesel enhanced by Re.1 per litre each.
- Project import status at a concessional customs duty of 5% with full exemption from service tax to the initial setting up and expansion of ;
- Cold storage, cold room including farm pre-coolers for preservation or storage of agriculture and related sectors produce ; and
- Processing units for such produce.
- Full exemption from customs duty to refrigeration units required for the manufacture of refrigerated vans or trucks.
- Concessional customs duty of 5% to specified agricultural machinery not manufactured in India;

- Central excise exemption to specified equipment for preservation, storage and processing of agriculture and related sectors and exemption from service tax to the storage and warehousing of their produce;
- Small Scale manufacturers permitted to take full credit of Central Excise duty paid on capital goods in a single installment in the year of their receipt. They would be permitted to pay Central Excise duty on a quarterly, rather than monthly basis.

Environment :

- Exempt a few more specified inputs required for the manufacture of rotor blades for wind energy generators from Central Excise duty.
- Central Excise duty on LED lights reduced from 8% to 4% at par with Compact Fluorescent Lamps.
- Uniform, concessional basic duty of 5 per cent, CVD of 4% with full exemption from special additional duty prescribed on all medical equipments.
- Full exemption from import duty available to specified inputs or raw materials required for the manufacture of sports goods expanded to cover a few more items.
- Value limit of Rs1 lakh per annum on duty-free import of commercial samples as personal baggage enhanced to Rs3 lakh per annum.
- Rate of tax on services retained at 10 per cent to pave the way forward for GST.
- Certain services, hitherto untaxed, to be brought within the purview of the service tax levy. These to be notified separately.
- Process of refund of accumulated credit to exporters of services, especially in the area of Information Technology and Business Process Outsourcing, made easy by making necessary changes in the definition of export of services and procedures.

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ANSWERS OF CYBERQUIZ ~ 22

1.[c] Clickwrap agreement : Used in case of software or Web sites, in a clickwrap agreement, users have to agreement, users have to agree to the terms of the agreement - usually by clicking on a button that states "I Agree" or "Agree" - before they can install the software or avail of the services. There is of course a button "Disagree" also for those who do not accept the terms of the agreement.

2.[a] Turning test : In this test, a human judge engages in a natural language conversation in text mode with two other parties, one a human and the other a machine; if the judge cannot reliably tell which is which, then the machine is said to pass the test.

3.[b] Moving Picture Experts Group : ISO is short for International Organisation for Standardization. IEC is short for International Electro-technical Commission.

4.[b] BASIC : Till the early 1970s, BASIC was written as Basic, simply because it was a simply and basic type of computer language. Out of the different backronyms that were coined around mid-1970s, the present one, i.e. Beginner's All-Purpose Symbolic Instruction Code became very popular and hence was accepted.

5.[b] Nandan Nilekani : Mr. Nandan Nilekani has been named one among the 100 *"The People Who Shape Our World"*. Friedman is a columnist for the *New York Times* and author of the book *"The World Is Flat"*.

SUCCESS STORY OF MPFC ASSISTED UNIT
M/s SHAKTI PUMPS (INDIA) LTD., PITHAMPUR

M/s Shakti Pumps was established in 1982 as a partnership firm led by Shri Manoharlal Patidar as a first generation entrepreneur. The firm set up a SSI Unit for manufacturing of Cast Iron Pumps & electric control panel in Industrial Area, Pithampur, with the financial assistance from MPFC. Starting from installed capacity of 1500 pumps per annum it has increased its capacity substantially over the years. During the year 1995, the company implemented a massive expansion of existing unit to enhance its existing installed capacity and to add more product lines with varied models for different use and applications.

During the year 1998-99, the company has created manufacturing facilities for single-phase submersible pumps with financial assistance of Rs. 100.00 lacs from the Corporation. Now the company is having total installed capacity of 55000 Nos. for submersible pump, single phase submersible pumps and Control Panels and its accessories.

The Company is producing "A" class quality pumps of stainless steel body pumps & has got BIS certificate for ISI mark in 1989. Through continuous process improvements & streamlining the quality system, the company & its products have acquired International Quality Certification ISO-9001: 2000 in 1999. In addition to this the products have also been recognized by quality marking system *"CE mark."* It is the first company in the country who had launched this type of pump in India.

Presently the company is exporting its products to more than 50 countries around the Globe. On the global front *"Shakti Pumps"* plans to expand its presence by setting up two wholly owned subsidiaries in Turkey & Australia.

