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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.

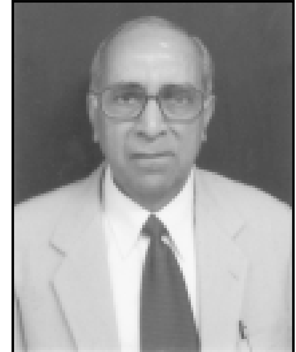
From The Editor's Desk

FARM CRISIS ~ EMPOWERMENT OF THE POOR

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

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

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



Shri K.K. Mudgil

The Government of India had introduced a novel scheme of rural development in the country in 1978, namely Integrated Rural Development Programme (IRDP) which covered the whole of rural India. The target group of the IRDP consists of families of small

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

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

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

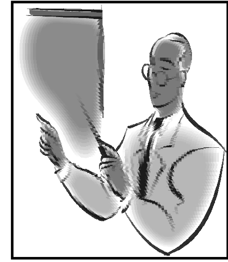
To be Continued.............

(K.K. MUDGIL)

"This is 4th Article in the Series"

APPOINTMENTS

- Shri Rajender Mohan Malla has taken over as Chairman and Managing Director of Small Industries Development Bank of India (SIDBI) on July 11, 2007. Shri Malla started his professional as a probationary officer with Syndicate Bank in 1975.
- Shri Arvind Virmani has been appointed as Chief Economic Adviser to the Finance Minister. Mr. Virmani, who is presently Principal Adviser in the Planning Commission, will replace Shri Ashok Kumar Lahiri. Mr. Lahiri is joining the Asian Development Bank in Manila as Executive Director.
- Shri H.K. Sharma, IAS has been appointed as Managing Director, Assam Industrial Development Corporation Ltd., (AIDC), Guwahati vice Shri R.K. Dutta.



- Shri Lallungmuana, IAS has been appointed as Managing Director, Zoram Industrial Development Corporation Ltd., (ZIDCO), Mizoram vice Shri Yogaraja.
- Shri Ajai Bhandari, IAS has been appointed as Managing Director, Himachal Pradesh Financial Corporation (HPFC), Shimla vice Shri Anil Kumar Khachi.

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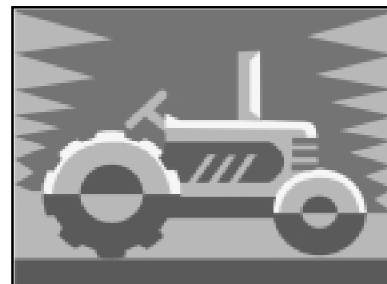
PRIORITIES FOR RURAL DEVELOPMENT

Rattan saldi

The robust demonstration of its strength by the Indian economy during the last three years with an average growth rate of over eight percent has brought a cheer to the planners and the Finance Minister. A plethora of central and state schemes and programmes are under implementation for the benefit of the common man, but the growth of urban conglomerates and the exodus from villages to cities indicate that the intended benefits of development perhaps have not reached the needy. The United Progressive Alliance government at the Centre has initiated eight flagship programmes - Sarva Siksha Abhiyan, Mid Day Meal Scheme, Rajiv Gandhi Drinking Water Mission, Total Sanitation Campaign, Nation Rural Health Mission, Integrated Child Development Services, National Rural Employment Guarantee Scheme and Jawaharlal Nehru National Urban Renewal Mission. Budgetary allocations were enhanced greatly for these programmes designed to improve living conditions and standard of an average Indian in both rural and urban areas in last year's budget. Nearly 87 percent of our villages had population in clusters of 2,000 or below and account for over 50 percent of the country's rural population.Their empowerment is hindered because they are economically weak. Moreover, the villages do not represent attractive markets for investment.

Bharat Nirman - A Unique Project

For improving infrastructure and providing basic amenities to rural India, an ambitious Bharat Nirman programme was launched in 2005-06. Under the unique project physical targets were fixed in six core areas of infrastructure development to be implemented by its terminal year i.e. 2009. The areas are : rural road connectivity, accelerated irrigation benefit programme, rural drinking water supply, rural housing, rural electrification and rural communication facilities. The budgetary allocation under the programme was increased from 12,160 crore rupees to 18,696 crore to execute it in a mission mode. Bharat Nirman programme envisaged bringing an additional one crore hectares of unirrigated agricultural land under asured irrigation; all weather road connectivity for all habitations having a population of one thousand (*500 in hilly and tribal areas*); provision of safe drinking water to all villages and habitations in the country; electrification of all the remaining villages and hamlets; construction of sixty lakh houses for the rural poor and telephone connectivity to all the remaining villages in the country.



Targets Achieved so far

The flagship National Rural Employment Guarantee programme presently covers 200 districts spread over 27 states. The NREGA, which came into force in February, 2006, is the latest initiative in combating poverty. It envisages regeneration of the rural economy by creating productive assets like water harvesting tanks, watershed developed and plantation of trees for soil and moisture conservation. But is the Act equipped to meet its ambitious objectives **?**

Under the scheme 1.41 crore households demanded employment, of which 1.37 crore households were provided with 100 days of guaranteed employment under the Act upto 31.12.2006. The Rural Development Ministry plans to expand the programme to 227 more districts.

Under the Rural Housing, construction of 60 lakh houses was envisaged through Indira Awas Yojana but during the current financial year, only 1,892 crore rupees have been spent out of a total budgetary allocation of 2,908 crore rupees to build 5.74 lakh houses, resulting in the achievement being far below the target.

During the current fiscal, only 47,495 habitations and 28,813 schools have been provided with safe drinking water. The targets under the Bharat Nirman programme are to cover 3,052 not covered habitations, 38,894 partially covered and 1,47,576 slipped back habitations under the Accelerated Rural Water Supply Programme.

According to the data available with the Rural Development Ministry, so far one lakh kilometer road length has been constructed providing connectivity to thirty thousand habitations. The government also claims that 569 districts in the country have been covered under the Total Sanitation Campaign.

Focus Areas

The development of infrastructure - rural roads and bridges, irrigation facilities, flood control, power supply, education, health, agriculture research and extension services, rural markets and sanitation is essential for accelerated economic development of rural areas. More investment in rural infrastructure gives impetus to economic activity, generates additional employment and income, facilitates and improves delivery of social services and strenthens the democratic process and skills among the rural poor. The Panchayats and the NGOs have a vital role to play in the process of building up the infrastructure in villages.

While the overall growth rate has crossed eight percent this year, the growth in agriculture is sluggish resulting in high rate of inflation of over six percent. The government had to press the panic button to contain inflationary pressures by cutting duties on several items and banning the export of essentials like onions and milk powder to meet domestic demand. There is wide gap between the wholesale and retail prices with middlemen consuming the best of the pie. The suicide incidence among the farmers is on the increase for reasons of high indebtedness, low productivity, less remunerative agricultural prduce prices, fragmentation of land holdings because of population growth, harassment by the middlemen and money lenders and the widening gap between the urban and rural incomes. A second Green Revolution is the urgent need to improve rural economy alongwith several other steps, such as :

- Easy accessibility to farm credit through public and cooperative sector banks and financial institutions;
- Rescheduling of agricultural credit to benefit the small and marginal farmers and below poverty line families and farm labour. The loan waiver as demanded by political circles with vested interests and some kisan unions can lead to corruption and a tendency to take more credit;
- Urgent review of Special Economic Zone Policy to remove discontent among the farming community. SEZs may be set up in barren, saline or unproductive lands. Farmers should be compensated at prevailing market rates. Those families who are rendered landless by acquisition of their land should get guaranteed employment and atleast twenty percent share in the enterprise.
- Easy market accessibility to farm produce, including major crops like wheat and rice, vegetables, fruits and poultry to reduce the gap between the wholesale and the retail prices. Farmers' cooperatives should be encouraged to build the capacity of the small and marginal farmers to withstand the lecherous tendencies of the money lenders, commission agents and other engaged in the farming sector. Prime Minister, Dr. Manmohan Singh's idea of creating Rural Hubs can go a long way in the growth of the income for the farming community.
- Strict monitoring of the ongoing schemes and programme with mid term correction, if needed. Proper maintenance of the one-lakh road connectivity created in rural areas.
- Ensuring quality education and sanitary and health facilities to the rural mases. It should be ensured that the schools and primary health centres in rural areas are well equipped with both men and material, even in the remote and the farthest corners.

Ambitious Targets

The Planning Commission has set ambitious targets of generating seven crore new job opportunities during the 11th Plan period and to double the per capita income during the next ten years to remove poverty and improve living conditions of the people. This could be achieved only if the growth rate crosses ten percent. The rural economy has to grow at double the present pace of growth of less than three percent. The task is gigantic but not unachievable. Expectations of the rural community are high. There is the need to reduce the number of schemes and programmes under various heads of development and make them umbrella programmes for better implementation and monitoring with greater involvement of the Panchayati Raj Institutions to achieve total success.

Courtesy : Kurukshetra

QUESTIONS OF CYBERQUIZ~9

1. Where do you find an *"activity light"* in a computer ?

   [a] In optical mouse;

   [b] A small colored light on the front panel of a computer's CPU case which flickers when a hard or floppy disk drive is active;

   [c] Inside the CD drive read/write head;

   [d] Inside the CRT of the monitor.

2. In what size the floppy disks were coming when first introduced ?

   [a] 10 inches;

   [b] 8 inches;

   [c] 5 1/2 inches;

   [d] 3 1/2 inches.

3. In computer lingo, what are "mouse droppings" ?

   [a] The trail left behind the mouse cursor;

   [b] The mouse ball;

   [c] Fatigue in the palm resulting from holding the mouse for a long time;

   [d] Pixels that are not properly restored when the mouse is moved.

4. Early computers were using punched cards as storage devices. But which machine used the punched cards first ?

   [a] Charles Babbage's Analytical Engine;

   [b] Hollerith's statistical tabulating Machine;

   [c] Jacquard Loom;

   [d] Mechanical calculators.

5. In the earliest IBM PCs and display units of computers belonging to 1970s and 80's, what was the length of a standard line of text ?

   [a] 32 characters;

   [b] 64 characters;

   [c] 80 characters;

   [d] 132 characters.

SEE PAGE NO. 26 FOR ANSWERS OF CYBERQUIZ

CONTRIBUTION OF STATE LEVEL FINANCIAL INSTITUTIONS FOR INDUSTRIALISATION

Smt. Sobha Nambisan, IAS
Chairperson & Managing Director, KSIIDC

India's eighth largest State in terms of geographical area (192,000 sq. kms.) and population (60 million), Karnataka is one of the leading progressive and industrialised States in the sub-continent. Blessed with abundant natural and human resources, the formation of the state five decades ago heralded a golden era in the socio-economic development of the region with rapid strides made in industry, agriculture, services and education. Though agriculture played a dominant role in the initial years, creation of basic infrastructure, establishment of a sound education system and availability of raw materials, including minerals enabled the State to provide a conducive environment for setting up industries in core areas such as steel, sugar, cement, paper edible oil and textiles during the sixties and seventies.

