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From The Editor's Desk

ECONOMIC REFORMS & POVERTY

The underlying objective of introducing any reforms by a welfare state is to re-structure the sector in such a way that benefit of development flowing from the policies of the Government percolate to the maximum number of people in the country. The Government of India had introduced economic reforms in 1991 to re-structure the economy/financial system with a view to securing optimum utilisation 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, deregulation 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.

PHOTO

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 liberalisation 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 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 9 Five-Years 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.

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, during the course of his address to the Chief Executives of State Level Financial Institutions (SLFIs) recently, had characterised 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 liberalisation, 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 15% of the population owns 85% 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 country. The per-capita income in this country is about $300 per annum, which also includes the above 15% 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 may be mentioned that the High Powered Committee on Integral Rural Development Programme (1994) of which I was the Member Secretary, had recognised the need to impart technical skills to the people of rural areas and recommended 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 areas. Over-dependence of population on land had resulted in sub-division and fragmentation of land holding 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 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 revitalisation of rural industrialisation. 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 organised way. The empowerment of rural poor can take place only if atleast 50% 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 long way. This process would eventually empower rural poor and push them above the poverty line.

[K.K. MUDGIL]

APPOINTMENTS

- Dr. Sundradevan, IAS has been appointed as Chairman & Managing Director, State Industries Promotion Corp. of Tamilnadu Ltd. (SIPCOT), Chennai vice Shri T.R. Srinivasan.
- Ms. K. Dhanalakshmi, IAS has been appointed as Managing Director, Uttar Pradesh State Industrial Development Corporation Ltd. (UPSIDC), Kanpur vice Shri Balvinder Kumar.
- Shri Ram Niwas, IAS has been appointed as Managing Director, Haryana Financial Corporation (HFC), Chandigarh vice Shri Anil Malik.
- Shri Anil Kumar Khachi, IAS has been appointed as Managing Director, Himachal Pradesh State Industrial Development Corporation Ltd. (HPSIDC), Shimla vice Shri Vineet Chawdhry.

- Shri Satish Gavai, IAS has been appointed as Managing Director, Maharashtra Industrial Development Corporation Ltd. (MIDC), Mumbai vice Shri V.K. Kanade.
- Shri Daniel Longchar, NCS has been appointed as Managing Director, Nagaland Industrial Development Corporation Ltd. (NIDC), Nagaland vice Shri Jyoti Kalash.

TAX COLLECTION FOR BENEFIT OF COMMON MAN

BY

B.R. LALL*

Almost 80 % population of India is below the poverty line with a per capita income of $ 2 per day. These masses represent the category of 'Common Man'. They suffer from acute poverty and deprivation, do not get proper two square meals, do not have access to essential services like health, education, shelter treated drinking water etc. I will define these as the common people. The common man is basically poor and weak.

This common man is exploited on all the fronts. The laws provide certain safeguards and privileges to him, but the powerful people misappropriate the privileges and bend the laws to use them for the exploitation of the commoners in all the fields economic, social, political, administrative etc. Long back the Rig-Veda recognized the importance of law and the protection they can afford to the common man.

Law is The King of Kings
far more powerful Than they;
By whose aid even the weak
may prevail over the strong.

..........Rig Veda

The above dictate is clear that the law can be a very powerful tool in the noble service of the masses, but it is silent if the law is not allowed to prevail. We see day in and day out that the laws are bent or cast aside and the machinery of law (or read government) is used for repression, suppression and exploitation of the common people. Such misuse of law in various fields is a vast subject by itself and cannot be taken up as a whole at this platform. I propose to deal with only the financial aspects that too particularly as related to non-payment (evasion) of taxes that are due .The other aspect is not to pay the due compensation to the weak for his services. I propose to concentrate on the single aspect of tax evasion in the limited time that I have.

The dire consequences of this evasion can properly be appreciated only in the light of the role of looking after the welfare of its people the modern state has taken on itself. Since the majority in India falls in the category of common man, the State is thus wedded to his welfare. It has to maintain peace and justice so as to ensure that everybody can follow his vocation unhindered. It has to ensure that the common man is not exploited and that he gets at least the minimum requisite level all the essential services and of course an honorable source of livelihood. In most of the advanced countries of the world if they cannot provide employment to a person for any considerable time then subsidies and doles are given to the unemployed for their honourable survival as a matter of right for which the common man is not beholden to anyone as the state is only discharging its responsibility.