Major Milestones of the Company

YEAR	***ACHIEVEMENTS***
1982-89	Embarked on the manufacture of conventional cast iron pumps Received BIS Certification
1995	Made a public issue of shares & listed on Bombay Stock Exchange
1996	**Commenced manufacture of Stainless Steel Pumps (First in the country)**
1998	- Exports grew to 5 countries- - Certified by ISO 9001
2003	Exports grew to 20 countries & recognized by quality marking system **"CE mark."**
	Certified by ISO 9001 : 2000
2006	Exports grew to 40 countries & received **One Star** export house status
2007	Exports grew to 50 countries, major expansion in the capacity, Ventured into new segment i.e. **Booster Pumps**
2008	Combined capacity of pumps raised to 1,40,000 for the company as a whole Range of pumps widened to **150 HP & 200 HP**

Madhya Pradesh Financial Corporation is associated with the company since its inception and witnessed the phenomenal growth achieved by the company within short span of time. Present turnover of the company is well above Rs.100 crore and the Corporation wishes it and its directors success in all its future endeavor and plans.

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Exports grow 11.5% in Jan at $14.3 billion

Growing for the third month in a row, exports n January jumped 11.5% to $41.3 billion on the back of demand revival in the US and Europe.

Revealing the January export numbers, commerce and industry minister Shri Anand Sharma said, "Between now and March 31, we hope to maintain and further strengthen the growth, which will help us in registering healthy export figures and reducing gap (dip in year-on-year exports) substantially."

In January 2009 exports stood at $12.9 billion. Exports were hit badly by slump in demand in key markets in the wake of global financial crisis and fell continuously for 13 months. They reversed the trend in November 2009 by growing 18.2%. In December the rise was 9.3%. Analysts said the rising trend of the past three months mirrors that the outward shipments have come out of the woods. *"The figures of the past 3 months are reflecting that exports are moving out of the red."* However, it is still early to feel upbeat as some sectors are still struggling to come out of the bad phase. Shri Sharma said engineering goods, textiles, jute, carpets, handicrafts and leather *"continue to do badly"* and are a cause of concern.

Though there has been recovery n global economy "it will take time for the demand (for Indian goods) to return to pre-recession level". During April-January 2009-10, exports were about $133 billion against $144.2 billion in the year-ago period. In the Foreign Trade Policy 2009-14, the government had set an export target of $200 billion for 2010-11.

Exports get Rs. 500cr sops

The government has offered a Rs. 500-crore stimulus to select exports to give much-needed boost to the dwindling sector and sustain positive growth. Incentives have been announced to promote exports to China and Japan, too.

The stimulus was offered to sectors such as engineering products, electronic goods, rubber, chemicals, plastics, machine tools, electrical and power equipment, steel tubes, auto components and cotton-woven fabrics.

Among the significant measures announced by Commerce and Industry Minister Shri Anand Sharma, there is expansion of Focused Product Scheme (FPS) and special FPS by including 225 new products, under which exporters would be given an incentive of 2-3 per cent. China and Japan have been added in Market-linked Focused Programme, under which exporters are provided additional benefits.

Benefits under the Market-linked Focused Product Scheme (MLFPS) have been extended to export of 1,837 new products. The sectors are steel tubes, earth-moving equipment, iron and steel structures, three-wheelers, transmission towers, steel pipes and compressors, among others.

Additional support would be given for export of handicraft under the Market Access Initiative Scheme by the Export Promotion Council for Handicrafts to set up warehouses in Latin America. Shri Sharma said his ministry had put forward a proposal to the finance ministry for continuation of the 2 per cent interest subvention for labour-intensive sectors and additional sectors like engineering and chemicals. The commerce ministry urged for reduction of the interest rate for dollar credit to bring it on a par with international rates.

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GOODNESS IS THE ONLY INVESTMENT THAT NEVER FAILS TO RETURN A DIVIDEND.

ACTIVITIES OF COSIDICI

Executive Committee Meeting :

Restructuring & Revitalisation of SFCs :

The Executive Committee Meeting of COSIDICI was held at Digha (West Bengal) on 12.02.2010. The Members discussed ways to devise strategies to strengthen SFCs. Smt. Sheela Rani Chunkath, IAS, CMD, TIIC, Chennai informed the delegates that JICA had given loan to SIDBI at very low rates for onward lending to SFCs to be given to SMEs. SIDBI is lending to SFCs ***@ 9.25%***. On request it was reduced to ***8%***. However, SIDBI has opened many branches in the leading industrial clusters of Tamil Nadu which had till date been in the domain of TIIC. As SIDBI could lend at low rates it eroded the client base of the SFC. Shri S. P. Singh also expressed concern and quoted similar instances. DFC had signed an MoU with the Department of Transport in Chandigarh to lend for vehicles and had achieved good targets. On seeing DFC's success rate SIDBI had also tried for similar business but the same was not acceded to by the Chandigarh Administration. Another problem was that when SFCs took any case to SIDBI for approval the latter kept it pending for long and in the end the client opted to take loan from SIDBI instead of SFC. Also SIDBI did not allow microfinance in Delhi.

