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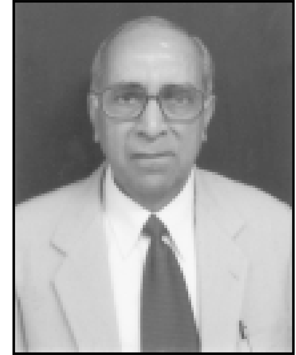
From The Editor's Desk

Economic Reforms & Empowerment of The Poor

The underlying objective of introducing any reforms by a welfare state is to re-structure the sector in such a way that the benefits of development flowing from the policies of the Government percolate to the maximum number of people in the country. The Govt. of India had introduced economic reforms in 1991 to re-structure the economy/financial system with a view to securing optimum utilization of the financial resources, removing artificial road-blocks and managing the country's resources in a manner which could embrace all the segments of the population and thereby ensuring distributive justice and reduction in the poverty levels. It may, however, be mentioned that the economic reforms were introduced by the Government primarily to cope with the unprecedented financial crisis emanating from depletion in the forex reserves to an all time low resulting in the Government's inability to service its debt obligations to the World Bank and IMF. The economic reforms undertaken by the Government have gone a long way in opening up the economy and removing unwarranted controls and restrictions with regard to licensing of industrial projects, de-regulation of the banking sector and paving the way for global competitiveness. Since the focus of these reforms was limited and confined to elite segments, they unfortunately, bypassed the primary sectors of the economy, i.e. agriculture and rural development. These reforms have so far proved to be anti-poor and had a counter-productive effect though marginal benefits did accrue to the poor through trickle down process. The planners, economists and bureaucrats have been advocating that these reforms were intended to alleviate poverty and unemployment in the country. It has become almost a fashion among our politicians, planners and economists to preface their presentations and speeches with their resolve to remove poverty from the country and ensure distributive justice. It seems ***'poverty'*** in this country is being treated as an ***'industry'*** where vested interests thrive and prosper. It will not be an exaggeration to say that one-third of the country's population is living below the poverty-line and a large fraction of such population lives in rural areas. Another interesting feature about poverty is that there has been sharp disagreement among the planners and the economists regarding the magnitude of poverty in this country; different statistics have been issued in this regard from time to time. The fact, however, remains that the entire planning in this country, as also the process of economic reforms and liberalization have embraced only about 10% of the total population. The teeming millions, who are reeling under abject poverty have to pay the price of these reforms and bear the brunt. A large number of poverty alleviation programmes have been undertaken by the Government of India and the State Governments during the past 50 years and thousands of crores of rupees have been spent through these schemes for empowerment of the poor. If one were to calculate the total outlay spent by the Government for developing rural areas and for alleviation of poverty during the last ***10 Five-Year Plans***, the whole rural sector would appear to have been over-developed. The allocation of huge funds on the rural development schemes have not gone to the target groups and have been manipulated to a large extent by the grass-root level politicians and bureaucrats.



Shri K.K. Mudgil

There is no denying the fact that lot of development has taken place in the economy and the reforms undertaken by the Government have facilitated integration of the domestic economy with the world market. The steady growth in the GDP coupled with lowering of inflation rate and

unprecedented rise in the foreign exchange reserves are indicative of the strong economic fundamentals putting the economy on the growth path. This growth, however, did not generate commensurate employment opportunities. It is a matter of serious concern that the growth of employment had indeed slowed down during the past decade from 2.04% (1983-1984) to 0.89% (1994-2000). Dr. P.N. Roy, an eminent Economist had characterized this situation as ***"Jobless Growth"*** and termed the mounting unemployment and poverty in the country as ***"Discontents of Globalisation"***.

In this whole process of economic liberalization, the rural sector, which accounts for ***74%*** of the total population in the country, seems to have been neglected. The gains flowing from the planned economic development and economic reforms do not appear to have percolated to the people at the grass-root level. The distribution of national income, therefore, has become highly skewed inasmuch-as about ***10%*** of the population owns ***90%*** of the nation's assets. There has been concentration of power and wealth in the hands of few people, who are presiding over the destiny of the country. The per-capita income in this country is about ***$ 600 per annum***, which also includes the above ***10%*** of the people, who own bulk of the assets. Therefore, any growth in GDP would further accentuate the income disparities between the rich and the poor. The planning should, therefore, ensure distributive justice to the people and remove glaring disparities in the distribution of national wealth. This cannot be done merely by spending money in rural areas through various development schemes. The planning should aim at creating productive activities in the rural areas and developing skills among the youth to undertake self-employment ventures. In this connection, it is imperative to impart technical skills to the people of rural areas by setting up of industrial training institutes at block/district level. Such a development effort could build confidence among the youth in the rural areas to set up their own ventures and thereby improve their living standard. This will also go a long way in arresting migration of labour force from rural to urban centres. Over-dependence of population on land had resulted in sub-division and fragmentation of land holdings resulting in increase in the number of small and marginal farmers. Besides, it has led to phenomenal rise in the number of agricultural labourers in the country. Since there are no alternative avenues of employment or self-employment in the rural areas, they either languish as casual labourer or migrate to urban centres in search of their livelihood. This vicious circle goes on unabated in the rural areas and the situation seems to have assumed alarming proportions. Because of lack of employment opportunities and dwindling life standards, social tensions are growing even in the village community.

The planners and the economists in this country must, therefore, take cognizance of the ground realities and draw up schemes for introducing labour-intensive activities, besides initiating sustainable programmes for upgradation of technical skills and re-vitalization of rural industrialization. The salvation of the country lies, in the present circumstances, to revival of rural and cottage industries on a massive scale. This will rehabilitate traditional artisans in the rural areas and will encourage unemployed youth to set up their own ventures depending upon their technical skill, which should be imparted to them in an organized way. The empowerment of rural poor can take place only if bulk of the agricultural produce is processed in the rural areas, besides setting up ancillary industries based upon availability of raw-material and local skill. This would result in value-addition of agricultural produce leading to generation of productive employment opportunities in a sustainable way. This process would eventually empower rural poor and push them above the poverty line.

(K.K. MUDGIL)

APPOINTMENTS

- Shri Jagdish Rai, IAS has been appointed as Managing Director, Uttar Pradesh Financial Corporation (UPFC), Kanpur vice Shri Majid Ali.
- Shri V. Giriraj, IAS has been appointed as Managing Director, Maharashtra State Financial Corporation (MSFC), Mumbai vice Shri Sameer Kumar Biswas.
- Smt. Neerja Sekhar, IAS has been appointed as Managing Director, Haryana Financial Corporation (HFC), Chandigarh vice Shri Ram Niwas.
- Shri R.N. Joshi, IAS has been appointed as Managing Director, Western Maharashtra Development Corporation Ltd. (WMDC), Pune vice Smt. Sonia Sethi.

- Shri Zohmangaiha, IRS (Retd.) has been appointed as Managing Director, Zoram Industrial Development Corporation Ltd. (ZIDCO), Mizoram vice Shri Lallungmuana.

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CHANGING FACE OF RURAL INDIA

Journey of Rural Credit in India Over The Past Sixty Years

Sandeep Kumar & Smita Anand *

Even today, approximately 70% of the total population in India lives in rural areas. Lack of access to financial services for the vast majority of Indian population is the biggest hurdle in realizing the full growth potential of economy in this non-urban part of the country. As Prof. Muhammad Yunus said, *"Credit is a kind of key, a passport to explore the potential of a person. Credit was the real missing link between people and their creative potential. I wanted to make credit available to more and more poor people to give them the chance of better future".* Therefore rural credit has to play a critical role in the socio-economic development of our country.

Broadly, credit delivery channels in India can be classified as Non-Institutional. The Non-Institutional sources include money-lenders, traders, friends and relatives. Institutional sources include set of multi agency institutions namely, Co-operative Banks, Commercial Banks, Regional Rural Banks and Micro-Finance Institutions. The basic objective of these institutional sources is to provide financial services to the rural people at affordable rates. This paper discusses the history and different phases in the journey of rural credit in India over the past sixty years.

Money Lenders

At the time of independence, due to absence of other sources of credit, people were largely dependent on local money lenders for their credit needs. The interest rate charged by these money lenders was very high and exploitative in nature. Farmers generally used their crop as collateral and committed to sell their output to these money lenders. These loans were used to meet agricultural requirements like seeds, fertilizers, pesticides etc and also for consumption needs.

According to All India Rural Credit Survey, Non Institutional sources supplied 91.27% of the total rural credit in 1951-52. This share has declined to 71% in 1971-72 and further to around 36% in 1990-91. Despite a perceptible increase in the flow of rural credit from institutional sources, financial needs, primary credit, are still primary met by informal sources (different avatars of erstwhile moneylenders). In 2002 the share of non-institutional credit was around 43% of the total rural credit.

Co-operative Movement

Co-operative credit is considered as the most appropriate institutional arrangement for rural finance. Being based in rural areas with members drawn from local population, these institutions are best to cater to both long and short term credit needs of the villagers. Cooperative credit structure in India consists of a 3-tier structure. At the apex are the State Cooperative Banks followed by District Cooperative Banks at the district level and Primary Agricultural Credit Society (PACS) at the grass root level. These Co-operative banks take care of short term credit needs in rural areas while State Cooperative Agricultural and Rural Development Bank take care of long term credit needs in these areas.

The cooperative movement was initiated in India in 1904, with the adoption of Cooperative Society Act, but its role was almost negligible in the pre-independence period. However after independence these agencies made considerable progress. For instance, in 1950-51 cooperatives provided only 3.1% of total rural credit, which has increased to 2.7% in 1970-71. The amount of aggregate credit, both short an long term, was 28,947 crore in 2005-06 as against Rs.24 crore in 1950-51. The number of Primary Agricultural Credit Societies, supplying short term credit is around one lakh and the number of cooperative land development bank is around 750. In fact, the credit cooperatives have played an important role in improving the agro-economic situation of the country. Despite considerable progress, the cooperative system in India is beset with some serious problem like, dominance of large farmers, weak financial position due to large overdue and low recovery rate, poor management and efficiency in working methods, inadequate and unsatisfactory agencies for dispensing production-oriented credit etc. In last few years, several steps have been taken to solve these growing problems of cooperatives.

Growth of Commercial Banks

After Independence, the share of commercial banks in rural credit was very low. During that period, villagers were mainly dependent on money lenders and cooperative banks to meet their credit requirements. According to All India Rural Credit Survey, share of banks in rural credit was only 0.95 in 1951-52 which was further reduced 0.7% in 1961-62. With the objective of expanding banking facilities to rural areas, 14 banks were

nationalized in 1969. This was followed by nationalization of few more banks in later years. In 1970, RBI formulated its first licensing criterion for unbanked locations in the country. As per this criterion, for every new branch in already banked area, each bank would have to open at least three branches in unbanked rural or semi-urban area. Later on RBI has increased the banked:unbanked ratio to 1:4. The series of efforts gave a boost to expansion of banking infrastructure in rural India. Banking in India has now moved from class banking to mass banking. The number of branches in rural areas has increased by almost 18 times during this period. The share of rural branches has increased from 22% to 53% during the same period. Credit-deposit ratio for rural areas has increased from 37.5% in 1969 to 48.50% in 1995. The advances from scheduled commercial banks to priority sector have also grown by leaps and bounds. The share of priority sector advances in total credit has increased from 14.0% in 1969 to 33.7% in 1995. Thus bank expansion has played a vital role not only in freeing large number of rural people from the clutches of the moneylenders, but also in India's rural development.

However, the expansion and promotion of banking in rural India has taken a backseat after reforms taken place in 1991. Though the number of total bank offices has increased during this period, the number of branches in rural India has decreased from 35,329 in 1994 to 32,481 in 2002. Credit-Deposit ratio has also declined from around 50% in 1994 to 41.8% in 2002. The number of rural credit accounts has also declined from 3.22 crore in 1991 to 185.73 lakhs in 2004. However, rural deposit has increased during this period. The proportion of non-institutional debt in rural areas has also gone up from 9.8% in 1991 to 15.5% in 2001. This reversal in trends might be possible because of the new policies adopted by Commercial banks. In order to become more competitive and financially viable, these banks started reducing their Non-Performing assets. Most of these banks adopted the policy of mergers and acquisitions which in turn reduced the number of branches and other banking operations like advancement of loan etc. in rural areas. The decline in CD ratio between 1991 and 2001 shows that deposits mobilized from rural India are being utilized elsewhere. Also, the commercial banks have failed to fill the gap generated by cooperatives in availability of credit for rural people.

Regional Rural Banks & NABARD

Despite massive bank expansion, there was still a felt need for specialized financial institutions to cater to the needs of the weaker section of rural society and to supplement the work of commercial and cooperative banks. Keeping these objectives in mind, Regional Rural Banks were established under the RRB Act, 1976. Initially, 5 RRBs were set up, but later the number rose to 196 with large number of branches in remote unbanked areas of the country. However, the reality is that most of the regional rural banks are running in losses. In 1995-96, out of 196 RRBs in India, 164 made losses and only 32 made profits. The deposits of RRBs as on March 31, 2003 amounted to Rs.48,341 crore and loan outstanding at only Rs.21,730 crore. In 2003-04, RRBs share in total institutional credit to agriculture was only 8.7%. The number of RRBs has decreased from 196 in 1990 to 104 by 2006. To solve these problems and restructure the operations of RRBs, several measures have been taken in recent years.

