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CONTENTS

From The Editor's Desk

AGRICULTURE CREDIT ~ RURAL CREDIT DELIVERY SYSTEM *

There is no denying the fact that agriculture is the backbone of Indian economy and occupies a strategic place in the development process. We must not forget that 72% of the country's population lives in about 6 lakh villages, and 60% of the total work force was working on agriculture and allied fields. This sector, therefore, deserves top priority in formulating integrated plans for sustainable and inclusive development. This focus was however, lost after the introduction of economic reforms in 1991 which embraced only the elite segments of the economy covering roughly 15% of the population and by passed the real sectors i.e. agricultural and rural development. Agriculture growth has been showing declining trend and hovered around 2.5% as against the target of 4%, contribution of agriculture to GDP had sharply declined from 46% to 18%, production of essential foodgrains has not kept pace with ever increasing demand. The outlay for agriculture sector including irrigation declined from 34% of the plan outlay in the first plan (1951-56) to 23% by the fifth plan (1974-79); and fell sharply to 18.5% in the sixth plan (1980-85) and steadily receded further to merely 10.6% by the tenth plan. The question that it broadly raises is how can a sector getting such low priority be expected to clock faster growth. During the above period, several Commissions and Committees were appointed by the Government of India and RBI to look into the problems of agriculture growth and flow of adequate credit to the agriculturists. The recommendations of these Commissions/ Committees including National Agricultural Policy (1990) have only evinced academic interest and were hardly implemented.

Shri K.K. Mudgil

With the population explosion and over pressure of population on land, cultivable land has become deeply fragmented and the pattern of land holding in the country was highly skewed; 78% of the total operational holdings command 32% of the cultivable area, while 22% of the operational holdings command 68% of the arable area. The number of marginal holdings has increased from 3.5 crore to 7.1 crore over the last three decades. Today, there are about 7 crore farmers with holding of a meagre one hectare or even less. It is, therefore, not surprising that many small land holdings are becoming economically unviable, making the small and marginal farmers live in perpetual debt. The large number of suicides reflects the overall plight of these farmers. The on-going sub-division and fragmentation of land holdings has led to a phenomenal increase in the number of agriculture labourers which increased from ***23.5% to 43.16%*** of the total agriculture labour force during the period 1990-2000 and the trend is still continuing although the latest figures in this regard are not available. Agriculture growth is a broad concept and is not confined only to increasing yields and incomes. We can think of achieving a sustainable agricultural growth only if our farmers are comprehensively empowered to lead a life without deprivation and with affordable access in real terms to basic education, healthcare and shelter. Such empowerment was critical particularly for small and marginal farmers and agriculture labourers.

With a view to accomplishing this objective, the government and other concerned authorities must put in place an integrated plan to provide avenues of employment/self-employment to this labour force which is almost unskilled. There are many ways to do this which would be discussed in the next issue.

The small and marginal farmers who form bulk of the farming community have no access to the institutional credit except to a negligible extent to village credit society and have by and large been borrowing from the local money lenders and/or big farmers. I would like to critically review the efficacy and practicability of the rural credit delivery channel which is expected to cater to the credit requirements of all type of farmers in respect of their seasonal agriculture operations and marketing of crops as also medium/long term needs. The existing channel consists of commercial banks (both public and private sector), regional rural banks, urban cooperative banks, land development banks and cooperative credit institutions (including state cooperative banks, district cooperative banks and primary agriculture credit societies). The cooperative credit institutions have been traditional source of credit to agriculture at the grass root level since Primary Agriculture Credit Societies {PACS} were formed by the farmers themselves with the common objective of fulfilling their credit needs. These societies have been found to be most appropriate to meet the credit needs of its members who know each other well and there was less possibility of the loan turning bad. The commercial banks on the other hand have miserably failed to provide production credit to teaming millions of small and marginal farmers. Since PACS in most of the states were in a state of decay and lacked requisite resources, they could not meet the credit needs of the farmers. The small and marginal farmers including oral lessees and owner-tenants were therefore, deprived of the credit. Following the nationalization of banks in 1969 there have been a steady spread of bank's branches across the country. As against the total banks branches of nearly 6,000 in 1969, the number of branches increased to nearly 70,000 by 2005 of which about 49% were rural branches. Despite this phenomenal growth of bank branches and the target of lending 18% of the total bank credit to agriculture, it is most regrettable that the commercial banks had not risen to the occasion and have blatantly neglected the above type of farmers in meeting their credit requirements. The banks have their own reasons not to embrace the above farmers into their fold such as inability to have that type of outreach, high transaction cost in catering to the needs of such farmers, lack of necessary knowledge and skills in determining their credit needs and above all attitudinal orientation etc.

The rural credit delivery system must have three essential characteristics; *(a) it should be people-friendly, (b) should be simple to operate and (c) must be cost effective.* The cooperative credit institutions posses all these three characteristics in contrast to the commercial banks. I am tempted to quote in this regard the recommendation of the Rural Credit Survey conducted at the instance of RBI during 1951-53 which reviewed the entire rural credit system in the country and evaluated the role of different types of institutions in providing credit to the agriculturists and it had come to the conclusion that "*there was no alternative to cooperation at the rural base of the agricultural credit pyramid. Even at the highest levels* ***'there is eventually no alternative more suitable than a cooperative form of credit organisation'***." The survey, therefore, concluded that ***"Cooperation has failed, but cooperation must succeed"***. It is indeed unfortunate that despite the failure of the commercial banks in providing support to agriculture as also the recommendations of a number of high level committees stressing the need for strengthening the cooperative credit institutions, nothing concrete has come on the surface. We have been hearing of a financial package sanctioned by the government for revitalizing different layers of cooperative credit structure. However, it is a matter of national shame and serious concern that despite the above initiatives farmers continue to commit suicide. The main reason is that the ground realities in the rural areas are not being assessed by any of the agencies to diagnose the real cause of farmers' distress. Needless to reiterate, the PACS are the only appropriate agency which can meet credit needs of their members including consumption credit and alleviate their sufferings.

It is significant to point out that with a view to effectively channelise the resources of commercial banks in agriculture credit and also to integrate their efforts with cooperatives an experiment was launched by RBI in 1969 to transfer PACS to the branches of commercial banks for financing. I was associated with that from conception to implementation stage in the state of Haryana (Karnal & Hisar districts). This was a great success. This had served two purposes; the entire credit requirements of the farmers were to be met by the banks without any resource constraints and mobilization of people' savings by way of deposits. The recovery in the first season was to the extent of 95% and there was general satisfaction among the members. Since the cooperative institutions have been the strongest instruments of politics there was political opposition from the states and therefore the experiment was given up soon there after. It is needless to emphasis the fact that if the Government and RBI are really serious in reaching out to the above category of farmers and saving them from committing suicide, the cooperative credit institutions in the country must be strengthened with adequate resources to enable them to look after their credit needs. Apart from providing financial support and recapitalization funds by the government, the members of the societies must be inspired to keep their savings in the society itself. For this purpose, the government/RBI have to formulate a scheme to extend deposit insurance to such societies which would alone motivate the members to keep their surplus funds in the societies without any fear of losing their money. This would supplement the resources of the societies. I may add in this connection that this system was introduced in Kerala long back to empower PACS which were functioning as mini banks in the real sense. The same pattern can be introduced elsewhere in the country to put the PACS an stronger footing. The commercial banks can place their resources at the disposal of the cooperative credit institutions for onwards lending to the farmers for raising crops, land development, minor irrigation, construction of rural go-downs as also construction of warehouses etc. In this way, the commercial bank shall be able to fulfil the target of lending 18% of their total bank credit to agriculture. The above integration of commercial banks with cooperative credit institutions would go a long way in improving the flow of credit to agriculture and meet the diverse requirements of the farming community.

To be continued.................

(K.K. MUDGIL)

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APPOINTMENTS

- Ms. Neeru Nanda, IAS, has been appointed as Chairperson, Delhi State Industrial & Infrastructure Development Corporation Ltd. (DSIIDC), New Delhi vice Shri B.B. Saxena.
- Shri B.B. Saxena, IAS has been appointed as Chairman & Managing Director, Delhi Financial Corporation (DFC), New Delhi vice Ms. Neeru Nanda.
- Shri D. Jothi Jagarajan, IAS, has been appointed as Chairman & Managing Director State Industries Promotion Corp. of TamilNadu Ltd. (SIPCOT), Chennai vice Dr. N. Sundaradevan.
- Dr. P.T. Nandakumar, IPS has been appointed as Managing Director, Kerala Financial Corporation (KFC), Thiruvananthapuram vice Shri Saurabh Jain.

- Shri Rose I. Jamir, NCS has been appointed as Managing Director, Nagaland Industrial Development Corporation Ltd. (NIDC), Dimapur vice Shri Daniel Longchar

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WHAT RBI MEANS TO THE COMMON PERSON

by

Dr. Y.V. Reddy

In an informal manner, I wish to say a few words on this occasion and the appropriate subject is perhaps 'What Reserve Bank of India means to the Common person'.

Reserve Bank, above all, is a public institution serving the public interest. Though the word 'bank' is associated with its name, profit is not its primary motive. Therefore, it is necessary for every common person to understand about its role and its functions in improving the welfare of the people at large.

The Reserve Bank is the 'central bank' of the country and uniquely placed to perform certain specific and challenging public responsibilities. It is the monetary authority of the country, and as you know 'Rupee' is our currency unit in this country. Reserve Bank broadly deals with the quantity of rupee resources that should ideally be available in the country to promote economic growth and smooth transactions in goods and services. Very large money supply could result in inflation or higher prices, which affect the common person the most. On the other hand, inadequate monetary resources can affect the growth and disrupt the payments system. Reserve Bank tries to strike a proper balance through its policies.

Currency management is an important function. For example, the new currency notes are issued by the Reserve Bank, old ones are withdrawn and destroyed. Their design, production and distribution are managed – to be spread over the entire country.

The Reserve Bank's currency note contains the words 'I promise to pay the bearer a sum of ….'. That is signed by the Governor. So, the Reserve Bank has to ensure that the value of rupee is maintained so that faith and trust of people is always present. To maintain the value of the rupee, the amount of goods and services that it can buy should not get eroded in a way that confidence in the currency is lost. So, the Reserve Bank's most important objective is to maintain price stability, contain inflation and anchor inflation expectations.

Incidentally, you may find in the currency note, the denomination is written in two Central Government official languages (English and Hindi) and fifteen national languages. It shows the diversity of our country and the Reserve Bank's commitment to reach out to one and all.

Speaking about the value of money, the Reserve Bank is concerned not only with the value of money in India, but the related issue of value of our rupee in relation to the currencies of other countries: that is maintaining the faith of people outside our country also, in our currency. This work relates to exchange rate management. Rupee cannot be directly used in settling transactions with other countries and international currencies like US dollar have to be used. To ensure smooth international transactions, it is necessary to maintain the external stability of the Rupee. Incidentally, confidence in Rupee outside our country also depends very much upon domestic price stability. Furthermore, Reserve Bank also maintains and manages foreign exchange reserves to sustain this confidence.

People would like to borrow and lend money to each other for consumption and production overall, the demand and supply for such resources, in aggregate terms, needs to be balanced by an appropriate level of interest rates which provide incentives for savers and also adequate returns to investors in industry, agriculture, etc. Such a balance is struck by interest rate policies adopted by the Reserve Bank. I am over simplifying, but the idea is to strike broadly a balance – both within our country and in relation to other countries.

