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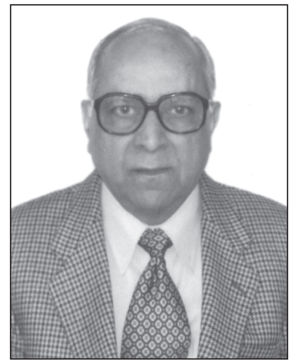
From The Editor's Desk

LAND ACQUISITION BILL ~ EMPOWERMENT OF THE POOR

Notwithstanding the fact that India has been experiencing a massive economic upturn in recent years, the country with 17% of the worlds' population still accounts for only 1.8% of the world income. India leads the world in terms of the absolute number of poor in a single country of its over one billion inhabitants. About 300-350 million are below the poverty line; 75% of them in the rural areas. Agriculture still employs over 60% of the total work force to account for only 18% of the GDP. A large chunk of this population is trapped in this low productivity sector because there are no alternative employment opportunities. Due to increased population burden on land, land holding in most parts of the country are small and fragmented, making agricultural practices economically unviable. The farmers are thus caught in a vicious circle of low productivity and poverty. Most of them are in debt and they hardly have any disposable income left to think of higher education and health of their children besides they do not have access to the institutional credit facility. According to a recent Government sponsored survey the total number of people in India belonging to the poor and vulnerable group, having a per capita consumption of less than Rs.20/- per day in 2004-05 was 836 million, constituting about 77% of our population; 90% of this in rural areas. By all means, they constitute our "Aam Aadmi".

The present day government and protagonists of ongoing reforms and globalization have been advocating reversal of land reforms by allowing big business houses to divest farmers of their land through contract/corporate farming and setting up of special economic zones over big chunk of agriculture land. The government is also keen to allow entry of big business houses including MNCs in the retail sector monopolizing the retail trade in this country including distribution of agricultural produce rendering a large number of people jobless. The government was misleading the people on the job opportunities in big retail stores; some 50,000 persons may get employed in such large retail stores but these stores will threaten the livelihood of about four crore retailers, thus aggravating the already explosive unemployment situation in the country. It hardly needs to be emphasized that increase in unemployment has direct impact on poverty and destitution.



Shri K.K. Mudgil

The Government and the Planners have obviously ignored the ground realities and devising short-term solutions which are pregnant with deeper malaise. The big industrial/business houses which have largely benefited from the government policies have been vying with each other in establishing special economic zones in different states on farm land depriving the farmers of their ancestral property by offering lucrative prices. It is indeed intriguing to observe that the centre and the state governments have been displaying over enthusiasm in helping the corporates to acquire agricultural land (cropped area) under the Land Acquisition Act, as if the land was required for public utilization purpose. The farmer resistance has been suppressed by force such as in West Bengal and Haryana etc. In Indian society, it must be kept in mind that farming is not a business carried on for profit but is the backbone of the livelihood security system for a majority of our population. The land is not merely an economic asset but it also confers social status on the owners. The farmers are, therefore, emotionally and sentimentally attached to their land and any attempt to grab their land would be a retrograde step attracting stiff resistance. In this connection, it is pertinent to point out that five decades of planned economic development has resulted in steep rise in the poor and vulnerable group in asmuchas 10% of the population owns 90% of the assets and 90% owns only 10%. Therefore, any growth in GDP would further accentuate the income disparities between the rich and the poor. The remaining assets i.e. farm land is also conspired to be acquired from the people under the guise of SEZs, contract/ corporate farming etc. in the name of industrialization. The present policies of the government which obviously are being dictated by the vested interests would lead to a situation where bulk of the rural population would be without any land and would become labourers in the mighty empires proposed to be built up by the corporate sector over agriculture land. The policies therefore, appear to be heading towards elimination of the poor rather than poverty.

The Government of India had introduced a novel scheme of rural development in the country in 1978, namely Integrated Rural Development Programme (IRDP) which covered the whole of rural India. The target group of the IRDP consists of families of small and marginal farmers, agricultural labourers and rural artisans whose family income is below the pre-determined poverty line. The objective and the outreach of the programme were indeed landable. Had this programme been implemented in true letter and spirit the very face of the rural economy would have been transformed during the last 25 years. However, as always happens in this country, the programme was a victim of rampant corruption at all levels of administration in its implementation. The High Powered Committee on IRDP (RBI 1994) of which I was the Member Secretary had found that more than 90% of the financial assistance released by way of loans and subsidy was grossly misused by the grass-root level politicians and government servants and whatever assistance reached the target group was confined to politicians preferences and prejudices. With a view to making the programme really effective and purposive, the Committee had divided the rural poor in two categories viz. unviable poor and potentially viable/ viable poor. The former constitute poorest of the poor and were almost on the brink of destitution struggling to make both ends meet (agricultural labourers, oral tenants etc.) and the later category of those poor who had acquired some skills and experience in handling assets (rural artisans, small marginal farmers, owners cum tenant cultivators etc.). While the former category of poor, the Committee recommended, should initially be provided wage-employment under various schemes of the State Governments till they attain the potentially viable status and thereafter can be provided assistance to handle assets. The later category of poor which posses reasonable skills in handling assets be provided assistance under IRDP straightaway. In the context of imparting necessary skills to both categories of the poor, the Committee had recognized the need to impart technical skills to the people of rural areas and had recommended for setting up of mini industrial training institutes/ rural poly-technics in each block of the country. The committee also recommended that the commercial banks may sanction loans to the beneficiary of IRDP for the purchase of agricultural land (specially agricultural labourers, oral lessee, small and marginal farmers etc.) depending upon their financial position. This recommendation was made keeping in view the rapid increase in the number of absentee landlords owning big chunk of agricultural land and give the same on oral lease to small and marginal and/or agricultural labourers for cultivation on crop-sharing basis. In this connection, the government was expected to amend tenancy legislation enabling the oral lessees to acquire the land which they have been cultivating for long. The recommendations of the committee though still relevant in the present context never saw the light of the day and the status-quo ante continued.

The administration in this country must take cognizance of the realities of the situation and instead of devising short term measures and offering palliatives to the farmers in the shape of financial packages; corporate farming, SEZs etc. must draw up schemes for introducing labour intensive activities besides initiating sustainable programmes for upgradation of technical skills and revitalization of rural industries. It is pertinent to state that despite announcement of financial package in the recent past, the suicides by the farmers have not stopped in asmuchas in Vidharba region of Maharashtra alone more than 1000 farmers have committed suicide; 135 farmers since 1st August. It is the misfortune of this country that instead of sympathizing with the farmers' community and coming to their rescue, some of the politicians of the ruling party have tried to play down the calamity of the suicides and rather ridiculed the farmers.

The decay of village industries over the period of last 50 years despite functioning of Khadi & Village Industries Commission have resulted in massive technological unemployment in the rural areas rendering lacs of rural artisans jobless who have also joined the formidable force of agricultural labourers. The salvation of the country lies in the revival of rural and cottage industries on the massive scale. This will rehabilitate traditional artisans in the rural areas and encourage unemployed youth to set up their ventures depending upon their technical skill, which should be imparted to them in an organized way. I must state with conviction that economics of village industries is as sound as those of large scale and medium scale industries as they enjoy some inherent advantages. The only need is to introduce intermediate technology in their operations to improve their competitiveness. The empowerment of rural poor can take place if bulk of the agricultural produce is processed in the rural areas, besides setting up of ancillary industries based upon availability of raw-material and local skills. This would result in value addition to agricultural produce leading to generation of productive employment opportunities in a big way. This process would ensure flow of wealth from urban to rural areas thus eventually empowering rural poor and pushing them above the poverty line. Any scheme to divest farmers of their land holding is considered anti-farmer and inconsistent with the social psyche of the people.

{ K.K. MUDGIL }

APPOINTMENTS

- Shri Pradeep Mehra, IAS has been appointed as Chairman, Delhi Financial Corporation {DFC}, New Delhi vice Shri J.P. Singh, IAS.
- Shri Pradeep Sen, IAS has been appointed as Chairman & Managing Director, Rajasthan Financial Corporation {RFC}, Jaipur vice Shri Umesh Kumar, IAS.
- Shri Jayant Narlikar, IAS has been appointed as Managing Director, Assam Financial Corporation {AFC}, Guwahati vice Shri M.S. Manivannan, IAS.
- Shri P.K. Dash, IAS has been appointed as Managing Director, Madhya Pradesh State Industrial Development Corporation Ltd. {MPSIDC}, Bhopal ice Shri Praveen Garg, IAS.
- Shri Rajesh Prasad, IAS has been appointed as Managing Director, Assam Industrial Development Corporation Ltd. {AIDC}, Guwahati vice Dr. J. Balaji, IAS.

- Shri S. Joykumar Singh has been appointed as Managing Director, Manipur Industrial Development Corporation Ltd. {MANIDCO}, Manipur vice Shri S.I. Sharma.

Success is not something to wait for, it is something to work for. - Henry Wadsworth Longfellow

LETTER TO THE EDITOR

Dated : 20th April, 2011

Dear Editor,

I thank you very much for sending me your recently published Book, titled ~ “Decentralised Economic Development”.

I find the book quite interesting and very informative. It may take some more time for me to read the book fully. I will definitely send you the feedback,once I finish reading the book, which I hope may not take much time.

With warm regards,

Yours sincerely,

Sd/-
{ K.L. DHINGRA }
Chairman & Managing Director
ITI Limited, ITI Bhavan,
Dooravaninagar, Bangalore-560016

SMALL ENTERPRISES GIVE BIG RETURNS

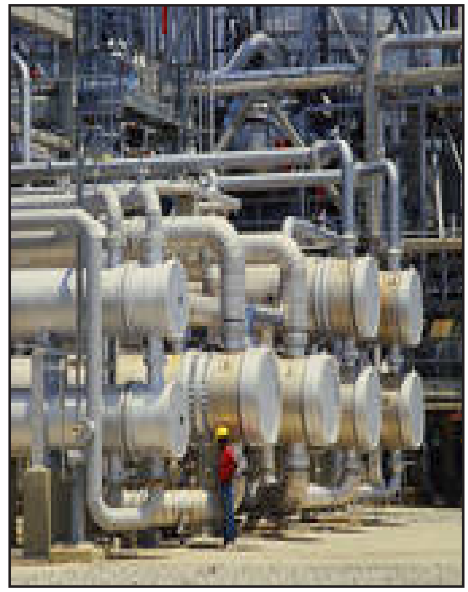
Small Enterprises Give Big Returns

The micro, small and medium enterprises that form the MSME sector contribute about 8 per cent of India's GDP, about 45 per cent of manufactured output and about 40 per cent of exports. And the Economic Survey 2009-10 noted, "This, coupled with a high labour-to-capital ratio, high growth and high dispersion, makes them crucial for achieving the objective of inclusive growth." According to the Quick Results of the fourth All India Census of MSMEs (2006-07), there were 26 million MSMEs in India, which provided employment to about 60 million people. Rural enterprises account for 52 per cent of all MSMEs. The majority of the enterprises are in the service sector; manufacturing units make up around 28 per cent of the total.

The largest sector within the MSME sector is retail trade and repair and maintenance of personal and household goods, which accounts for a little over a third of total employment in the sector. The bulk of MSMEs fall in the unregistered category. Registered units, or the enterprises permanently registered up to March 31, 2007 at District Industry Centres of the respective State Directorate of Industries, comprise just 5.94 per cent of the total MSME units.

Across the states, though Uttar Pradesh has the highest number of MSMEs, Maharashtra, Tamil Nadu, Andhra Pradesh and West Bengal overtake Uttar Pradesh when it comes to total employment in the MSME sector. By and large, of course, the larger, more populous states have more MSMEs. However, if we adjust for population, the states and Union Territories (UTs) that rank at the top are Kerala, Tamil Nadu, Daman & Diu, Delhi and Goa while Chhattisgarh, Jharkhand, Nagaland and Bihar rank at the bottom. In fact, West Bengal and Karnataka do better than Maharashtra and Gujarat on that score.