The tax evasion makes good governance impossible as it takes away economic power from the Government, creates black money, leads to mal-distribution of the national cake, concentrates economic power in a few and often undesirable persons, cuts down the course of productive stream and hence the employment. The reduction in the resources at the command of the state deprives it from the wherewithal to perform its essential functions and also creates social unrest. This evasion of taxes ultimately culminates into Financial Terrorism that is the root cause of physical terrorism and all other forms of terrorism except of course the religious terrorism that falls in a separate class altogether, which I do not propose to touch.

As per the World Bank, in India the essential services that make the life worth living are very poor, as the government does not have money for any of these services. Nature did not create us poor. The country has crores of super rich people. Even when the world was passing through the recent depression, in India the common man might have been on the road, but there was no let up in the enjoyment of the big in India. Their acquisition of luxury cars or business trips abroad continued and rather increased as they had more leisure available. They have enough money stacked in black. There is a single reason responsible for all this disorder that the due taxes are not collected in India. With comparable or even the lower rates, the advanced countries collect 25% of the GDP as Union taxes and the world average is 22%, but for India it is only 9%, that too of the recorded GDP only. The hidden GDP is believed to be equal to the recorded GDP. That may push our collections down to as low as 4.5% only.

The author is a retired IPS Officer and Former Director General Police, Haryana

The mafias grow and thrive at the head of this mass scale evasion of taxes as the black incomes are accumulated and the Mafias, dacoits, the kidnappers and all such denominations eye these unearned incomes with greed. Since basically it is a fraud on the public money or the exchequer that belongs to all, they also like to have a share in the loot. It is for this reason that the big mafia is concentrated in Mumbai, as it is the hub of mass evasion of taxes like customs, excise, corporation and income.

Unfortunately in our country no effective steps have ever been taken against this worst category of criminal. He is an offender in the eyes of law as he violates the Tax Laws of the land and deserves to be punished. After all every type of criminal commits crimes only to misappropriate more money. What then is the difference between a Supari killer and a tax evader, as objective of both is the same, only their techniques differ. The effects of their actions on the society are also the same, but still one is condemned whereas the other has gained respectability. It is the manifestation of the graded elitist society as the physical terrorist starts as a helpless common man, but the financial terrorist is the big person. It is a different matter that after amassing money this common man turned mafia also follows the ways of the other cousin and tries to gain respectability.

In dealing with the tax evaders, the governments have been very soft and rather apologetic. The laws have never been enforced on him strictly and with seriousness. I have not known any one being jailed for evading taxes. I wonder if at all there is such a provision in our legal system. On the other hand from time to time schemes of general amnesty on tax front are brought into operation and for a peanut the entire black money gets converted diluting their sins of ages. It has to be realized that the tax evader is also a criminal like any other and should be treated ,punished and also sent to jail like them, then only the taxes will be paid. It is the soft state that abets this crime and it is the strong enforcement of laws that can check it.

There is another aspect of this crime that the booty is partly sent abroad into the secret foreign bank accounts. Indians are supposed to hold enormous funds in such accounts. Some estimates place this amount around Rs. 2 lac crores, but these holdings abroad cannot be checked as banks cover themselves with the veil of secrecy. However the slush arising out of the drug trade is being treated differently. If it is suspected that money in a bank has some relation with drug trade, the secrecy laws stand automatically relaxed, as these have been amended to that extent, at the instance of the big western powers, as drugs are their problem. After attack on World Trade Centre in New York on 11th September 2001, the potential of this menace was realized by the advanced countries and the money held in various accounts by terrorists has also been frozen. For countries like India, all economic offenders including the corrupt are the Financial Terrorists. Major problem of the 3rd world is the tax evasion and the corruption causing great drain on their economies. This drain will continue unabated unless there are certain structural changes amending the secrecy laws that are aiding and abetting this crime. It would not be an exaggeration to say that the people of the countries like Switzerland engaged in secret Banking are leading parasitic and criminal existence. This hypocrisy does not go well with their famed high stance on morality. They should abandon such laws and throw their banking business open and transparent. Since these financial crimes are against humanity and Bank Secrecy provides the basic infrastructure to facilitate and make it possible to hide the assets, the Secrecy laws should not find place on statue books of any civilized country in this shrinking world where interdependence of countries is growing higher.

