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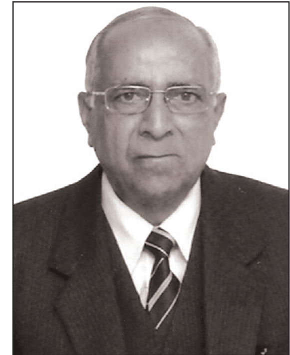
The views expressed in the journal are those of the contributors and not necessarily of the Council of State Industrial Development and Investment Corporations of India.

From The Editor's Desk

VIABILITY OF INDIAN AGRICULTURE & ROLE OF FINANCIAL PACKAGE

Indian agriculture has been facing serious crisis of confidence, low productivity and sustenance for quite sometime forcing farmers to commit suicide which is still continuing unabated. There has hardly been any agricultural economist in the country who has not voiced his concern about the consistently dwindling viability of Indian agriculture and steady fall in the annual growth rate rendering it as a losing proposition. The problem has assumed alarming proportions since 72% of the land holdings are below one hectare affecting the livelihood of nearly 70% of the farmers community. These economists and various committees set up by the Government have realistically diagnosed the basic ills of Indian agriculture and suggested various measures for putting it on sound footing, raising its annual growth rate stepping up productivity and thus mitigating the misery of the farming community especially small and marginal farmers, tenant cultivators, agricultural labourers and others. It is however, disappointing to observe that Government administrators, politicians and so-called reformers did not heed the advice of these specialists/committees and instead politicised this issue. The recommendations of these committees had only evoked academic interest. Far from initiating the required measures for improving its viability and productivity, the government has been announcing, on the eve of elections, certain financial packages for providing instant relief to the farmers such as waiver of loans outstanding, re-schedulement of loan etc. involving massive financial outlay. These were short term palliatives which were not aimed at improving the agricultural productivity. The one-time waiver of loans if at all it reached the poor farmers was not a viable solution and would keep them in the same vicious circle of low productivity, poverty and destitution. What is therefore needed is to make agricultural operations viable, profitable and self-sustaining.



Shri K.K. Mudgil

Unfortunately, the government tends to believe that massive infusion of currency notes in the economy could perhaps solve all the problems of the country. There has been phenomenal growth of currency in circulation as also government borrowings, both external and internal, which have pushed up alarmingly the fiscal deficit which, at present, on a conservative estimate stands approx. at **10-12%** of the GDP, if deficit of the states is also taken into account. It is a general principle of economics that pumping of paper currency in the economy, without corresponding increase in production asset formation productive activities and resultant generation of employment, could spell disaster in the economy. This is what we have been experiencing for the last two decades or more. As on June 30, 2008, the country's external debt stood at Rs.10,65,600 crore and internal debt at Rs.29,39,237 crore up from Rs.16,90,554 crore in 2003-2004. The external debt expanded by $ 12 billion every quarter during the last six quarters. It will thus be observed that the central government's debt liabilities have been increasing in absolute terms on account of persistent high fiscal deficit which in turn is financed by both internal and external borrowings. It is, therefore, a mind boggling fact that the debt liability of each individual citizen goes up by Rs.24,467 including external debt of about $ 194 per person. The general perception among

politicians, economic reformers and government functionaries that spread of currency is a panacea for all ills is absolutely wrong and misplaced. Such policies are obviously designed by the party in power to mislead the general public and appease its vote bank for winning elections. Such a massive infusion of money in the field has only led to rampant corruption among the grass-root level politicians and Govt. functionaries and has not reached the target groups.

Despite announcement of various sops and financial packages by the government in the past one decade or so, the agriculture has continuously lost its ground in asmuchas the growth rate of agriculture consistently fell from 4.5% till 2004-2005 to 1.6% in the year 2008-09. Similarly, the share of agriculture in GDP persistently fell from 38.9% in 1980 to 24.6% in 2000; 22% in 2004; 17% in 2006 and further to 16.3% in the year 2008-09. The sharp decline in agriculture's share in national income has resulted in stagnation in the growth of employment opportunities and productivity. Therefore, it is quite disturbing to pointout that about 60% of the country's labour force works on agriculture to produce just 16.3% of the national income while that of industry increased marginally from 24% to 26%. Growth was mainly in the services sector. The shift has taken place directly away from agriculture and in favour of services. While the Gross Capital Formation (GCF) in the economy steadily went up, it kept declining for agriculture. The share of agriculture in the total GCF (1999-2000 prices) fell from 7.7 percent in 2004-2005, 7.2% in 2005-06 and further to 7% in 2006-2007. What is really significant is that this decline has been caused by the fall in the share of the private sector in the GCF. According to the figures furnished in the Economic Survey, the private sector's share in the GCF has dropped from 7.7% in 2004-2005 to 7.1% in 2005-2006 and to 6.6% in 2006-2007; the private sector's share in 1999-2000 was as high as 11.9%. The waning private sector GCF in agriculture is a cause for serious concern. It is clear indication that farmers, the main contributors to private investment in agriculture, have failed to acquire capacity to invest more. The reasons for this are several and quite varied. Although the prices of agriculture commodities have remained high in the wholesale and retail markets, the farmers gets less than half the retail price. This has adversely affected the profitability of agriculture. It was found in the 59th Round of the National Sample Survey Organization (NSSO) that 40% of the farmers wished to quit farming, while 27% considered it unprofitable. The Minimum Support Prices (MSP) are available only to the producers of a few crops, notably wheat, rice and to some extent cotton. And these are available in a few states, where the official agencies operate in agricultural markets. Elsewhere, the farmers usually have to dispose off their produce at below the MSP. Even the Economic Survey has conceded that there is a need to narrow the gap between the producer prices and the consumer prices through proper marketing support.

Further, easy access to cheap credit, which is critical for boosting private investment in agriculture, is not available to the bulk of the farmer community. The report of the committee on Financial Inclusion (January 2008) has revealed that more than 73% of farmer households have no access to any formal sources of credit. Therefore, instead of populist measures like loan waivers etc. the stress should, therefore, be on getting more farmers into the institutional credit network. This will not only wean them off usurious money lenders but also improve their capacity to invest in productivity enhancing measures. In this connection, it is observed that most of the schemes of Priority Sector Lending to agriculture have proved completely ineffective and have by-passed the needs of small and marginal farmers, tenants and agricultural labourers. The Rural Credit Institutions (RCI) therefore, needs to be re-oriented to the needs of these farmers. The commercial banks have completely failed to

dispense credit to the above category of farmers. Induction of new technology is also essential for agriculture to be economically viable and investment worthy. However, farmers have absolutely no access to such technology and extension agencies have abysmally failed to address this problem. The NSSO survey revealed that only 30% of the farmers had adopted some new practices; for technical support only 6% of the farmers relied on the extension agencies and 3% on government agencies.

Concluding Observation :

There is no denying the fact that agriculture is the backbone of the Indian economy and is the source of livelihood for nearly 65% of the population. The overall decline in its growth and lack of efforts to it on sound lines have had devastating effect on the lives of poor farmers. These facts are a sad commentary on the Government's planning process. It is disgusting to observe that the planned economic development during the last 55 years has resulted in wide spread unemployment and poverty in the rural areas. The small and marginal farmers who constitute bulk of the farming community have been completely ignored for any government assistance. The problems of this sector, therefore, deserve to be given serious thought by the government agencies, planners, political leaders and agriculture economists. The imperative need is to put all the heads together for formulating an integrated plan for retrieving agriculture out of the present crisis and thus alleviating sufferings of the farmers. The underlying objective should be to make agriculture operations profitable, viable and investment worthy. Last but not the least, the government must bring about land reforms and consolidation of land holdings and provide some incentives to the small and marginal farmers to pool their land for adopting improved agricultural practices and thus increase productivity. It must not be forgotten that 70% of the Indian population lives in about 6 lakh villages and depend upon agriculture for their subsistence. The continued neglect of this sector could ignite widespread discontent and social unrest besides accentuating the income disparities between rich and poor. It is indeed a national shame that farmers continue to commit suicide in the absence of any relief measures/incentives by the government which trends must be reversed without any delay.

{ K.K. MUDGIL }

* * *

If you want a place in the sun, you must leave the shade of the family tree.

APPOINTMENTS

- Shri Yaduvendra Mathur, IAS has been appointed as Chairman & Managing Director, Rajasthan Financial Corporation {RFC}, Jaipur vice Shri Pradeep Sen, IAS.
- Smt. Susan Mathew, IAS has been appointed as Chairperson & Managing Director, TamilNadu Industrial Development Corporation Limited {TIDCO}, Chennai vice Shri Sunil Paliwal, IAS.
- Shri Sanjay Dubey, IAS has been appointed as Managing Director, Madhya Pradesh Financial Corporation {MPFC}, Indore vice Smt. Veera Rana, IAS.
- Smt. Nandini Chakravorty, IAS has been appointed as Managing Director, West Bengal Industrial Development Corporation Limited {WBIDC}, Kolkata vice Shri Subrata Gupta, IAS.
- Shri Navneet Sehgal, IAS has been appointed as Chairman & Managing Director, Uttar Pradesh State Industrial Development Corporation Limited {UPSIDC}, Kanpur vice Shri S.K. Verma, IAS.

- Mohd. Nasimuddin, IAS has been appointed as Chairman & Managing Director, TamilNadu Industrial Investment Corporation {TIIC}, Chennai vice Dr. T. Prabhakara Rao, IAS.
- Shri Yogesh Gupta, IPS has been appointed as Chairman & Managing Director, Kerala Financial Corporation {KFC}, Thiruvananthapuram vice Shri K.M. Nair.

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NEW BILL TO FOCUS ON LIVELIHOOD RIGHTS AND REHABILITATION

By
Dhurjati Mukherjee

There has been much discussion and debate in recent times over land issues most of which is related to acquisition for purposes of setting up industry or extending the limits of a city. As is well known violent protests have taken place in various parts of the country with the farmers resisting the takeover of the land without proper/adequate compensation and rehabilitation. The whole gamut of land acquisition clearly reveals that poor farmers, tribals and others have been forced top give up land and the money offered have been below market rates and not sufficient to compensate their loss.

Whether it is UP, Odisha, Karnataka, Tamil Nadu, Haryana or West Bengal there have been serious problems in acquiring land for various types of projects like building roads, steel plant, airport or nuclear power plant. The problems have arisen in recent years due to the fact that land had been taken rather indiscriminately without proper rehabilitation so that the dispossessed families could carve out a living. According to a report, there were protests by farmers in as many as 40 districts spread over 10 states. What has been at stake is nearly 4 lakh acres of land, most of it fertile and under cultivation.

Mahatma Gandhi had, way back in the 30s of the last century in a reference to the Tatas, pointed out: "The disposed never got the exact equivalent (of the land taken). What is the value of all boons that the Tata scheme claims to confer upon India if it is to be at the expense of even one poor man? I suggest to the custodians of the great name that they would more truly advance India's interest if they will defer to the wishes of their weak and helpless countrymen".

The protests symbolizing rural anger of land raises some questions on the merits of any acquisition. Should the state intervene at all on behalf of private industry to acquire land? Or should it play an active role when land needs to be acquired for public infrastructure such as construction of highways and roads? Should the state ensure that families whose land has been taken away are rehabilitated in the proper sense of the term?

An important aspect of the problem was the need to examine whether agricultural land which yields two crops per year, should be taken over. The case for such takeover needed to be outlined and just satisfying private players for setting up industries cannot be reason. As such, it was necessary to draw up a national plan with regard to conversion of agricultural land for industrial purposes, keeping in view the rehabilitation aspect and also the future source of livelihood of the displaced and their families. Economists and sociologists were of the opinion that if proper steps are not taken at the earliest, the resultant effect in the not-too-distant future would be large-scale displacement, migration to the urban centers in search of employment and livelihood security which in turn would increase social chaos and tension in society.

Keeping all these aspects in view, the new National Land Acquisition and Rehabilitation & Resettlement Bill is indeed a landmark legislative action which has been formulated and recently approved by the

The author is a Kolkata based Journalist and Commentator on Development and Enrivonment Issues.
Courtesy : Yojana (A Development Monthly)

Cabinet. The government was seriously considering changing the age-old Act and coming out with something that is designed to protect the interest of farmers and also to ensure that irrigated, double-cropped land is not arbitrarily taken away. Most of the provisions of the Bill have been formulated after much discussion and merit attention. Apart from the provision that consent from 80 per cent of the owners for transfer of land would have to be taken for non agricultural use, it also has rights of redressel of the displaced. This obviously makes for better transparency and also reduces manipulation of the process by a few.

The Bill compensates land losers at four times the market value, defined as the average selling price for a similar type of land in the area. The rate in the urban areas will be twice the market value.

The National Advisory Council (NAC), which came out with some recommendations for land law a few months back regarding the new Bill, proposed that landowners should be paid six times the registered deed value as compensation and a solatium in case of compulsory acquisition. It also made a significant recommendation that compensation should be paid not just to owners but also to those who would lose their livelihood if the land was bought. For them, the council went to the extent of proposing a grant amounting to 10 days minimum wages every month for 33 years.

Moreover the Union Rural Development ministry has added 'annuity' to the bill, Annuity would be a fixed amount the farmers would get periodically after their land is acquired. As per the annuity clause, which was opposed by certain sections, but has rightly been incorporated, each land loser family must be paid Rs 2000 every month for twenty years. This will be in addition to the compensation that the farmers get for the land that may have been acquired.

It needs to be mentioned here that an important amendment to be Bill has been of the west Bengal Chief Minister Ms. Mamta Banerjee, who suggested that any acquired plot that remains unutilized for 10 years can be put in a land bank to be later used for any purpose the state government deems fit. Other significant features of the bill are dalits and tribals to get land elsewhere and one job per effected family and, if there is no eligible member, a onetime assistance of Rs. 2 lakh. These two features have genuinely considered the 'livelihood security' aspect which social activists were emphasizing on.

Lately the Prime Minister, understanding the seriousness of the problem, very aptly mentioned that" we cannot allow the transfer of land from the poor to the rich without giving the benefits to the poor". This is indeed quite significant which reflects a realization that land cannot be arbitrarily taken over. And the very fact that tribal's would be given land elsewhere proves the government's deep concern for the poor and economically weaker sections.

It is significant to mention that the government does not act for private players and that there should be clear definition of "public purpose" in the acquisition law. The NAC proposal stated that "public purpose" should cover strategic and infrastructure uses and social services like education and health care. The Bill does well to broadly define "public purpose", including industry and infrastructure along with strategic projects.