The foresight of India's first Prime Minister, Pandit Jawaharlal Nehru, the architect of modern India in deciding to locate mega Public Sector Undertakings (PSUs) such as the Indian Telephone Industries (ITI), Hindustan Machine Tools (HMT), Bharat Electronics Ltd. (BEL), Bharat Earth Movers Ltd. (BEML) and Hindustan Aeronautics Ltd. (HAL) in Bangalore turned out to be a boon for Karnataka in terms of investments, creation of industrial infrastructure, employment generation and opportunities to set up hundreds of ancillary units and support facilities over the decades. With pro-active policies and funding through State-owned financial institutions such as the Karnataka State Financial Corporation (KSFC) and Karnataka State Industrial Investment and Development Corporation (KSIIDC), the State Government has been instrumental in ushering in the industrial era.

Catalytic Role

The presence of prestigious institutions like the world renowned Indian Institute of Science (IISc), leading Research and Development (R&D) organisations and scores of polytechnics and engineerings colleges has made Bangalore a nerve centre of industrial activity, drawing the country's best and brightest talent in diverse sectors. Over the span of a half-century, Karnataka has been at the centrestage of industrial growth, with Bangalore becoming a magnet for attracting investments, skilled workforce and other stakeholders. As partners in progress, KSFC and KSIIDC have played a catalytic role in building an eco system for investors and entrepreneurs to tap the resources and draw a road map for industrial development across the State.

Smt. Sobha Nambisan, IAS Chairperson & Mg. Director KSIIDC

A congenial industrial ambience, salubrious climate, cordial labour relations and skilled workforce have made Karnataka a favourite destination for hordes of domestic and overseas investors and entrepreneurs for setting up manufacturing facilities in automobiles, machine tools, electronics, components, pharmaceuticals, metals and garments across the State, particularly in Mysore, Mangalore, Hubli - Dharwad and Belgaum. Integral to the industrial scenario has been the investor-friendly policy framework and support mechanisms of the State to promote investments, with structured and simplified procedures.

Frontline State

Karnataka had the privilege of associating with three phases of industrialisation spawning traditional units in mining, energy (hydel power generation), steel, textiles, paper etc. in the pre-independence era, heavy engineering and machinery in the sixties and seventies with the establishment of the central PSUs and high-technology firms in information Technology and Bio-Technology since the nineties when economic

liberalisation and market reforms were initiated. As a result, Karnataka has emerged as one of the frontline States in the industrial map of India. In the electronics and communication sector, the State accounts for about 20 percent of the country's annual turnover. Similarly, the automobile sector generates about Rs.2000 crores.

As a front-ranking State in the knowledge sector, Karnataka accounts for one third of India's IT exports with 37 percent share amounting to Rs.37,000 crores ($8.2 billion). About 40 percent of the biotech firms are located in the State. Taking advantage of the sound industrial climate created by the presence of central PSUs, strong ancillary units, leading academic, scientific, defence and space organisations, Bangalore had the first-move advantage in the country to strive into the knowledge sector. In over two decades, Bangalore built a global reputation by becoming the world's fourth technology hub and Silicon Plateau of India, thanks to the yeoman contributions of leading IT bellwethers such as Infosys and Wipro, besides multinationals like IBM, Intel, HP, Texas, Instruments, Dell, Microsoft, Accenture, EDS, Sun Microsystems, Google, Yahoo, Cisco, Philips and SAP.

Availability of talent pool and skilled workforce made global automative firms like Toyota and Volvo to set up their production facilities near Bangalore. As a centre of excellence in research and development (R&D), the hi-tech city has also been able to attract top scientists and technocrats to work in global R&D facilities such as Jack Welch Technology Centre of GE, Robert Bosch of MICO and several product development and design services companies. With about 1400 active IT and ITES firms, including about 600 multinationals, the IT industry employs about 400,000 people and generates a million indirect jobs. In terms of investments, revenues and exports, Bangalore accounts for over 90 percent of the State's share, with Mysore, Mangalore and Hubli contributing the rest.

It was KSFC which endeavoured to take industries to the district and taluka levels by setting up branches in these centres to assist small and tiny sectors. KSIIDC during the initial years of its operations, promoted private entrepreneurship mostly in the small and medium sector by taking up equity positions in such start up ventures. The concept of joint sector saw many industrial ventures taking shape in medium and large sectors, notably among them being Disa India Limited, Vikrant Tyres Limited (J.K. Industries Ltd.), K.G. Gluco Biots Limited (Riddi Siddi Starch Limited), Jindal Vijaynagar Steel Ltd., (JSW Steel Ltd.) etc.

The promotional role played by KSIIDC has seen more than 150 major industrial ventures taking shape, contributing to the industrialisation of the State. KSIIDC is also a nodal agency of the state to promote / develop mega industrial and infrastructure initiatives. To provide seed capital and encourage smart entrepreneurs to set up start-ups in IT and electronics, KSIIDC also floated a venture capital fund KITVEN and participated in the growth of the high-tech industry. The State level financial institutions were the first to fund global Indian firms like Infosys Technologies Ltd. Biocon Ltd. among others.

Over the last four decades, KSFC has sanctioned a cumulative amount of Rs.7,744 crores to small and medium industries. Assistance to small scale industreis (SSIs) amounted to Rs.4,108 crore till 2005-06. KSIIDC finnced a total number of 2339 project proposals from medium and heavy industries with cumulative loans to the tune of Rs.2,663 crores from its inception to March 31, 2006.

On the flip side, the state public sector units such as Mysore Iron & Steel Co. at Bhadravathi, New Government Electric Factory (NGEF), Mysore Lamps and Bharat Gold Mines had failed to keep pace with the changing industrial scenario, resulting in their liquidation process. Similarly, many state-owned sugar and textile mills have gone into red.

In the post-liberalisation era, with avenues to raise capital from the open market, banks and leading financial institutions like IDBI and SIDBI opening up for prospective investors and entrepreneurs, KSIIDC turned into a facilitator of industrial growth by investing in infrastructure projects like the Bangalore International Airport and setting up the Indian Institute of Information Technology (IIT-B) in the Electronics City to create a talent pool for the knowledge sector.

New Industrial Policy

In order to accelerate industrial development across the state, the present government has come out with a New Industrial Policy for the next five years (2006-2011). The objectives of the New Policy are to

increase the Gross State Domestic Product (GSDP) growth percentage, strengthen manufacturing industry, increase share of exports from Karnataka and generate one million jobs in the manufacturing and service sectors. To ensure uniform growth of industries across the state, especially North Karnataka, the policy envisages zoning of taluks with emphasis on most/ more backward taluks; creation of industrial infrastructure in various key locations of the State; implementation of industrial water supply schemes for potential locations through special purpose vehicles (SPVs) and encouraging of industrial infrastructure for specific sectors and Special Economic Zones (SEZs).

The State Government proposes to set up an Infrastructure Upgradation Fund with an initial corpus of Rs.500 crores and a Technology Upgradation Initiative Fund with a corpus of Rs.25 crores. The prospective investors and entrepreneurs will be offered a host of incentives and concessions relating to Entry Tax and Special Entry Tax, waiver of conversion fee, exemption of stamp duty and reduction of registration charges.

During the previous industrial policy period (2001-2006), the State High Level Clearance Committee (SHLCC) approved 148 projects with proposed investment of Rs.115,882 crores, with an employment potential of 1.10 million people. Similarly, the State Level Single Window (SLSWA) approved 861 projects with an anticipated investment of Rs.19,044 crores and an employment potential for 590,869 people. In the SSI sector, about 65,231 units were registered with an investment of Rs.2,080 crores and to provide employment to 295,487 people.

The State Government has decided to implement the 11 missions advocated by President Shri A.P.J. Abdul Kalam in his address to the State Legislature on 20.11.2005 on the occasion of “Suvarna Karnataka”. The State GDP grew by 8.7 percent in the last fiscal (2005-06), with industrial sector accounting for 18 percent. The New Industrial Policy aims to achieve over 9 percent GSDP and an industrial growth of 12 percent. The missions related to industrial sectors such as textiles, bio-fuel, agro-processing and entrepreneurship have been included in the Policy.

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When you are humble, you have everyone else's advice and wisdom to avail yourself of. When you are proud, you have only your own.

SICOM

SICOM's performance this year has been "Best Ever" since its inception

Highlights :

- Sanctions up by 58% from Rs.871 crores to Rs.1,380 crores.
- Disbursements up by 47% from Rs.799 crores to Rs.1,175 crores.
- Profit After Tax up by 88% from Rs.33.98 crores to Rs.59.11 crores.
- Earning per share (EPS) up by 90% from Rs.5.12 to Rs.9.71.
- Networth up by 20% from Rs.276 crores to Rs.331 crores.
- Capital Adequacy ratio at 20.27% as compared to 20.19% last year.
- Reduction in Net Non Performing Assets (NPAs) in absolute as well as percentage terms from Rs.76 crores to Rs.39 crores and from 5.17% to 2.64% respectively.
- SICOM had declared dividend of 5% for the financial year 2006-07.

Lalit Doshi Memorial Foundation Award

The Lalit Doshi Memorial Foundation and SICOM Limited have instituted an award, which is annually given to a SICOM assisted unit having outstanding performance. For the year 2006-07, Unity Infraprojects Ltd., Mumbai is the LDMA Winner and Dhoot Transmission Pvt. Ltd., Aurangabad is an additional award winner. Unity Infraprojects Limited is one of India's leading construction company. Unity achieved sales turnover of Rs.543.50 crore in 2006-07. Unity has completed various prestigious projects like Abhyuday Cooperative Bank Building, Mass housing projects for MHADA, NRI project Seawood Estate (CIDCO), NABARD corporate office at Bandra Kurla Complex, Millenium Business Park at Mahape, TTC, Thane etc. The Dhoot Transmission has started their commercial production in July, 1999 at Aurangabad. Dhoot Transmission is maufacturing wiring harness for four wheelers, two wheelers, tractors etc. Dhoot Transmission achieved sales turnover of Rs.143 crore in 2006-07.

KSFC

Decentralization of Plan Scheme of Technology up Gradation/Setting up/Modernisation/Expansion of Food Processing Industries

The various Food Processing Industries which propose to take up technology upgradation/setting up of new unit/modernisation of their units are eligible for availing of grants/subsidy under the Scheme operated by Ministry of Food Processing Industries (MOFPI). Under this scheme, the units are eligible for a grant/ subsidy of 25% / 33% of the cost of plant and machinery and civil works (subject to reducing the cost of ineligible items prescribed by the Ministry which are detailed in the Scheme) subject to a maximum of Rs.50 lakhs / Rs.75 lakhs in general are as / difficult areas respectively.