Employment generation is higher in registered units than in unregistered units; on an average per unit employment is 5.93 compared to 2.05. Per unit employment in both categories is, of course, higher for manufacturing than services. Looking at average employment per unit, Dadra and Nagar Haveli and Daman and Diu are the leaders with more than 10 people employed for every MSME. In both these UTs, there is a very large presence of registered manufacturing MSMEs with high employment in industries like plastic products, soaps, textile fabrics, paperboards and so on. At the other end are 13 states/UTs where average employment is less than two. Andhra Pradesh and Gujarat perform better than Maharashtra and Tamil Nadu in terms of employment generation.



One of the biggest problems facing the MSME sector is the lack of access to credit. More than 90 per cent of the units are self-financed; institutional finance is only for a minority. There is also a significant difference in access for registered and unregistered units — more than 10 per cent of registered MSMEs have received finance through institutional sources, while less than 5 per cent of unregistered MSMEs have had that advantage. Although the small-scale sector, now designated as micro and small units, has been a part of priority sector lending for commercial banks, small units continue to face significant credit constraints.

* * *

Courtesy : Business Standard

PROFILE OF MEMBER CORPORATIONS

KERALA FINANCIAL CORPORATION {KFC}

KFC has achieved unprecedented improvement in all spheres of its operations during the last 5 years. KFC's turnaround has been possible because of its restructuring and the equity contribution of Rs.150 crore by the State Government. The Government has also been helpful in professionalizing the institution including having a professional Board with an IIM Professor as Chairman and a Senior Executive from SIDBI as Managing Director. The Corporation's organizational structure now includes only 250 employees out of which 200 are professionally qualified. Many new innovative initiatives have been introduced in the recent past to bring about an all-around development as under :-

- Total automation of business operation, MIS, appraisal and monitoring have been introduced through a new Core Financial Solution implemented through M/s. Tata Consultancy Services.
- Appraisal mechanism, project monitoring, risk management, internal controls and procedures were stream-lined, and clear policy guidelines on Loan, Recovery, Valuation, IT, etc. introduced.
- By way of decentralization, Zonal and Branch Offices were empowered to sanction loan upto Rs.5.00 crore and Rs.2.5 Crore respectively with full powers for disbursement and monitoring.
- Customer Relationship Managers have been placed in all branches for guiding entrepreneurs.

- A Consultancy Division has been created to provide guidance to entrepreneurs and for preparation of project profiles, project reports, etc. More than 100 profiles for tiny projects have been prepared by the division.
- Extensive skill training has been provided to staff who were tuned to have positive attitude towards entrepreneurs.
- Interest rates on loans have been kept very competitive for MSMEs with concessional rates for NRIs, women entrepreneurs, energy saving projects and micro-enterprises.
- As a measure of Corporate Social Responsibility, a voluntary service wing called "KFC-Care" was constituted to help downtrodden segments of the Society.

Due to the above changes KFC has emerged as a strong and dynamic Corporation with strong financials.

Performance Highlights

(Rs. In Crore)

	2005-06	2006-07	2007-08	2008-09	2009-10
Sanction	121.13	135.83	245.55	373.14	615.93
Disbursement	78.52	97.25	186.43	293.39	419.53
Outstanding Loan Portfolio	675.54	641.69	653.21	650.02	889.69
Recovery	213.89	199.07	221.81	269.25	299.57
Total Income	90.60	89.60	88.33	109.26	157.95
Net Profit (+)/ Loss (-)	1.77	0.44	*(-) 28.15	11.70	33.72
Capital Adequacy Ratio (%)	18.88	20.35	15.95	36.35	27.88
Gross NPA %	65.18	59.33	44.49	21	9.04
Net NPA %	56.89	48.52	28.68	13.22	2.4

*Due to higher write off/Provisioning of Rs.46 Crore

- Loan sanctions have recorded an exponential growth of 409% from Rs.121.13 crore in FY 2005-06 to Rs.615.93 crore in 2009-10. The cumulative assistance sanctioned by KFC so far has reached over Rs.4,330 crore to 43,229 enterprises.

- Disbursements during FY 2005-06 and 2009-10 have increased from Rs.78.52 crore to Rs.419.53 crore. This is higher by 432%. Cumulative disbursements stand at Rs.3261 crore.
- KFC registered a net profit of Rs.33.72 crore on gross income of Rs.157.95 crore during FY 2009-10. This was against net loss of Rs.2.49 crore during FY 2005 and profit of Rs.1.77 crore in FY 2006.
- The Corporation today has a networth of Rs.270 crore against accumulated loss of Rs.72.77 crore recorded in 2005-06.
- For the first time in its history, KFC has declared dividend at 45 on its paid up share capital. Dividend payout to the Government of Kerala was Rs.7.91 crore.
- The gross and net Non-Performing Assets during FY 2005-06 was at 65% (Rs.425 Crore) and 45% (Rs.294 crore) respectively. These have declined to 9.04% (Rs.80.30 crore) and 2.41% (Rs.19.90 crore) during FY 2009-10. in all, compromise settlement benefits were provided to 4400 clients involving settlement amount of Rs.439.57 crore and sacrifice of Rs. 574.03 crore as on 31.03.10.
- Another redeeming features of KFC's lending and recovery policy were its continued friendly approach towards entrepreneurs with not a single attempt in the recent past to take over an industrial unit.
- KFC has taken-up many new initiatives during last few years under the soft loan scheme for NRKs. KFC has so far extended loans of over Rs.12 crore at 7% interest rate to 102 entrepreneurs; loans to micro-finance institutions and collateral free loans under the Credit Guarantee scheme for loans up to Rs.50 lakhs were introduced. Also, KFC has become eligible institutions for providing subsidy to food processing industry and Credit Linked Capital Subsidy of Govt. of India, besides State subsidy.

2. New Initiatives

A. Achieving business growth :

- To boost investor confidence, business meets have been organized in Ernakulam, Palakkad, Thiruvananthapuram, Alappuzha and Thrissur. There were encouraging responses from entrepreneurs in these centres to avail of loan from KFC. Similar meets are proposed in other centres.
- Interest rates reduced to 7% for micro enterprise and for NRKs, 10% for manufacturing sector, 5% for energy saving projects, to boost business.
- A foot-wear cluster (41 units) with central aid in Kozhikode has been identified for intensive development. KFC will be exclusively supporting this cluster.
- Developing a plastic park in Ernakulam district jointly with the Aluva Plastic Consortium Pvt. Ltd. is under consideration.
- Disbursements during FY 2011 likely to touch Rs.500 crore against Rs.420 crore last F.Y.

B. Internal Strengthening :

- Total automation of business operations, MIS, appraisal and monitoring has now come into effect under a new Core Financial Solution implemented through Tata Consultancy Services.
- Intensive field visits by officers in HO, Zone and branches have been introduced so that the entrepreneurs can be met at their place, rather than waiting for them to come to KFC to discuss their projects.
- Consultancy Division has been strengthened to provide guidance to entrepreneurs and preparation of project profiles and project reports, etc.
- An exercise is being carried out to place higher level officers with positive attitude and business mind as Branch and Zonal Heads.
- Clarity has been brought-in with respect to appraisal mechanism, project monitoring and risk management by issuing necessary guidelines and providing skill training. This includes a detailed checklist for appraisal and follow-up, introduction of Valuation Policy, Loan Policy and Recovery Policy, compilation of common errors observed by auditors, etc.

- A task force has been constituted to consider compromise settlement in respect of hard-core/no asset NPA cases, which will enable speedy settlement and recovery out of difficult cases. Efforts are also being made for settlement of certain NPAs through Asset Management Companies like ISARC.
- An extensive skill development programme for staff has been launched in tie-up with College of Agricultural banking of Reserve Bank of India, Pune.
- An advisory Committee of industry experts and entrepreneurs is being constituted for a formal industry-institution inter-action and direct feed back from the industry to bring in customer friendly approach and policy.

Future plans

As an endeavour to aid industrialization to exhibit good financial health to sustain the growth momentum a brief Business Plan and strategies to achieve it, has been chalked out, as follows :-

- Enhance the portfolio size to Rs.1500 crores, in two years and Rs.3000 crore in next 5 years which will in turn ensure higher income and greater acceptability among industries.
- Reduce gross NPA to less than 5% by strengthening monitoring and follow up activities. Extra care needs to be taken to avoid slippage of standard assets and arrest creation of doubtful assets.
- Tie up alternate sources of funds from banks/ market to meet the enhanced requirement at the lowest possible cost so as to remain competitive.
- Increase lending to the manufacturing sector from present level of 25% to 50% while continuing with support to tourism, hotels and hospital and thrust for micro-enterprises and energy saving and environment friendly projects.
- Study the needs of the industrial clusters engaged in manufacture of rubber, plastic, plywood, tiles, mills, furniture, wood based products, food products, coir, garments, offset printing, metal engineering, agricultural implements, toys etc. and provide them need based financial support.
- Have Tie-up with KINFRA for financing industrial units coming up in their Parks and for supporting incubation centers.
- Play a pro-active role in supporting IT Parks and IT enabled services.
- Encourage collateral free loans under CGTMSE to industrial units with financial requirements up to Rs.50 lakhs.
- Support ancillary units coming up as a result of big projects like CNG pipeline, railway wagon unit, BEML, Vallarpadam & Vizhinjam Ports, etc.
- Introduce new business products particularly of shorter tenure, in tune with the emerging scenario and to match assets and liabilities.
- Provide value added services like consultancy, preparation of project reports, rehabilitation studies, hand holding services etc. to be more relevant to the sector while earning fee based income. Once sufficient expertise is picked up in this line, it can be hived-off as a separate organization or an existing consultancy organization can be taken over.
- Organize Business Development Meets, Seminars, entrepreneurs Development Programmes etc. so as to attract entrepreneurs and to create better entrepreneurial culture.
- Improve appraisal standards, monitoring mechanism and risk management to ensure the creation of a quality/healthy portfolio.
- Align organizational structure in tune with business and formulate HRD Policy to cope with contemporary market challenges.
- Diversify business activities to areas like Development of Special Economic Zones incubation centres, etc. by acquiring abandoned/low activity industrial areas.
- Build-up strong data-base and MIS relating to MSME sector so that the Corporation is able to take quick decisions in tune with emerging market trends.

* * *

KSFC

Line of Credit (LoC) for purchase of raw materials from KSSIDC :

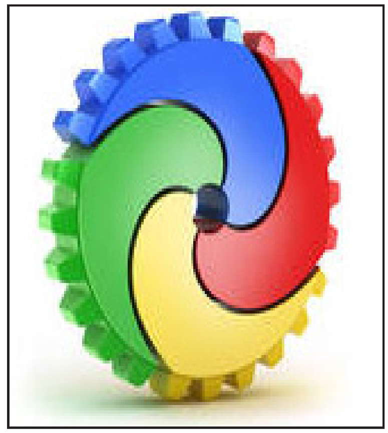
A new scheme in the form of Line of Credit to Micro, Small and Medium Scale Industrial Enterprises was introduced during the year under review to extend financial assistance towards purchase of raw materials from KSSIDC. The objective of the scheme is to provide timely and adequate working capital assistance in the form of Working Capital Term Loan (WCTL) to MSMEs for purchase of raw materials from KSSIDC. The minimum LoC amount is Rs.5.00 lakhs and the maximum LoC amount is Rs.100.00 lakhs.

Scheme for financing of Energy Saving Projects (SESP) for MSMEs under JICA line of credit of SIDBI

During the year, a Line of Credit scheme was introduced for Energy Saving Project in the MSME sector in order to facilitate the flow of funds for the investment in energy saving project. KSFC operated the scheme during the year under review to promote energy saving MSMEs by providing financial assistance to them thereby contributing to environmental improvement and economic development.

