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## CONTENTS

From The Editor's Desk .....	2
Appointments .....	4
Letter to the Editor .....	5
Empowerment Of The Poor Adivasis-Bastar District-A Case Study "Of Logs And Men" .....	6
Profile of Member Corporations (ANIIDCO) .....	12
Member Corporations- Their Activities .....	14
Questions of Cyberquiz~21 .....	14
News from States .....	15
Do You Know? .....	17
Success Story of M.P.F.C. Assisted Unit .....	18
Economic Scene .....	19
Tips Every Small Business Should Know .....	21
Activities of Cosidici .....	22
Micro, Small and Medium Enterprises .....	24
Infrastructure .....	28
All India Institutions .....	31
Legal Issues .....	35
Miscellany .....	36

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



## From The Editor's Desk

### 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.

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.



*Shri K.K. Mudgil*

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 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 locked 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 inspite of the infrastructure available, 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 possess 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 Primary Agriculture Credit

Societies (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's 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 emphasize 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 in 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 godowns as also construction of warehouses etc. In this way, the commercial bank shall be able to fulfil this target of lending 18% of their total 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.

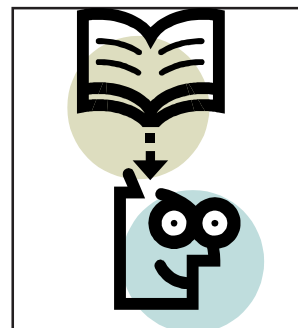
  
 ( K.K. MUDGIL )

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## APPOINTMENTS

- ◆ Shri Rajendra Bhanawat, IAS has been appointed as Managing Director, Rajasthan State Industrial Development & Investment Corp. Ltd. (RIICO), Jaipur vice Shri Alok, IAS.
- ◆ Smt. Vandita Sharma, IAS has been appointed as Managing Director, Karnataka State Industrial Investment & Development Corp. Ltd. (KSIIDC), Bangalore vice Shri N.C. Muniyappa, IAS.
- ◆ Shri Sita Ram Meena, IAS has been appointed as Managing Director, U.P. Financial Corporation (UPFC), Kanpur vice Shri Jagdish Rai, IAS
- ◆ Shri Manoj Kumar, IAS has been appointed as Managing Director, Himachal Pradesh Financial Corporation (HPFC), Shimla vice Shri Sanjay Gupta, IAS
- ◆ Smt. Archana Arora, IAS has been appointed as Managing Director, Andaman & Nicobar Islands Integrated Development Corp. Ltd., (ANIIDCO), Port Blair vice Shri Arvind Ray, IAS
- ◆ Shri A.R. Makroo has been appointed as Managing Director, J&K State Financial Corporation (J&K SFC), Srinagar vice Shri Ramesh Kumar Koul, IAS.



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## LETTER TO THE EDITOR

November 26, 2009

Dear Editor,

I have received your letter of 23rd instant together with the latest issue of "COSIDICI COURIER". I am glad to know that you have been editing the magazine for more than a decade. My congratulations to you.

I have read your article about Mangalam Cement. It is very interesting - as also very appreciative. I am aware that you have been a Director in the Board of Mangalam Cement for about 9 years. Your advice has always been beneficial to the company. My thanks to you for taking active interest in the company.

With my good wishes and regards,

Yours sincerely,

Sd/-

( **B.K. BIRLA** )

Chairman, B.K. Birla Group  
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Kolkata-700001

*Technology is the  
non-linear tool available to  
humanity which can effect  
fundamental changes in the ground  
rules of economic competitiveness*

.....Dr. APJ Abdul Kalam



## EMPOWERMENT OF THE POOR ADIVASIS - BASTAR DISTRICT - A CASE STUDY "OF LOGS AND MEN"

Devindar Nath, IAS \*

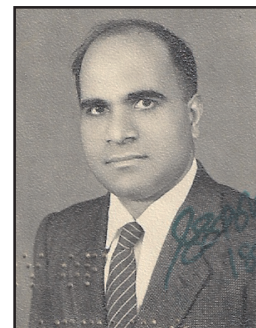
Towards the end of the year 1955, Bhanupratappur, a tahsil in Bastar District, was the scene of unprecedented exploitation of the Adivasis. Rapid changes in law gave these simple people ownership over teak trees, valued at more than a crore of rupees. Each of the tenure-holders found himself in possession of property worth several thousands of rupees, but in their ignorance and illiteracy, they were neither conscious of their rights of property, nor had they any realization of its value. Timber merchants belonging to different parts of the country made their appearance in the villages and purchased timber from the Adivasis for small sums. Gangs of labourers were employed to fell trees in the cultivators' fields, and transport of teak on a large scale started. The Adivasis were not paid

even a small fraction of the value of their teak. Consequently, the loss which the people of the area had to suffer was more than Rs. 50,000 every day.

The stage was set for complete denudation of the Adivasis' fields of their valuable teak. In a few months, they would have lost all their

timber; and the contractors, who had already amassed considerable wealth, would have made fortunes. The Collector, who took over in December, 1955 was astounded by the unusual situation. Groping for a solution of the problem, he made up his mind to take immediate action without waiting for any instructions

from higher authorities. He had no illusions about his powers. He knew that ultimately the action taken by him would have to be tested on the touch-stone of law and that, in the event of a wrong step; he could expect no protection from any quarters. Surveying the situation and seeking light from whatever little experience he had, he ultimately took drastic measures in less than a fortnight of his joining the district, and put a stop to all the exploitation. The aftermath of his action engaged his attention for the



Shri Devindar Nath Ji (IAS)

next two and a half years, when a variety of unexpected problems posed a series of challenges. Strangely enough, the fields of the Adivasis contained teak trees as valuable as those found in government forests.

In Bhanupratappur and Kanker tahsils of Bastar District, the cultivators,

at the instance of timber contractors, acquired Malik Makbuza rights under the M.P. Abolition of Proprietary Rights Act, 1951. Applications were then made in their names for permission to dispose of the trees standing on their fields. In the meantime, M.P. Land Revenue Code was finally published on February 12, 1955. Under

**The young collector of Bastar District (*Madhya Pradesh*) full of missionary zeal and imbued with the spirit of public service came face to face with the abject poverty and deprivation of Adivasis and without loss of time plunged into the field to alleviate their sufferings. The 'case study' illustrates clearly how a vigilant district officer could take quick action to protect the interest of the tribals against the unscrupulous timber contractors. What the young civil servant did is a tribute to his sense of equity and fair play as well as to his initiatives and dynamism. The experiment launched by Devindar Nath is a path breaker for the development of rural areas and has always served as source of inspiration and motivation for the civil servants. This case study has an added significance, since Shri Devindar Nath unfortunately passed away prematurely at the young age of 46. This study has been utilized in many training programmes and used as reference material in Civil Services Training Academy. Our country today needs atleast one thousand devinder naths to revitalize the rural economy and thus bring cheers in the lives of rural masses.**

Editor

*\* The author was an IAS Officer of 1949 batch. This was his first charge as District Collector. This experiment was scripted by Shri Nath after demitting his charge as Collector and was presented in third person. Since the study runs into 45 pages, it has been suitably edited and abridged without losing sight of its essence.*



the M.P. Land Revenue Code (1955) all Malik Makbuzas, who were to be known as Bhoomiswamis, were to have full rights over the trees on their holdings. Even earlier, the Government had issued instructions to the Collector in May 1955 that ownership rights over trees should be given to Malik Madbuzas without charging any premium for the trees in the holdings, and that no permission was required for cutting such trees. This was a green signal to the timber contractors, who had been waiting for such an opportunity.

The “teak rush” started and the Bhanupratappur area witnessed an exploitation, the like of which has rarely been seen anywhere in the country. Timber contractors fanned out in all the villages of the tahsil. They gave petty sums to the cultivators, and obtained their thumb impressions on all sorts of bogus documents, which were later regarded by the contractors as contracts. Under these agreements, they claimed rights over the Adivasis’ timber and started felling the trees and transporting the logs on a large scale. Almost every Adivasi cultivator soon found himself in the clutches of a timber contractor. The Adivasis had no idea of the value of their timber, and they readily believed, whatever misrepresentations were made to them by the contractors. There was hardly any resistance from the poor and helpless Adivasis to withstand the pressure of a powerful contractor and would make efforts to free himself from the exploiter’s hold wherever any resistance occurred it was suppressed by the police and local administration to help the contractor.

Towards the close of the year 1955, the new Collector took over in the district. He lost no time in rushing to the scene of exploitation and spent several days and nights visiting various villages, meeting cultivators and making an assessment of the situation on the spot. The picture that unfolded itself before him was breath-taking. Initial assessment, on the basis of the information gathered in the course of his tour, revealed that in the villages, visited by him, teak trees worth Rs.2 lakh were sold by 85 cultivators to timber contractors for Rs.12,823. The position in other villages of the tahsil was no different. The trees were being recklessly cut and timber transported. It was estimated that nearly 50 trucks were daily removing about 7500 c.ft. of timber away from the fields of the Malik Makbuzas, in Bhanupratappur tahsil. A reasonable price for this quantity of timber was about Rs.55,000 against which the Adivasis had not been paid anything more than Rs.5,000. thus the loss being caused to them was about Rs.50,000 per day. Apart from trucks, bullock carts were also employed for carrying away timber. The loss would have further increased with the acceleration

of operations contemplated by the contractors. One of them, when questioned by the Collector, claimed that he had entered into contract with 1500 cultivators with regard to 15,000 teak trees with nearly 3 lakh c.ft. of timber. He was one of 86 traders, operating in the area. Even though others had not spread their tentacles on such a wide scale, the timber that they claimed under their agreements was considerable. The situation was serious and immediate action was necessary.

It was clear to the Collector that he had to act on his own. The legal position being as it was, no orders from Government could be expected. He also knew that the rich timber contractors had the best legal advice available to them and that his action would be challenged in a court of law. At a distance of nearly 130 miles from the district headquarters, he could not even consult the Government pleader. He thought long and earnestly about the steps that could be taken, and pored over the Land Revenue Code and other enactments in the hope of getting some guidance. At long last, a course of action suggested itself to him. Under the MP Land Revenue Code, a Bhoomiswami belonging to an aboriginal tribe cannot transfer any interest in his land to a person not belonging to such a tribe without the permission of the Collector. Land, as defined in the Code, includes “*all things attached to or permanently fastened to anything attached to such land*”. Standing trees could thus be regarded as forming part of the land and the transfer of rights in them required the Collector’s permission. Such permission had never been sought and never given. The contracts for the transfer of rights of the Adivasis in trees could, therefore, be regarded as void.

It was also discovered that the contractors, while taking timber out of the cultivator’s fields, had removed valuable timber from adjoining government forests as well. There was no clear demarcation between government forests and the holdings of cultivators. In some cases, where patwaris had unauthorizedly made such demarcation, no record to that effect had been kept and no authority could accrue to the contractors to extract timber from the disputed areas. It was necessary to conduct investigations into all thefts of timber from Government forests. Till these investigations were completed, the contractors could certainly be asked not to remove any timber, claimed to have been purchased by them.

The Collector was clear about his primary objective. He wanted to bring the movement of timber to a stop, without any loss of time. Other issues could be attended to later. The tempo of the contractors’ business was fast increasing, and the Collector did not



want to delay his action even by a day. He had, however, to give his action a legal colour. Ultimately, it would have to be defended in a court. As soon as he felt that the proposed action was within the framework of law, he made up his mind to take the stand that the contracts of timber merchants with the Adivasis were void and that they could be asked not to transport the timber till investigations into the offences of theft were completed. A meeting of timber merchants was called for by him at Bhanupratappur. All the contractors came to the meeting. The atmosphere was tense. The Collector gave anxious thought to what he was to say to the contractors at the meeting. He knew that every word of his would be quoted in the High Court and he was determined not to be drawn into any argument. He told the contractors that under the relevant provisions of the M.P. Land Revenue Code, their contracts with the Adivasis regarding the timber trees in their holdings were void. He also told them that thefts of timber from government forests had been reported on a large scale and he asked them not to remove any timber from wherever it was lying till the investigations were completed. The contractors wanted to start a discussion, but it was disallowed. One of them wanted the order to be conveyed in writing. It was made clear to him and others that no orders were being passed and that only the legal position was being explained, which the contractors were free to accept or not to accept, at their own risk. The meeting was brought to an abrupt end and the contractors dispersed.

Immediately after the meeting with the contractors, the Collector called a meeting of the officials of the various departments, who having been drawn from other parts of the district, were now to take up their assignments in specified villages of Bhanupratappur tahsil. It was intended that a Tribal or Social Welfare Inspector should be stationed in a group of 3 or 4 villages. A Tahsildar or a Naib-Tahsildar, with a jeep at his disposal would be in supervisory charge of three Inspectors; and two trusted Deputy Collectors would assume responsibility of controlling the situation in their respective areas in the tahsil. The Sub-Divisional Officer at the tahsil headquarters was to coordinate the work of all these persons and establish liaison with the police and forest officials, whose strength was also considerably augmented by shifting persons from other tahsils.

The instructions given to the officials at the meeting were simple and clear. They were not to give any orders to anybody in writing, but were to keep a vigilant eye on what was happening in their areas and were to make sure that not a log of timber was removed. If they saw any movement of timber, they were to send words

immediately to the local police officer. If cases arose where the police failed to take action, their supervisory officers were to send intimation without delay to the Collector. It devolved on the police officials to create an atmosphere in which no trucks/or carts could carry timber for timber merchants. This could be easily done.

These measures vigorously enforced by a large number of officials spread over the entire country-side, brought the movement of timber to a dead stop. It could proudly be claimed on the morrow of the meeting of the timber contractors that not a log was going out from the fields of the Adivasis.

The Collector sent regular reports to Government regarding the happening in the district. Some of the timber contractors gave a distorted account of what had happened in the district and sought Government's interference in what they described as the Collector's high-handedness. Several Ministers visited the district and, after a study of the situation, they were fully satisfied with the propriety of the action taken against the contractors. The Chief Minister called the Collector to the State capital, applauded his action and told him that he could be sure of Govt.'s support. He was asked to go ahead with the implementation of the various measures considered necessary for stopping exploitation. The Chief Minister also instructed the Inspector General of Police and the Chief Conservator of Forests to make available, whatever staff was needed in the district to assist the Collector in the drive, launched by him for preventing exploitation.