The MOFPI has decided to decentralise the implementation of this Scheme in order to provide thrust, wider coverage and speedy disposal for food sector in the country. In this direction, the Ministry has decided to add 16 more Banks/Financial Institutions in the list of Nodal Agencies among which Karnataka State Financial Corp.is also one. The salient feature of the scheme are explained below :-

Objective of the Scheme

The scheme for Technology upgradation/expansion/ modernisation/establishment being implemented by the Ministry of Food Processing Industries (MOFPI) is aimed at upgradation of processing capabilities. It has been

decided to decentralise the implementation of the scheme for Technology Upgradation Establishment/ Modernisation of Food Processing Industries in the 11th Plan period i.e. w.e.f. 1st April, 2007 through Banks/ Financial Institutions to provide a thrust and wider coverage for food processing industries in the country and simultaneously decentralise the procedures for appraisal, grant of assistance and monitoring.

Assistance & Eligibility under the Scheme

The Scheme will provide 25% of the cost of plant and machinery and technical civil works subject to a maximum of Rs.50 lakhs in general areas and 33% upto Rs.75 lakh in difficult areas (Jammu & Kashmir, Himachal Pradesh, Uttarkhand, Sikkim, North-Eastern States, Andaman & Nicobar Islands, Lakshadweep and Integrated Tribal Development Project (ITDP areas).

Only new Plant and Machinery shall be eligible. Technical civil works include civil works for functional purposes and shall exclude boundary wall, office buildings, guest house, canteen and roads.

Scope and spread of the Scheme

Sectors in food processing such as fruits and vegetables, milk products, meat, poultry, fishery, cereal/ other consumer food products, oilseeds products, rice milling, flour milling, pulse procesing and such other agri-horticultural sectors including food flavours and colours, oleoresins, spices, coconut mushrooms and hops will be covered under the scheme

LETTER TO THE EDITOR

August 13, 2007

Dear Editor,

I have gone through your editorial and it is very informative and educative and the plight of the farmers is rightly highlighted by you. You are absolutely right in saying that " you are constrained to observe that on the basis of your personal experience commercial banks would never provide crop loan to small and marginal farmers including agricultural labourers/ oral tenants for want of skill and outreach as also mental bias etc", as stated by you in the fourth Para of the editorial.

In the last Para you have stated that PACs should be encouraged to raise local deposits so that their dependence on higher financing agencies may be reduced and further stated that a suitable scheme for providing deposit insurance to depositors of the society may have to be evolved to inspire confidence among the local people to fearlessly keep their deposits in the society.

Yours Sincerely,

Sd/-

(M. MADHUSUDAN)
Madhu & Associates
Chartered Accountant

PLACE : HYDERABAD.

Shri Madhusudan is not a regular subscriber to the Courier. He happened to read our journal and reacted to the Editorial. He has also made a number of suggestions in his write-up to strengthen the credit delivery channel for small/marginal farmers and agricultural labourers. His article is being edited in consultation with him and would appear in the next issue. We thank him for evincing interest in our Journal.

SFCs Meeting with Secretary (FS) & CMD, SIDBI

A meeting, under the Chairmanship of Shri Vinod Rai, Secretary (Financial Sector), was held with the Chairman/MDs of SFCs with negative net worth on July 26, 2007 at New Delhi to discuss the situation arising out of SIDBI's advice to stop refinance to SFCs as a sequel to RBI guidelines dated June 01, 2007 on strengthening regulatory focus.

Welcoming the participants, Shri R.M. Malla, CMD, SIDBI highlighted the efforts made by SIDBI and GoI for revival of SFCs, under the MoU mechanism. He said that though there were improvements in their operations and financial position, 6 out of 11 MoU SFCs continued to have negative net worth. Shri Malla said that RBI considers this as a major weakness in the system which needed to be rectified and accordingly fresh guidelines were issued on June 01, 2007, whereby, inter-alia, it was advised not to extend further refinance to negative net worth SFCs. Shri Malla also mentioned that non-adoption of mercantile accounting system, non-disclosure of industry-wise classification of assets and the need for the Corporation to fix industry-wise exposures were also a matter of concern.

Shri Vinod Rai, Secretary (FS), in his opening remarks mentioned that though all the negative netwoth SFCs have improved their performance after MoU, they still have sizeable accumulated loss which have resulted in negative networth. RBI felt that this position cannot continue any more and hence issued the revised guidelines. SIDBI is bound to follow the RBI guidelines. As regards relaxation of these norms by RBI, the Secretary said that it might not happen as RBI would have taken the decision after careful consideration of all aspects. He was however of the view that if there is a firm commitment from the SFCs/State Govt. to infuse capital to the Corporations to make their net worth positive in a defined time-frame, RBI may be willing to revisit its decision. Secretary (FS) sought the views of the MDs as to their plan of action to make the networth of their Corporations positive.

Ms. Neeru Nanda, Chairperson, COSIDICI emphasised that stoppage of refinance would adversely affect the business prospects and even threaten the survival of such SFCs who had started showing recovery signs. As regards uniform accounting, Ms. Nanda said that while some have already adopted mercantile system of accounts, the others may be convinced to do so.

Presentations

Thereafter, the SFCs made their presentations outlining their road map for the future. The highlights of the presentations and responses in brief are as under **: -**

- MD, MPFC said that the net worth of MPFC has become positive as on March 31, 2007. State Govt. had subscribed to the share capital of the MPFC to the extent of Rs.189 crore with an advice to invest this amount in the shares of two power generation companies in the State. This innovative pass through transaction on the one hand helps increase the share capital of MPFC and on the other hand, the Corporation gets all the benefits arising out of the said investment including dividend and appreciation in investment. MD, MPFC clarified that the investment policy was cleared by SIDBI as there was nothing detrimental to SIDBI or MPFC and the proposal for investment was approved by the Corporation's Board.
- TIIC proposed to revalue its assets so as to improve its net worth. However, keeping in view accounting convention this was not found acceptable. The Corporation is presently holding shares of blue-chip companies with the book value of Rs.9 crore whose present market value is estimated to be Rs.120 crore. TIIC will take necessary Board approval within 7-10 days to sell the shares, the proceeds of which could be taken for the purpose of reducing its negative net worth. Besides this, TIIC will approach the State Government for meeting the balance amount to make their net worth positive. The infusion of fresh capital could be completed in two years. However, the entire shares could be sold off in FY 2008 itself and proceeds accounted for showing up equity.
- MD, HFC and CMD, KSFC agreed to take up with their respective State Governments for need based financial/equity support. In this connection, CMD, KFC also mentioned that a proposal for capital contribution to the extent of Rs.150 Crore (*Rs.50 Crore per year*) has already been agreed by the State Government. It was mentioned that

considering the huge cash losses, these would not be sufficient. CMD, KSFC mentioned that a proposal for Rs.1000 Crore cash neutral bond issue was mooted to the State Govt. which is awaiting its approval.

- MD, HPFC requested SIDBI/RBI to relax the norms and resume refinance to HPFC. It was stated by the Secretary that this was not feasible and like other Corporations, HPFC should also endeavour to bring in infusion of capital from the State Govt. The Secretary also mentioned that considering the present weak financials of the Corporation, there is an apprehension that it might default to SIDBI if refinance support is stopped. The MD was therefore advised that HPFC should approach the State Govt. and ensure that commitment to SIDBI for repayment of principal/ interest is honoured. It could also go in for any one or more options stated above for capital infusion and wiping of accumulated losses.
- In respect of UPFC, it was pointed out that State Government was extending support for honouring 75% of SLR obligations but no budgetary provision was made for improving the net worth of the Corporation. It was further mentioned that UPFC should make immediate arrangements to pay Rs.15 Crore towards overdues and agree to meet regular interest dues in the current year amounting to approximately Rs.16 Crore. It should also approach the State Government for fresh capital infusion. Further, it will have to ensure that it does not default to SIDBI in the current financial year. The Corporation will also approach the State Government for a Cash neutral bond issue of Rs.1000 Crore. Although UPFC's account has become NPA in SIDBI's books, if all overdues are cleared and a road map as above, for recapitalization is furnished, SIDBI could examine resumption of refinance subject to RBI's approval.

As the procedure for recapitalisation by State Govt. is time consuming, the process could be completed within 2 years i.e., by March 31, 2009. However, 50% of the committed capital should come in FY 2008 itself. The Corporation would forward an in-principle commitment letter to this effect from their respective State Governments within 7 to 10 days. Based on the same, SIDBI would take up with RBI for necessary clearance and no receipt of the same, refinance could be resumed. If any Corporation fails to give a firm road map as above, no refinance support will be extended. Further, if an account becomes NPA, no refinance support would be forthcoming. While recapitalising, the level of accumulated losses and the need to reach 9% CRR may be kept in view as RBI has advised that all regulatory norms applicable to banks will be extended, inter- alia, to SFCs.

Secretary (FS) requested all the SFCs to urgently consult their State Governments and submit a Road Map for clearing the accumulated losses and ensuring positive net worth of the SFC latest by 31.03.2009. He emphasized that States may have to consider methods such as :

i Using the SFC as a pass through for investment in any other State Govt. enterprise.

ii Issuing recapitalization bonds which would add to the capital of the entity.

iii Fresh infusion of Cash as Equity in the SFC.

Thereafter, Ms. Neeru Nanda vide her letter dated August 13, 2007 again requested Shri Vinod Rai, Secretary (FS), to kindly ensure that refinance for loans already extended to projects in the pipeline as per SIDBI approved BPRF are given the green signal at the very earliest. SFCs like HFC had already started the loaning process before the RBI Cicular was issued and all the loans extended by them will turn into liabilities unless finance is also released for related components of machinery/working capital.

Don't allow yourself to become consumed by life's problems; become consumed with life's joys.

Govt approval to Rs.2,339 cr worth FDI proposals

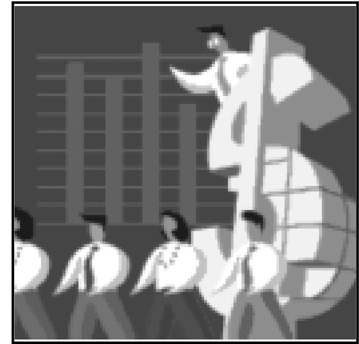
The government on 4th July, '2007 approved 10 foreign direct investment (FDI) proposals involving total inflow of Rs.2,339 crore. The FDI proposals approved by finance minister Shri P. Chidambaram relate to sectors such as stock broking, banking, chemicals, automobiles, information technology and publishing. The government allowed Morgan Stanley, Mauritius, to invest up to $465 million (about Rs.1,894 crore) in shares and convertible preference shares to be issued by Morgan Stanley, India, to undertake stock broking, merchant banking and other NBFC activities.