It is understood that the Bill envisages that before any project starts, the social and environment impact studies would have to be completed. Acquisition process must not begin without the concerned villagers' consent. It is well known fact that the old Land Acquisition Act 1894 had no provisions for obtaining landowners' consent for acquiring land "for any public purpose". Section 5A of the Act only allows landowners to file objections, if any, within 30 days from the date of publication of notice under Section 4. The objections will be heard but "the decision of the government shall be final". Questions were raised about acquisition for the Tata small car project in Singur as land can be acquired only for any "public purpose".

There is growing consensus that compensation and rehabilitation has to be settled before the acquisition process starts and this has been agreed upon. Though industry has said that compensation in rural areas at six times the market rate combined with R&R will hugely raise project costs, this has been adhered to. The government, being a signatory to the Habitat-II recommendations, held at Istanbul long back, is of the firm opinion that eviction or acquisition should be preceded by a proper rehabilitation package.

Meanwhile some judgments may have motivated the government to ensure proper financial package to the land loser. The Supreme Court came out with a momentous verdict, expressing severe concern about the path of development followed by depriving landowners of their land which seemed "to be a dreadful and hateful word that is aimed at denying them even the source of their sustenance" and right to livelihood. The Bench of Justice Shri Aftab Alam and Shri B. S. Chauhan in their verdict (of July 19, 2010) said "the resistance with which the state's well meaning efforts at development and economic growth are met makes one to think about the reasons for such opposition to the state's endeavours for development".

Various surveys carried out over the years have found that most of those whose land has been taken away have landed in utter distress while many have perished in hunger and poverty. It appears that livelihood security has been the prime consideration in evolving the rehabilitation package so that the loss of land is compensated in such a way that the disposed are not affected and can find a new lease of life. Though on a suggestion from states such as Punjab and Haryana, the provision banning acquisition of multi-crop land has been dropped, there is a clause that maximum of 5 per cent of multi-crop land can be acquired in a district, provided an equal area of degraded or wasteland is developed. This is indeed quite significant. Land is a very vital asset and specially in a country like India where the population growth as also the population density is very high.

Moreover as land markets in the country are imperfect, its judicious use is very much necessary at this juncture keeping in view the interests of the BPL groups and the economically weaker sections, which constitute over 45 per cent of the population. The Bill has thus viewed land not just a property but as a means of livelihood. One can definitely say that the whole question of land acquisition and rehabilitation has been carefully examined in finalizing the Bill and the efforts of the Rural Development Minister, Shri Jairam Ramesh in evolving a broad consensus amongst all political groups needs to be applauded.

* * *

One doesn't discover new lands without losing sight of the shore for a very long time.

TRANSFORMING RURAL INDIA : EMERGING ISSUES & CHALLENGES

By
Anupam Hazra

The success of achieving the goal of sustainable development for this country lies at the heart of empowering rural India where 68.84% of its population reside. Realizing the significance of rural development—since independence, India has adopted a number of innovative strategies and approaches for ensuring the basic rights of the rural population. Rural development in India has witnessed several changes over the years in its emphasis, approaches, strategies and programmes but in last two decades, the strategy of rural development has mainly focused on poverty alleviation, promoting educational access in rural India, ensuring a better livelihood opportunities for rural poor, making provision for basic amenities and infrastructural facilities through innovative programmes of wage and self-employment. As far as the development of rural India is concerned, the three-tier Panchayati Raj system remains the backbone with its 28,18,290 elected people's representatives, which is the largest number for any country in the world. Through this three-tier Panchayati Raj system, the Government is implementing a number of programmes aimed at ensuring a sustainable and holistic development for rural areas and the thrust of these programmes remains on all round economic and social transformation in rural India, through a multi-pronged strategy, aiming to reach out to the most disadvantaged sections of the society.

The Recent Pro-Rural Landmark Initiatives

For intensifying the efforts towards empowering rural India, the government has shown some innovations in its intervention by introducing some revolutionary initiatives in recent years. **The right to Education Act** which came into force on 1 April 2010 for ensuring comprehensive elementary schooling – has provided a major boost towards the progress of rural education. **Mahatama Gandhi National Rural Employment Guarantee Scheme** (MGNREGS) introduced in 2005, which is providing at least 100 days of demand-driven guaranteed wage employment in a financial year to every rural household whose adult members volunteer to do unskilled manual work- has given a new direction to rural decentralization. It is the largest employment-generating scheme in the world so far, offering a bottom-up architecture with radical provisions for people-centered planning, implementation, social audit and possibilities of creating durable assets in priority activities leading to sustainable rural livelihood generation. The **National Rural Health Mission** (NRHM) initiated in 2005, has put rural health care services on the right track with need-based institutional changes within the existing rural health care system. To build the rural infrastructure, the government launched time-bound action plan called **Bharat Nirman** in 2005. Under Bharat Nirman, comprehensive and specific action plan have been framed with an aim to promote Water Supply, Housing, Telecommunication and Information Technology, Roads, Electrification and Irrigation with a special attention to rural India. On the other hand, for tackling the challenge of insecurity and hunger which is widely prevalent in rural India – an ambitious and revolutionary **'Food Security Bill'** is being drafted by the newly set up National Advisory Council (NAC). In its recent meeting in the month of October in 2010, it has suggested that legal entitlements to subsidized food grains to be extended upto at least 75 per cent of the population – 90 per cent in rural areas and 50 per cent in urban areas. The **Right to Information (RTI) Act** of 2005,

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Courtesy : Kurukshetra (A Journal on Rural Development)

by ensuring a system of proactive disclosure of information, provision for Monitoring and Vigilance by citizens, beneficiaries, civil society organizations etc.- has been playing a key role in ensuring transparency in the operation of most of the rural development programmes and the schemes. At the same time, India has developed a number of applications to automate the processes of information generation and strengthening it **e-governance** initiatives. Portal of Ministry of Rural Development i.e. www.rural.nic.in–is providing details of various schemes of Ministry of Rural Development like Mahatama Gandhi National Rural Employment Guarantee Scheme (MGNREGS), Indira Aawas Yojana (IAY), Swaranjayanti Gram Swarojgar Yojana (SGSY), Pradhan Mantri Gram Sadak Yojana (PMGSY), Accelerated Rural Water Supply Program (ARWSP), Total Sanitation Campaign (TSC), and Integrated Watershed Management Programme (IWMP). Information regarding the physical and financial progress, sanction orders, etc of various schemes are also available on the same website.

Progress made so far in Rural India: Some Reflections

An analysis of National Sample Survey Organisation data shows that poverty in rural India has reduced from 37.3% to 28.3% during the period of 1993-94 to 2004-2005. As far as the state of food security is concerned, the calorie consumption of the 26 bottommost quartile of per capita expenditure in rural India has consistently declined from 1683 kcal in 1987-88 to 1624 kcal in 2004-05 as revealed by National Sample Survey Organisation. The total of calorie intake of the top quartile of the rural population has similarly declined from 2863 kcal in 1987-88 to 2251 kcal in 2004-05. The Midday Meal scheme has benefited children from an estimated 22.8% of rural households in 2004-05, the Integrated Child Development Scheme (ICDS) has covered 5.7% of rural households, the Food-for-Work Scheme – only 2.7%, and the Annapoorna scheme for the elderly rural poor has a coverage of 0.9%.

Some Issues of Concern Jeopardising the Rural Growth

Although concerted efforts have been initiated by the Government of India through several plans and measures for meeting the needs and requirements of rural India, but the basic issues of healthcare, sanitation, comparable quality of life still causes concern for rural India. Significant funds have been allocated for poverty alleviation and rural development, yet there has not been a corresponding improvement in the relative rank in India in the Human Development Index. Being placed at 119th position among 169 countries in the 2010 Human Development Index – India even lags behind its neighbors like Pakistan and Bangladesh, on human development indices like life expectancy at birth and mean or average years of schooling. India still falls in the medium human development category and this raises questions about the relationship between outlays and outcomes of rural development initiatives of this country. Studies and statistics across the country show that India's performance has been low and progress remains slow with regard to rural poverty reduction and tackling malnutrition and undernourishment particularly in rural India. In the absence of inclusive and effective rural governance- the people at the grassroots, who are the intended beneficiaries of different rural development initiatives, are left dependent on a bureaucratic service delivery mechanism- a system, which is bearing a 'cancer' in sustainable development process i.e. corruption; and this fact is very much evident when we look into the corruption Perceptions Index 2010-where India has slipped three places in global rankings of most corrupt countries, from 84 in 2009 to 87 in 2010. On the ranking based on the scale from 0 (perceived to be highly corrupt) to 10 (low level of corruption). India scored 3.3 to grab 87th position.

The problems of widespread poverty, growing inequality rapid population growth and rising unemployment all find their origins in the stagnation of economic life in rural areas. Despite more than six decades of planned economic development, a large part of the population particularly segments like women, landless agricultural laborers', marginal farmers, SCs, STs and OBCs, suffers from social and financial exclusion. Even though participation of women in Panchayat raj system has been facilitated by the 73 rd Constitutional Amendment Act, 1992 which mandated one- third reservation

of seats at all three tiers of panchayats for women; but a significant number of women in rural India still face disparities in access and control over resources. These disparities get reflected in important social development indicators such as health, nutrition, literacy, educational attainments, skill levels, occupational status etc. In addition, there are a number of gender specific barriers that prevent women from gaining access to their rightful share in the flow of public goods and services. Unless these gender requirements and their felt needs are incorporated and mainstreamed in the planning and development process of the country, it is likely that the benefits of economic growth will completely bypass a significant section of the country's population. So, capacities of locally elected representatives have to be enhanced to democratize governance and excluded groups particularly women, need to be empowered to participate effectively in decision making processes of rural India.

The high levels of poverty and hunger still persist in rural India because of lack of secure livelihoods for the marginalized rural poor, lack of adequate non-farm rural employment opportunities, declining public investment in agriculture and rural development, lack of participatory decision- making and the inability of rural producers to take advantage of the new opportunities created by the liberalization and globalization of agricultural trade. Studies and researches suggest that factors contributing to poor performance in the delivery of public services include lack of political and administrative accountability at Panchayat Raj Institution, inflated reporting and absence of performance appraisal for the staff of Block Development office and Gram Panchayats, high absenteeism among panchayat staff, stagnant agricultural production, fiscal bankruptcy of the states with under investment, changing centre- state fiscal relations (where the center does not control staff and states do not control either funds or the nature of scheme), and poor management information system (MIS) at Panchayati Raj Institution about the different rural development schemes and programs which are under operation.

Tackling The Current Challenges: The Way Forward

There is need for more synergy between public and private sectors and civil society organization in decentralized, participatory approached for sustainable agriculture and rural development. Corruption needs to be tackled at earliest by establishing good governance at PanchayatRaj Institution in every possible way. India's Panchayati Raj institutions can be a model for strengthening self- management capacities of community- level associations of the rural poor and improving their access to livelihood resources and services. To deepen democracy and avoid villagers' autonomous rights from being illegally captured, the state should create effective mechanisms to safeguard the democratic rights of villagers, and provide an institutional platform for villagers' autonomous activities. Further, there is a need to reconstruct the rural community in the direction of democratization, and develop the democratic capacity of rural society. Propagation of Schemes for rural development is slow and there is a lack of wider participation of different stakeholders. So, rural poor need policies, legislation and institutional capacity building support to enable their effective participation in decision- making and planning at local levels and in implementation of sustainable rural development programs; there is also a felt-need for gender- sensitive policies and targeted programs for vulnerable section of the rural population. The advantages of community- based local level decision making are often ignored given the convenience and precedence of centralized development administration. Despite the existence of Gram Panchayats and Grama Sabhas, little effort is made to strengthen the hands of these local level socially responsible decision- makers with need-based knowledge and technology. Empowering these grassroots- level peoples institutions through need-based capacity-building should be treated as an utmost priority for rural India. So, Innovation and modernization of approaches and strategies in pro- poor policies based on the felt- need of rural population- has a significant role to play in national, state and local level rural development initiatives- right from planning and policy formulation to choice of policy instruments, in order to transform rural India.

* * *

PROFILE OF MEMBER CORPORATIONS

ARUNACHAL PRADESH INDUSTRIAL DEVELOPMENT AND FINANCIAL CORPORATION LIMITED

Arunachal Pradesh Industrial Development & Financial Corporation Ltd. (APIDFC) was incorporated under Companies Act 1956 on August 9, 1978 to promote, unit and finance establishment, growth, development and management of industries in the State of Arunachal Pradesh. The authorized share capital of APIDFC is Rs. 600.00 lakhs and paid up capital is Rs. 211.502 lakhs as on 31.03.2008 and is entirely owned by Govt. of Arunachal Pradesh. The Corporation is playing the role of promoting industrial development as well as that of financial corporation.

MISSION STATEMENT

APIDFC was conceived by Govt. of Arunachal Pradesh with a vision to accelerate industrial development of Arunachal Pradesh by financing to tiny/SSI Sector, expansion and modernization of industrial enterprise etc.

APIDFC aims to be dynamic and responsive organization to catalyze the economic growth of Arunachal Pradesh. It is assisting the efficient formation of fixed assets by identifying financing and nurturing eco-friendly and commercially viable industrial projects in Arunachal Pradesh as a whole.

APIDFC srives to achieve highest standard of quality in terms of services to the entrepreneurs by rendering in-depth counselling, timely advise and assistance for building quality enterprises on a sustained basis. The Corporation is unlocking the resource potential of the state to create opportunities for its people and provide them with a better quality of life.

AIMS & OBJECTIVES OF APIDFC

APIDFC is the only financial and industrial development Corporation of Arunachal Pradesh. The main object to be pursued by APIDFC as per its Memorandum of Association are : -

- To promote, assist and finance establishment, growth, development and management of industries in the State of Arunachal Pradesh.

Shri Tony Koyu, M.D., APIDFC

- To take over from the Government of Arunachal Pradesh any of their projects to set up industries with the rights and liabilities so far as they relate to such projects.
- To promote, establish, undertake, execute and run industries, projects or enterprises and institution for management of finances for manufacture and production of plant, machinery, tools, implements materials, substance stores, goods or things of any description which in the opinion of the Company are likely to promote or advance the industrial development of Arunachal Pradesh.
- To develop industrial areas for the purpose and make them available for undertakings to establish themselves.
- To establish and manage industrial estates at places selected by the Company.
- To promote, encourage and aid, assist counsel, finance, undertake co-ordinate organize, establish and develop small, medium and large industries in the State of Arunachal Pradesh by means of providing direct assistance in regard to promotional, technical managerial and financial needs for establishing, running expanding or modernising any industrial undertaking project or enterprise, whether owned or run by the State Government, Statutory body, Corporation, Public or Private Company, firm or individual and to act as the major

instrument for the rapid and integrated establishment growth and development of industries in the State of Arunachal Pradesh.