Another major landmark in the history of development of rural credit in India was the establishment of the National Bank for Agriculture and Rural Development (NABARD) in July 1998, by merging the Agricultural Refinance and Development Corporation, the Agricultural Credit Department and Rural Credit and Planning Cell of the RBI. NABARD is an apex institution in the field of rural credit. It does not deal directly with rural people. It grants assistance indirectly through commercial banks, cooperative banks, RRBs etc. During 2004-05, the total disbursement of credit by NABARD was Rs.1,25,309 crore. In 2005-06, ground level credit flow to agriculture and allied activities was Rs.1,57,480 crore. NABARD has also initiated several innovative projects like Rural Infrastructure Development Fund (RIDF), Kisan Credit Card Scheme, and Watershed Development Fund etc.

Conclusion

Despite all the noble efforts on the part of the government and non-government agencies, access to financial services for all at affordable rates remains a distant dream. Remoteness of the rural areas and poor infrastructure leads to market inefficiencies and a huge gap between demand and supply. Problem is compounded by the fact that the rural population is still largely illiterate and not so technology driven (technology itself comes at a cost). For the overall development of our country these problems related to rural credit should be addressed in a proper way. Steps are required at both policy level and organizational level to solve these problems.

* *The authors are Delhi based Freelance Writers*

QUESTIONS OF CYBERQUIZ~10

1. PDP series of computers manufactured by Digital Equipment Corporation (DEC) from early 1960s to mid-1990s occupies a special place in the computing history. Particularly, the PDP-11 was a very popular machine having a number of novel features in its time. What was the full name of PDP ?

   [a] Powerful Data Processor;

   [b] Programmed Data Processor;

   [c] Programmed Database Processor;

   [d] Parallel Data Processor.

2. The term mainframe originally referred to what ?

   [a] Computers made up of vaccum tubes;

   [b] The Cabinet containing the central processing unit;

   [c] Computers made by IBM;

   [d] Super Computers.

3. When was the term "mainframe" began to be used to refer to large room-filling computers?

   [a] When the first truly electronic computer was built;

   [b] With the introduction of IBM System/360;

   [c] In the early 1970s with the introduction of minicomputers;

   [d] In the 1980s with the introduction of PCs.

4. Which type of computers has earned the nickname of "big iron" ?

   [a] Any computer that has become completely obsolete;

   [b] Large, expensive, room-filling mainframes;

   [c] Industrial robots;

   [d] Computers without any pre-loaded software.

5. Where was the first electronic computer installed in India ?

   [a] Indian Institute of Technology, Kharagpur;

   [b] Defence Research & Development

   [c] Hindustan Aeronautics Ltd.; Bangalore;

   [d] Indian Statistical Institute, Kolkata

For Answer See Page No. **16**

INFLATION, GROWTH AND POVERTY

*Devendra Kumar Pant **

Ever since independence, poverty alleviation was accorded high priority in Indian planning process. A number of anti-poverty programmes have been launched from time to time to reduce the incidence of poverty in the country. At the same time, after signing Millennium Development Goals (MDGs), India has further committed itself to reduce incidence of poverty to half by 2015 from the proportion of people below poverty line must be reduced from nearly 37.5% in 1990 to about 18.75%. As on 1999-00, the proportion of people below poverty line was 26.1% with a poverty gap ratio of 5.2%, share of poorest quintile in national consumption was 10.1% for rural areas and 7.9% for urban areas and prevalence of under weight children was of the order of 47%.

Presently, India is on a higher growth trajectory and aspires to achieve double digit growth. However, the main question is whether the fruits of this economic development are being reaped by everyone, or some strata of the population are being reaped marginalised by the growth process. Sustaining high level of economic growth over a period of time is solution to most of the problems faced by a developing country like India. There is no unanimity on the impact of economic growth on poverty alleviation. While the proponents of trickle down theory argue that the rapid growth would lead to poverty alleviation, the opponents of trickle down theory lay more emphasis on distributional polices aimed at safety nets such as public distribution system etc. Even the international experience of growth performance and poverty reduction has been a mix bag and among the economies which experienced faster growth and poverty reduction, development policies differed from country to country. Despite the difference of opinion among different schools of thoughts, it is accepted that, sustained high economic growth over a period of time could solve most of developmental problems including poverty alleviation. Need of the hour for a developing country like India is to formulate economic growth policies aimed at inclusive growth.

While the current growth process has been strong, it is accompanied by rising inflation. Wholesale Price Index (WPI) based inflation in 2006-07 had been 5.4% up from 4.4% in 2005-06, for 14 consecutive weeks, point to point inflation, starting from week ending December 12, 2006 to March 24, 2007, during year 2006-07, was in excess of 6%. On week ending January 27, 2007 point to point inflation peaked at 6.7%. While WPI is based on 540 commodities and commodity groups, sectors such as services and assets such as housing, real estate, equities are not part of its commodity basket. Prices of this asset class were on northward movement in last few years. In general, in 2006-07, inflation expectation of the Indian economy was high. Both Government of India (GoI) and Reserve Bank of India resorted to fiscal and monetary measures to check rising inflation. While GoIs fiscal measures were aimed at controlling inflation originating from supply side problems through reduction in taxes and duties of essential items, RBIs monetary measures were aimed at attacking assets price rise through hiking interest rate.

Monetary conditions, especially interest rate have particularly large impact on housing prices. RBIs response is in line with the international evidence that the housing price bursts during the late 1970s and the early 1980s actually followed the tightening of monetary policy aimed at reducing inflation. Tighter monetary policy achieved desired objective and the volatile upward movement of credit growth to sectors such as housing, personal and car finance was checked. However, tighter monetary policy has raised apprehensions of slowdown of economy as witnessed in the late nineties. There is plethora of literature on nexus between inflation and growth. In general, when economy migrates from a low growth path to a high growth path, in short run it is accompanied by rising inflation rate, as demand rises and it takes time for capacity augmentation. In medium to short term, once capacities are augmented, pressure on prices and thus inflation starts recedes gradually. In Indian context relationship between Gross Domestic Product (GDP) and inflation is inconclusive, correlation between GDP growth and inflation during 1993-94 to

** The author is Associate Director, Fitch Ratings India Pvt. Ltd.*

2006-07 is 0.013 *(Table-1)*. Despite short-run positive relationship between inflation and growth, higher inflation in medium to long-run could affect growth process adversely.

TABLE -1
GDP Growth and Inflation Rate

Year	GDP	Inflation Rate
1993-94	5.7	8.4
1994-95	6.4	12.5
1995-96	7.3	8.1
1996-97	8.0	4.6
1997-98	4.3	4.4
1998-99	6.7	5.9
1999-2000	6.4	3.3
2000-2001	4.4	7.2
2001-2002	5.8	3.6
2002-2003	3.8	3.5
2003-2004	8.5	5.4
2004-2005	7.5	6.5
2005-2006	9.0	4.4
2006-2007	9.4	5.4

Impact of inflation or rising prices on poverty is through reduced purchasing power. In Indian context, incidence of poverty is estimated on the basis of state specific poverty lines estimated for the year 1973-74. These poverty lines correspond to the consumption basket associated with the given calorie norms and meets a minimum of non-food requirements such as clothing, shelter, transport etc. The relative price differentials prevailing in different states get reflected in the state specific poverty lines. These poverty lines are updated using the state specific Consumer Price Index for Agricultural Labourers (CPIAL) for estimating and updating the rural poverty lines and Consumer Price Index for Industrial Workers (CPIIW) for estimating and updating the urban poverty lines. Hence, incidence of poverty depends on nominal income which depends on sectoral and overall growth of economy and price growth. In addition to interstate variation in income generation and consumption pattern, these differ across rural and urban areas, leading to differential impact of inflation on poverty. In terms of consumption pattern, food, beverage and tobacco groups has 60.15% weightage in CPIIW, while the same is 72.94% in CPIAL. For cereals, weightages are 20.47% and 40.94% for CPIIW and CPIAL respectively. Impact of inflation on poverty will differ according to relative composition of inflation. For same level of inflation, if inflation is originating from cereals, it will have more severe adverse impact on poverty compared to inflation originating from 'fuel and light' or 'clothing and footwear' groups.

In India, incidence of poverty declined gradually from 54.88% in 1973-74 to 21.77% in 2004-05. Poverty at all India level on the basis of mixed recall period (MRP) consumption declined from 27.1%, 23.62% and 26.1% respectively for rural, urban and all area in 2004-05 resulting in the Rate of Decline of Poverty (RDP) as 3.57 per cent. Poverty estimates for 1999-00 and 2004-05 are not strictly comparable with earlier poverty estimates. However, some broad conclusions could be drawn on the RDP vis-à-vis rate of growth of Indian economy and WPI based inflation rate.

Average RDP during 1973-74 to 2004-05 for rural, urban and all areas is estimated as 3.01%, 2.47% and 2.90% respectively with corresponding average elasticity of poverty reduction with respect to growth as 0.59, 0.47 and 0.57 respectively. Which implies that compared to urban poverty, rural poverty decline is more susceptible to growth performance. Both the RDP and aggregate income growth during 1993-94 to 1999-00 has been the highest for six periods. The observed elasticity of poverty reduction during this period is similar to what has been observed during 1983 to 1987-88. Does it imply that the trickle down hypothesis is working for poverty reduction? Correlation between aggregate income growth and rate of decline of poverty (all areas) is not very strong (0.46). However, it provides sufficient evidence against rejection of trickle down hypothesis. Trickle down hypothesis is stronger for urban areas. Correlation between aggregate income growth and the RDP for urban areas is 0.71, while the same for rural areas is 0.35.

Turning towards RDP in rural and urban areas, this is not the first time that the rural RDP is more than urban RDP. Same phenomenon was observed in earlier periods also –- 1977-78 to 1983, 1983 to 1987-88 and 1993-94 to 1999-00. Ratio of rural to urban RDP observed during 1999-00 to 2004-05 at 2.54 is slightly higher than 2.34 observed during 1983 to 1987-88. Both these time periods coincide with low average agricultural GDP growth (0.06% decline in average agricultural GDP growth during 1983-84 to 1987-88 and 1.76% growth during 1999-00 to 2004-05). More importantly, absolute number of rural poor declined by 229.44 lakh between 1999-00 and 2004-05, while the urban poor increased by 11.93 lakh. Barring 1973-74 to 1977-78 and 1987-88 to 1993-94, absolute number of rural poor declined during other four time periods. While urban poor declined only during 1993-94 to 1999-00 period.

What are reasons for differential impact of aggregate economic growth on poverty reduction in rural and urban areas? As mentioned earlier, incidence of poverty is

estimated on the basis of state specific poverty lines updated on the basis of growth of CPIAL and CPIIW for rural and urban areas respectively. A closer look at the CPI based inflation reveals that the period of lowest RDP, 1987-88, to 1993-94, coincides with maximum growth of CPI based inflation both for rural and urban areas. Main reason for higher RDP during 1983 to 1987-88 and 1999-00 to 2004-05, periods characterised by declining and slower growth of agricultural GDP, is slower growth of CPI both for rural and urban areas.

Sectoral contribution to inflation also plays its role in RDP. WPI of broad commodity groups is used to analyse relationship between sectoral prices and the RDP. The RDP of poverty (all areas) is inversely related to WPI based inflation of all commodities (correlation = -0.71). However, response of the RDP to WPI base inflation for all commodities is stronger for rural areas (correlation = -0.81) compared to urban areas (correlation = -0.08). Strong inverse relationship between the RDP in rural areas and WPI based inflation suggests that the rural poverty is more responsive to price fluctuation as compared to urban poverty. A closer look at the relationship between the RDP and sectoral WPI based inflation reveals that barring non-food articles, 'fuel, power, light and lubricants' and manufactured products, impact of inflation on the RDP is stronger in rural areas.

Observed trend of the RDP vis-a-vis aggregate growth and inflation suggests that while inflation has strong impact on the RDP in rural areas, in case of urban poverty it is aggregate growth. Wider rural-urban income differential is one of the plausible reasons for differential impact of growth and inflation on poverty in rural and urban areas. Slower growth of agriculture sector is mainly responsible for weaker response of rural poverty to aggregate growth. Initial driver of recent economic growth had been services, which is now supported by industrial sector. With services and industrial sectors mainly being urban centric, rural population has failed to reap benefits of recent upturn in economic growth. On the contrary, inflation, which has larger impact in rural poverty alleviation, ha increased. To address issue of rural poverty, economic policy should focus towards a policy mix of increasing rural income –- increasing agricultural growth and industrial and services activities in rural areas –- and low inflation. In this context, 11th five year plan target of 4% agriculture growth is a right step towards inclusive growth and rural poverty alleviation.

What does these relationship and available growth and inflation trend tell us about current poverty situation in India. While, the observed growth trend has been strong during 2005-06 to 2006-07 (two year period after the last poverty estimates), it has been accompanied by high inflation, both WPI and CPI based, especially in 2006-07, although now it is on declining path. While the strong growth trend would certainly result in a decline in incidence of poverty in urban areas, high inflation could possibly derail some of the benefits of strong rural poverty alleviation trend observed during 1993-94 to 2004-05. In this situation government's initiatives in the form of renewed focus on increasing agricultural growth, national rural employment guarantee programme and other poverty alleviation programmes could help in increasing rural income and thus mitigate some of the adverse impact of inflation or rising prices.