Sops announced for exporters

The finance minister on 12th July, '07 announced a set of measures aimed at cushioning exporters from the impact of the strengthening rupee. The package will cost the government Rs.1,400 crore, of which interest rate reductions on pre-and post-shipment credit will cost Rs.800 crore and higher duty drawback rates between Rs.500 crore and Rs.600 crore. The commerce ministry enhanced the rates of the Duty Entitlement Passbook (DEPB) scheme, which is used by exporters to offset the costs of local duties. DEPB rates have been enhanced by 3 percentage points for nine sectors, including textiles and readymade garments while for other sectors, the rates have been enhanced by 2 percentage points.

While the benefits of the lower interest rates on pre-and post-shipment credit will be applicable to all small and medium exporters, who account for nearly 90 per cent of the community, nine sectors including textiles, toy and readymade goods will also be eligible for it. The relief will be available from April 1, 2007 to December 31, 2007. Rates for duty drawbacks — a scheme through which an exporter gets back part of the duty paid on inputs — have been enhanced by up to 3 percentage points on most items. Moreover, Rs.600 crore will be released to the commerce ministry for reimbursements of deemed export benefits.

World Bank loan to India up 169%



The World Bank has sanctioned loans worth $3.8 billion to India in 2006-07, an increase of 169% over the previous year. This, according to the World Bank, is the largest ever sanction made by the bank to any single country. This year's amount includes concessional IDA credits of $2.32 billion and IBRD loans of $1.5 billion. In addition, the IFC, the private investment arm of the World Bank, has funded $700 million different projects in India. Two major projects have been approved during 2006-07 to rejuvenate, renovate and restore water bodies in Tamil Nadu. The bank sanctioned a total amount $450 million for the state. That apart, for Andhra Pradesh, the loan amount stood at $189 million. For *Jeevika* —Bihar Livelihoods Projects the IDA sanctioned assistance worth $63 million. The project is aimed at facilitating support to people in rural areas in Bihar through self-managed institutions. Importantly, rural infrastructure was another key area which got the World Bank's attention.

Nearly one third of IBRD lending from this year were designed to improve the quality of the road networks in states like Himachal Pradesh and Punjab. The bank is slated to design a number of innovative projects in 2007-08, in a bid to keep up the lending momentum. The World Bank has also made an additional loan of $65 million (Rs.260 crore) to Andhra Pradesh Rural Poverty Reduction Project. This programme has so far improved the lives of some 5.7 million women since its inception in 2003, when the original project plan was approved by the Bank, the World Bank said. This additional financing will fund critical investments in institution and capacity building which will allow community institutions of poor women become sustainable and self-reliant.

Further Financial Sector Reforms Mooted

After a series of specialised reports on the reforms years on different segments of the financial sector such as banking and insurance, the government wants a comprehensive roadmap for the next generation of reforms for the financial sector. And it plans to draft in expertise from the global best: the panel proposed to be set up is likely to be headed by former IMF chief economist Dr. Raghuram G Rajan, acclaimed for his outstanding work in finance. Dr. Rajan is set to be assisted by a dozen top professionals, bankers and academicians to look at reforms the country would need in 10-15 years.

Currently, Dr. Rajan is the Eric J Gleacher Distinguished Service Professor of Finance at the University of Chicago. He is also the Academic Fellow 2007 at the Centre for Analytical Finance, Indian School of Business, Hyderabad.

There has been progress on pension sector reforms, with the appointment of SBI, LIC and UTI AMC as managers of funds of central and state government employees. However, second-generation reforms in the banking sector are yet to take off. The government is yet to reach consensus with Left parties on amending the Banking Regulation Act to remove the 10% cap on voting rights in private banks. Also, there is no consensus on reducing government share in public sector banks below 51%.

Meanwhile, the Percy Mistry committee on making Mumbai an international financial centre has upped the ante on financial sector reforms to make the country's financial capital an attractive destination for investors. It has recommended a fully-open capital account in 18-24 months, opening of the banking sector to foreign banks and modernising the stock exchanges. The panel has also voted in favour of a single financial service regulator for banking, insurance, commodities and capital markets on the lines of UK. RBI reckons the pace of further deregulation and liberalisation in the financial sector has to be consistent with the progress of reforms in the real and fiscal sectors.

RBI 'Model Law' for Money Lenders

AMID a spate of farmer suicides, the RBI has proposed a solution that no country has ever tried. The idea is to get all village money lenders who have thrived for centuries registered themselves with state governments and give cheaper loans to rural households. State governments will fix a cap on loan interest rate while "registered money lenders" will be financed by regular commercial banks. Even if banks lend to money lenders at a market-related rate, the final interest for farmers will be way below the usurious levels prevailing today.

Over 27% of loans taken by rural households are from money lenders; the figure has gone up from 19% since 1991. The interest that farmers pay varies from 24% to an unbelievable level of 1000%. The proposals on compulsory registration and an 'interest cap' have been spelt out as part of a 'model law' outlined by a RBI-constituted committee headed by former central bank legal adviser Shri S.C. Gupta, senior RHBI officials and finance secretaries of Rajasthan, Andhra and Bihar.

The intention is possibly to bring the faceless, exploitative money lender under the purview of financial regulation through a sustainable business model. "Money lenders can not be banished even if you want to. So why not regulate them? Banks can also treat such loans as priority sector lending,"said a senior banker. Besides, no bank can reach where the money lender can. Though most states, except Punjab, Haryana and Delhi, have a provision for registering money lender, it seldom happens. The RBI committee has also suggested modifications in the existing legislations for quick and informal settlement of disputes and penalising unregistered money lenders.

Individuals operating on behalf of banks must meet certain requirements and funds given to such people may be treated as priority sector lending. By allowing local people to act on behalf of banks, the committee expects that increased competition and transparency will bring down interest rates in the near term.

Govt to spend more on textiles uplift

The government will set aside more money for the textiles industry because funds earmarked in this year's

Budget may not be enough to support the planned, wide-scale sector reforms. It is understood that the corpus of the Technology Upgradation Fund Scheme for textiles may be hiked substantially from Rs.1,000 crore announced in Budget 2007-08 when the tenure of the scheme was extended to 2012. The scheme was slated to expire in March.

The fresh thinking has been triggered by a perception that the Rs.1000-crore package will be insufficient for the textiles industry, especially when it is readying for massive modernisation and expansion. For this, the industry has been lobbying hard with the government for more funds.

Launched in April, 1999, the scheme provides 5% interest subsidy to investors. Subsequently, the scheme also provided an upfront capital subsidy of 20% for decentralized weaving units as an alternative to the 5% interest compensation for some specified processing machines and a 10% capital subsidy. These moves had somewhat boosted the fortunes of the industry. During 1999-2000, projects worth Rs.5,074 crore were sanctioned. By March 2006, projects costing Rs.37,881 crore were cleared.

Foreign inflow trebles in first six months

Foreign direct investment (FDI) inflows during the first six months of the current year (January-June 2007) grew 218% to $11.4 billion, as against $3.6 billion received during the same period in 2006, according to official data.

FDI inflows during the first quarter of 2007-08 were $4.9 billion, a growth of more than 185%, as against $1.7 billion received during the corresponding quarter of 2006-07. Services, telecom, electrical equipment, real estate, and transportation are the 5 major sectors which received most FDI in 2007-08.

Delhi registered inflows of $1.3 billion amounting to around 36% of the total inflows during the year. Mumbai, Bangalore, Chennai and Hyderabad are the other major regions, which have received FDI inflows. The five regions constitute two-thirds of the total inflows received. Major investment ($1.9 billion) during 2007-08 came from Mauritius. The other major countries which brought in investment were Japan, Cyprus, the US, and Singapore.

The sun rises every day,
and every night the stars shine.
If today was a disappointment,
remember that the cycle of life
goes on. Tommorrow will be
a new start.

NABARD TO TAKE UP REGULATORY ROLE

For the policymakers, financial inclusion has emerged a top priority lately. This is because a large chunk of rural India is still dependent on informal finance, despite a very high growth in bank loans. For Nabard chairman Shri Y.S.P. Thorat, who has been actively associated with rural credit much before he took charge at the apex bank, this is an issue close to his heart. He says the issue of rural credit could be addressed by developing ways and means to effect improvements within the existing credit delivery mechanism, evolving new models for extending outreach and using technology solutions.

The Parliamentary bill for micro finance proposes to appoint Nabard as the regulator for the microfinance sector. How do you see yourselves prepared for this role?

Microfinance is expected to play an important role in promoting financial inclusion, given a huge gap in demand and supply of credit to the poor. As on March 2007, nearly 30 lakh self help groups (SHGs), covering 400 lakh poor families, have been linked with the formal banking system. Nabard has plans to promote and credit-link an additional one million SHGs during the Eleventh Plan.

In order to link microfinance institutions (MFIs) with banks, several steps are in progress. While the corpus of the microfinance development fund has been doubled to Rs.200 crore, Nabard has also set operational guidelines for rating MFIs. The proposed fund envisages provisions involved in microfinance.

However, there is an urgent need to have a separate legislation for microfinance, different from the existing ones for banking and insurance. The MFIs are local initiatives with lower business volumes and these are institutions still involving in governance and character.

Being the largest promoter of SHGs, do you see a conflict of interest as a player and a regulator? NBFCs constitute two-third of the microfinance sector, but fall under the purview of the RBI. Against this context, how do you plan to effectively govern the sector?

Dr. Y.S.P. Thorat, Chairman, NABARD

Nabard has been successfully discharging the promotional, credit and supervisory functions relating to cooperative banks and regional rural banks. I, therefore, do not see any conflict between promotional and regulatory role of Nabard for the microfinance sector. NBFCs can be kept outside the regulatory purview. But the bill also envisages a developmental role, which would cover NBFCs. The mechanism needs to be evolved to set benchmarks, performance standards and building of database.

There are reports that you are planning to float a separate arm to handle microfinance. What would be the role of this entity?

Nabard needs to evolve setting benchmarks, performance standards and best practices. The MFIs, particularly NBFCs, have come under criticism for following dubious practices in recovery, charging high rate of interest, lack of transparency in their business operations, high transaction cost, etc. Nabard is attempting to replicate a pilot test for evolving benchmarks for the MFI sector. Shortly, Nabard would be setting up a NBFC-styled NABFINS (Nabard Financial Services). While Nabard would be holding 51% of the equity, other stakeholders like banks and the state would be participating in the equity.

The farm sector is plagued with a number of issues. Apart from the rising number of suicides by farmers in Vidarbha, the main issue is that actual lending has not yet happened. How is Nabard planning to tackle this issue?

Initially, it took sometime to stabilise the Prime Minister's relief package. In 2006-07, lending was more than double compared to what it was in 2005-06. More could perhaps be done, but the credit absorption is an issue.

Demand for credit should be packed up by availability of viable economic activities for people to pursue. The real sector issues relating mainly to backward and forward linkages, encouragement of long-term investments in agriculture, allied activities and non-farm livelihoods should get more attention. The PM's package is a balanced mix of both real sector and financial components. Once the real sector part of the package becomes active, we should expect people to benefit. Nabard has prepared plans for implementation in areas like horticulture, animal husbandry, poultry, farm forestry and microfinance, involving agencies such as NDDB and NGOs.