The SFCs had to be vigilant that SIDBI did not encroach on their clients. It was felt that as a policy measure SIDBI should not operate where SFCs were performing well because it could take over good clients as its interest rates were lower. They should go to areas like North-East where there was good scope for business for them. However, SFCs had some inherent strengths which could be utilised to their advantage. They could provide single window clearance and help the first generation entrepreneurs by handholding them till they become viable.

As banks normally do not giving loans below Rs.1 crore, the gap was being filled by SFCs. Financing of first generation entrepreneurs was a risky business so some amount of failure was to be expected. Even in United States and Germany 30% of first generation enterprises did not do well. It was, therefore, a foregone conclusion that some NPAs would accumulate in this risk laden area but it was necessary for *"inclusive growth"*. Some benefits should be given to SFCs for promoting entrepreneurship. APSFC had come to an understanding with SIDBI. It was financing units upto Rs. 30 crore after which SIDBI took over. In 7-8 cases APSFC and SIDBI had already gone in for joint financing.

Shri K. K. Mudgil, Secretary General, COSIDICI informed the members that COSIDICI had sought a meeting with Union Finance Secretary to discuss important issues such as provision of adequate resources to SFCs by way of SIDBI's refinance to MoU SFCs at low interest rates and restoration of RBI facilities hitherto granted to SFCs. Preliminary meetings were held with Shri G. C. Chaturvedi, Additional Secretary, Ministry of Finance and Smt. Ravneet Kaur, Joint Secretary, Ministry of Finance which however, proved inconclusive. Smt. Ravneet Kaur was requested to schedule a meeting of COSIDICI delegates with the Finance Secretary to enable them to bring the problems faced by SFCs to his notice. However, COSIDICI is yet to hear in the matter. The Executive Committee **Resolved** :

"to form a committee which would seek a meeting with Shri R. Gopalan, Union Finance Secretary to highlight the role played by the SLFIs, their inherent strengths and their relevance in bringing about 'inclusive growth'. The Committee would comprise of the following : -

Smt. Sheela Rani Chunkath, IAS, CMD, TIIC
Shri Kaushik Mukherjee, IAS, MD, KSFC
Shri Kamal Chakrabarty, IAS, MD, WBFC
Shri Vikas Raj, IAS, MD, APSFC
Shri K. K. Mudgil, Secretary General, COSIDICI"

Meanwhile, it was felt that the SFCs may diversify their activities to generate income and become self sufficient. Smt. Sheela Rani Chunkath,

IAS informed the members that TIIC had sanctioned loans to very small entrepreneurs under ***'Grow an Entrepreneur Scheme'*** which included vendors providing, nutritious and healthy snacks and taxis etc. The loans are covered under CGTFB. Shri Kaushik Mukherjee, IAS, MD, KSFC agreed and said that it was only the SFC which financed Infosys when it was started. None of the Banks had come forward at that time nor are they doing so now. KSFC had also started giving loans to real estate sector. The corporation's risk was covered as it was mandatory for the owners to get a *'No Objection Certificate'* (NOC) from KSFC before registration. The Executive Committee felt that micro financing provided a good opportunity to SFCs to expand their business. Shri W. V. Ramana Murthy, MD, EDC Limited, informed the members that under the Chief Minister Rojgar Yojana, EDC Goa was giving microfinance of Rs. 1 lakh to Self-Help Groups (SHGs). Bandhan SHG had proved to be very successful specially in Andhra Pradesh and Tamil Nadu. In Karnataka KSFC was doing it jointly with SIDBI. As monitoring was difficult TIIC had appointed a mentor for every SHG. Under the CGTFS the corporation was providing mentoring facilities and handholding the entrepreneur till the project become viable.

Smt. Kamla Rajan, informed the delegates that a policy directive enabled SIDBI and Banks to tie up for giving Term Loan and Working Capital Loan. While SIDBI gave term loan the banks gave Working Capital Loan. The Executive Committee members decided to approach RBI to get a similar policy directive issued for SFCs even though such a policy matter was only for larger loans. Shri W. V. Ramana Murthy, MD, EDC Ltd., informed the Executive Committee that EDC Goa which had been performing well till the year 2000 had suddenly gone into losses mainly due to the falling interest rates and high cost of its previous loans. In such a scenario the Corporation decided to diversify its activities and started generating income by going in for business other than core lending. It started many fee based activities, undertook treasury operations and fund management activities. EDC Goa started developing commercial places and started providing project advisory services. It also went in for providing personal loans to the government employees. It has given risk free loan to Government Corporation at an interest rate of 9.5% to 10%. The only hurdle the corporation was facing in this activity was the ceiling of *'Upper Limit'* u/s 26(i) of the SFCs Act 1951. The Executive Committee therefore **Resolved** that **:**

"in view of the unprecedented growth in the financial sector and enhanced credit requirements the ceiling on limit of accommodation on loan to Government corporation may be removed."