A warrior of light who trusts too much in his intelligence will end up underestimating the power of his opponent.

Paulo Coelho

LETTER TO THE EDITOR

Hari Singh
7290, B-10, Vasant Kunj,
New Delhi-110070

Dear Editor,

I have read with great interest your indepth analysis of inadequate agricultural credit facilities and suicides by farmers. Your untiring efforts and analysis, fully supported by figures and facts, make a convincing case to meet credit needs of farmers, who constitute 60% of nation's work force.

Adequate credit availability for agricultural sector at concessional rate of interest is essential to increase food production, to feed our vast population without resorting to import of food grains at prohibitive cost. The credit availability at affordable rate of interest for agricultural sector is one of the major ingredients, besides quality seeds, know-how, fair procurement prices, efficient foodgrain procurement system, improved agricultural infrastructure and irrigation facilities.

The vast percentage of nation's population, dependant on agriculture, living below poverty line, is bound to add to law and order problems and pose risk to peace and harmony in the society. The vast hardy agricultural workforce with knowledge of the country side, suffering from deprivation of legitimate resources to educate and feed their children can be easily lured to join naxalites and terrorists outfits.

It is, therefore, essential, as editor has made a strong convincing case, that credit needs of agricultural sector are met to improve agricultural production, lot of agriculture dependant population, have requisite share of agriculture in growth of GDP and to promote peace and harmony in the society.

Yours sincerely,

Sd/-
(Hari Singh)
Principal Director (Retd.)
Ministry of Defence,
Government of India.

Read COSIDICI COURIER REGULARLY AND BE UPTODATE

Faith is the strength by which a shattered world shall emerge into the light.

Helen Keller.

PROFILE OF MEMBER CORPORATIONS

Andhra Pradesh Industrial Infrastructure Corporation Ltd. (APIIC)

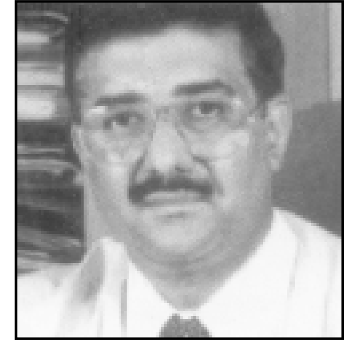
APIIC has contributed immensely to industrial infrastructure development in Andhra Pradesh. Shri B.P. Acharya, IAS has brought about an amazing transformation in its functioning. APIIC is embarking on a roadmap with a forward-looking agenda and has so far has acquired land close to 33,000 acres.

APIIC has been successful in executing major infrastructure projects in Andhra Pradesh through Public Private Partnerships (PPP). The Public Private partnership approach's goal concept is a partnership between the public and private sector for the purpose of delivering a project or service traditionally provided by the public sector. It is essentially an arrangement to mobilize financial resources and expertise from private sector to meet the growing demand for infrastructure services.

APIIC has clearly understood the relevance of public private partnerships, as infrastructure shortages are a major constraint to further economic development. The government budget is unable to support required financial needs and heavy time and cost overruns in completion. The delivery of services, operational and financial performances are, relatively poor under public management. The APIIC's new initiatives are Business District and Trade Tower, Hyderabad, APSEZ Visakhapatnam, IT/ITES SEZ, Vijaywada and IT/ITES SEZ, Nanakramguda.

APIIC is working at even distribution of industrial infrastructure development. Out of the total number of 61 SEZs in Andhra Pradesh, APIIC is assisting 36 SEZs. Some of the major Special Economic Zones developed or assisted by APIIC are the multi-product APSEZ, Visakhapatnam and products specific SEZs like IT/ITES SEZ, Hill No. 3, Visakhapatnam, IT/ITES SEZ Vijaywada, IT/ITES SEZ, Nanakramguda and other districts – Mahboobnagar, Warangal, Medak, Srikakulam, West Godavari, Krishna, Guntur, Nelore, Chittoor and Ananthapur.

With the Andhra Pradesh Government deciding to be the prime promoter of Fab City project replacing Sem India as the main investor, Special Purpose Vehicle (SPV) has been set up. The Government has entrusted APIIC to oversee progress and establish public-private partnerships with developers. APIIC will hold the majority 51% equity and retain management control.



Sh. B.P. Acharya IAS, Vice-Chairman & Managing Director, APIIC

The state Government has accorded top[priority for development of the Fab City and has thus far invested about Rs.58 crore for water supply, Rs.62 crore for dedicated power and other infrastructure. It is anticipated that Fab City will create 5,000 jobs by 2009 and up to 1.4 million jobs by 2016 in over 200 ancillary industries.

The Fab City project is another major responsibility entrusted to APIIC other than its pioneering efforts in establishing HITECH City - Cyberabad, Mind Space Project, Integrated Township & Convention Centre, Financial District, Hardware Park, Visakhapatnam Industrial Water Supply Company, Jawaharlal Nehru Pharma City, Visakhapatnam, Genome Valley Biotechnology Park I & II, Hyderabad and Genome Valley Bio-Tech Park Phase III.

A growth rate of 800% enabled the employees of APIIC to get a two-month salary as incentive for their performance in 2006-07. Shri B.P. Acharya is responsible for bringing a change in the attitude of the employees as he encouraged them to understand, learn and implement the finer aspects of management during their interaction with the private sector. From a Rs.40 to Rs. 50 crore per annum performance, APIIC has reached above Rs.1000 crore. The projected target for 2007-08 is Rs.4000 crore.

APIIC is focused on the maintenance of the existing industrial areas with the allocation of substantial sums. The earlier industrial areas are given a facelift by improving the roads. Rs.50 crore has been allocated for infrastructure development and Rs.50 crore has been allocated for environmental projects.

With a record of successful establishment of 3500 industrial areas, 4800 dormitory units, 466 commercial shops and backed by the right kind of political will, APIIC is on the right track to create and support the industrial infrastructure development in Andhra Pradesh.

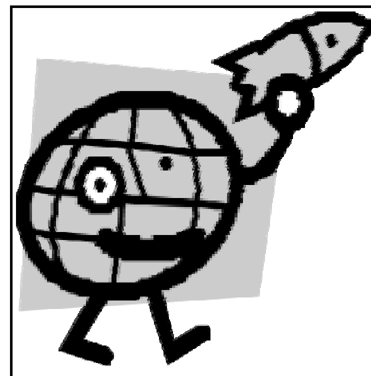
KSIIDC

Karnataka Information Technology Venture Capital Fund

Venture Capital concept though started in United States about 50 years back has taken root in India in the recent years particularly during the 1990s. As against conventional funding of industry by way of term loan and to a limited extent by way of seed capital and soft loan to bridge the gap in the promoters contribution, the Venture Capitalists invested in the industry participating in ownership of the investee companies. In the Indian context, the assistance under VC would be by way of outright investment in equity capital or by way of convertible preference shares or even convertible debentures as permitted by The Securities & Exchange Board of India (SEBI). The VCs are suitable for sunrise industries like Information Technology (IT), Bio-technology (BT) and other knowledge based industries which generally do not get funding from the conventional sources like Banks and other Financial Institutions. Venture capital is a high risk, high return ball game. Normally 2 out of 10 invested companies only survive and give good returns. VC Funds are prepared to take this risk and earn their returns out of the good investments. To take advantage of the growing IT & BT industries in the country a number of VCs have been set up; some supported by financial institutions like ICICI, UTI, IDBI etc. and many in the private sector which have mobilized funds from foreign sources/NRIs.

Despite many VC funds being set up, it was felt that these large VCs were catering only to big companies that too well established companies or which have strong promoters with opportunity to recoup their money quickly. There was none to support small companies set up by middle class IT professionals who did not have financial muscle to survive on their own. Hence, SIDBI and the state level institutions thought of regional VC Funds in different states and set up small VC funds.

Karnataka Information Technology Venture Capital Fund (KITVEN Fund) is one of the early movers among the regional VC Funds due to dynamic leadership provided by the state level institutions like Karnataka State Industrial Investment & Development Corporation Limited [KSIIDC] & Karnataka State Financial Corporation [KSFC]. These institutions with the backing of SIDBI have set up KITVEN Fund, a Rs.15 crore IT specific Fund to support the IT technocrats to realise their dream of becoming entrepreneurs in 1999. The philosophy and the investment criteria, etc of this Fund are outlined below : -



Investment Situations

KITVEN Fund's primary objective is to make available long-term funds to new/unlisted companies in the IT sector to **:**

- Develop competitive products and cutting edge technology;
- Manufacture and commercialise the product development;
- Move up in the value chain;
- Expand and upgrade existing capabilities to cater to a wider clientele;
- Growth and expansion of an established company including product diversification and forward/ backward intergration;
- Turnaround financing.

Investment Range and Instruments

- The KITVEN Fund had undertaken investments in the range of Rs.25 to Rs.150 lacs.

Investment Instruments :

- Preferred form of instrument is Equity;
- Fund also considered other instruments like Preference Capital, Debentures etc.;
- Combination of any of the above.

Investment Opportunities

- Very few VCs are funding the SME segment;
- Knowledge based industries are growing fast and have capability to go global with innovative ideas;

- New successful innovations will fuel Mergers and Acquisition by large players;
- Successful & proven world class engineers/ professionals evident in the US are now turning to India who are potential Entrepreneurs.

Management of the Fund

Karnataka Asset Management Company Private Limited (KAMCO) promoted by KSIIDC, KSFC & SIDBI manages the Fund and the Trustees of the Fund are Karnataka Trustee Company Private Limited (KATCO which has shareholding of 50% each by KSIIDC & KSFC).

Progress of the Fund

KITVEN Fund has so far invested Rs.17.56 crore in 17 companies. It has also divested investments in 8 companies and got Rs.13.20 crore as against investment of Rs.6.56 crore. It has so far repaid Rs.12.75 crore to the investors. The investments still outstanding is about Rs.11 crore which is expected to return about Rs.25 crore when divested. Some of the now well known companies in which KITVEN Fund invested during their nascent stage are RelQ Software Private Limited, Indegene Life System Private Limited, ECAD Technologies Limited, Comat Technologies Private Limited, Proteans Software Solutions Private Limited, iLantus Technologies Private Limited etc.

KITVEN Fund-2

Karnataka Asset Management Company Private Limited (KAMCO) after successful execution of KITVEN Fund and gaining confidence is in the process of setting up KITVEN Fund 2 with expected corpus of Rs.50 crores contributed by KSIIDC, KSFC, SIDBI and others. With the enlarged corpus the KITVEN Fund 2 would be in a position to support start-up companies in Information Technology, Biotechnology, Pharma & other Knowledge based industries upto Rs.3 crore to startwith and additional support of Rs.2 crore during the 2nd round funding. The Fund is expected to be launched by September/October 2007. With launching of KITVEN Fund-2, needs of the small knowledge based industries for Venture Capital support will be largely met.

IPICOL

IPICOL conducts Road show

As a part of Team Orissa initiative, IPICOL, the State Level Nodal Agency for investment facilitation, promotion and generation, conducted its maiden road show outside the state. The road show venues were Hissar in Haryana and Ludhiana in Punjab, for three reasons. Firstly, the Industrial Policy Resolution 2007, of the Government of Orissa, lays special emphasis on development of ancillary and downstream industries, auto component industry, and accorded it the status of 'thrust sector'. Secondly, to promote new investment in ancillary and downstream industries, it is important for Orissa SMEs to leverage the presence of large industries having investment base in Orissa as well as in their own states. Thirdly, to expose our SMEs to one of the key manufacturing/engineering hub: Ludhiana. A 4-day programme from 24th to 27th July, 2007was chalked out with select delegates for the road show-cum-exposure visit. The delegation was led by Dr. Ashok Dalwai, IAS, Commissioner-cum-Secretary, Industries Department, Government of Orissa.

UCCI to promote plastic cluster

Utkal Chamber of Commerce and Industry (UCCI), is an industry body of Orissa, representing 215 members from trade and industry in the state.

Mr. Mohanty, President UCCI has said, the Government of India is promoting the plastic clusters and Orissa can benefit from it. CIPET located in Bhubaneswar will be an added advantage for the cluster. As a measure to strengthen SME sector in the state, UCCI will also organise buyers-sellers meet to facilitate interaction process between the mega industries and the Small and Medium Enterprises (SMEs). Large scale employment can only be created through the MSME sector; there is a need for greater interaction between the mega industries coming to the state and small industries.

Among the priorities, Orissa Knit Complex project, which is being implemented by a Special Purpose Vehicle (SPV) formed by a 25 member consortium, will be expedited. This is proposed to be implemented under SITP scheme in public-private-partnership (PPP) mode for which IL&FS is making the feasibility study and the state government has identified 42 acres of land near Bhubaneswar.

Ludhiana Road show taken up by the Government of Orissa in Industries Department & Team Orissa, IPICOL has evoked good response and a business delegation team from Hissar and Jalandhar is expected to come on a visit to Orissa in November-December, 2007. It will explore the possibility of setting up of ancillary and downstream industries in Orissa.