Reserve Bank also has been assigned with several other responsibilities. Thus, the Reserve Bank manages the public borrowings of the Central Government and all State Governments; is a banker to the Central and State Governments and keeps their accounts; regulates payments and settlements system, and, of some direct concern to many of you, it is a regulator of the banking system.

I will not spend more time describing all this but we put all information on all these matters in public domain – through publications; press releases and sometimes speeches like this. Up-to-date information is available on the RBI Website in English and Hindi. Why do we explain in detail about our work and dilemmas? It is because Reserve Bank is a public

* *Speech delivered by Dr. Y.V. Reddy, Governor, Reserve Bank of India at Karamchedu Village, Ongole District, Andhra Pradesh on 18.02.2007. Reproduced for RBI Bulletin - March, 2007 Issue.*

institution and we explain to you so that you can understand, appreciate, criticise and guide us. It is not a publicity drive but it is meant to enhance our efficiency and accountability to the common public.

For today, I will place before you some instances of how the Reserve Bank, as a public institution, is answerable to the Government and indeed, to the people at large, and has taken steps to get closer to the common person in the recent years.

We have urged the banks to be sensitive to the banking and financial needs of the common person and adopt a policy of financial inclusion, that is, to bring possibly every family – rich and poor, rural and urban – into the banking fold. 'No frills' accounts with perhaps a small overdraft facility should be the easiest way for financial inclusion. We are also looking at how technology can increase the banking access to the people. General Credit Cards and Kisan Credit Cards can facilitate disbursal of small credits to among farmers without much paper work each time they want to take loans or make transactions. We are also exploring alternatives, such as, satellite offices of banks, ATMs and use of post offices for extending banking facilities to rural areas. In urban areas, we are trying to give efficient and quick service to bank customers by extending to them facilities such as, mobile and internet banking, quick – almost minute by minute – and cost effective transfer of funds from one account to another through electronic means of conducting day-to-day transactions, such as, bills payments, receipts of salaries, dividends and pensions directly into the beneficiaries' bank accounts, etc.

To ensure that you get good quality banking services at a reasonable cost, we have taken several measures. While the banks can decide for themselves what services they will offer to customers and at what cost, we have asked each bank to set for itself a measurable standard or benchmark for the quality of service it would give to its customers. An independent body set up by the Reserve Bank, called the Banking Codes and Standards Board of India (BCSBI), will then assess the quality of the services given by that bank against the promise it has made. Any adverse remark by the Board will give us a trigger for taking corrective steps. We have also asked the banks to ensure that account holders have detailed information on the availability and cost of various banking services offered to start a banking relationship. It is your right to demand the services promised by the bank.

And if you do not get the services promised by the bank, you can make a complaint against it – first to the higher authority of the bank concerned. If it does not get resolved there within a reasonable time or to your satisfaction, you can approach the Banking Ombudsman. The Banking Ombudsman is appointed by the Reserve Bank to provide an easy, hassle-free and less costly forum to the bank customers to resolve their banking disputes. There is one banking ombudsman in virtually each State, who can be approached through mail or even through internet for resolution of complaints against the banks.

The Reserve Bank is also in the process of improving its own processes so that its major direct customers, namely the Governments and the banks get good service from the central bank. Two departments of the Reserve Bank are already ISO certified which means that the processes in these departments are streamlined for rendering better and quicker customer service and are constantly updated. We are in the process of obtaining this certificate for the other departments of the RBI also, which deal with the public.

We have consciously adopted a policy of reaching out to people, common persons so that they know what to expect, what choices that have, what rights and obligations they have in relation to banking service, etc. We already have several publications through which we reach out to researchers, students and other technical audiences. Now our resolution for 2007-2008 is to reach out to the common person through a special drive. We have, therefore, undertaken a financial education and financial literacy drive for the common man. We are doing this through banks and also directly. My talking to you like this in regional mother tongue Telugu is a part of this initiative. Very soon, you will be able to read about us and our banking policies in your own Telugu language and other regions in their own mother tongue on a multi-lingual website. We will also make this information available by way of brochures, pamphlets, films, etc.

We in the Reserve Bank work as a family and Reserve Bank attracts best talents as an equal opportunity employer to perform the challenging tasks. We have offices in most State capitals and a board of Directors representing expertise in diversified fields. Our family journal has won several awards. We constantly strive to keep up the morale and motivation spirits high amongst ourselves at all levels of people working with us to meet the challenges of serving the common person with all care and commitment.

I have said several things about the Reserve Bank so far but I must also say something about our relationship with our State of Andhra Pradesh. The Reserve Bank has a tradition of excellent relations with the Government of Andhra Pradesh and all the Chief Ministers. As Governor, I have called on Shri Chandrababu Naidu garu when he was Chief Minister and now I call on Dr. Y.S. Rajasekhara Reddy garu from time to time. Both Reserve Bank and our State benefit from such meetings at several official levels. Let me place before you some recent developments in Andhra Pradesh about which Reserve Bank is particularly pleased.

First, as the banker to the state Government, we are happy that in the last three years the State never took temporary advances from us to meet any day-to-day deficits between receipts and expenditure. This shows a prudent fiscal management.

Second, we find that the financial position of the State is improving and hence, the government's borrowings for developmental purposes could be conducted by the Reserve Bank at relatively lower cost. Financial markets continue to show increasing confidence in the State, year after year, particularly all through the new millennium.

Third, Andhra Pradesh is the first State in the country to sign a Memorandum of Understanding (MoU) with Reserve Bank to consolidate and improve the urban co-operative banking system and the new scheme is working in an excellent manner in a spirit of co-operation and professionalism.

Fourth, the State has provided strong financial support to rural co-operatives already and is again the first State in the country among the few who have so far signed MoU with the Reserve Bank to consolidate and develop rural co-operative credit system. This scheme will revive and revitalise the rural co-operatives with substantial financial support from the Government of India.

Fifth, the State has committed to revitalise and expand rural credit. Last week, there was a meeting between our Deputy Governor and the State Government officials to work on a medium-term plan to expand financial inclusion through strengthening of Regional Rural Banks.

Sixth, the State has exceeded the national-level targets set in respect of Annual Plan for rural-credit, mainly for credit to agriculture, by doubling it in three years.

Seventh, the State is amongst the pioneers in a programme of financial inclusion – that is, in ensuring bank accounts to all families that want it. This is the first step towards reaching the goal of bank credit as a human right advocated by Nobel Laureate Professor Mohammed Yunus when he visited the Reserve Bank recently. One district, Srikakulam, is reported to have achieved 100 per cent financial inclusion. We agreed with the State Government to get the progress evaluated by an expert body, so that we learn lessons on its weaknesses and strengths while extending the programme to other districts as a mission. We have advised our banks to work vigorously towards this goal of universal financial inclusion and co-operation of State Government is critical for success of these efforts.

Are these achievements of co-operation between Andhra Pradesh and Reserve Bank enough? May be yes, but there are lot of areas where, we, the State Government and the Reserve Bank, need to move closer, faster, deeper, and into new areas. We, in Reserve Bank, have identified a few new areas for a vigorous drive this year, to which the Government of Andhra Pradesh has assured full support. These relate to financial literacy and credit counselling. Today, the common man is attracted to a lot of choices some times very risky, when he acquires some surplus money. Where to deposit the money and for what period and at what interest? How to decide between mutual fund, bank deposit, life-insurance, etc. against non-bank deposits, chit funds? How to sustain and improve the financial status of the family, to smoothen consumption even if incomes come in lump sum, etc.? So, people should be aware so that they do not lose by fake promises and propaganda by some greedy financial vultures. The Reserve Bank is in the process of preparing reading and visual material and will fund the cost of making such material. But, the literacy or education has to reach the masses and for this mass financial-literacy drive, the State Government has assured its full support to the Reserve Bank.

A second area, which we want to attempt on a pilot basis and on a small-scale to start with, relates to credit counselling. Sometimes, people get into debt out of some ignorance or bad luck. They can be advised by some well-trained people how to get out of the problem with minimal distress, by renegotiating, rescheduling of liabilities, etc. Such schemes exist in other countries and we have studied them. We are experimenting in this area in Maharashtra in a small way. We intend to launch pilot projects in other regions also and the Andhra Pradesh State Government expressed strong interest in the program. So, in credit counselling also, Andhra Government may be the first in the country to formally sign-up for an initiative.

With these words, let me thank you for giving me an opportunity to talk in my mother tongue, Telugu for the first time in a public lecture as Governor. Perhaps this may be the first public lecture in Telugu by any Governor and I am happy and grateful to you for the privilege and opportunity.

I wish the Village and Trust all the best. Let me again congratulate Shri Yarlagadda Ranganayakulu Foundation for this excellent initiative. I wish them and families all the best in all their noble endeavours.

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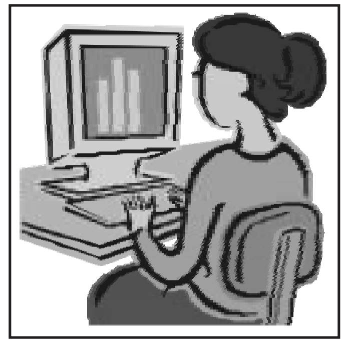
QUESTIONS OF CYBERQUIZ ~ 7



1. This operating system, created by two programmes of Bell Laboratories, had its origin in an operating system called MULTICS developed at MIT. Name it.

   [a] Unix; [b] Linux; [c] Windows; [d] Apple Mac.

2. VMS was the proprietary operating system of which famous company ?

   [a] Xerox; [b] IBM; [c] HP; [d] DEC.

3. The Microsoft Disk Operating System or MS-DOS was based on which operating system?

   [a] QDOS; [b] CP/M; [c] Multics; [d] OS/360.

4. Dr. DOS was an operating system developed by which company for IBM - compartible computers?

   [a] Apple Computer; [b] Altair; [c] DEC; [d] Digital Research.

5. What UNIX command program was written by Les Earnest in 1971 to solve the need of users who wanted information on other users of the network ?

   [a] Who; [b] Finger; [c] Fork; [d] Avatar.

SEE PAGE NO. **17** FOR ANSWERS OF CYBERQUIZ

The great men and women of history are remembered, not because they never made mistakes or never failed, but because they didn't let their failures stop them. They kept on until they succeeded.

MEMBER CORPORATIONS~THEIR ACTIVITIES

TIDCO

Tidco to shun polluting firms in Ennore petrochem zone

The Tamil Nadu Industrial Corporation Ltd. (Tidco) will house only non polluting industries in its proposed petrochemical park slated to come up at Ennore in the outskirts of Chennai. This follows a recent Madras high court order directing the state-run nodal agency for the project to get all the necessary clearance from the union environment ministry before commencing the project work. It was originally envisaged for the petrochemical sector covering segments like refineries, downstream plastic components like propylene, ethylene etc spread over 7,000 acres of land, but later the project size was first scaled down to 5,000 acres and to 1,200 acres as the remaining land was allotted for projects.

Though, the land acquisition started in 1997, objections raised by Tamil Nadu Pollution Control Board (TNPCB) and litigation over land acquisition had forced Tidco to put the project on the backburner. Now that the Madras high court has dismissed the entire batch of petitions challenging the project, Tidco has decided to revive the project by housing only non-polluting units.

Tidco to avoid any further environmental issues is now exploring the possibilities of changing the concept of the park to include only non-polluting industries. *"No chemical processing unit will be invited within the park. Industries which are related to the petrochemical sector and which are non polluting in nature will be the target now. Instead of petrochemical processing units, the park will be more for the services sector within the petrochemical industry. For instance units which manufacture equipment for refineries and petrochemical units can be brought in, plastic industries where processing of chemicals is not required can also be housed within the park"*, Officers said.