EDC Goa had also started an innovative mortgage scheme. It had bought 50% of the Dead Investment land from prospective entrepreneurs. With this money the entrepreneur had invested on the rest of the land for his project. The valuation was done by a private evaluator for fair deal. The Executive Committee appreciated the efforts of EDC Goa and requested Shri W.V. Ramana Murthy to send a copy of the details of these schemes to COSIDICI to be forwarded to all Member Corporations. Shri Murthy informed the Executive Committee that EDC Goa had introduced the new ERP Software which had further contributed towards greater efficiency. The Executive Committee Felt the members could send a delegation to EDC Goa to study its innovative and pathbreaking schemes and technology and if suitable incorporate them.

Shri Kamal Chakrabarty, MD, WBFC, felt that as the MoU SFCs were now self-reliant they could try to help the non MoU SFCs in turning them around. He offered to help BSFC. The Executive Committee appreciated the idea. Shri S. P. Singh, Resident Commissioner, Government of Mizoram said that he would like to use his experience in DFC to help ZIDCO in Mizoram to turn around. He added that the Government of Mizoram had already requested Shri K. K. Mudgil, Secretary General, COSIDICI to advise it on restructuring of ZIDCO as well as other PSUs in Mizoram.

SFCs Amendment Act, 1951 :

The Executive Committee decided to constitute a Committee to examine the proposed amendments. The Committee would comprise of the following **:**

Smt. Sheela Rani Chunkath, IAS, CMD, TIIC
Shri Vikas Raj, IAS, MD, APSFC
Shri Kaushik Mukherjee, IAS, MD, KSFC
Shri Kamal Chakrabarty, IAS, MD, WBFC
Shri K. K. Mudgil, Secretary General, COSIDICI

The Committee would examine the amendments proposed by the SFCs in the light of the earlier proposals of COSIDICI made to the Government of India. The Executive Committee decided that the committee already constituted for discussion with Shri R. Gopalan, Secretary (FS) may be requested to discuss this matter as well, among other issues.

Training Programme for Officers of SLFIs :

Till date, the College had held *10 campus programmes besides 5 on-site once and provided training to about 375 Officers of our member corporations*. The quality of the training has been found to be very good and as per the feedback received from our participants, the training was found to be need-based and fruitful and met with the requirements of our officers and had resulted in increased efficiency and productivity as also general awareness on the on-going financial sector reforms.

Smt. Kamla Rajan, Principal, CAB RBI, Pune, suggested that a two day seminar of the Chief Executives of SLFIs on *"Diversification Of Activities of SLFIs"* may be organised at the college campus in the month of June, 2010.

The suggestion was welcomed by the members. They requested COSIDICI to arrange the above seminar. The members also requested that a study tour may be organized to Brazil for the CEOs and senior officers of SLFIs. COSIDICI may also tie up with a few Government Agencies and Private Organisations for arranging the participants visit to successful units to provide them with practical and fruitful experience.

Bi-Monthly Journal ~ "COSIDICI COURIER":

Smt. Sheela Rani Chunkath, IAS, CMD, TIIC released the book *"Decentralised Economic Development"* written by Shri. K. K. Mudgil, Secretary General, COSIDICI and presented the first copy to Shri Chattopadhyay, Chairman, WBFC. She informed the Executive Committee that the book compiled Shri K. K. Mudgil's articles and editorials over the years. These were comprehensive articles on subjects as varied as rural development, farm crisis, agriculture credit, relevance of SLFIs, economic reforms and poverty etc. Many reservations had been expressed and questions raised regarding the future role of SLFIs in the meeting. These and many other issues had been addressed in the book along with suitable suggestions. It was felt that Shri Mudgil had brought forth the various malaise afflicting the economy. Based on his own experiences he has made certain suggestions which if implemented by the government would prove to be very effective in raising the standard of living of the people in rural and semi urban areas. The need of the hour was globalisation with a human face which only could lead to *"inclusive growth"*. The Executive Committee, therefore, **Resolved** that **:**

"this thought inspiring book may be distributed among the officers of SLFIs to enthuse them to carry on the difficult task of lending to the high risk MSME sector. The members may, therefore, order copies of this book to be distributed among their officers and units."

Smt. Sheela Rani Chunkath, IAS, CMD, TIIC placed an order of 100 books to be distributed to all the concerned officials and units in the state of Tamil Nadu.

The Executive committee also appreciated the book ***'The Trailblazers"*** brought out by KSFC on the occasion of its 50th year of operations. The book is a compendium of 200 success stories of units financed by it since its inception. Shri Kaushik Mukherjee, MD, KSFC had sent the book to all the Member Corporations. The Executive Committee noted with satisfaction that companies like Infosys, Biocon which had started small with KSFC had gone on to become global giants of today. KSFC had helped to establish more than 4000 first generation entrepreneurs not only by giving loan but by also providing *'support systems'* when they faced difficulties.