Scheme for financing of wine manufacturing industries

Considering the market potential for financing the wine manufacturing units a new scheme for financing of wine manufacturing industries was introduced during the year under review. The overall objective of the scheme is to promote wine manufacturing units in MSME sector in the State of Karnataka by providing financial assistance to them thereby helping the farmers to get better market/price for their products.



Interest Subsidy Scheme for Scheduled Tribe Entrepreneurs

During the year under review, the Interest Subsidy Scheme facility was also extended to Scheduled Tribe Entrepreneurs on the lines of the existing scheme for Scheduled Caste entrepreneurs.

KSFC signs MoU with CRISIL Limited

A MoU has been signed by KSFC with CRISIL Limited for credit rating the proposals. CRISIL Limited is a Public Limited Company for the credit rating of the MSMEs. The company is empanelled by National Small Industries Corporation (NSIC) of India for SME rating. The MoU with CRISIL Ltd., has been concluded to have an alternative agency for availing the rating services. The fee structure and other details of MoU are as given below :

Type	Rate (Rs.)	Service Tax	Total
Greenfield projects (New)	45000	4635	49635
Medium Size Units	30000	3090	33090
SSI rating (SSI Units) (Eligible for subsidy)	10000	1030	11030

The CRISIL SSI/SME ratings definitions are given below :

A. NSIC-CRISIL Rating (applicable for only SSI Units)

An NSIC-CRISIL rating reflect CRISILs opinion on the company's performance capability and financial strength. Rating are assigned as per table below :

Performance capability	Financial Strengths		
	High	**Moderate**	**Low**
Highest	SE1A	SE1B	SE1C
High	SE2A	SE2B	SE2C
Moderate	SE3A	SE3B	SE3C
Weak	SE4A	SE4B	SE4C
Poor	SE5A	SE5B	SE5C

B. CRISIL SME Ratings (applicable for units other than SSI)

A CRISIL SME rating reflects the level of credit worthiness of an SME, adjudged in relation to other SMEs. CRISIL SME rating are assigned with following definition

Definition	CRISIL SME Rating
Highest	SME1
High	SME2
Above Average	SME3
Average	SME4
Below Average	SME5
Inadequate	SME6
Poor	SME7
Default	SME8

Interest concession of 0.5 per cent p.a. can be extended for loans upto Rs.1.00 crore and 1 per cent p.a. for loans above Rs.1.00 crore with ratings of SE 1A/SE 2A or SME1/SME2. However, these interest concessions are not applicable for tourism related activities like amusement Parks, restaurants, travel and transport, tourism service agencies, hotels and restaurants, mobile canteen/catering, resorts, service apartments, CRE projects, corporate loans, PE loans and loans sanctioned under JICA-LoC.

In respect of projects which are rated under NSIC-CRISIL rating, which are rated as SE1A, SE1B, SE2A, SE3A and SE3B as bankable proposals subject to complying with lending norms and SE1C, SE2C, SE3C, SE4A, SE4B, SE4C, SE5A, SE5B and SE5C as non-bankable proposals.

Similarly, in respect of the projects which are rated under CRISIL-SME rating, which are rated as SME, SME2, SME3, SME4 andSME5 as bankable proposals and subject to complying with lending norms and, SME 6, SME 7 and SME 8, are non-bankable proposals.

KSFC Participation in The IMS Show 2010

Laghu Udyog Bharathi – Karnataka and K&D Communications with the support of Government of Karnataka, MSME and NSIC had organized an comprehensive International Industrial Exhibition – India Manufacturing Show *"IMS 2010"*. The event was organized at the International Exhibition Centre, Bangalore which has the facility of matching international standards from 9-10-2010 to 12-10-2010.

The IMS 2010 was the largest collaborative platform of Indian and International manufacturing, engineering and other ancillary industries from the Micro, Small and Medium Scale Industries and Public Sector Units. List of participating industries were BEML, BEL, BHEL, HAL, Toyota-Kirloskar, Volvo, Tata-Group, Railways, KSRTC, TVS, JSW Steel, Bhushan Steels, Suzlon and NAL.

IMS 2010 had participation of industries from sectors such as Aerospace Engineering, Automation & Robotics, Automotive industries, CNC, Special Purpose Machines & Other Industries.

India manufacturing Show 2010 had also provided chance for the SMEs to participate in the numerous vendor development programmes with Public Sector Undertakings, MNCs and the Large Industries and also conducting technical seminars.

A number of MSMEs participated in the show and there were many visitors who varied from Entrepreneurs, Technocrats, Corporate Giants, Explores of domestic and Global market. Karnataka State Financial Corporation also participated in this exhibition. During the exhibition many enquiries were received from the visitors on the various products and services of the Corporation.

KSFC's Participation in the IT.biz 2010 Exhibition

The Department of Information Technology, Biotechnology and Science & Technology, Government of Karnataka had organised an exhibition "Bangalore IT.biz 2010". Bangalore ICT was the initiative of Government of Karnataka and STPI with the core theme "Billion Strong : Empowered by ICT". The exhibition was held at The Lalit Ashok, Bangalore from 28-10-2010 to 30-10-2010. Bangalore IT.biz, the flagship event of the state, conceptualized to bring IT industries, IT nations, investors, IT states and professionals under one platform. The entire gamut of industry association like ABAI, CLIK, ELCIA, FISME, FKCCI, ISA MAIT, NASSCOM, NSIC, CSI and TIE had backed the event. The expo also included international multi track conference which consisted of Leadership series, Plenary Sessions on Cloud computing, SME forum and IT Investment Regions and Focused Tracks on e-gov, GIS Embedded Technology & Frontier Technologies, IT destinations, Animation, Energy and Environment, Remote Infrastructure Management Services and YESS for start ups. The highlights also included trade show, CEO-CIO Conclave and IT export awards.

More than 70-80 units in electronics and IT hardware and software had participated in the event. Karnataka State Financial Corporation also participated in this three day exhibition. During the exhibition many enquiries were received from the visitors on the various loan schemes available.

KSFC signs MoU with IDBI Bank Ltd.

Karnataka State Financial Corporation has signed an MoU with IDBI Bank Ltd., for timely and need based Working Capital to MSMEs. While KSFC by virtue of mandate provides term loans to MSMEs, the entrepreneurs will have to approach the Commercial Banks for working capital purposes. In this experience of KSFC, availability of adequate working capital on time has been a problem. To overcome this problem, KSFC has now entered into an MoU with IDBI Bank Ltd on 20th of July 2010.

Under this MoU, term loan required for MSMEs between 5.00 lakh to 20.00 crore will be provided by KSFC and IDBI bank will provide the need based working capital. The projects will be jointly vetted, in principle, working capital sanction given by IDBI Bank for working capital after which KSFC disburses the term loan. When the project is complete the working capital will be released by the IDBI Bank Ltd.

The advantage of this arrangement is that, the entrepreneurs need not offer separate securities for KSFC and IDBI Bank Ltd., for term loan and working capital. Based on the same securities offered to KSFC the working capital is also provided by the bank. This is expected to mitigate the problems of MSMEs, particularly the first generation entrepreneurs.

Scheme for financing Wind Mill Projects

From ages wind has been used for several applications by man. Wind energy has both Potential

Energy and Kinetic Energy. Harnessing of Wind Energy could play a pivotal role in the energy mix of any nation. To tap this potential available Karnataka State Financial Corporation has designed a special scheme, “Scheme for assisting Wind mill Projects” which is as follows :-

Promoters contribution :

Minimum 25 per cent of the cost of the project.

Rate of Interest :

Applicable rate of interest will be 12.5 per cent. No separate interest concession or ECS rebate shall be extended. Penal interest of 2.00 per cent will be charged in case of default in payment of principal/ interest.

Repayment period :

Years from the date of disbursement excluding moratorium period of 06 months to year.

Financial parameters :

Project DER	:	3.00 :1.00
Overall DER	:	2.00 :1.00
Overall DSCR	:	1.25 :1.00

Security :

- Mortgage of freehold (if available)/leasehold rights of the land (with right of entry) where the Wind Mill is installed and hypothecation of the block assets.
- Personal guarantee of the promoters.
- Collateral security to an extent of 25 per cent of the loan amount. There shall be no relaxation in collateral security. However, the CMD is empowered to relax the collateral security on case to case basis purely on merits.

Limit of Assistance :

The maximum exposure should not exceed *10.00 Crore* in respect of companies and *2.00 Crore* in respect of others. In the loan requirements is more than this, with the prior approval of SIDBI it can be considered upto 20.00 Crore and 8.00 Crore srespectively.

MPFC

Bond Issue

The Corporation launched its second Bonds Issue of Rs.25.00 Crores on 16th March 2011 (with permission to retain subscription upto Rs.50.00 Crores under Green Shoe Option) thru private placement route. This bonds issue received good response from the market in the month of March and was subscribed Rs.34.30 Crores till 31st March 2011. The MPFC Bonds are guaranteed by MP Government and carry an interest rate of 8.89% p.a. These bonds will be listed on the Bombay Stock Exchange (BSE).

The Bond issue of the Corporation is accredited with a credit rating of BBB+ (so), by the CARE.

Summer Training & Project Preparation for MBA Students

MPFC has executed a MoU with the State Government under which the Commercial/Financial, Developmental/Promotional, Administrative and Corporate Governance targets are finalized with the State Government. In the MoU, the Corporation had to provide the training to management students on Project financing. In this regard, as a Corporate Social Responsibility initiative, Corporation provided opportunity to Business Management Students to study the working of the Corporation with focus on Project Financing procedures and Financial Appraisal. Six Weeks of summer training at various offices of the Corporation also increase awareness about the organization amongst these future managers and entrepreneurs. Students from various Management Institutes of Indore and outside, like IMS, IIPS, IPS, Prestige, Medicaps, Proton and ILM Gurgaon, IIT Roorkee etc attended the training programs which ran in two batches during the April to June Quarter. 163 MBA students completed their training in this duration. The students are also guided for Project Report preparation containing various aspects of project financing, working of MPFC and other topics like credit rating, risk management, assets-liability management etc.

* * *

NEWS FROM STATES

The Growth-Income Conundrum

India has had a high growth trajectory in recent years and is the fourth largest economy in terms of GDP measured on the basis of purchasing power parity. However, when it comes to per capita income the country ranked 127th out of 181 countries in 2009. According to the International Monetary Fund (IMF) data, China, the world's most populous nation, has almost double the per capita income of India. What is more remarkable is that China, with its sustained high economic growth and lower population growth, has moved up from 128th rank in 1984 while India has moved down from rank 117 over the same period.

A look at the state-level data enables one to identify areas that contribute largely to India's poor performance. Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh were once referred to as BIMARU states since they were lagging in terms of development and retarding India's overall economic progress. Though, the concept of BIMARU barely holds together now, particularly with the current upsurge in Bihar's economy, the fact remains that these states continue to have a low per capita income. According to the recent CSO estimates, while the per capita income in India in 2009-10 is estimated at Rs 46,492, in Bihar it is merely Rs 16,119. Bihar continues to trail way behind Uttar Pradesh, which has the second lowest per capita income of Rs 23,132. Manipur, Madhya Pradesh and Assam are the other three states with per capita incomes of less than Rs 30,000 per annum. Rajasthan is relatively better off than these states with per capita income of Rs 34,189, though this is still lower than the national average. Among the newer states, we find that Jharkhand and Chhattisgarh lag the national average, while Uttarakhand is better placed with the twelfth highest per capita income. At the other end of the per capita income table are states with a small population base — Goa, Chandigarh and Delhi are the only three states with per capita income exceeding Rs 1 lakh per annum. Haryana and Maharashtra are among the bigger states with an annual per capita income of more than Rs 70,000.