This forum should address itself to this and such like related basic issues in details as we are one of the worst affected countries of the world in this regard. We should take up this question forcefully, rather at the crusade level in the conferences as also with the Swiss bank authorities, the developed world and with all possible Organisations, Forums and NGO's at the international level. We should create a lobby of the countries of the 3rd world, to exhort the OECD who is always ready to uphold morality all over the world, and should agitate for relaxation of banking secrecy laws. Following measures are relevant and an immediate necessity in the Indian context and the same holds good for all other countries similarly placed : -

- Whenever a bank account is opened by an Indian citizen abroad, the particulars of such Indian and such account should be communicated to the Indian authorities, through its embassy/high commission in that country. Such account numbers and other details should be compiled in the CBI.
- If the person is found involved in some crime, particularly of corruption or any other white-collar crime that has been registered against him in India, then the particulars of balances in his accounts and the copies of such accounts, if asked for authentically by an investigating agency, should be supplied by the country in which such

accounts or the assets are held. A nodal agency could be authorized in this context, say CBI in case of India. If any State /Union agency needs some information, it could approach the CBI. The foreign bank/government should have no discretion but to supply duly certified copies of accounts/information whenever demanded by the nodal agency,

- Whenever an Indian purchases property abroad, its details like those of bank accounts, be informed by the registering authority there, to the Indian Embassy/ High Commission, who will transmit the same to India. This information could also be compiled in the CBI and used at the time of need.
- To make a beginning, details of all properties and bank deposits held abroad by the Indian citizens at present be supplied to Indian Embassies/High Commissions in the respective countries.
- Further, on instructions from CBI, the accounts be frozen, the lockers, the properties and other assets sealed and their transfer or sale be banned. Ultimately the accounts and assets be treated and disposed as per directions of the Indian courts.
- For obtaining/supplying such information, the doctrine of dual criminality should not be insisted upon, as the core contents of such crimes are similar everywhere, only some technical details may differ. Similarly blanket sovereign guarantee of reciprocity may be executed, once for all at the level of the governments so far as such crimes are concerned, and should not be insisted upon for every individual case as that causes tremendous delays.

Once this happens, hiding black money/assets abroad will become very difficult and practically impossible. This country, as also whole of the third world, will start looking up immediately. But to get such amendments to their rules, India has to take other countries of the 3rd world along, and initiate very persuasive and aggressive propaganda underscoring the point that we are readily helping them in their fight against drug and terrorism and that they also need to reciprocate. It will be a time consuming process, but requires sustained efforts, so that the countries like Switzerland are persuaded or even coerced at the international level to be transparent and to abandon the diabolical secrecy laws leading to and protecting this gravest crime against the humanity.

It will not be easy, as the Indians holding such accounts/assets abroad will surely oppose any such moves. But no meaningful service to the common man can really be successful without such radical measures.

Imagine the scenario that if tax revenue of the Union were to rise from the present Rs.3.70 to 18 lac crores that is due or even to half of it per year, the government will have enough money to construct roads, to provide water, education, sanitation, health and all the other services and would also be able to pay to its employees a better wage so that at least some of them could be weaned away from the lure of corruption.

Much talk of good governance goes round with various suggestions as to what should be done and what should not be done. The States keep on alternating between the Peter and the Paul as it cannot have enough resources for all. With present level of collection of taxes, it can do no better. If the nation could concentrate on this one point programme of collection of taxes, that by itself will go all the way to ensure good governance.

When the load gets too heavy or the task too hard, give it to God. Nothing is too heavy or too hard for him.