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Panel for tough action to hike MSME credit

To bolster the micro small and medium enterprises (MSMEs) which account for 45% of the country's factory output, the Prime Minister-appointed task force on MSMEs has asked the Centre to extend the stimulus package for MSMEs for a year beyond March 31, 2010. The panel has also asked that $1 billion be earmarked in public spending over the next 3-5 years to target specific problems in the institutional set up and infrastructure available to MSMEs. Calling for immediate action to ensure that commercial banks meet credit targets for micro and small enterprises, the task force has suggested that any shortfall from these targets be diverted from banks enterprises with the SIDBI.

The task force, which included Planning Commission member Shri Arun Maira and finance secretary Shri Ashok Chawla has also reminded the government about its promise to unveil a public procurement policy for the sector as per the MSME Development Act, 2006. *"The policy is likely to set a goal for government departments and PSUs to reach, over a stipulated period, a target of at least 20% of their annual volume of purchases from MSMEs and mandate their reporting in the annual report"*. A similar preference should also be given to MSMEs under the offset policy for defence and aviation procurements. The PM's panel has also stressed that the proposed Direct Taxes Code and the goods and service tax regime must factor in MSMEs' needs. *"There should be appropriate provisions for graded corporate tax structure, tax pass through for angel investors and venture capital funds with incentives for research and development,"* the report said.

To oversee the implementation of its recommendations, the task force recommended that a Prime Minister's Council on Micro and Small Enterprises be established along with an independent national body for promoting and developing small firms. Meanwhile, an expert group should examine institutional changes that can be rung in while a review committee should monitor credit flows to the sector.

While urging the government to expedite setting up of an SME exchange, the panel has stressed that insolvency legislation need to be reviewed urgently to recognize 'the reality of the global market where enterprises continuously get credit and destroyed.' It has also asked finance minister Shri Pranab Mukherjee that the lending priority for micro enterprises should be increased to 60% from the existing 45%. It is also proposed to set a target of 15% annual growth for new loans, under which 6 lakh new enterprises are expected to get credit.

MSME Ministry seeks Rs. 5.5k cr from fin min to revive sick units

The ministry of micro, small and medium enterprises has sought Rs. 5,500 crore from the finance ministry over the next three to five years for establishing rehabilitation funds for revival of potential sick units and for taking up measures that will make the MSME sector commercially viable.

With the sector hit hard by the global financial crisis, the ministry has also asked for an extension of the support measures specific to MSME's as specified in the stimulus package last year.

In a bid to make the sector environment friendly, the ministry seeks to spend Rs. 1,500 crore, from the enhanced package of Rs. 5,500 crore (if granted) to support clean technology initiatives of different ministries involved with MSME growth. The introduction of a public procurement policy for MSMEs at the earliest, which is one of the recommendations put up, will see the sector get a regular flow of business coming up to them. It has been suggested that procurement policy may set a goal for government departments and PSU's to reach within a stipulated period a target of atleast 30% of their annual volume of purchases from MSEs

SMEs show 25-fold increase in net profit

SMEs, have posted a 25-fold increase in net profit on the back of a 730 basis points increase in operating margins. India Inc as a whole has recorded a 62 per cent rise in net profit and 310 basis point rise in margin.

Agrochemicals, auto ancillaries, speciality chemicals, film production, mining & metals, non-ferrous metals, steel, sugar and textiles have led the way. SMEs, with annual net sales below Rs. 500 crore each, account for a paltry five per cent of the third quarter sales and profit of corporate India, but their impressive performance is an encouraging sign for policy-makers looking for a broad-based economic recovery. In the quarter ended December 2008, these SMEs had posted a 0.61 per cent rise in net sales and 97 per cent decline in the profit.

Growth in key sectors such as capital goods and manufacturing has rebounded and should stay firmly on course. Consumer durables have registered the strongest uptick, but the base effect is the more important factor here. Manufacturing, which accounts for more than 80 per cent of Index of Industrial Production, grew 12.7 per cent in November from an average 10 per cent in the last six months. Auto sector volumes have jumped more than 68 per cent in December.

MSME bodies pitch for higher tax exemption limits

With 28 million units employing over 60 million people, the micro, small & medium enterprise (MSME) sector is very large, highly heterogeneous and complex. The size of units varies from units with just one self employed person to those employing a couple of thousands—from a humble tailoring shop to an automated food processing plant or a high precision component manufacturing unit supplying to India's space mission or nuclear reactor. The range is mind-boggling. So are their needs. MSME associations have raised the demand for a separate regulator for banks to encourage customer orientation among them.