Soon the scene shifted to the High Court, where a contractor filed a writ of mandamus against the Government and the Collector. In the hearing before the High Court, the Collector denied that there was any general order prohibiting the petitioner from removing the trees from Malik Makbuza holdings. It was contended by him that many reports of theft and cheating were made to the local officers and that he had asked the contractors not to remove the timber until an enquiry into the reports was completed. It was also stated by him that many of the inhabitants of the areas being aboriginals, the sales conducted by them were not valid for want of proper sanction. The High Court dismissed the petition on February 28, 1956. The contractors realized that it would no longer be possible for them to dupe the Adivasis and to take timber away from their fields. Investigations by the police into the reported cases of thefts from the government forests unnerved the contractors. The tide was visibly turning against the contractors who finally threw in the towel and approached the Collector with a request to fix another meeting for an amicable settlement of the problem.



A meeting between the Collector and the timber contractors was called again at Bhanupratappur on March 17, 1956. The Conservator of Forests and various District Officers were also present. At the meeting, the contractors accepted the position that, in view of the judgement of the High Court delivered in the writ of mandamus, they have no right over the standing trees of the Adivasis' holdings. They were, therefore, agreeable to wash their hands of such timber as well, if they could get back the amounts paid by them to the cultivators and the legitimate expenses incurred by them on the felling, logging and carting of timber. After a long discussion the contractors agreed to a flat rate of six annas per cubic foot as their expenses on felling, logging, supervision etc. This was a very reasonable figure.

At the meeting, the contractors also agreed to the suggestion made to them that each individual contractor should apply to the Divisional Forest Officer, intimating to him in each case that he would have no objection to the sale of the Adivasis' timber by public auction after it was brought to the government depots. A similar application would be put in by the tenure-holder concerned. This procedure was laid down in order to obviate all legal complications about the sale of the Adivasis' timber through government depots. Several of the contractors filed applications in accordance with the agreed procedure but some of them were still recalcitrant. There was no way of dealing with them except by new legislation. The Collector was very keen that an Ordinance should be passed, prohibiting purchase of timber by any person without the previous consent of the Collector, who might be authorized to fix such price as he considered reasonable before he allowed the timber to be purchased. He also wanted powers to be given to him to detain and hold enquiry regarding any timber going out of the district or being in transit in the district, with a view to ascertaining that the timber had not been purchased from an aboriginal. The proposals for such an Ordinance were sent by him on January 02, 1956. The State Government were prompt to respond to his request, and on January 18, 1956, they sent the draft Ordinance to the Union Ministry of Home Affairs for approval. After complying with the necessary requirements, a Bill known as M.P. Protection of Scheduled Tribes (Interest in Trees) Bill, 1956 was passed and came into force in June 1956.

This Act was unique in so far as it forbids a contract with a tenure-holder belonging to the aboriginal tribe for the sale of timber of specified trees in his holdings, without the written permission of the Collector. The Collector was not to grant such permission unless he was satisfied that consideration for the contract was

adequate and unless the full amount was paid to the cultivator in his presence. In regard to old contracts for transfer of interest in specified trees, the Adivasi tenure-holder was authorized to apply to the Collector for cancellation of such contracts on the ground that the consideration therefore was substantially inadequate. On receipt of such an application and after completing enquiries and going through certain requirements of law, the Collector could pass a final order cancelling the contract, thereby giving full rights to the tenure-holder on the timber lying in his holding. Contravention of the provisions of the Act was made a cognizable offence, punishable with rigorous imprisonment, extending to six months, or to a fine upto Rs.2,000.

The Collector took immediate advantage of the provisions of the new Act. He called subordinate officers and instructed them to persuade the aboriginals to apply for the cancellation of their old contracts, both for standing trees as well as the timber lying in their fields. Such applications from the Adivasis came thick and fast. They were sent in bundles through special messengers to the Collector at the district headquarters. On the basis of these applications and after completing all the legal formalities, such old contracts were cancelled by the Collector. With these orders passed, the contractors were completely out of the picture. In this manner, hundreds of contracts for varying amounts were finally cancelled in a short time.

An unexpected hitch came at the stage when the Adivasis were required to deposit the amounts due from them in accordance with the Collector's orders. The Adivasis had no money for such payments. A way out was found by getting the Co-operative Bank, Raipur to take interest in the affair. The Bank agreed to open a branch in Bhanupratappur tehsil and advanced to the cultivators the amounts required by them for deposit with a view to getting their contracts cancelled. This was a great help to the Adivasi tenure-holders.

With timber contractors out of their business, an alternative agency was necessary for disposal of the timber of the Adivasis. Even before action was taken by the Collector against timber contractors, the Conservator of Forests had made proposals to the Chief Conservator for getting Government's sanction for the opening of government depots for the sale of the Adivasis' timber, through the Divisional Forest Officer, in the same manner as Government timber was sold. The Collector thought that the sale of timber of the Adivasis through government depots would bring them large sums of money and he moved the Government for immediate orders on the proposals of the Chief Conservator of Forests. The Government agreed with



the proposal. In the beginning of 1956, an imprest of Rs.50,000 which was later increased to Rs.2 lakhs and then to Rs.4 lakhs, was placed at the disposal of the Divisional Forest Officer to enable him to pay 60 percent of the estimated price to the tenure-holders as advances against the logs brought by them to the depots.

The first auction of the Adivasis' timber in government depots was an important event. The dates for the auction were fixed for April 30, May 1 and May 2, 1956. For the Forest Department, it was a novel experience to auction timber in small lots belonging to individuals. The purchasers were not used to offering bids for such a large number of lots. The outcome of the auction would have determined the attitude of the Adivasis towards the steps that were being taken to facilitate the disposal of their timber. Fortunately, the results of the auction were most encouraging. The sale of small lots did not affect the price obtained for the timber. 24,500 c.ft. of teak were sold for Rs.1,35,400 thus fetching an average price of Rs.5.50 per c.ft. Compared with the ridiculous price of a few annas per c.ft. of teak which the cultivators were getting from the contractors, this was a windfall for them.

Transport of felled timber from the fields of the Adivasis to the government depots was comparatively easy, but now regular and systematic felling of standing trees in the holdings of the Adivasis had to be taken in hand and their timber disposed of. The fields were often indistinguishable from Government forest; and unless the boundary was first determined between the forests and the cultivators' fields, trees could not be allowed to be cut. The Collector organized several teams of Government Deptts. to demarcate cultivators fields from forest land to facilitate felling of trees. The cartmen were engaged and each cultivator would go with the cartmen taking to the government depot all the timber felled from his holdings. Receipts were obtained by him from the manager in charge of the depot and advances were given to him, so that he could pay the cartmen and the gang of labourers engaged for felling the trees on the basis of the accounts maintained on his behalf. In this manner holding after holding in each village was covered till the entire work of the felling, logging and transport of timber from all the fields of the applicants in a particular village was completed.

This work continued throughout the open season of 1956-57. The timber collected in government depots was auctioned several times and good price was received each time. By the end of 1957, the timber of the Adivasis auctioned in government depots brought a total sum of Rs.24 lakhs.

After each auction, a few lakhs of rupees had to be disbursed to the Adivasis for their timber sold through the government depots. The Collector wanted to adopt

a system which would not throw temptations in the way of the various officials involved in this process. He himself was present at the time of each disbursement. A big pandal was put up and payment to the Adivasis was made in accordance with a prescribed procedure. On the appointed day, alongwith scores of Adivasis who were called to receive payment, hundreds came to see the fun. Outside the pandal, there would be a big mela. The names of cultivators were called out, one after another. Each of them first came to the disbursing officer, who under the watchful eye of the Divisional Forest Officer, paid him the sale proceeds of his timber, after deducting advances and supervision charges at the rate fixed by the Government. His acknowledgement was obtained and a chit was given to him containing his account, which was also explained to him. Carrying all his money, he then moved to the next table. Here, the Manager of the Cooperative Bank received from him the loan given to him. The Manager gave him a receipt and the Adivasi proceeded to the third table, where the Sub-Divisional Officer checked up his account and tallying it with the cash in his hand, asked him how much of his money he would like to deposit in the Postal Savings Account or the National Savings Certificates. Very often the Adivasi, at this stage, would say that he required all the money for his use. The Sub-Divisional Officer would get from the Adivasi himself the estimated expenditure on his needs and it would be found that it never worked out to more than a few hundred rupees, while the Adivasi held in his hand several thousand rupees. Beaten in this argument, the Adivasi invariably agreed to keep the remaining amount in deposit in the Postal Savings Account or the National Savings Certificates. The postal clerk sitting next to the Sub-Divisional Officer's table gave the Adivasi National Savings Certificates or the Postal Savings Account Book, showing the amount deposited by him. He then went to the next table where all the receipts given to him for the various deductions and deposits were checked up by the Additional Collector or a senior Deputy Collector, and the actual cash in his hand, which he was to carry home, was verified with reference to these receipts and the actual disbursement made to him. It would thus be established to the complete satisfaction of the last verifying officer that no trick had been played on the Adivasi at any stage. All the while, the Collector moved from one table to another and carried out test check of the cash with the Adivasi on the basis of the documents in his hand.

It was a novel experience for the local officials of the postal department to have one to two lakhs of rupees deposited in the Small Savings Accounts or invested in National Savings Certificates on each day of disbursement of the sale value of timber to the Adivasis. By the end of 1957, these deposits amounted to Rs.10 lakhs. Many persons who had never handled more than



a few rupees at any time in their lives now had deposits of thousands of rupees. The Collector was worried that the Adivasis might be induced by unscrupulous persons to withdraw their money and waste it for trivial purposes or allow themselves to become victims of some other kind of exploitation. There was also the danger that, at the time of withdrawal of their deposits, the postal clerk might make false entries in the accounts and misappropriate the Adivasi's money. The Post Master General, who visited Bastar about this time, shared the anxiety of the Collector on this point. He agreed to the suggestion that no withdrawal should be allowed unless the form of the withdrawal was attested by the Sub-Divisional Officer. No orders could have been issued by him to this effect in a formal way since such a procedure was not authorized under any existing regulations, but he gave oral instructions to his subordinates at Bhanupratappur to follow this procedure strictly and not to make any departure from it under any circumstances. His oral instructions were effective. The Sub-Divisional Officer would personally satisfy himself about the genuineness of the need of an account holder before allowing the withdrawal of even a small sum and would verify the pass book after the withdrawal was made.

In his efforts to stop the exploitation of Adivasis, the Collector had halted transport of felled trees on the ground that thefts of timber from government forests were suspected and pending investigations, felled timber would not be allowed to be moved. This problem of theft from government forests was a real problem which arose out of the "teak rush" into Adivasis' fields. The thefts were committed by contractors in the course of extraction of timber from the fields adjoining government forests. It was necessary to have a correct assessment of the situation. Immediately after stopping the movement of timber, the Collector put thirteen experienced officials of the land records department to carry out a survey of the boundaries between the fields and the forests in all the villages in Bhanupratappur tahsil and in two circles of Kanker tahsil. The survey revealed thefts of nearly 2500 teak trees of a very good variety from government forests. Their value was assessed by the forest officials at Rs.17 lakhs. The timber contractors, while exploiting the Adivasis, had also made money at the cost of Government.

At the instance of the Collector, the State Government posted special C.I.D. staff in the area to expedite investigations and follow-up action. The work of this special staff for nearly two and a half years was commendable. In Bhanupratappur tahsil alone, 304 offences, mostly relating to theft of timber from government forests, were registered. 137 cases were sent to the court and 68 out of them ended in conviction. To a very great extent, it was the fear of prosecution in

criminal cases that had made the timber contractors inactive after their first meeting with the Collector on December 21, 1955.

The Collector next turned his attention to the utilization of the deposits made by Adivasis out of the sale proceeds of their timber. It was felt that the best course would be to effect permanent improvements in the holdings of the Adivasis and increase their income on an assured basis. Experienced staff of the agriculture department was asked to contact every cultivator having deposits to his credit, and to inspect his fields for preparing detailed plans for improved cultivation. The income could also be supplemented by providing milch cattle. Proximity of the area to the mining zone of the Bhilai Steel Plant was bound to give a very good return for the milk products, vegetables and fruits. After a detailed study, plans were got ready for improvements that could possibly be made in the fields of every Adivasi who had deposits in the Post Office.

The Adivasis' savings could have provided the funds needed for investment in agricultural improvement. The Collector was however, apprehensive of allowing such a direct investment. He thought that the Adivasis would be slow to realize that improvement in their cultivation would mean increased income for them. They would think, he feared that the money given to them with one hand was being taken away with the other. A way out of this difficulty had to be found. So the Collector proposed that the Adivasis might be given the usual taccavi loans by Government on the security of their National Savings Certificates. Normally taccavi could not be given to them because of the very low value of their land holdings. With the collateral security in the form of National Savings Certificates, there was no risk in making such advances. The Government accepted this proposal and sanctioned the advances for the purpose.

It was hoped that during the following four or five years, the taccavi loans would be repaid by the Adivasis out of the additional income generated by their investments and it would neither be necessary nor practicable for the Adivasis to cash their National Savings Certificates. This was calculated to create in them the habit of regarding their deposits as reserves, to be used only as security for obtaining funds for investment. If the scheme succeeded, the income of each Adivasi from his land would considerably increase, perhaps three or four fold, with the savings as reserves remaining intact.

The Collector thought the scheme was admirable; in it, he saw a logical conclusion to the measures taken by him against the exploitation of the Adivasis.

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# PROFILE OF MEMBER CORPORATIONS

## ANDAMAN AND NICOBAR ISLANDS INTEGRATED DEVELOPMENT CORPORATION LIMITED (ANIIDCO)

### AIM

**A**ndaman and Nicobar Islands Integrated Development Corporation Limited (ANIIDCO) was incorporated on 28<sup>th</sup> June 1988 under the Companies Act 1956 for rapid economic growth of the Islands. The main objective of the corporation is to develop and commercially exploit the natural resources for the balanced and environment friendly development of the territory. The area of operation is in the following sectors:-

**Fisheries:** To improve fishing infrastructure and marketing;

**Tourism:** To improve infrastructure and promote tourism;

**Finance:** To provide financial assistance to industries;

**Industry:** To promote industrial development;

**Supplies:** To improve supply of important raw materials, essential commodities, consumables with view to stabilize the market and provide these goods to people at reasonable prices.