DSIIDC

DSIIDC to function as housing corporation of Delhi govt

The Delhi State Industrial and Infrastructure Development Corporation (DSIIDC) is to function as the Housing Corporation of the Delhi government. According to Shri Manoj Parida, the DSIIDC managing director, the focus of the company will be to provide low cost houses with alternative technology. There will be three categories of houses: one for industrial workers, the other for slum evacuees while the third category will be open to all economically weaker sections. The Delhi government will shortly hand over 100 acres of land at Kanjhawala for a mega-housing scheme. The Delhi government has already designated DSIIDC as the nodal agency for construction of houses under a scheme called JNNURM.

APIIC

APIIC achieves turnover of Rs.1,000 cr

Andhra Pradesh Industrial Infrastructure Corporation Ltd. Crossed the turn over of Rs.1,000 crores in 2006-07, marking a record growth of over 800 per cent in two years.

HSIIDC

Chinese Delegation visits Haryana

A seven member delegation from Heliongjiang province of China, led by Vice Chairperson of the standing committee of Heliongjiang provincial people's congress, Madame Ma Shujie met Shri Bhupinder Singh Hooda in Haryana Niwas at Chandigarh on 28th March' 07. While addressing the members of the delegation, Shri Hooda said that both Haryana and Heliongjiang province of China could prove complementary to each other in areas of development and China as well as India could emerge as major economic powers in the world by making progress jointly. He said that although Haryana was predominantly an agrarian state, it has also emerged as an industrially developed state.

While referring to the trade between India and China, Sri Hooda said that the Federation of Indian Export Organisation (FIEO) had predicted that bilateral trade volume between the two countries could zoom to US dollars 462 billion by 2010. He also apprised the delegation about a large number of projects being set up to strengthen infrastructure and generate more power in the state. Trade between India and China had touched a record US dollars 20 Billion in the first ten months.

Madame Ma Shujie said that the members of the delegation had been to IMT Manesar during the first leg of their visit and were impressed to see for themselves the level and standard of industrial development taking place in Haryana. She also apprised the Chief Minister about the significant achievement made by her State and added that it was producing planes as well as automobiles. Also, it had the largest company of petroleum products and two hi-tech development zones. The Heliongjiang province was located in the north-eastern part of the people's republic of China and was rich in industry and timber. She said that they could learn from the experiences of Haryana and offered to send a delegation of entrepreneurs to Haryana adding that Haryana's entrepreneurs could also visit Heliongjiang. While describing her visit to Haryana as a new beginning of mutual friendship, she said that both India and China could create a new world and hoped that this friendship would enjoy a long tie. Shri P.K. Chaudhery Principal Secretary and Financial Commr. Industries welcomed the members of the Chinese delegation and apprised them about the recent visit of a delegation led by the Chief Minister to China in December 2006.

Kundli, Manesar-Palwal expressway in Haryana

The Ministry of Environment & Forests (MoEF), Govt. of India, has accorded the environment clearance under environment impact assessment notification, 2006. The western periphery expressway, the longest in the country so far, is expected to be completed within the stipulated period of three years i.e. by the middle of 2009.

HSIIDC has been made the nodal agency by the State Government for the development of this 135.65 km. 4/6 lane access controlled expressway on BOT basis. The expressway takes off from Kundli in distt. Sonipat on NH-1 and passes through Bahadurgarh in distt. Jhajjar on NH-10, Manesar in distt. Gurgaon on NH-8 and terminates near Palwal in Faridabad distt. on NH-2. The expressway has been planned for 4-lanes of carriageway with the provision of structures for 6-lanes so that the capacity of the cariageway may be augmented to 6-lane as soon as the traffic volume increases. As it passes through areas of national capital region that are currently under developed, it will serve as a catalyst for growth and will lead to greater development in Sonipat, Jhajjar, Gurgaon, Mewat & Faridabad districts through dynamic connectivity with Delhi and the national capital region. The expressway is unique as it will provide for access at a total of ten locations at an average distance of 15 kms. the immediate influence area of this expressway has high growth potential due to its vicinity to the national capital.

The Government of Haryana intends to develop the area along KMP expressway as a global corridor in order to develop sector specific industrial parks/sub-cities. The spatial plan of the corridor will be developed around a number of specialised economic activities, which can trigger and sustain economic growth. It is envisaged to act as a catalyst for development and attracting private participation in development of the region. The entire land for this project has been acquired by HSIIDC and the construction work is in full swing at different segments of the expressway. The concessionaire achieved the financial closure in January this year.

The total cost of this project has been estimated at Rs.1915 crore which excludes the cost of land amounting to Rs.630 crore. HSIIDC has appointed an independent consultant for supervision of design, engineering, construction and development of this expressway. In addition to this, the progress is being monitored by a monitoring committee headed by secretary, Ministry of Shipping, Road Transport & Highways (MoSRT&H), Govt. of India which has been constituted by Hon'ble Supreme Court of India for this purpose.

Rs.800 crore investment mooted

HSIIDC has received a number of proposals from some prominent Japanese & Korean Companies or Setting up their projects in the industrial estates developed by the Corporation. The total investment envisaged for the projects being set up by these companies has been estimated at Rs.800 crore. Most of these projects are in the automative components sector. Goshi Giken Company Limited of Japan will be setting up their project to manufacture Auto parts for two wheelers through its Indian arm Goshi India Auto parts Private Limited. The capital cost of this project has been estimated at Rs.136.10 crore which is proposed to be financed through the FDI route. The company has approached the Corporation for the allotment of about 5 acres land in its Growth Centre at Bawal on NH-8 in district Rewari.

M/s Parker Engineering India Pvt. Ltd., a subsidiary of Parker Engg. Company Japan, has approached the Corporation for the allotment of 5 acres of land in Growth Centre Bawal for setting up their plant for Heat Treatment of Metal Components being used for the automotive sector. The company has an existing plant in Gurgaon which is an ancillary to Maruti Suzuki. The capital investment of this project is estimated at Rs.39.01 crore. Another Japanese Company NSK Ltd. will be setting up their Electric power steering system project at Growth Centre Bawal for which a joint venture company namely Rane NSK Steering Systems Ltd. has been formed. NSK Japan is a leader in Automotive components manufacturing with a worldwide turnover of US$ 6 billion. The company has approached the Corporation for allotment of 5 acres of land for this project involving a capital cost of Rs.38.0 crores.

M/s Ahresty India Pvt. Ltd., a wholly owned subsidiary of Ahresty Corporation Japan, proposes to set up a new project for the manufacture of Aluminium Die Casting Automobile parts with an investment of Rs.102 crore at Bawal. The parent company, with its existing die casting plants in USA, China and Mexico has a turnover of more than Rs.one billion US dollars. The company is negotiating with Maruti, Honda and other Japanese as well as local automobile manufacturers for marketing of its products. The requirement of land for this project is 15 acres.

Korean company Posco has approached the Corporation for the allotment of 15 acres of land in Growth Centre Bawal through its subsidiary Poss Delhi Steel Processing Centre Pvt. Ltd. The Company proposes to set up an Industrial project for processing various type of Steel Plates and Coils by shearing, slitting forming etc. an investment of Rs.107 crore has been envisaged for this project which is proposed to be financed through promoters capital and contributions by Samsung Corporation and Shinhan Bank of Korea. The project is expected to be completed in two phases.

In addition to above, a number of Indian companies with foreign technology have approached the Corporation for allotment of Industrial plots. Prominent amongst these are : Sarvpriya Industries Ltd., Bector's Food Specialities Ltd., Amtek Auto Ltd., Thai Summit Neel Auto Pvt. Ltd. and Minda Industries Ltd. While the Sarvpriya group is setting up its project to manufacture pre-engineered Building Structures at Bawal with an investment of Rs.49.43 crore, Bector's Food Specialities plans to add another unit for the manufacture of its 'Cremica' products at Food Park in Rai in district Sonipat. Thai Summit Neel Auto Ltd. of Thailand – a joint venture company with Jal Bharat Maruti Ltd. is shifting its existing automotive components project from Gurgaon to Bawal. Minda Industries Ltd. is setting up its automotive Switches project in joint venture with Valeo of France for which they have applied for a 10 acres plot at Bawal.

An American Company, Tenneco Inc. has also approached the Corporation for allotment of about 5 acres of land at Bawal through its subsidiary Tennaco RC India Pvt. Ltd. for setting up a project to manufacture Shock Absorbers, struts and exhaust systems for automobiles with an investment of Rs.38 crore.

HSIIDC inks JV agreements with DLF & Unitech for three SEZs

HSIIDC signed joint venture agreements on 4th April'07 with DLF Limited and Unitech for setting up three Special Economic Zones in Gurgaon, Sonipat and Ambala districts. While DLF is setting up two SEZs at Gurgaon and Ambala, the third SEZ is being set up by Unitech in Sonipat-Rai belt.

All three SEZs have been approved by Haryana Investment Promotion Board (HIPB) in its meeting held under the Chairmanship of Hon,ble Chief Minister Haryana, Shri Bhupinder Singh Hooda. Government of India, Ministry of Commerce has already conveyed in principle approval to these SEZs last year.

The multi Product SEZ at Gurgaon is being developed by DLF Limited over an area of about 20000 acres on Gurgaon – Jaipur Highway stretching between Manesar & Pataudi. The project cost of this SEZ has been estimated at Rs.26,000 crore which is proposed to be financed through an equity funding through internal accruals of DLF and its Group companies and loans from infrastructure funding institutions and international banks. The SEZ will comprise of an industrial zone, commercial & residential zones besides an institutional zone. The external infrastructure would comprise of an inland container depot, direct road linkage to Delhi-Rewari line and a dedicated captive power plant of 2000 MW. The SEZ, which is scheduled to be implemented in four phases, is likely to attract an investmentof around Rs.1,25,000 crore besides generating direct employment opportunities for more than seven lakh persons. The proposed SEZ has an annual export potential of more than US$ 10 billion.

The Unitech multi-product SEZ in District Sonipat is being set up near Kundli over an area of about 10000 acres. The cost of developing infrastructure in this SEZ would come to around Rs.10,000 crore, which is likely to be funded through promoters' equity and term finance. 35 percent of the total area in this SEZ will be utilised for industrial purpose and the remaining for residential, commercial and institutional utilities. The project, to be implemented in phased manner, has an employment potential of more than 1.25 lakh persons directly.

A 2500 acres SEZ is also being set up by DLF in District Ambala with a capital cost of Rs.6700 crore. This is the first SEZ proposal approved by the HIPB outside the National Capital Region (NCR). The project is scheduled to be implemented in two phases spread over eight years. When implemented, the Ambala SEZ is likel;y to attract an investment of around Rs.4000 crore besides exporting goods worth Rs.6000 crore annually. A captive power plant has also been envisaged for the project which is expected to provide direct employment for more than 80,000 persons.

In all the three SEZs, there is a provision for a 10 percent sweat equity for HSIIDC. The projects would be set up by special purpose vehicles (SPVs) to be incorporated by HSIIDC and the JV partner companies. As per the agreements, HSIIDC will facilitate with the State Govt. to notify the project sites as 'SEZ Zone' under the provisions of the Haryana SEZ act 2005 which restricts the land use conversion to any other use at the project sites other than the SEZ. The SPVs shall procure the entire land comprising the project site at their cost. However, in case the developing agency is unable to acquire the land for any of the phases, the state govt. may acquire the same on the behalf of the SPV in accordance with the land acquisition policy of the State which provides that not more than 25 percent land required for the project would be acquired by the govt.