Team Orissa (IPICOL) members went on a study tour to Investment Promotion Agencies of Govt. of Tamil Nadu from 4th to 9th September, 2007

As a part of Investment Generation and Promotion Strategy-Study Tours for Team Orissa secretarial staffs have been recommended by UNIDO as Outbound Study Tours to Institutional intermediaries and partners for the purpose of benchmarking and capacity building of the IPICOL team. The tour was sponsored and funded by UNIDO under their technical assistance programme for Team Orissa. Shri A.K. Meena, M.D., IPICOL led the deligation of several officials.

In India states like TamilNadu, Karnataka, Andhra Pradesh and Gujarat have been quite successful in institutionalising the activities of Investment Promotion and Investment facilitation. Accordingly, a Study Tour to Investment Promotion institutions of Govt. of TamilNadu was conducted for the key officials of IPICOL who are associated with Investment Promotion and Investment facilitation activities. A Study Tour report with key findings has been collated. The organisations/ agencies visited were **: -**

- TamilNadu Industrial Development Corporation Ltd. (TIDCO) - For Industrial Infrastructure Development and joint venture partnership.
- TamilNadu Industrial Investment Corporation Ltd. (TIIC) - For Investment Financing to large projects.
- State Industries Promotion Corporation of TamilNadu Ltd. (SIPCOT) - Industrial Infrastructure Development for large projects.
- TamilNadu Industrial Guidance & Export Promotion Bureau (Guidance Bureau) - Industrial Guidance & Single Windows Clearances.
- TamilNadu Small Industries Development Corporation Ltd. (TANSIDCO) - For Infrastructure & Financing SSI units.
- Industrial and Technical Consultancy Organisation of Tamilnadu Ltd. (ITCOT) - Industrial and Technical Consultancy services.

The team also visited TIDEL Park - An IT SEZ, Madras Export Processing Zone - Special Economic Zone (MEPZ-SEZ), Mahindra World City - A multi purpose corporate SEZ & integrated business city.

HSIIDC

HSIIDC earns Rs. 21.28 cr profit

HSIIDC has registered a quantum jump of 186 percent in its net profit after tax and dividend during the 2006-07 fiscal. The Corporation has further contributed to its high growth trajectory and maintained a consistent record by earning a gross profit of Rs.40.89 crore this year against the earlier record of Rs.29.43 crore during the previous year. The gross income during the year has also exceeded the target and touched a figure of Rs.57.05 crore as compared to Rs.44.80 crore during the previous financial year. Commensurating the impressive performance, the corporation has declared a dividend of Rs. Five crore to the State Government which is an all time high dividend paid by the corporation so far. The term loan activity of the corporation also achieved a significant growth during this year. The corporation sanctioned term loans to the tune of Rs. 100.52 crore this year. The disbursement and recovery stood at Rs. 45.71 crore and Rs.84.33 crore respectively during this period. The Corporation, has incurred an expenditure of Rs. 940.42 crore on the development of industrial infrastructure in the state which is significantly higher than an expenditure of Rs.841.63 crore during the previous year. Recovery from allottees during the current year was much higher at Rs. 752.86 crore as against Rs. 252.98 crore during the previous year.

The Corporation has drawn an ambitious plan for setting up new industrial estates and infrastructure projects for which a land bank of about 17,000 acres is being created. The investment outlay on providing infrastructure for these projects would come to Rs.12,000 crore. Prominent amongst these projects are: KMP Expressway, Industrial Model Townships at Rohtak, Faridabad, and Jagadhari and expansion of IMT Manesar, Bawal, Barhi, Rai, Karnal and Saha industrial estates. In addition to this, dedicated theme parks are being developed which include: Food parks at Rai & Saha, Apparel park at Barhi, Footwear park at Bahadurgarh, Textile cluster at Panipat, Auto parts cluster at Gurgaon, Light engineering goods at Faridabad, Agricultural implements at Karnal, and Technology parks under campus development norms at Rai and Manesar. The Corporation has also decided to explore the possibilities of setting up an industrial estate at Sohna and Dharuhera besides setting up industries-cum-service centres in the backward areas of the State.

In a significant decision, the Corporation has also approved the reintroduction of the policy for compromise settlement of chronic Non Performing Assets (NPAs) of the Corporation. The cut-off date to recover the NPAs has been retained as 31.03.2004 in place of 31.03.2002 in the old policy so as to enlarge the scope for reducing the NPAs to the maximum extent. The new scheme would be valid till 31st December 2007.

Super Screws to expand

The Corporation has sanctioned a term loan assistance to the tune of Rs.900 lakh to an existing loanee company M/s Super Screws Pvt. Ltd. for its expansion projects of backward integration by setting up wire drawing unit at Bawal. This unit will enhance company's existing capacity at Faridabad unit besides saving the job work charges and will also reduce the tooling wear and tears. The company is one of the largest OEM suppliers of its products to nearly all the major vehicle manufacturers in the country like Maruti Udyog Ltd., L.G. Electronics, Yamaha Motors, Hero Honda, Denso, Lumax, Videocon International, Tata Motors Ltd. and Swaraj Mazda Ltd. etc. During 2006-07 fiscal, the company achieved gross sales of Rs. 34.85 crore and cash accruals are to the extent of Rs.2.41 crore. HSIIDC has already allotted land measuring 8.86 acres to this company in G.C. Bawal. The proposed unit will have an installed capacity of 14400 tone per annum. The total cost of the proposed project has been estimated at Rs. 1559.89 lakh which is proposed to be financed by way of promoters' capital of Rs. 200 lakh, long term interest free unsecured loan of Rs. 150 lakh, reserve and surplus of Rs. 309.89 lakh and term loan of Rs. 900 lakh from HSIIDC.

CONGRATULATIONS

Punjab Financial Corporation has got **ISO9001:2000** Certificate from Det Norske Veritaz As for provision of services for sanctions, disbursement and recovery of loans to Small and Medium Scale Industrial Enterprises

ANSWERS OF CYBERQUIZ ~ 10

1. [b] Programmed Data Processor: To dissociate its product line from the large mainframe computers of the 1960s which were costing even large companies a fortune, occupying big buildings and requiring sizable staff, DEC did not refer the PDP as a computer but used its name as a generic term.
2. [b] The cabinet containing the central processing unit.
3. [c] In the early 1970s with the introduction of minicomputers: When the smaller and less complex computers such as DEC PDP-10 and PDP-11 series were introduced, they were dubbed the minicomputers or just the minis. Users then coined the term mainframe computers to describe the much larger, room-filling, complex and expensive computers. Later on the term was shortened to just mainframe.
4. [b] Large, expensive, room-filling mainframe.
5. [d] Indian Statistical Institute, Kolkata: The computer was installed in 1956.

ACTIVITIES OF COSIDICI

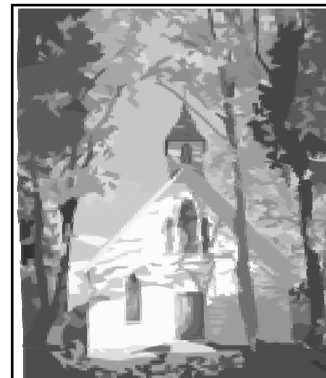
COSIDICI's E.C.M. AND A.G.M. :

The Executive Committee Meeting and Annual General Body Meeting of COSIDICI were held on 25th & 26th October, 2007 respectively at Ooty, TamilNadu.

The Executive Committee was informed by the Secretary General that COSIDICI had been regularly taking up the matter of adequate refinance from SIDBI and recapitalization of SFCs at various fora like Ministry of Finance, RBI, NABARD, KVIC etc. It was generally felt by the members that SIDBI was not providing adequate refinance even to MoU SFCs. The RBI circular issued on June 01, 2007 directing SIDBI to curtail refinance to SFCs with negative networth had aggravated the matter further. The Members reported that they were experiencing considerable difficulty as their good clients were taken away either by commercial banks or by SIDBI. SIDBI had also reportedly directed some of the SFCs (*like KFC*) to have prior clearance before financing projects above Rs.200 lacs. This was detrimental to the working of SFCs and also tentamounts to curtailment of their functional autonomy and there was the added risk of SIDBI financing the project itself. Members (M.D., RFC) had also cited certain instances where the projects under their consideration were hijacked by SIDBI for financing at lower interest rates depriving the SFCs of such remunerative projects.

Dr. P.T. Nandakumar, IPS, M.D., KFC said that KFC was facing severe competition from SIDBI as it was lending directly to clients at lower interest rates. The experience of other SFCs was similar. Shri A. Giridhar, IAS, M.D., APSFC, Hyderabad said that as SFCs cannot give working capital, the clients were forced to go to the commercial banks for their working capital requirements. The banks gave loan for working capital and if the track record of the client was good then even the term loan was given by the banks. This lured away the ***"better clients"*** of SFCs thus affecting their business adversely.

The Chief Executives of SFCs *(HFC, HPFC, UPFC, TIIC & KSFC)* affected by the above RBI circular had met Shri Vinod Rai, Secretary (FS), Ministry of Finance, Government of India on July 26, 2007 at New Delhi wherein he had suggested that SFCs may consult their respective state governments and get equity support from them. The support could be in the form of cashless transaction wherein the state government could use the SFCs as a pass through for investment in any other state government enterprise. Some of the state governments had agreed to the proposal and had issued in-principle letter to the concerned SFCs. This assurance, however, was reportedly not accepted by RBI. RBI was also not ready to wait for a period of two years for the SFCs to show a positive networth and wanted the same to be achieved immediately before allowing SIDBI to provide them refinance.



It was observed that the level of refinance from SIDBI had fallen to below ***25%*** in case of most of the eligible SFCs further aggravating their woes. The Executive Committee felt that atleast the SFCs which have already turned around should get ***75%*** refinance to meet their business commitments.

After a detailed discussion on the subject the Members unanimously felt that a very serious financial crisis was staring at SFCs threatening their very existence. If necessary relief and support did not come forth from SIDBI and the Government of India/RBI, SFCs would head towards undeserved extinctions. It was suggested by the Members that COSIDICI may seek an urgent meeting with the Union Finance Minister and the Governer RBI to highlight the above issues and seek a viable solution for their survival.

In this context, Smt. O.P. Sosama, IAS, Chairperson, TIIC felt that it should be pointed out to the Government of India and state governments that the SFCs were relevant in the overall financial sector as they fulfilled a very serious social obligation of the government towards the SME sector. It was suggested that:

- SFCs could be made the nodal agencies for routing government investments;
- SFCs could be allowed to give working capital loan. This could be done by having a tie-up with the commercial banks;
- *The SFCs Act could be amended to allow the Corporations to fund projects above Rs.20 crore.*

GLIMPSES OF EXECUTIVE COMMITTEE MEETING OF COSIDICI

Shri K.K. Mudgil, Secretary General, COSIDICI welcoming the delegates at the E.C. Meeting held on 25.10.2007 in Ooty (TamilNadu).

Smt. O.P. Sosamma, IAS, President COSIDICI addressing the delegates at the E.C. Meeting held in Ooty (TamilNadu). On her right is Shri K.K. Mudgil, Secretary General, COSIDICI, New Delhi and on her left is Shri B.B. Saxena, IAS, CMD, Delhi Financial Corporation, New Delhi.

HELD ON OCTOBER 25, 2007 AT OOTY (TAMILNADU)

Members listening with rapt attention during the discussions in the E.C. Meeting.

A group photo of Members of the Executive Committee at Ooty (TamilNadu).

Training :

For reviewing the on-going training arrangements at the above College a Senior Faculty Member (*Mr. Anil Sharma*) from College of Agricultural Banking (RBI), Pune had also attended the meeting on our request. Shri Sharma shared his views about the training programme and expressed his satisfaction about the feedback the college had received from the participants with regard to the usefulness of the training modules. He mentioned that the participants had suggested that separate training programmes may be held for SFCs & SIDCs and the course contents may be structured taking into account their special requirements. He requested the Executive Committee to recommend the requisite changes to the present course contents. It was suggested that Shri Anil Sharma may address a detailed letter to the Chief Executives of SLFIs forwarding therewith the existing syllabus of the Training Programmes and invite their suggestions for revising it. Shri Sharma informed the Executive Committee that participants had requested for a five day course instead of the present four days training programme. It was also suggested that a two-day workshop could also be organized for the CEOs of the Corporations. The Executive Committee was agreeable to the suggestion and COSIDICI was requested to work out the modalities of the same.

The Secretary General informed the Executive Committee about the on-site training programme being held at PIPDIC in the month of January, 2008. Dr. P.T. Nandakumar, IPS, MD, KFC requested CAB to organize another on-site training programme at the head quarters of the Corporation.

Shri Zohmangaiha, M.D., ZIDCO also requested that a similar on-site training programme may be organized in Kolkata for the Corporations in the North-East. The Corporations of Orissa could also be asked to join the programme.

Shri A. Giridhar, IAS, M.D., APSFC requested that a training programme be organized for the new recruits in APSFC. The emphasis of the training could be on the emerging areas in the financial sector.

Shri Indrajit Pal, IAS, Vice CMD, APIDC requested Mr. Sharma to provide training to the officers who had recently been promoted in his Corporation.

The Secretary General assured that the recommendations of the Members would be implemented in letter and spirit.