GOVERNANCE AND DEVELOPMENT

By
Yoginder K. Alagh*

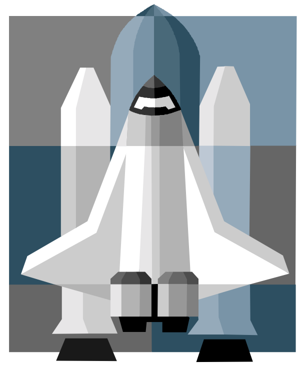
The country seems to be in a questioning mode on governance structures. The notion that all our problems can be traced back to the political governance and the civil service mechanisms is incorrect. Change has been rapid, expectations are high, technological and economic compulsions are severe and system performance of an incremental kind seems unacceptable. The country used to the experience of the freedom movement and the post independence decades, with 'high commands' saintly idioms', 'satyagraha' modes and 'idealistic' goals, is not coming to grips with the operational and functioning aspects of coalition governments and decentralised institutions. There is an atmosphere of unease and unanswered questions.

We attempt to lay down the borders within which governance systems are expected now to function. We try to be relevant in the immediate sense, but the economist and planner refuses to always oblige. Detailing the borders as we look ahead is relatively simple. The devil is in trying to work out the transitions to reach there from where you are.

The Indian political system and civil service produced some extraordinary men and women. They have been persons of letters, of the arts and of history. They have conceived and implemented green revolutions, given extraordinary ideas in health, education and literacy. They have protected the tribal and dalit, fashioned her/his rights and fought for them. They have developed new concepts of finance, scrutiny and audit of public expenditure. They have fashioned and followed through the nation's global agenda. They have followed through the deepest dreams of a multi-religious, multi-ethnic society, inherited from its freedom struggle, by both creatively strengthening its democratic and reconciliatory edifice and fighting those who would destroy it by violence. They have been at the heart of the young democracy's struggle for fas\ worked out the solution. But they are the exception, not the rule. It is the turnaround which is difficult.

In one's work dominating trends in relation to governance can be perceived. Somewhat tentatively as far as the border are concerned I would propose that:

- As the State withdraws from direct delivery governance would need to establish a regulatory framework for the functioning of the economic and social sector and also lay down the institutional framework, the incentive and disincentive mechanisms and fiscal structures for civil society institutions to function, like decentralise, local institutions of Government, Cooperatives, NGO's and newer 'mixed' forms of similar organisations.



- Non-renewable resource scarcities will be far more severe particularly of resources, like water, quality land, and energy and sustainability concerns will be acute.
- There will be much greater emphasis on the rights of individuals and groups, including participatory forms of decision making. This is turn will demand greater fairness and self-restraint in the use of Government power. Related to it will be demands on transparency and right to information.
- There will be the demand for protecting vulnerable groups, either the historically underprivileged, or the victims of marketisation, concerns for human rights and particularly of specific groups such as women, children, the minorities the Adivasis, the mentally and physically challenged.
- On the flip side modern technology will be seen as providing cutting edge knowledge based solutions to emerging scarcities or problems, and therefore greater use of information technology, biotechnology, systems networking, the new materials and strategic management responses.
- Thoughtful groups will see security concerns becoming more acute, arising from socio-economic political dichotomies and resultant tensions as also the more basic issues of energy security, food and water security and institutional dimensions of addressing these.

** Mr Y.K. Alagh is former Union Minister and former Member Planning Commission. He was also the Chairman of the Committee on Reforms in Higher Civil Services.*

Changing Role

The process of reform began in the mid-eighties in India. The first phase consisted of eliminating price controls and relaxing investment and foreign exchange controls. These were replaced by tariff and tax policies. The road map was outlined by committee on Replacing Quantitative Controls by Fiscal Methods or the Narasimham Committee of which I was a member. The emphasis was on domestic reforms and preparing Indian industry for global competition, but there was discrimination between industries with a view to encouraging self-reliance, production of mass wage goods, was still an objective, as also that of creating a level playing field for efficient Indian industries as the economy was subjected to competition. Cement, aluminium, steel and a number of other industries were decontrolled and import licensing relaxed. Tariffs were however high and discriminatory and there was the so called 'savage' policy of taxation of luxuries.

The nineties saw a more general economic reform of the kind designed by the Brettenwoods instititutions. The exchange rate on current account was left to market forces, import control on producer goods and intermediates was largely abolished and the average level brought down. Policies on sectoral and regional direction to industrial investment, MRTP control and controls on FERA companies were diluted or given up. The level of public investment in industrial and infrastructural sectors was drastically reduced. An earlier policy of restructuring and privatising selected public sector industry was changed to a general policy of disinvestments, with initial emphasis on selling profitable public enterprises to the private sector, to overcome 'initial resistance to purchase of public sector equity.'