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Very often the gifts that go the furthest and mean the most are gifts of time and love.

Faith gives us the courage to tackle the seemingly impossible, as well as the determination to see it through.

PROFILE OF MEMBER CORPORATIONS

Tamilnadu Industrial Development Corporation Limited (TIDCO)

Shri S. Ramasundaram, IAS has been Chairman & Managing Director, TIDCO since 2006. he joined the Indian Administrative Service in 1979 and has held several senior key positions in the State Government, Central Government, The World Bank and the Corporate Sector. Soon after taking charge as Chairman & Managing Director, TIDCO he took steps to complete the first 3 kms. of the prestigious I.T. Expressway Project, Chennai. Thereafter he took initiative to activate SEZ at Nanguneri with induction of new Indian promoter. Since then he has taken steps to identify new projects and some of them which are under pipeline of TIDCO are hereunder :-

- SEZs at Perambalur at a cost of about Rs.500 crores.
- IT/ITES SEZ at Taramani, Chennai at a cost of about Rs.850 crores
- TIDEL Park at Coimbatore at a cost of about Rs.300 crores
- Cashew AEZ in Panruti at a cost of about Rs.16 crores
- Virudhunagar SEZ at a cost of about Rs.500 crores
- IT/ITES at Sholinganallur near Chennai at a cost of Rs.1500 crores.
- Town Ship project at Sriperumbadur.
- IT SEZ with an Integrated Township Project at a cost of about Rs.1800 crores.

Under his guidance and able stewardship TIDCO is expected to scale new milestones in the coming years.

TIDCO, a Government of Tamil Nadu Enterprise, was incorporated as a Limited Company in the year 1965 in order to identify and promote the establishment of large and medium scale industries within the State of Tamil Nadu in association with the private sector. The company's authorised share capital is Rs.1250 million of which Rs.942 million has been issued and has been entirely subscribed by the Government of Tamil Nadu. The Government of Tamil Nadu has also extended loan assistance aggregating to Rs 716 million as at March 31, 2006 to the company. TIDCO is also registered with the Reserve Bank of India as Non-Banking Financial Company and has successfully mobilized public deposits of Rs.1818 million as at March 31, 2006. TIDCO has been specified as Public Financial Institution within the meaning of Section 4A of the Companies Act, 1956.

Shri S. Ramasundaram, IAS, CMD, TIDCO

TIDCO's association with private sector enterprises may be separated into four categories viz. Joint Sector, Associate Sector, Escort Sector and Escort Services. Equity participation by TIDCO in the Joint Sector projects ranges from 11 to 26% and in the Associate Sector ranges 2 to 11% equity. The Escort Sector includes ventures with 1% equity from TIDCO. TIDCO provides facilitation services for all investors and these include multi-national and overseas investors who wish to launch new ventures in Tamil Nadu. In cases where TIDCO does not take up equity participation, these projects are categorized as Escort Service projects.

Among project related escort service activities, TIDCO has successfully promoted the establishment of Ford India Ltd. and Hyundai Motor (India) Ltd. in addition to other reputed companies. The Board of Directors of TIDCO comprises senior officials of the State Government. TIDCO has a team of professional managers drawn from the fields of Engineering, Management, Finance and Law. TIDCO has commissioned seventy-five projects to date with a total equity investment of Rs.2500 million and of these companies TIDCO has disinvested its holdings in twenty-two companies. TIDCO's projects cover a wide range of activities such as Iron & Steel, Fertilizers, Chemicals, Petrochemicals, Engineering, Automobiles, Agro and Food Processing, Leather, Textiles, Pharmaceuticals, Floriculture, Horticulture, Electronics & Communication, Infrastructure / Industrial parks includes Agri Export Zones (AEZs) and Special Economic Zones (SEZs).

The state of TamilNadu provides various incentives to industrialists to invest in the state viz. it is one of the top three recipients of Foreign Direct Investment ((FDI) and is fast emerging as the IT happening destination. It has pro-active and investor friendly Government with transparent decision-making approach. There is a largest turn-out of Engineer Technicians as well as well qualified english speaking work-force.

TamilNadu has modern ports (with container handling facilities) and airports with direct links to Europe and East Asia, a total road network of 150,000 kms. and is the only Power surplus state in India. It has world-class health care facilities-Chennai is the health care capital of India with well-developed network of industrial parks offering plug and play infrastructural facilities.

The government of TamilNadu provides good support by prompt allotment of land in the industrial parks with supporting infrastructure, single window facilitation to complete pre-project documentation, assistance in land procurement. Amenities to facilitate setting up of industry like power and water supply, access roads and other supporting infrastructure alongwith common application form and single window facilitation for all regulatory approvals are also provided.

Fiscal support in the form of 50% stamp duty concession for projects located in Government promoted Industrial Parks, Effluent Treatment Plant subsidy, Electricity tax exemption upto maximum of 5 years. Incentives for SEZ-Developer/Units and 100% Income-Tax exemption for 5 years and 50% of Income-Tax exemption for next 5 years and reinvestment allowance to the extent of 50% of ploughed back profits for the next 5 years are also given.

Further support is provided in the form of purchase/lease of land, electricity tax exemption on power supplied by TamilNadu Electricity Board. Dividend distribution tax exemption for Developers and sale from DTA to SEZ units shall be treated as deemed exports.

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There is hardly anything more beautiful than a flower in the desert. The same flower would be lost in a meadow lush with other flowers.

APSFC's SUCCESS STORY

S*hri K. Bhasker Reddy*, 46, carved a success out of the dairy business alongwith three of his friends. He, later joined as Technical Officer with Sabar Dairy (*part of Amul*) in Sabarkantha in Gujarat.

Scouting the market, Shri Reddy thought of flavoured milk and ghee as products with good potential. Without much of homework or cash he and his partners thought of getting into business. Acquaintances then pointed them to the Andhra Pradesh State Financial Corporation (APSFC), the funding agency of the government for entrepreneurs.

With only a technical degree and loads of enthusiasm, they went to the APSFC. They were asked to prepare a project report including the market potential for their proposed products. So, Mr. Reddy and friends scoured some colonies in the twin cities on their two wheelers and got information from about 200 shops.

The initial project-size was Rs.16 lakh, with Rs.12 lakh from the promoters and the rest from APSFC as subsidy. When they were about to freeze the project APSFC officials and increased the project-size to Rs.40 lakh. *"That was the day I thought it was almost over. My friends too decided to give up. But I insisted that we go ahead. We told the APSFC that we cannot get additional funds and we had nothing to offer as collateral but ourselves. By some quirk of fate, they agreed to waive the conditions and we got the project cleared"*, says Shri Reddy.

Christened Creamline Dairy Products, the project took shape on October 31, 1990 and production started at their plant outside Hyderabad in March, 1991. The first few months were horrifying for the enthusiastic team. We realised that while our strength was product, marketing was not our expertise. But the AP Dairy's image then was low, and their distribution poor which was an opportunity.

They put out ads for four Sundays that Creamline would offer regular milk at select points in the city and collected deposits for monthly supply with brand name-Jersey.

Initial supply was 5,000 litres-6,000 litres per day. The turning point for Creamline came in the form of deregulation of the dairy sector in end 1991. Its first year turnover was Rs.8 lakh (October 1990 - March, 1991) and during 1991-92 was Rs.1.1 crore. In 2004-05, the turnover of his company was Rs.171 crore in 2005-06, the turnover was Rs.198 crore. But sourcing of milk still was a problem. To fix that and increase its sourcing base, the company picked up five professionals from AP Dairy and helped them set up milk-chilling centres as independent entities with Creamline's support and part funding.

As supplies became streamlined, the company started doubling its turnover every year, added more chilling centres, more employees and value added products like lassi and butter milk which is quite popular in the hot summers. Mr. Reddy expects to post Rs.250 crore turnover this fiscal year [2007-2008]. Creamline today has seven processing plants, 30 chilling centres in south India and an employee base of 700. Currently, it has a market share of 15% in Andhra Pradesh and 5% each in Chennai and Bangalore. Now the company is looking at Rs.1 crore a day turnover in 2008 and tripling that in three years. The success mantra that has helped him, Shri Reddy says, *"Never losing hope and learning from every defeat"*.

In a bid to strengthen their supply base and integrate backwards, Creamline has now begun to go directly to the farmers. We are working with the farmers by giving them animals and the right feed for good and quality yields.

* * *

Don't wait for friendship to come knocking on your door. Go knocking.

ACTIVITIES OF COSIDICI

Proposal to Amend SFCs Act, 1951

The meeting of the Committee for considering the amendments to the SFCs Act, 1951 proposed by M.D., MPFC was held in COSIDICI Office in New Delhi on April 20, 2007. It was attended by *Smt. Smita Gate Chandra, IAS, MD, MPFC; Shri K. Chakrabarty, IAS, MD, WBFC; Shri Majid Ali, IAS, MD, UPFC; Shri B.K. Khandelwal, RM, MPFC and Shri R.K. Maheshwari, RM, UPFC*. A presentation on the amendments proposed and the comments thereon of other SFCs and COSIDICI was made at the meeting by MD, MPFC. SIDBI had also sent its comments on the amendments to COSIDICI before the meeting. Both were circulated among the SFCs vide COSIDICI letter dated 25th April, 2007 and will be discussed further in the forthcoming Executive Committee Meeting of COSIDICI to finalise a detailed Memorandum to be submitted to the Govt. of India, Ministry of Finance for considering these amendments.

Meeting with Chairman NABARD :

A delegation from COSIDICI comprising Shri B.N. Sharma, IAS, CMD, RFC; Smt. Smita Gate Chandra, IAS, MD, MPFC, Indore and Secretary General, COSIDICI held a meeting with Dr. Y.S.P. Thorat, Chairman, NABARD at 11:30 a.m. on April 23, 2007 in his office to explore the possibility of NABARD providing refinance facilities to SFCs in respect of their lending to the industries in the decentralised sector. A Memorandum indicating various issues for discussion was earlier forwarded to him which formed the basis of discussions.

Initiating the discussions the delegates stated that the SFCs were the earliest institutions set up in the country to provide finance to industries in the decentralized sector in rural, semi-urban and backward regions of the states and added that during the past four decades they have played a significant role in promoting first generation entrepreneurs and providing financial assistance to the tiny and SSI industries. These Corporations were earlier getting adequate resources at low cost from different sources such as RBI, IDBI, SIDBI, state governments and borrowing from the market by way of floatation of debentures and fixed deposits scheme. However, after the introduction of financial sector reforms coupled with deregulation of Banking sector in 1991, SFCs received a serious set back as they were not provided with the level-playing field under the reforms process. Gradually all the sources of finance hitherto enjoyed by SFCs had gradually dried up and SFCs were left alone to fend for themselves. RBI had also withdrawn the facility of allocating SLR Bonds to SFCs and also short term adhoc limits to enable SFCs to tie over their liquidity position. The only source of funding had been SIDBI which came into existence in 1990. On account of high cost of funds and their shrinking base resulting in their inability to compete with the commercial banks and other financial institutions, SFCs have been passing through serious financial crisis and were virtually struggling for their survival. Since SFCs have been providing finance to industries in the rural, semi-urban, backward region of the state which fell within the jurisdiction of NABARD, the delegates strongly pleaded that NABARD may provide refinance to eligible SFCs on selective basis to enable them to finance village, forest/agro based industries mentioned above.