Annual General Meeting :

The Annual General Meeting of COSIDICI was held on 26.10.2007 at the same venue as the Executive Committee Meeting mentioned above. The following were elected as the Members of the Executive Committee of COSIDICI for the Year 2007-2008 :

Smt. O.P. Sosamma, IAS, Chairperson, TIIC, Chennai as the President of COSIDICI for the Year 2007-08. Shri B.B. Saxena, IAS, CMD, DFC, New Delhi; Shri Indrajit Pal, IAS, VCMD, APIDC, Hyderabad; Shri B.N. Sharma, IAS, CMD, RFC, Jaipur; Smt. Neerja Sekhar, IAS, MD, HFC, Chandigarh; Shri Kamal Chakrabarty, IAS, MD, WBFC, Kolkata; Shri Zohmangaiha, MD, ZIDCO, Mizoram were elected as Vice-Presidents. Shri S. Ramasundram, IAS, CMD, TIDCO, Chennai; Dr. G. Vajralingam, IAS, MD, PFC, Chandigarh; Shri A. Giridhar, IAS, MD, APSFC, Hyderabad; Smt. Smita Gate Chandra, IAS, MD, MPFC, Indore; Shri J.B. Singh, IAS, MD, OIDC, Daman; Dr. P.T. Nandakumar, IPS, MD, KFC, Thiruvananthapuram; Shri W.V. Ramanamurthy, MD, EDC Limited, Panaji, Goa; Shri Rattan Singh, MD, PIPDIC, Pondicherry were elected as E.C. Members. Besides Ms. Sobha Nambisan, IAS, MD, KSIIDC, Bangalore and Shri Manoj Parida, IAS, MD, DSIIDC, New Delhi were co-opted as E.C. Members for the Year 2007-08. The contents of the Annual Report of the E.C.M. of COSIDICI for the Year 2006-2007 were noted and approved by the General Body which also approved the audited statements of accounts for the Year 2006-2007.

> *There is not enough darkness in all the world to put out the light of even one small candle.*
>
> *Robert Alden*

Direct tax collections rise 42% in April-August

Direct tax collections have risen by 42% during the first five months of the current financial year. Net tax collections stood at Rs.61,030 crore till August 31 compared with Rs.42,980 crore during April-August last fiscal. Reflecting the buoyancy in India Inc., corporate tax collections have risen by almost 50% to Rs. 33,766 crore till august end, up from Rs.22,587 crore during the previous fiscal. Personal income tax (including fringe benefit tax, securities transaction tax and banking cash transaction tax) grew 33.76% to Rs. 27,206 crore in the period as against Rs.20,340 crore during the corresponding period last fiscal. While securities transaction tax rose 35.16% the banking cash transaction tax grew by 79.73%.

"Direct tax collections have consistently maintained a growth of over 40% during the fiscal, reflecting continued buoyancy in the economy better tax compliance and improved tax administration," a finance ministry statement said.

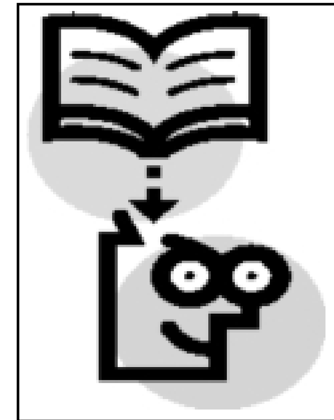
Exports rise 42 per cent

India has achieved 400 per cent of its targeted spices exports in first four months of the current financial year. The value of the country's exports increased by 42 per cent to Rs. 1,385.01 crore during the April-July period. India exported 1,52,650 tonnes of spices and spice-based products as against 1,18,500 tonnes in the corresponding period in 2006-07, registering a growth of 29 per cent.

The Spices Board had set as export target of 3,80,000 tonnes, valued at Rs.3,600 crore for the whole of 2007-08. In FY 2006-07, the total export earnings crossed Rs.3,500 crore through the export of 3,73,750 tonnes. The spectacular performance during the four month period indicates a much better performance on the spices export front by end of the current financial year.

Lok Sabha clears Competition Bill

The Lok Sabha passed the Competition Amendment Act Bill on 7th September' 07, paving the way for establishment of a powerful competition regulator. The Bill, seeks to provide statutory powers to the Competition Commission of India (CCI).



Crucial amended provisions like those relating to regulatory review of mergers and acquisitions from the competition angle would be effective after these are notified by the government after Parliament's approval. Sources said framing rules and regulations and appointing members of the body would be the next priority. "We are trying to have the CCI to be fully operational by mid-2008," according to the ministry of corporate affairs.

One of the major changes the government has brought from an earlier Bill is that it would be mandatory for all mergers and acquisitions – including between two overseas companies – to notify the competition regulator if the combined entity meets a specified threshold. Different thresholds are prescribed for individual and group companies depending on whether they are present in India alone or have overseas business too. The government also introduced the concept of territorial nexus minimum presence in Indian market for any two globally merging companies – to seek CCI's approval. The threshold for this is Rs.500 crore assets and Rs.1,500 crore turnover for the combined entity.

Another major change introduced is the power to imprison and fine. Violation of CCI's orders would be a criminal offence from the second instance. Contravention of the order in the first instance will be a civil offence with monetary penalty. Corporate affairs minister Shri Prem Chand Gupta told the Lok Sabha that the changes were brought about considering the recommendations of a parliamentary panel an the legal challenges (to some provisions of the existing law). The modifications are expected to make CCI fully operational on a sustained basis.

The Micro Finance Bill

The Micro Financial Sector (Development and Regulation) Bill, 2007 (henceforth the Bill) is the first step in regulating a sector which has grown primarily out of social entrepreneurship. An attempt to regulate this sector needs to aim at better corporate governance without stifling the existing dynamism.

An analysis of the Bill reveals both positive and negative features. On the positive side, the Bill attempts to introduce a certain amount of accountability to the sector by requiring mandatory registration of microfinance organisations (MFOs). It introduces the prospect of MFO inspection which could improve consumer protection in microfinance.

A second positive aspect is that it does not introduce interest rate caps, which could have been damaging for the sector. As interest rates are a function of risk, cost funds and transaction costs, a cap can lead to the exclusion of customers whose risk profiles call for interest rates in excess of the cap. In the context of microfinance, a uniform interest rate would create incentives for MFOs to move away from difficult and new geographies where transaction costs are higher. Interest rate caps could also be detrimental in attracting capital to the sector.

A third positive is that the Bill permits MFOs complying with certain conditions to accept savings from customers. This addresses an important drawback of the microfinance sector in India, namely the lack of savings products due to regulatory hurdles.

There are also some provisions in the Bill which cause concern. The primary concern is on the choice of NABARD as the regulator for the sector. Of the two main delivery channels for micro-credit in the sector, namely, the SHG (self-help group) bank linkage channel and the MFI (microfinance institution) channel, NABARD has been actively associated with the former and has recently announced its entry into the latter. The regulatory role will strengthen its position relative to other participants in the sector. This situation may not be beneficial for other market participants and also for consumers, who stand to gain if there is healthy competition among service provides.

A second concern is regarding the prudential norms prescribed for deposit-taking MFOs. There is a single safeguard for savings which is that MFOs need by depositing 15 per cent of their net profit before dividend every year. An MFO not making profit need not form the reserve fund, leaving no safety net for the depositors.

A third negative is the lack of clarity on the scope of the Bill. The Bill defines an MFO as "including" societies , trusts and co-operatives, leading to varying interpretations on whether institutional structures such as non-banking financial companies (NBFC) come under its ambit.

Considering the potential of the sector, a review of the Bill to rectify the above drawbacks is essential. A sound regulatory structure that encourages professionalism and growth in the sector could pay the country rich dividends by way of inclusive growth.

Q1 GDP growth 9.3%

The economy grew by 9.3 per cent in the first quarter ended June 30 of the current financial year (2007-08). This was fuelled mainly by electricity generation and agriculture due to a good monsoon. The high growth in GDP was due to the continuing momentum in economic activities. Industry and services have more or less maintained their momentum.

Two new funds for micro-credit

The UPA government has started another scheme for the aam admi. The Centre will set up two funds with a corpus of Rs. 500 crore each to ensure easy credit availability to the poor. One is the Financial Inclusion Fund and the other is Financial Inclusion Technology Fund of Rs. 500 crore each. This is a substantial increase over the government's earlier decision to set up a Rs.100-crore micro-finance development fund. The finance minister said that the government was considering a proposal to regulate for-profit micro-finance institutions. The Micro Finance Bill, which has been introduced in Parliament, only seeks to regulate not-for-profit micro-finance companies.

Co-op credit plan may be revised

The Centre on 10th October' 2007 said it would revise the Rs.4,850 crore revival package for long-term cooperative credit as several states have expressed reservations on the current scheme. Of the key recommendations of the Vaidyanathan Committee (on which the package is based), they (some states) have reservations on 8 recommendations. Though there is a broad consensus, a revised package, incorporating as many suggestions of states as possible is to be drawn up and sent to states for discussion.

West Bengal finance minister Shri Asim Dasgupta said "based on the national aggregates, the relative share of the Centre, states and cooperatives in the package is worked out at 74:11:15. Since state-wise accumulated losses of the cooperatives will vary, their relative shares will also vary. However, it will be difficult for cooperatives to bear 15% of the requirement for recapitalisation." He suggested that "long-term cooperative credit societies be allowed to retain state government's equity up to 25% of total subscribed share capital and the amount in excess of 25% be converted into grant by state governments concerned."

Madhya Pradesh lowers lending rates for small firms

The Madhya Pradesh government on 20.09.2007 announced a cut in lending rates for craftsmen and artisans. Now loans for craftsmen will be available at 7 percent against the existing prime lending rates of 12 percent or more. A huge sum will also be allocated shortly for training, infrastructure, research and the development of the state's craft industry.

The Chief Minister, Shri Shivraj Singh Chouhan sid that the state would shortly allocate a fund of Rs.27 crore to train atleast 15,000 craftsmen in various trades. He said his government will soon join hands with National Institute of Design Ahmedabad and National Institute of Fashion Technology for new designs of artisans' products.

He also announced the formation of a foundation for clusters and said his goverment would extend a support of Rs.25 lakh to each federation, besides the creation of new Haat at various places in the state to showcase and market the craftsmanship.

"We will create a Shilpigram at Budnighat and create a Haat for craftsmen at Lalbagh Palace Indore with a combined investment of Rs.4 crore", said Shri Chouhan.

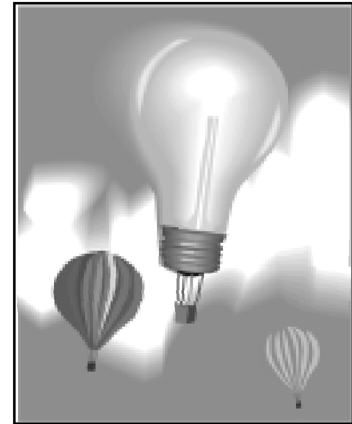
In the absence of branding, marketing, geographical indication (patent), export facilities, poor infrastructure in terms of roads and power, decline in government orders, local craftsmen have switched over to other businesses or jobs.

Most of the craftsmen in the state make wooden toys, artifacts and ornaments, saris, durries, handloom and powerloom, earthen pots and printed dress material.

Haryana gets Rs.14 crore for tourism

The Centre has allocated an amount of Rs.14 crore to the Haryana government for the development of eco-tourism and two tourist complexes in Haryana during the current financial year.

While addressing a pres conference in Chandigarh on October 09, 2007, the minister of state for tourism, forests, sports and youth affairs, Smt. Kiran Choudhry said the Centre had sanctioned Rs.6.48 crore for the development of eco-tourism at Kalesar, Morni, Tikkar Taal and Sultanpur National Park. She said that approximately Rs.7 crore had been sanctioned for upgrading the Dabchik tourist resort at Hodal and Jungle Babler at Dharuhera, keeping in view the Commonwealth Games which would be held in 2010 at New Delhi.



Mrs. Choudhry said the government would require around 10,000 rooms during the Commonwealth Games. Around 9,650 rooms were ready so far and soon the target would be completed by Haryana Tourism. She also said around 42 sites had been identified by the land development agencies of the state for the Commonwealth Games.

Alongwith this Central financial assistance, amenities like construction of public toilets, development of water sources, drainages and recharge of underground water, land-scaping of area, paving of walking circuit and walkways at interior paths, development of camping site, installation of fountain including water body, illumination providing signages, indication board, guide maps and hoardings at these tourist complexes would be provided.

Haryana notifies guidelines for contract farming

The Haryana government has notified the rules of contract farming in the state. A government spokesman said that Haryana was among few states that put the rules of contracts farming in place.

The amendment in the Punjab Agricultural Produce Markets Act, 1961 and framing of rules thereunder had paved way for the farmers and companies to venture into contract farming in the state.

The newly introduced contract farming system would benefit both the farmers and the bulk buyers as the farmers would get assured marketing on the agreed rates and the buyers would get consistent supply of quality products.

The special feature of the contract farming system introduced in the state was that the premises of the

companies and firms entering into contract farming would be deemed to be a declared sub-yard. This would help the companies and firms to procure contracted agricultural produce directly at their premises instead of purchasing it through market. The interests of the farmers and the companies would be protected through the formal agreement which would be registered with the district marketing enforcement officer. The companies and firms wanting to enter into the contract farming would have to apply to the Haryana State Agricultural Marketing Board for registration. The facilitation of the agreement would be done by the board.