How are you looking at protecting interests of small farmer, given the fact that they are the most affected compared to large farmers?

Small farmers would be the focus in these plans. The state government is also conscious of the needs of small farmers and is clearly targeting them. The entire microfinance initiative of Nabard is focused on the small and poor. Around 17,500 SHGs were linked to banks in six districts in Vidarbha during 2006-07. These groups are of small farmers and would provide them access to credit as well as other services.

Why there has been more focus on the sugar co-operative sector, when there are other issues demanding more attention?

There is considerable attention on sugar. The sugar economy is a significant one, involving not only sugarcane farmers but also others, dependant through a variety of livelihoods based on cane and sugar. Sugar-related problems also need to be addressed since they are as important as any other issue in the rural sector.

A sick sugar sector could affect sugar production in future and result in scarcities. Sugar is a sensitive commodity and from a consumer point of view, sustainable prices of sugar at the reasonable level in the long-run is a vital requirement. Domestic capacities in sugar should not be allowed to erode, resulting in reduced sugar production.

Despite several efforts, reliance on formal finance is still low. How can the rural sector be brought within fold of organised finance?

Data shows that poorer sections have not been able to access adequate financial services from the organised route. The issue could be addressed by developing ways and means to effect improvements within the existing credit delivery mechanism, evolving new models for extending outreach and using technology solutions. RRBs and the vast postal network could also be an effective vehicle for purveying financial services, leveraging on their immense outreach. Although SHGs may not be able to deal with client like share croppers and tenant farmers with larger loan requirements, the Joint Liability Group model developed by Nabard could help in such cases.

Finance minister Shri P Chidambaram has been repeatedly urging banks to focus on financial inclusion. Nabard, too, has played a big role here, how do you view the progress made so far?

Financial inclusion has become a major concern, bringing to the fore, the need for development strategies which touch all lives. Access to finance, especially by the poor, is a prerequisite for economic growth. The SHG-bank linkage programme is a major plank of the strategy to deliver sustainable financial services to the poor. However, supply-side efforts alone will not achieve desired results. Demand-side efforts, which will improve human and physical resource endowments, enhance productivity, mitigate risk and strengthen market linkages and create absorption capacity for financial services are equally important.

When you hit bottom, that's when you can start on your way up, with God's help.

NEWS FROM STATES

UTTRAKHAND

Uttrakhand budget

Uttrakhand Chief Minister Shri BC Khanduri on 2nd July,'07 presented a revenue surplus budget for 2007-08 with no new taxes. In his budget speech showed a revenue surplus of Rs.943.91 crore. Last year the revenue deficit was Rs.155 crore. To follow the fiscal correction path laid down in the Fiscal Responsibility and Budget Management Act, the government has to bring down its fiscal deficit below 4.54 per cent of gross state domestic product (GSDP). Accordingly, khanduri said the fiscal deficit estimated for budget 2007-08 was Rs.1,460.21 crore, which is 4.47 per cent of GSDP. The total receipts in the budget are estimated at Rs.10,868.60 crore while the total expenditure estimated is Rs. 11,128.23 crore. Total revenue receipts are estimated at Rs.9,016.49 crore while the total revenue expenditure estimated is Rs.8,072.58 crore. The non-Plan expenditure has been estimated at Rs.6,340.15 crore and Plan expenditure at Rs.4,788.08 crore. The interest payments for 2007-08 has been estimated at Rs.1,150.42 crore while the loan payment estimated is Rs.495.16 crore.

PUNJAB

Punjab CM announces two more thermal power plants

Punjab Chief Minister Shri Parkash Singh Badal on 8th July '2007 said two new thermal plants would soon be set up in the state in additional to the three thermal plants currently in construction.

"A high-level team of the Central Electricity Regulatory Commission (CERC) will soon visit Punjab to finalise two sites for setting up two new thermal plants in Punjab in a additional to the three projects in Sri Goindwal Sahib, Talwandi Sabo and Nabha already in pipeline," said Shri Badal after inaugurating 66KV substation at Hedon Bet village, 35 km from Ludhiana.

Stating that state government was committed to augment power capacity in the state, Shri Badal said that a capacity of 5000 MW of power would be created in Punjab within next five years.

ORISSA

Centre to adopt six handloom clusters in Orissa

The Centre has agreed to adopt six handloom clusters in Orissa. These clusters are in Badamba in Cuttack district; Jagatsinghpur, Boudh and Berhampur in Ganjam district; Fakirpur in Keonjhar district; and patnagarh in Bolangir district.

The state textile and handloom minister, Shri Golak Bihari Nayak, said 73 handloom clusters (HCs) had been identified in the state, covering almost all the weavers. During 2007-08, a provision of Rs.4 crore was made in the central plan for the adoption of eight clusters.

To assist handloom weavers in meeting the challenges in globalised environment, the state government launched the Cluster Development Programme (CDP) recently. The programme is a focused, flexible and holistic approach to empower weavers to develop a sustainable path for growth and diversification in line with the emerging market trends.

Shri Nayak said the objective of the cluster development scheme was to enable the handloom weavers in meeting the challenges from the market and global competition in a sustainable and self-reliant manner. It also aims to provide common infrastructure in a viable format in the cluster. The scheme seeks to encourage converging schematic assistance from various schemes and programmes of the government and other agencies. This is expected to optimise resources and ensure a better quality of life for handloom weavers. Sales of textile and handloom products outside the state were worth Rs.2.39 crore in 2006-07. These were 38.15 per cent higher than the level in 2005-06.

In 2004-05, sales outside the state were Rs.1.8 crore, declining to Rs.1.73 crore in 2005-06. While the sale of Boyanika increased from Rs.1.47 crore to Rs.2.19 crore during this period, the sale of Sambalpuri Bastralaya declined to Rs.19.7 lakh in 2006-07 from about Rs.32 lakh in 2004-05.

Outlining the measures being taken by the state government to increase exports, Shri Nayak said Boyanika participated in the international exhibition held at Hongkong in 2005 and in Osaka in 2006 for popularising the handloom products of the state. Regarding the marketing of handloom products of the state, the minister said Boyanika had eight sales counters outside the state including two in Delhi, four in Kolkata,

one in Durgapur and one in Ahmedabad. Besides, it has sales counters in important cities of Orissa including the capital city of Bhubaneswar. In addition, schemes such as workshed-cum-housing, health package to weavers, the Bunakar Bima Yojana and interest subsidy to Primary Weavers Co-operative Society (PWCS) for the loans taken from Nabard are being implemented in the state. These programmes receive assistance from the state government as well as the Centre.

Orissa lays out Rs. 5,000 crore Road Master Plan

The Orissa government has laid out a Road Master Plan, identifying roads that have economic importance. The plan will require an investment of over Rs.5,000 crore in the next five years. We have decided to develop road infrastructure required for facilitating investments in mineral–based industries, IT and tourism, state works minister, Shri A U Singhdeo, said. Roads are essential for efficient and cost-effective of movement commodities….and the government is working towards development of road sectors with specific focus on certain roads.

The government has given top-priority to three roads in the state. It proposes to upgrade the 91-km Naranpur-Brahmanipal-Dubri single lane into double lane with an investment of Rs.302 crore. This road is important as it will connect the mineral-rich Keonjhar district with biggest industrial hub at Dubri in Jajpur district. Then improvement of the 82-km Cuttack-Paradeep road will be undertaken with an investment of Rs.218 crore. This road will provide round ribbon transport network to the Posco India's 12 million tonne mega steel project. The 165-km Rourkela-Sambalpur road will be upscaled to four-lane under public-private-partnership (PPP).

The government has almost finalised a Rs.2,121 crore loan negotiation with the World Bank to undertake the Orissa State Road Project in the next five years from this fiscal. A total of 906 km of important corridors with high-density traffic have been identified under the Project. For development of road connectivity to places of tourism importance, the government has taken up seven projects with an investment of Rs.46 crore this fiscal. The Puri bypass road, Dhenkanal-Kapilash, and Padampur-Paikmal have been included in the list.

Finding some of the high-density traffic carrying important roads in industrial belt commercially viable for development under PPP, the government has lined up at least seven projects for development under BOT (built, operate and transfer) scheme. It has also floated the idea of connecting the industrially-active port town of Paradip with the state capital Bhubaneswar by laying a direct road of 93.5 km with an investment of Rs.562 crore. The Ring Road will provide an alternative corridor to National Highway 60 for unhindered movement of vehicular traffic and decongest the township of Cuttack, Bhubaneswar and Khurda. Also in the list of BOT scheme are Joda-Bamebari, Koira-Rajamunda, Suakati-Dubuna in Keonjhar district and Sambalpur-Rourkela road projects.

MADHYA PRADESH

Madhya Pradesh to set up three IT SEZs

The Madhya Pradesh government has announced plans to set up three information technology SEZs in Bhopal, Gwalior and Jabalpur in partnership with the private sector at an investment of Rs. 2,550 crore. The state government, which is implementing the SEZ projects through the Madhya Pradesh State Electronics Development Corporation, has already received approval from the Centre. The IT-SEZ in Bhopal would come up on a 180-acre plot with an investment of Rs. 1,500 crore, while the 40-acre Gwalior project is slated to cost Rs.350 crore.

HIMACHAL PRADESH

Himachal set up its first IT park

Himachal Pradesh is setting up its first Information Technology (IT) park at Waknaghat in Solan district. The park will be spread over 106 acres at Waknaghat. The IT department has already acquired land for the park. Officials say the IT park will involve an investment of Rs.300 crore in the first stage.

UTTAR PRADESH

No taxes in UP budget, focus on infrastructure & power

Chief Minister Ms. Mayawati on 30th June '2007 presented a tax-free and surplus budget of Rs.6,102.43 crore for the financial year 2007-08. The budget estimates a receipt of Rs.99,709.29 crore, including a revenue receipt of Rs.74,017.70 crore and capital receipt of Rs.25,691.59 crore. The budget also estimates an expenditure of Rs.1,00,911.41 crore, which included a revenue expenditure of Rs67,871.38 crore and capital expenditure of Rs.33,040.03 crore.

HARYANA

Haryana forwards 12 schemes to Centre

Haryana government has forwarded 12 schemes worth Rs.1,217 crore under Bharat Nirman programme to the Centre for approval, state irrigation minister Shri Ajay Singh Yadav said in Chandigarh on 30th June '2007. Under these schemes the irrigation potential of 2.38 lakh hectare of land would be augmented during next four years.