Dr. Thorat, Chairman, NABARD reacted very positively to the suggestions made by COSIDICI's delegates and expressed his appreciation for the excellent job done by SFCs in the country to develop industries in the decentralized sector and also conceded that the growth of this sector which forms an important segment of the Indian economy was entirely due to the ceaseless efforts of SFCs in this regard. He assured at the very outset that the whole matter will be examined in a positive way and within the limitations of NABARD and subject to the various safeguards to be worked out, NABARD would certainly come to the rescue of SFCs. Dr. Thorat indicated that NABARD would determine the eligibility criteria in respect of SFCs on the basis of their working and financial results and level of their NPAs. Subject to putting in place suitable safeguards, NABARD could take the risk for providing refinance to SFCs. In this connection, he mentioned that while reviewing financial position of SFCs, he would not go by cumulative losses in SFCs but largely on the basis of their performance and operating profits during the last couple of years and requested COSIDICI to forward to him the latest financial results of SFCs. He also emphasized the importance of professional management in SFCs as also the continuity of its Chief Executive Officers which would also be kept in view while examining the matter. He futher suggested that before NABARD could undertake an exercise to determine the eligibility norms and other criteria for providing refinance he would like his officers to study the working of 2/3 SFCs which could be suggested by SFCs.

In this connection, it was suggested by Smt. Smita Gate Chandra, IAS, MD, MPFC that NABARD could select one SFC from each zone in the country to have fair view of the working of SFCs in these zone. She suggested that NABARD could select four SFCs i.e. WBFC; MPFC, APSFC and RFC for the conducting study.

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ECONOMIC SCENE

Direct tax mop-up higher

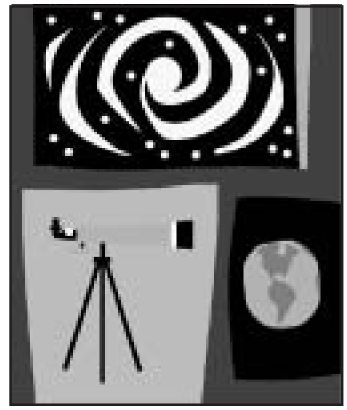
Direct tax collections are expected to have exceeded Rs.2,30,000 crore in 2006-07, higher than the revised estimate of Rs.2,29,000 crore. This is due to higher corporate profitability and an increase in the number of tax payers from sectors like information technology, manufacturing and telecom.

Infotech is estimated to have created 3.8 lakh jobs in 2006-07. Following buoyancy in tax collections throughout the fiscal, the Centre revised the estimate to Rs.2,29,272 crore from the Budget estimate of Rs.2,10,684 crore for 2006-07.

CST rate cut to 3% on track

The government will cut the central sales tax (CST) rate to 3 per cent from 4 per cent from April 1 through a notification, as announced by Finance Minister Shri P Chidambaram in his Budget speech.

Shri Chidambaram's request to not refer the Taxation Laws Bill to the Parliamentary Standing Committee on Finance for scrutiny has been accepted by Lok Sabha Speaker Shri Somnath Chatterjee.



The Bill seeks to phase out the CST over a period of three years and bring it to zero by March 31, 2010. The abolition of the tax will pave the way for an integrated Goods and Services Tax, to be introduced from April 1, 2010.

The rate cut was finalised by Shri Chidambaram and the empowered Committee of State Finance Ministers prior to the Budget presentation on February 28. The package for compensation to states for revenue loss due to the CST phase-out would consist of non-monetary as well as monetary measures.

The CST, being an origin-based tax, is inconsistent with value-added tax, which is a destination-based tax. The CST results in cascading, since it is not rebatable against VAT.

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"ANSWERS OF CYBERQUIZ ~ 7"

1.[a] **Unix :** MULTICS, short for Multiplexed Information and Computing Service, was an early time-sharing operating system.

2.[d] **DEC :** VMS stands for Virtual Memory System. It was a highend computer server operating system for the VAX and Alpha family of minicomputers.

3.[a] **QDOS :** QDOS in turn was based on Gary Kildall's CP/M.

4.[d] **Digital Research :** Digital Research's technically superior CP/M-86 could not stand the competition from MS-DOS and PC-DOS. The company eventually decided to join the DOS bandwagon by modifying CP/M-86 to allow it to run the same applications as MS-DOS and PC-DOS. The new version was re-launched in 1988 as DR-DOS.

5.[b] **Finger :** Prior to the finger program, the only way to get this information was with a ***"who"*** program that showed IDs and terminal line numbers for logged-in users, and people used to run their fingers down the "who" list. Earnest named his program after this concept.

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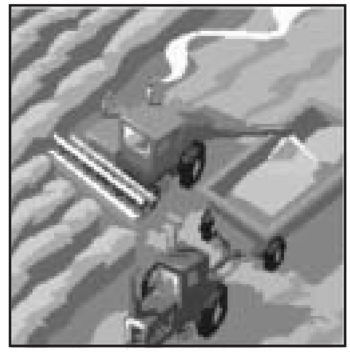
No ceiling on export credit to SSIs, says govt

There is no ceiling on export credit given by public sector banks to small-scale companies. Shri P. Chidambaram told the House that banks usually sanction the working capital, including export credit, after assessing individual customer's performance. Replying to questions in Lok Sabha he denied that small scale pharma exporters were facing difficulties due to export credit limit prescribed or sanctioned by public sector banks. Any credit of upto Rs.25,000 is cleared within a fortnight while that of above Rs.25,000 is cleared in 8-9 weeks, he said. Shri Chidambaram said export credit to pharma industry had grown from Rs.12,682 crore in 2004-05 to Rs.16,200 crore in 2005-06, marking an increase of 30%.

SMEs notch up 54% net profit

Small and medium enterprises (SMEs) outperformed the BSE Sensex firms in terms of net profit growth in the first nine months of financial year 2006-07. A total of 595 SMEs (excluding banks and NBFC) posted a 54 percent growth in net profit, compared to 27 percent by 25 sensex firms in first nine months (April-December, 2006).

The aggregate net profit of these companies increased from Rs.17,202 crore to Rs.26,479 crore during April to December, 2006. The total sales of these firms increased 28 percent to Rs.3,59,252 crore (from Rs.2,80,844 crore). Income from other sources rose 24 percent from Rs.7,157 crore to Rs.8,856 crore and the interest burden increased by 22 percent to Rs.8,618 crore (Rs.7,067 crore) during the period. The profit margins of these companies increased by over 100 basis points during the period. The operating profit margins (OPM) increased from 14.08 percent to 15.24 percent, while net profit margins (NPM) increased to 7.37 percent (6.12 percent) in the first nine months. Of these companies, the net profit of 127 firms more than doubled and 97 companies posted net profit growth in the range of 55 percent to 100 percent during the period.



Excise Exemption limit raised for SSIs

The excise exemption limit for small sector industries (SSIs) has been raised to Rs.1.5 crore in the U.P. Budget. The allocation of funds for the development of infrastructure is whole-heartedly welcomed by industry and the common man. Special attention towards the health and education sectors has also been given its long over-due importance. Proposals and allocations for agriculture and food processing sectors were welcome.

There is an increase in the threshhold for service tax from Rs.4 lakh to Rs.8 lakh and the increase in the excise exemption limit from Rs.1 crore to Rs.1.5 crore and reduction in Customs duties on raw-materials such as chemicals, plastics, second and defective steel, polyester fiber in the U.P. Budget.

The reduction in excise and customs duties was expected and was in line with the WTO guidelines. Surcharge on income tax on all firms and companies with a taxable income of Rs.1 crore has also been removed.

SMEs to UP to form purchase co-op

In an attempt to procure raw material at better prices, small and medium enterprises (SMEs) in Uttar Pradesh are planning to come together to form a "purchase co-operative". This co-operative will pool the requirements of its members to improve its negotiating power with suppliers.

"The idea behind such a cooperative is to put together the demands of these small industries as a cumulative order to procure their requirements", said Shri D.S. Verma, Executive Director of Indian Industries Association, an organisation of SMEs in Uttar Pradesh.

Small and medium enterprises in the state lost out to large enterprises because of their inability to get good prices from suppliers of raw materials, said Shri Verma. Such a co-operative would go a long way in adding to their competitiveness.

To establish the cooperative, a survey will be conducted to find out the demands of various industries. The data will show the relevant statistics on raw material requirements, financial health of the organisation, investments and also identify the products and marketing of the same. This cooperative will be a public private partnership.

Uttar Pradesh has over 500,000 registered small and micro industries, while 3-4 times this number is still unregistered, thus making the overall figure around 1.5 - 2 million. Shri Verma said the first project advisory committee meeting was scheduled for March 29. Once this co-operative is in place, the association proposes to follow it up with a sales co-operatives of a similar kind.

TUFS can make textiles sector flush with funds

The technology upgradation fund scheme (TUFS), made co-terminus with the XIth Plan period (2007-12), is expected to bring in an investment of about Rs.1,25,000 crore for the textiles sector.

Similarly, the move to bring the handloom sector in the TUFS ambit will make it lucrative for investors. The proposal for a hike in allocations for the sector from Rs.535 crore in 2006-07 to Rs.911 crore in Budget 2007-08 under the scheme initiated in 1999 would give a fillip to the process for modernising the industry. "The new initiatives, including lowering of customs duty on man-made fibres (MMF) and rating of central sales tax will certainly benefit garments and textile manufacturers in the times to come. This will not only reduce the production cost of fabrics but bring down input costs and transaction expenses also.

The increase in the allocation for the integrated textile park scheme (ITPS) will go a long way towards meeting the increasing domestic demand and building of extra capacities for exports.

But the industry still expects more concessions. Sources in the industry maintain that even though the finance minister lowered the CST to 3% instead of completely abolishing it, the move will not result in the desired level of cost-reduction as most of garment firms are engaged in inter-state trading. Secondly, the imposition of service tax on commercial property rents will push up the retailing cost. Rentals in the segment are very high. The raise in direct tax in the Budget has also upset the industry. The decision to extend the net of dividend tax will certainly result in higher cash outflows. Besides, the 1% cess on taxes will bring down profits after tax.

Textile cos talk "TUFS" on proposed outlay

The finance minister's announcement to increase the allocation of the Technology Upgradation Fund Scheme (TUFS) to Rs.911 crore from the existing Rs.553 crore in the Budget is felt to the inadequate by the textile majors.

"The continuation of the TUFS for the Eleventh Plan will, provide substantial assistance for building capacities required to meet the increasing demand for textile products. However, the allotment of Rs.911 crore will be inadequate". For the success of the scheme, atleast Rs.1,000 crore is required, as around Rs.600 crore is required to clear backlogs of loan disbursed in 2006-07, during the non-availability of funds. Another Rs.1,000 crore will be required for the upcoming projects scheduled for commissioning in the next two years.

The scheme, initited in 1999, has 100% repayments benefit and inbuilt self-policing, where an interest subsidy of 5% is reimbursed after quarterly payments. The popularity of the scheme can be gauged from the fact that the interest subsidy of Rs.746 crore was disbursed against the project cost of Rs.5,074 crore in 1999.

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Orissa announces new industrial policy

The Orrisa new industrial policy resolution for 2007 focusses on facilitating establishment of more revenue and employment generating industries in the state. The policy has identified five thrust sectors – agro-processing, automobile and auto components, textile and apparel, ancillary and down stream industries. The industries that will come in these sectors will be accorded pioneer status and provided more incentives than other units.