- To encourage, promote and assist in participation of capital in industrial enterprises and expansion of investment markets in the State and provide for financial assistance and management including direct capital participation, processing of loans, direct loan assistance, conversion of loans into equity, participation in equity and preference shares, underwriting of shares, debentures, to provide guarantees to existing and new small, medium and large scales industrial undertakings or for groups thereof in the State of Arunachal Pradesh.
- To promote, establish, set up manage finance for industrial units in the Small Scales sector and to take up management of sick industrial units in the State of Arunachal Pradesh, by the Company with a view to transferring any of such small industries ultimately to entrepreneurs whether private companies or concerns or individuals who evince interest and keenness in setting up such small industries but who are handicapped for want of initial technical know-how and capital on such terms and condition as the company may prescribe in this behalf.

Arunachal Pradesh Industrial Development & Financial Corporation Ltd. is the only state's premier Financial Institution which has been devoted for the cause of economic amelioration of the poor tribal populace of Arunachal Pradesh. Although APIDFC Ltd. looks like a sick baby of the State Government, however, today, it takes pride to tell its own success stories for public interest :-

Despite poor capital base of Rs 211.50 lakh, APIDFC was able to render Financial Assistance to more than 177 numbers of first generation entrepreneurs who had no basic knowledge of managing any enterprise. It has financed Rs 898 lakhs for various economic activities ranging from transport operator, hotels, shopping complex, fabrication, hollow bricks, file cover/board making unit, oil & flour mill, wire drawing, plastic industry, citronella plant, nursing home, transformer repairing, dental clinic, ginger dehydration, PCO-Fax-Xerox, restaurant, printing press, medicine, conductor, soap, chopstick manufacturing, tyre retreating, ice cream and candle factory, village & tiny industries like black smithy, rice hauler, poultry, biscuit and forest based industries like cane and bamboo, stone crusher, plywood, veneer and saw mills etc.

Out of total 177 borrowers and advance of Rs 898 lakhs as on 31st March 2007, at least 110 borrowers have successfully liquidated their loan accounts and repaid Rs 1119 lakhs to APIDFC Ltd.

APIDFC has played a pivotal role in creating real estate assets in capital complex like Akash Deep Shopping Complex, Bluepine Hotel, Arunsubansiri Hotel, Donyi Polo Ashok Hotel, Kosing Hotel, Aane Hotel cum KB Commercial, Sunview Apartments, Kara Shopping Complex, Chandi Hotel etc. Almost all have liquidated their loans and employ thousands.

Hotel Donyi Polo Ashok, a joint venture corporation of APIDFC has been earning continuously profit since last 9 years. Last year it has started to pay dividend of Rs 20 lakhs.

Arunsiri Gas Agency, a trading unit of APIDFC has also been a profit center of APIDFC Ltd. Till 31st March 2007 APIDFC has earned net profit of Rs 97.71 lakhs from this unit and given LPG connections to 19036 consumers.

Out of 72 employees, we have retrenched 46 employees under VRS and reduced our monthly recurring expenditures from Rs 10 lakhs to Rs 3.5 lakhs.

Few years back APIDFC was straddled with heavy burden of outside loan liabilities. However, today we stand clean as we have fully repaid IDBI loan, SIDBI loan to the tune of Rs 1070 lakhs.

APIDFC suffered losses for 30 years. However, it has now turned around and is shown operating profits since the year 2007. It has, therefore, taken up new projects under joint venture / PPP models.

The success stories wouldn't have been possible without the invariable support of the govt. of Arunachal Pradesh.

* * *

LETTER TO THE EDITOR

October 11, 2011

Dear Editor,

I really appreciate the fact that the contents & issues taken up in your magazine are of immense relevance in today's Industrial scenario. I would also like to acknowledge the fact that some of the topics covered in your magazine were real eye opener for me. I would like to wish all the good luck to your goodself & have every reason to believe in future editions also we would be enlightened by valuable information which is being published in your magazine on regular basis.

Regards,

Sincerely yours,

Sd/-

{Prakash Upadhyay}
Asstt. Vice President
Capital Business System Ltd.,
30-B, Karol Bagh,
New Delhi-110005

The great thing in this world is not so much where we are, but in what direction we are going.

KERALA

KSIDC signs Rs.1 k-cr pact with GAIL arm

The Kerala State Industrial Development Corporation (KSIDC), has signed a shareholders/promoters agreement with GAIL Gas for setting up a Rs.1,000 crore gas-based infrastructure project. The agreement was signed in the presence of Kerala Chief Minister, Shri Oommen Chandy by KSIDC, M.D., Shri Alkesh Sharma and Shri M Ravindran, CEO, Gail Gas in September.

KSIDC will have 24% equity in the company and GAIL Gas will have 26% in the company. The balance will be held by a strategic investor.

The new company Kerala Gail Gas will take up City Gas Distribution , laying spur lines (providing last mile connectivity) for various locations, CNG stations, Skill Development Centre, Gas Equipment Retailing, Distributed Power Generation, OFC Cable Infrastructure etc.

KSIDC has been engaged in developing a Supplementary Gas Infrastructure and City Gas Distribution by developing spur lines from GAIL's Gas Trunk Pipeline network and various gas-based infrastructure projects.

HARYANA

HSIIDC allots five acres land to UIDAI at IMT Manesar

Haryana State Industrial and Infrastructure Development Corporation (HSIIDC) has allotted five acres of land to Unique Identification Authority of India (UIDAI) at IMT Manesar for setting up of Central Identification Data Repository (CIDR) for its project christened as 'AADHAAR'

The project would involve an investment of Rs 275 crores, out which Rs 160 crore would be incurred on the Data Centre infrastructure development and building and Rs 115 crores would be for other civil and miscellaneous works. The total built up area would be more than two lakh square feet and the building for the Green Data Centre should be meeting Tier-III requirements as per Uptime Institute and compliant to IMD's Seismic Zone- 5 requirements.

RAJASTHAN

RIICO to set up special zone for power loom units

Rajasthan State Industrial Development and Investment Corporation Limited (RIICO) is planning to develop a special industrial zone for power loom sector in Pali, 350 kms from Jaipur. RIICO, Managing Director, Shri Rajendra Bhanawat, IAS said the corporation would spend around Rs 40 crore for the development of this zone spread across 284 acres.

"The zone would have 448 industrial plots for power loom units with an allotment price of Rs. 600 per sq. mts. It will also have a dedicated commercial space over 21.47 acres," he said. The proposed power loom zone is likely to become a major cloth manufacturing centre in the state after Bhilwara which has more than 4000 cloth manufacturing units.

As per an estimate, Bhilwara produces over a billion meters trouser fabric per annum. As per the plan lay out, around 250 power loom units are likely to be set up attracting an investment of around Rs. 700 crores. Together the units will have manufacturing capacity of 75 crore metres per annum while engaging over 30,000 people. The units coming up in this zone will get a rebate of 30% on the development charges if the unit commences production within one year of the allotment of land and 15% rebate if the unit commences production within two years.

* * *

NEWS FROM STATES

WEST BENGAL

West Bengal sets up eight working groups for IT sector

At the first meeting of the state core committee for information and communication technology (ICT), members headed by chairman Shri Sam Pitroda, chief mentor Shri Narayana Murthy and IT minister Shri Partha Chatterjee, decided to form eight working groups, which will come up with suggestions for the development of the sector in Bengal. The groups have been created on verticals like e-governance, e-health, e-education, e-agriculture, human resource development among others. The idea is to get the perspective from sector experts, in a way that the core committee members may not be equipped to provide.

"Infrastructure, by way of road development and power availability, are the biggest problems the IT sector is facing. Land is not really a problem because given the nature of IT, vertical space development can always be created by way of infrastructure". The members of the working groups will be elected by the core committee over the next two weeks. They, in turn, will come up with agenda to set up 10 points, which the core committee will consider.

MAHARASHTRA

Maharashtra calls for review of RBI prudential norms

The Maharashtra government on 17th September, 2011 asked for review of Reserve Bank of India's prudential norms relating to all loans where government guarantees are being insisted upon, in a time-bound manner. This was necessary so that the commitments of the state government under the Fiscal Responsibility Act are honoured and the banks start taking coercive actions against defaulters, rather than proceeding to invocation of guarantees without liquidating their assets. Chief Minister Shri Prithviraj Chavan made the request during the meeting of western zone states chaired by Finance Minister Shri Pranab Mukherjee to review state of crop loans, debt waivers and bank self help group linkage programmes. Shri Chavan said government guarantees were being asked for before the loan amount was sanctioned by the NABARD for rescheduling crop loans after natural calamities. Such guarantees are also asked for the loans extended by them to cooperative sugar mills and spinning mills. However, the basic premise for asking for the guarantee has been questioned by the courts and they have said the default amounts standing against loans guaranteed by the government should be first recovered by selling off the assets of the borrower who has defaulted, before the banks approach the government to meet its obligations against the guarantee. The state government has taken steps so to reduce the risk of extending loans by way of equity infusion, interest subvention, provision of viability gap funding, waiver of taxes and through loan waivers at periodic intervals.

Maharashtra tops in travel & tourism survey

Maharashtra topped an all-India annual ranking on travel and tourism, conducted by hospitality consultant HVS for the year 2010-11. Goa was second, followed by Delhi. Some of the criteria include tourist arrivals, expenditure on tourism, presence of branded hotels, marketing campaigns, urbanisation, road and rail infrastructure and aircraft movement, among others. While Maharashtra scored high on all counts, rising from the fourth rank

in 2009 to the top slot, Delhi was relatively weaker on marketing effort, state expenditure on tourism and luxury tax on hotel rooms. Goa needs to improve, said the study, in certain intangible areas like safety and security. Tamil Nadu dropped from the number one position in 2009 to the fourth place this year and Karnataka has moved up from the 12th position in 2009 to the top five.

BIHAR

Bihar seeks developers for 4,000-Mw capacity addition

The Bihar government has called for bids from private power developers for three coal-based power projects in that state with a total capacity of around 4,000 megawatts (Mw). Each thermal power project will have a capacity of 1,320 megawatts. The projects will come at Chausa village at Buxar district, Kajra in Lakhisarai and Pirpainti in Bhagalpur. For the purpose, the Bihar State Electricity Board (BSEB) has formed a project development company: Bihar Power Infrastructure Company.

In each of these projects, 1,125 megawatts of power, ie, 85 per cent of power produced will be purchased by the BSEB, while the rest can be sold to a third party. Land required for the projects — the bid documents say — has been identified and a majority of the land for each of these projects has been transferred, as per section 6 of the Land Acquisition Act. The water required for these projects will be sourced from the Ganga.

GOA

Goa govt to cancel 19 mining leases

The Goa government on October 01, 2011 said it has initiated the process to revoke licences of 19 mining leases that have been found to be operating within 10 km radius of wildlife sanctuaries or national parks in the state. State forest minister Shri Filipe Nery Rodrigues said his office has received a communication from the Karnataka forest department, quoting data provided by the environment and forests ministry (MoEF), which claims that these mines are working in violation of the environment clearances (ECs) granted to them. There are a few leases that have been found to have given false information to the MoEF while applying for ECs. Goa has 90-odd operational mines that tap around 54 million metric tonnes of iron ore annually, exported to various nations.

***

The key to everything is patience. You get the chicken by hatching the egg, not by smashing it.

QUESTIONS OF CYBERQUIZ ~ 32

1. When somebody has been “dot-commed”, what has happened to him/her ?

   [a] Trapped by the promise of high salaries by a dot.com; [b] Lost all investments made on a dot com; [c] Lost hishe or her job due to the downsizing or failure of a dot com; [d] Has made a killing on hishe or her investments made on a dotcom because of its success.

2. What does “fingering” a user on the Internet mean ?

   [a] Keeping an eye on the user wheather he/she is surfing the pornography sites; [b] Sending hate mail to the user; [c] Looking up a user’s email adress on the Net, obtaining information on the last time the user had logged on; [d] Denying a user from legitimately using the Net.

3. What does the email acronym bcc stand for ?

   [a] Better complete copy; [b] Better carbon copy; [c] Blind courtesy copy; [d] Blind confidential copy.

4. vCard is a specification defining what ?

   [a] Format for electronic exchange of daily work scheduling information; [b] Exchange of data between two handheld devices wirelessly; [c] Format for creating an electronic business card; [d] Different hardware upgrade cards.

5. This technology started as a cable replacement technology. Beside other uses, it is also used to power door bells. It has been named after a Viking King. What is it ?

   [a] Bluetooth; [b] Wi-Fi; [c] Ethernet; [d] WAP.

For Answers See **Page No. 34**

SUCCESS STORY OF RFC ASSISTED UNIT

M/s. Sumati Plastics Pvt. Ltd.

With a total financial assistance of Rs 129.24 Lakhs, Sumati Plastics Pvt. Ltd. has shown remarkable success in a matter of a few years. Shri Sethia's association with RFC began way back in 1997-98 and this first generation industrialist has been able to build on the advantage extended into a highly successful unit with an annual turnover of Rs 7.90 Crore.

The quantum of finance availed amounts to Rs.36.54 Lakhs in 1997, Rs 15 Lakhs in 2001, Rs. 13 Lakhs in 2003 and Rs 24.70 in the beginning of 2006 followed by Rs 40 Lakhs towards the end of 2006. He has been repaying his loans on time and is consistently maintaining a standard health code category.

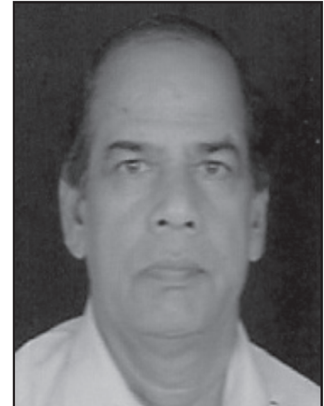
Shri Bimal Kumar Sethia

M/s Maheshwari Wooltex Pvt. Ltd.