To augment credit flow to the sector, it is suggested that first, a few large SME-dedicated banks—Indian or foreign—should be allowed to be established to facilitate greater competition in the MSME space. Second, greater focus s required on NBFCs to ensure competitively priced credit lines to them. Third, specific steps are required to enhance access to risk capital and private equity funds. In this regard, SME exchanges/platforms that were recently allowed by Sebi can play a crucial role if some fiscal incentives could be provided to mutual funds/FIs to invest a small percentage of their portfolio in MSME exchanges. Fourth, 'subordinate debts' of various types that require only the residual charge on assets should be treated as promoter's capital so that they could be used to leverage secured debts.

Some measures suggested to promote the growth of the MSME sector are : Tax breaks may be given based on high ratio of employment generation than on capital invested 100% depreciation on the purchase of production machines and R&D equipment allowed to MSMEs to give a fillip to scaling up and technological upgradation. Profits ploughed back by MSMEs into business may be exempted from income tax. Graded taxation for companies and limited liability companies may be introduced on the basis of income slabs.

Further suggestions include TDS/ certificates/tax credits allowed to be carried forward from year to years for MSMEs; a provision for submitting annual returns in lieu of monthly returns; and several new amendments for further strengthening the provisions against delayed payments under the MSMED Act.

MSMEs want prompt refund of excess duty paid. A unified goods & service tax (GST) should be implemented as early as possible. It is suggested that GST may be levied on electricity to complete the value chain. MSMEs feel that *'safeguard'* and *'anti-dumping'* provisions have been abused by large producers of raw materials, particularly in sectors such as steel, cooper, aluminum and plastic raw material/polymers. They have demanded strengthening of the institutional mechanism to ensure prior consultation with affected MSMEs. They have advocated mandatory inclusion of the MSME ministry in such consultations.

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Haryana road projects approved by Centre

The ministry of road transport & highways has cleared several road projects for Haryana. Road transport and highways minister Shri Kamal Nath has agreed for making a new Kaithal. It will also include road over bridge (ROB) and flyover with termination point at Titram More.

A bypass for Lakhanmajra and Julana Toll on NH-71 under NHO has also been approved. Apart from this, request for a bypass at Sorkhi was also agreed to, which will be funded by the National Highway Authority of India (NHAI).

Six firms line up for Punjab mega food park

Six food processing companies, including Mrs. Bector's Food (Cremica Group) and Brattle Foods Ltd have evinced interest in setting up Punjab's first mega food park (MFP). The food park will be developed under a scheme floated by the ministry of food processing industries to create infrastructure for the sector.

Finmin seeks power to scan fund transfers by SEZs

The finance ministry has asked the commerce ministry to change rules that severely restrict its officers from questioning the value of consignments within special economic zones (SEZs) when they suspect shady fund transfers from abroad as it has effective power to investigate suspected transfer pricing violations in SEZs. The violations include illegal fund receipts by an SEZ unit from abroad by showing a higher export value and similar fund outflow to a foreign entity by overvaluing its imports. The ministry fears this channel is prone to be abused for money laundering and terror financing.

SEZs rules do not allow revenue department officials to examine consignments within these special zones or collect samples unless they have *'specific adverse intelligence'* about wrong doing. In fact, SEZ rule 28 (5) stipulates that the assessment of imports and domestic procurement by a developer or a unit shall be on the basis of self-declaration and shall not be subjected to routine examination.

Tax dept allowed to probe deals within SEZs

Tax authorities will now be free to investigate suspected transactions and consignments inside Special Economic Zones. They won't need permission from development commissioners, who are in charge of these tax-free industrial enclaves, for such probing.

The government decisions to this effect came on January 11, 2010 as annulment of an earlier order by the commercial department. The finance ministry has been asking its commerce counter part to remove restrictions on investigation so as to better monitor developers, factories and software units located inside SEZs.

The commerce ministry has rescinded its earlier order release in August, that mandated that government agencies that wanted to investigate, search, seize or confiscate goods inside the zones will have to take permission from Development Commissioners. As a result, government agencies like the department of customs, department of revenue intelligence or the income tax department could not undertake investigations of suspected activity inside SEZs, unless it was cleared by the Development Commissioner. But now, the commerce ministry has released a notification that puts the August order in 'abeyance'. Thus, officials from tax enforcement agencies can raid or investigate SEZ developers and units by only informing the development commissioner of the zone. Finance ministry has been pointing that in some cases, its officers were not permitted to investigate suspected activity in side the zones.

The SEZ Act calls for establishment of a single agency to monitor SEZs and even setting up of special courts. However that has not happened. Meanwhile, the commerce ministry has

set up another institutional mechanism to deal with operational issues. A panel of officers, headed by additional secretary Shri D.K. Mittal, will meet every fortnight to review the situation. The first meeting of the panel was held in the last week of December, 2009. The move is aimed at having fast track policy responses. At the moment, the Board of Approval headed by the commerce secretary is the supreme decision making agency for the tax free industrial enclaves.