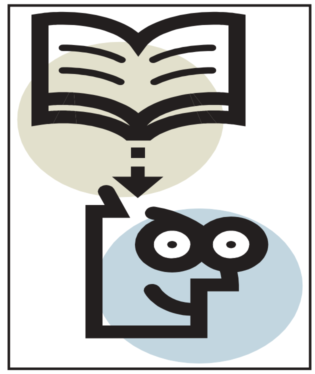
Depending on the potential to augment the state's revenue and employment generation, various incentives will be provided to these industries. The policy has accorded priority industry status to nine industries. Petroleum and petro-chemical, pharmaceuticals and leather industry are those included in the priority industry list this year and have been promised various tax incentives. Addressing the problem of land acquisition for setting up of industries, the policy has categories A, B, C and D. Technical educational institutions, schools and colleges can also get the benefit of the policy, it stated.

Special concessions have been envisaged for encouraging non-mineral industries in 8 Kalahandi, Bolangir and Koraput (KBK) districts, and Gajapati, Mayurbhanj and Kondhmal districts.

According to the new policy, the non-mineral industries in these areas will get the thrust industry status. Conversion charge, which is charged for converting agricultural land to industrial land, will be waved for the thrust industries in these areas. However, the priority industries will have to give 50 per cent of the fixed charges while small and medium enterprises will get 75 per cent exemption up to 25 acres. The thrust sector industries and priority industries will also be given concession in stamp duty. While the thrust industries will get 100 per cent concession, the waiver for priority industries will be 50 per cent.

Karnataka budget: focus on urban infrastructure

The Karnataka Budget 2006-07, presented by Karnataka Deputy Chief Minister and Finance Minister Shri BS Yediyurappa, gives strong emphasis to creating and developing urban infrastructure.



As Bangalore and Mysore qualify for assistance under the Jawaharlal Nehru National Urban Renewal Mission (JNNURM), the government plans to prepare a development strategy and prioritise the projects to be taken up under it. The government plans to spend Rs.682 crore for infrastructure services in urban areas and a sum of Rs.48 crore towards basic services to the urban poor.

The state government plans to develop Ramanagara as a satellite of Bangalore, to reduce pressure on Bangalore city through a comprehensive development programme for the next four years. It will augment water supply at a cost of Rs.3,384 crore and create the Bangalore Metropolitan Parking Authority to tackle vehicle parking woes in Bangalore. Similarly, the towns of Shikaripura of Shimoga district and Jewargi of Gulabarga district will also be developed. *"The Bangalore metro project was cleared at a meeting of the public investment board on August 5, 2005. Clearance from the Cabinet Committee on Economic Affairs is awaited*," said Shri BS Yediyurappa.

Construction of the Bangalore International Airport was progressing smoothly and state support of Rs.128.85 crore was being fully provided. The Bangalore Development Authority is taking necessary steps to distribute 20,000 sites in the Arkavati Layout. A second ring road (peripheral) around the city had also been planned. A ring road around Mysore city is being developed by the Mysore Urban Development Authority at an estimated Rs.50 crore with the assistance of the Asian Development Bank. A similar ring road has also been planned for Gulbarga city to be implemented through the Karnataka Road Development Corporation. A survey will also be taken up for a ring road for Hassan town.

Madhya Pradesh Finance Minister Shri Raghavji presented a Rs.236-crore deficit budget for 2007-08 on 26th February' 07. To earn more revenue through the limited options of value added tax and entry tax, the minister raised entry tax on a number of household items that include utensils, detergents, soaps and groceries. He also introduced “gender budget” for the first time by allotting funds to 13 departments dealing with the welfare of women.

There was no announcement on employment creation. *“It’s unlikely that the state government will come up with the policy during the session,”*.

A provision of Rs.578.86 crore has been made in the budget separately for the ongoing power projects. The state government will rely on central sector grants, which include a provision of Rs.1,732 crore for roads. A minuscule amount of Rs.39.29crore has been allotted for irrigation and nothing for tourism.

The minister slashed entry tax on diesel from 28.75 per cent to 26 per cent. Further, steel and iron will now attract 2 per cent entry tax, Indian-made foreign liquor 2 per cent from the existing zero per cent, and coal, 2 per cent.

The annual Plan outlay for Madhya Pradesh has been increased by 33.16 per cent to Rs.12,011 crore for the year 2007-08, from last year’s Rs.9,020 crore. It includes onetime additional central assistance to the tune of Rs.111crore and an increase of Rs.11 crore for the Sarva Shiksha Abhiyan programme. Of the total outlay for 2007-08, Rs.1,753 crore has been earmarked for irrigation, Rs.1,600 crore for development of roads and Rs.1,360 crore for the power sector.

The outlay for the state was finalised at a meeting of Madhya Pradesh Chief Minister Shri Shivraj Singh Chouhan with Deputy Chairman of Planning Commission Shri Montek Singh Ahluwalia in February.

Chouhan apprised the Planning Commission of the fiscal management done by the state government in the last one year, where the state has increased its revenue and contained the non-plan expenditure. The Planning Commission appreciated the fiscal efforts and the reforms taken up by the state government in different sectors.

Shri Chouhan also conveyed to the Planning Commission that the state has been taken out of the BIMARU category and would soon be included among the developed states.

Kerala Budget : New taxes to mop up Rs.248,69 cr

Kerala’s Budget 2007-08 seeks to net additional resources to the tune of Rs.248.69 crore through taxes in fresh areas without burdening the common man.

Presenting the Budget, finance minister Shri Thomas Issac proposed to raise resources to meet developmental and welfare expenses by hiking vehicle taxes, stamp duty on property transactions and levies on tobacco products, luxury coaches, paper lotteries and granite quarries.

For the first time, shares and futures trading in the state will be brought in the tax net through the imposition of a stamp duty. Striking a trader-friendly posture, Shri Issac announced concessions and incentives of Rs.71.56 crore by simplifying tax procedures and compounding methods.

With gold being a major revenue source, all major jewellers will be brought within the purview of the compounding facility and a 4% tax will be slapped on defaulters.

A comprehensive health security scheme for the poor, a donor-backed educational fund for the physically-challenged and disabled children, and a scholarship scheme for different categories of students were among the welfare schemes announced in the Budget.

Meghalaya Plan Outlay

The Meghalaya government presented a Plan outlay of Rs.1,360 crore for the 2007-2008 fiscal on 8th March, 2007 in Delhi. The Plan allocation, approved by the state Cabinet saw a hike of 40% from that of the current financial year, which was pegged at Rs.900 crore.

Gujarat registers 10.62% growth

Gujarat finance minister Shri Vajubhai Vala on 9th March’ 07 claimed that Gujarat has registered 10.62% growth rate on constant prices and taking current prices into consideration Gujarat’s growth rate works out to be 15.11%.

Shri Vala informed the State Assembly that Gujarat’s revenue income has increased by 100% to Rs.32,964 crore during 2006-07 from Rs.15,938 crore during 2001-02. Moreover, Gujarat’s income from taxes were at Rs.9,142 crore during 2001-02, which has increased to Rs.20,808 crore during current fiscal, which shows an increase of more than 100%.

Punjab to get $ 404 million from World Bank

The World Bank on 27th February’ 07 signed agreements for providing $404 million to Punjab for two projects. The Punjab State Road Sector Project will get a loan of $250 million while Punjab Rural Water Supply and Sanitation Project will receive a loan of $154 million.

Plan II: Rs.7,947-cr for J&K rebuilding

Shri C Rangarajan has recommended a new package of Rs.7,947 crore for reconstruction of Jammu & Kashmir. The package envisaging transfer of the just-operational 390-MW Dulhasti power project to the state is part of his report that he submitted to the third J&K Roundtable Conference hereon 24th April' 07. Officials said the report would eventually take the shape of PM's reconstruction plan II. Dulhasti would cost the centre Rs.4,933 crore – involving a cash outflow of Rs.984 crore in the first year, and tapering off to Rs.321 crore in tenth year – it is rural roads improvement that would need Rs.1,750 crore. Other projects include an asset reconstruction company of Rs.200 crore, Rs.400 crore for adult literacy and urban employment and Rs.200 crore for special industrial zone (SIZ).

Mr. Rangarajan who had earlier forwarded similar recommendations to the Prime Minister as head of a task force to devise a long-term development strategy for the state has said reconstruction and maintenance of the existing infrastructure, massive investment in power and roads social infrastructure besides creating conductive climate for private investment are the main challenges in J&K.

On power, that is key to lot many problems of the state, Dr. Rangarajan has recommended that J&K's share of free power in NHPC projects should be slightly enhanced. Right now, J&K is getting 12% of entire generation as royalty from NHPC owned projects at Salal, Uri and now Dulhasti. Besides, it has asked for re-transferring the 1,020 MW Bursar to the state sector with all finances announced by the prime minister as part of the package in November2004. This is one of the few projects that the state had transferred to NHPC for execution. Reports suggests that the prime minister would formally transfer Dulhasti to J&K next month when he visits the state. State government sources said post-transfer they would enter into an agreement with NHPC to run the project on contract for the time being.

On the industrial front, the WG has suggested SIZ instead of SEZ. "SIZ will mimic all physical attributes and governance structures of SEZs but not necessarily their fiscal and statutory dimensions. SIZ too will be a large area with world-class infrastructure, captive power generation and high quality services.

Govt gives Rs.17,000 cr for UP roads

The government on March 15, 07 said it has sanctioned Rs.17,280.62 crore for 17 road development projects in Uttar Pradesh. However, no funds have been allocated for similar works in the neighbouring Uttarakhand.

In a written reply to the Lok Sabha, minister of state for road transport and highways, Shri KH Muniyappa said these 17 road improvement and upgradation works in UP are likely to be completed by March next year. The government had released Rs.267.19 crore from the Central Road Fund (CRF) for UP during the last three years. Uttrakhand was also allocated Rs.12.03 crore from CRF during the period.

***

There is hardly anything more beautiful than a flower in the desert. The same flower would be lost in a meadow lush with other flowers.

All INDIA INSTITUTIONS

The Annual Policy Statement 2007-08

The annual policy statement for 2007-08 was announced by Shri Y.V. Reddy, governor RBI on 24th April' 07. The interest rates were kept unchanged and risk weight on housing loans upto 20 lakh was cut from 75 % to 50 %. The GDP growth rate was pegged at 8.5 % and the inflation in medium term was targetted at 4 – 4.5%. Some of the highlights of the policy are as under **:-**

- Risk weight on residential housing loans to individuals for amounts up to Rs.20 lakh cut to 50 % as a temporary measure.
- Banks, primary dealers permitted to begin transactions in single-entity credit default swaps.
- Ceiling interest rate on FCNR (B), NRE deposits reduced by 50 basis point to Libor minus 75 basis points, and by 50 basis points to Libor/SWAP rates, respectively.
- Average cut-off yield on 182-day Treasury Bills to be used as a benchmark rate for floating rate bonds.
- Overseas investment limit (total financial commitments) for Indian companies enhanced to 300% of their net worth.
- Listed Indian companies limit for portfolio investment abroad in listed overseas companies enhanced to 35% of net worth.
- Aggregate ceiling on overseas investment by mutual funds enhanced to $4 billion.
- Introduction of a credit guarantee scheme for distressed farmers.
- Prepayment of external commercial borrowings (ECBs) without prior RBI approval increased to $400 million.
- Present limit for individuals for any permitted current or capital account transaction increased from $50,000 to $100,000 per financial year in the liberalised remittance scheme.
- Working Group to be set up for development of currency futures and interest rate futures market.