The amendment in the rules also provide mechanism of monitoring the agreement and disputes resolution. The zonal administrator would resolve the disputes resolution. The zonal administrator would resolve the disputes within thirty days and the chief administrator of the board would be the appellate authority. The new amendment ensures that the land of the contract farmers would not be transferred or alienated. He urged the companies and firms and the farmers to take full advantage of the new scheme.

U.P. Plan outlay finalised

The Plan outlay for the state of Uttar Pradesh has been finalised on September 25, 2007 at a meeting attended by Planning Commission member, Shri B.K. Chaturvedi and the state Chief Secretary Shri P.K. Mishra.

The Plan outlay for the current fiscal for the state has been pegged at Rs.25,000 crore which is an increase of 31% against last fiscal's (2006-2007) Rs.19,000 crore.

Loss-making corporations in Punjab to be disinvested

Punjab Finance Minister, Shri Manpreet Badal on September 23, 2007 said the state government would disinvest corporations that were continuously under heavy losses for the last several years. The decision was taken by the Disinvestment Board which is headed by the State Minister Shri Parkash Singh Badal.

I am not bound to win,
but I am bound to be true.
I am not bound to succeed, but
I am bound to live by the
Light that I have.
I must stand with anybody that stands right,
and stand with him while he is right,
and part with him when he goes wrong.

Abraham Lincoln.

Special Economic Zones (SEZs)

Government of India introduced the concept of Special Economic Zones (SEZs) in the year 2000 through a revision in the Export-Import Policy 1997-2002.

SEZs are specially delineated duty-free enclaves treated as a foreign territory for the purpose of industrial, service and trade operations, with exemption from customs duties and a more liberal regime in respect of other levies, foreign investment and other transactions, domestic regulations, restrictions and infrastructure inadequacies are sought to be eliminated in the SEZs for creating a hasle-free environment. The SEZ scheme seeks to create a simple and transparent system and procedures for enhancing productivity and the case of doing business.

The main objectives of the SEZ Act are generation of additional economic activity, promotion of exports of goods and services, promotion of investment from domestic and foreign sources, creation of employment opportunities and development of infrastructure facilities.

SEZs are broadly classified into five categories and the details are given below :

	Type of SEZ	Minimum area requirement
1.	Multi product SEZ	1000 hectares (2500 acres)
2.	Multi services SEZ	100 hectares (250 acres)
3.	Sector specific SEZ	100 hectares (250 acres)
4.	IT, BT, Jewellery, Non-conventional energy SEZ	10 hectares (25 acres) and building shall have minimum built up area of 1 lakh sq. mtrs. (10 lacs s.ft) for IT.
5.	FTWZ SEZ (Foreign Trade and Warehousing Zones)	40 hectares (100 acres) and building shall have minimum built up area of 1 lakh sq. mtrs. (10 lacs. sq. ft.)

The approval mechanism for setting up SEZs is kept simple and yet thorough. For setting up of SEZ in the private/joint sector a proposal has to be submitted to the concerned State Government that in turn forwards the same to the Department of Commerce with their recommendations. Thereafter, the Board of Approval considers the proposal alongwith the recommendation of the State Government. Applicant also has the option to submit the proposal directly to the Board of Approval. In such cases, the applicant will have to obtain the concurrence of the State Government within six months from the date of such approval.

Once an SEZ has been approved by the Board of Approval and Central Government has notified the area of the SEZ, units are allowed to be set up in the SEZ. All the proposals for setting up of units in the SEZ are approved at the Zone level by the Approval Committee consisting of Development Commissioner, Customs Authorities and represetatives of State Government. All post approval clearances including grant of importer-exporter code number, change in the name of the company or implementing agency, broad banding diversification etc. are given at the Zone level by the Development Commissioner. The performance of the SEZ units are periodically monitored by the Approval Committee and units are liable for penal action under the provision of Foreign Trade (Development and Regulation) Act, in case of violation of the conditions of the approval.

The incentives and facilities offered to the units in SEZs and in turn to attract investments into the SEZs, broadly include:

- Duty free import/domestic procurement of goods for development, operation and maintenance of SEZ units.
- 100% Income-Tax exemption on export income for SEZ units under section 10AA of the Income-Tax Act for first 5 years, 50% for next 5 years thereafter and 50% of the ploughed back export profit for next 5 years.
- Exemption from minimum alternate tax under section 115JB of the Income-Tax Act.
- External commercial borrowing by SEZ units upto US$ 500 million in a year without any maturity restriction through recognised banking channels.
- Exemption from Central Sales Tax and Service Tax.
- Single window clearance for Central and State level approvals.
- Exemption from State sales tax and other levies as extended by the restrictive State Governments.

The major incentives and facilities available to SEZ developers broadly include :

- Exemption from customs/excise duties for development of SEZs for authorised operations approved by the Board of Approval.
- Income-Tax exemption on export income for a block of 10 years in 15 years under Section 80-1AB of the Income-Tax Act.
- Exemption from minimum alternate tax under Section 115JB of the Income-Tax act.
- Exemption from divided distribution tax under Section 1150 of the Income-Tax Act.
- Exemption from Central Sales Tax (CST).
- Exemption from Service Tax (Section 7, 26 and second Schedule of the SEZ Act).

The SEZ scheme has generated overwhelming response amongst the investors, both in India and abroad. Since the SEZ Act, 2005 and the SEZ Rules 2006 came into effect on 10th February, 2006, 341 formal approvals have been given, spread over 18 States and 3 UTs. Besides 171 in-principle approvals spread over 16 States and 1 UT have been granted for setting up SEZs. Out of 341 formal approvals, notifications have been issued so far in respect of 130 SEZs (as on 10th July, 2007).

Benefits derived from the SEZs are evident from the investment, employment, export and infrastructural developments additionally generated. In the SEZs notified under the SEZ Act after 10th February, 2006, investment of Rs.43,123 crore has already been made. These SEZs have so far provided direct employment to 35,053 persons. An investment of Rs.2,59,159 crores at 17.44 lacs additional jobs are expected from these notified Special Economic Zones. If 341 formal approvals become operational, investment of Rs.3,00,000 crores and 4 million additional jobs are expected by December, 2009.

SEZs can be developed in the public, private or joint sectors, or by the State Governments. They are expected to promote the establishment of large, self-contained areas supported by world class infrastructure oriented towards export production. Exploiting the full potential of the concept of SEZs would bring large dividends in terms of economic and industrial development and the generation of new employment opportunities.

Centre opens RIDF window to fund rural road projects

The government will marshal about Rs.6,500 crore using Nabard's rural infrastructure development fund (RIDF) to fund road development in India's bucolic areas. The move to tap Nabard resources is a result of the government's difficulty in finding adequate funds for flagship programme Prdhan Mantri Gram Sadak Yojana. Rural development minister Shri Raghuvansh Prasad Singh said, "Keeping in view the revised targets of the programme, all efforts are being made to mobilise adequate funds to meet the requirements. As a sequel to this, a special window has been created under the RIDF of Nabard for financing rural road projects under "Bharat Nirman." Giving details of the increasing demand for funds from states, he said the Centre had increased allocation from Rs.1,900 crore for 2000-05 to Rs.11,000 crore for 2007-08. "The jump in the demand for funds could be realised because we could get states together to increase their absorption capacity,". The minister's statement has also outlined the assistance the Centre is seeking from multilateral funding agencies. Asian Development Bank and World Bank will give Rs.9,000 crore for the project.

The government has so far cleared 67,713 projects for construction of 2.38-lakh km of roads. By the end of July , 1.34-lakh km had been constructed and work was on for 1.04-lakh km. Similarly, for rural housing under

Bharat Nirman, the allocation for the current year has been increased to Rs.4,032.70 crore from Rs.2,907 crore in the last fiscal. The target for this year has been set at 21.27 lakh houses, of which 2.44 lakh have been constructed in the first quarter of the current fiscal. Funding under the scheme is shared by the Centre and States in a ratio of 75:25.

States await EGoM nod for helping SEZs buy land

Any decision on land acquisition for SEZs will have to be vetted and resolved by the empowered group of ministers (EGoM) on SEZs before it becomes applicable. The EGoM on SEZs, headed by Shri Pranab Mukherjee, had decided in April that state governments should be banned from acquiring land compulsorily from farmers and other landholders. Even if a single landowner refused to sell, he could not be forced to part with his land to make a project possible. The EGoM's tough stand was in response to the violent protests in Nandigram, West Bengal, against state acquisition for a chemicals SEZ by Indonesian Salim Group. The EGoM had, in fact, placed a 10-week ban on all approvals following the Nandigram violence which was lifted only when the EGoM decided to ban compulsory land acquisition by states. There have been protests elsewhere against acquisition for some other proposed SEZs, including the Maha Mumbai SEZ and Posco's project in Orissa.

Core sector growth rises to 9% in August

The core sector posted a 9% growth in August 2007 against 6.6% in the corresponding period last year due to robust performance in cement, coal and power.

Cement sector led the performance chart recording a robust growth of 16.2% in August 2007 compared to 2.9% in the year-ago period. Both coal and power grew by 8.7%. Coal and power have a weightage of 26.68% in the overall index for industrial production. Coal production was at 0.6% in August 2006 while power was at 4.1%. There was a decline in growth of crude petroleum to 6.4% compared to 12% the previous year. In the case of petroleum refinery products, growth declined to 8.2% in August compared to 12.1% in the year-ago period. Steel output was also marginally down but still managed 8.5% growth.

North-East roads

The government has approved a modified accelerated road development programme for the North-East to develop 8,737 km of roads in two phases by 2015-2016.

I will love the light for it
shows me the way,
yet I will endure the darkness
because it shows me the stars.

Og Mandino.

SIDBI in talks to set up asset recast firm

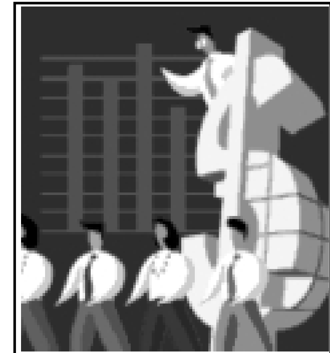
SIDBI is in talks with leading public and private sector banks to set up an asset reconstruction firm for small and medium enterprises in the next 6-9 months. "The asset reconstruction company is expected to have Rs.100 crore equity and 7-10 partners", said the bank's CMD, Shri R.M. Malla. He said the company may also include some global players, which have expertise in the SME sector. An asset reconstruction company purchases bad debts from financial institutions at a lower value and sells the same after reconstruction. SIDBI Venture Capital Fund, a subsidiary of the company has commited Rs.150 to a venture fund for IT sector. However, it is yet to contribute Rs.500 crore to SME Growth Fund. IT fund is for start ups, while SME Growth Fund is for start ups as well as expansion of existing businesses. Earlier, speaking at the seminar, Malla mooted the idea of mutual fund and insurance products for the microfinance sector. He said SIDBI would be keen to take part in such projects if there is a scope of establishing them.

Sarfaesi amendment sought to boost recovery

Banks have urged the finance ministry to consider amending the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (Sarfaesi) Act, 2002 to speed up the recovery process. The Indian Bank's Assoiation (IBA) has asked the government to delegate powers, so far limited to the district magistrate, for disposal of cases regarding the takeover of properties to other executive magistrates in the district. Before taking possession of a property, banks have to take permission from the chief metropolitan magistrate or the district magistrate within whose jurisdiction the property is located. While banks could approach the Chief metropolitan magistrate for permission and assistance in taking over a property within city limits, they found it very difficult to take possession of properties situated outside the city.

Being the district collector, the district magistrate could not attend to applications on a day-today basis due to other engagements. This led to delays in the takeover process.

Banks are required to apply to the district magistrate for takeover. At times, nothing happens for months altogether as the cases cannot be delegated", said an IBA official. Bankers opined that abnormal delays caused in deciding such applications frustrated the basic purpose of the SARFAESI Act.



LIC Housing Finance had earlier filed a petition in the Bombay High Court against the Union of India and others, seeking the court's direction to the District Collector, who is the District Magistrate, to expedite the takeover process. The state government had contended that the powers under SARFAESI Act were to be exercised by the District Magistrate alone and there was no enabling provision in the Act to delegate these powers to other sub-ordinate officers.

The SARFAESI Act, 2002 needed to be amended to delegate the power of the District Magistrate to the Additional District and further to the sub-divisional magistrates, said bankers.

Of the total bad loans recovered by banks in 2005-06, 38 percent was through the SARFAESI Act compared with 29 percent in 2003-04. Banks recovered non-performing assets (NPAs) of Rs.3,423 crore in 2005-06 by resorting to the provisions of the SARFAESI Act.

NABARD and IDBI Bank in Co-Financing

NABARD and IDBI Bank entered into a Memorandum of Understanding on October 04, 2007 for co-financing high value projects aimed at strengthening agri-supply-chain, investment in sunrise technologies, agri-processing, hi-tech agriculture and non-conventional energy projects. Both the institutions will combine skills for project identification and financing thereof. The Memorandum of Understanding was signed by Shri S.C. Kaushik, CGM, Investment Credit Department, NABARD and Shri D.K. Kamble, CGM, IBDI Bank Ltd. IDBI Bank Ltd. also executed a General Refinance Agreement with NABARD for refinance support for various agriculture and rural development projects.