### MISSION

To facilitate integrated development of islands and to serve the people by providing products and services of superior quality at a fair price.

### OBJECTIVES

- ◆ To develop and commercially exploit the natural resources of the territory for the balanced and environmentally sound development of the territory, operating on sound business principles.
- ◆ Achieve balanced development in the area of Fisheries, Tourism, industries and trade.
- ◆ Facilitate entrepreneurship in the Islands.
- ◆ Maximise employment to improve standard of living of the people.

### SERVICES

- ◆ Extend financial assistance in the form of loan and equity to entrepreneurs for setting up of industrial concerns.

- ◆ Operate Megapode Nest a 28 room hotel accommodation with all modern facilities.

- ◆ Operate Package Tours to different destinations.

- ◆ Production and distribution of milk and milk products mainly in Port Blair.

- ◆ Supply of mainland vegetables and fruits through Green Shop.

- ◆ Supply of Petrol, diesel and lubricants in various parts of A&N Islands.

- ◆ Supply Iron & Steel to Government Departments and SSI Units .

- ◆ Market Air tickets for Indian Airlines and Jet Airways.

- ◆ Market IMFL and Beer to consumers throughout A&N Islands.



Smt. Archana Arora, IAS  
M.D., ANIIDCO

### UNITS & ACTIVITIES

- ◆ Milk Unit
- ◆ POL Unit
- ◆ IMFL Unit
- ◆ Iron & Steel Division
- ◆ Ticketing Unit
- ◆ Vegetable Division
- ◆ Fisheries Development
- ◆ Credit & Finance
- ◆ Tourism Division
- ◆ Air Ticketing
- ◆ Civil Works

### Procurement & Marketing Division

### Fisheries Development

The Union Territory is endowed with marine resources exploitation of which is one of the priority



areas of the Administration both for economic development of the place as well as for providing employment to local youth. Andaman Fisheries Ltd., a joint venture company was floated by the Corporation with a private firm and MPEDA in 1991 to process fish for export. The cold storage and processing unit at Port Blair were completed in 1995 and commercial production started in April 1996. A cold storage was constructed at Wandoor and leased to Andaman Fisheries Ltd., in 1998 to ensure supply of raw material for the processing plant. The civil construction of the cold storage and an ice plant at Havelock has been completed.

ANIIDCO has participated in a Fish Cage Culture Project M/s Lakshadweep Shilpi Aquaculture and invested Rs.40 lakh as equity.

### **Iron and Steel Unit**

The Corporation is operating as the nodal agency for procuring and distribution of Iron and Steel to various Govt. Departments and SSI units.

ANIIDCO functions as nodal agent to procure and supply steel materials to Govt. Departments since 1991 and around 4000 MT of steel is procured and supplied in a year. It also procures and supplies steel materials to small scale steel industries at landed cost without profit margin. There is a plan to set up a steel stockyard at Mohanpura to commence sale of steel material to public.

### **Milk Unit**

The Corporation is producing and marketing reconstituted toned milk, sweetened milk and cottage cheese to consumers in Port Blair.

After the winding up of the Milk Cooperative union, the Animal Husbandry Department took up the milk distribution selling re-constituted milk. Being Govt. department it found it difficult to run the operation on commercial line. It was therefore transferred to

ANIIDCO on 13.5.91 along with the plant & machinery. The production was gradually improved from 3.71 lakh ltrs. in 1991-92 to 12.70 lakh ltrs. in 2003 - 04. Pouching of the milk was introduced on 10.7.1997. About 105 agents have been appointed to distribute the milk throughout Port Blair.

### **POL Unit**

The Corporation is supplying petroleum products like Petrol, Diesel and Lubricants in various parts of A & N Islands.

On 26th January 1990, the company commenced its operation by opening a Petrol pump at Junglighat as a dealer of Indian Oil Corporation. In the year 1994-95, it was extended to outstation areas like Rangat, Mayabunder, Diglipur and Hutbay. The Corporation took over POL storage installation created at above said four places to cater to the needs of Govt. Departments. In Hutbay, it took up sale of Petrol and Diesel to both Govt. Department and public where as in other places it sells only HSD.

### **IMFL Unit**

The Corporation is the sole licensee, distributor and retailer of IMFL & Beer in various parts of A & N Islands.

### **Ticketing Unit**

The Corporation is Passenger Sale Agent for Jet Airways and Indian Airlines.

### **Green Shop Unit**

To stabilize the prices of vegetable and make available fresh vegetables for residents of Port Blair ANIIDCO started "Green Shop" during 1996 for the sale of fruits and vegetable. Presently vegetables are being sold through 6 shops including mobile shop. Vegetables are being procured from mainland by cold room of ships and reefer container.

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*Transformation is an outcome of a  
farsighted vision, innovative mind and  
guiding spirit*

.....Dr. APJ Abdul Kalam



## MEMBER CORPORATIONS ~ THEIR ACTIVITIES

### HSI IDC net profit rises 39% to Rs.61 cr

**H**aryana State Industrial and Infrastructure Development Corporation (HSI IDC) has exceeded its income target for 2008-09. It registered a jump of 38.64% in its net profit (after tax and dividend).

The net profit of HSI IDC increased to Rs.60.70 crore during 2008-09 compared with Rs.43.78 crore during 2007-2008. While its gross income in 2008-09 touched Rs.146.82 crore as compared to Rs.106.35 crore in 2007-08.

The corporation's network has registered a significant increase from Rs.770.66 crore last year to Rs.857.66 crore during this fiscal.

The corporation has maintained its high growth trajectory by earning a gross profit of Rs.92.44 crore during 2008-08, against the earlier record of Rs.90.27 crore during the previous year.

The corporation also has announced a dividend

of Rs.7.5 crore for its shareholders and is making a contribution of Rs.5 crore towards the Chief Minister's Relief Fund.

### SC instructs SFCs to continue recovery procedures

The Supreme Court last week set aside the judgement of the Punjab and Haryana High Court and declared that the court could not stop the state financial institutions from taking steps to recover loans given to industries. The court cannot act as an appellate authority and nullify the recovery steps unless they are against the law, unreasonable and unfair. The financial corporations are "not expected to flounder public money for promoting private interests". In this case, Punjab Financial Corporation vs. Surya Auto Industries, the court observed that the borrower was recalcitrant and did not accept the liberal terms offered by the Corporation. The high court altered the terms of the agreement to suit the borrower, which was illegal.

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## QUESTIONS OF CYBERQUIZ ~ 21

1. In Internet lingo, what is DoS ?  
[a] Data on Server; [b] Daemon on Server; [c] DARPA NET operating System; [d] Denial of Service.
2. You know what spam is. But what is "Spim" ?  
[a] Spam sent to mobile phones; [b] Spam sent through instant messaging rather than email messaging; [c] Spam sent by users to each other in a private network; [d] Unsolicited direct mailers received through snailmail.
3. What does address munging involve in email communications ?  
[a] Collecting email-ids for commercial purposes; [b] Modifying email address so as to foil attempts by computer programs to collect email address; [c] The practice of adding one's date or year of birth to email ids; [d] Making minor changes in the subject line or the email message itself so as to avoid detection by spam filters.
4. This is a type of message one posts in an Internet discussion group with the intention of provoking an angry response. The motive behind this could be to get attention, entertaining oneself at the expense of others or simply to observe human behavior. What term is given to this type of message ?  
[a] Flamebait or trollbait; [b] Netbait; [c] Onlinebait; [d] Whacking.
5. Which day is used on Usenet as the Spam Freedom Day ?  
[a] 16th October; [b] 1st January; [c] 5th October; [d] 22nd March; [e] Rest in Internet



For Answers See Page No. 27



## NEWS FROM STATES

### HARYANA

#### Haryana to have 1,500 skill development centres

Haryana chief minister Shri Bhupinder Singh Hooda said in November that 1,500 skill development centres will be set up in the state to impart training to one lakh youth. Greeting the people of the state on the 44th Haryana Day, Shri Hooda said the state government was committed to realise its vision of development and welfare.

The state government had also decided to launch a state cooperative bank's loan and interest waiver scheme for landless labourers, rural artisans and petty shopkeepers and to implement a new youth and sports policy in the state.

#### World Bank team reviews Haryana projects

A World bank supervision mission headed by Ms. Sudeshna Ghosh Banerjee, task team leader World Bank Washington visited Hisar and Chandigarh to review the progress of World Bank-funded projects in the state. The mission comprising of technical experts had a meeting with financial commissioner and principal secretary power Shri Madhusudan Prasad.

Haryana Vidyut Prasaran Nigam (HVPN) had started the construction work of 400 KV substation, Nuhiyawali in district Sirsa along with associated transmission line. The project cost is about Rs. 150 crore. Similarly, the construction work of 400 KV substation, Sector-71 Faridabad was also progressing well. Both projects are targeted to be completed by March 2011. Their commissioning will go a long way in transmission of electricity in district Sirsa and Faridabad.

### PUNJAB

#### Punjab amends paddy policy

In a move to facilitate smooth lifting of paddy from the *mandis*, the Punjab government has amended the provisions of paddy procurement policy to enhance the eligibility quota of the rice mills by 500 MT of paddy per mill. Food and civil supplies department, Punjab Shri D. S. Grewal on 17<sup>th</sup> November said, now a rice mill with an installed capacity of 1 MT would be allotted 3,000 MT of free paddy instead of earlier quota of 2,500 MT.

Similarly, rice mills with an installed capacity of 2

MT would now be eligible to lift 4,500 MT of free paddy against the earlier allotted quota of 4,000 MT. The amended procurement policy will be applicable to Bathinda, Moga, Faridkot and Muktsar. The step will address heavy arrival due to



bumper crop this season besides taking care of the short fall of milling capacity caused by 271 rice mills declared defaulter by the Food Corporation of India.

#### Punjab to open more agro service centres

Punjab chief minister Shri Prakash Singh Badal on 23<sup>rd</sup> November, 2009 asked the cooperation department to open more agro-service cooperative centres in the state in order to reduce the input cost on farm operations for farmers. He desired that farmers be motivated to utilise the services of these centres which can raise profitability from agriculture operations. This move would help the farmers to save huge expenditure on agricultural implements and tractors and funds saved thus could be optimally spent on other agriculture operations.

So far 358 such agro-service centres had been opened which were offering the services of tractors, laser levelers and rotavetors to the farmers besides 492 new centres would be soon set up after getting clearance from Punjab state farmers' commission which gave 33% subsidy for this purpose. The CM assured the department that adequate funds would be immediately transferred from rural development fund to the farmers commission for the quick disposal of pending cases of agro-centres.

#### Punjab, Haryana sanctioned funds by Nabard under RIDF

Punjab has been sanctioned Rs. 226 crore and Haryana Rs. 98.32 crore under RIDF by Nabard. For Punjab, Nabard has sanctioned two projects for undertaking minor irrigation and command area development. The minor irrigation projects envisages installation of 280 deep tubewells for the purpose of irrigation in Kandi area of Punjab.

On completion of minor irrigation projects, a total area



of 14,000 ha of dry land in Kandi area spread over seven districts Gurdaspur; Hoshiarpur; SAS Nagar; Fatehgarh Sahib, Sangrur and Sahid Bhagat Singh Nagar (Nawansaher) is expected to be brought under assured irrigation. With this sanction, the cumulative sanction to Punjab under RIDF reaches the level of Rs. 3,813.32 crore.

For Haryana, Nabard has sanctioned loan for 28 irrigation works for better water management and increasing intensity of irrigation. The project implementation is expected to benefit 0.43 lakh ha and generate about 18.05 lakh mandays of non-recurring employment and around 1,998 mandays recurring employment on completion. With this sanction, Nabard has sanctioned RIDF loan of Rs. 343.37 crore till date during 2009-10. The total RIDF assistance sanctioned to the Haryana since its inception in 1995-96, has now reached at Rs. 2421.03 crore.

## UTTAR PRADESH

### UP govt gets Rs. 546-crore loan from Nabard

The National Bank for Agriculture and Rural Development (Nabard) has sanctioned a loan of Rs. 546.46 crore under the Rural Infrastructure Development Fund (RIDF) to the Uttar Pradesh government for construction and modernisation of 8,200 blast-wells covering eight districts. This also includes the modernisation of 38 pump canals covering 19 districts of eastern region, 46 flood protection projects in different districts and a project on tree improvement under forestry sector.

Nabard chief general manager Shri D. P. Misra said since 1995-96, Nabard has sanctioned a cumulative financial assistance of Rs. 8,494.46 crore to the state government for executing 22,279 projects. The blast-well irrigation project in Bundelkhand and the eastern region will help create and restore irrigation to over 24,600 hectare and would be beneficial to small and marginal farmers.

*“On completion, the project will help in mitigating drought conditions and the modernisation of irrigation projects would restore irrigation potential of 47,824 hectare of land in the eastern region”.* The flood control projects will protect approximately 1,15,359 hectare of agricultural land in 1,157 villages, besides ensuring safety to human population, live stock and other vital infrastructure in the area.

### Molasses export ban to continue

The Uttar Pradesh government in November decided to continue ban on the export of molasses outside the state for the second year in succession.

Approving the molasses policy for 2009-10, the Cabinet took the decision considering the possible shortage of molasses. According to the policy, the state government has reserved 30% of the molasses produced by all the sugar mills for country liquor. The total production of the commodity is expected to be pegged at 210 lakh quintals, with the private sector contribution being 143.89 quintals. The government has also stopped the supply of molasses to the chemicals units in Uttarakhand.

## U'KHAND

### U'khand wants extension of industrial package

The Uttarakhand government in November, 2009 demanded that the Centre should extend the industrial package given to the state by another 10 years from 2010, as given to the North-Eastern states saying that it was necessary to attract investments.