Shri Porwal has been taking financial support from RFC since 1988 under various schemes of the Corporation. He began his business with a small set up of a small oil industry but then gradually entered into synthetic fabric. There his business boomed and he grew strong.

For RFC, Shri Porwal is a good borrower with a great market reputation. His dealings with RFC have been very satisfactory. The Unit is having a turnover of above Rs.4 Crore and the turnover is increasing each day and he is using the latest technology machines for his business.

Shri Porwal enjoys Gold Card loan of the Corporation and is grateful to RFC for the good response and cooperation extended to them by the Corporation.



Shri Brij Mohan Porwal

Even if you're on the right track, you'll get run over if you just sit there.

DO YOU KNOW ?

WHAT IS LTE ?

LTE, or 'Long Term Evolution' , is the latest wireless mobile broadband technology that will power future 4G, or fourth generation, networks designed primarily for data transmission at unprecedented speeds. It uses spectrum to carry data traffic, just as we need roads to carry vehicular traffic. Spectrum may be likened to a highway of airwaves on which mobile signals travel.

Since LTE uses wider chunks of spectrum, data speeds on LTEbased 4G networks are nearly four times faster than on 3G. An iPad user, for instance, will be able to watch videos at LTE speeds of 300 Mbps while a laptop user will be able to download a chunky 25MB file in seconds if adequate spectrum is available. LTE is also a scalable bandwidth technology that works alongside 2G and 3G. So a 3G operator can easily upgrade his network to LTE.

When was it Developed ?

LTE's genesis goes back to November 2004, when a workshop was held by the 3GPP (3rd Generation Partnership Project) in Toronto to define 'Long Term Evolution' . The 3GPP was a global alliance of top telecom associations who tried to identify the next wave of mobile tech after UMTS, the 3G technology based on GSM.

Is LTE better than WiMAX ?

Wireless communication happens over paired or unpaired spectrum. Paired spectrum is two equal chunks of airwaves for sending and receiving information while unpaired spectrum is a single strip of airwaves meant to either receive or send information. Voice signals travel over paired spectrum while data communications works better on unpaired spectrum as people download more than upload.

WiMAXhad an edge as long as it was the sole wireless technology working commercially over unpaired spectrum. The WiMAX party crashed when an LTE variant, TDD-LTE - which also worked over unpaired spectrum - arrived. What's more, leading vendors unveiled compatible gear commercially in 2010. This LTE variant was heralded by the world's top telcos as the coolest technology for high speed data communications on the go.

WiMAX suffered a body blow when big telcos across China, India and the US also embraced TDD-LTE . Commercialisation of TDD-LTE devices hit fast-track after Qualcomm pitched for wireless broadband spectrum in the 2010 auction and won 20MHz of BWA airwaves in four circles.

Even WiMAXbackers like Clearwire in the US and Yota in Russia warmed up to LTE. Ditto with WiMAXgear vendors like Nokia and Cisco.

Is TDD-LTE catching on in India ?

Not as yet. But that said, the first seeds of an LTE ecosystem were sown when Bharti Airtel joined some of the world's top LTE backers at Mobile World Congress 2011 in Barcelona to launch the Global TD-LTE Initiative (GTI). Global deployment of this technology was in fact at the heart of last year's auction of BWA airwaves in India.

But the big challenge to fast-track deployment of TD-LTE in India is the paucity of compatible devices and smart phones.

Only Qualcomm has launched TDD-LTE multi-mode devices. NSN is slated to unveil 4G devices by the time LTE network rollouts start happening in India by December '11 to early-2012.

* * *

India Inc can raise $ 1-bn yuan debt

Concerned over a slowing of investment in the economy due to rising cost of credit, the government has allowed firms to raise debt in Chinese yuan up to a collective total of $ 1 billion. The move by the finance ministry and the Reserve Bank of India will allow companies to cut their borrowing costs as the dollar is turning dearer. Currently, India allows overseas borrowing in dollars, euros, yen and pounds and these loans are generally raised in dollars.

The Finance Ministry has also raised the amount a company can raise without RBI approval to $ 750 million from $ 500 million in a financial year. The overall external commercial borrowing cap stays unchanged at $ 30 billion for now.

Fiscal deficit at Rs.2.73 lakh cr in April-August

India's fiscal deficit stood at Rs.2.73 lakh crore during April-August of the current year, which is around two-third of the Budget estimate for the entire fiscal. The higher deficit is mainly due to slowdown in net revenue collection following higher refunds and moderation in economic growth rate. The government has already decided to increase this year's borrowing target by an additional Rs.53,000 crore anticipating slower tax collections and lower disinvestment proceeds.

In the first five months of the current financial year, the net tax revenue receipts stood at Rs.1.44 lakh crore, which is 21.8% of the budget estimates. On the other hand, total expenditure was at 37.5% of the target at Rs.4.72 lakh crore. During April-August this year, the direct tax mop-up was at Rs.96,738 crore, which is 3.3% less than the corresponding period last year on account of huge refunds of Rs.57,622 crore. The advance tax paid by corporates has witnessed a marginal growth of 13% to Rs.68,000 crore in the second quarter of the current fiscal, compared with the corresponding period last year. However, the indirect tax collection in the first five months stood at Rs.1.40 lakh crore, an increase of 26%, over the corresponding period last year.

External debt in Q1 jumps 3.4%

The country's total external debt rose 3.4% to $317 billion as at June-end (or April-June quarter), compared with $306 billion as at March-end (January-March quarter). Increase in external commercial borrowings (ECBs) and short-term trade credits accounted for nearly 70% of the rise in total external debt. ECBs accounted for the biggest chunk - 29.4% - of external debt, followed by short-term debt (21.6%), NRI deposits (16.7%) and multilateral debt (15.6%).

The long-term debt at $248.5 billion and short-term debt at $68.5 billion accounted for 78.4% and 21.6%, respectively, of the total external debt as at end-June 2011. The ratio of short-term debt to foreign exchange reserves rose marginally to 21.7% as at end-June 2011 from 21.3% as at end-March 2011.

Exporters get Rs.900-cr incentives

The government on October 13, 2011 bolstered the special incentive package for exporters facing tough times in the US and EU markets with two new duty credit schemes. To promote market diversification, exports to 41 countries would be given 4% duty credit - as opposed to 3% now - under a new Special Focus Market Scheme. Another scheme covering 50 products in the areas of engineering, pharmaceuticals and chemicals would provide the exporters of these products an additional 1% duty credit.

The revenue foregone on account of these and other concessions would be some Rs.900 crore. With the 2% interest subvention for exporters' rupee credit announced by the Reserve Bank of India, the total cost of the package for exporters could be around Rs.1,700 crore. "We are introducing a

special focus market scheme. It will cover 41 countries - 12 from Latin America, 22 from Africa and seven from CIS countries," Commerce Minister, Shri Anand Sharma said, announcing the annual review to the Foreign Trade Policy 2009-14. The scheme is applicable from October to March this fiscal.

India's exports grew by 52.1% to $160 billion in the first six months of the current fiscal, but signs of deceleration was evident in the last two months. Exports grew 36.3% in September, significantly slowing from 82% in July.

Among the other incentives, the apparel sector has been given duty credit under Market Linked Focus Product Scheme (MLFPS) for export to the US and Europe. The 2% duty credit would be available to exports made during 2011-12. It has been decided to extend Market Linked Focus Product Scheme benefit for exports of agricultural tractors (over 1800 cc capacity) to Turkey. The list of items under Focus Product Scheme has also been expanded to include 130 additional items mainly in the sectors of chemical, pharmaceutical, textiles, handicraft, engineering and electronics sector.

IMF lowers global growth forecast to 4% in 2011 & 2012

The International Monetary Fund (IMF) has lowered its global growth forecast to 4% in 2011 and 2012, much below the 5.1% growth achieved in 2010. The latest projection in its World Economic Outlook (WEO) indicates that GDP in advanced economies will expand at about 1.6% in 2011 and 1.9% in 2012. Real GDP growth in major advanced economies — the US, euro area and Japan — is seen to rise at a modest rate, from about 0.75% in the first half of 2011 to about 1.5% in 2012. In emerging and developing economies, capacity constraints, policy tightening and slowing foreign demand are expected to dampen growth from 7.3% in 2010 to 6.4% in 2011 and further to 6.1% in 2012.

Agriculture credit to cross Rs. 5 lakh cr in FY 12:FM

The agriculture credit in the country is set to cross the mark of Rs.5 lakh crore during the current fiscal. The country had achieved agriculture credit to the tune of more than Rs.4 lakh crore, as against the target of Rs.3.75 lakh crore, which had been set, during the last fiscal.

Exports continue to grow

Despite the key US and European markets going through a slowdown, Indian exports continued their upward journey in August, rising 44.2 per cent year-on-year to hit $24.3 billion. Imports also grew 41.8 per cent to cross $38.4 billion. However, the growth in both exports and imports has decelerated. Indian exporters have been tapping newer markets such as West Asia, Africa and South America. "The cumulative growth in exports during April-August is not something historic, there have been earlier instances of more than 50 per cent growth in a five-month period on a low base. The more important issue is whether such growth would last or not. And this will not. The growth all this while has been so robust because we are now exporting to some of the faster moving economies," said Shri D. K. Joshi, principal economist, Crisil. The trade deficit in August reached $(-)14.1 billion compared to $(-)11.08 billion in July and $(-)7.66 in June this year. Imports are rising at a faster pace than exports, mainly due to the import of petroleum and other oil products. The government has set a target of achieving 25 per cent growth annually so that exports touch $500 billion in 2013-14.

Tax collection rises 25% to Rs. 2.92 lakh cr in Apr-Aug

The gross tax collection increased by 25% to Rs.2.92 lakh crore during the April-August period of the current financial year. The gross direct tax collection rose to Rs.1,54,360 crore during the first five months of the current fiscal, up by 25.89% from Rs.1,22,618 crore in the corresponding period a year ago, an official statement said. The net direct tax collections, however, dropped 3.37% to Rs.96,738 crore during the first five months due to higher refunds. The net direct tax collection was Rs.1,00,113 crore in the same period last fiscal. Tax refunds rose by 156.04% to Rs.57,622 crore during this period, pulling down net direct tax collections. Direct taxes comprises mainly corporate tax and income tax.

In case of indirect taxes, which mainly include customs, excise and service tax, the collection worked out to be over Rs.1.37 lakh crore in the April-August period, up by 23.6% from 1.11 lakh crore in the year ago period. The customs collection saw a decline of 6.7% in August to Rs.10,120 crore. The

decline is mainly on account of reduction in duty on petroleum products announced by the government in June to partly offset the impact of price hike on diesel, cooking gas and kerosene on common men.

Delhi-Mumbai Corridor to get Rs.18,500-Cr Boost

The Union cabinet on September 13, 2011 approved the restructuring of the $90-billion Delhi-Mumbai Industrial Corridor, or DMIC. The cabinet also approved a change in the holding structure of the company executing the project, which will see private sector promoters replaced by state-run financial institutions."This project will be the largest infrastructure project in PPP mode with least investment and budgetary support coming from the government and this needs to be replicated throughout the country as an efficient urbanisation business model," DIPP Secretary Shri R. P. Singh said.

This project includes nine mega industrial zones of about 200-250 sq km, a high-speed freight line, three ports and six airports, a six-lane intersection-free expressway connecting Delhi and Mumbai and a 4,000-MW power plant. The Delhi Mumbai Industrial Corridor Development Corporation (DMICDC) will now set up an Rs.18,500-crore revolving fund for financing trunk infrastructure such as sewage disposal and roads, with the government providing 35-40% of the financing through the various stages of the project. "An additional and equal amount will be put by the government of Japan,". The 51% stake of Infrastructure Leasing and Financial Services (IL&FS) and Infrastructure Development Finance Company (IDFC) in the company will be bought out by government-run financial institutions like LIC, among others. The government will continue to hold 49% in the venture. This move was initiated primarily to avoid conflict of interest given that both IL&FS and IDFC will be allowed to bid for projects part of the DMIC. 60-65% of the projects will be structured on PPP basis. The Cabinet has also approved the setting up of a special purpose vehicle in each city where the Centre would contribute funds whereas land would be acquired by the state. The 1,500-km long Delhi-Mumbai Industrial Corridor would run across Uttar Pradesh, Haryana, Rajasthan, Madhya Pradesh, Gujarat and Maharashtra.

DEPB scheme ends from Oct

The DEPB scheme, for exporters will end from October 2011. Items covered under the scheme would shift to the alternative mechanism of duty drawback. In most cases, the transition would result in a marginal reduction in the benefit to exporters — up to three percentage points of the freight-on-board (FOB) value of export goods. In all, 2,130 items now covered under the DEPB (duty entitlement passbook) scheme, including 1,100 which don't figure in the drawback schedule at present, will have new drawback rates.

What has now been proposed is a transition arrangement for a year till DEPB rates based on the data provided by the exporters are fixed. The new drawback rates broadly align with the DEPB rates prior to the stimulus. Ideally, it can't be so, as the DEPB, meant to neutralise the Customs duty content in export goods, is conceptually different from the duty drawback scheme. The need for scrapping the DEPB scheme arose because it was alleged by some countries who import goods from India that the scheme had a subsidy element and was not compatible with the WTO agreement on subsidies.

India's forex reserves down by $4.3 bn

India's foreign exchange reserves fell by $4.3 billion to $316 billion for the week ended September 9, 2011. The reserves had risen by $1.6 billion and touched an all-time high of $321 billion in the previous reporting week. The fall is mostly on account of revaluation of value of foreign currency assets (FCAs). According to the RBI data, FCAs, the biggest component of the reserves, stood at $280.7 billion, down by $4 billion.

FCAs, expressed in US dollar terms, include the effect of appreciation or depreciation of the non-US currencies such as euro, pound and yen, held in the reserves. While the gold reserves remained unchanged at $28 billion, the special drawing rights (SDRs) and the reserve position with the International Monetary Fund (IMF) fell by $98 million and $63 million, respectively. SDRs and the reserve position with the IMF stood at $4.5 billion and $3 billion, respectively.

Non-food credit offtake grows 20%

Non-food credit, comprising loans to individuals, farmers and businesses, rose Rs.29,598.79 crore, or 20.1%, to Rs.40 lakh crore during the fortnight ended September 9, data from the central bank show. RBI's target for the year is 18% loan growth. On a year-to-date basis, growth in non-food credit is at 3.3% compared with 4.3% in the same period year earlier. The index of industrial production (IIP) slowed to 3.3% in July from 8.8% in June. However, excluding capital goods, the growth of IIP was higher at 6.7% in July compared with 4.4% in June.