- Risk weight on loans up to Rs.1 lakh against gold and silver ornaments for all categories of banks reduced to 50%.
- Indian banks permitted to extend credit and non-credit facilities to step-down subsidiaries within the existing prudential limits and some additional safeguards.
- Existing relaxed prudential norms applicable to Tier I and Tier II urban cooperative banks extended by one year.
- Ceiling rate of interest payable by NBFCs (other than RNBCs) on deposits raised by 150 basis points.

Banking Regulation Bill introduced

A bill seeking to give more operational flexibility to RBI in the conduct of monetary policy was introduced in Lok Sabha in March by Finance Minister Shri P. Chidambaram. The Banking Regulation (Amendment) Bill proposes to replace an ordinance promulgated on January 23 this year. The ordinance seeks to amend section 24 of the Banking Regulation Act, 1949 to enable the RBI to specify the Statutory Liquidity Ratio without any floor rate. Changes proposed in section 53 of the Act will make it mandatory to present draft notification before both Houses of Parliament in cases of exemptions being granted to institutions, banks or branches located in SEZs.

Greater Transparency in Processing Loan Applications

With a view to achieving greater transparency in loan processing, the Reserve Bank has advised all scheduled commercial banks and all India financial institutions (FIs) that loan application forms in respect of all categories of loans, irrespective of the amount of loan sought include information about the fees/charges, if any, payable for processing, the amount of such fees refundable if the application is not accepted, pre-payment options and any other matter which affects the interest of the borrower. This would enable the borrower to make a meaningful comparison with that of other banks and take an informed decision. Banks/ FIs have been advised to work out a transparent policy in this regard with their board's approval.

Further, in respect of all categories of loans, including credit card applications, irrespective of any threshold limits, if the loan application has been rejected, banks/FIs should convey in having the main reason/ reasons which, in their opinion led to the rejection.

Banks/FIs have been advised to make necessary modifications in the Fair Practices Code by April 30, 2007 with their board's approval. The modified Fair Practices Code should be placed on their website and given wide publicity

Prudential Limits for Inter-Bank Liabilities

In order to reduce the extent of banks' concentration on the liability side, the Reserve Bank has prescribed measures as follows:-

- The inter-bank liability (IBL) of a bank should not exceed 200 per cent of its networth as on March 31 of the previous year. Individual banks may, however, with the approval of their board of directors, fix a lower limit for their inter-bank liabilities, keeping in view their business model.
- Banks whose capital to risk weighted assets ratio (CRAR) is at least 25 per cent more than a minimum CRAR (9 per cent) i.e. 11.25 per cent as on March 31 of the previous year, are allowed to have a higher limit of up to 300 per cent of the net worth for IBL.
- These limits would include only fund based IBL within India (including inter-bank liabilities in foreign currency to banks operating with India). In other words, the IBL outside India are excluded.
- The above limits would not include collateralised borrowings under collateralised borrowing and lending operations (CBLO) and refinance from National
- Bank for Agriculture and Rural Development (NABARD), Small Industrial Development Bank of India (SIDBI) etc.
- The existing limit on the call money borrowings prescribed by the Reserve Bank would operate as a sub-limit within the above limits.
- Banks having high concentration of wholesale deposits should be aware of the potential risk associated with such deposits and should frame suitable policies to contain the liquidity risk arising out of excessive dependence on such deposits.

These guidelines are applicable from April 1, 2007. Banks which are not in a position to comply with these requirements from April 1, 2007, should, however furnish a plan to the Reserve Bank for approval indicating the date by which they would be able to comply with the requirements.

Maintenance of CRR

The Reserve Bank of India (Amendment) Act, 2006 was enacted in June 2006. Consequent to the enactment, the Reserve Bank, on June 22, 2006 decided to –

i Continue the status quo on the rate of cash reserve ratio (CRR) to be maintained by scheduled banks and the existing exemptions.

ii Remove the statutory minimum CRR maintenance requirement of 3 per cent; and

iii Not pay any interest on the eligible CRR balances maintained by scheduled banks with effect from the fortnight beginning June 24, 2006.

The Extraordinary Gazette notification No.s.o.21(E) dated January 9, 2007 notified January 9, 2007 as the date on which all the provisions, except Section 3, of the Reserve Bank of India (Amendment) Act, 2006 would come into force.

Section 3 the Reserve Bank of India (Amendment) Act, 2006 provided for the removal of:-

- The ceiling and floor on the CRR to be prescribed by the Reserve Bank having regard to the need for securing monetary stability in the country; and
- The provisions for interest payment on eligible CRR balances [i.e.. the amount of reserve between the statutory minimum CRR and the CRR prescribed by the Reserve Bank.

Since Section 3 has not been notified so far, in consultation with the Government, it has been decided:

- That the minimum CRR level of 3.0 per cent and the maximum CRR level of 20 per cent of total of banks' demand and time liabilities remain as per the existing provisions of Section 42(1) of the Reserve Bank of India Act, 1934:

- To exempt those banks from payment of penal interest that have breached the statutory minimum CRR level of 3.0 per cent between June 22, 2006 and March 2, 2007 on account of CRR exemptions reckoned for computation of demand and time liabilities for CRR; and

- To pay interest on eligible CRR balance during the interregnum as follows:

Rate of Interest (In percent)	For the Period
3.5	June 24 to Dec. 08, 2006
2.0	Dec. 09, 2006 to Feb. 16, 2007
1.0	Feb. 17, 2007 until further notice

FOREX

Liberalisation of Export and Import Procedures

In order to facilitate external trade and provide greater flexibility to the authorised dealer category – I (AD Category – I) banks, certain relaxations have been made in the areas of exports and imports and foreign currency accounts. The relaxations are:

EXPORTS

Extension of Time for Realisation of Export Proceeds

AD Category-I banks may now extend the period of realisation of export proceeds, beyond six months from the date of exports up to a period of six months, at a time, irrespective of the invoice value of the export, provided –

- The export transactions covered by the invoices are not under investigation by the Enforcement Directorate/Central Bureau of Investigation or other investigating agencies;

- The AD Category-I bank is satisfied that the exporter has not been able to realise the export proceeds for reasons beyond his control;

- The exporter submits a declaration that the export proceeds would be realised during the extended period; and

- While considering extension beyond one year from the date of export, the total outstanding of the exporter does not exceed USD one million or 10 per cent of the average export realisations during the preceding three financial years, whichever is higher.

The date up to which the extension has been granted should be indicated in the 'Remarks' column of the XOS statement.

In cases where the exporter has filed suits abroad against the buyer, extension may be granted irrespective of the amount involved/outstanding. Cases which do not fall under the above category would require the Reserve Bank's prior approval.

Earlier, AD category-1 banks could extend the period of realisation of export proceeds in certain cases beyond six months, up to a period of three months at a time, where the invoice value of the export did not exceed USD one million or its equivalent.

Write-off Unrealised Export Bills

Status holder exporters can now write-off outstanding export dues to the extent of (i) 5 per cent of their average annual realisation during the preceding three financial years or (ii) 10 per cent of the export proceeds due during the financial year, whichever is higher.

On-site Software Contracts – Repatriation of Funds

Overseas offices/ branches of software exporter companies/firms now need not repatriate to India 30 per cent of the contract value of each on-site contract. The companies should, however, repatriate the profits of the on-site contract after the completion of the contract.

Earlier, software exporter companies/firms were obliged to repatriate to India 100 per cent of the contract value of each off-site contract and at least 30 per cent of the contract value of each on-site contract.

Reduction in Invoice Value

AD Category – I banks can now allow reduction in the invoice value up to 25 per cent of the invoice. In cases where goods have been shipped and are to be transferred to a buyer other than original buyer in the event of default by the latter, the Reserve Bank's prior approval is not required if the reduction in value, if any, involved does not exceed 25 per cent and the realisation of export proceeds is not delayed beyond a period of six months from the date of export.

IMPORTS

Import Bills – Credit Report on the Overseas Supplier

AD Category –I banks now need not obtain credit report on the overseas supplier from his banker/reputed credit agency before processing import bills received directly from the overseas supplier, provided (i) the invoice value does not exceed USD 100,000, and (ii) the bonafides of the transaction and track record of the importer are satisfactory.

GENERAL

Time Base for Trade Related Transactions

Henceforth, 'financial year' (April to March) should be reckoned as the time base for all trade related transactions. To mitigate the mismatch in the time period due to chnge of time base from calendar/previous year to financial year, AD Category – I banks may, up to March 31, 2007 only, reckon the time base which is beneficial to their constituents

How does CRR hike affect market?

What is CRR?

CRR stands for the cash reserve ratio. This is the specified proportion of deposit that a bank has to maintain with the Reserve Bank of India. Last week, RBI announced a 50 basis point hike in CRR in two phases of 25 basis points each in February and early March.

What is the impact of a CRR change?

When there is a change in CRR, the first impact is seen on banks. For, a rise in CRR would mean that a larger proportion of funds will be with RBI, while a fall in the rate will mean a lower proportion will be with the apex bank.

How is the impact on banks evaluated?

There are specific angles that one has to consider while evaluating the impact of CRR on banks. In times of boom, like is the case currently, lending will give a higher rate of return to banks. Hence, if they have to keep a large proportion of their funds away from lending and in the form of a deposit, it is a loss of opportunity for them. This will bring down their earnings.

An increase in CRR would also mean that money is being sucked out of the system. This would mean that funds are hard to come by and hence banks will have to pay more to depositors in order to induce them to keep their funds with banks. This will push up cost of funds for banks. Due to this banks will also have to raise lending rates in order to meet the increased cost while maintaining their margins.

The market will analyse banks on the basis of their margins, and whether they will be able to maintain this going forward. A CRR rise in itself means tougher conditions for banks but what is important is that they should also be able to keep pace with this entire situation. That is the key to the way in which the bank stocks will perform in the market.

How is the impact on other companies evaluated?

There may also be an overall impact on companies in terms of scarcity of funds along with an increase in costs due to which the overall interest charges for capital intensive companies will increase. There is also the worry that a lower lending could lead to a contract in activities, which might slowdown demand in various sectors. This in turn could act as a dampener for several companies. It will also affect share prices of companies that operate in the affected sectors over the medium term.

What does the CRR rate hike do interms of tackling inflation?

A CRR rate hike is a measure used by the RBI to tackle inflation. Inflation normally arises when there is too much liquidity in the system. For instance, the main reason for skyrocketing real estate prices is the availability of cheap funds from banks. If the availability of funds with banks reduces, they will first cut back on loans to risky assets like real estate. This could cool off demand to a certain extent.

'No notice needed for taking possession of secured asset'

In an order that will boost efforts by banks to tackle non-performing assets (NPAs) or bad loans, the Bombay High Court in an important judgment has ruled that no notice or hearing needs to be given to a borrower or a third party when assistance is taken from the chief judicial magistrate to take possession of the secured asset under the Securitisation Act. The secured asset may include residential flats that have tenants, which was the case in the petitions filed before the high court.

The HC said the magistrate should only consider two aspects – one, whether the secured asset falls within his territorial jurisdiction and secondly, whether the bank had given notice to the borrower/defaulter under Section 13(2) of the Act to repay the amount due.

The judgement was delivered by a division bench of Justice Ranjana Desai and Justice Anoop Mohta, while disposing of a bunch of petitions filed by borrowers who had defaulted on loans taken from financial institutions including Indian Bank, UCO Bank and LIC Home Finance.