## HIMACHAL PRADESH

### Himachal to have tougher excise law

The Himachal Pradesh government is working on a new law to replace the current Punjab Excise Act, with stringent provisions, including death sentence, to deal with adulteration, smuggling and illegal trade of liquor. The draft bill will be introduced in the coming winter session of the state Assembly to form a separate Excise Act. Two different versions of the Punjab Excise Act, enacted in 1914 are presently in force in the state. While the 1948 version of the said Act is applicable in areas of upper or old Himachal, different provisions are in force at lower areas that were merged into the state later.

Ending this discrepancy and to bring uniformity in the laws for the entire state is one of the main objective for the formulation of a separate excise law. The draft bill of the proposed new Act has been approved by the state cabinet for introduction during the winter session of the Assembly to be held at Dharamshala.

The new excise law will empower the executing authority to confiscate the vehicles used for illegal trade of liquor. Presently, there is a provision only to seize illegally traded liquor bottles. Confiscation of vehicles has been planned on the pattern of the Forest Act or Essential Commodities Act, adding that minimum sentence for such offence has been fixed at three years and a fine of Rs. 1 lakh. Further, the offender will be bound to pay compensation to the victims which will be at least Rs. 3 lakh in case of death, Rs. 2 lakh for grievous injury and Rs. 50,000 for minor cases.

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## DO YOU KNOW ?

### INTERNATIONAL YEARS

- 1986 : International Year of Peace
- 1987 : International Year of Shelter of Homeless
- 1990 : International Literacy Year
- 1992 : International Space Year
- 1993 : International year of Indigenous population
- 1994 : International year of Family
- 1995 : International year of Tolerance
- 1996 : International Year for Eradication of Poverty
- 1998 : International year of Ocean
- 1999 : International year of Aging (Older) people
- 2000 : International year of peace- Culture
- 2000 : International year of Gratitude
- 2001 : International Volunteer's year and International year if woman Empowerment
- 2001 : International year for Eradication of Mental Diseases (WHO)
- 2001 : United Nation's year for Interaction among Civilization
- 2002 : International Mountain year
- 2002 : International Fresh of Eco-tourism
- 2003 : International Fresh Water year
- 2004 : International Rice year
- 2005 : International year of Micro credit and International year of Physics
- 2006 : International year of Desert and Desertification
- 2007 : International Polar Year
- 2008 : Year of Good Governance ( for SAARC countries )
- 2009 : International Year of Reconciliation
- 2009 : International Year of Astronomy



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*Any country is as good as its citizens;  
their ethos, their values and their character will be  
reflected in the country's make-up*

*.....Dr. APJ Abdul Kalam*



## SUCCESS STORY OF MADHYA PRADESH FINANCIAL CORP. - ASSISTED UNIT

### M/s Shakti Pumps (India) Ltd., Pithampur

**M**/s Shakti Pumps was established in 1982 as a partnership firm led by Shri Manoharlal Patidar as a first generation entrepreneur. The firm set up a SSI Unit for manufacturing of Cast Iron Pumps & electric control panel in Industrial Area, Pithampur, Distt. Dhar, Madhya Pradesh (35 kms. from Indore) with the financial assistance from Madhya Pradesh Financial Corporation.

The firm started its manufacturing activities from installed capacity of 1500 pumps per annum on a single shift basis and over the years increased its capacity substantially.

During the year 1995, the company implemented a massive expansion of existing unit to enhance its existing installed capacity and to add more product lines with varied models for different use and applications. To implement the same it had gone into Public Issue of 50 lacs shares of Rs. 10 each equivalent to Rs. 5 crores which got very good response from the public and over subscribed.

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

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

The company is an approved vendor for supplies to the Govt. Departments such as PHED, Irrigation Deptt., MPLUN, DGSND. The company is also approved with various local bodies and various departments of many states and is a regular supplier to the Municipal Corporations.

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

The Company has started a unit No. II in special economic zone (SEZ), Pithampur for expansion of its production capacity of Submersible pumps and motors. The purpose of the company for setting up the SEZ unit is to meet the export requirement so as to take all the benefits provided by the Government. The

operational production capacity of the SEZ unit is 50000 Nos. of pumps & motors.

Keeping in view the increasing demand for energy efficient pumps in the domestic market also, the company in the year 2007-08 set up one more production unit i.e. unit No. 3 in Sector III at Pithampur for manufacturing of submersible pumps to cater to the domestic demand. The operational production capacity of unit No. 3 is 60000 Nos. of submersible pumps. The Corporation provided financial assistance of Rs. 750.00 lacs to the company for setting up Unit No. III.



### Major Milestones of the Company :

Year	Achievements
1982-	Embarked on the manufacture of conventional cast iron pumps
89	Received BIS Certification
1995	Made a public issue of shares & listed on Bombay Stock Exchange
1996	Commenced manufacture Stainless Steel Pumps (First in the country)
1998	- Exports grew to 5 countries - Certified by ISO 9001
2003	Exports grew to 20 countries & recognized by quality marking system "CE mark." Certified by ISO 9001 : 2000
2006	Exports grew to 40 countries & received <b>One Star</b> export house status
2007	Exports grew to 50 countries, major expansion in the capacity, Ventured into new segment i.e. <b>Booster Pumps</b>
2008	Combined capacity of pumps raised to 1,40,000 for the company as a whole Range of pumps widened to <b>150 HP &amp; 200 HP</b> Madhya Pradesh Financial Corporation is associated with the company since its inception and witnessed the phenomenal growth achieved by the company within this short span of time. Present turnover of the company is well above Rs. 100 crores and the Corporation wishes the company and its directors success in all its future endeavors and plans.



## ECONOMIC SCENE

### Export growth turns positive after 13 months

India's merchandise exports registered a growth of 18 per cent in November, at \$13.2 billion (Rs. 61,800 crore) against \$11.16 billion (Rs. 52,250 crore) in the same month last year. Total exports for April-November 2009 were \$104.25 billion (Rs. 4.9 lakh crore), a fall of 22.3 per cent from the \$134.2 billion (Rs. 6.3 lakh crore) in the corresponding period of last financial year, indicated official data released on 15<sup>th</sup> December, 2009 by Union commerce secretary Shri Rahul Khullar. He said the low base in November last year (when the economic crash had begun) was mainly responsible for the growth this November. It does not, indicate a surge in demand for Indian goods in international markets.

Some major sectors that did well during the month were petro products, gems and jewellery, basic chemicals, iron ore, readymade garments, manmade fibre and leather products. Exports of petroleum products reached \$2.4 billion (Rs. 11,240 crore) in November against \$1.3 billion (Rs. 6,100 crore) in the same month last year, whereas gems and jewellery exports topped \$2.15 billion (Rs. 10,070 crore) from \$1.6 billion (Rs. 7,500 crore) in November 2008.

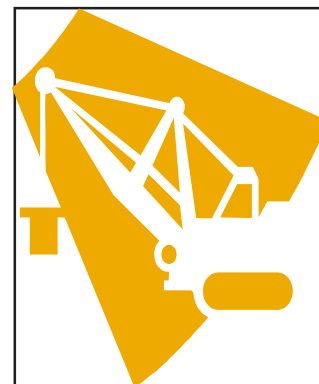
Some sectors are still facing severe problems and the government is carrying out a sector-wise review. It is felt that stimulus measures should continue at least till the end of 2010-11, as the current scenario is not at all comfortable. Some of these measures were extension of interest subvention, additional funds allocation for certain schemes, enhancing duty drawback rates on specific products and abolition of fringe benefits tax.

### Fiscal deficit till September at 49% of full-year target

The Centre's fiscal deficit till September amounted to just Rs. 1,97,775 crore or 49.3% of the total fiscal target of Rs. 4,00,966 crore. The figure stood at a much higher 77% of the Budget estimate till September end, 2008.

Similarly, the Centre's revenue deficit totaled Rs. 1,64, 983 crore or 58.4% of the Budget estimate till September 2009, according to official figures released on Friday. The revenue deficit amounted to 141.9% of the Budget estimate in the same period last year. The

Centre's total revenue receipts were at 39.8% of the target estimate of Rs. 2,44, 471 crore during the period. The tax revenue amounted to 39.2% of the Budget estimate at Rs. 1,85,668 crore till September this fiscal.



The Centre's total expenditure in the first six months of the fiscal amounted to 44% of the Budget estimate at Rs.

4,48,848 crore. Plan expenditure till September 2009 stood at 39% of the estimated Rs. 1,26,777 crore-lower than the 44.65 that was clocked a year ago. In the non-plan expenditure segment, the Centre has made an expenditure of 46.3% at Rs. 3,22,070 crore.

### Forex reserves rise \$684 million

The country's foreign exchange reserves rose by \$684 million to \$285.5 billion in the week ended October 23, RBI said in its weekly statistical supplement. While foreign currency assets climbed \$450 million to \$268.3 billion, gold reserves were unchanged at \$10.3 billion. Special drawing rights with the International Monetary Fund increased by \$17 million to \$5.26 billion, while reserves with the IMF rose by \$217 million to \$ 1.58 billion.

### India ranked 84th in corruption index

India continues to be widely perceived as a highly corrupt nation, with Transparency International's corruption perception index (CPI) 2009 ranking the country at 84 out of the 180 surveyed. There is no significant difference from India's earlier standing at the 85th position last year.

India's integrity score, a major component of the survey, stands at 3.4 out of the highest score of 10, which indicates that the country has a long way to go as far as eradicating corruption is concerned. However, the good news is that India's integrity score is the second-highest one among all south Asian countries. Bhutan, with a score of 5, fared the best in the integrity parameter among all South Asian countries. Pakistan ranks 139.



The top three countries, with the highest CPI score and rank, are New Zealand followed by Denmark and Sweden. A country with a higher score is considered to be less corrupt.

Out of the various departments analysed, India's police department fares the worst in terms of corruption, while school education was the sector where least corruption prevails. The most corrupt state is Bihar, followed by Jammu and Kashmir and Madhya Pradesh.

## Q2 GDP growth - 7.9%

The GDP growth in the second quarter of 2009-10 was 7.9% the highest in the last 6 quarters. The three sectors that really propelled growth are manufacturing; mining & quarrying and community, social & personal services. The strong rebound in the manufacturing sector, where output growth has revived to 9.2% after posting a decline just two quarters ago, was probably aided by the strong pick-up in gross fixed investments to 36.3% of the GDP at market prices from a trough level of 33% in the third quarter of last year. Improvement of growth in the mining & quarrying sector and the community, social & personal services to 9.5% and 12.7%, respectively can be explained by the rise in gas production, which pushed the former, and the release of the salary arrear payments made to the Central government employees that buoyed the latter. Two important sectors where growth has decelerated are construction and financing, insurance, real estate & business services. The slower growth here can be attributed to the slowdown in demand for housing and office spaces in general and the deceleration of growth in information technology and business process outsourcing in particular. Also while growth in utilities like electricity, gas & water supply has accelerated to 7.5% in the most recent quarter, it has still failed to keep pace with the overall growth in the economy. Growth in agriculture, has slumped to 0.9%, the lowest growth in any quarter since 2005-06.

The present scenario requires that monetary stimulus should continue to keep manufacturing growing steadily. Lower interest rates will also boost private consumption expenditure. Phase out of GST on schedule— will get rid of all tax exemptions. Growth— in foreign investment and in the financial sector, etc. is required for further revival.

## Exports from Punjab dip 45% in Q3

Shri S C Ralhan, regional chairman of Engineering Export Promotion Council, Punjab, has pointed out that there has been a 45% dip in exports in the third quarter of this year, compared to last year. Major industries that have seen a decline include hand tools, diesel engines, sewing machines and cycle parts manufacturing. Exporters to the US and the European Union have suffered particularly, facing a 60-65% fall in business. The manufacturing sector seems to have been the worst hit. The saving grace has been the fastener industry, in which exports continue to be good.

Officials of the customs freight stations in the state believe exports this year are unlikely to reach last year's levels. From April to September 2009, the number of containers sent from the four stations in Punjab stood at 13,283. Analysis of data available with CFS reveals that the number of containers from April to September this year is only 27.5% of last year.

## Oct industrial output grows by 10.3%

Growth in the manufacturing sector pushed the industrial output up by 10.35 per cent in October, higher from the revised growth rate of 9.6 per cent the previous month, fuelling expectations that the economy is firmly on the path of recovery. The growth rate has been marginally lower than the forecasts of around 11 per cent by economists, though most of them maintained that the positive trend in industrial growth would continue.

The cumulative growth for the April-October 2009-10 stands at 7.1 per cent as against 4.3 per cent during the corresponding period in the previous year. Manufacturing growth, which had declined by 0.6 per cent in October 2008, grew by 11.1 per cent during October this year. Growth in mining and electricity accelerated to 8.2 per cent and 4.7 per cent, respectively, from growth rate of 3.2 per cent and 4.4 per cent during the corresponding period in 2008. Double digit growth in manufacturing was stimulated by a 21 per cent rise in production of consumer durables during the month. Growth in production of consumer non-durables also accelerated to 8.1 per cent in October. The production of consumer durables and non-durables had declined by 1.6 per cent and 0.6 per cent and 0.6 per cent, respectively during the corresponding month of October.

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# TIPS EVERY SMALL BUSINESS SHOULD KNOW

By  
Janice Jenkins\*

**P**rior to starting a business, it is important to take some time and understand the cost of the project, your cost of living, and where you have some wiggle room. Staying in shape (financially) when you start a business is not just important; it might actually be the determining factor in the success or failure of your business.

The following tips have been collected from a number of small businesses. Their experiences are helpful as you try your hand in being an entrepreneur. Read on, learn from their mistakes, and imitate their success stories.

Do what you love Ahhh, this is the most important advice that you can get. As you are going to devote a lot of time and energy to starting a business and building it, it is really important that you truly, deeply enjoy what you do. I have a friend who loves drinking. Guess what he got into? Right! Well, he made use of his passion for the lager to build a very successful beer joint for all the beer guzzling people in his town.

Start your business while you are still employed This is a sound advice for anyone who is contemplating on starting a business. As money is very important, you should ask yourself how long you can survive without money because it might be a long time before you actually realize some profit.

Do not do it alone. Use those color business cards and start networking. You absolutely need a support system if you are starting a business. It is a good idea to have a buddy, preferably someone you trust very well, to partner with. Family members are not recommended though because of issues that might be difficult to resolve on a personal level. However, a close friend, a college buddy, or somebody who enjoys the same passion might be a good partner. Even better – find a mentor; if you qualify, apply for a business start up program. Experience is the best support system you can ever get.