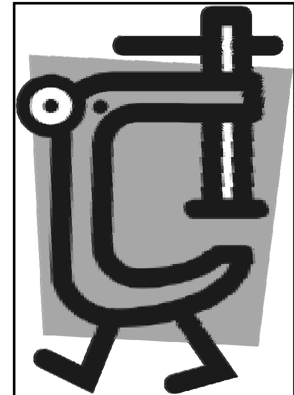
MP Panel bans use of Multi Crop Farms

The parliamentary standing committee on commerce has recommended a freeze on all new notifications and clearances till SEZ rules and Act are amended to protect fertile agricultural land and safeguard the interest of farmers and other stake holders. The committee has suggested a ceiling of 2,000 hectares for multi-product SEZs built on land that includes cultivable paths. The present ceiling of 5,000 hectares has been recommended only for multi-product SEZs built on wasteland. Proposing a ban on use of irrigated double-crop or multi-crop land for setting up SEZs, the panel said normally only waste and barren lands should be used. If unavoidable, the committee said that only single-crop, rain-fed land should be used up to an extent of 20% of total area for multi-product SEZs and 40% of total area for others.

While the recommendations of the committee are not binding on the government, the commerce ministry has to give a point-by-point reply to all questions raised in the report within three months. The report, which will be submitted in Parliament, may also be debated there and this may mount pressure on the government for further tightening of SEZ rules.

Earlier a 10-week freeze was imposed on notifications and clearance of new SEZs on January 22 following widespread resistance to forcible land acquisition by the government. The freeze was lifted on April 6 when the government decided to impose a 5,000 hectares ceiling on multi-product SEZs and increase processing area for all SEZs to 50% of total area. The standing committee has also recommended ceiling for smaller SEZs. For multi-services and sector-specific SEZs, the ceiling recommended is 200 hectares for land including cultivable portions and 500 hectares for wasteland. For IT, gems & jewellery and biotech SEZs, the limit is 20 hectares for cultivable land and 50 hectares for wasteland.

The land acquisition Act, 1894, should be replaced by a modern legislation which is relevant to the needs of the time, the committee said. Unless the public purpose for which the land is being acquired involves an over-riding national interest like defence or national security, the acquisition should take place with the consent of the affected parties. On a suitable compensation package for farmers and other oustees, the committee said that monetary compensation should be only a part of the package and should be calculated on the basis of prevailing market rates.



Law to put greater onus of rehab on SEZ developer

The new rehabilitation law may make it binding on promoters to develop infrastructure such as roads in the 20 km periphery of a special economic zone, besides providing facilities like health, education and housing to those displaced by the project.

The responsibility of those acquiring land will not be limited within the SEZ in which they operate. They will be responsible for sharing the development responsibility along with the state government within a periphery of 20 km of an SEZ.

The national Rehabilitation Policy, which would be converted into a law, could also require SEZ developers to share a large responsibility along with the state governments. The draft of the rehabilitation Bill, being prepared by the rural development ministry, provides for strong punitive action against those failing to fulfill the responsibility towards those displaced and the inhabitants in the nearby areas. Under the proposed law, the state governments would be asked to set up an oversight mechanism to ensure that the SEZ developers met their obligations. Further, unlike the present arrangement, "quite a large part of the compensation would have to be paid well before the displacement". The rural development ministry is also proposing a "land for land policy" under which alternative land should be provided to the displaced. In case of larger displacement, developers would be asked to set up a separate colony

for the affected, with facilities like education, health and housing. The government has so far approved more than 500 SEZs, including formal and in principle, but has been facing stiff opposition on the matter, particularly after violent protests at Nandigram in West Bengal and other places.

Core sector growth inches to 8.7% in May on cement, power

The six core infrastructure industries recorded an 8.7% growth in may, a marginal increase from the 7.2% in the same month last year, according to government data.

Despite a slip in production of crude oil (from 1.2% growth in May 2006 to-1.6%this May) and a plunge in production of coal (from 8.3% in May 2006 to just 0.9% this May), the performance of the six core infrastructure industries showed a slight increase thanks to an increase in production of cement, electricity, finished steel and petroleum refinery products.

The better performance of cement, electricity and petro products aided the Index of Key Infrastructure Industries to climb to 234.1 from 215.3 in the same month last year. Below are given the competitive figures of growth of the six core infrastructure industries : -

	Growth in May 2007 in %	Growth in May 2006 in %
Crude Oil	1.2	-1.6
Coal	8.3	0.9
Petro Refinery	14.9	12.1
Power generation	9.3	5.1
Cement production	9.4	6.8
Finished steel	11.8	10.7

Rs.30,000-crore projects get Orissa govt nod

The Orissa government's single-window clearance authority on August 24 '2007 cleared projects worth Rs.30,000 crore in steel, power and aluminium sectors. Gujarat's Ashapura Mines & Chemicals is planning to set up a 0.5 million ton aluminium refinery, a 1.5 lakh ton smelter and a 300-mw plant in Koraput district. The total investment will be around Rs.4,232 crore.

Proposals for setting up power projects by Bhusan Ltd, Visa Power, and Monnet Energy have been cleared by the authority. While Bhusan is planning a 2,000-mw plant in Augul district with an investment of Rs.8,483 crore, Visa Power and Monnet are proposing to set up 1,000-mw plants in Cuttack and Sundergarh districts. Rungta Songs Ltd, Bonnai Industries, Free Grade, SMC Power, Braja Ispat, and Keonjhar Ispat are planning steel projects in Orissa. Goa Carbon proposes to set up a CPC coke plant in Paradip, with an investment of Rs.225 crore. The authority also cleared the IRC Tubes' proposed automobile components plant at Bamapada in Balasore district.

The proposals now need to be cleared by the high-power project clearance authority chaired by chief minister Shri Naveen Patnaik, and after this, MoUs could be signed. The state government has constituted two task forces under the chairmanship of development commissioner Shri RN Bohidar and industries secretary Shri Ashok Dalwai to evaluate the proposals in cement and power sectors, respectively.

The Spirit of God is love, compassion, and giving. God dwells in loving, giving hearts.

Factoring Services are a Boon for SMEs

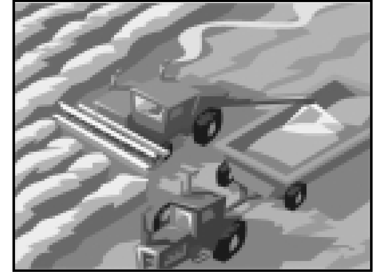
Factoring is a service whereby the provider, known as the Factor, offers to take up the accounts receivable – in the form of invoices raised –on behalf of a seller, for a fee. This frees up the seller to focus on other aspects of his/her business. It becomes particularly important for small and medium businesses who may not have adequate working capital to work with large corporate buyers.

As small businesses grow at a fast clip, and even expand into global markets, factors step in to take away the bother and risk of bill collection. They ensure small business owners are able to get their outstanding monies almost immediately and plough it back in to the business quickly. "SMEs are in a disadvantageous position when supplying to large firms, who extract their pound of flesh and often ask for large credit periods. This makes factoring a perfect fit for SMEs," says Shri Rajiv Ranjan, COO, State Bank of India Factors & Commercial Services.

While SBI has been a pioneer in this area, others like Canbank Factors, Global Trade & Finance, and divisions of banks like HSBC, Citibank, and the Export Credit Guarantee Corporation of India, provide factoring services, among others.

Traditionally, banks have offered a solution in the form of bill discounting, whereby they make an advance to the firm against the security of its outstanding invoices. In contrast, factors do so without demanding a security. In principle, a factoring arrangement works like this: The factor makes a pre-payment, which is usually 80-90% of the seller's invoice value, and takes the responsibility of collecting this same from the buyer. In effect, the factor purchases the invoices from the seller. When the buyer finally pays up, the factor deducts its fees and pays the balance to the seller. If, for some reason, the bill isn't paid by due date, the factor provides an additional grace period, as well.

Factoring is provided under two conditions –- with or without recourse. What this means is that in the former case, in case the buyer fails to pay even after the grace period, the factor can recover the same from its client (the seller). However, in case prepayment has been made without recourse, the factor alone takes on full risk of collection.



In India, however, factoring is being done with recourse, since RBI regulation do not clearly recognise the rights of factors over the assets of a buyer in case of non-payment. SBI Factors' Shri Ranjan explains that though the Sale of Goods Act does allow "assigning" of invoices to that factor, it requires payment of steep stamp duties, which makes it unattractive. "Developed countries have a factoring law in place. However, existing laws in India do not give a legal right to factors to force buyers into the system," he Says.

Small exporters also stand to benefit from factoring. There the arrangement is similar, and the domestic factor known as the export factor, ties up with its countries –- known as import factors – to offer credit risk protection to their clients for an export transaction. In this case, factoring is on 'open account terms', which means that no letter of credit or bill of exchange is required –- just the invoices will do. This in turn means easier and smoother transactions.

Foreign banks, on their part, have sensed an opportunity in this business and are leveraging their size and reach to promote factoring services among their customers. HSBC, for instance, began targeting small businesses for factoring solutions around less than a year ago. Though out of its total outstandings under factoring of Rs.2,000 crore, SMEs constitute just Rs.300 crore, that seems set to change as the bank is aggressively seeking to grow its business in this space.

According to Mr. Basab Majumdar, head, factoring & receivables finance, India for HSBC, factoring for SMEs is now a strategic imperative as well, beyond

the RBI lending stipulations for small businesses. Further, for banks like HSBC, factoring makes eminent sense as it gives them access to a large pool of customers, especially in smaller cities like Coimbatore, Ludhiana and Jodhpur, as they spread their operations beyond the metros.

Globally, too, factoring is a growing business with a cumulative turnover of Euro 1.13 trillion last year –- a 12% growth over the previous year (source: Factors Chain International). India's share of factoring business worldwide, however, was small at 3.6 billion for the last fiscal or 0.3%, though it has nearly doubled over the previous year.

And while factoring is slowly gaining acceptance in India, a few issues remain. Absence of clearly defined regulations that recognise factoring, are one. The comfort level of buyers is another issue that factors have to contend with. There have been instances where reputed large buyers have threatened to cancel orders when some of their vendors proposed to bring a factor into the transaction. The bigger problem is, of course, that not many firms are aware of factoring and its benefits.

Cheaper credit for SMEs on the cards

The National Board for Micro, Small and Medium Enterprises (NBMSMEs) has urged the Reserve Bank to direct banks to earmark at least 10% of their loan disbursals to micro and small units. It has also said that SIDBI should expand its direct lending and function like a bank. This would enable the SMEs to get cheaper and easier credit.

According to government sources, the Board also discussed ways to ensure that cost of credit for small units is at least 1% cheaper than the prime lending rate (PLR) which is available to large corporates. At present, the rate at which the loans are extended to large enterprises ranges between 9% to 10%. If the board has its way, SMEs could be given loans at 8% or 9%. At present, SMEs have to pay at least 11% on loans from the banking system.

"Due to high-risk factors, the sector does not get access to cheap and easier credit. Non-availability of timely credit is the major cause of SME sickness today," a senior government official said. The government wants to emulate Japan where SMEs get loans at 2%. "May be we cannot do a Japan in one go but we should move in that direction. We can empower the sector through such initiatives. Only then the SMEs can be competitive in India," the official said.