Looking at the annual growth in real per capita income since 2004-05, the state of Uttarakhand has shown the best performance with a double-digit growth. Maharashtra comes second, with Bihar trailing slightly at the third position. Tamil Nadu, Gujarat and Haryana have all achieved more than 7.5 per cent annual growth in real per capita income over the period. However, Punjab has turned in a below average performance on the growth front. It is disappointing to see Assam at the bottom of the growth performance chart; Uttar Pradesh, Madhya Pradesh and Rajasthan also have a lower than average growth record. This is a cause for concern given their huge population.

India's low per capita income clearly indicates that the growth in the economy has not been substantial enough to meet the needs of an increasing population, even as the vast regional differences cause imbalances that need to be addressed urgently. {Courtesy : Indian States Development Scorecard}.

PUNJAB

Punjab Budget presented

With an eye on state assembly elections scheduled next year, the SAD-BJP led government on March 14, 2011 put up a tax-free Rs.48,594.85 crore budget for 2011-12 while relying on buoyancy in the local economy to fill up the state treasury.

Presenting the budget, of State of Punjab state finance minister Ms. Upinderjit Kaur said that the state achieved growth rate of 9.25%, 6.55% and 7.84% in 2007-08, 2008-09 and 2009-10, respectively as per the new series of National Accounts Statistics introduced in June, 2010 with base year 2004-05. As per Advance Estimates for

2010-11, the state is expected to grow at 7.78% against national average of 8.58%. The Plan focuses on power, irrigation, infrastructure, human resource development, greater stress on welfare of Scheduled Castes and other weaker sections of the society, development of agriculture, development of rural and urban areas, improved health and medical services, etc.

The total plan size of the budget has been kept at Rs.48,594.85 crore. The revenue receipts are pegged at Rs.32,026.76 crore with a revenue expenditure at Rs.35,405.75 crore. The revenue deficit is 1.33% at Rs.3,378.99 crore against 1.80% recommended by Thirteenth Finance Commission for Punjab. The capital expenditure is Rs.5,418.34 crore with a fiscal deficit of Rs.8,801.33 crore. Fiscal deficit is 3.45% of GSDP (Gross State Domestic Product) against 3.50% recommended by 13th Finance Commission. Total size of the annual plan is Rs.11,500 crore. The per capita income at 2004-05 prices is expected to increase from Rs.43,539 in 2009-10 to Rs.46,182 in 2010-11 indicating a growth rate of 6.07%. The per capita income at current prices is estimated to increase from Rs.62,153 in 2009-10 to Rs.70,072 in 2010-11 showing an increase of 12.74%.

JAMMU & KASHMIR

J&K government to give Rs.100 cr to modernise looms

To give a new look to Jammu and Kashmir's handloom industry, the state government has embarked on a mega plan of modernising 40,000 looms with an investment of Rs.100 crore. "In the handloom sector, the government has embarked on a mega plan of modernising 40,000 looms involving Rs.100 crore," minister for industries and commerce, Shri Surjeet Singh Slathia said. The government is also focusing on the design and diversification, providing credit facilities, enhancing weavers productivity by skill upgradation and use of efficient handlooms. The handloom sector is a labour intensive cottage industry, which rolls out woven pashmina shawls, raffle kani shawls, silk saris, kishtwari blankets, bed-sheets, curtains, cushions and various other items. The minister said two chemical mineral testing labs have been set up one each in Jammu and Ompora Budgam.

ORISSA

Orissa to set up Rs.800-cr SPV for development in mining areas

The Orissa government has decided to set up a special purpose vehicle (SPV) at an investment of Rs.800 crore to oversee peripheral development in mining area and ensure inclusive growth of mining areas. About 50% of the additional Net Project Value (NPV) would be utilised for the SPV. The state has a deposit of Rs.1,600 crore in the additional NPV.

The SPV would ensure development of peripheral areas of mines and welfare of local people, mostly tribals. Large tribal populations in Keonjhar, Sundargarh, Koraput, Mayurbhanj, Jajpur and others would be benefited from the proposed SPV. The SPV would be set up based on the Society Registration Act. A governing body and an executive committee would be formed for proper functioning of the SPV The official said that individuals from both government and private sector would be part of the executive committee. The SPV will be responsible for chalking out small development projects that will pave the way for livelihood and welfare of tribal people. Keeping the impact on environment, displacement and loss of livelihood, the government has decided that the SPV would be mandated with working out strategies for health as well as sanitation improvement in tribal areas.

HARYANA

Haryana to set up solar plant at Yamunagar

Haryana Power Generation Corporation (HPGCL) is to venture into solar power generation by setting up solar energy-based power plant at Bhud Kalan in district Yamunanagar. The corporation's board of directors has already approved the setting up of the power plant and the modalities are being worked out Shri Sanjeev Kaushal, managing director of HPGCL said. The corporation already has a 14.4 mw hydroelectric power plant at Yamunanagar and the 6.5 mw solar power plant will come up in its vicinity. The project is likely to catalyse an investment of Rs.100 crore.

The power utilities will buy the power generated through the solar project for distribution in the state. By generating power through green energy resources, HPGCL aims to earn carbon credits and bring up more environment friendly projects. The projects will be implemented under the Jawaharlal Nehru National Solar Mission. The corporation is following a new model whereby the solar power plant is being set up at the existing land of thermal/hydel power plants. After detailed study it shortlisted the hydel power plant in Yamunanagar. HPGCL had floated tenders for engaging services of a consultant on June 28 last year. But after relaxing some stringent qualifying requirements the tenders were reissued on July 14 and opened on July 28. HPGCL has also created a renewable energy cell to look after this new venture.

Haryana to spend Rs.300 cr on healthcare

Haryana health minister, Shri Rao Narender Singh has said that government plans to spend Rs.300 crore to provide better healthcare facilities in government hospitals during the next financial year as against Rs.107 crore being spent during the current financial year. He said that three medical colleges were being set up in Karnal, Sonipat and Mewat to provide better medical facilities to the people. Apart from repairing existing hospital buildings, new buildings, wherever needed, would also be constructed to provide clean and hygienic environment to patients. He said that Haryana was the first state in the country where free medicines and treatment facilities were being provided to the patients.

Haryana govt gives Rs.2,070 crore for tech & vocational education

Haryana government has made a provision of Rs.2,070 crore in its annual plan 2011-12 for promotion of technical and vocational education. The annual plan has already been approved by the Planning Commission.

He said that the process to fill all the vacant posts of teachers and junior lecturers in the schools had already been initiated. Besides, computers and other facilities were also being provided in the government schools of Haryana. The state government had taken a decision to set up 26,000 computer labs in the government schools. Besides computers, all necessary furniture would be provided in these labs. Power connections on domestic power tariff were being provided in the government schools of the state. So far over 9000 such connections had already been released.

Haryana rice millers to use biomass for captive power

Haryana rice millers are turning to biomass co-generation for captive power generation. Easy availability of rice husk and upgradation of technology at minimum cost prompted them to generate own power through this renewable energy resource. Till date seven projects of 15.45 mw based on biomass co-generation have been commissioned in the state with five projects of 10.45 mw commissioned in march this year. Apart from this distilleries are also generating power for captive use through biogas based power projects.

As per the latest guidelines of CERC the rice millers generating power for captive use can also obtain renewable energy certificate and trade the same through power exchange. The CERC issues one certificate for 1,000 units at a price varying between Rs.1,500 to Rs.3,900.

* * *

Men attract not that which they want, but that which they are

.-James Allen

QUESTIONS OF CYBERQUIZ ~ 29

1. What term is used to describe the act of forgery of an e-mail header so as to give the impression that the mail has originated from a source other than the actual source ?

   [a] Spamming; [b] E-mail spoofing; [c] E-mail reflecting; [d] Flaming.

2. What name is given to text or image that changes appearance when a cursor passes over it ?

   [a] ActiveX; [b] Net button; [c] Hyperlink button; [d] Hover button.

3. This project makes available on Internet the texts of books that are in the public domain. To make the text accessible to maximum number of people, plain ASCII format has been used. Guess the name of the project.

   [a] Project e-Book; [b] Project Net Book; [c] Project i-book; [d] Project Gutenberg.

4. Who proposed the theory that "as online discussions grow longer, a comparison involving Nazis or Hitler will inevitably be made ?

   [a] Michael Goodwin; [b] Time Paterson; [c] Larry Ellison; [d] Jim Barksdale.

5. The value of a network to each of its members is proportional to the number of other users, which can be expressed as n(n-1)/2. Who gave this law ?

   [a] Alan Turing; [b] Robert Melancton Metcalfe; [c] Grace Hopper; [d] John von Neumann.

For Answers See **Page No. 27**

The reward of a thing well done is to have done it.

-Ralph Waldo Emerson

DO YOU KNOW ?

MAJOR SEARCH ENGINES

Google - The favorite search engine of most web surfers accounting for the majority of searches performed on the web.

The Yahoo! Search Engine along with the trusted Yahoo! Directory (see below) were once the darling of the internet. They have now lost most of their shine.

Rediff.com – Most commonly used Search Engine

Ask still has a loyal following though its user base is gradually decreasing.

Baidu - Favorite search engine of the Chinese.

Microsoft's Live Search Engine is now known as Bing with supposedly an improved algorithm. People have loved it's background images. Check the Bing usage statistics

The web search on the AOL pages is now powered by Google.

The mighty Altavista Search Engine is now based on Yahoo!

DuckDuckGo takes advantage of content from sites such as Wikipedia to improve the relevance of the search results.

Infospace - The owner of Dogpile search engine.

Dogpile - A metasearch engine owned by InfoSpace, Inc.

Go.com offers a searchable directory, news stocks, sports and free email along with a web search engine.

Yandex - Russian Search engine and ranks very high as per Alexa.

SUCCESS STORY OF KSFC ASSISTED UNIT

Excel Foods Private Limited

M/s. Excel Foods Private Limited an ISO certified company is engaged in the manufacture of mango pulp during the season. During the off season the company manufactures fruit jam and tomato ketchup. The company was established in the year 1987 by Mr. Prakash M. Kanoor, who is the managing director. The unit is a family concern. The promoter is having wide knowledge and experience in fruit and vegetable processing.

The company started production of mango pulp in 1995, with the sale of 800 to 900 tonnes per annum and expanded the company in 2003 with installation of modern packaging machinery. The company expanded the unit as per changing market and consumer expectations. The company has exported Rs.225 lakhs worth of products during 2007-08 directly and also through other export houses like M/s. ITC, Hyderabad and M/s. Exhotic Foods, Bangalore, Parle Merrico Industries, American Dry Fruits Ltd., Modern Food Products Pvt. Ltd., etc. Excel Foods is marketing its products locally under the name “EXCEL”.

The company has a tie-up with Ken Agro Tech Pvt. Ltd. for bottling of gherkins on contractual basis. Ken Agro Tech Pvt. Ltd. established since 1995 is having a production capacity of Rs.35.00 lakhs MT per annum. The company has also established a joint venture with Ken Agro Tech, under the name Tropical Foods Pvt. Ltd., engaged in frozen foods and vegetables. Excel Foods is exporting gherkins worth of Rs.30.00 crore every year in bulk barrels to European and Middle East countries. The company is doing job work of worth Rs.8.00 lakh to Rs.10.00 lakh per month to Ken Agro Tech Pvt. Ltd. and enjoying assured market. The promoters have availed a loan of Rs.137 Lakhs from KSFC during the years 1998-2008 and have achieved a progressive turnover over the years.

Universal Flexibles Private Limited

Universal Flexibles Pvt. Ltd. (UNIFLEX), is a Private Limited Company established during the year 1976 to manufacture high pressure hose assemblies hose fittings, adaptors and tube assemblies. Majority of the products manufactured are sought after discerning customers in Australia, Germany, New Zealand, Spain, Sweden, UK and also multiple locations in USA.