Do not wait until you have officially started your business to line these up because your business cannot survive without them. Apart from those listed above, start networking with potential clients. Immediately place an online business card printing to get you started. Make the contacts. Sell or even give away samples of your products or services. As a piece of advice, you cannot start marketing too soon!

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Source : [ArticleBiz.com](http://ArticleBiz.com)

*All of us have to work hard and  
do everything possible to make our  
behaviour civilized to protect the rights  
of every Individual*

.....Dr. APJ Abdul Kalam



## ACTIVITIES OF COSIDICI

### COSIDICI's E.C.M. AND A.G.M. :

The Executive Committee Meeting and Annual General Body Meeting of COSIDICI were held on October 26, 2009 at India International Centre, New Delhi. The Executive Committee appreciated the financial support from the Governments of Andhra Pradesh, Assam, Karnataka, Tamil Nadu, Kerala, West Bengal, Madhya Pradesh, Haryana, Rajasthan, Gujarat, Bihar etc. to their respective SFCs which helped them to continue their support to SSI units. However, it felt that SFCs still continue to be dogged by the twin problems of non availability of adequate resources at cheap cost and their low capital base. In this connection, Smt. Sheela Rani Chunkath, IAS, CMD, TIIC, Chennai informed the delegates that JICA had given loan to SIDBI at very low rates for onward lending to SFCs to be given to SMEs. SIDBI is lending to SFCs @ 8.25%. TIIC had written to SIDBI to reduce the interest rate to 6% so that the SFCs could lend at more competitive interest rates. Shri Kamal Chakarborty, IAS, MD, WBFC suggested that the Gol may also be approached for constructive dialogue.

Shri R.G. Dwivedi, GM, MPFC pointed out that the RBI had not restored the facility of SLR Bonds to SFCs. The cost of funds for SFCs therefore, continued to be high. In the Executive Committee meeting held at Cochin on January 17, 2008 the COSIDICI delegates had brought the problems faced by SFCs to the notice of the Finance Minister of Kerala, Dr. T.M. Thomas Isaac who had attended the seminar of COSIDICI. Dr. Isaac had written to the Hon'ble Union Finance Minister, Shri Pranab Mukherjee requesting him to take urgent steps to reduce the refinance rate. Shri V. Gopinathan, IAS, MD, KFC was requested to send the letter to COSIDICI to be circulated amongst all the SFCs. The Executive Committee felt that all the CEOs may take up the matter with their respective Chief Ministers and get similar letters written to the Union Finance Minister for reducing the refinance rate to SFCs. Shri Dwivedi pointed out that under the MSME Act, SFCs were allowed to disburse loans for microfinance. They should, therefore, be given permission to do so. Shri Kaushik Mukherjee, IAS, MD, KSFC informed the E.C. that KSFC was already doing micro financing with the permission of SIDBI which was also giving refinance for the purpose. He said that micro finance provided a very good opportunity to SFCs to expand their business and RBI

has also granted its permission. He was requested to send the letter by RBI and SIDBI to COSIDICI to be circulated amongst the SFCs. Smt. Sheela Rani Chunkath, TIIC informed the delegates that SIDBI was providing refinance for micro finance upto 50% of the incremental lending at a cost of 6.75%. The overall cost of funds for TIIC at present is around 9% and taking into account the overheads and minimum margin, TIIC can lend to micro enterprises at 13%. As SIDBI will provide only 50% under the scheme, the balance 50% cannot be lent at the suggested rate of 10.25% by TIIC. Hence, TIIC requested that SIDBI may give 100% refinance for seven years instead of three years as suggested in the scheme so that it could lend at 10.25% to micro enterprises. Only then the benefits of the scheme will reach the micro enterprises affected by the industrial slow down and global crisis.

Shri Vinod Kumar Agrawal, IAS, MD, APIDC informed the delegates that a feeling had cropped up in Andhra Pradesh, Gujarat, Maharashtra, Madhya Pradesh and other states that IDCs had no role. Therefore, the Andhra Pradesh government decided to close down APIDC. However, a study done by IIM, Kolkata pointed out the need for an organisation which would finance the industries in small and medium sector. Consequently, the government of Andhra Pradesh had decided to revive and restructure APIDC. APIDC had cleared all its debt and now has a positive network. The corporation was emphasising now on equity participation and not on giving term loan. Shri Vinod Kr. Aggarwal said that there was a need to showcase the inherent strengths of the SLFIs sector and suggested that a seminar be organized at National level to bring about the necessary changes in the mindset of the concerned authorities. This would also provide a platform to share the report of IIM Kolkata and thus help the other SLFIs to garner their respective State Govt's support.

Shri X. K. Mahto, IAS, CMD, DFC agreed wholeheartedly with Shri Aggarwal's suggestion. The board of DFC had resolved in January' 2009 to wind up its operations and merge it with DSIIDC. Its office in Chandigarh was to be sold off to HFC. However with the change of CEO the board decided to have a relook. DFC started funding the transport sector specially the conversion of commercial vehicles to more eco friendly fuel like the LPG. Soon it revived and is doing well.



There was an immediate need to market the SLFI sector which was playing a major role in fulfilling the socio economic obligations of the Government and taking economic progress to the grass root levels. In this context, Shri Mukherjee informed that KSFC has compiled a booklet on 200 successful units funded by it which have now become multinational companies e.g. Infosys, Biocon etc. The booklet is in print and will be released shortly. He was requested to circulate the booklet to all SLFIs. He further said that SFCs serve as an important tool in helping banks to make their term loan recoveries as they have the power of collection. Shri S. P. Singh, Secretary to C.M. and Resident Commissioner Mizoram, agreed and informed the delegates that DFC had been the first SFC to sign an MoU with PNB in this regard.

It was agreed by the members that the attitude of the CEO plays an important role in the functioning of an SLFI and its perception by others. However, it was felt the functioning of an organisation needed to be personality neutral. SIDBI had objected to the appointment of certain CEOs and had taken up the issue of amendment of the SFCs Act 1951 with the Government of India. Some of the SFCs viz TIIC, WBFC, MPFC and KFC had sent the amendments proposed by them to SIDBI. It was decided that these may be sent to COSIDICI to be circulated among members to ascertain their views which will be discussed in the next Executive Committee Meeting.

Shri X. K. Mahto, IAS, CMD, DFC informed the delegates that he was finding it difficult to recruit good managerial talent. He had, therefore, asked for the Delhi Government's permission to take the help of Banking Service Recruitment Board in the matter. He was hopeful of getting permission. Shri Kaushik Mukherjee, IAS, MD, KSFC said that he had good managerial talent which was surplus. He could ask if they would be willing to relocate to Delhi. Ms. Sheela Rani Chunkath, IAS, CMD, TIIC said that TIIC needed good Chartered Accountants. Shri Mukherjee would try to send a few from Karnataka if they were willing to relocate. Shri Kamal Chakrabarty, IAS, MD, WBFC said that his corporation was not recruiting as all operations of WBFC had been computerized. He had 243 people which he hoped to reduce to 64 by the year 2011. WBFC planned to outsource the requirement of graduate engineers needed by the Corporation. Shri Mukherjee and others felt that too much reduction of staff might dilute the spirit of the organisation and advised caution.

Shri Kaushik Mukherjee, M.D., KSFC requested

Shri Dwivedi, G.M., MPFC to circulate a note on the help received by it from its State Government. The Madhya Pradesh Government had not only purchased all the NPAs of MPFC but had also contributed to its equity. The Government of Karnataka had given Rs.50 crore as equity to KSFC. KFC had also received substantial equity from the Kerala Government.

Shri S. P. Singh, IAS informed the Executive Committee that Mizoram had appointed a high power committee for restructuring of ZIDCO and Shri K. K. Mudgil, Secretary General COSIDICI had been inducted by the Government of Mizoram to help them in this exercise. Shri K. K. Mudgil would not only advise the government on restructuring of ZIDCO but would also give his valuable inputs in the restructuring of other PSUs in Mizoram.

### Annual General Meeting :

The Annual General Meeting of COSIDICI was held on October 26, 2009 at India International Centre, New Delhi. The following were elected as the Members of the Executive Committee of COSIDICI for the Year 2009-2010 :

Smt. Sheela Rani Chunkath, IAS, CMD, TIIC, Chennai as the President of COSIDICI for the Year 2009-2010. Shri Kaushik Mukherjee, IAS, M.D., KSFC, Bangalore; Shri Vinod Kumar Agrawal, IAS, CMD, APIDC, Hyderabad; Shri Arvind Aggarwal, IAS, Vice CMD, GIDC, Gandhi Nagar; Shri V.K. Sharma, IAS, M.D., PFC, Chandigarh; Shri Kamal Chakrabarty, IAS, M.D., WBFC, Kolkata; Shri Sanjay Pratap Singh, IAS, Secretary to C.M. & Resident Commissioner, Mizoram were elected as Vice-Presidents. Shri Shishir Sinha, IAS, M.D., BSFC, Patna; Shri N.C. Muniyappa, IAS, M.D., KSIIDC, Bangalore; Smt. Dheera Khandelwal, IAS, M.D., HFC, Chandigarh; Shri Chetan Bhushan Sanghi, IAS, M.D., DSIIDC, New Delhi; Shri Ravi Shankar Prasad, IAS, M.D., AFC, Guwahati, Shri Vikas Raj, IAS, M.D., APSFC, Hyderabad; Shri V. Gopinathan, IAS, M.D., KFC, Thiruvananthapuram and Shri B.S. Dua, M.D., J&K SIDCO, Srinagar were elected as Executive Committee Members. Besides, Shri B.P. Acharya, IAS, Vice CMD, APSFC, Hyderabad and Shri B.R. Babu, M.D., PIPDIC, Pondicherry were co-opted as E.C. Members for the Year 2009-2010. The contents of the Annual Report of the E.C.M. of COSIDICI for the Year 2008-2009 were noted and approved by the General Body which also approved the audited statements of accounts for the Year 2008-2009.

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# MICRO, SMALL AND MEDIUM ENTERPRISES

## Q2 A turning point for Indian MSMEs : Survey

A survey on the functioning of MSMEs reveal that 45 per cent of micro, small and medium enterprises (MSMEs) have registered an increase in turnover in the second quarter, ended September 30, of the current financial year pointing towards economic revival.

A majority of respondents feel optimistic about the third and the fourth quarter. Some 54 per cent expect an increase in turnover, while 45 per cent expect an increase in export orders. Also, 31 and 37 percent of respondents expect an increase of their export and profitability, respectively, as against the quarter ended September 2009.

The survey states improvement in performance can be attributed to the government stimulus announced during December 2008 and January 2009. The first stimulus package included measures such as the reduction in Cenvat by 4 per cent, an interest rate cut by public sector banks of 0.5 per cent for small enterprises and one per cent for micro enterprises, export support by interest subvention of 2 per cent, reduction in lock-in period under the Credit Guarantee scheme from 24 to 18 months and additional plan expenditure of Rs. 20,000 crore. The second stimulus package included initiatives such as restoration till December 31 this year of DEPB rates as these were prior to November 2008, duty drawback benefits for certain products like bicycles, agricultural hand tools, and specified categories of yarns.

The survey says delayed payment, high cost and lack of availability of credit and a complex indirect tax structure continue to be major factors inhibiting the growth and development of MSMEs.

## Credit flow to MSMEs up 100% in 2yrs: RBI

Banks lending to the MSME sector has doubled in the two years ended March 2009. Shri Chakrabarty Deputy Governor RBI said "Banks lending to MSMEs has increased from Rs. 1.27 lakh crore to Rs. 2.57 lakh crore in the last two financial years." Shri Chakrabarty said banks have enough liquidity on their disposal and they would not deny loans on viable projects. However, MSMEs have to convince the bank branch managers of repayments of the loan.

## Orissa SMEs concerned over delay in notifying incentives

Small and Medium Enterprises (SMEs) in Orissa are concerned over non-issuance of the required notification for reimbursement of Value Added Tax (VAT) by the state government. This is despite the budgetary provision of Rs. 1 crore in the 2009-10 state budget. Non-issuance of the VAT reimbursement notification has created difficulties for SMEs, particularly those which set up their units after the announcement of the Micro, Small and Medium Enterprise Development Policy by the state government at the beginning of 2009.

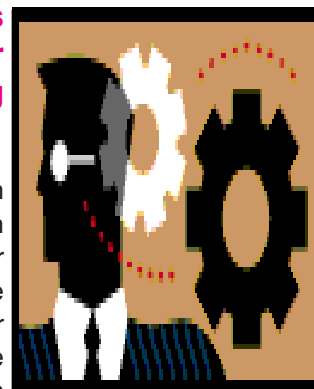
Similarly, some processed food industries which had expressed a desire to come to the state are reconsidering their plans. Since the state government has declared the food processing sector as a thrust sector, these units are eligible for 75 per cent VAT reimbursement. However, this is not happening as the liability of the units is increasing. Over and above the fiscal incentives available in the IPR, 2007, new MSME units are entitled to a capital investment subsidy of 10 per cent of the fixed investment, subject to an upper limit of Rs. 8 lakh.

## Design clinics for MSMEs to boost competitiveness

The government is to establish design clinics in major manufacturing clusters as a part of the 10-point agenda set for the MSME ministry by the National Manufacturing Competitiveness council.

The committee has approved an expenditure of Rs. 73.58 crore in the first year of the scheme, which will be implemented in public-private partnership mode to meet the design needs of MSMEs. The MSME ministry has tied up with National institute of Design for providing consultancy to the industry.

The scheme will help the industry in better marketing of their products. MSMEs have been lacking on the design front for lack of skills and investments. With the allocation of finances for this scheme, there



will be competitive designs for products. This will also help in promoting individual brands and getting a better market.

Till now, the government has launched six schemes under NMCP, namely marketing assistance, entrepreneurial and management development, setting up of mini tool rooms, increasing awareness on intellectual property rights, application of lean manufacturing, and quality management. Schemes on energy efficiency, technology upgrade, and application of information and communication technology are either in the final stages of approval or under consultation.