The government is also planning to create special package for the SMEs to subsidise credit to this sector. Ministry of small and medium enterprises has asked RBI and IBA to prevail upon banks to provide loans for SMEs on easy terms, which is the biggest employer in the country after agriculture. "RBI has been asked to incentivise the banks who perform outstandingly for the sector.

SMEs are expected to get a large share of the Rs.33,000 crore that is likely to be disbursed as priority lending during the current financial year since many sectors have been taken off the priority list. An additional amount of Rs.22,000 crore would be available for priority sector lending which is targeted at sectors like agriculture, education and housing.

SMEs more innovative than large firms

Small and medium enterprises registered greater increase in innovation than large firms, the National Knowledge commission (NKC) stated in its latest report on innovation.

Innovation intensity, which measures the percentage of revenue derived from goods and services less than three years old, rose faster for SMEs than large firms, the report said in its survey of 136 firms chosen from across various sectors. Companies with a majority of foreign ownership were found to have greater innovation intensity than those with majority of Indian ownership.

The report also found that private and public owned firms were more innovative than government owned firms. NKC chairman Shri Sam Pitroda said 81% of the firms surveyed regarded innovation being critical to growth and competitiveness while 17% termed it as 'top strategic priority'.

The commission, urged the government to encourage widespread innovation across companies and sectors. Emphasising the urgency to promote

innovation in India Inc, Shri Pitroda said: "we probably have five years to put in place the (innovation) infrastructure" that encourages and rewards innovation. "Time is no longer negotiable we need to speed up things," added NKC member Shri Ashok Ganguly.

The report noted that there are certain barriers that hamper the speed of innovation. NKC has identified these barriers and suggested ways to overcome these. The report suggested the Centre bring in systemic reform of higher education system in India, synergistic use of industry, government, the educational system, the R&D environment and the consumer.

LLP law to open credit doors for SMEs

SMALL and medium enterprises (SME) –- the largest job creators in the country accounting for 9% of the GDP –- can look forward to greater access to credit by the end of the year. The ministry of corporate affairs will remove certain ambiguities in the limited liability partnership (LLP) Bill to ensure that besides entities in the services sector, firms in the manufacturing sector too can get converted to LLPs, together with a set of corporate governance norms soon to be introduced for SMEs, are set to give SMEs a legal form and governance culture well appreciated by banks.

The manufacturing sector is now dominated by SMEs most of which are registered as partnerships and not as a company due to the high compliance cost. Once the bill is passed, they could get converted to LLPs, a new business structure which has an internal governance system that financial institutions and banks would like to see in them, experts tracking the sector said.

Now, 95% of industrial units in the country are SMEs and about 40% of value addition in the manufacturing sector takes place in the segment. Over 90% of SMEs are registered as proprietorships, about 2% to 3% as partnerships, and less than 2% as companies as per a survey conducted by the ministry of small-scale industries.

ANSWERS OF CYBERQUIZ~9

1.[b] A small colored light on the front panel of a computer's CPU case which flickers when a hard or floppy disk drive is active.

2.[b] *8 inches :* Developed by IBM as an inexpensive medium for loading microcode into their System/370 mainframes in late 1960s.

3.[d] Pixels that are not properly restored when the mouse is moved.

4.[c] *Jacquard Loom :* It was invented by Joseph-Marie Jacquard in France in 1801.

5.[c] *80 Characters :* It was a legacy from the punched card days when a punched card used to have maximum 80 characters in a line.

Rupee Export Credit - Interest Subvention

The Government of India has decided to provide interest subvention of 2 percentage points per annum to all scheduled commercial banks in respect of rupee export credit to specified categories of exporters.

The categories of exporters to whom the interest subvention would be available are – (i) textiles (including handlooms) (ii) readymade garments (iii) leather products (iv) handicrafts (v) engineering products (vi) processed agricultural products (vii) marine products (viii) sports products (ix) toys (x) all exporters from the small and medium enterprise (SME) sector.

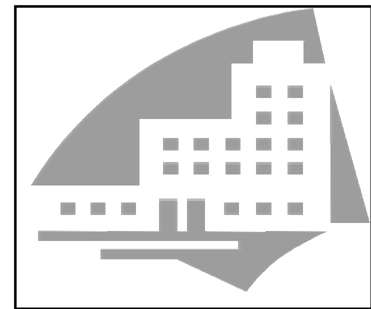
Banks would now charge interest rate not exceeding the benchmark prime lending rate (BPLR) minus 4.5 per cent on pre-shipment credit up to 180 days and post-shipment credit up to 90 days on the outstanding amount for the period April 1, 2007 to December 31, 2007 to these sectors.

For other categories of exporters, the provisions of the Reserve Bank's circular of April 17, 2007 would continue to apply.

The procedure for claiming subvention is as follow:

- The amount of subvention would be reimbursed on the basis of quarterly claims submitted as at June 30, September 30 and December 31, 2007 within one month from the end of the respective quarter.
- The amount of subvention would be calculated on the amount of export credit from the date of disbursement up to the date of repayment or up to the date beyond which the outstanding export credit becomes overdue i.e. for pre-shipment credit up to 180 days and for post-shipment credit up to 90 days, whichever is earlier.
- The claims should be accompanied by an auditor's certificate certifying that the claims for subvention for the quarter are true and correct. Settlement of the claim would be done only on receipt of this certificate.

Unsolicited Commercial Communications



Keeping in view the continuous complaints received from credit card subscribers and in order to curb unsolicited commercial calls, the Telecom Regulatory Authority of India (TRAI) has framed The Telecom Unsolicited Commercial Communications (UCC) Regulations, 2007.

The Regulation envisages that all telecom service providers would set up a mechanism to receive requests from subscribers who do not want to receive UCC and for this purpose, they will maintain and operate a 'private do not call list'. The 'private do not call list' will include telephone numbers and other details of all such subscribers. The telephone numbers and area code from this 'private do not call list' will be updated online by the operators to a 'national do not call registry' (NDNC) which will be maintained by the National Informatics Centre (NIC). The NDNC will have the telephone numbers of all the subscribers all over India who have opted not to receive any UCC. Telemarketers will have to register in the NDNC Registry. The telemarketers would submit online the calling list to the NDNC Registry where the list will be modified/scrubbed by excluding the numbers listed in the registry and the modified/scrubbed list will be online transferred back to the telemarketers for making calls.

Further, the Department of telecommunications (DoT) has on June 6, 2007 issued guidelines making it mandatory for telemarketers to register themselves with DoT or any other agency authorised by DoT.

Keeping in view these aspects, the Reserve Bank has advised banks to :–

- not engage telemarketers {direct selling agents/ direct marketing agents (DSAs/DMAs)} who do not have a valid registration certificate from DoT as telemarketers;

- furnish the list of telemarketers engaged by them along with the registered telephone numbers being used by them for making telemarketers calls to the Indian Banks Association (IBA) to enable IBA to forward them to TRAI within three months from the date of issue of DoT's guidelines for telemarketers;
- ensure that all telemarketers presently engaged by them register themselves with DoT as telemarketers within a period of three months from June 6, 2007;
- actively cooperate with IBA which will be the co-ordinating agency at the industry level to ensure compliance with the TRAI regulations.

Guidelines for issue of ATM-cum-Debit Cards

The Reserve Bank has issued guidelines to urban co-operative banks (UCBs) for issuance of ATM-cum-debit cards. UCBs which are authorised to install on-site automated teller machines (ATM), as per the policy in force, may introduce ATM-cum-debit cards with their board's approval. Issuance of offline debit card is, however not permitted. UCBs should not issue ATM-cum debit cards in tie-up with other non-bank entities.

Coverage

These guidelines apply to the cards encompassing all or any of the following operations:

- Electronic payment involving the use of card, in particular at point of sale and such other places where a terminal/device for the use/access of the card is placed.
- Withdrawing/depositing of bank notes and cheques and connected operations in electronic devices sxuch as cash dispensing machines and ATMs.

Cash Withdrawals

No cash transaction, that is, cash withdrawals or deposits should be offered at the point of sale, with the ATM-cum-debit cards under any facility, without the Reserve Bank's prior authorisation under Section 23 of the Banking Regulation Act, 1949.

Eligibility

UCBs may issue ATM-cum-debit cards to select customers as per their own eligibility criteria subject to compliance with '*know your customer*' guidelines. UCBs may extend the ATM-cum-debit card facility to those having saving banks account/current account/fixed deposit account with built-in liquidity features maintained by individuals, corporate bodies and firms. Debit card facility should not be extended to cash credit/loan account holders.

Security

a The UCB should ensure full security of the card.

b A card should not be despatched to a customer unsolicited, except in the case where the card is a replacement for a card already held by the customer.

c UCBs should keep for a sufficient period of time, internal records to enable operations to be traced and errors to be rectified (taking into account the law of limitation for time barred cases).

d The cardholder should be provided with a written record of the transaction after he has completed it, either immediately in the form of a receipt or within reasonable period of time in another form, such as, the customary bank statement.

e The cardholder should bear the loss sustained up to the time of notification to the bank of any loss, theft or copying of the card but only up to a certain limit or fixed amount or a percentage of the transaction agreed upon in advance between the card holder and the bank, except where the card holder acted fraudulently, knowingly or with extreme negligence.

f Each bank should provide means whereby its customers may at any time of the day or night notify the loss, theft or copying of their payment devices.

g On receipt of notification of the loss, theft or copying of the card, the bank should take all action open to it to stop any further use of the card.

Terms/Conditions

The relationship between the bank and the card holder should be contractual. As such:

i Each bank should make available to the cardholders in writing, a set of contractual terms and conditions governing the issue and use of

such a card. These terms should maintain a fair balance between the interests of the parties concerned.

ii The terms and conditions should be expressed clearly.

iii The terms should specify the basis of any charges, but not necessarily the amount of charges at any point of time.

iv The terms may be altered by the bank, but sufficient notice of the change should be given to the cardholder to enable him to withdraw if he so chooses. A period should be specified after which time the cardholder would be deemed to have accepted the terms if he had not withdrawn during the specified period.

v (a) The terms should put the cardholder under an obligation to take all appropriate steps to keep safe the card and the means (such as PIN or code) which enable it to be used.

(b) The terms should put the cardholder under an obligation not to record the PIN or code, in any form that would be intelligible or otherwise accessible to any third party if access is gained to such a record, either honestly or dishonestly.