Eligibility for home loan subsidy eased

The Union Cabinet gave relief to the common man by approving one per cent interest subvention on housing loans up to Rs.15 lakh, compared with Rs.10 lakh at present. The subvention will be given when the total cost of the house is less than Rs. 25 lakh. Currently, this limit is set at Rs. 20 lakh. Consequent upon raising the eligibility limit of the housing loan, the limit of subsidy for an individual borrower would increase to Rs.14,865 for a loan of Rs.15 lakh on reducing balance basis from the present limit of Rs.9,910 for a loan of Rs. 10 lakh," Minister of State for information and Broadcasting Ms. Ambika Soni said.

A budgetary provision of Rs. 500 crore has been made for 2011-12 for implementing the scheme that provides interest subsidy on housing loans as a measure to generate additional demand for credit and to improve affordability of housing to borrowers in the lower and middle income groups. The Cabinet designated the National Housing Bank (NHB) as the nodal agency for implementing the scheme both for scheduled commercial banks and housing finance companies.

The Cabinet also approved the proposal to augment the capital base of Nabard by infusing Rs.3,000 crore of equity in two installments of Rs.1,000 crore in 2011-12 and Rs.2,000 crore in 2012-13, taking its paid up capital to Rs.5,000 crore. "The infusion of the additional share capital by the government will increase the net owned funds and thus the borrowing capacity of Nabard to enable it to extend its various activities," Ms. Soni said. Presently, the authorised capital of Nabard is Rs.5,000 crore, of which, the paid up capital is Rs.2,000 crore. The government holds 99 per cent share capital of Nabard. According to the RBI's guidelines the outstanding total resources mobilised at any point of time by a financial institution should not exceed 10 times its net owned funds.

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No farmer ever ploughed a field by turning it over in his mind.

ACTIVITIES OF COSIDICI

COSIDICI's E.C.M. & A.G.M.

The Executive Committee Meeting and Annual General Body Meeting of COSIDICI were held on September 29, 2011 at India International Centre, New Delhi. The Executive Committee was happy that all the SFCs which had signed the tripartite MoU with SIDBI and their respective state governments had either turned around or were in the process of doing so. COSIDICI had also prevailed upon the State governments to extend financial support to the SFCs in their respective states to enable them to continue their support to the SSI units. However, they were still facing the problems of low capital base and non availability of adequate resources at cheaper cost. To further help these institutions Shri Yaduvendra Mathur, IAS, CMD, RFC suggested that all the SLFIs could make their recommendations regarding the budgetary support required by them to the on going preparations of the 12th plan approach paper. This would ensure that the SLFIs would get budgetary support enabling them to improve their financial position and carry on with their operations. The Executive Committee agreed with this idea but felt that each SLFI's requirements were different because of the regional differences. They would, therefore, have to take up the matter with their respective states separately. Also the Ministry of Social Justice and Empowerment had special schemes for SC/ST entrepreneurs wherein an amount of Rs.30 lakh was given by the Finance Corporation for SC/ST at state level at a nominal interest rate of 6-7%. As the SFCs had an extensive network of branches they could work together with these corporations in disbursing loans. The Executive Committee however, felt that these corporations were doing very well in most of the states and their working was different from state to state. Wherever a need was felt the individual SFCs could try to collaborate with these corporations depending on the nature of things in their respective states. The Executive Committee felt that the SFCs could only be strengthened if the respective State Governments came forward to help them. This could be best done by giving capital support to the SFCs. SIDBI could also be asked for similar help. The APSFC had turnaround mainly due to the support of its state Government. The Government of Andhra Pradesh had extended its full support to APSFC in the form of share capital contribution of Rs.108.79 crore to it by way of alienation of land to the extent of 271.39 acres at a nominal cost of Rs.40 Lacs per acre. It had also supported the Corporation by contributing towards its equity. In addition, the state government was very liberal with terms of payment of the guarantee commission which the APSFC had to make only once in 5 years. The members expressed their concern about the proposed amendment to the Central Excise Act, 1944 under which it was proposed to bring in a non-obstante clause to facilitate recovery of Central Excise arrears over certain secured creditors. The members felt that this might hamper recovery proceedings of the SFCs. The Executive Committee was informed that COSIDICI had taken up the matter with SIDBI. The latter had advised the council that the matter had already been taken up with the Government of India. COSIDICI had again vide its letter dated August 25, 2011 requested SIDBI to take up the matter with the Government of India. However, SIDBI vide its letter dated September 21, 2011 has informed that the proposal was still pending with GOI. The Executive Committee then Resolved that *"a delegation comprising of some Chief Executive Officers of SFCs along with Secretary General COSIDICI may meet Secretary*

Banking to place the problems being faced by the SFCs before him and to seek a viable solution to strengthen them."

It was further suggested that the Chief Executive Officers of successful units funded by the SLFIs could be requested to speak up for the SLFIs at the concerned congregation. It would help to showcase the contribution of these institutions towards the growth of the economy. The SFCs have already started fee based activities to augment their resources. APSFC was now giving working capital loan & TIIC had started Bill Discounting as resource generators. KSFC had been declared as the authorized agency for e-stamping.

Nodal Agency for Revival of State Level Financial Institutions :

The members appreciated this initiative of COSIDICI in this area. Under this programme UPFC had recently sent a team of 3 senior officials to APSFC, Hyderabad for studying the revival strategies adopted by APSFC to try and replicate the same for UPFC. The Executive Committee was informed that the report of the team had been submitted to the Board of UPFC for further action. COSIDICI would forward the report to the members as soon as a copy was received from UPFC.

Training Programme at CAB (RBI), Pune :

The Executive Committee appreciated the training programmes held by College of Agriculture Banking (RBI) Pune for the officers of SLFIs held both at the campus as well as at on-site. However, it was felt that there was now a need for change. The Member Corporations could themselves organize training in their Corporations. Shri Yaduvendra Mathur, IAS, CMD, RFC informed the Executive Committee that he was organizing a training programme on credit appraisal for the officers of RFC. If any other Member Corporation was interested they could send their officers to participate in it. RFC would give on the job training and no fee would be charged. Similarly other Member Corporations could organize training programmes on the topics in which they had some expertise. This suggestion was welcomed by the Executive Committee. Shri M. Madangopal, IAS, MD, KSFC, Bangalore offered to hold a training programme in legal documentation and Shri Md. Nassimuddin, IAS, CMD, TIIC, Chennai in bill discounting. The Executive Committee felt that as RIICO and HSIIDC were involved in the development of the Delhi-Mumbai Industrial Corridor they could train the officers of other SLFIs in Development of Industrial Infrastructure.

Documents & Record Management Solution for SLFIs – Tie Up of COSIDICI with Capital Business Systems Ltd. {CBSL} :

The Executive Committee agreed that space being at a premium nowadays storage of documents was becoming very difficult. It requested COSIDICI to arrange a presentation by CBSL at its next meeting.

Presentation On WBFC ~ Its Role As A Facilitator Of Economic Progress Of West Bengal :

The WBFC had played a pioneering role in fostering the well being and progress of the State by promoting and financing the SME industry in the state. Shri Kamal Chakrabarty, IAS, MD, WBFC gave a presentation on the various initiatives taken by the Corporation, its new schemes and future plans. The corporation had been one of the first SFCs to sign an MoU with SIDBI to bring down its cost of funds. It had made special efforts towards NPA Management. Strict and vigilant project appraisal with special emphasis on inherent risks led to decreasing NPA levels. WBFC consistently followed up the sanctioned proposals for early start to avoid over-run and provided necessary assistance to SMEs get accommodation from other institutions. The corporation had automated much of all office activities. It had started working on getting the second line of management ready to take care of retirements at senior levels and had arranged need based training to officers at all levels. As a result - Fresh advances increased from 135.25 crores to

200.22 crores; Growth of annual gross income during the period was 57%; Per capita operating income increased from 0.62 lakh to 6.66 lakh; Net worth increased from 1.20 crore to 57.54 crores; CRAR improved from 0.29% to 9.70%.

The state Government of West Bengal gave the Corporation Capital support of Rs.5, 080 lakhs. WBFC was now an efficient financial institution fully geared to fulfill its mandated role of a facilitator of economic progress for the state.

Shri Mathur, CMD, RFC suggested that COSIDICI should organize a seminar or a lecture along with an award giving ceremony for the Chief Executive Officers of successful units financed by the SLFIs. The cost of the event could be divided among the units as well as the Member Corporations. Media could also be invited to cover the event. This would give exposure to SLFIs and highlight their importance in today's financial scenario. In this connection, Shri Madangopal, IAS, MD, KSFC informed the Executive Committee that the Corporation had recently conducted a study on the impact of KSFC's assistance to MSMEs on the economy of the state of Karnataka. The sample size consisted of 100 MSMEs assisted by KSFC which were chosen by random sampling technique. The units financed by KSFC besides yielding a substantial annual income for the State Government, had also contributed annual tax revenue of Rs. 100 crores to the state exchequer. It was found that every crore of loan assistance by KSFC generated VAT and ST income of Rs.18.49 lakhs per annum. Above all KSFC was able to generate 13,500 skilled jobs, 1500 indirect jobs annually. The SLFIs were also engaged in developing industrial parks, industrial estates and other infrastructure in the far flung corners of the country. Thus they also had accelerated development of backward areas, removal of regional disparities besides generating income and employment. In this connection Shri S. Ravi Shankar, General Manager, KSIIDC, Bangalore, informed the Executive Committee that KSIIDC was taking up many Infrastructure Development Projects. It had recently built the Bangalore International Airport on Public-Private Partnership basis. He further said that KSIIDC had been persistently trying to get itself declared as a Public Finance Institution (PFI) for expeditious adjudication of claims and recovery of debts from the defaulters. The Corporation conformed to all the guidelines required of a PFI and has already taken up the matter with the state government. He was informed by the Secretary General COSIDICI that the Council had been engaged for quite some time in an effort to get the SIDCs notified as PFIs. The matter had consistently been taken up with the concerned authorities viz. MoF, Banking Division, Deptt. of Company Affairs, RBI etc. on the grounds that the working of SIDCs was similar to that of SFCs and some of the provisions of the SFCs Act, 1951 e.g. Section 29, 30, 31 & 32 were already applicable to them. In May 1997, COSIDICI had placed the matter before the Hon'ble Finance Minister also. However, the SIDCs did not fulfill the criteria laid down under sub-clause (2) of section 4A of the companies Act, 1956 which are-It has been established or constituted by or under any Central Act, or; not less than 51% of the paid-up share capital of such institution is held or controlled by the Central Government.

The Government of India had, therefore, not found it feasible to include SIDCs in its notification. However, SICOM which is a SIDC of State of Maharashtra had been declared as public finance institution by the Central Government, mainly because of the intervention of the Maharashtra State Government and the State Chief Minister. COSIDICI had, therefore, requested the SIDCs to take up the matter at their state level also. In view of this the Executive Committee felt that the award function proposed by Shri Mathur would enable these SLFIs to be recognized for their overall contribution towards the country's economic progress and inclusive growth.

ANNUAL GENERAL MEETING

The Annual General Meeting of COSIDICI was held on September 29, 2011 at India International Centre, New Delhi. The following were elected as the Members of the Executive Committee of COSIDICI for the Year 2011-2012 : -

Shri Kamal Chakrabarty, IAS, M.D. WBFC, Kolkata as the President of COSIDICI for the Year 2011-2012. Shri Shishir Sinha, IAS, M.D., BSFC, Patna; Shri M. Madangopal, IAS, M.D., KSFC, Bangalore; Shri Yaduvendra Mathur, IAS, C.M.D., RFC, Jaipur; Shri Rajeev Arora, IAS, M.D., HSIIDC, Chandigarh; Mohd. Nasimuddin, IAS, C.M.D., TIIC, Chennai; Shri Vikas Raj, M.D., APSFC, Hyderabad were elected as Vice-Presidents. Smt. Nilam Sawhney, IAS, Vice C.M.D., APIDC, Hyderabad; Shri Chetan Bhushan Sanghi, IAS, M.D., DSIIDC, New Delhi; Shri Sanjay Dubey, IAS, M.D., MPFC, Indore; Dr. Arvinder Singh, IAS, M.D., PFC, Chandigarh; Shri Rajesh Prasad, IAS, M.D., AIDC, Guwahati; Shri Yogesh Gupta, IPS, C.M.D., KFC, Thiruvananthapuram; Shri W.V. Ramanamurthy, M.D., EDC Ltd., Goa; and Shri A.R. Makroo, M.D., J&K SFC, Srinagar were elected as Executive Committee Members. Besides, Shri C.J. Venugopal, IAS, C.M.D., IPICOL, Bhubaneswar and Smt. Nandini Chakravorty, IAS, M.D., WBIDC, Kolkata were co-opted as E.C. Members for the Year 2011-2012. The contents of the Annual Report of the E.C.M. of COSIDICI for the Year 2010-2011 were noted and approved by the General Body which also approved the audited statements of accounts for the Year 2010-2011.

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The heights by great men reached and kept
were not attained by sudden flight, but
they, while their companions slept,
were toiling upward in the night.

MSME Min to Focus on Defence, Pharma in 12th Plan

The MSME Ministry proposes to provide incentives to emerging entrepreneurs in defence, robotics and biotech sectors during the 12th Five-Year plan. “We have identified five to six new areas - nanotechnology, biotechnology, defence and homeland security, food processing, IT related activities and pharma,” Micro, Small and Medium Enterprises (MSME) Secretary, Shri Uday Kumar Varma said. The Ministry has decided to facilitate the start-up MSMEs in these “crucial” areas with a special fund package during the five-year (2012-2017) period. The idea is to make Indian MSMEs attractive, competitive and encourage new entrepreneurs in these fields.

Costly credit a major cause of SME sickness, says survey

Small and medium enterprises (SMEs) feel that adverse market conditions and an unfavourable policy and business milieu raises the transaction cost of business, which eventually brings them to the verge of sickness. These are the findings of a recent survey undertaken by the PHD Chamber of SMEs. When asked to choose the most important factors which could bring businesses to the brink of sickness, respondents felt that SMEs are worst hit by economic slowdown and sluggish demand, as they do not have deep pockets to sustain operations for long. Lack of managerial expertise and ad hoc decision making by owner-driven firms also contributed to sickness, they felt. Respondents felt that in most cases, promoters failed to understand that units were not viable in the way they were being run. Yet they continued to operate, attributing the cause of the trouble to lack of liquidity or non-availability of credit from banks and institutions. Use of obsolete technology was another major issue which constrains demand and causes firms to go sick, they felt. Respondents (especially ancillary units) also said that delayed payments from large companies were aggravating their problems.