UNIFLEX has unique distinction of being the only company in India having technical competence and infrastructure to manufacturer:

Crimped Hose Assemblies

(ii) Concrete Hose Assemblies

(iii) Hose Assemblies with marine heavy duty

fitting made of titanium and Nickel Aluminium Bronze.

The Company consists of four directors, namely, Mr. K.R.S. Narayanan, Ms. Lakshmi Shankar, Mr. Venkatesh S. Aiyer and Ms. Rajni V. Aiyer. The company with four directors, has introduced innovation—a one piece no braze, no weld flange adaptor. During the year 2000, UNIFLEX was awarded the EEPC award. The company is also awarded the ISO 9001-2000 certification.

The spiralling UNIFLEX facility spread over 10,000 Sq. ft houses some of the most sophisticated equipment integrating the best of technologies. Equipped with cutting edge CAD and 3D capability a design and development centre is dedicated to create a product range that is truly world class.

The company has availed a loan of Rs.355.57 lakhs from KSFC towards Upgradation activities. During the years 2006, 2007, 2008 the company has made turnover of Rs.483 lakhs, Rs.706 lakhs and Rs.731 lakhs respectively.

UNIFLEX is the first choice of customers not just because of their promise for providing world class product but also due to their committed workforce that follows a plan diligently, efficiently and effectively. They say as company grows one thing remains constant. No matter how large or successful the company may become, quality of the product or service will never be sacrificed emphasizing their motto—Quality Above All.

* * *

Exports Grow Fastest since Independence

India's exports grew 37.5% in 2010-11 - their fastest annual growth since independence - despite a strong rupee and weak demand in developed markets, data released on April 19, 2011 showed.

The country shipped goods worth $245.9 billion during the year as attempts to diversify markets and increase regional trade paid off. Exports surpassed the government's initial target of $200 billion. "This is the highest annual percentage growth in exports (in dollar terms)," Commerce Minister, Shri Anand Sharma said.

The government has set an export target of $450 billion for 2013-14. It will target a 25% rise in exports in the current fiscal. Exports in March added to $29.1 billion, highest for a single month so far. The base effect, however, contributed to a part of the rise.

Exports had fallen 3.5% in 2009-10 because of the global financial crisis. Robust growth in exports and slower rise in imports helped the government contain trade deficit at $104 billion as against a worrying mid-year estimate of $130 billion.

New Markets Drive Growth

Imports rose 21.5% to $350.5 billion in 2010-11. The strong growth was driven by higher exports to new markets in Latin America, Africa and Asia. There was a slump in global demand in 2009 and the initial months of 2010, especially in the traditional markets, and it is felt that there was a need to reach out to new destinations. The government had announced incentives for shipments to 41 markets, most of which were new trading destinations for the country. Exports to Latin America were up 74% in the first three quarters of 2010-11 compared with the year-ago numbers while those to African countries jumped 50%.

Exports to the EU and US—traditional markets for Indian merchandise—grew by 22.6% and 26.4%, respectively. Most of the growth has come from new markets in Latin America, Africa and also Asia, which has now emerged as the main market for India's exports. The thrust on new markets is likely to continue in the export strategy to be announced by the Commerce Ministry later in April, which will aim at increasing the country's exports to $450 billion over the next three years.

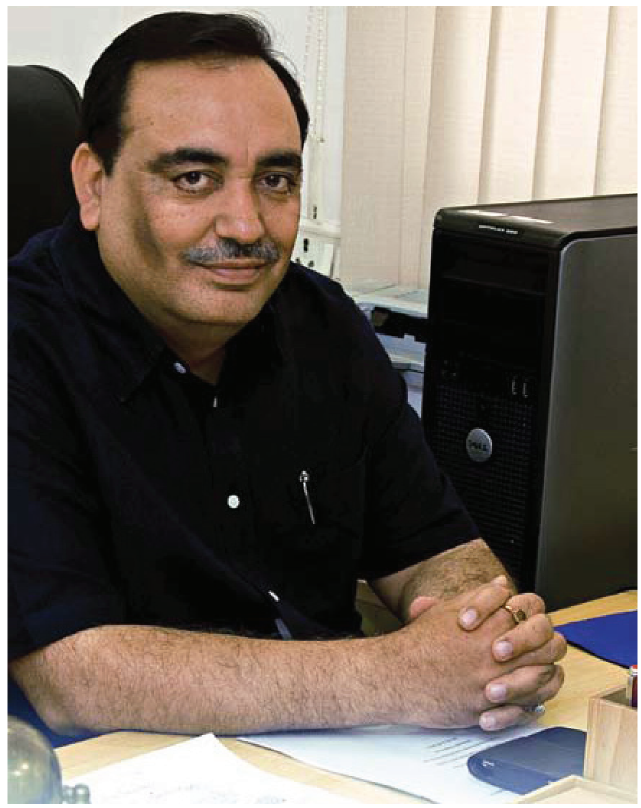
"Countries in Latin America and Africa are the growth poles of the world," said Shri Biswajit Dhar, director-general of Delhi-based think tank Research and Information System for Developing Countries. "It is good that we are managing to get in there as they would be the fastest-expanding markets." Engineering exports rose 85% to $60.5 billion in the year, accounting for one fourth of total exports. Petroleum, oil and lubricant exports also posted an impressive growth of 50.6% to $42.5 billion.

Other sectors that performed well include gems & jewellery, textiles, electronics, chemicals and drugs & pharmaceuticals. The shift from low- to high-end exports has also helped the cause. The growth was despite the rupee remaining reasonably strong through the year. The currency appreciated the most in October 2010, reaching an average exchange price of Rs 44.41 to a dollar. India's crude oil imports rose 16.7% to $101.7 billion; machinery 19% to $27.2 billion; pearls, gems & jewellery 72.8% to $28.2 billion; and electronics 3.6% to 21.7%.

* * *

COSIDICI has collaborated with 'SEARCH' a trade magazine from infomedia 18 ***(a part of Network 18 Group)*** to bring out special editions on the industrial growth and investment opportunities in different states of the country with the hope that it would attract investment and help the companies to set up their industry in that region. The May, 2011 issue is dedicated to investment opportunities in Delhi and NCR. The cover page of this issue is reproduced below. As the Associate Partner, COSIDICI had arranged for interviews of senior officials of our Member Corporations. The supplement, therefore, carries an interview of Shri Rajeev Arora, IAS, Managing Director, HSIIDC excerpts from which are reproduced below :

Cover Page of May 2011 issue of SEARCH



Shri Rajeev Arora IAS (MD HSIIDC)

LUCRATIVE PROSPECTS OF SETTING UP BASE IN HARYANA

Haryana offers state-of-the-art infrastructure facilities, excellent law & order situation, industry-friendly policies, empathetic leadership & responsive administration, proximity to the national capital, seamless connectivity and a well-established industrial base. Due to the above factors, domestic corporates as well as multinationals prefer to invest in the state. This can be gauged from the fact that the Gross State Domestic Product (GSDP) has grown at a healthy rate of 9.9 per cent during 2009-10, backed by double digit growth in the manufacturing sector at the rate of 10.3 per cent and services sector at the rate of 12.9 per cent.

The State Government has always strived to facilitate the economic activity in the state by way of taking various policy initiatives from time to time and to eliminate any entry or operational bottlenecks faced by businesses. The government lays greater focus on 'facilitation' along side its 'regulatory' functions. It has taken initiatives to provide good governance that ensures transparency, reduction in transaction costs, efficiency and citizen-centric delivery of public services through extensive use of information technology. There are plans to progressively introduce modern management practices, electronic delivery of services, e-procurement and citizen access to public information.

INCENTIVE MECHANISMS OFFERED BY THE GOVERNMENT

The government's policy initiatives are directed towards spatial distribution of the benefits of economic development. We are not only focussing on NCR, but other areas as well, specifically the hinterland areas of the state. In the recently announced Industrial & Investment Policy-2011, we have taken several policy measures in this direction. Some of these are:

- Using a Development Block as a defining unit, the entire state has been divided into: industrially developed blocks; blocks with intermediate development; and industrially backward blocks.
- The agro & food processing sector has been accorded a special focus through a number of incentives viz., reduction in Stamp Duty & Change in Land Use (CLU) charges for the units established in the backward areas and exemption of market fee on fruits and vegetables, among others. These measures are expected to promote industry in this sector and help the farmers by way of increased demand and better price realisation for their produce. This will further catalyse localisation of the agricultural output and economic development activities in such areas.
- The policy also focusses on development of industrial estates in backward areas with the involvement of private sector under the public private partnership (PPP) model. This measure is expected to open new areas of investment.
- The existing Land Acquisition Intervention Policy of May 2006 has been modified. The existing policy provided for the acquisition of land to the extent of 25 per cent in the NCR areas and up to 50 per cent in the remaining areas. Under the new norms, the State Government would facilitate the acquisition of land for the private developers mainly for the purposes of enabling contiguity of project areas. The scale of intervention has been reduced to the level of 10 per cent of the project land in Category 'A' blocks, up to 20 per cent in category 'B' blocks and up to 30 per cent in the category 'C' blocks.
- The ceiling for allotment of industrial plots under the 'prestigious category' has been reduced from a uniform ₹30 crore to ₹20 crore for 'B' category areas and ₹10 crore for the 'C' category areas. This measure is expected to accelerate the pace of investment in the relatively lesser developed areas.

MEASURES TO SIMPLIFY THE PROCESS OF SETTING UP BASE

The government has taken a number of initiatives on different fronts like provision of excellent infrastructure, power, law & order, labour, etc. This can be clearly ascertained from the fact that Haryana has been able to attract an investment of about ₹53,000 crore during the last six years and an additional investment of ₹1 lakh crore is in the pipeline. I am sure that the industrial growth momentum would continue to accelerate. A recent study released by ASSOCHEM places Haryana on top in terms of materialisation of pledged investment in the state at 81.5 per cent.

ROLE OF HSIIDC IN ASCERTAINING RAPID PACE OF INDUSTRIALISATION

Haryana State Industrial & Infrastructure Development Corporation (HSIIDC) is the nodal agency of the state for the development of industrial infrastructure in facilitating industrial growth in the state. The corporation has successfully developed a number of industrial model townships/ industrial estates at strategic locations in the state and plans to develop such projects at new sites besides the expansion of existing ones. Further, the management of all the existing industrial estates developed by Haryana Urban Development Authority (HUDA) and the Industries Department in the state are being transferred to HSIIDC in a phased manner to ensure upgradation and maintenance of the facilities and services in these estates. HSIIDC is also working on a number of mega infrastructure projects including; Kundli-Manesar-Palwal (KMP) Expressway, Delhi Mumbai Industrial Corridor (DMIC) Project, Cargo Airport project, which would usher in unprecedented growth in the region.

UNIQUE PROPOSITION OFFERED BY THE NEW INDUSTRIAL POLICY

The recently announced Industrial & Investment Policy 2011 intends to take forward the initiatives of the previous policy and lays greater focus on the development of the hinterland for facilitating inclusive economic growth. The policy is not only limited to the manufacturing sector but also addresses the issue of state's potential towards attracting investment across various sectors. The policy interventions have been formulated to attract investments by enhancing enterprise and sector competitiveness, generate employment opportunities and trigger inclusive, innovative & environmentally sustainable growth in the state.

BEING A PART OF NCR COMPLEMENTING THE OVERALL DEVELOPMENT OF THE STATE

Haryana, enjoying the locational advantage of proximity to Delhi, has witnessed a tremendous industrial growth and has attracted huge investments especially in the last six years. To sustain the growth momentum, Industrial Estates are being expanded/developed by HSIIDC at Barhi, Panipat, Karnal, Saha, and Yamunanagar. Similarly, there are plans in place to set up industrial estates of 150-200 acre at each of the district headquarters in the state to act as catalysts of industrial investment in these areas. Under the DMIC projects, a number of initiatives have been planned in the areas falling outside NCR.