However, the abandonment of a strategic role of the state is wrong. I believe that the trend to marketisation is correct. The process of liberalisation is now in its final phases with India imposing the WTO regime in full since 1998 and the Ninth Plan and Tenth Plan committed to financial deregulation and capital account convertibility in a phased manner. Governance issues are now different.

It is interesting that when Stiglitz now talks of counterfactuals that have succeeded and the theories that go with them he discusses Poland and China, while in the early nineties the references were also to India. In the second half of the nineties and the early part of this decade. Indian economists are well represented in global journal but there is no perspective on India's experience from an analytical point of view. This is definitely unfortunate from a knowledge we know is a source of growth and has practical consequences also.

The withdrawal of the direct economic role of the state in India was accompanied by a conscious policy of decentralisation designed in the late Eighties of the last century, setting up of regulating bodies for the infrastructure and industrial sectors and a Constitutional third tier of government and the emergence of NGOs and cooperatives in fields of land and water, rural activities and social infrastructure.

Who will Guard the Guards ?

As far as the regulating bodies are concerned, recently there has been a sharp attack by a group which was led by the Principal of the Administrative Staff College of India. After the good professional studies released for public discussion by the Central Electricity Regulatory Commission under Dr. S.L. Rao a professional economist, including a Discussion Paper on the principles of tariff fixation there has been little worthwhile work and in fact a number of state level Commissions have acted in a fairly non-transparent manner. The whole question of the structuring and manning of these bodies has been opened up for debate. In this context I may be permitted a brief personal intervention. As Minister of Power, the worst kind of pressures faced were in appointments. Together with my Secretary, who later took premature retirement from the IAS and became Principal of ASCI, I appointed the Member Planning Commission M.N. Srinivasan, the no nonsense former Chairman Atomic Energy Commission, as the Chairman of an Advisory Committee to the Power Parastatals. The individuals appointed then implemented some of the largest expansions of capacity in power generation and transmission at lowest costs. This transparent appointing procedure was introduced after quite some introspection in the CERC Act introduced by me in Parliament in August 1997. However I am told that this provision has been removed in later legislation and the selection processes for such appointments are now again chaired by political persons with the unedifying spectacle in some cases of Secretaries to the Government openly lobbying for post retirement perks in this form. The management of regulation is obviously an issue of highest importance and needs to be discussed openly and transparently. More generally the Committee I chaired on examination and training reform for the Higher Civil services has also argued that apart from examination and training reform, the management of civil services is the crux of the issue.

The issues in decentralisation are of another kind. It should remain a matter of priority for State Policy to help those who help themselves in the core areas of local and global concern. As preparations of Tenth Plan showed, in relation to targets, performance has been well behind in the interrelated areas of land and water. What are the civil management and organisation issues here at the local level in the case of problem which is at the heart of food security and employment and energy sufficiency?

Problems partly arise because the existing legal and administrative systems and financial rules are structured for formal organisation in the public or private corporate sector. So are global financial institutions. Newer kinds of institutions with strategic mixtures of organisationl styles, cooperatives and corporates, NGOs and governments, NGOs and cooperatives do not have a level playing field for them. Recently a Bill has been passed in Parliament allowing cooperative to register as companies, based on the report of the High Level Committee on Legislation for Corporatisation of Cooperatives. (The Companies Second Amendment Bill, 2002). Such innovative approaches are rare and in any case become controversial. There are reform issues here also. For example a loss making subsidized electricity system can underprice a renewable group and drive it out of the market. The long-term problem is reform in the sense that subsidies and protection given to established groups have to be withdrawn. In the short run the protection given to each group must be the same.

The structure or incentive and disincentive systems for this kind of growth, should begin with a taxonomy of complementarities of policy rules at different levels of policy making like no level can spend more resources than they have access to. But resources, which are short of binding constraints at national or global level, are elastic at local levels. However, their mobilisation requires policy changes at higher level. For example, it is easy to buy a tax-free bond of the New York civic bodies, but very little attention has been paid to markets for local bodies bond paper in developing countries and the fiscal reform that has to precede them. An exceptional effort by the Ahmedabad Municipal Corporation of floating a large bond issue without sovereign guarantees is available as a case study. These issues are important because the State just does not have the money any more.