Another important area of concern was the non-availability of credit on cost-effective terms. Government policy, particularly at the state level, emerged as yet another inhibiting factor that led to sickness. The survey revealed that other factors that affected the functional efficiency of small units were lack of infrastructure including all-weather roads, inconsistent power supply, delayed or inadequate availability of raw materials, corruption, tough competition from imports, lack of information, inadequacy of skilled manpower and rigid labour laws, among others.

Respondents unanimously felt that the four most important measures instrumental in preventing sickness and maintaining viability were availability of timely credit at cost-effective rates, the use of organised marketing efforts, government support (at both the Central and state level) and prompt organisational restructuring of the organisation. However, once the unit showed incipient signs of sickness, there was need for prompt rehabilitation measures, as it was in the interest of all stakeholders to ensure that the unit remained healthy. Yet, about 66 per cent of respondents felt that there were delays in the rehabilitation of sick units, and by the time it was realised that remedial steps should be taken, it was too late. Respondents said that the intensification of internal and international competition and the rapidity of technological change were putting pressure on the finances of SMEs. They felt that the most important reason for delays in undertaking rehabilitation

measures was the late identification of sickness. SMEs said that industrial sickness was the result of a slow and steady erosion of the net worth of the unit, until its health was beyond a cure. Hence, identification and detection of sickness at the incipient stage was the key to its reduction. The majority of MSMEs are proprietary or partnership firms that continue to be run by owners whose lack of managerial competence is an important cause of sickness. In most cases, promoters failed to understand that units were not viable in the way they were being run, the survey concluded. Companies often went in for expansion based on a sudden spurt in demand that did not last long, and then struggled to sell their products. The unintended rise in inventories was then attributed to lack of liquidity or non-availability of credit from banks and financial institutions. Such situations could be avoided by more prudence and better practices, the survey concluded.

It was suggested that banks should increasingly rely on relationship banking as against transactional lending, to reduce the risk perception. And once a project is recognized as credit-worthy, bank credit should be forthcoming at cost-effective rates. Lenders also need to relax their lengthy procedures and other norms for extending credit to SMEs.

SIDBI revamps loan schemes for MSMEs

SIDBI is to provide equity and quasi-equity assistance to micro, small and medium enterprises in the form of subordinated debt. The financial institution will also float a Flexible Assistance for Capital Expenditure (FACE) scheme, with multiple repayment schedules. These are to be linked to the economic cycle and cash flow of each component.

Many small and medium enterprises often fail to get adequate working capital, due to lack of adequate owners' capital and all assets to be offered as security. Subordinated debt is a quasi-equity instrument, with minimal complexity and simpler documentation and, hence, quicker to deliver, Sidbi said on August 31, 2011.

This assistance is to be extended on the strength of cash flows, rather than asset coverage or security. The initial longer moratorium (three to five years) on principal installments will ensure greater chances of success of the ventures. Sidbi said FACE would provide funding to MSMEs for capital expenditure to modernise, upgrade, diversify and meet global standards. The scheme provides flexibility for repayment to match with the nature, economic life and cash flow associated with each component of an investment. The tenure of each component is linked with its economic life and cash flow and could be in the range of three to seven years for movable fixed assets and as long as 10 years for land and building. It offers flexibility to plan capital expenditure for immovable and other fixed assets jointly or separately.

Banks asked not to raise EMIs of SMEs

With rising interest rates and high inflation denting the bottom line of small businesses, the finance ministry has directed public sector banks not to increase the equated monthly instalments (EMIs) on loans to small and medium enterprises (SMEs), village industries and artisans. In a letter to chairpersons and managing directors of state-run banks, the finance ministry said large companies had the option to go for corporate debt restructuring if they were not able to make timely repayment of their loans, but small industries and retail borrowers did not have any such choice. Along with borrowers of retail advances such as car and home loans, the ministry has asked the banks to adjust the loan tenure of artisans, village industries and SMEs instead of increasing their monthly EMIs.

Bank credit to micro and small enterprises increased 11.8 per cent to Rs.2.3 lakh crore this June, compared to 2 lakh crore in the year-ago period. Credit to medium enterprises increased 31.7 per cent to Rs.1.8 lakh crore, whereas advances to large industries were up 22.7 per cent to Rs.12.4 lakh crore. Personal loans rose 17.3 per cent - to Rs.6.9 lakh crore in June this year. Headline inflation, as measured by the wholesale price index, has been above the 9 per cent since December 2010, and stood at 9.22 per cent in July 2011. Food inflation also increased to 9.8 per cent for the week ending this August 13, 2011.

Banks to increase expoure to the MSME sector

India's banking sector is looking at increasing its exposure to the micro, small and medium enterprises (MSMEs) to support the success stories emerging from this sector and widen its portfolio. A

clutch of state-owned banks is already lending more than what is mandated under the priority-sector target of earmarking 12.5% of their loan portfolio for the sector. Banks such as State Bank of Hyderabad (SBH), United Bank, Indian Overseas Bank and the Small Industries Development Bank of India (SIDBI) have already increased their loan portfolio for MSME sector. With the economic slump in the US and EU likely to affect exports, the mainstay for a sizeable section of MSMEs, the banks are now re-assessing their strategy. In the context of the global economic crisis, the RBI has recently asked banks to take a cautious approach in lending to MSME units, as these are more vulnerable to the global crisis than larger firms. SBH with advances of Rs.11,390 crore to this MSME sector, plans to increase it to Rs.14,284 crore by this year-end, taking it up from 17.36% to 22% of its lending portfolio. Similarly, SIDBI, which has an outstanding portfolio of Rs.46,000 crore in this sector is aiming at 20% growth this year.

Lending to this sector has been growing at 34-35%, higher than any other sector including retail and agriculture. As per the government norms, it is mandatory for banks to have atleast 12.5% of their loan portfolio in this sector. The interest rates for this sector go up to 14% depending on the bank and risk factor of a project.

MSMEs in U.P. and Maharashtra

Two states where the MSME sector has a sizeable presence are Uttar Pradesh and Maharashtra. While Uttar Pradesh has the largest share of MSME enterprises, numbering 31.13 lakhs, Maharashtra has the largest number of workers employed in the MSME segment, with 64.65 lakhs workers. Uttar Pradesh, though ranks first in the number of enterprises, is ranked fifth in terms of MSME employment (57.91 lakh workers). Maharashtra ranks first in terms of MSME employment, but is third in terms of MSME enterprises (25.82 lakh units).

According to the most recent MSME survey done in 2006-2007, the manufacturing sector accounts for a fourth of the MSME enterprises in both states. While the share of manufacturing enterprises is 24.1% in U.P., it is a little lower at 23.8% in Maharashtra. The disparities between the structure of the MSME segment are even more striking, ranging from location of units, gender composition of employment, fuel consumption patterns funding patterns, share of working units, per unit employment, investment and output. In Maharashtra, the MSME segment is predominantly urban which almost have a two-third share and only 36.7% enterprises are in the rural areas. In sharp contrast, the MSMEs in U.P. are more rural with more than a half (51.1%) located in the hinterlands.

The progressive nature of the MSME sector is best brought out by the patterns in power usage. While 20.9% MSME units use electricity as the main source of power in Maharashtra the share of this segment is a miniscule 9.3% in U.P.

The disparities are sharper on credit availability. While 88.7% of enterprises are entirely self-financed in Maharashtra this share is 97.5% in U.P.

While per capita employment in the registered MSME units in U.P. is 4.1 persons, it is four times larger at 12.6 person per unit in Maharashtra. Manufacturing enterprises account for 45.1% of MSME employment in U.P., while it is 48.8% in Maharashtra. Women's share in employment is 9.2% in U.P., but is 14.7% in Maharashtra, due to the larger urban domination of MSME units in the state.

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Rs.22k crore to be spent on 9 new major ports

The government has envisaged an investment of more than Rs.22,000 crore for setting up nine new major ports in the country over the next five years. The Ministry of Shipping has asked nine coastal states —West Bengal, Orissa, Andhra Pradesh, Tamil Nadu, Kerala, Karnataka, Goa, Maharashtra and Gujarat — to select sites for setting up a major port each. It is awaiting a response from all nine states. Construction of each port would cost about Rs.2,500 crore. These ports would cater to the maritime trade of the country and are likely to be built on the pattern of the Port of Singapore. The Andhra Pradesh government is believed to have shortlisted two sites for setting up major ports in the state. Any port with two or more berths with facilities and equipment capable of handling 1,00,000 tonne per month of cargo from ocean-going ships is categorised as a major port.

Relief for SEZ Developers

Developers of special economic zones have been given relief as the department of legal affairs has struck down objections to any sale of stake in their projects. The revenue department had objected to sale of shareholding by promoters of SEZs, saying it would amount to an indirect transfer of land. But the legal affairs department has clarified that it is not so. Since SEZs are facing trouble in attracting investments due to impostion of minimum alternate tax and the looming uncertainty about the regime under the direct taxes code, developers say that any interest shown by investors to put in money should be welcome.

The BoA had recently deferred some decisions on allowing SEZ promoters to dilute and transfer their equity. Among those who sought permission for sale of shares included DLF Ackruti Info Park and Aachvis Softech Private Ltd. Although the revenue department said the proposals amounted to transfer of land, which is barred under the SEZ Act's rule 11(9), the legal affairs department ruled that identity of a company does not change with any change in management of pattern of shareholding. A share is not a sum of money, but represents an interest measured by a sum of money. Therefore, a change in equity structure through transfer, sale or amalgamation and consequent change in the management cannot be called transfer or sale of land. According to sector expert Shri Hitendra Mehta, as long as SEZ developers abide by the rule that developer or co-developer should have 26% of equity in the entity that proposes to create business in SEZs there shoudn't be a problem.

Orissa tightens mining norms

Six weeks after the Supreme Court banned iron-ore mining in Karnataka's Bellary region on environmental grounds, the Orissa government is set to regulate the mineral exploitation business in the state, citing similar concerns. A state government notification said the environment and population of the area were being affected on account of increased production and transportation of iron ore from the mines, specially in Joda and Koira areas. It is necessary to develop a master plan for the areas to ensure that the cumulative effect of the extraction from individual mines is within sustainable limits.

21 integrated textile parks approved

The government has sanctioned 21 integrated textile industrial parks in nine states with a project cost of Rs.2,100 crore to be implemented over a period of 36 months. "Sanction of new textile parks would catalyze significant additional investments with the industry utilising the benefits under the Scheme for Integrated Textiles Parks for development of common infrastructure and the Technology Upgradation Funds Scheme (TUFS)", commerce, industry and textiles minister Shri Anand Sharma minister said. The government has enhanced the allocation under TUFS from Rs.8,000 crore to

Rs.15,404 crore under the Eleventh Plan and an allocation of Rs.400 crore has been sanctioned under SITP for new textiles parks in April 2011. The new textiles parks would leverage an investment of over Rs.9,000 crore and generate 4 lakh jobs. The government would finance common infrastructure with a subsidy of upto Rs.40 crore per textiles park.

The government has sanctioned six new textiles parks in Maharashtra, four in Rajasthan, two each in Tamil Nadu and Andhra Pradesh, one each in Uttar Pradesh, Gujarat, Tripura, Himachal Pradesh, Karnataka, Jammu and Kashmir and West Bengal. The products in these parks would include apparels and garments parks, hosiery parks, silk parks, processing parks, technical textiles including medical textiles, carpet parks, powerloom parks. The focus will be on value addition through aggregation to best utilise domestic surplus raw material in cotton and cotton yarn for enhanced labour employment and export earnings. "Of the 40 textiles parks sanctioned under the Eleventh Plan, 24 textiles parks have started operations and have attracted investments of Rs.18,880 crore with a government subsidy of Rs.1,420 crore''.

Commerce ministry seeks views on SEZs

To address the declining investor confidence in the special economic zones (SEZs), the commerce ministry has sought stakeholders' views on how to revitalise SEZs. The move comes in the wake of many SEZ developers seeking to denotify the zones and the concerns over the Direct Taxes Code revoking the tax exemptions for these zones. Over 200 SEZ developers have already been given more time to execute their projects by the Board of Approval. The government foresees global slowdown to hit the exports. If SEZs lose tax benefits, then the problems would be compouded. The ministry has initiated the dialogue with stakeholders to know how to revitalise the SEZs. Currently, SEZs contribute around 28% to the country's exports, amounting to over Rs.3 lakh crore and providing direct employment to over 7 lakh people. As of now, the country has 143 zones exporting out of 585 zones approved with total investment of over Rs.2 lakh crore. Sources further added that the ministry was also in the process of preparing a discussion paper that will include various issues like apprehensions over tax exemptions and the minimum land requirements. Besides, the industry has also expressed concern over the imposition of MAT of 18.5% on the book profits of SEZ developers and units. Commerce secretary Shri Rahul Khullar had said he would be proposing a differential MAT rate for SEZs to the finance ministry.

Coal miners to share 26% profits with local people

In a landmark decision that will impact the entire mining and mineral-based industry in the country, the government announced an overhaul of the law governing the sector on September 30, 2011. The new framework will introduce a benefit-sharing regime while laying down the policy contours for leases given out by state governments. The changes are aimed at dealing with popular resistance to mining projects on the grounds of corruption and adverse social and environmental impact. The industry fears it will make mining unattractive in the country. The government plans to repeal the existing Mines and Minerals (Development and Regulation) Act, 1957 and instead place a new Bill in Parliament in the Winter session. To tackle illegal mining, the Bill proposes punitive action, as well as creation of special courts at the state level for speedier disposal of cases.

It will also make it compulsory for all non-coal mining companies to share an amount equal to their royalty payment to state governments for the benefit of project-affected people. In the case of coal companies, the amount will be equal to 26 per cent of their profit. This will directly impact purely mining companies like Coal India, Sesa Goa and NMDC, as well as companies like Tata Steel, SAIL, NTPC and RPower that have captive mines associated with their projects. Besides, it will increase the cost of companies into the businesses of cement, aluminium and other mineral-based produce.