DTA units can use SEZ facilities

To help special economic zones (SEZs) absorb global economic shocks, the government is to allow them to make available their excess installed capacities for the use of industrial consumers in the domestic tariff area (DTA). The idea is to ensure that industrial capacities built up in SEZs don't remain idle in case another global slowdown occurs and dries up export demand. Such contract manufacturing by SEZs would be bereft of any tax relief.

The move follows the reports that several SEZ developers are planning to exit due to weak demand in overseas markets consequent to the economic crisis. A set of amendments to the SEZ Rules on the cards would also include fixing time lines for development of the zones and a reduction in the mandatory minimum area for farm SEZs from 100 to 40 hectares.

The present norms mandate that SEZs can take orders from Indian companies located outside the zones (DTA) only if they are for exports. The proposed rules would allow SEZs to take up orders from any Indian firm located outside. The idea is to let SEZ units use their excess manufacturing capacity to process orders from companies located outside the zones.

To ensure that there is no loss to the exchequer, the DTA unit will have to provide the SEZs with the required raw material, finished goods and other consumables. The SEZ units will do the value addition, a kind of contract manufacturing, and return the finished goods to the DTA firm. Prior government permission is required for taking such orders.

The move will not impact the net foreign exchange commitments of the zones—earnings from exports will have to be more than imports in a block of five years. The proposed amendments also intend to erase some policy grey areas and clear some bottlenecks. For instance, the proposed amendments seek to provide a 10-year timeline for development of the minimum built up area of the zone. Moreover, it also says that developer of the SEZ should get at least one unit approved in the zone within three years of getting the green signal. The present guidelines only say that a developer has to take *'effective'* steps to implement the approval within three years.

To promote agri-based SEZs, the commerce ministry has proposed to decrease the minimum area from 100 hectares to 40 hectares. *"To promote agro-based industries, it is proposed to optimise the area required, as otherwise the minimum area prescribed is such that agro-based SEZs may not come up".*

Exports from SEZs cross Rs. 150k crore in April-December

Exports from SEZs across the country have crossed the Rs. 150,000-crore mark in the first nine months of the current financial year, compare to Rs. 99,600 crore in 2008-09, registering a growth of 127% over the same period last year.

Shri L. B. Singhal, director-general, Export Promotion Council for EOUs & SEZs, said that total direct employment in SEZs as on December 31, 2009 stands at 490,358, while the total employment as on December 31, 2008 was 336,333. SEZs have thus created an additional direct employment for 154,025 people this year. The total investment in SEZs as on December 31, 2009 is Rs. 128,385 crore, compared to figure of Rs. 101,906 crore for the period ended December 31, 2008—recording an additional investment of Rs. 26,479 crore made during the said period in the current fiscal. It is felt there is a need to remove uncertainties specifically the uncertainty created by the draft Direct Taxes code and to clarify whether the benefits provided for SEZ units and developers in the SEZ Act will be continued in the same manner provided for the SEZ Act.

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IIFCL to get $1.2-bn World Bank, ADB loan to finance projects

World Bank and Asian Development Bank (ADB) have agreed to extend $2.4 billion (around Rs. 12,000 crore) to the state-owned India Infrastructure Finance Company Ltd (IIFCL) to fund various projects.

"We have finalised a loan of $1.2 billion from the World Bank, and $1.2 billion from the Asian Development Bank, out of which $360 million have been already availed of. These funds will be utilised mostly in roads, ports and power projects," IIFCL chairman Shri S. S. Kohl said. IIFCL had raised Rs. 6,600 crore from the domestic market in addition to the Rs. 10,000-crore mopped up in March 2009 through tax-free bonds, to fund various projects especially in the roads, ports and power sectors. Established by the government in 2006 to fund major infrastructure projects, IIFCL has been playing a key role in battling the slowdown by promoting infrastructure development across the country.

And as part of the stimulus packages last year, which saw public sector spending shooting up massively, the Centre had asked IIFCL to mobilise Rs. 10,000 crore from the market through tax-free bonds in March 2009 to support various infrastructure projects. Last fiscal, the company had disbursed Rs. 3,200 crore to various projects and had also doubled its target for 2009-10. IIFCL has sanctioned Rs. 20,888 crore to as many as 95 projects valuing Rs. 1,68,026 crore till October 2009. These include 63 road, 23 power and six port projects. Of the 95 projects, financial closure has been achieved in as many as 86 cases. Of the total, 75 projects fall under the public-private-partnership mode.