RBI Liberalises Forex Rules

On a review of the current macro economic situation and in consultation with the Government of

India, it has been decided to accelerate the implementation of the third phase of the recommendations of the Committee on Fuller Capital Account Convertibility (CFCAC) with regard to the foreign exchange outflows. Accordingly, the following measures have been implemented with effect from September 26, 2007.

Remittance Limit for Resident Individuals Enhanced

With a view to further liberalise the remittance scheme for resident individuals, the limit has been enhanced from USD 1,00,000 per financial year to USD 2,00,000 per financial year (April-March). Accordingly, AD Category – I banks may now allow remittance up to USD 200,000, per financial year, under the scheme, for any permitted current or capital account transaction or a combination of both.

Prepayment of ECBs

With a view to providing greater flexibility to corporates in managing their liquidity and interest costs dynamically, the limit for prepayment of external commercial borrowing (ECB) without the Reserve Bank's approval has been enhanced from USD 400 million to USD 500 million. Accordingly, AD Category – I banks may now allow prepayment of ECB up to USD 500 million subject to compliance with the minimum average maturity period as applicable to the loan.

Limit for Overseas Direct Investment Enhanced

The limit for total overseas investment of an Indian party in all its joint ventures (JVs) and/or wholly owned subsidiaries (WOSs) abroad has been enhanced to, not exceeding 400 per cent of its net worth. Earlier, the limit was not exceeding 300 per cent of its net worth for companies incorporated in India or bodies created under an Act of Parliament and 200 per cent of net worth in the case of registered partnership firms.

Accordingly, AD Category – I banks may allow overseas investments under the automatic route up to 400 per cent of the net worth of the Indian party, as on the date of the last audited balance sheet.

Portfolio Investment by Listed Indian Companies

Listed Indian companies have now been permitted to invest up to 50 per cent of their net worth as on the date of their last audited balance sheet, in the equity of listed foreign companies, which are listed on a recognised stock exchange and rated bonds/fixed income securities issued by overseas companies, under the portfolio investment scheme. Earlier, listed Indian companies could invest up to 35 per cent of their net worth in such portfolio investment.

Further, the requirement of 10 per cent reciprocal share holding in the listed Indian companies by overseas companies for the purpose of portfolio investment outside India by Indian listed companies has been dispensed with.

Accordingly, a listed Indian company can now invest up to 50 per cent of its net worth as on the date of its last audited balance sheet, in (i) shares, and (ii) rated bonds/fixed income securities, rated not below investment grade by accredited/registered credit rating agencies, issued by listed overseas companies.

Overseas Investment by MFs

The provisions for overseas investments by mutual funds (MFs) registered with the Securities and Exchange Board of India (SEBI) have been further liberalised as follows:

Aggregate Ceiling Enhanced

The aggregate ceiling for overseas investment by MFs, registered with SEBI, has been enhanced from USD 4 billion to USD 5 billion with effect from September 26, 2007. The existing facility to allow a limited number of qualified Indian mutual funds to invest cumulatively up to USD 1 billion in overseas exchange traded funds, as may be permitted by SEBI, would however, continue.

More Avenues for Overseas Investment

MFs, registered with SEBI are presently permitted to invest in American Depository Receipts (ADRs)/ Global Depository Receipts (GDRs) of Indian and foreign companies, rated debt instruments not below investment grade by accredited/registered credit rating agencies, equity of overseas companies listed on a recognised stock exchange overseas, overseas mutual funds that make nominal investments (say to the extent of 10 per cent of net asset value), unlisted overseas securities and overseas exchange traded funds that invest in securities. To enable MFs to tap a larger investible stock overseas, they are now allowed to invest in additional instruments, subjects to the guidelines issued by SEBI. Accordingly, MFs registered with SEBI, can now invest in -

- ADRs/GDRs issued by Indian or foreign companies.

- Equity of overseas companies listed on recognised stock exchanges overseas.
- Initial and follow on public offerings for listing at recognised stock exchanges overseas.
- Foreign debt securities in countries with fully convertible currencies, short term as well as long term debt instruments with rating not below investment grade by accredited/registered credit rating agencies.
- Money market instruments rated not below investment grade.
- Repos in the form of investment, where the counterparty is rated not below investment grade. The repos should not, however, involve any borrowing of funds by MFs.
- Government securities where the countries are rated not below investment grade.
- Derivatives traded on recognised stock exchanges overseas only for hedging and portfolio balancing with underlying as securities.
- Short term deposits with banks overseas where the issuer is rated not below investment grade.
- Units/securities issued by overseas MFs or units trusts registered with overseas regulators and investing in (a) aforesaid securities, (b) real estate investment trusts listed in recognised stock exchanges overseas, or (c) unlisted overseas securities (not exceeding 10 per cent of their net assets).

EEFC Account

With a view to giving an opportunity to small and medium enterprises to manage the challenges in the global markets, it has been decided to permit all exporters to earn interest on exchange earners's foreign currency (EEFC) accounts to the extent of outstanding balances of USD 1 million per exporter. This is purely temporary measure valid up to October 31, 2008 and would be subject to further review.

EEFC account holders can now maintain outstanding balances to the extent of USD 1 million in the form of term deposits up to one year maturing on or before October 31, 2008. The rate of interest would be determined by the banks.

Earlier, EEFC accounts were permitted to be maintained in the form of non-interest bearing current accounts.

Guidelines on Purchase/Sale of NPAs

The Reserve Bank has advised all commercial banks (excluding RRBs), All-India term lending and refinancing institutions and non-banking financial companies (including residuary non-banking companies) that, while selling non-performing assets (NPAs) they should work out the net present value of the estimated cash flows associated with the realisable value of the available securities net of the cost of realisation. The sale price should not generally be lower than the net present value.

The Reserve Bank has further advised that the same principle should be used in compromise settlements. As the payment of the compromise amount may be in instalments, the net present value of the settlement amount should be calculated and this amount should not generally be less than the net present value of the realisable value of securities.

Banks' boards are required to lay down policies and guidelines covering among other things, valuation procedure to be followed to ensure that the economic value of financial assets is reasonably estimated based on the assessed cash flows arising out of repayments and recovery prospects. It has, however, come to notice of the Reserve Bank that in some cases, NPAs have been sold for much less than the value of available securities and no justification has been given.

Customer Service

Cheque Collection Policy:

Instructions were issued to banks through the Indian Banks' Association's circular of May 6, 2005, to incorporate the following in the cheque collection policy formulated by them –

- In respect of cheques lost in transit or in the clearing process or at the paying bank's branch, banks should immediately bring it to the notice of the account holder so that the account holder can inform the drawer to record stop payment and can also take care that other cheques issued by him are not dishonoured due to non-credit of the amount of lost cheque/instrument.
- The onus of such loss lies with the collecting banker and not with the account holder.
- The bank should reimburse the account holder related expenses for obtaining duplicate cheques and also interest for reasonable delays occurred in obtaining the duplicate cheques.
- If the cheque/instrument has been lost at the

paying bank's branch, the collecting banker should have a right to recover the amount reimbursed to the customer for loss of the cheque from the paying bankers.

Banks were also advised that they cannot make cash payment of account payee cheques as they are crossed cheques. As per banking practice, cash payment of an account payee cheque can be made only if the cross is opened by the drawer of the cheque.

Restructure Credit Policy to uplift weaker sections

Easing credit constraints for the poorest and the weakest must be a priority to reinforce and sustain their health status. The government is, ensuring that credit priority, as spelt out and implemented by RBI, is aimed at precisely this. Credit is a key input into agriculture & allied activities and for many small and micro enterprises run by the section that forms the country's 30-crore unorganised workforce.

Ensuring that access to constraintfree and timely credit is widespread and functioning efficiently in the rural areas becomes urgent against the new economic policies that destabilise their existing modes of livelihood, including widespread acquisition of arable land for SEZs and liberalisation of the retail sector in food. As crucial would be professional advise on new investments to ease the rigours of a livelihood switchover by building an effective social security net, since the in-depth impact of such policy-inspired livelihood destabilisation would only be visible over a period of time.

Shri Arjun Sengupta-led National Commission for Enterprises in the Unorganised Sector (NCEUS), which submitted its report to Prime Minister Shri Manmohan Singh recently, has delivered a scathing indictment of the RBI's priority sector lending policy (PSLP) commitment to weaker section credit. Here is an unwittingly state-sponsored, kid gloves-off critique of a deliberately lopsided policy, which has been designed, not by branch managers and loan officials, but by decisionmakers at the top of RBI to benefit what could only be a travesty of the phrase 'weaker sections', NCEUS has asserted. Stopping just short of calling it a sham in terms of virtually every fundamental count, it has criticised recent policy changes that have shortened the period for declaring a loan an NPA, which can spell death knell to many one-person enterprises in the unorganised sector.

A tawdry application of the mind is evident in RBI's own PSLP, which has set a target of 4% of the adjusted net banking credit (ANBC) for priority sector lending by banks. Of the 40%, 18% target has been set for agriculture and another 10% has been set for weaker sections. The fault, NCEUS has charged, lies with RBI credit policymakers, who refused to reduce the 40% (of ANBC) target set for priority sector lending despite the difficulties of banks in achieving it and attendant Narasimham Committee recommendations, mainly due to political compulsions. What the authorities did, instead, was to "nullify, through the back door, the operational relevance of the priority sector target by including many items, which can be conceived of as belonging to the weaker section borrowal of small loans who would not possess other bankable projects and who would otherwise face difficulty in getting bank credit…" They diluted the definition of priority sector to suit the achievement of statistical targets.

Diversion of unachieved disbursals under to NABARD's RIDF and SIDBI have helped banks show lending target achievements for the priority sector on paper. Quoting RBI's latest report on trend and progress of banking in India 2004-05, NCEUS has pointed out that it "speaks volumes of the extent to which coverage under PS lending has increasing moved away from the original intentions of the programme".

Banks, the panel report points out, are not interested in making advances to unorganised sector borrowers in the absence of collateral, irrespective of what RBI guidelines say. They openly subvert and ignore guidelines that say no collateral for loans up to Rs.5 lakh.

According to Rural Finance Access Survey of WB and NCAER (2003), a majority of the loan extended by commercial banks, RRBs and cooperative banks are collateralised with 89% of the households surveyed who borrowed from RRBs and 87% who borrowed from commercial banks, reporting that they had to provide collateral.

Also, small borrowers are forced to compete with small and large borrowers since the credit system operates under the existing RBI guidelines. RBI's PSL guidelines of April 30, 2007, prove NCEUS has said, that in the agri sector, too, the small or poor farmer has to compete with large and strong borrowers such as corporate houses, traders and institutions. In 2003-04, 70% of the total priority sector credit for agriculture from scheduled commercial banks (SCBs) went to the relative better off. Small and marginal farmers – although they account for 83.9% of the total farmer households and operate in 43% of the total farmland – received only 30% of credit to agriculture. In that year, SCBs advanced about Rs.96,000 crore to the agri sector. Of this, marginal farmers received only Rs.15,000 crore and small farmers

only about Rs.14,000 crore. What's worse is that the percentage break-up in credit to different segments of cultivators in agriculture has remained the same since 2000-01.

Similar situation pertains to the education and housing sectors. "Here, again, it is evident that due to dilution of PSL policy, the poor are competing with comparatively stronger claimants. Such a PSL guidelines has made a mockery of the weaker sections," NCEUS has held.

Nor have interest rates for the weaker sections been lower and easier in practice. On paper, the rate of interest on agri credit up to Rs.3 lakh is 7% and unorganised enterprises have to pay an interest of 9.5% (2% lower than PLR). However, a plethora of service charges levied by banks hike the total cost by another 2%. This, even while large industries often have to pay an interest rate lower than PLR on account of "better credit worthiness".

These costs become so high that in spite of comparatively lower rates charged by formal institutions, they work out often higher or equal to the informal rate. Hence, asserts the commission, small borrowers prefer informal channels (money lenders, etc) since they take on the spot decisions.

Poor institutional infrastructure available for credit has made the matter worse. Add to that the loss of momentum in distribution of bank credit to small borrowers from 21.2 million additional bank accounts by SCBs, of which 93.1% were accounts with Rs. 10,000 or less of credit limits in the 1970s. Between March 1992 and March 2001, there has been an absolute decline of about 13.5 million in aggregate bank accounts due to a much larger decline of 25.3 million accounts for the redefined small borrowal accounts of Rs.25,000 or less.

In recent years, the number of commercial bank branches in rural areas declined from 35,134 in March 1991 to 30,572 in March 2006. Many vacancies remain unfilled in rural areas and new generation banks have been hiring employees on contract. "These unhealthy practices could prove to be counter productive to the long–term credibility of banking institutions," NCEUS warns.

Monitoring Advances

Reiterating its earlier instructions, the Reserve Bank has advised banks to put in place stringent safeguards pertaining to post sanction monitoring of advances, such as, regular inspection of borrowers' assets charged to the banks, periodical visits to the assisted units, stock audits, etc. especially where accounts show signs of turning into non-performing assets (NPAs). In such cases banks should strengthen their monitoring system by resorting to more frequent inspections of borrowers' godowns, ensuring that sale proceeds are routed through the borrower's accounts maintained with the bank and insisting on pledge of the stock in place of hypothecation.