### **Sebi allows small cos to list on separate SE platform**

Small and medium-sized enterprises, which depend on expensive loans and often informal finance, will now get a chance to list their stocks and raise money from the public. As part of its efforts to encourage SMEs to go public, the Securities and Exchange Board of India (Sebi) has exempted them from the usual eligibility norms applicable for initial public offerings (IPOs) and follow-on public offerings. These norms include a minimum pre-issue networth and profit-making track record. The regulator has ruled out the need for a separate SME exchange and said stock can be listed on a separate trading platform of an existing exchange. For companies seeking to list on the SME exchange, the cut-off limit in terms of paid-up capital has been fixed at Rs. 25 crore.

Also, SMEs will have to disclose their financial results to the exchanges on a half-yearly basis, unlike the larger companies, which have to report their numbers on a quarterly basis. Sebi has proposed a minimum trading lot of Rs. 1 lakh for shares in the SME segment, so as to restrict participation to “informed, financially sound and well-researched investors with a certain risk-taking ability.”

The merchant banker to the issue will bear the responsibility for market-making for a minimum period of three years. It can do so, along with a disclosed nominated investor (either a private equity fund, high networth individual or qualified institutional buyer). During the compulsory market-making period, promoters/acquirers will be allowed to dilute their share holding only through offer for sale or to an acquirer and not to a market maker.

### **Credit flow to MSME sector in W Bengal doubles to Rs. 3k cr**

In the past three years' credit flows to the MSME sector in West Bengal, has almost doubled to nearly Rs. 3,000 crore between 2006-07 and 2009-10.

According to a state government official, 90% of that loan amount went to medium-sized units and only 10% to micro and small enterprises (MSEs). According to the MSMED Act, 2006, enterprises having an investment in plant and machinery in the range of Rs. 5-10 crore are labeled as medium units. As for small units, investment in that category should be between Rs. 25 lakh and Rs. 5 crore and that for micro units, the limit is set at less than Rs. 25 lakh.

To boost credit flows to MSEs in the state, several actions would be initiated at the state level. As part of the exercise, the MSME department has recently written to the finance department requesting it to take a re-look at the definition of fixed capital investment, mainly with a view to broaden its scope for inclusion of some other investments under that category, including investment on pollution control devices. In another move, the department has decided to step up its interaction with banks, particularly with the ones which have dedicated branches for MSMEs. District industry centres would be asked to become more pro-active in negotiating MSEs' loan proposals with banks at the branch level and increase frequency of their interaction with the coordination committees, which have been formed at the district level to sort out MSEs problems at local level.

### **Punjab SMEs invest in automation**

Small and medium enterprises (SMEs) in Punjab are investing substantially in automating their process, despite facing challenges on various fronts such as deficit power, labour shortage and a cumbersome tax structure and the squeeze on their margins due to the down-turn in the last one year. Various clusters in and around Punjab—such as automobiles, auto parts, farm equipment, agricultural implements, light engineering, leather, machine tools, tractors and combine harvesters—have been stepping up their level of automation.

Most units have automated about 30 per cent of their operations. With over two lakh small and medium units in the state, complete automation of processes is expected to bring manifold increase in the value and volume of business. The power shortage is the only area of concern for the SMEs.

### **Aid to MSMEs**

The Small Industries Development Bank of India and the German government's development Bank KfW have signed a series of agreements to provide financial assistance of 89.2 million (around Rs. 622 crore) to promote use of energy efficient and cleaner production or technologies by micro, small and medium enterprises (MSMEs) in India.



## TUFS faces fund crisis on demand from textiles cos

The government's technology upgradation scheme for the textiles sector has run into fund deficit following an overwhelming demand from the industry. "We will be requiring an additional amount of Rs. 1,884 crore in 2009-10 to clear the subsidy on capital cost for modernising textiles operations," Union textiles minister Shri Dayanidhi Maran said at the meeting of the parliamentary consultative committee here. Under the Technology Upgradation Fund Scheme (TUFS), the government extends subsidy of 5.0% for modernisation of textiles companies. The government had made a provision of Rs. 2,890 crore for FY 10, of which Rs. 2,546 crore has already been released.

## Public procurement from SMEs to go up

The Ministry of MSMEs has recommended that at least 20% of public procurement by government organisation should be from MSMEs. The current figure is merely 3.5% of the approximately Rs. 10 lakh crore worth of goods procured by the government and its various arms.

Chairman of the National Small Industries Corporation (NSIC) Shri H. P. Kumar feels that if the 20% recommendation is accepted, volumes for these companies will increase dramatically and there will be a lot more direct opportunity for MSEs (micro and small enterprises). But the question on everyone's mind is whether small firms are equipped to handle such a big opportunity coming their way. Are they doing enough to bring in additional investments in technology, research and development and capacity expansion needed to meet the challenge?

The small and medium enterprises sector, though, is a bit cautious about taking up government orders. And it has to do with historical reasons. Small firms have faced a few problems in the past with public procurement. One such company recently developed technology for a product used by the Indian Railways and has been supplying the product for the last one year. Recently, the Railways came out with a new proposal, which, if implemented, could man the end of the road for small firms as it allows only those companies which have integrated processes in-house to participate in tendering.

## MSME Growth can boost GDP

Micro, small and medium enterprises (MSMEs) provide the energy for the economy to grow, said Shri Arun Maira, member, Planning Commission, Government of India at a two-day India Global Summit on MSMEs. "We look at the moon for light, but we miss

the fireflies," he said. Substantiating this view, he said that the 26 million MSMEs in the country provide employment to 60 million people, and account for 30% of the manufacturing GDP and 40% of the total exports. To promote inclusivity, the focus should necessarily be on taking the MSME sector to a higher growth trajectory. Stating that Indian MSMEs such as garments manufacturing firms are already integrated with the global production chain, he said larger enterprises could learn from their experience and consider setting up small teams within them and promote a spirit of 'intrapreneurship'. At the same time, the small enterprises need to complement each other and collectively function as big entities.

## Rating game picks up pace

Small and medium enterprises in the country are changing their way of functioning by getting themselves rated, which is helping them to access bank credit faster and at favourable interest rates.

In fact, according to National Small Industries Corporation (NSIC), out of the 16,000 companies that have applied for ratings to various agencies like Crisil, Samera, Fitch and Dun and Bradstreet, about 15,000 units have already been awarded ratings. The growing popularity shows in numbers. In 2005-06, only 671 companies got rated and in the first six months of this financial year it moved up to 3,487 enterprises. Engineering, textile and auto component companies in western and southern states are taking the lead in getting themselves rated.

The rating process was started by Nsic in consultation with credit rating agencies and Indian Banks' Association and they together formulated a Performance & Credit Rating Scheme for Micro & Small enterprises. The scheme was approved by the Ministry of MSME in 2004 and NSIC was appointed as a nodal agency to implement the scheme.

Nsic empanelled various credit rating agencies like Care, Crisil, Dun & Bradstreet, Fitch, Icra, Onicra and Smera, to conduct the rating of interested micro and small enterprises under the scheme. While the criteria of finalization is left to the individual rating agencies, the symbols and the definitions for indicating the risk score has been evolved on uniform basis for implementation by all rating agencies. The scheme was formally launched in April, 2005. The total number of small and medium enterprises in the country is 26.1 million with 24.6 million unregistered and 1.5 million registered units.

The rating exercise, when seen in the light of a self-improvement tool, works as a starting point in improving the performance and market standing of an



entity. Subsequent renewal ratings indicate the steps that the company has undertaken to improve itself.

Since small and medium enterprises are essentially about the promoter's ability to manage his unit, rating agencies lay equal stress on evaluating promoter's background, education, skills and networking ability to arrive at rating a unit.

Rating agencies also consider all other relevant factors that have a bearing on a unit's future cash generation. Such factors include industry characteristics, competitive position of the unit, operating efficiency, management quality, succession plan, relationship with employees, commitment to new projects, funding policies, track record with lenders, and trade relations with suppliers and customers.

The rating business is set to get more popular since the Prime Minister's Office had already constituted a task force to look into the problems faced by SMEs, and suggest measures.

### Microfinance institutions to get level playing field

The microfinance institutions (MFIs) are awaiting the microfinance legislation based on the Rangarajan committee recommendations which is expected to give them a 'level playing field' and recognition as a separate group of non-banking financial institutions.

The Bill on microfinance is expected to incorporate some of the key recommendations of the Rangarajan committee on financial inclusion such as different status for microfinance institutions as 'Microfinance NBFCs', with easier norms and access to foreign funds and tax concessions similar to housing finance and infrastructure firms.

The MFIs were not asking for any subsidy or concession but a level playing field. The MFIs have reached millions of households which the banking sector had shunned and have been transforming lives and communities.

The issues which will be addressed by this legislation are :-

- ◆ The microfinance institutions are not asking for any subsidy or concession but a level playing field;
- ◆ MFIs have reached millions of households and have been transforming lives and communities;
- ◆ In Tamil Nadu over 1.5 crore people live below poverty line with a credit support requirement of Rs. 7,502 crore;
- ◆ Loans via MFIs attract an interest rate of 15% and provide and insurance cover for the duration of the loan.

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## ANSWERS OF CYBERQUIZ ~ 21

1.[d] **Denial of Service** : This is a planned computerized attack to disrupt access to the Web.

2.[b] **Spam Sent through instant messaging rather than email messaging** : It is less known than spam. Spim bypass anti-virus software and fire-walls.

3.[b] **Modifying email addresses so as to foil attempts by computer programs to collect email addresses** : Address munging is done to prevent collection of email ids and subsequent delivery of spam. Generally the host name in the email addresses is changed in such a way that the recipient can still determine the correct address.

4.[a] **Flamebait or trollbait** : The act of posting this type of message is called flaming. Flamebait can lead to a flame war.

5.[a] **16th October** : On 16th October 1997, a law suit shut down one of the most notorious spamhausen - Sanford Wallace's Cyber Promotion Inc.



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## IIFCL gets \$700-m ADB loan

**A**sian Development Bank has sanctioned a loan of \$700 million to Indian Infrastructure Company Ltd. (IIFCL) at marginally below the London inter-bank offered rate (Libor). The fund will be disbursed over the next five years for a period of 20 years from the date of disbursement.

Following this, ADB's exposures in the state-owned lending company will increase to \$1.2 billion. The \$700-million loan will be released in three tranches of \$210 million, \$250 million, and \$240 million. The fund will be provided to facilitate infrastructure developments through public-private partnership (PPP) initiatives in India, said Shri S. S. Kohli, chairman and MD of IIFCL.

## 22% rise in software exports from RGCTP

Software exports from the Rajiv Gandhi Chandigarh Technology Park (RGCTP) have increased 22.5% to Rs. 351.74 crore in the first half of this fiscal, compared with Rs. 287.16 crore during the corresponding period last year.

The IT units located outside the techno park have registered an increase of 16.3% in software exports in the first half of 2009-10. These units also exported software worth Rs. 40.43 crore during this period.

Total software exports from Chandigarh stood at Rs. 401.17 crore in the first half of 2009-10, against Rs. 329.67 crore in the corresponding period last year.

In the fiscal 2008-09, total software exports of IT companies, located in RGCTP as well as outside, rose to Rs. 750 crore from Rs. 504 crore in 2007-08, registering an increase of 48%.

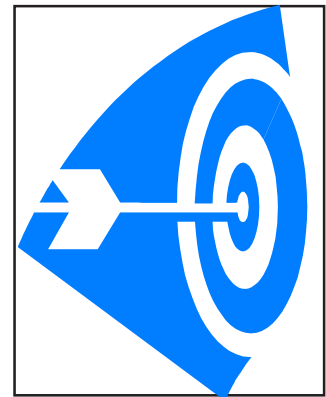
Software exports from the IT industry in Mohali stood at Rs. 172.76 crore in the first half of 2009-10, against Rs. 153.35 crore, registering a growth of 12.6%. More than 10,000 professionals work in RGCTP and the body has attracted investments of nearly Rs. 1,000 crore.

*"The total investment in phase I and phase II is expected to be to the tune of Rs. 3,700 crore. It is estimated that after the completion of the phases, RGCTP will provide direct employment to more than 32,700 professionals. Phase III will involve an investment of Rs. 2,500 crore and shall provide jobs to*

*an estimated 35,000 people."* The total investment in all the phases will amount to about Rs. 6,000 crore.

## Punjab to install 28 mini power plants by next year

Punjab government said that apart from four big thermal power plants, 28 more mini power plants would be installed in the coming year to generate at least 400 MW.



## Punjab govt approves Rs. 315-cr tourism project

Punjab chief minister Shri Parkash Singh Badal on November 23, 2009 approved Rs. 315 crore tourism infrastructure development project funded by the Asian Development Bank (ADB). The decision to this effect was taken by CM in a meeting with a team of ADB led by Ludwig Reider. Punjab is one of the four states selected by the Asian Development Bank for such a project. Himachal Pradesh, Uttarakhand and Tamil Nadu are the other three states. Rs. 40 crore would be spent during first year and the entire project would be completed within five years.

Shri Badal said that there was a great tourism potential in the state as Punjab was a mosaic of religious, historic and natural heritage. Under the first phase of Sikh heritage circuit, the ADB would fund the site projects of Amritsar Walled City, Golden Temple, Ram Bagh Area, Gobindgarh Fort, Townhall, Rose Garden, Moghal Route, Dera Baba Nanak, Masania, Kishankot and Keshapur Wetland.

## Himachal to get first biotech park

The Himachal Pradesh Cabinet has approved setting up of a biotechnology park—the first for the state—near Nalagarh in Solan district under public-private partnership mode.

The biotechnology park is estimated to catalyse an investment of up to Rs. 500 crore with expected 30 R&D-based units starting operations there. Thirty-five acres have already been transferred for the BT park.



The park will house a biotechnology incubation centre to be set up at a cost of Rs. 38.66 crore, which will be shared by the Centre (Rs. 9 crore), state government (Rs. 7.54 crore) and the rest by the private investor.

The biotechnology industrial cluster in the park will require infrastructural set up of about Rs. 40 crore and an expected investment of nearly Rs. 500 from private companies. The development work on the park is likely to start within three months and civil work will be completed within a year, after which work will begin on the incubator centre. The park will help in conducting R&D in the fields of aromatic and medicinal plants, tissue culture, value-added fruit processing, bio-fresh processing and extraction of aromatic plants.