Nabard asked to raise bank's refinance

Haryana Agriculture and Cooperation minister Shri Paramvir Singh has asked Nabard to enhance the refinance target of Haryana State Cooperative Agricultural Rural Development Bank (HSCARDB) from Rs. 355 crore to Rs. 450 crore for the 2009-10 fiscal at the Credit Seminar organised by Nabard at Chandigarh. He also released the State Focus Paper—2010-11, Haryana prepared by Nabard.

Shri Singh also impressed upon Nabard to provide uninterrupted refinance to short and long-term structure financial institutions. The refinance criteria should be liberalized so that maximum finance was provided to the farmers in Haryana. He requested Nabard to make refinancing at liberal rates to micro credit schemes and also to co-operative banks and regional rural banks. Nabard needed to take up the matter with Centre for providing interest subvention at the rate of 1% to long-term good payers' loanee member as being given to good repay masters borrowers of short-term loans.

The refinance was being provided to long-term credit institutions at the rate of 7.5% per annum whereas the same was being provided at 4.5% per annum to short-term credit institutions. The rate of refinance for long-term credit institutions might be brought at par with short-term credit institutions so that finance could be provided to borrowers of long term at cheaper rates. He also asked to defer and reschedule repayment of principal of Rs. 100 crore up to July 31 due to poor recovery at the ground level.

Sidbi picks up 11% more in Bandhan

Sidbi has raised its stake in the country's leading microfinance institution, Bandhan, to 12.3% from the existing 1.31%, underscoring the growing role of such institutions that lend to the poor. The additional 10.92% stake will cost Sidbi Rs. 50 crore. Accordingly, the paid-up capital of Bandhan—which lends only to women—will rise to Rs. 118 crore from Rs. 68 crore, and its net worth to Rs. 165 crore (Rs. 115 crore.) At present, Sidbi is the lone

institutional stake holder in Bandhan. The capital adequacy ratio of Bandhan will improve to 17.83% from 13.23% earlier. Fresh equity will help its business to grow.

Bandhan's principal shareholder is Financial Inclusion Trust (FIT), a trustee created by the MFI as the vehicle for CSR activities. With Sidbi enhancing its stake, FIT's holding now stands at 58% while the promoters and associates hold about 2%, and the balance is with employees. Mr. Ghosh said FIT is an independent trust and the dividend it earns from the holding used for CSR activities, primarily in the health sector. In seven years of its existence, Bandhan has created an outstanding asset portfolio of Rs. 1080 crore and it is targeting to take this to Rs. 1,200 crore by March 2010. In November 2009 alone, it disbursed Rs. 250 crore of loans. In 2009, the MFI added 506 branches, taking the tally to 1008, across 14 states. It will soon open a branch in Arunachal Pradesh. Bandhan is incorporated as Bandhan Financial Services Pvt Ltd (BFSPL) under the Companies Act 1956, and also registered as a non-banking financial company with the RBI.

Sidbi growth on par with large banks: D&B

Sidbi performance was on par with the leading banking and refinancing institutions in India in terms of profitability and efficiency, according to a study conducted by Dun & Bradstreet (India). In a study of top refinance institutions and public & private sector Banks, D&B (India) revealed that Sidbi reported a robust growth of 27.1% and 51% in total revenue and net profit, respectively, this year compared to the year-ago period. The top five banks have been chosen on the basis of their total income and the comparison has been made on parameters like growth in total income, growth in profit, profit per employee, net NPAs/net loans and Capital Adequacy Ratio.

Among the refinancing institutions, Sidbi has fared well. Inspite of the crises, Sidbi in Financial Year 2009 reported a 27.1% growth in total revenue and 51% in net profit. Comparatively, NHB and Nabard reported 38.82% and 13.37%, respectively, growth in profit. In terms of revenue, Sidbi has outperformed in terms of profit per employee (Rs. 31 lakh) which further indicates better manpower efficiency and productivity.

NSE, Sidbi new platform

National Stock Exchange and Sidbi have launched an electronic platform—NTREES, or Trade Receivables Engine for E-discounting—to facilitate discounting of MSME bills on their supplies to large purchaser companies. NTREES is a substitute for the paper-based physical mechanism with e-trading which will make discounting of bills transactions cost-effective, expeditious, and more transparent, said NSE MD & CEO Shri Ravi Narain.

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KIND WORDS CAN BE SHORT AND
EASY TO SPEAK, BUT THEIR ECHOES
ARE TRULY ENDLESS.

PROFESSIONALISATION OF SFCs

STRATEGIC IMPORTANCE OF SLFIs IN THE COUNTRY's INDUSTRIAL DEVELOPMENT

PROFILE OF APIIC

OSFC TO RESUME LENDING TO MSMEs

HIMACHAL INCENTIVES FOR EXPEDITING HYDEL PROJECTS

UNION BUDGET AT A GLANCE 2010-11

EXPORTS FROM SEZs CROSS RS. 150K CRORE.