Banks have also been advised that whenever stocks under hypothecation to cash credit and other loan accounts are found to have been sold but the proceed have not been credited to the loan account, such action should normally be treated as a fraud. In such cass, banks should take immediate steps to secure the remaining stock so as to prevent further erosion in the value of the available security and also other action as warranted.

Rupee Loans to NRI Employees of Indian Companies

Authorised Dealer Category - 1 (AD Category-1) Banks have now been permitted to grant rupee loans to non-resident indian (NRI) employees of Indian companies for acquiring shares of the companies under the employees stock option (ESOP) scheme. The loan scheme should be as per the policy approved by the bank's board and would further be subject to the conditions as follows:

- The loan amount should not exceed 90 percent of the purchase price of the shares or rupees 20 lakh per NRI employee, whichever is lower;
- The rate of interest and margin on such loans may be decided by the banks, subject to the directives issued by the Reserve Bank from time to time;
- The amount should be paid directly to the company and should not be credited to the borrowers' non-resident accounts in India.
- The loan amount should be repaid by the borrower by way of inward remittances or by debit to his non-resident account.

RBI Sets Up Committee on Customer Services

The Reserve Bank has set up a Committee on Customer Services to look into customer services provided by the Reserve Bank directly or through banks/ institutions with a view to maximise satisfaction to the general public. The Committee, which was set up on September 24, 2007, is headed by Shri H. Prabhakar Rao, former Controller General of Accounts, Government of India and includes Smt. Vani J. Sharma, former

Regional Director, Reserve Bank of India and Shri Girish Pai K, Chartered Accountant as members.

The terms of reference of the committee are:-

- To evaluate the efforts for improving public services to individuals undertaken by the Reserve Bank directly or through banks/institutions, since adoption of Committee on Procedures and Performance Audit on Public Services (CPPAPS) recommendation and to advise the Bank on improving the quality of such services.
- To review existing policies and procedures with a view to their rationalisation, keeping in view the technological and other developments since CPPAPS recommendation.
- To interact with various fora/associations concerned with customers' interest to the extent it impinges on the services provided by the Reserve Bank.
- To tender advice on any other issue relevant to the Committee's work as also any specific issues referred to it by the Reserve Bank.

The Committee is based in the Reserve Bank's Regional Office at Bangalore. Among the various aspects which will be looked into by the committee are the following :

- Problems faced by individuals relating to availability of coins and notes exchange of soiled/ mutilated notes at the Reserve Bank's offices and bank branches.
- Banking services relating to foreign exchange transactions of individuals, including enchashment of currency/travellers' cheques, acquisition of foreign exchange for various permitted purposes, operation of non-resident accounts and foreign currency accounts of residents, etc.
- Matters relating to government transactions, including payment of pensions through banks, payment to taxes by individuals at the Reserve Bank/bank branches and any other related receipts/payment matters.
- Matters relating to servicing and redemption of Government of India Bonds (relief bonds, savings bonds) sold through the Reserve Bank and banks.

RRBs to be strengthened

The government is set to strengthen all loss making regional banks (RRBs) and partner with private sector banks to provide credit to farmers at their doorstep, minister of state for finance Shri P.K. Bansal said on October 10, 2007.

The Centre has committed funds for recapitalising 29 ailing RRBs, an important tool for financial inclusion, the minister said at the India Rural Business summit in New Delhi. The Centre's commitment is about Rs.1,850 crore while state governments that own 15% of these banks have to come up with a proportionate amount. After consolidation, the number of RRBs have come down to 96 from 196. Out of the 96 RRBs, 29 are making losses now. The Centre owns 50% in RRBs, sponsored public sector banks hold 35% while state governments hold 15%.

13 rural banks to be merged

The government has chalked out a plan to merge 13 more Regional Rural Banks (RRBs) as a part of its consolidation strategy to make them viable. With these mergers, the total number of RRBs in India drops to 82 from the present 95. The criteria for merging RRBs would be based on geographical proximity and contiguity.

The government expects the mergers to staunch bleeding by these banks. By March end, 39 loss-making RRBs were in the red by as much as Rs.2,814 crore after they failed to recover farm loans. Total lending by RRBs are around Rs.50,000 crore. In addition, these banks were hit by a wage hike. Although RRBs have a deposit base of around Rs.90,000 crore, they have a low earning capacity, suffer poor recoveries, high operational costs and low profitability, as their operations are restricted to target groups.

Opening of Currency Chests – RRBs

Regional Rural Banks (RRBs) desirous of opening a currency chest may apply to the regional office concerned of the Reserve Bank's Rural Planning and Credit Department. The RRB should, however, have –

- a minimum networth of Rs. 50 crore as per the latest inspection report of National Bank for Agriculture and Rural Development (NABARD);
- earned net profit for the last three years and should not have accumulated losses;
- gross NPA of not more than 10 per cent;
- no cash reserve ratio (CRR)/statutory liquidity ratio (SLR) violations during the previous and current years with reference to the date of application;

- not violated any prudential norms including individual and group exposure norms fixed by the Reserve Bank/NABARD; and
- complied with the instructions issued by the Reserve Bank/NABARD on loans and advances to directors, their relatives/firms, etc.

Opening of Controlling Offices

The Reserve Bank has advised that the Empowered Committee may, taking into account the local conditions and the financials of a bank, permit a RRB, to open a controlling office, even if it does not have 75 branches.

Instructions on Shifting/Merger of Branches Modified

As the restrictive provisions of service area approach have been dispensed with, the Reserve Bank has modified its earlier instructions issued to regional rural banks (RRBs) regarding shifting/merger of branches. The modified instructions are :-

Shifting of Branches

At Rural Centres

RRBs may shift branches in rural centres without obtaining the Reserve Bank's prior approval, subject to the condition that, both the existing and proposed centres are within the same block and that the relocated branch would be able to cater adequately to the banking needs of the villages served by the existing branch.

At Semi-Urban Centres

RRBs may shift their branches at semi-urban centres within the same locality/municipal ward without the Reserve Bank's prior approval. It should, however, be ensured that the locality/ward is not rendered unbanked due to the shifting of branch/es.

Merger of Loss Making Branches

Where two loss making branches of an RRB are in close proximity to each other (i.e. within a distance of about 5 kms.), the RRB may consider merging the two branches with a view to rationalising the spatial spread and reducing establishment/operating costs.

Conversion of Satellite Offices into Full-Fledged Branches

RRBs are now allowed to convert their satellite offices into full-fledged branches after obtaining concurrence from the Empowered Committee on RRBs. RRBs should, however, also obtain necessary licence from the Reserve Bank's regional office concerned.

You must enshrine in your hearts the spiritual urge towards light and love, Wisdom and Bliss !

Sri Sathya Sai Baba

TUFS delay hitting growth: Industry

Textile companies have said that delays in disbursement of loans under the Technology Upgradation Funds Scheme (TUFS) are resulting in quarterly losses to the tune of Rs. 350 crore to the sector. The companies say they do not have enough funds to place orders for new machines and raw material, a situation that is affecting their productivity and consequent profitability.

In a letter to Textiles Minister Shri Shankersinh Vaghela, the Confederation of Indian Textile Industry (CITI) has claimed the arrears are piling up and adding to the troubles of a sector already hit by the appreciating rupee. Former association chairman Shri V.K. Ladia said, *"Due to the delay in providing loans, companies are unable to even buy fresh stocks of cotton."*

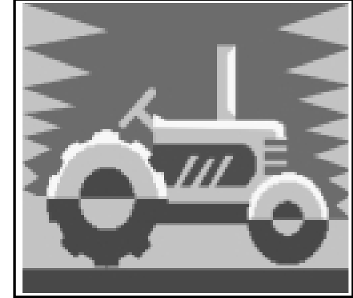
"In South India, the TUFS interest subsidy arrears stood at over Rs.11.7 crore up to December 2006. Since then, the arrears are pilling up as another 10 months have passed," CITI sources said, adding that the total nation-wide outstanding dues were in the region of Rs.1,000 crore. The companies claim that banks are also not keen on lending funds to the sector. However, the textile ministry officials said there was no backlog in disbursements in 2006-07. They said orders for disbursement of around Rs.243 crore for the year were issued to seven banks last month.

TUFS was launched by the textiles ministry in March, 1999 for a period of five years. It was subsequently extended up to March 31, 2007, the end of 10th Five Year Plan (2002-07). The scheme has been extended into the 11th Plan period and is also set to be revised. "*A proposal has been submitted to the Cabinet and we are waiting for it to be cleared*,". In 2006-07, the central government allocated Rs. 535 crore for disbursement under the scheme. The amount was increased to Rs. 911 crore for the current fiscal year.

Sidbi to set up ARC for small companies

Sidbi is planning to set up an asset reconstruction company for small and medium enterprises in the next six months with a paid up capital of Rs.100 crore. *"We may have seven to ten partners in the company Global players with expertise in SMEs may also be invited,"* said Sidbi Chairman and Managing Director Shri R.M. Malla.

Sidbi is in talks with top public and private sector banks in this regard, he added. SIDBI also floated an idea to set up mutual fund and insurance company with micro financial institutions for giving better returns to lower income category people.



Micro financial players have joined hands with India Investment Economic Foundation for providing social security cover to low income workers. Invest India Micro Pension Services Private Limited (IIMPS) aims to enable such low income workers across India to build up savings for retirement in a competitive and well regulated environment, said IIMPS Executive Director Shri Ashish Aggarwal.

Unido to make training package for auto parts SMEs

The United Nations Industrial Development Organisation (Unido) plans to develop a new training package for the auto component manufacturers mainly among the small and medium enterprises (SMEs). Under the new programme of co-operation, to be implemented in partnership with the Automotive Component Manufacturers Association of India (ACMA), the United Nations body would develop a programme for cleaner and energy efficient production of the components. The programme of co-operations would be spared across a period of five years from 2007 to 2010 and is currently under review by the government of India. The turnkey training packages for manufacturing enterprises would be built on the core expertise in quality and productivity management.

The Unido partnership programme would provide firms with inputs specific to enable them to further enhance performance to hasten their inclusion in the global supply chain. The moves could include supporting firms to achieve the ISO/TS 16949 standard since it is essential to securing global automotive business. The programme could also work towards sensitising manufacturers to disciplines relevant to international business activities such as the impact on industry of the WTO, international trade operations, export documentation, financial risk management etc.

The UN body is planning to take the initiative after seeing the enhanced production and quality standards of the Indian auto component industry mainly in the SME sector. Accordingly to a recent PwC study the domestic SMEs in the auto component business has shown a growth which is much better than the industry average of 62%.

MISCELLANY

What is GDP ?

Gross Domestic Product (GDP) is one of the several measures indicating the size of the economy. It is defined as the market value of all final goods and services produced within the geographical boundaries of a country during a given period of time. It does not include the value of intermediate goods and eliminates of possibility of double counting. GDP does not include depreciation of capital stock. Depreciation deducted from GDP gives Net Domestic Product (NDP).

How do we measure GDP ?

The most common approach of measuring GDP is the expenditure method, GDP in this method is expressed as the sum of consumption expenditure, government expenditure and net exports (quantum of imports deducted from quantum of exports). In this framework, general consumption spending of households on food, rent, medical expenses and so on, and governemnt spending on salaries of public servants, purchase of weapons for the military etc. all included. It does not include any transfer payments such as unemployment benefits. Investment spending includes expenditure on productive physical capital, such as plant and machinery and changes in inventories. Net exxports refers to the value of the goods and services a country produces for consumption overseas minus the value of goods and services that is produced abroad for domestic consumption.

The second approach is the income approach, GDP in this approach is the sum of wages earned by workers for the work done, the profits earned from businesses and rent from land. The third approach is the value-added approach. In this approach, the GDP figure is arrived at by adding up the value added (value of final output minus the cost of intermediate goods) in various sectors of the economy, adding up the taxes on various products to this amount and subtracting the subsidies on products from the total.

What is the difference between GDP and GNP?

Gross National Product (GNP) is the total value of all final goods and services produced by a country's nationals. It is different from GDP in the sense that it is not confined to value of final goods and services produced within the geographical boundaries of a country, but also includes net factor income receipts from aboad as well. Net factor income receipts are arrived at by subtracting the payments to foreigners within the country from the income generated by domestic residents abroad. Factor incomes are measured as compensation to employees, corporate profits and net interest.

What is GFCF ?

Gross Fixed Capital Formation (GFCF) is the new addition by enterprises in the domestic economy in fixed assets during an accounting period less the disposal of fixed assets during the same period plus addition of non-produced assets (for instance, discoveries of mineral deposits). In this context, fixed capital needs to be distinguished from circulating capital. Fixed capital is defined as that category of capital that is not used in the production of goods. This includes plant, machinery, buildings etc. Circulating capital, according to classical economists such as Karl Marx and David Ricardo, is that type of capital that is used in production of goods and services. This includes raw-materials, intermediate goods etc.

What are the drawbacks of GDP estimate ?

GDP does not take into account the black market where the money spent is not registered resulting in inaccurate or abnormally low GDP figures. For example, in countries with major business transactions occuring informally, portions of local economy are not easily registered. GDP ignores the environment, subsistence production and domestic work. It is estimated that if an attempt to factor in unpaid work were made, then it would in part, undo the injustice of unpaid labour.