(c) The terms should put the cardholder under an obligation to notify the bank immediately after becoming aware of :

- loss or theft or copying of the card or the means which enable it to be used;
- recording on the cardholder's account of any unauthorised transaction;
- any error or other irregularity in maintaining of that account by the bank.

vi The terms should specify a contact point to which such notification can be made and that such notification can be made at any time of the day or night.

vii The terms should put the cardholder under an obligation not to countermand an order which he has given by means of his card.

viii The terms should specify that the bank shall exercise care when issuing PINs or codes and shall be under an obligation not to disclose the cardholder's PIN or code, except to the cardholders.

ix The terms should specify that the bank would be responsible for direct losses incurred by a cardholder due to a system malfunction directly within the bank's control. The bank, however would not be held liable for any loss caused by a technical breakdown of the payment system if the breakdown of the payment system was recognizable for the cardholder by a message on the display of the device or otherwise known. The responsibility of the bank for the non-execution or defective execution of the transaction is limited to the principal sum and the loss of interest subject to the provisions of the law governing the terms.

Quarterly Review of Monetary Policy

In a move to rein in excess liquidity, the RBI on July 31, '2007 kept key rates unchanged but hiked banks' cash reserve ratio (CRR) by 50 basis points at 7% and removed the Rs.3,000-crore cap it had on daily reserve repos under its liquidity adjustment facility (LAF). Both the operational rates—repo and reverse repo—were kept unchanged at 7.75% and 6%, respectively.

While announcing the first quarter review of its Annual Monetary Policy for 2007-08, RBI governor Shri YV Reddy said the measures were required to manage the excess liquidity in the system and keep inflation in check. Inflation, measured by variations in the wholesale prices index (WPI) on a year-on-year basis, declined from 5.9% as of March 31 this year to 4.4% as of July 14. Prices of primary articles and manufactured products rose 10% and 4.6%, respectively, against the increase of 3.8% and 3.9% a year ago. The rising world oil prices were a concern "but the domestic economic system cannot be ignored," Shri Reddy Said. As much as 95% investments in India come from domestic savings and the central bank's prime focus is to bring about financial and inflation stabilities, the RBI governor said.

The policy review underscored the stand that holding inflation within 5% in Financial Year 2008 assumes priority in the policy hierarchy while reinforcing the medium-term objective to condition policy and perceptions to reduce inflation to 4-4.5%on a sustained basis. The hike in cash reserve ratio (CRR) to 7% effective immediately will absorb surplus liquidity from the system to the tune of Rs.16,000 crore. Also, the

removal of the reverse repo cap will drain out surplus cash from the market on a daily basis.

Nabard's Rs.2,000-cr bond issue gets AAA Crisil rating

Crisil has accorded AAA rating for the Rs.2,000 crore bond issue of Nabard. The ratings also derive strength from Nabard's adequate financial risk profile, especially its strong capitalisation levels. The institution's strong asset protection mechanisms have resulted in good recovery performance, despite a large part of credit exposures of an inherently weak quality. A significant proportion of the institution's balance sheet is funded by its own funds, on which there are no interest charges, resulting in a low level of aggregate resource costs. Nabard's stand alone credit profile is, however, partly offset by its average earnings position.

The government has 27.5% stake in the institution, while the remaining 72.5% are held with the RBI. In February 2007, based on the Narasimhan Committee recommendations, the Union Cabinet approved the transfer of RBI's stake in Nabard to the government. The transfer is expected to be completed by June 2008.

Crisil release said that it expects Nabard to continue receiving strong support from the government in terms of ownership and funding, owing to its nodal role in the Indian agricultural sector. Nabard is also expected to sustain its policy role because of the importance of the agricultural sector to the Indian economy. Crisil believs that the institution will maintain its healthy capitalisation levels in the medium term, and will have competitive resources costs. The continuation of the asset protection mechanisms available to Nabard remains imperative for the institution to maintain its asset quality.

Nabard, which completes 25 years this year, plays a public policy role in refinancing agriculture, and rural development in the country. As the apex financial body for those sectors, the institution is involved in formulating policies, as well as planning and dispensing credit. Nabard refinances institutions such as scheduled commercial banks, state co-operative banks, and regional rural banks, for advances made to agriculture and allied activities. It also provides credit to state governments for rural infrastructure projects under the Rural Infrastructure Development Fund.

Nabard to promote micro-finance NBFC

In a bid to be the role model for the other micro finance institutions (MFIs), the Nabard has decided to promote a non-banking financial institution (NBFC) with an authorized capital of Rs.100 crore. Nabard chairman Shri YSP Throat said that the proposed NBFC will operate in Karnataka as a pilot initially providing micro credit to poor and needy. "We will replicate similar model in other states also, once we consolidate in Karnataka, " Shri Throat said. The proposed NBFC is christened as Nabard Financial Services Ltd. (NABFINS), which will be operational in the next two months. "We are in the process of identifying the partners," he added. The new entity will have Rs.20 crore issued capital in the ratio of 51:49 between Nabard and other sponsored banks.

Nabard to adopt 400 villages

NABARD on July 20,'2007 said it planned to conduct developmental activities in 400 villages this year. The development programme will be funded from the Rural Innovative fund of the bank with an initial corpus of Rs.50 crore which will be raised soon, Nabard general manager Shri Krishna Gupta said.

Govt to revive RRBs with fresh capital

The Union government is set to revive regional rural banks (RRBs) by infusing fresh capital. Out of the 96 RRBs, 29 have a negative net worth and need recapitalisation of Rs.1,850 crore to make their net worth positive by 2010.

State governments, which have a 15% stake in RRBs will be consulted during the recapitalisation process. The central government and commercial banks own 50% and 35% stake in RRBs, respectively. The recapitalisation bonds can be traded and will be classified under the Statutory Liquidity Ratio (SLR) to enable participation of banks. A slew of measures, which RRBs need initiate, include a reduction in non-performing assets, increasing the issue of Kisan Credit Cards and offering new products like mutual funds. The finance minister Shri P. Chidambaram also urged RRBs to work out a debt swap scheme to bring farmers into the formal banking channel.

RRBs may handle central, state funds

The government is likely to allow the regional rural banks (RRBs) to handle funds of various central and

state departments. The move would substantially boost the current Rs.80,000-crore deposit base of RRBs. This is in additional to the finance minister Shri p Chidambaram's announcement in the 2007-08 Union Budget allowing RRBs to undertake deposits from non-resident Indians. This is in line with the government's attempt to devise ways to boost the deposit base of the RRBs and to make it an effective financial channel, as the government wants these banks to focus on priority sector lending.

RRBs Participation in Consortium Lending

With a view to providing more business avenues and opportunities to regional rural banks (RRBs) for lending, they have been permitted to participate in consortium lending within the extant exposure limits, with their sponsor banks, other public sector banks and development financial institutions (DFIs). Such permission is subject to the condition that the project to be financed is in the area of operation of the RRB concerned and guidance and appraisal of the project is provided by its sponsor bank.

Setting up Service Branches/CPCs/Back Offices

RRBs have been allowed to set up service branches/central processing centres (CPCs)/offices exclusively to attend to back office functions, such as, data processing, verification and processing of documents and also issuance of cheque books, demand draft, etc., and other functions incidental to their banking business. These offices should have no interface with customers and would not be allowed to be treated on par with a branch and RRBs are required to obtain necessary licence from the Reserve Bank's concerned regional office.

Reserve Bank panel's recommendations for RRBs

In a bid to provide RRBs more operational leeway, the task force setup by the RBI last year for empowering RRB boards, has recommended them to consider providing a slew of products for all financial needs.

The panel, under the chairmanship of Shri KG Karmarkar, managing director of Nabard, has recommended that provisions for tax exemption, under Section 80 (P) of the Income Tax Act, be reintstated for another five years or till the structuring processes are completed. The exemption was withdrawn in the Finance Bill, 2006.

The panel suggested that RRBs must constitute risk management committee, management committee, investment, HR & IT committee audit committee for improving operational efficiencies. The task force recommended exploring the feasibility of 80 uncovered districts out of 605 districts in India.

The panel has suggested the relation between RRBs and sponsor banks to be a synergistic one beneficial to both banks, instead of sponsor banks being perceived as competitors to RRBs. To further improve the performance of RRBs, it suggested that a memorandum of understanding be reached between the sponsor banks and the centre and sponsor banks with their sponsored RRBs.

Currently, the RRB Act, 1976, allows the central government to increase the number of directors on boards to 15. *"The Task Force feels that such a provision may be invoked on selective basis in case of large sized banks, created after amalgamation",.*

Other recommendations proposed by the panel include extension of Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 to RRBs, appointment of RRB chairman by sponsor bank in coordination with Nabard and that the chairman must have a minimum residual service period of two years and up to a maximum of five years.

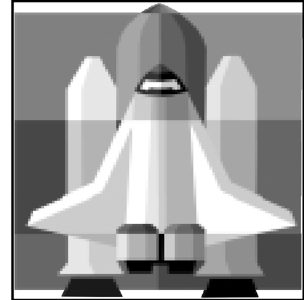
It takes a wise man to accept somebody else's idea as being better than his own.

SUCCESS STORY ~ MADHYA PRADESH FINANCIAL CORP.

Shri Shiv Kumar promoted *M/s. Shiv Tek Industries* in the year 1992 as a Proprietorship Concern at 35, Udyog Giri, Purena, District Panna, Madhya Pradesh for the manufacture of CPW, Plasticizers and Hydrochloric Acid. Thereafter he has promoted number of industries in MP and elsewhere.

The Corporation provided term loan of Rs.15 lacs to Shri Shiv Kumar in the year 1993 and WCMTL of Rs.10 lacs in the year 1998. Both loan accounts have been paid back in time. The Corporation further extended WCMTL of Rs.20 lacs to the said concern in the year 2000. This loan account was also quite regular and repaid timely. A further assistance of Rs.30 lacs under WCMTL was granted to the Concern by MPFC and account is regular. A further assistance of Rs.30 lacs under ACS was also granted to the Concern for acquiring Chlorine Cylinders and account is regular. A further assistance of Rs.21.50 lacs under ACS was also granted to the Concern for acquiring Chlorine Cylinders and account is regular.

Besides, Shri Shiv Kumar has purchased a sick unit on deferred payment from the Corproation and started the same in partnership under the name and style of M/s. Pasupati Plasticizers and Chemicals. This unit is engaged in similar line of activity and earning cash profit.



All instalments were paid on time and the purchaser account is fully repaid. The Corporation further extended WCMTL facility to the tune of Rs.20 lacs to this partnership firm also and the account is regular and all the interest and instalments were paid on time.

Shri Shiv Kumar has purchased a sick unit from the Corporation at Rs.1.25 lacs on cash down basis in the name of his Concern M/s. Shiva Exim Enterprises and has already invested around Rs.100 lacs for his upcoming project on the said sick unit.

The total project cost is around Rs.200 lacs. Punjab National Bank is extending support towards working capital to the tune of Rs.350 lacs for M/s Shiva Exim Enterprises. Shri Shiv Kumar is interested in availing around Rs.100 lacs from the Corporation for his upcoming project, which is expected to commence production by November/December, 2007.

*Happiness isn't a pot of gold
at the end of the rainbow; it's
stopping to enjoy the rainbow.*