### **Baddi industries opt for power generation to boost production**

Industrialists in Baddi, Barotiwala and Nalagarh region have been successful in saving power and cut down production losses by adopting a unique model of power generation in collaboration with the Himachal Pradesh State Electricity Board (HPSEB). Under the public private partnership (PPP) model, various industrial houses having gensets of over 1 mw capacity have been generating power since September and ultimately will be paid by the state government for it. Industries which are having standby captive generation have saved power from their quota for supply to other industries not having standby generation. The generation done by generators has been considered as electricity supplied to HPSEB. The industries will be compensated at an average cost of generation of Rs. 9 per unit for diesel genset and Rs. 8 per unit for furnace oil genset. The scheme was floated to tackle the grim power situation in the Baddi industrial belt due to burning of an 80 mw transformer at Baddi in September. In the absence of any such measure, power cuts would have continued for another three months with industries suffering huge production losses.

While HPSEB sold the additional power saved outside the state, the additional revenue generated will be used for paying out to the generators. The gap if any will be shared between the industry of Baddi-Barotiwala-Nalagarh area through average revenue realised (ARR) route in the ratio of 50:50.

### **Haryana's green sops make cos vie for solar panel deals**

In order to avail the benefits of generating power through renewable sources, many corporates have come forward to install rooftop solar photovoltaic (SPV) systems in Haryana. Rooftop SPV systems are covered under the central financial assistance scheme.

The central financial assistance for rooftop SPV Systems is provided at the rate of Rs. 75 per watt for SPV panels to a maximum of 30% of the cost of system to profit making bodies availing depreciation benefits. In case of non-profit making bodies, assistance at the rate of Rs. 100 per watt to a maximum of 40% of the cost would be given. The subsidy would be limited to 100 kw capacities mainly for day time use and institutions, government buildings and commercial establishments. However the minimum capacity of installation should be 25 kw. The subsidy amount can be paid back by the beneficiary in a period of five years. The department has also received another proposal from the Energy and Resources Institute, which plans to install a 50 kw rooftop SPV system at the Teri Garhwal Pahari Retreat Centre, Haryana. *"The expected cost of the project is around Rs. 1.47 crore and on an average setting up of a rooftop SPV system costs about Rs. 2.7-3 lakh per kw."*

### **Haryana solar programme**

Solar water heating system programme is getting popularity in Haryana. During 2008-09, the state has witnessed the highest ever installation of solar water heating systems of over 2 lakh litre capacity, which is 157% more than the previous years thereby reducing the peak load on the grid by about 2 mw and reduction in the emission of 3,038 tonnes of CO<sub>2</sub>.

### **J& K cocoon output rises**

Cocoon production in Jammu and Kashmir during the current year has reached 800 metric tonnes, up 72 metric tonnes compared to the previous year due to the measures initiated by the government. The price of cocoon is at Rs. 210 per kg. Those connected with the trade are being provided Rs. 15,000 for erecting tin sheds, in addition to 20,000 mulberry plants annually free of cost.

### **Kushinagar airport approved by centre**

The Rs. 560-crore greenfield Kushinagar international airport project in Uttar Pradesh for the integrated development of the entire Buddhist circuit, is to be built under the public-private partnership (PPP) mode on a design-build-finance-operate-transfer (DBFOT) basis.

While the state government has already received the Centre's and the Airport Authority's recommendation to go ahead with the project, it has now applied for a clearance from the Air Force and the environment ministry.



The circuit is a big draw among Buddhists pilgrims, particularly from East Asia, South-East-Asia and South Asia but tourism prospects in the area still suffer due to the lack of infrastructure facilities. It is this gap that the Uttar Pradesh Tourism Corporation (UPTDC), which is pursuing the project, aims to fill by commissioning an international airport in the area. An international airport at Kushinagar is necessary to cater to the traffic originating from Japan, China, Taiwan, Myanmar, South Korea, Bhutan, Singapore, Thailand, Sri Lanka and Nepal.

### UP extends sops to RRBs for solar power promotion

Remote villages in UP will soon be illuminated, due to the Centre's solar home lighting scheme. The regional rural banks (RRBs) can take the initiative to promote the scheme and provide microfinance for the installation of the solar panels in the villages.

*"The scheme will not only electrify the remotest of villages but also will minimise the use of kerosene for a nominal monthly installment of Rs. 250 that the bank will charge villagers. This is almost the same as the amount that any villager spends on kerosene".*

The Centre has earlier floated a direct subsidy to banks to promote the use of solar power, now it has been made incentive-based. Under the scheme, three branches of a rural bank with a good track record in loan disbursement will get a cash reward of Rs. 3-10

lakh and the gram sabha which successfully illuminates all the homes through solar lighting will also get a cash reward of Rs. 1 lakh. Village committees can use the reward money in installing solar street lights at public places or buy additional equipment. Already, 30,000 homes in the state are already using solar power.

### Rajasthan may attract Rs. 45 k cr in solar sector

The Rajasthan state government has sanctioned solar projects worth 66 MW distributed between 11 companies. *"The applications have already been forwarded to Rajasthan Energy Regulatory Commission (RERC) for fixing the tariff. After that, these companies will start setting up their respective solar plants across the districts of Barmer, Jaisalmer, Bikaner and Jodhpur. These plants will be based on different technologies like solar photo-voltaic, solar thermal and thin film etc."*

Reliance Industries Limited and Par Solar are setting up solar plants of 5 MW each in Nagaur and Jodhpur, respectively. The state receives the highest solar radiation in the country. According to an estimates, there is 1.5 lakh MW untapped potential of solar energy in this part of the country. *"The only snag so far, is the high energy generation cost of this mode. But once the plants start functioning, the cost of solar energy may decrease to the likes of conventional energy—thermal and hydel"*.

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*A combination of knowledge,  
enthusiasm and hard work of the youth  
is a great dynamic fire for  
transforming the Nation.*

*.....Dr. APJ Abdul Kalam*



# ALL INDIA INSTITUTIONS

## Interest Subvention Scheme for Short-term Crop Loans

Pursuant to the Hon'ble Finance Minister's announcement in his Budget Speech for 2009- 10, the government will provide interest subvention of 2 per cent per annum to public sector banks for short-term production credit up to Rs.3 lakh given to farmers. The amount of subvention will be calculated on the crop loan amount from the date of its disbursement/drawal up to the date of repayment or up to the date beyond which the outstanding loan becomes overdue i.e., March 31, 2010 for kharif and June 30, 2010 for rabi, respectively, whichever is earlier, subject to a maximum period of one year. This subvention will be available to public sector banks on the condition that they make available short-term credit at ground level at 7 per cent per annum.

All public sector banks have been advised to immediately submit their estimates of short-term production credit of up to Rs.3 lakh to farmers, for kharif and rabi 2009-10 (separately) to the Reserve Bank, to enable it to provide the government with an estimate of the likely amount of subvention.

### The Reserve Bank has further advised that-

- ◆ To enable the government to provide subvention, banks are required to submit their claims on a half-yearly basis as at September 30, 2009 and March 31, 2010, and for the quarter ending June 30, 2010 (for rabi), within one month from the respective dates.

The government will provide additional interest subvention of 1 per cent per annum to public sector banks in respect of those prompt paying farmers who repay their short-term production credit within one year of disbursement of the loan.

### Accordingly, it is advised that -

- ◆ To enable the government to provide subvention, banks should credit the additional 1 per cent subvention to the farmer's account only after the farmer promptly repays the short term production credit and seek reimbursement subsequently. Banks may submit their one-time consolidated claims for the entire year, incorporating the claims pertaining to both kharif and rabi disbursements for the year 2009-10, latest by July 31, 2010.

## Rupee Export credit Interest Rates

The Reserve Bank has advised banks to include readymade garments along with textiles under the rupee export credit interest rates subvention scheme from

December 1, 2008 to March 31, 2010. Banks should pass on the benefit to all eligible exporters.

## Computation of NPA Levels

In consultation with the Indian Banks' Association, the Reserve Bank has advised banks that :

- ◆ On an account turning into a non-performing asset (NPA), the interest already charged and not collected should be reversed by debiting the profit and loss account and further application of interest should be stopped. Banks may, however, continue to record such accrued interest in a memorandum account in their books, as is the practice currently followed by some banks.



## Report of the Working Group on BPLR

The Reserve Bank released the Report of the Working Group on Benchmark Prime Lending Rate (BPLR) on October 20, 2009. The Working Group (Chairman: Shri Deepak Mohanty) was constituted in pursuance of the announcement made in the Annual Policy Statement of 2009-10 to review the BPLR system and suggest changes to make credit pricing more transparent.

### The main recommendations of the Working Group are:

- ◆ Over a period of time, several concerns have been raised about the way the BPLR system has evolved. These relate to large quantum of sub-BPLR lending, lack of transparency, downward stickiness of BPLRs and perception of cross-subsidisation in lending. The Working Group was of the opinion that until the system was modified and/or replaced with some other system, the tendency to extend loans at sub-BPLR rates on a large scale in the market would continue raising concerns on transparency. The Working Group also noted that on account of competitive pressures, banks were lending a part of their portfolio at rates which did not make much commercial sense.
- ◆ Having carefully examined the various possible options, the views of various stakeholders from



industry associations and the public, and international best practices, the Working Group concluded that there was merit in introducing a system of Base Rate to replace the existing BPLR system.

- ◆ The proposed Base Rate will include all those cost elements which can be clearly identified and are common across borrowers. The constituents of the Base Rate would include (i) the card interest rate on retail deposits (deposits below Rs. 15 lakh) with one year maturity (adjusted for current account and savings account deposits); (ii) adjustment for the negative carry in respect of cash reserve ratio (CRR) and statutory liquidity ratio (SLR); (iii) unallocatable overhead cost for banks which would comprise a minimum set of overhead cost elements; and (iv) average return on net worth.
- ◆ The actual lending rates charged to borrowers would be the Base Rate plus borrower-specific charges, which will include product-specific operating costs, credit risk premium and tenor premium.
- ◆ With the proposed system of Base Rate there will not be a need for banks to lend below the Base Rate as it represents the bare minimum rate below which it will not be viable for banks to lend.

## Second Quarter Review of Monetary Policy 2009-2010

Dr. D. Subbarao, Governor, Reserve Bank of India presented the Second Quarter Review of the Monetary Policy Statement for 2009-10 on October 27, 2009. The highlights are:

### Projections

- ◆ The growth projection for GDP for 2009-10 retained at 6.0 per cent with an upward bias.
- ◆ WPI inflation projected at 6.5 per cent with an upward bias by end-March 2010.
- ◆ Money supply (M3) growth for 2009-10 placed at 17 per cent.

### Stance

On the basis of the overall assessment, the stance of the monetary policy for the remaining period of 2009-10 will be to:

- ◆ Keep a vigil on the trends in inflation and be prepared to respond swiftly and effectively through policy adjustments to stabilise inflation expectations.
- ◆ Monitor the liquidity situation closely and manage it actively to ensure that credit demands of productive sectors are adequately met while also

securing price stability and financial stability.

## Regulatory Measures

- ◆ The provisioning requirement for advances to the commercial real estate sector classified as 'standard assets' increased from 0.4 per cent to 1.0 per cent.
- ◆ To introduce a category of NBFCs as 'infrastructure NBFCs', defined as entities which hold minimum of 75 per cent of their total assets for financing infrastructure projects.
- ◆ The risk weights of banks' exposure to infrastructure NBFCs to be linked to the credit rating assigned to the NBFC by external credit assessment institutions.

## Financial Inclusion

- ◆ Banks to be allowed to (i) appoint additional entities as business correspondents (BC); and (ii) collect reasonable service charges from the customer in a transparent manner for delivering the services through BC.
- ◆ To advise lead banks to take steps to draw up a road map by March 2010 to provide banking services through a banking outlet in every village having a population of over 2,000 by March 2011.

## Cooperating for cooperatives

The Central government is set to amend the Constitution, to make it obligatory for the states to ensure autonomy and democratic functioning of cooperatives. The proposed insertion of a new Article 43 (B) in Part IV of the Constitution seeks to make it binding for the state governments to facilitate voluntary formation, independent decision-making and democratic control and functioning of the cooperatives. This is sought to be ensured by holding regular elections under the supervision of autonomous authorities, five-year term for functionaries and independent audit. Significantly, it will also mandate that in case the board is dissolved, the new one is constituted within six months.

A fundamental flaw in the Indian cooperative system is that, unlike in other countries where the cooperative are based on the concept of mutuality with thrift and credit functions going hand in hand, the Indian cooperatives are focused largely on credit alone. This makes the entire cooperative structure refinance-dependent and borrower-driven. Without the thrift feature, borrowers at all levels have little stake in ensuring smooth running or economic viability of these organisations. Besides, their solely credit-driven nature of functioning necessitates financial involvement of the government which allows politicians and bureaucrats to wrest control of the cooperatives and interfere in their



day-to-day operations. As the cooperative sector has played an important development role it was felt that it deserves a second chance.

### **ADB approves \$700-m loan to boost infra projects**

In a bid to accelerate the infrastructure projects through public-private partnership (PPP) initiatives in India, the Asian Development Bank (ADB) has decided to provide close to \$700 million in loans. ADB's board of directors on November 17, 2009 approved the multi-tranche loan for the second India infrastructure project financing facility.

- ◆ The loan will be released over a five-year period to the state-owned India Infrastructure Finance Company Ltd
- ◆ It is a follow-on of the first-stage facility of \$500m approved in 2007 and IIFCL will use the facility to support investments in PPP infra projects
- ◆ The loan will provide funds on commercial terms with more than 20-year maturities, which are not currently available in the domestic market.

### **RBI approval not mandatory**

In its second-quarter review of monetary policy for 2009-10, RBI has relaxed its branch authorization policy. From now on, it said, domestic scheduled commercial banks, except regional rural banks, would be free to open branches in Tier-3 to Tier-6 centres. These are currently defined as having a population of up to 50,000 people. Banks will continue to be required to take RBI's authorization for opening branches in Tier-1 (metropolitan cities) and Tier-2 (urban but not metro cities) centres. In planning for branches in Tier-3 to Tier-6 centres, RBI has suggested that banks have at least a third of such branches in under-banked districts of under-banked states. It will notify a list of such districts.