We must emphasise that any debt rescheduling strategy will have to do this must be linked to restructuring Local Finance. The good schemes of support to local agencies for land, water and urban development in the last budget and the Planning Commission's idea of using exchange reserves for infrastructure investments as public private partnerships must be linked to State and local governance structures and finance. Large sums of money are involved here. International agencies are now lending for local schemes. We must study recent global policies and link this with local finance.

The last three problems essentially underscore that the reform process has to be fairly deep for widespread land and water based poverty reducing growth processes to take place. This has to be rooted in the administrative and legislative processes.

The kind of growth discussed meshes well with higher output, income, employment and trade levels. Improved management of water to crop diversification. The typical sequence is a poor yielding mono inferior cereal economy, succeeded by a high yield cereal and a commercial crop, or tree crop. In the Indian case, exchange rate reform led to higher growth of agricultural exports, before the East Asian crisis cut down demand in the fastest expanding markets and recent evidence is that the districts sourcing non-traditional exports have gone through a phase of land and water development sequences. But such policy complementarities have to be planned for.

The issue here is the requirement of systems to be alert to field oriented developments. Such systems have to constantly assess organisational, legal and financial system requirements. It can be said this was always so. The pressing change now is that the requirements are to involve civil society in the process. This makes the networking knowledge requirements more intense. Abilities of communication and having the energy to follow more complex goal will be required in this phase.

It is useful to begin with the kind of problemetiques the sustainable development framework studies bring out. The "Business As Usual Scenarios" bring out unsustainable outcomes.

It has been argued that *"The sharp breaks in many indicators and unmanageable problemetiques emerging in major environmental concern areas is self-evident. Solid waste disposal levels of more than 100 million tonnes, slum population of around 100 million persons, acute water shortages and air and noise pollution of a severe kind, all manifest themselves. The serious environmental implications of burning poor quality coal are apparent underlining the critical energy situation in the country. The glaring magnitudes indicate the long-haul for improving the living standards in the country. This also brings into sharp focus the hazards of following an unbridled consumerist path both at the global and national level."*

Urban Settlements

The Indian economy is growing rapidly and also diversifying. For example the share of agriculture in the labour force has now fallen to around 53 per cent. Again, urbanisation will need to be structured in a fairly decentralised manner. All of this leads to different challenges in transport, energy, waster disposal and urban planning issues. It has, however to be noted that the urbanisation pattern in India is decentralised. While very small urban settlements are not growing, the share of smaller towns in Class 1 towns is high, (100.000+). Urbanisation has been explained as the outcome of both centrifugal and centripetal forces. While the urban growth rate in the eighties went down from 3.8 per cent to 3.12 that of Class 1 towns went up (6.39 per cent to 8.39 per cent). It can be postulated that these trends will continue.

The preferred model is consistent with the pattern of urbanisation with clusters of settlements around large conglomeration. Policies should not be concentrated only on rural output and employment. In fact in a dynamic economy of the Indian type the distinction between the village and the small urban settlement can be very counterproductive and lead to all kind of projectionist distortions. A more productive mindset would be to orient policy to concentric circles of prosperity around diversifying agricultural bases and growth centres. Such possibilities are very real and substantial in India. Transportation, land use, infrastructure and technology dispersal policies can be oriented to this objective. In fact it will be more sustainable. Slum populations are 25 to 40 per cent lower in smaller Class 1 towns as compared to million plus cities.

The public management issues involved in rapid and decentralised urban growth are so obvious that they do not need elaboration. Awareness of technology, system interrelations, decentralised planning foci, self reliant institutions which can productively borrow and build and run systems have all been discussed and yet only a small beginning made. These are going to be the great challenges of the next phase. The ability to raise and use resources productively will be at heart of the matter.