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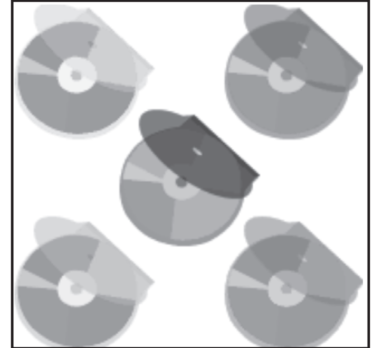
ANSWERS OF CYBERQUIZ ~ 32



1.[c] **Lost his or her job due to the downsizing or failure of a dot com:** dot-com has been a popular name for an Internet-based company. The terminology seems to have gone out of fashion after the dot-com bust after 2001.

2.[c] **Looking up a user's email address on the Net, obtaining information on the last time the user had logged on :** In order to be able to use this feature, a user's ISP must support fingering. The user also needs the relevant software to use this feature of the Net.

3.[c] **Blind courtesy copy :** Also known as blind carbon copy. It allows sending a recipient a copy of the mail without the other recipients knowing that this has been done.

4.[c] **Format for creating an electronic business card :** The electronic business card is exchanged through email or teleconferencing. vCard specification has been developed by versit, a consortium comprising giants such as IBM, Apple, AT&T and Siemens.

5.[a] **Bluetooth :** Bluetooth is about the ability to communicate, to access the Internet, email and information services anywhere at anytime. It has been adopted by both the mobile handset and portable computer industries as a means by exchanging data wirelessly.

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RBI liberalises forex facilities for individuals

Further liberalising foreign exchange regualtions for individuals under the Foreign Exchange Management Act (Fema), 1999, the RBI has said a person resident in India can now give to a person resident outside India, by way of gift, any security, shares or debentures of value up to $ 50,000 in value per financial year. Individual residents in India are also now permitted to include a non-resident close relative as a joint holder in their resident bank accounts. Non-resident Indians (NRIs) or persons of Indian origin (PIOs) are now permitted to open non-resident (external) (NRE) Rupee Account Scheme/Foreign Currency (Non-Resident) (FCNR) Account (Banks) Scheme with their resident close relative as a joint holder on a 'former or survivor' basis.

NABARD funding for rural infra crosses Rs.1 lakh cr

NABARD cumulatively has disbursed Rs.102,844 crore to 28 state government till September 30 to support Bharat Nirman's rural connectivity programme. Also, NABARD has designed a new financial product - Nabard Infrastructure Development Assistance (NIDA) - outside Rural Infrastructure Development Fund (RIDF) to meet the need of massive financial resources in developing infrastructure in rural areas.

Some of the states which availed themselves of maximum financial support from Nabard for rural infrastructure were Andhra Pradesh (Rs.9,711 crore), Uttar Pradesh (Rs.7,984 crore), Gujarat (Rs.7,324 crore), Tamil Nadu (Rs.6,523 crore), Madhya Pradesh (Rs.5,464 crore), Maharashtra (Rs.5,493 crore), Rajasthan (Rs.5,406 crore, West Bengal (Rs.4,694 crore) and Karnataka (Rs.4,406 crore). The governments were given Rs.1.03 lakh crore against 4.48 lakh projects worth Rs.1.28 lakhs sanctioned.

CDR amount increases by six times in first half of F.Y. '12

The corporate debt restructuring (CDR) mechanism set up to help companies unable to repay liabilities has gone up over six times in the first six months of F.Y. '12. Bankers have requested they be allowed to recast CDR accounts for a second time for companies or units whose debt was reworked after the financial crisis in 2008.

According to the CDR Forum, a platform set up by banks and financial institutions, cases worth Rs.34,562 crore went for debt restructuring in the first half of the financial year compared to just Rs.5,179 crore in the year-ago period. The number of companies referred has risen from 21 to 35.

In December 2008, the RBI had allowed banks to again restructure debt of viable units with lowering status of account, as a one-time measure. Bankers said there were a number of reasons for more companies being referred to CDR. For one, many have been unable to bear the burden of rising interest costs. These units are already under pressure of high input costs and lack of overseas demand. Referring a company to CDR eases the restructuring process. It is felt that "The bank or financial institution is able to control slippages by taking early action. But, this restructuring comes at the cost of higher provisioning.

RBI opposes fund for buying energy assets overseas

The Reserve Bank of India (RBI) has opposed the creation of a $20 billion sovereign wealth fund, for acquisition of energy assets overseas, out of foreign exchange reserves and wants the government to

create the corpus for it from the Budget. The Planning Commission will now work out surplus that may be generated after accounting for all Plan and non-Plan expenditure.

PSU oil firms can compete for overseas energy assets if their finances are protected. State fuel retailers are projected to lose Rs.1,22,000 crore this fiscal on selling diesel, domestic LPG and kerosene at rates below cost. India has been outpaced by China in the quest to acquire oil blocks and coal fields. Chinese firms have announced about $46.6 billion worth of energy acquisitions overseas since January 2010, compared with $ 8.3 billion by Indians. The Oil Ministry wants the government to start a fund using part of the reserves. The fund was proposed to help state-run companies compete with their overseas counterparts for energy assets abroad.

Mid-Quarter Monetary Policy Review September 2011

The Reserve Bank announced its mid-quarter review of the Monetary Policy for 2011-12 on September 16, 2011. Following are the highlights:

Monetary Measures

- Repo rate under the Liquidity Adjustment Facility (LAF) increased by 25 basis points from 8.00 per cent to 8.25 per cent.
- Reverse repo rate under the LAF automatically adjusted to 7.25 per cent from 7.00 per cent and Marginal Standing Facility (MSF) rate to 9.25 per cent from 9.00 per cent.

The policy action in this Review is expected to reinforce the impact of past policy actions to contain inflation and anchor inflationary expectations.

Guidelines for Rehabilitation of Sick SME Units

The Reserve Bank of India has withdrawn the norms of relief and concessions to viable/potentially viable sick units under rehabilitation prescribed earlier. The withdrawal comes in the wake of certain developments. All scheduled commercial banks, for instance, have been advised to put in place their own restructuring/rehabilitation policy for revival of viable/potentially viable sick MSE units/enterprises duly approved by their board of directors. With all the banks having migrated to the Base Rate regime, references to PLR/BPLR are no more meaningful. As per extant guidelines on interest rates, banks are not allowed to lend below the Base Rate. However, in case of restructured loans if some of the working capital term loan, funded interest term loan, etc., needs to be granted below the Base Rate for the purposes of viability, such lending by scheduled commercial banks are not be construed to be violation of Base Rate guidelines. Norms for grant of relief and concessions by banks to potentially viable sick small scale industrial units for rehabilitation have already been furnished.

Domestic Money Transfer Facilities Relaxed

Pursuant to the Reserve Bank having received frequent representations to open up the formal banking channel to facilitate fund transfers of small value, to give impetus to the process of financial inclusion, the guidelines in this regard and related issues were reviewed. Certain relaxations have been made which are expected to provide money transfer facilities in a safe, secure and efficient manner.

Penalties for Dishonour of EFT Instructions

The Reserve Bank has exhorted banks to popularise the electronic fund transfer modes amongst their customers by allaying any apprehensions on the rights and remedies available to the payees against dishonour of electronic funds transfer instructions.

Section 25 of the Payment and Settlement Systems Act, 2007 accords the same rights and remedies to the payee (beneficiary) against dishonour of electronic funds transfer instructions for insufficiency of funds in the account of the payer (remitter), as are available to the payee under section 138 of the Negotiable Instruments Act, 1881.

Sub-section (5) of section 25 of the Payment and Settlement Systems Act, 2007 provides for punishment of two years and twice the amount of electronic funds transfer, or both, for dishonour of such electronic funds transfer on par with the penalties stipulated for dishonour of cheques under the Negotiable Instruments Act, 1881.

Interest During Construction

It has been decided to consider 'Interest During Construction' (IDC) as a permissible end-use for Indian companies which are in the infrastructure sector where "infrastructure" is defined in terms of the extant guidelines on ECBs under the automatic/ approval route, as the case may be, provided (i) the IDC is capitalised; and (ii) is part of the project cost.

The above amendments have come into force from September 23, 2011 and are subject to review at any point of time.

Bridge Finance for Infrastructure Sector

Considering the specific needs of the infrastructure sector, it has been decided to allow Indian companies which are in the infrastructure sector, where "infrastructure" is as defined under the extant guidelines on ECB, to import capital goods by availing of short term credit (including buyers'/ suppliers' credit) in the nature of 'bridge finance', under the approval route, subject to the following conditions :-

- the bridge finance should be replaced with a long term ECB;
- the long term ECB should comply with all the extant ECB norms; and
- Reserve Bank's prior approval should be sought for replacing the bridge finance with a long term ECB.

The designated AD - category I bank should monitor the end-use of funds. Banks in India will not be permitted to provide any form of guarantees. The designated AD - category I bank should evidence the import of capital goods by verifying the bill of entry. All other conditions of ECB, such as, eligible borrower, recognised lender, all-in-cost, average maturity, prepayment, refinancing of existing ECB and reporting arrangements remain unchanged and should be complied with. The amended ECB policy is effective from September 23, 2011 and is subject to review.

Banking Ombudsman Conference : Ten Action Points to improve Customer Service of Banks

The Annual Conference of Banking Ombudsmen was held in the Reserve Bank of India, Mumbai on September 5, 2011 and some of the decisions taken were:-

- Indian Banks' Association (IBA) will standardise most important terms and conditions (MITC) for at least ten important banking transactions and circulate among banks for adaptation.
- Banks would initiate the process of providing one view of all bank accounts of a customer including deposits, loans, etc., with the help of available technology, such as, core banking solution.
- Banks would convey to the Reserve Bank, a consensus view on the recommendations of the Damodaran Committee Report on Customer Service in Banks that could be immediately implemented.
- The Reserve Bank/IBA would examine the issues pertaining to monetary compensation for mental harassment suffered by bank customers.
- Banks should issue tax deduction at source (TDS) certificates duly completed in all respects to the account holders and despatch it to their mailing address.
- In case of ATM/internet based banking transactions, in the event of any monetary dispute involving the customer and the bank, the onus should be on the bank to prove the customer's negligence or mistake.
- Banks must not recover pre-payment charges in floating rate loans. Banks may also offer long-term fixed rate housing loans to their customers and address their asset liability mismatch (ALM) issues by recourse to the Interest Rate Swaps (IRS) market.

Financial inclusion mandatory for new banks, says RBI

Industrial houses and companies seeking banking licences will have to open a fourth of their branches in unbanked rural centers according to the RBI instructions. The new banks may opt to offer basic banking services in rural areas, at least in the initial period, to keep their costs low, even as they have to provide full-banking services in metros and urban

centers because of competition. In its draft guidelines on new bank licensing, RBI said business models for new banks must include their financial inclusion plans. The models should be "realistic and viable" and any deviation from the stated plan after securing the licence would attract penalties like restriction in the banks' expansion programmes or a change in management.

According to the draft norms, new banks would have to open 25 per cent of their branches in unbanked areas with a population of up to 9,999, according to the 2001 census. This would avoid over-concentration of their branches in cities, which already have adequate banking presence. The new banks have to invest in ensuring connectivity between the urban and rural branches, since they have to operate on the core banking solution (CBS) platform from the beginning. Bankers said existing lenders currently use CBS or VSAT in areas where there are connectivity concerns. RBI also said the new banks should comply with priority sector lending targets and sub-targets that are applicable to existing domestic banks.

RBI issues revised draft norms for securitization of loans

The RBI in September, 2011 issued revised draft norms to regulate the growth in securitisation of bank loans. This may increase the securitisation of retail assets like home and consumer durables. The banking regulator has, for the first time, framed norms for bilateral sale of loans. These loans involve the transfer of any single standard asset or portfolio of assets. Securitisation is the process of converting existing assets or future cash flows into marketable securities. Typically, vehicle loans, home loans and corporate loans are pooled and packaged into securities. The repayments from borrowers are assigned to investors in securities.

The central bank has retained the minimum holding period norms set in the draft guidelines in April 2010. For loans with maturity periods of less than two years with quarterly repayments, banks would have to hold loans for at least nine months before hiving these off. For loans with less than quarterly repayment schedules, banks can securitise loans after six months. This may boost the securitisation of consumer loans. The central bank's draft revised norms are aimed at curbing the securitisation of credit card receivables and cash credit facilities. The regulator also intends to allow limited recognition of cash profits from securitisation transactions. The profit received in cash-related securitisation may be held under an accounting head 'cash profit on loan transfer transactions pending recognition'.

RBI approval must for raising capital beyond Rs.1,000 crore

Banks would be required to seek prior approval of RBI for raising paid-up capital beyond Rs.1,000 crore for every block of Rs.500 crore. While examining such proposals, the RBI shall primarily look into whether the bank has indulged in connected lending and self dealing, whether the corporate governance standards are adequate, whether information from promoter group has been forthcoming to facilitate consolidated supervision and whether the Board members remain 'Fit and Proper'. Moreover, in respect of promoter groups having 40% or more assets or income from non financial business additional requirements will be applicable.

For instance, the board of the bank should have a majority of independent Directors. Moreover, the exposure of the bank to any entity in the promoter group, their business associates, major suppliers and customers shall not exceed 10% and aggregate exposure to such entities shall not exceed 20% of the paid up capital and reserves of the bank, subject to compliance with the provisions of Section 20 of the Banking Regulation Act, 1949. All exposures will have to be approved by the Board and all credit facilities to these entities should have a minimum tangible security cover of 150%. The bank will have to file a return, certified by statutory auditors, on quarterly basis of all exposures including credit facilities extended to the entities in the promoter group, their business associates, and major suppliers and customers for amounts in excess of Rs.1 crore.

NBFC governing norms should be on par with banks: RBI panel

A committee set up by the RBI and headed by former RBI Deputy Governor Ms. Usha Thorat has recommended that the provisioning and asset

classification norms of non-banking finance companies (NBFCs) be brought in line with those for commercial banks. Like banks, the liquidity ratio may be introduced for all registered NBFCs. It also prescribed that Tier-I capital of systemically important NBFCs should be at 12 per cent within three years of registration. Currently, the total capital adequacy ratio, which includes Tier-I and Tier-II capital, for NBFCs is stipulated at 15 per cent.