LABOUR REGULATION FRAMEWORK OF THE STATE

Haryana is among the first few states to have come out with a comprehensive Labour Policy to create cordial relations between the employer and the employee. Some of the initiatives taken by the Government in this regard are:

- Filing of a Single Return in respect of five labour laws;
- Delegation of powers at the field-level for clearances under the Contract Labour (Regulation & Abolition) Act 1972;

- Introduction of self-certification under various labour laws;
- Focus on improvement in the working of Employee State Insurance (ESIs) hospitals.
- Online registration of shops and commercial establishments to curtail unnecessary inspections.

I would also like to highlight a few industrial welfare initiatives being taken by the government. They are:

- The government would facilitate healthy social dialogue by constituting 'Tripartite Committees' of employers, workers and Government representative and promoting them as an effective informal conciliation mechanism.
- HSIIDC has undertaken the initiative for construction of industrial labour housing facilities within its industrial model townships primarily to address the residential needs of the industrial workers. One such facility, with a provision for single-room dwelling units and dormitory units, has already been commissioned at IMT-Manesar. This scheme of labour housing is also proposed to be taken up in other industrial estate/IMT/growth centre, including Faridabad, Rai, Barhi, Rohtak and Manesar, Phase-II. Development work has already been initiated for this project at Kundli. It would help meet the housing requirements of industrial workers/shop floor workers and provide them a conducive living environment.
- HSIIDC would earmark plots/sites within its Industrial Model Townships/ Industrial estates for allotment to the Labour Department for setting up of ESI hospitals/dispensaries and labour welfare centres.

UPCOMING PLANS

The state offers unmatched advantages for setting up industrial ventures. The government is emphasising on the development of infrastructure in the state through state agencies, in general, and industrial infrastructure through HSIIDC, in particular, thereby ensuring a constant supply of developed industrial land for the entrepreneurs. All major industrial estates are strategically located on important National Highways, which provide state-of-the-art infrastructure facilities. The industrial relations are extremely harmonious with cordial employer-employee relations supported by a responsive administrative set up. This is being supplemented by industry-friendly policies defined by the State Government. The Land Acquisition Policy of the State Government implements the dictum of growth with equity by adequately compensating land holders.

The abundant availability of skilled manpower in the state, which is being further strengthened with the setting up of national level education/training institutions such as Indian Institute of Corporate Affairs (IICA) IMT Manesar; Centre for Plastic Engineering & Technology (CIPET), Murthal; National Institute for Food Technology, Entrepreneurship and Management (NIFTEM), Kundli; Footwear Design and Development Institute (FDDI), IMT Rohtak; National Automotive Testing and R&D Infrastructure Project (NATRIP), IMT Manesar; etc.

Cluster-based approach is being increasingly recognised as sustainable, cost-effective and inclusive strategy to ensure manufacturing competitiveness of the local industry and to encourage the ancillarisation process. The State Government has adopted this strategy for supporting the local industry. A number of theme parks have been set up at various locations viz. food parks at Saha & Rai, footwear park at Bahadurgarh, textile park at Barhi, agricultural implements park at Karnal, electronics hardware technology park at Kundli and IT Parks at Panchkula, Rai & IMT Manesar. A project of International importance i.e. Delhi Mumbai Industrial Corridor (DMIC) also includes Haryana. Nearly, 2/3rd of the state falls within the influence area of the DMIC sub-region. As per the study undertaken by DMIC consultants, the value of industrial output from Haryana is likely to increase by 374 per cent over the next 30 years, thanks to the initiatives planned and the opportunities that are likely to arise out of the DMIC projects.

Haryana had the first mover advantage in the field of auto and auto components due to the establishment of Maruti unit way back in 1983. Since then, it has become one of the leading states in terms of industrial production especially passenger cars, motorcycle, tractor, bicycles, sanitary wares, g.i. pipes, etc. The Gurgaon-Manesar-Bawal belt has emerged as the auto hub of the country, thereby offering ample opportunities to entrepreneurs. The eminent position of Haryana more particularly Gurgaon as an IT/ITeS hub beckons investors to the state. Similar is the position in terms of the textile sector, which is also an area of strength for the state. Haryana has considerable presence of multinational and domestic corporates, which reinforces its position as an ideal investment destination.

YOUR INSIGHTS ON THE PROMISING DMIC PROJECT

The Delhi Mumbai Industrial Corridor (DMIC) project is likely to accelerate development in the state, especially when it covers more than 66 per cent area of the state under its influence zone. We have achieved considerable progress on various initiatives under DMIC. These include:

- Delineation of the Manesar-Bawal Investment Region over an area of 800 sqkm has been finalised. The DMIC consultants are working on the concept master planning for the first phase of development over 383 sqkm, which includes a greenfield integrated township;
- In case of early bird projects of exhibition-cum-convention centre and the integrated multi-modal logistics hub, the final pre-feasibility report has been prepared.
- A study on the third early bird project – mass rapid transit system between Gurgaon-Manesar-Bawal is underway.
- A pilot study on the eco-city project at IMT Manesar is being undertaken by a consortium of Japanese Companies – Toshiba-NEC-Tokyo Gas.

The state DMICDC team is working on the expeditious implementation of the project.

YOUR MESSAGE TO COMPANIES SEEKING TO SET UP THEIR BASE IN THE REGION

The state is home to numerous domestic corporates and multinationals who have flourished, which is the testimony to the excellent business opportunities and conducive work environment offered by the state. I would like to request the companies to visit Haryana to get a first-hand view of the developments made by the state. ■

Rising wage inflation adds to problems of the SME sector

The operating environment of small and medium enterprises (SMEs) in India has never been an object of envy. Despite accounting for 40 per cent of manufactured goods exports and over 70 per cent of sectoral employment, SMEs have consistently been the Cinderella of the Indian economy. The inability to revitalise the SME sector has arguably been the primary reason for India being reduced to simply admiring China's manufacturing prowess from afar. Concerns about inclusive growth will continue to ring hollow as long as this very important sector of the economy is allowed to languish. SMEs have traditionally been perceived as a lending risk by financial institutions, which have made it extremely difficult for them to borrow in both domestic and international markets. While the Reserve Bank of India moved to relax lending rules in 2008, it left the actual decision to lend to individual banks, which have yet to shed their earlier misgivings. The result is: SMEs tend to be highly undercapitalised, characterised by pervasive technological obsolescence.

Following the economic recovery of the past two years, SMEs increasingly have to contend with another problem: rising wage inflation. Nominal wages in the industrial sector are estimated to have gone up by 23 to 28 per cent in recent months, which is squeezing the already precarious situation of the SMEs. As expected, sharply rising wages have resulted in a high employee turnover, which sharply reduces the incentive for employers to invest in augmenting skill levels through on-the- job training. Studies across the board indicate that the employers are able to capture a significant proportion of the returns from training only if it is firm-specific in nature. In the case of more general training, the returns accrue to the employee. Given that not many SMEs are engaged in niche activities, it is not surprising that few SMEs invest in developing human capital, if at all.

The exception to the generally bleak scenario in which SMEs are concerned is the new generation of upcoming "boutique" SMEs in design, systems integration and testing, and even manufacturing. These firms, though small, are classified as "high tech" and do not suffer from the same funding constraints as the traditional SMEs. This is due to greater access to private equity and venture capital funding. Several of these SMEs have been set up by returning expatriates and are well embedded in global knowledge networks. The SME sector in India is characterised by increasing duality, though the new SMEs are currently outnumbered by the traditional SMEs.

Clearly, SMEs need more policy support and hand-holding by larger firms and the Financial sector. The measures announced in the recent Budget to this end were disappointing. So SMEs would have to contend with wage inflation in the foreseeable future. However, given the prevailing macroeconomic situation, dedicated government support by way of greater credit availability, facilitating technology transfers and harnessing the benefits of agglomeration economies could make a noticeable difference to SME performance. The problem of integrating SMEs with the broader economy is by no means unique to India. Countries that faced comparable problems – such as Korea and China – are aggressively addressing the issue. India simply cannot afford not to. {Courtesy - Business Standard}

Output of MSMEs

According to the data from the Annual Survey of Industries (ASI) for 2008-09 as many as 1,44,921 units employing 66.4 lakh persons including 52.8 lakh workers in the manufacturing sector had less than Rs.10 crore of investments in plant and equipment which would categorise them as MSMEs. And the combined output of these MSMEs was Rs.102,27,370 crore. However, the performance of the registered MSMEs in the manufacturing sector falls short of expectations. Numbers show that though the registered MSMEs accounts for 93.3% of the manufacturing units and 60% of the workers they only contributed about 31.4% of the total output.

The MSMEs sector continues to be starved of investments. Though they are the dominant segment in terms of units and employment in the manufacturing sector they account for 16.5% of the fixed capital and 20.8% of the capital invested. A further investigation of the different components of the MSMEs shows that the segments is highly skewed in terms of the distribution of units, workforce and output with the output share of micro and small units falling substantially short of the share in units and employment.

The micro manufacturing units, which has been defined as those with investments of less than Rs.25 lakh in plant and machinery, account for 70.9% of the registered manufacturing units, 36.8% of the workers and just 13% of the output. On an average each unit in the micro segment employed 35.7 workers and the average output per unit was Rs.3.87 crore.

The small units, defined as those with a maximum investment of Rs.5 crore in plant and machinery, were no better. Though they accounted for 19.2% of the units and 16.3% of the workforce and 12.1% of the output. The average small unit employed 64 person and their average output was Rs.13.28 crore.

Only the medium size enterprises, with investments of Rs.10 crore in plant and machinery, seems to have been able to show a comparatively better performance. Though they were just 3.3% of the manufacturing units, they accounted for 7% of the workforce and 6.3% of the output. Medium sized enterprises engaged 157 persons and average output per units was a substantial Rs.40.67 crore.

Tweak lending norms to help SMEs

Lending norms should be tweaked to offer better support to Small and Medium Enterprises (SMEs), said Shri T.S. Krishnaswamy, general manager, State Bank of India, while attending a Round Table Conference organised by The Financial Express in association with SBI in Hyderabad. He said that the present rules and regulations, which favour the big industries, cannot be applied to SMEs. Separate guidelines with generous terms and conditions could be framed, in order to encourage better credit flow for SME entrepreneurs".

He pointed out that over the past few years, banks have been providing adequate finance cover for SMEs. "But still a number of entrepreneurs keep complaining that they are not getting enough credit. The main reason for this is that several entrepreneurs do not know how to approach the bank with a solid business plan and get the necessary approval."

"We have been often talking to chambers of commerce, chartered accountants and other facilitators on how to guide the entrepreneurs in this regard (getting approval from the banks)," he said. In fact, SBI has a technical consultancy cell to guide entrepreneurs in preparing project reports and submitting them to the bank. The bank is conducting Entrepreneur Development Programme (EDP) for final year students in various colleges to encourage them to turn into entrepreneurs.

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If I cannot do great things, I can do small things in a great way.-Dr. Martin Luther King

India to add 67,000 MW solar power capacity by 2022

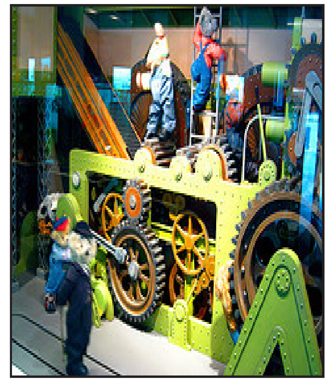
Technological breakthroughs and economies of scale will make solar power competitive in six years and help India add 67,000 megawatts of solar generation capacity by 2022 - more than thrice the country's target, according to a report by consultancy firm, KPMG. The prospects are very bright for solar power to be equal to conventional electricity any time after 2017.