Technological self-reliance on mission mode, as in the past, will probably also continue as requirement of the present national security and other long-term objective. It has been shown for example, that the development of the Param Super Computer led to the withdrawal of restrictions on export of supercomputers to India. Again recently the Chairman of the Atomic Energy Commission has pointed out that sanctions on India made it more self-reliant in nuclear technology. Thus, some mission-oriented efforts are necessary in a world of restricted technology access. Since India has limited reserves of uranium, but very large reserves of thorium, a project like the Fast Breeder Reactor Nuclear Power Station, became a very important part of its search for long term energy solutions, since it takes a major step towards completing the nuclear fuel cycle, based on thorium and therefore a relatively cheap and abundant source of power.

It would be naively optimistic to say policies for introducing new technologies, which reduce financial and real resource costs, introduce newer more consumer friendly and sustainable products and help competitiveness, are already established. A beginning has been made but a lot more needs to be done. Temporary fiscal and monetary comfort which improves rates of return for cost reducing technologies and newer products, need more support. Standard setting, quality enforcement and organizational reform which makes all this possible, is also needed on a more larger plane, together with network which hasten the process and fiscal sops to integrate these with the market.

The science establishment must seriously consider these issues. In the information and software area, successes are known: Growth rates in exports of 60% annual, around 25% in this depression year also. But to have 18 of the 25 top technologically certified companies in the world and to provide over a third of the software needs of the Top 500 Fortune companies, as a recent Japanese study points out, is not to be scoffed at. In a OECD-ADB meeting on Technology and Growth to which I was invited to speak, India was shown in Paris as the only exception to the global digital divide. (Seventh OECD-ADB Asia Forum, Paris, student June 2001).

Applications

Serious research during the last decade and a half has shown fairly conclusively that the tremendous opportunities that are available with the new technology requires groups and systems which can manage its interdisciplinary nature, since applications cut across areas like bio-technolgy, communications and computerisation. If the preconditions are available it spreads very fast, both through space and sectors in economy and society. But if the infrastructure is not there, both physical and human, vast areas will be left out including some in developed world. There is also the need of quick response. As Ricardo Petrella of the EEC's FAST Group pointed out each generation of innovations is building on the corpses of earlier ones. State and parastatal agencies find it difficult to perform in this framework.

The point being made is that whether we discuss wide based rural development or growth centres, the nature of public policy skills required now will involve much greater reliance on technology at a decentralised level, networking and an ability to work with civil and community groups. Thus the need will be to champion reforms, facilitate community, private, focused NGO/ cooperative groups and to help the economy and society to integrate with the opportunities provided by wider national and global markets, through productive activities.

In the rapid changes that will take place in the country and the world in the 21st century, the Higher Civil Services will as is obvious, have to be at the cutting edge of being the protectors of the poor, the oppressed, the vulnerable and the underprivileged. The democratic urges and aspirations of India, enshrined in its constitution and its legislation, will have to be met in a fair and transparent manner not only impartially, but in spirit, by protecting the rights of the poor, limiting the coercive power of the State. Safety nets will need to be developed and implemented as the market economy expands. Poor women and the girl child, the minorities, the tribal and the Dalit, the handicapped and the destitute, will need special attention.

The constitutional and legal dimensions of public administration determine the powers, functions and accountability of the government. A major change in the evolution of civil services in India occurred with the adoption of democratic constitution incorporating the ideas of rule of law, guaranteed rights and Parliamentary government. The 73rd and 74th Constitutional amendments envisage a further change in the same direction. Services under the Union and the states find a prominent place in the constitution itself. An autonomous Commission with vast powers for recruitment to the services is another important aspect which emphasises its role in constitutional governance.

Looked in the above context we need to understand the significance of rule of law and the concept of limited government under a written federal-type Constitution. The values of the Constitution written into Preamble, Fundamental Rights. Fundamental Duties and Directive Principles have to become part of the system. As an instrument of governance the provisions of the Constitution and its interpretation by courts constitute a point of reference to all government action. These are subject to judicial review which is the foundation of rule of law under a scheme of constitutional government.

The primary agency of the government to protect human rights, more particularly of weaker sections of society is the bureaucracy because they are the enforcers of the law. The Court steps in only if the executive fails to implement the laws or implement it contrary to law and selectively. A constitution which proclaims secularism and social justice based on equal protection of the laws puts a heavy burden on government, both at the central and state level. Hence the importance of constitutional perspective.