“The provision requirement would be a bit stringent. It will require any assets overdue for more than 90 days to be treated as non-performing. Currently, only accounts overdue for more than 180 days are treated as NPAs, so the new norms will mean higher provisioning. Secondly, the Tier-I capital requirement at 12 per cent will impact the smaller players,”

For NBFCs catering to the securities market and real estate sector the committee has recommended a risk weight of 150 per cent and 125 per cent, respectively. The measures are intended to reduce the regulatory arbitrage between banks and NBFCs. The panel also suggested NBFCs not accessing public funds may be exempted from registration, provided their assets were below Rs.1,000 crore. While the minimum capital requirement has been suggested to be retained at the present level of Rs.2 crore till the Reserve Bank of India Act is amended, the panel suggested RBI insist on a minimum asset size of Rs.50 crore for registering any new NBFC. Existing NBFCs below this limit may deregister or be asked to seek a fresh certificate of registration at the end of two years.

Banks told to Integrate Ops with RRBs for Rural lending

In an attempt to extend the reach of banks in rural and semi-urban areas, the finance ministry has asked public sector banks to integrate their operations with regional rural banks (RRBs). The government expects RRBs to offer more, and quicker, loans to borrowers in India’s hinterland as part of its financial inclusion drive. It wants RRBs to disburse at least Rs.51,000 crore worth of loans, or 10.7% of the Rs.475,000 crore lending target it has set for public sector banks for the current fiscal. The finance ministry has also directed public sector banks to relocate their branches from areas where there is an existing branch of an RRB. This will help in increasing the coverage area of banking services. The government and the Reserve Bank aim to provide banking facilities in 73,000 villages with a population of more than 2,000 by March next year. This is estimated to provide bank accounts to about 50 million rural households.

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Govt paves way for easy loan recovery by banks

The Cabinet on 13th October, 2011 cleared two amendment Bills paving the way for banks to recover loans from errant borrowers. The move would also help the financial institutions to reduce their non-performing assets and release funds for home, retail or corporate credit needs. As per the official data, the outstanding amount of large borrowers with public sector banks alone was Rs.5,80,476 crore at the end of March 2011. The Bills to amend the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (Sarfaesi) Act and Recovery of Debts due to Banks and Financial Institutions (RDBF) Act were listed in the Budget for 2011-12 as one of the financial sector reforms that the government would carry out this fiscal.

The Sarfaesi Act, 2002, allows banks and financial institutions to auction properties of borrowers if they fail to repay their loans. It also envisaged to securitise and reconstruct the financial assets through two special purpose vehicles — Securitisation Company (SCO) and Reconstruction Company (RCO). The RDBF Act, 1993 envisaged summary procedure for ascertainment of dues.

Although the two acts helped banks bring down bad debts, there were certain procedural issues faced by banks. These amendments proposed to simplify these procedures. For instance, if a borrower had objection to a foreclosure, then the bank had to respond within seven days. If the banks did not respond within seven days, borrowers could go to court and get a stay order. The time limit, now, has been extended to 15 days. There were also certain powers of chief metropolitan magistrates and district magistrates relating to issuing orders on recovery, but they were not non-delegable. These powers were sought to be delegated to the additional metropolitan magistrate and additional district magistrate as well.

"The proposed amendments would enable banks to improve their operational efficiency, deploy more funds for credit disbursement to retail investors, home loan borrowers, without fearing for recovery, thus bringing about equity," said Information and Broadcasting Minister Ms. Ambika Soni. According to RBI data, net NPAs of scheduled banks (excluding regional rural banks) declined to 1.1 per cent of advances in 2009-10, from 7.6 per cent in 1998-99.

The government has so far approved 14 securitisation and asset reconstruction companies (ARCs) but only Arcil, promoted by institutions like SBI and IDBI Bank, took off.

ARCs develop a market for the distressed assets they acquire from lenders. The Sarfaesi Act allows banks and financial institutions to take possession of assets when borrowers fail to repay their loans within 60 days of demanding repayment. Now, non-banking finance companies are not covered by the Sarfaesi Act, except the housing finance companies. Also, the central registry conceived under this Act does not cover the assets of proprietorships and partnerships and therefore banks have no way of ascertaining whether the assets of these entities have any charge on them. This lack of comfort discourages banks to lend to these entities that represent 92% of the economy.

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National policy to boost manufacturing

Manufacturing, which is facing tough times due to successive rate hikes by the Reserve Bank, will get some respite with the Cabinet clearing the National Manufacturing Policy (NMP) to provide a hassle-free environment and tax incentives to the sector. The policy would be notified in a month and individual departments would come out with separate notifications, Commerce and Industry Minister Shri Anand Sharma said. Cleared after one-and-a-half-years of first draft policy it is aimed at increasing the share of manufacturing to 25 per cent of the gross domestic product (GDP), from 16 per cent at present, and generating additional 100 million jobs by 2022. For this, manufacturing has to grow by 12-14 per cent a year, a target which seems quite feasible. In the last five years, manufacturing grew in this range only in 2006-07.

The policy envisages a number of fiscal incentives like income tax concession on venture capital funds with a focus on small and medium enterprises (SME), rollover relief from long-term capital gains tax to individuals on sale of a residential property wherever such sale consideration is invested in the equity of a new start-up SME, and viability gap funding to polytechnics and special purpose vehicles (SPVs) in proposed National Manufacturing and Investment Zones (NMIZs). There will be tax benefits for adopting green technology. A separate Manufacturing Industry Promotion Board will be set up to look into coordination between the Centre and state for proper implementation of the policy.

The NMIZs would be large areas of developed land, with the requisite eco-system for promoting world class manufacturing activities. The NMP, would ensure compliance of labour and environmental laws while introducing procedural simplifications and rationalization, so that the regulatory burden on the industry is reduced. The first phase of NIMZ would be established along the Delhi-Mumbai Industrial Corridor (DMIC). The DMIC project covers six states — Haryana, UP, Rajasthan, Madhya Pradesh and Gujarat — accounting for 43 per cent of GDP, 50 per cent of industrial production and exports and 40 per cent of the total workforce. "The land for these zones will preferably be waste infertile land, which is not suitable for cultivation; not in the vicinity of any ecologically fragile area and with reasonable access to basic resources," Shri Sharma said. The administrative structure of NIMZs will comprise a SPV, developer, the central government and a state government. An SPV will be notified by the centre and its structure will depend on the memorandum of understanding. Its chief executive will be a senior central or state government official. The main purpose of the SPV will be to offer single widow clearance to investors.

Incentives for developing SEZ in Backward Areas

The government is set to give incentives for special economic zone developers to encourage them to move away from urban centres and focus on economically backward regions. SEZ developers might get wider tax concessions if they build economic hubs in underdeveloped areas. The government may also lower the minimum area ceiling to ease land acquisition by them. These incentives are likely to be included in the proposed amendment to the Special Economic Zones (SEZ) Act, 2005. The current rules do offer tax benefits on investments made in social infrastructure in the non-processing area of an SEZ, but there is no relief

on income generated from such infrastructure. The government may now extend the concession on income from social infrastructure like hotels, hospitals and schools.

The commerce ministry had invited industry secretaries from all states to take their views on the proposed changes in the SEZ Act. They felt that SEZs are concentrated in just a few states and that too, mainly in urban areas. While economically better-off states like Karnataka, Tamil Nadu, Andhra Pradesh, Maharashtra, Gujarat, and Kerala are home to about four-fifths of all notified SEZs, poorer states like West Bengal, Chhattisgarh and Jharkhand have very few of these special conclaves. The north-east region, which comprises seven states, has just one SEZ. It was felt the minimum land requirement norm has become a major constraint for SEZ developers. The Centre had earlier amended SEZ rules to ensure that state governments do not acquire land forcibly for big industrial projects. This has left developers pretty much on their own. The current norms require a minimum of 1,000 hectare for multi-product SEZs, while for sector-specific SEZs the floor is 100 hectare. IT, gems & jewellery and biotech SEZs require a minimum area of 10 hectare.

Ministry proposes 20% quota for MSEs in government purchases

A policy that sets aside 20% of government purchase of goods and services to micro and small enterprises (MSEs) is set to be approved. This will be the single-biggest policy initiative for the MSE sector in the post-liberalisation era. Minister for micro, small and medium enterprises (MSMEs) Shri Virbhadra Singh said that his ministry has circulated a cabinet note that proposes 20% reservation for MSEs in public procurement. Within the 20% quota for MSEs, the minister said, 20% would be reserved for enterprises owned by the scheduled castes and tribes. This sub-quota would amount to 4% of all procurement made by central and state ministries, departments, government agencies, public sector undertakings, state enterprises and local bodies. India's central and state government purchases are officially estimated at over $80 billion per annum, while independent estimates put the total public procurement bill at a quarter of its GDP. But it will be difficult to quantify the slice that MSEs would get from this, as procurement is a vast area that sweeps in various sectors, jurisdictions and activities.

The 20% sub-quota for SC/ST-owned units will be a major piece of the government's inclusive growth action. Only 11%, or 2.28 million units, of the total MSME units belong to SC/STs while the two social classes make up 24.4% of the population (2001 census). Other Backward Castes own 40% of MSMEs. Together the socially backward classes own 51% of all MSME units in the country. A 20% sub-quota in public procurement for 11% of units should act as a hydraulic lever for the SC/ST population to move up the social ladder through entrepreneurship. Since channelling agencies like the National Small Industries Corporation bid for big orders and distribute those among MSEs, the quota will make it easy for Dalits to start enterprises. "There won't be any compromise on the quality aspect. Only products that meet certain specifications will be accepted,".

Shri Singh said preferential procurement for small businesses is a global practice and does not violate the spirit of liberalisation. All developed countries follow some form of preferential procurement for small businesses. It will also not face any WTO-related restrictions, as India is not a member of the Plurilateral Agreement on Government Procurement.

Approval for New Companies Bill

The New Companies Bill, expected to be approved by Parliament, will lead to a comprehensive revision of the Companies Act, 1956. It aims at providing a clearer framework for good governance by strengthening the powers of all stakeholders, including minority shareholders. The Bill also provides greater flexibility in procedural aspects to

bring Indian company laws on a par with the internationally accepted standards. The Serious Fraud Investigation Office (SFIO) will have powers to investigate and prosecute corporate entities under the Companies Bill, 2011. The bill also envisages rotation of company auditors for higher accountability, corporate social responsibility, a more effective regulation of related party transactions and stricter provisions to prevent siphoning of funds through subsidiary and associate companies.

The government expects the bill to modernise, reform and clean up the corporate sector.

SFIO will be headed by a director, who will have a multi-disciplinary team of experts to assist him. It will have the powers to probe companies suspected of frauds. SFIO's report filed in a court for framing of charges will be equivalent to a police report under the Code of Criminal Procedure, 1973. It shall have powers to arrest persons for suspected fraud. SFIO will also be able to coordinate with other investigating agencies such as CBI or Enforcement Directorate. The Companies Bill, 2011, will replace the Companies Act, 1956.

The bill seeks to define 'fraud', and also outlines the punishment to go with each category of fraud. It also makes out a case for setting up a National Company Law Tribunal with its appellate body. The provisions have been brought in tandem with laws of Sebi, RBI and other regulators.

Some of Sebi's key concerns had included provisions regarding insider trading and private placements by unlisted companies. Under Sebi rules, violations of insider trading regulations attract a penalty of Rs.25 crore or three times the gains made from such trades. However, the new Bill provides for a fine of up to Rs.1 crore. Another issue is that of private placements by unlisted companies. Of late, a number of companies have been found using this route to raise money from the public. The lack of a clear demarcation of jurisdiction between the central government and the market regulator on such areas where the company law and Sebi rules overlap has created scope for regulatory arbitrage. Specific clauses of the new law are likely to be changed to limit the scope for multiple interpretations in these areas.

One holding Co for All PSU Banks Likely

The government is set to change the way it controls state-run banks, so they can raise lots of additional capital without the government losing control over them. The finance ministry believes one common holding company to unite 21 state-run banks could eliminate ad hoc, last-minute infusion of resources that has been the practice so far. A holding company structure allows for innovation in capital infusion, the reason why nearly 85% of US banks have such a structure. A holding company structure will allow the parent firm to raise debt at home and even abroad.

The company may even be allowed to list later, which will enable it to raise equity as well as debt for the banks. But as banks raise new capital, the government's share is bound to go down. To maintain control, the government is considering innovations such as differential voting rights, golden shares or shares with zero voting rights to preserve the public sector nature of these banks. The implicit sovereign guarantee will help the holding company raise debt funds at finer rates. The holding company could infuse funds into the bank where it will own majority through multiple routes such as subscribing to the bank's equity or buying the debt issued by it. The structure may also allow the holding company to raise funds for a specific bank. For example, if a state-run bank needs Rs.3,000 crore, the holding company will raise money from investors, linking the returns on them to the performance of that bank. This is expected to enable the government to raise debt through the holding company without putting any pressure on its existing fiscal burden.

The government will transfer all its shares in state-run banks to this holding company, which will resemble an investment special purpose vehicle for

public sector banks. The government has been finding it difficult to capitalise state-run banks due to the constrained fiscal situation and has been resorting to ad hoc allocation of funds among many claimants. In the current fiscal, the budget had provided Rs 6,000 crore for infusion into banks, but that will fall short of needs. The State Bank of India alone needs a massive dose of cash to maintain its Tier-I capital adequacy ratio at 8% by the year-end.

PSUs get monetary, operational freedom to buy assets abroad

The profit-making state-run companies will have greater financial and operational freedom to acquire raw material assets, such as coal and iron ore overseas, under a new policy approved by the government on 13th October, 2011 to secure necessary inputs to promote India's growth. The government has also decided to set up a sovereign wealth fund in 'due course' to help acquisitions of energy, fertilizer and mineral raw material assets.

"Powers delegated to the boards of Maharatna and Navratna will be enhanced for such acquisitions," Information and Broadcasting Minister Ms. Ambika Soni said after the union cabinet approved the new policy. The liberal policy for acquisition of raw material assets abroad by Central Public Sector Enterprises (CPSEs) will be available to companies engaged in agriculture, mining, manufacturing and electricity sectors having a three-year profit record. The new rules will allow Navratna firms to invest up to Rs.3,000 crore in such assets without government approval, as against the present limit of Rs.1,000 crore. The Maharatna firms will have a higher limit of Rs.5,000 crore, heavy industries and public enterprises secretary Shri S. Sundareshan said. Indian companies have been looking to acquire coal and energy assets overseas, but have had limited success so far primarily due to procedural hassles. A slew of proposals by various CPSEs are stuck in various government departments pending approval.

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Resolve to do a little reading every day, if it is but a single sentence. If you gain fifteen minutes a day, it will make itself felt at the end of the year.