"At first brush this (measure) may appear harsh," said the judges, adding, "(But) this is the scheme of the Act. It is so framed to achieve its object….(The Act) seeks to take care of the menace of mounting non-performing assets which if not checked would cripple the national economy by blocking public money." The HC went a step further and also laid down guidelines for courts on how to deal with such matters. The judges, said that courts including the high court, should not normally entertain petitions field by borrowers, unless in exceptional cases where there is grave injustice.

When the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act was passed in 2002, NPAs of banks in the country stood at a staggering Rs.1 lakh crore. Instead of going through a lengthy legal process to recover dues from defaulters, the Act allowed banks and financial institutions to take action against the defaulters, including attaching and selling assets.

The Act gives wide ranging powers to the banks to give a notice to the defaulters, and in case the dues are not paid with in sixty days, to take possession of the secured asset and even sell it. Under section 14 of the Act, the bank may take the assistance of the Chief Judicial Magistrate or judicial magistrate to take possession of the secured asset. The orders of the magistrate cannot be challenged in any court as per the provisions of the Act.

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Those who give the most from life's pockets receive the most from God's pockets – if not here and now, then in the hereafter.

Exports from 63 SEZs to cross Rs.21,632 crore

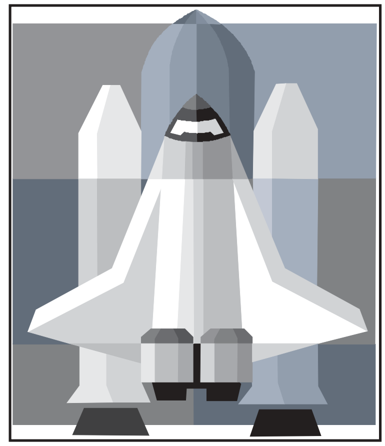
The commerce ministry has projected Rs.21,631.94 crore worth of exports from the 63 special economic zones (SEZ) which have been notified since February 2006. Till date, Rs.13,435 crore has been invested in these zones. In addition, the ministry has also estimated a 20 per cent increase in export earnings from all the SEZs at Rs.67,299 crore, over Rs.22,309 crore in 2005-06. Export figures of SEZs in 2006-07 are being compiled.

According to the commerce ministry projections, the seven government SEZs are likely to export goods worth Rs.25,550 crore in the financial year 2007-08, which is 30 per cent higher than Rs.19,656.7 crore in 2005-06. Zones which were set up prior to the SEZ Act in February, 2006, are expected to increase their exports by 532 per cent to Rs.20,117.68 crore in 2006-07, compared to Rs.3,182.86 crore in 2005-06. At the moment there are 12 such zones while in 2005-06, only eight of them existed.

Among the 63 notified zones, which came into existence after the SEZ Act, the Flextronics' electronic hardware zone near Chennai has the highest projection of exports at Rs.6,901 crore. The 440-acre zone has seen investments worth Rs.200 crore till now. The 247 acre Essar-Hazira zone for engineering products in Gujarat is expected to garner exports worth Rs.3,300 crore. Already, Rs.2,000 crore has been invested in the SEZ.

The third is the EON Kharadi Infrastructure zone near Pune for IT and ITeS, which is likely to see exports of Rs.3,000 crore in 2007-08. The present investments in the 18-acre SEZ stands at Rs.184 crore. Other zones with high export earnings projections include the Serum Bio-pharma park in Pune (Rs.1,200 crore) Moser Baer SEZ in Greater Noida (Rs.895 crore) and Mundra port zone in Gujarat (Rs.639 crore).

EGoM clears 83 SEZs



The empowered group of Union ministers (EGoM) on 6th April' 07 lifted the political freeze on special economic zones permitting the commerce ministry to approve and notify more zones. However, while doing this, the government imposed a cap of 5,000 hectares on the maximum permissible land size of a zone, directly impacting the plans of four large developers-Reliance Industries, Gujarat Positra and real estate firms DLF and Omaxe. The state government have also been given the flexibility to reduce the land size from the new limit.

The EGoM, which is headed by Minister of External Affairs Shri Pranab Mukherjee, was attended by Union ministers Shri Kamal Nath and Shri P Chidambaram, among others. The EGoM was set up last year. Shri Nath said states would no longer be able to compulsorily acquire land for SEZs under the Land Acquisition Act, barring zones they propose to set up on their own. Private developers will now have to directly buy land from farmers and other owners. The rural development ministry is already working on amending the Act. The EGoM, whose decision cover's all existing and proposed zones, also ordered that 50 per cent of the land size of a zone be earmarked for core economic activities. This minimum processing area limit has been fixed at a uniform level for multi-product and sector-specific SEZs. Earlier, the processing area for multi-product zones was set at 35 per cent, with the provision for relaxing it to 25 per cent. In effect, developers will now have less land to set up malls, shopping areas, schools and hospitals in multi-product zones. The ministers also decided that a comprehensive rehabilitation policy would be put in place to provide employment to at least one from every displaced family.

The ministers also cleared 171 SEZ proposals that already have formal approvals for notification. *"We have decided that 83 zones, which have been verified for all issues including land disputes, will be notified shortly. Another 88 formally approved zones will be notified once they complete procedural formalities,"* said Shri Nath. Of the 83 zones, 54 have been cleared by the law ministry. Formally approved zones have to get five separate clearances, apart from a law ministry clearance, before they can be notified. It was also decided that all pending zones (350 at various stages of approval) can be processed further. The next Board of Approval meeting for fresh proposals is expected mid-May. None of the 63 already notified zones are affected by this change. Several developers, including DS Constructions and New Kolkata International Development Pvt. Ltd. in Haldia, West Bengal, have not been affected by the imposition of land cap as the proposed zones are of only 5,000 hectares. The 234 SEZs with formal approvals would require 33,808 hectares of land – 17,800 hectares is already in the possession of state agencies, the rest is with the developers. The zones will require investments to the tune of Rs.3,00,000 crore and create 4 million jobs.

SEZ exports grow 52% to Rs.35k crore

The exports from special economic zones (SEZ) in 2006-07 were Rs.34,787 crore, a 52% growth over Rs.22,840 crore worth exports in 2005-06, Shri LB Singhal, director general, export promotion council for EOUs and SEZs said. He said that the exports from SEZs are expected to touch Rs.76,300 crore this fiscal and projected that the figure would be Rs.1,00,000 crore by 2008-09. In the 63 SEZs which were notified earlier, an investment of Rs.13,435 crore has already been made and 18,457 people have been employed. By December 2009, it is expected that in he 63 SEZs, a total investment of Rs.53,500 crore will be made and 15.75 lakh people would be employed. Altogether 92 SEZs have been notified so far.

Shri Singhal said in the 234 SEZs which have been formally approved an investment of Rs.3 lakh crore is expected to be made and they are likely to create 40 lakh additional jobs. The officials said mostly rural people were given employment in SEZs like Mahindra Worldcity and Nokia India Ltd. in Chennai, Brandix Apparels, Hyderabad Gems and Apache SEZ in Andhra Pradesh. He said several SEZ developers have asked the commerce ministry to ensure that single window clearance facility with the state government authorities is made operational and effective.

* * *

The tougher the problem, the more reason to ask the all-knowing, all-wise, all-loving God for guidance.

MISCELLANY

What is IMF and its role ?

What's IMF and its role?

The International Monetary Fund was set up along with the World Bank after the second world war to aid in the reconstruction of the war ravaged countries. The leaders felt that financial stability was best achieved when the countries worked in an environment of interdependence. The two organizations were agreed to be set up in a conference in Bretton Woods in the USA. Hence they are known as the Bretton Woods twins. The IMF was supposed to oversee and monitor the economic performance of the member countries and warn them of any developing economic crisis. There are 147 members of the IMF as of now.

If any crisis does develop and the country approached the IMF for help, the organization chalks out a recovery plan including imposition of conditions for keeping the economies on a particular path.

What are the conditions?

The IMF conditions or conditionalities have drawn a lot of criticism for apparently prescribing a market oriented economic reforms programme. But the IMF says some of the essential tenets of economic development do not change with the change in the nature of the economy. Plus several countries have also said these are too harsh and impose an undue penalty on the domestic population. The IMF says since the problem has been created by the local political structure, it is up to it to explain why the correct economic policies had been abandoned in a pursuit of populism. The course corrections are like medicines that have to be administered.

In the absence of any other mechanism so far, countries that have suffered economic stress have had to submit to the IMF doctrine. Mexico, Russia, Argentina, Brazil and even India have gone under the scalpel.

When did India take the IMF bail out package?

The Indian government, faced with a balance of payments crisis, in 1991, took a loan and agreed to reforms. The liberalization in the economy was partly a concomitant of that need. The IMF report is part of its mandate under its article IV of its constitution. The Fund holds consultations with the finance ministries and central banks of each IMF member countries, annually for its spring meting in Washington.

The decision of the IMF to intervene in any country is based on the governing board's decision. The voting rights are determined historically by the economic strength of the countries. India, because of its rapidly growing economic clout has demanded a re-drawing of the voting rights, but that did not happen at the recent Singapore meeting. Instead the Fund gave ad hoc voting right increase to China, South Korea, Turkey and Mexico. It has promised a longer term revision in another two years.

What role is the world bank supposed to perform?

It works to provide soft loans for development of social and economic infrastructure to countries. It also has a set of conditions that it often follows and broadly follows the IMF prescription.

How does the IMF assess the India economy now?

The International Monetary Fund has projected a 6.75% rate of growth of the GDP for India in 2006-07, lower than that of 2005-06, because of higher oil prices and rising interest rates. But it also says the high growth phase has given the government ***"a golden opportunity"*** for implementing reforms agenda including quick removal of tax exemptions and fast introduction of the Goods & Services Tax. It has also noted that the government has indicated it will progressively ease foreign investor's access to domestic equity and debt markets, and permit more liberalization of outflows of funds. The IMF report has asked for reduction in customs tariff, a switch to specific tax for the petroleum sector instead of the current ad valorem taxes, more space for foreign investment including insurance retail, and *"reforms of restrictive labour laws*". Acknowledging the political obstacles such measures could face, the report says *"such reforms will require building political consensus but are key for India to fully utilize its positive demographics"*. It says that after the promising start to the reforms programme under the present UPA government, including introduction of VAT, the pace has slowed. This includes "privatization, slowed liberalization of foreign investment and power sector reforms". Pointing to the forthcoming assembly elections in the left party dominated West Bengal and Kerala, it says *"the near term prospects for moving ahead with broader reforms are uncertain"*.

It has also flagged the need to allow public sector banks to lower government holding below 51% to raise additional capital, to strengthen themselves. Lauding the fastest rise in credit in Asia in 2004-05, recorded by the banking sector, as well as reduction in NPAs of the commercial banks, plus a moderate inflation, the IMF has also warned about several risks facing the economy. It has said India's dependence on FII money over FDI with a rising current account deficit means the country is *"more susceptible to change in investor sentiments"*. At the same time the high foreign exchange reserves and the existing restriction on capital controls were safety valves, in this respect. The rapid credit growth of the last few years *"bears close monitoring"*, needing tightening of prudential regulations. It has appreciated the RBIs increase in risk weightage for housing loans. It has also asked for more vigilance in macro economic policies.

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You can only make one success of yourself, but you can help make many successes by inspiring and encouraging others.

To live long, it is necessary to live slowly.