The report, says solar energy can contribute 7% of the total power needs of the country by 2022, helping cut coal imports by 30% or 71 million tonnes a year. This would result in saving of $5.5 billion in imports per year from 2022 onwards. The projected increase in solar capacity can reduce India's carbon emissions by 2.5%, which is a tenth of the 20-25% reduction India has volunteered at the international summit on climate change in Copenhagen.

It is estimated that solar power prices would decline at the rate of 7% per annum over the next decade. Efficiency, improvement due to technological advancement and emergence of low cost manufacturing are likely factors that would aid the continuing trend. States like Rajasthan, Gujarat and Tamil Nadu are expected to take the lead in this direction reaching the grid-parity earlier. Apart from conducive policies in place, other reasons being higher insolation (measure of solar radiation energy received on a given surface area in a given time) and having little reserves of coal.

Though India may add up to 17 gigawatts (GW) of solar power by 2017, the cumulative installation between 2017 and 22 can jump three fold to 50 GW, the consultancy says. Last year, the Ministry of New and Renewable Energy had opened up competitive bidding for phase-1 of the Jawaharlal Nehru Solar Mission.Bids were received for prices being quoted between Rs 10-13 kw/hr for both Concentrated Solar power and solar photovoltaic projects.

Against solar power, the conventional power at grid level is available at Rs 4 kw/hr whereas the average cost passed on to the consumer in 2010-11 is estimated to be as high as Rs 5.42 kw/hr factoring in the transmission and distribution losses.



To achieve the grid parity for solar power over the next 5 years, the government must take measures to sustain the momentum in growth. A fund to support states in meeting the renewable purchase obligations can take the sector to the next level.

Freight corridor to get $4-bn WB loan

The World Bank will give nearly $4 billion loan to India for the proposed Dedicated Freight Corridor project. The money will be used for developing eastern freight corridor between Punjab and West Bengal, which will triple the freight loading at the stretch. Earlier, Asian Development Bank (ADB) and The World Bank were to finance the project together but later ADB refused to give any new loan for railway projects. Dedicated Freight Corridor Corporation (DFCC), the special purpose vehicle formed to supervise construction of the corridor, had estimated ADB would agree to a loan of $1.5 billion.

Under the earlier dispensation, the bank was to give a loan of $2.4 billion, but with ADB withdrawing from the project the bank will account for almost the entire debt required for eastern corridor. The corridor is pegged to cost R40,665 crore, two-third of which will be borrowings from multilateral institutions and banks and the balance will be in the form of equity from railways. Agreement with the World Bank is expected to relieve financially-constrained railways to a large extent.

Railways is working to commission two dedicated corridors for freight movement, called western and eastern corridors, by March 2017. The western corridor, which is slated to cost Rs.40,795 crore, connects Jawaharlal Nehru Port Trust in Maharashtra to Dadri in Uttar Pradesh and eastern corridor links Dankuni in West Bengal with Ludhiana in Punjab. The western corridor will be debt-funded by Japan International Cooperation Agency

25 categories to qualify as infrastructure

Around 25 categories will qualify as infrastructure, according to a new definition being planned by the government to clear what constitutes this sector. A harmonised list of infrastructure will shortly be sent to the Committee of Secretaries. Those items that qualify for criteria like non-tradeable and yield external benefits will come under the sector, which is being incentivised in various ways to remove bottlenecks in this key area. The list will then be sent to the Cabinet Committee on Infrastructure for approval. The whole process of having a uniform criteria for infrastructure will take around three months.

As such, while oil and gas may not qualify as infrastructure since they are tradeable, pipes carrying them will certainly come under the sector. Categories like road will come under infrastructure since they provide external benefits to people living around it.

Currently, there are various definitions of infrastructure, which create problems, particularly in the wake of infrastructure debt scheme, being prepared by the government and various other incentives.

Reserve Bank of India (RBI) itself has various definitions for infrastructure. For the purpose of external commercial borrowings(ECB), it defines infrastructure to include power, telecommunication, railways, road, sea port and airport, industrial parks, urban infrastructure (water supply, sanitation and sewage projects), mining, exploration and refining and cold storage.

While the nodal agency for what constitutes infrastructure or not will be the department of economic affairs in the finance ministry, for purposes like ECB, RBI will be allowed to have its definition on infrastructure. Earlier, the Rangarajan Commission had indicated six characteristics of infrastructure sectors like natural monopoly, high-sunk costs, non-tradeability of output, non-rivalness (up to congestion limits) in consumption, possibility of price exclusion, and bestowing externalities on society.

Based on these criteria, it suggested infrastructure to include railway tracks, signalling system, stations, roads, transmission and distribution of electricity, telephone lines, pipelines for water, crude oil, etc. Income Tax Department, for the purpose of tax concessions, defines infrastructure as electricity, water supply, sewerage, telecom, roads and bridges, ports, airports, railways, irrigation, storage, special economic zones, etc.

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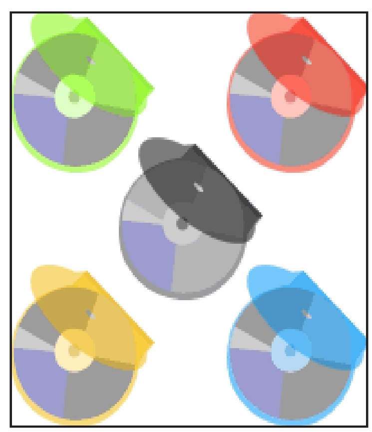
ANSWERS OF CYBERQUIZ ~ 29



1.[b] E-mail spoofing : Spammers often use e-mail spoofing. However, it can be used legitimately, e.g. by whistle-blowers who want to remain anonymous.

2.[d] Hover Button : The text or image, generally in the form of a button, changes appearance by changing color, blinking, changing size, displaying a pop-up or some oter effects when cursor moves on it.

3.[d] Project Gutenberg : The project is used at University of Illinois at Urbana Champaign. It can be accessed at www.promo.net/pg/)

4.[a] Michael Goodwin : Goodwin is an Internet activist. The law is also known as Godwin's Rule of Nazi Analogies.

5.[b] Robert Melancton Metcalfe : As an example, consider - a telephone network. The first purchaser of a telephone connection has no use for it as he/she cannot call anybody. The second purchasr increaser the value of the connection for the first purchaser as now they can talk to each other over phone. The third purchaser increases the value for the earlier two and so on.

* * *

Nabard gives Haryana Rs.128.5 cr for rural roads, Anganwadis

National Bank for Agriculture and Rural Development {NABARD} under Rural Infrastructure Development Fund {RIDF} has sanctioned a loan of Rs.128.53 crore to the Haryana Government for strengthening and widening of 13 Rural Roads in six districts and construction of 754 Anganwadi centres in 17 districts.

The widening and strengthening of these rural roads with total length of 180.583 km. in 6 districts involving RIDF loan of Rs.86.04 crore would provide improved all weather connectivity to 80 villages, 48 marketing centres etc. The project for construction of 754 Anganwadi centres will lead to improved nutrition, health status and education to more than 51,000 children, pregnant and lactating mothers etc. in 608 villages. Both the above projects are expected to generate Non-Recurring employment of about 9.67 lakh mandays in the state.

With this sanction, Nabard during 2010-2011 has sanctioned Rs.486.62 crore under RIDF XVI for development of rural infrastructure in the State. The total RIDF loan sanctioned to the state under RIDF, since its inception, has now reached at Rs.3,033 crore and an amount of Rs.2,015 crore has been disbursed there against till date.

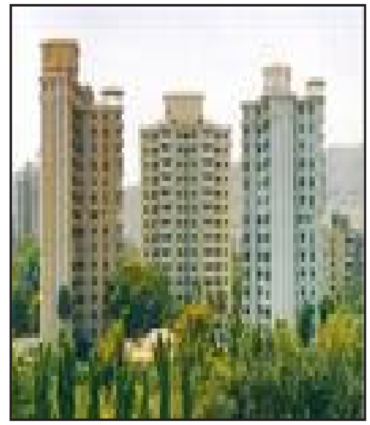
SIDBI to raise Rs.150 crore through bonds

The Small Industries and Development Bank of India planned to raise at Rs.150 crroe through three years bonds at 9.5 percent.

RBI tightens provisioning norms

The RBI on May 04, 2011 increased the provisioning requirements on certain categories of non-performing assets and restructured loans.

Under the new guidelines, loans classified as sub-standard will attract a provision of 15 per cent as against the existing 10 per cent requirement. For unsecured loans that are classified as sub-standard assets an additional 10 per cent provision has to be made over the 15 per cent. So, the total provisioning for sub-standard unsecured loans will now be 25 per cent instead of 20 per cent as mandated earlier.



The central bank also raised the provision required for the secured portion of advances, which have remained in the doubtful category for up to one year, to 25 per cent from the present 20 per cent. The secured advances in this category for more than one year but up to three years will now attract a provision of 40 per cent instead of 30 per cent.

The restructured loans classified under the standard category will need a provision of two per cent in the first two years from the date of restructuring. In case of moratorium on payment of interest and principal after restructuring, two per cent provision has to be maintained for the period covering the moratorium and two years thereafter.

If restructured loans, which are classified as non-performing advances, are upgraded to the standard category, banks have to make a provision of two per cent in the first year from the date of upgrade. The existing provision on these loans was 0.25-1.00 per cent depending on the category of advances.

Housing Loans – LTV Ratio/Risk Weight/ Provisioning

The Reserve Bank has announced measures regarding housing loans sanctioned by commercial banks. These are -

Loan to Value Ratio

In order to prevent excessive leveraging, the loan to value (LTV) ratio in respect of housing loans hereafter should not exceed 80 per cent. For small value housing loans, i.e. housing loans up to Rs. 20 lakh (which get categorised as priority sector advances), however, the LTV ratio should not exceed 90 per cent.

Risk Weight

The risk weight on residential housing loans of Rs. 75 lakh and above, irrespective of the LTV ratio, would be 125 per cent to prevent excessive speculation in the high value housing segment.

Provisioning

In view of the higher risk associated with housing loans sanctioned by banks at teaser rates, the standard asset provisioning on the outstanding amount has been increased from 0.40 per cent to 2.00 per cent. The provisioning on these assets would revert to 0.40 per cent after 1 year from the date on which the rates are reset at higher rates if the accounts remain 'standard'.

SLR Reduced

The Statutory Liquidity Ratio (SLR) for scheduled commercial banks (SCBs) has been reduced from 25 per cent of their net demand and time liabilities (NDTL) to 24 per cent from December 18, 2010.

Non-Convertible Debentures

Investment in NCDs

Banks may, henceforth, invest in non-convertible debentures (NCDs) with original or initial maturity up to one year issued by corporates (including NBFCs). While investing in such instruments, however, banks should be guided by the extant prudential guidelines in force, ensure that the issuer has disclosed the purpose for which the NCDs are being issued in the disclosure document and such purposes as are eligible for bank finance.

Issuance of NCDs

Taking into account the feedback received from the market participants, the Reserve Bank has amended its directions on issuance of NCDs. As per the amendment –

- Financial institutions (FIs) can invest in NCDs of maturity up to one year.
- Non-banking financial companies (NBFCs) including primary dealers that do not maintain a working capital limit have been permitted to issue NCDs of maturity up to one year.
- Foreign institutional investors (FIIs) can invest in NCDs of maturity up to one year subject to extant provisions of the Foreign Exchange Management Act (FEMA) and the Securities and Exchange Board of India (SEBI) guidelines issued in this regard.

Payment System

Cheque Collection Charges Reviewed

The Reserve Bank has revised the charges for the collection of local/outstation cheques and speed clearing. While the Reserve Bank would continue to mandate charges for smaller value transactions relating to savings account customers, greater freedom has been accorded to banks to determine charges for larger value transactions, subject to such charges being levied by the banks in a fair and transparent manner. These measures are expected to hasten the migration of transactions to an electronic mode.