The number of branches opened by a bank in such underbanked areas will remain one of the major criteria for RBI in allowing the opening of branches in Tier-1 and Tier-2 cities. Besides, the overall performance of banks in financial inclusion (extending banking services through non-banking channels in rural/underbanked areas), priority sector lending and quality of service will continue to remain the other factors in allowing them to open branches in Tier-1 and Tier-2 places. To improve priority sector lending and help urban-centric banks meet such targets, RBI has decided to have a working group to examine the issue involved in introduction of priority sector lending certificates (PSLCs).

### **Nabard cuts interest rates on refinance by 0.5%**

The National Bank for Agriculture & Rural Development (Nabard) has reduced its interest rates on refinance for investment credit by 0.5% for lending made by various rural financial institutions (RFIs). The revised interest rates will be 8% for Commercial Banks and 7.5% for co-operative and regional rural banks, with effect from November, 03, 2009.

A special relaxation of 0.5% has been extended for the eastern and northeastern regions, Andaman & Nicobar islands and Lakshadweep in respect of financing made by commercial banks. The reduction has been done keeping in view the money-market condition, the macro-economic scenario and the need for promoting capital formation in rural areas.

### **Nabard aid for rating micro financial institutions**

Nabard has extended a scheme for financial assistance to commercial banks, regional rural banks (RRBs) cooperative banks for rating of micro finance institutions (MFIs) upto March 31, 2010. The basic purposes of the scheme are to facilitate the banks to identify appropriate MFIs for providing funds and to encourage proper standards, systems and safeguard, efficiency and transparency in MFIs. The scheme, which was supposed to come to an end on November 30, 2009 has also been revised in view of encouraging responses from banks and also from MFIs.

Banks can avail the services of credit rating agencies including Crisil, M-CRIL, ICRA, CARE and Planet Finance or any other agency approved by Nabard for time to time, for rating of MFIs. The banks can avail of 100% reimbursement of expenses towards cost of rating of MFIs upto Rs. 3 lakh by way of grant only for first rating of MFI. MFIs with the minimum loan outstanding of Rs. 10 crore would be eligible for support under the scheme. The grant assistance for meeting the cost of rating of MFIs would be only for professional fee of the rating agency subject to a ceiling of Rs. 3 lakh. Banks/MFIs may furnish a copy of the rating report to Nabard and it will have the right to publish the information, if it desires to do so.

Nabard is likely to insist on rating, at least, once in two years with the provision of 50% financial support for second rating subject to improved performance of the MFI during their support period. The intention of such additional assistance is to incentivise better performance & at the same time to evaluate the impact of the Nabard's Capital assistance/Revolving Fund Assistance on the performance of the MFI. The micro finance institutions may be encouraged to bring about improvement in their systems, procedures, standards of internal checks, governance, transparency, business & social obligations through rating exercise.



## Nabard revises grant assistance for SHGs

Nabard has revised guidelines for promotional grant assistance for NGOs, regional rural banks, district central cooperative banks, farmers' club and individual rural volunteers to boost the growth of credit linkage of self-help groups (SHGs). The government, along with Nabard, is keen on the proliferation of SHGs, especially in the hilly districts of Himalayan region. *"Nabard has been supporting various partner agencies with grant assistance to promote and credit link SHGs to banks with the objective of increasing the stock of good quality SHGs. The approach has been to supplement the resources of such self help promoting institutions (SHPs) which take up SHG promotion as an add on activity with promotional grants."*

As per revised guidelines, grant assistance has been revised to Rs. 4,500 for SHGs of 15 to 20 members, from Rs. 3,000 for 10 to 20 members. For hilly districts of the northeastern region, it has been increased to Rs. 5,000 for SHGs of 5 members and above and for hilly districts of Himalayan region maximum of Rs. 5,000 or SHGs of 5 members and above. A new category of tough districts has been introduced wherein an assistance of Rs. 6,000 for SHGs of 15 to 20 member would be provided.

## RBI calls for road map on financial inclusion by '10

The RBI on 10<sup>th</sup> December, 2009 said it has asked the lead bank in each district to draw a road map by March 2010 for ensuring that all villages with a population of over 2,000 will have access to financial services through a banking outlet, not necessarily a bank branch by March 2010.

The central bank has also asked all commercial banks—public sector banks, private banks and foreign banks—to come up with their specified board approved plans for financial inclusion by March 2010.

*"These plans are intended to be rolled out over the next three years. We have refrained from deliberately imposing a uniform model on banks because we wanted each bank to build its own strategy in line with its business model and comparative advantage. This will hopefully ensure better ownership,"* said Dr. D. Subbarao, governor of the Reserve Bank of India, while delivering a speech on Financial Inclusion: Challenges and opportunities, in Kolkata.

## RBI plans for local area banks

The Reserve Bank of India plans to allow more local area banks from the next financial year to provide an impetus to the government's financial inclusion drive.

The finance ministry and the central bank have conducted discussions on giving licences to more such

banks, as recommended by the Raghuram Rajan committee, after putting in place an appropriate regulatory framework, said a senior finance ministry official. They will help to bring in local knowledge to bear on products that are needed locally.

Local area banks with operations in two or three contiguous districts were conceived in the 1996 Union Budget to mobilise rural savings and make them available for investment in local areas. They are expected to bridge the gaps in credit availability and enhance the institutional credit framework in rural and semi-urban areas. Although the geographical area of operation of such banks will be limited, they will be allowed to perform all functions of a scheduled commercial bank. The local area banking licences will be given out in under-banked or unbanked areas of the country. Some of these local area banks could eventually become full-fledge banks at some stage. According to data available with the finance ministry there are 120 unbanked revenue blocks in the country.

The RBI and the finance ministry are confident of addressing apprehensions over the viability of these small banks, the governance structures and the ability of the regulator to take corrective action.

The Raghuram Rajan Committee had envisaged these local area banks as private, well-governed, deposit-taking small-finance banks. They were to have higher capital adequacy norms, a strict prohibition on related-party transactions, and lower concentration norms to offset chances of higher risk from being geographically constrained. The committee was set up to suggest the next generation reforms for the Indian financial sector. It submitted the report in April 2008. These banks will be on the lines of six local area banks that were given licences by the RBI in 1996.

Local area banks are likely to have a capital adequacy ratio higher than 15%, while it is 12% for scheduled commercial banks. Capital adequacy ratio or CAR is the ratio of capital fund to risk weighted assets expressed in percentage terms. CAR is the measures of a bank's ability to withstand losses arising from sticky loans. The local area banks will have higher capital adequacy ratio to offset higher risk arising from being geographically focused.

## PSBs seek Rs. 15 k cr as capital infusion

Public sector banks are pushing the government, their majority shareholder, for a record level of capital support to finance their growth. The economic recession has sharply slowed the offtake of credit to less than 13% from an average 23% last financial year. The list of banks that needs funds from the government include Punjab National Bank, Bank of Baroda and Bank of India.

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## LEGAL ISSUES

### Lending Public Money

Since state financial corporations are set up to encourage the establishment of industries by providing loans on liberal terms, the recovery of debts from chronic defaulters is seen by courts from two angles. One is that public money is lent for starting private enterprises and, therefore, the financial institutions should be tough on the debtors. The other approach is that these units benefit the public and, therefore, the endeavour should be to accommodate the interests of both the general public and the financial corporation.

For some time, the Supreme Court was wavering between these two attitudes. However, the court has recently taken a firm view on chronic defaulters that favours state institutions. This approach was evident in its recent judgement in the case of *Punjab Financial Corporation vs Surya Auto Industries*. The Punjab and Haryana High Court swung into a sympathetic mode when the borrower unit defaulted for a long time. It passed an order that found fault with the corporation for being inactive for six years, demanding compound interest and proceeding against the collaterals. The high court went further and asked the corporation to review all cases where penal interest had been compounded.

However, the Supreme Court found that the high court was in error on all counts. Though there have been judgements from the courts that adopted a liberal attitude towards defaulters, since 1993 the tide has turned to help the corporations. State corporations are not like ordinary money lenders or banks, but the basic relationship between them and the borrowers is that of creditor and debtor.

It recalled its earlier judgment in the case of *UP Financial Corporation vs Gem Cap (1993)*, which emphasized that *"promoting industrialisation at the cost of public funds does not serve public interest; it merely amounts to transferring public money to private account. The fairness required of the corporation cannot be carried to the extent of disabling it from recovering what is due to it."* Fairness, it added, was not a one-way street.

In the case of *Haryana Financial Corporation vs Jagdamba Oil Mills (2002)*, the court spoke more vehemently in favour of the state lending institutions. *"If re-payments are not received as per schedule, it will disturb the equilibrium of the financial arrangements of the corporations. They do not have at their disposal unlimited funds. They have to cater to the needs of the intended borrowers with the available finance. Non-payment of the installments by a defaulter may stand in*

*the way of a deserving borrower getting financial assistance,"* the judgement said. Indulgence shown to a chronic defaulter would amount to *"flogging a dead horse without any conceivable result being expected."*

Moreover, courts should not rush in to support a borrower when there is a dispute over repayment. This has been emphasised in several judgments. The Jagdamba judgement stressed that state corporations were free to act according to their own light. The views they formed and the decisions they look were on the basis of information in their possession and the advice they received. *"Unless its action is mala fide, even a wrong decision by it is not open to challenge,"* the court said. *"It is not for the courts or a third party to substitute its decision, however more prudent, commercial or businesslike it may be, for the decision of the corporation."*

The scope of judicial review in such cases is now limited to two circumstances: When there is a violation of a statutory rule on the part of the financial corporation, and When the institution acts unfairly or unreasonably.

The first situation is easy to recognise, but in the second, there could be grey areas. Even then, courts should not interfere with the action of the corporation as if it is an appellate authority over the decision of the state institution.

Sometimes, courts take great pains to revive sick units so that the state is benefited and workers are not thrown on the streets. In the latest judgement, the court did not approve of these good intentions. According to it, courts are *"not obliged to revive and resurrect every sick industrial unit. The corporation is supposed to act fairly, but it is not supposed to give loans and refrain from taking action for the recovery. The corporation is not expected to flounder public money for promoting private interests."*

In the Surya Auto case, the court found that the borrowing unit had not only adopted a recalcitrant attitude but also failed to avail itself of concessions in installments and interest offered by the corporation. In such gross cases, the courts should not help the defaulters. Thus the court puts more power in the hands of the financial institutions.



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## MISCELLANY

### MONEY LAUNDERING

#### What is money laundering ?

Illegal activities such as drug trafficking, trade in weapons and white collar crimes can generate large sums of money. Money laundering refers to the act of making these gains legitimate by disguising the source of money, changing its form or moving it to a location where not many questions are asked. The usual way is to put the money into the financial system by breaking it down into small deposits. The funds are then moved to different accounts with multiple banks. In the third stage, the money is used to acquire real assets, which then create legitimate gains. The estimates of money laundered range from 2-5% of the national income.

#### What are the implications ?

Unchecked money laundering makes monetary management difficult as there is no fix on the money supply. A country that is soft on illegal money risks losing foreign investments and can also attract unsocial elements. Such elements may gradually use their money power to acquire, influence and undermine the system. Laundered money could also be used to finance terror.

#### What is the role of the FATF ?

The FATF was founded by the G-7 countries in 1989 to develop and promote national and international policies to combat money laundering and terror financing. The membership of the FATF is limited to 35 countries at present. India has an observer status. It is

a member of the Asia-Pacific Group, a FATF-style regional body.

#### How does FATF counter money laundering?

The FATF issued a set of 40 recommendations in April 1990 that provide a comprehensive plan to fight money laundering. The body came out with eight special recommendations in 2001. In October, 2004, it published Ninth Special Recommendations. FATF member countries have to comply with these recommendations.

#### How will FATF membership benefit India ?

Membership of the body will allow India easy access to real-time information on money laundering and terror financing. India, a victim of terrorism, can raise the diplomatic pitch against perpetrators. It will also make India more attractive in the eyes of global investors.

#### What is the regulatory regime in India ?

The Prevention of Money Laundering Act, 2002, forms the core of the legal framework in India. PMLA and the rules notified thereunder are in effect from July 01, 2005. FIR-IND and Enforcement Directorate are the two agencies responsible for PMLA implementation. The Financial Intelligence Unit, a central agency that receives information, analyses and processes the data and disseminates it to national and international authorities.

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## PROVISIONING NORMS

#### What is provisioning ?

Assuming that a certain percentage of the loans will go bad, banks set apart a portion of their profits to cover such losses. The amount is deducted from the pre-tax income and set aside in a separate account to create a cushion for lending gone bad.

#### How does provisioning affect profits ?

A non-performing asset has a two-fold impact on the profitability of a bank. On the one hand, the bank ceases to earn interest on this asset and thus is deprived of its legitimate income from the asset. On the other hand, the bank is required to make provisions for these assets, depending on the classification of the asset and value of security, if any. Provisioning, therefore, depresses the post-tax profits of a bank. But the impact on the profitability of individual banks varies depending on the provisioning norms followed.

#### What is counter-cyclical provisioning ?

In counter-cyclical provisioning, the amount of provision is hiked during the good times to build a cushion for more assets going bad when economic environment deteriorates. As a countercyclical

measure, RBI has recently raised the provision coverage ratio for Indian banks to 70% by end-March 2011. A high PCR denotes good financial health.

#### What are the norms of provisioning ?

The general provisioning refers to the provisioning that the banks have to do towards all advances made by them while the specific provisioning means provisions made towards lending to specific categories like real estate or capital markets. The new norms specified by the Reserve Bank of India require all banks to reach 70% general provision cover by September 2010.

#### What is impact of provisioning on capital?

Increase in provisioning will impact the capitalisation of the banks. RBI considers the excess provisions for standard assets as Tier II capital of the bank. Funds being set aside for NPAs above the regulatory norms are treated as Tier II capital subject to the overall ceiling of the total risk-weighted assets. Tier II capital is the secondary bank capital that includes items such as undisclosed reserves, general loss reserves, subordinated term debt, and more.

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