Banks are free to fix charges for collection of instruments for credit to other types of accounts. The service charge structure put in place by them should have their Board's approval. Charges fixed should be reasonable and computed on a cost-plus-basis and not as an arbitrary percentage of the value of the instrument.

Housing Loans up to Rs. 10 Lakh - Clarifications

The Government of India has issued certain clarifications on the scheme of one per cent interest subvention on housing loans up to Rs. 10 lakh. While submitting claims for reimbursement under the Scheme, banks may note the clarifications which are as follows:-

a) Housing loans extended to non-resident Indians (NRIs) for construction of farm houses and to staff members of banks are not eligible for subsidy under the Scheme.

b) While calculating the interest subsidy, each disbursement should be treated as a separate loan and for each disbursement, subsidy claim should be made for twelve instalments. For loans fully disbursed in one stroke, subsidy would be provided upfront on the entire amount of the loan disbursed.

Branch Authorisation Policy Relaxed

General permission has been granted to domestic scheduled commercial banks (other than RRBs) to open administrative offices and central processing centres (CPCs) / service branches in Tier- 3 to Tier- 6 centres (with population up to 49,999 as per census 2001) and in rural, semi urban and urban centres in the North Eastern States and Sikkim, subject to reporting. While the administrative office (controlling offices) would be carrying out administrative work, the (CPCs)/service branches would exclusively attend to back office functions. These CPCs/service branches should not have direct interface with customers.

Repo/Reverse Repo Rates increased

The repo rate and the reverse repo rate under the liquidity adjustment facility (LAF) have been increased from January 25, 2011 as indicated below:

Repo Rate : by 25 basis points from 6.25 per cent to 6.50 per cent.

Reverse Repo Rate : by 25 basis points from 5.25 per cent to 5.50 per cent.

CRAR of Deposit Taking NBFCs Raised

The minimum capital ratio of all deposit taking as well as systemically important non-deposit taking NBFCs has been aligned to 15 per cent. Accordingly, all deposit taking NBFCs have been advised to maintain a minimum capital ratio consisting of Tier I and Tier II capital, of not less than 15 per cent of their aggregate risk weighted assets on balance sheet and risk adjusted value of off-balance sheet items from March 31, 2012.

Services to Disabled Persons

The Reserve Bank has advised NBFCs to include a suitable module containing the rights of persons with disabilities guaranteed to them by the law and international conventions, in all the training programmes conducted for their employees at all levels.

Third Quarter Review of Monetary Policy for the Year 2010-11

Dr. D. Subbarao, Governor, Reserve Bank of India, in a meeting with chief executives of major commercial banks presented the Third Quarter Review of Monetary Policy for the Year 2010-11 on January 25, 2011. The highlights are :-

Projections

- Real GDP growth for 2010-11 retained at 8.5 per cent with an upside bias.
- Baseline projection of wholesale price index (WPI) inflation for March 2011 raised from 5.5 per cent to 7.0 per cent.
- Money supply (M3) growth for 2010-11 retained at 17 per cent.
- Growth in non-food credit of scheduled commercial banks retained at 20 per cent.

Stance

The current stance of monetary policy is intended to:

- Contain the spill-over of high food and fuel inflation into generalised inflation and anchor inflationary expectations, while being prepared to respond to any further build-up of inflationary pressures.
- Maintain an interest rate regime consistent with price, output and financial stability.
- Manage liquidity to ensure that it remains broadly in balance, with neither a surplus diluting monetary transmission nor a deficit choking off fund flows.

Monetary Measures

- Repo rate under the LAF increased by 25 basis points from 6.25 per cent to 6.50 per cent.
- Reverse repo rate under the LAF increased by 25 basis points from 5.25 per cent to 5.50 per cent.
- Cash reserve ratio (CRR) retained at 6 per cent of net demand and time liabilities (NDTL) of banks.

Expected Outcomes

- The monetary policy actions are expected to:
- Contain the spill-over from rise in food and fuel prices to generalised inflation.
- Rein in rising inflationary expectations, which may be aggravated by the structural and transitory nature of food price increases.
- Be moderate enough not to disrupt growth.
- Continue to provide comfort to banks in their liquidity management operations.

NBFCs lose priority sector status

RBI on 1st May, 2011 clarified that bank loans to NBFCs, excluding microfinance institutions which are categorised as NBFC, would not be classified as priority sector loans. This means the cost of funds of most NBFCs will go up. NBFCs depend on banks for 80 per cent of their credit requirement. About 10-12 per cent of the total bank loans are classified as priority sector loans.

The rates on NBFC loans are, therefore, expected to go up and there would also be some reduction of credit flow to the sector because some of these transactions were happening only because of priority sector classification. The objective behind the RBI move is to plug the arbitrage which arises due to the stringent conditions attached to bank loans to microfinance institutions. For a bank loan to be classified as priority sector loan, banks are required to ensure a margin cap of 12 per cent and an interest rate cap of 26 per cent by the MFI. Since no such conditions are there for all other NBFCs, banks would prefer giving loans to NBFCs rather than MFIs.

Lack of clarity on the end use of NBFC funds has also led to such a move. “The year-on-year loan growth to NBFCs was rapid last year. A lot of financial institutions were funding car and commercial vehicle loans. There was a huge demand for cars and a large part of it was met by NBFCs. So we thought that we need to look at the ground reality,” said Shri Shyamala Gopinath, deputy governor, RBI. Though as of now bank loans to MFIs will be tagged as priority sector, the central bank clearly said this was an interim arrangement and banks would have to meet their priority sector obligations on their own.

RBI provides relief to MFIs

RBI on 4th May, 2011 said banks’ loans to micro lenders will be eligible for classification as priority sector advances subject to fulfilment of certain conditions. While the central bank will issue detailed guidelines on regulations of the microfinance sector later, it accepted the broad framework of regulations recommended by the Malegam committee with some modifications.

The RBI, however, said while loans to microfinance companies could be classified as priority sector advances, it would review the existing norms for such classifications. The central bank will appoint a committee to suggest revised guidelines on priority sector loan classification. MFIs expect this announcement to improve the flow of bank credit to the cash-strapped sector, which has been battling a crisis of confidence for the past six months.

RBI, in its monetary policy statement for 2011-12, increased the annual income limits for eligible households to Rs.60,000 in rural villages and Rs.1,20,000 in semi-urban centres. The banking regulator said the loan amount to poor borrowers should not exceed Rs..35,000 in the first cycle and Rs.50,000 in subsequent cycles. The banks should ensure a margin cap of 12 per cent and an interest rate cap of 26 per cent for their lending to be eligible to be classified as priority sector loans.

RBI also said outstanding loans of a poor borrower should not exceed Rs.50,000 and the repayment tenure should not be less than 24 months for a loan amount in excess of Rs.15,000 without any pre-payment penalties. Microfinance companies can give loans without collateral and the aggregate amount of loan given for income generation should not be less than 75 per cent of the total advances of the micro lender.

RBI has allowed microfinance companies to extend loans to individuals outside the self-help groups and joint liability committees. The borrower will decide if the loans will be repaid in weekly, fortnightly or monthly installments. Microfinance institutions would now be able to offer specialised loan products like providing loans for house repair, vocational training as they were allowed to lend outside the self-help groups.

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Priority-sector lending

What is priority-sector lending ?

Banks were assigned a special role in the economic development of the country, besides ensuring the growth of the financial sector. The banking regulator, the Reserve Bank of India, has hence prescribed that a portion of bank lending should be for developmental activities, which it calls the priority sector.

Are there minimum limits?

The limits are prescribed according to the ownership pattern of banks. While for local banks, both the public and private sectors have to lend 40 % of their net bank credit, or NBC, to the priority sector as defined by RBI, foreign banks have to lend 32% of their NBC to the priority sector.

What is net bank credit?

The net bank credit should tally with the figure reported in the fortnightly return submitted under Section 42 (2) of the Reserve Bank of India Act, 1934. However, outstanding deposits under the FCNR (B) and NRNR schemes are excluded from net bank credit for computation of priority sector lending target/subtargets.

Are there specific targets within the priority sector?

Domestic banks have to lend 18 % of NBC to agriculture and 10 % of the NBC has to be to the weaker section. However, foreign banks have to lend 10 % of NBC to the small-scale industries and 12 % of their NBC as export credit. However, for the balance, there are a vast number of sectors that banks can lend as priority sector. The Reserve Bank has a detailed note of what constitutes a priority sector, which also includes housing loans, education loans and loans to MFIs, among others.

What has been the experience so far?

It has been observed that while banks often tend to meet the overall priority sector targets, they sometimes tend to miss the sub-targets. This is particularly true in case of domestic banks failing to meet their sub-targets for agricultural advances. One of the reasons banks often site for not lending to this sector is that recovery is often difficult.

Is there any penal action in case of non-achievement of priority sector lending target by a bank?

Domestic banks having a shortfall in lending to priority sector/ agriculture are allocated amounts for contribution to the Rural Infrastructure Development Fund (RIDF) established in Nabard. In case of foreign banks operating in India, which fail to achieve the priority sector lending target or sub-targets, an amount equivalent to the shortfall is required to be deposited with Sidbi for one year.

Five ways to motivate yourself at work

There are times when no amount of morale boosting or even a promotion can instill motivation in you. But that's precisely when you need to motivate yourself, for no one else can do it for you. Here's haw you can get there, suggests Ms. Moresha Benjamin.

Be with go-getters

To motivate oneself, Priya Kumar, author and motivational speaker, believes you need to surround yourself with achievers. If you have a few top performers in your friends' list, you can't help but be motivated. Kumar has a large friends circle of super achievers, business owners, singers, actors, sportsmen, and she believes that just a phone call with them, or a coffee with them pumps in the inspiration and motivation that lasts days and has a positive impact on her performance. People don't choose their company wisely. Having a good personal rapport with your seniors and bosses or even senior colleagues from other or-ganisations keeps you motivated. These are real people and their success and drive inspires and fuels your own. Keep the company of achievers and you will see the impact in your own performance.

Set your own benchmarks

Acknowledgement of your good work does you a world of good, says Shri Asit Mohapatra , director, human resources - textiles, Raymonds. Com-parisons by others are at times unrealistic, making you feel worthless. Set your own goals keeping in mind what is expected of you at work and deliver more. Strike off those you have achieved - this will not only motivate you but also encourage you to perform better at your job.

Think of the present

It does not help thinking of past failures; they will just pull you down further. Instead, focus on the task at hand and find methods to excel at it, says Shri E. Balaji, MD, CEO, Mafoi Randstad. Find a mentor who you can confide in and then find a new way to approach the same role. Thinking of the present will cement your decision on whether you want to continue in the present job profile or look for something different. Learning from mistakes and gauging the present situation can allow you take an informed step for your future endeavours, says Shri Balaji.

Keep your focus clear

Make your presence felt by achieving targets, especially those outside expected goals, says Shri Sanjay Bali, GM , HR , Samsung. Enrolling in a learning and development programme organised by the company will give you a fresh perspective and set new standards for your own performance. A company review also will help you focus on your weak points and encourage you to improve, says Shri Bali.

Stay curious

If you aren't tuned into the changes and developments in your work-place, you are definitely losing out on opportunities. A change of role can help boost your confidence and urge you to excel at the task at hand, says Shri Mohapatra. Thinking you know it all is the biggest faux pas you can make. Chances are you will feel complacent and demotivated sooner if you think you know everything there is to know about the job you have been assigned. Keep a balanced approach to your work, and don't let negative thoughts mar the chances of letting the positive aspects help your growth prospects.

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Love what you are doing, and Believe in what you are doing.

-Will Rogers