Another dimension which conditions the functioning of civil society in modern times is the profusion of laws, national and international relating to economy, ecology, technology and international treaty obligations. The change in the concept of property from something tangible to forms which are intellectual and intangible brought almost a revolution in the laws of trade and commerce. Intellectual property law and trade related intellectual property rights have become critical in economic governance globally. Added to this is the information and communication technology which threw up a new legal framework for doing business within and outside government. Globalisation is happening not only in relation to market but in respect of all conceivable aspects of organised life to the fast changing legal climate in all these matters influencing both policy development and administration.

Yet another legal dimension impinging public governance at all levels is the jurisprudence of sustainable development. There are today legal parameters in the use of administration which have to be accommodated within sustainable limits. These are some of the significant legal perspectives which are critical for civil society in the future.

Change Parameters

The purpose of this discussion has been to draw out of the attributes that will be required from the system in the forthcoming period. These would include amongst others **:**

- A sense of vision and direction in which the Indian socio-policy is moving, including its very diverse cultural pulrality;
- An ability to appreciate some of the real scarcities that are emerging as also the strengths of civil society to cope with them;
- At higher levels of the system an ability to interface with modern technology, which provides the cutting edge to many solutions;
- At higher levels of the system an ability to network with local government institutions, non-governmental organisations, cooperative and other professional and people's organisations;
- A sense of rugged professionalism, persistence and doggedness in pursuit of objectives; urge to champion beneficial change; energy to pursue objectives;
- Compassion for the underprivileged and above all; a commitment to India as envisioned by its founding fathers.

Two encouraging reports were the statement of government intentions at the instance of PM that the age of entry to the higher central services will be twenty-six or twenty five and not thirty plus as at present and empanelment for the joint secretary will be earlier and on merit not just seniority. In the vernacular press in the city I live in, the lowering of age was reported as if the authorities were taking a benefit away. These proposals as the documents of the Administrative Reforms department put on net shows, are a couple of years old. They were acted upon by the NDA government on account of the flak they wrongly in my opinion were not willing to face, although they are of high intrinsic merit.

The argument used against the proposal to reduce the age of entry is that children from poor or scheduled caste, Adivasi or OBC background will be at a disadvantage as compared to the westernized urban elite candidates., It is factully wrong and it is important to recognize this as the debate starts or the reform will be anon starter inspite of its advantages to the country. This was the major issue when the committee on reform of the higher civil services examination and training of the UPSC was working on the proposal. There is no question that the broad base of recruitment for the higher civil services like the IAS or the Police is a great advantage for India. Children coming from diverse social and economic backgrounds lend a truly national perspective and an empathy for the real problems of the country which candidates from an affluent or elite background alone would never give.

The plain fact of the matter was that candidates with college degrees from backward districts, disadvantaged communities and women, in fact declining as a share of the total as the age limits for recruitment kept on rising with the so called objective of helping them. The Zakir Hussian Center for Education at JNU conducted a study of the private cost of preparing for the exams. This was more than a lakh of rupees per year. A child from a poor family would simply not have the resources to keep on preparing for these exams year after year, in terms of staying in the city and not doing an alternate job. So the children who largely benefit from this concession are those from the better off communities which benefit from reservations. In other words they are *'second generation'* candidates from well off families. Even this would be an advantage, had it not been for the fact that good candidates from the reserved communities from backward area, in other words, the first generation ones are available at younger ages. As anyone who has conducted a large open competitive examination in this country knows it is such a richly endowed society with talent that at the top you get outstanding material and the difference between the highest ranks is very little. As a former Vice Chancellor of JNU where tens of thousands of children apply I know that at each point there are a number of candidates and the difference between them is very marginal. So really by reducing the age you still get very good material and more important from the really backward areas and communities.

They are malleable, can be trained, imbued with a sense of skills and a sense of belonging to the super club, so that they perform collegially, the only reason we need an elite civil service. Entry has to be open but then have to be the best and together. It is wrong to say that we don't get the best for the job. We do and the challenge is to keep them that way. The civil service has to be honed into a force which supports India propelling itself into a global power house. They will have to be technologically savvy, but also sensitive to the rights of their compatriots and support civil society to solve its problems. They will have to network, stand up for the rights of those ravaged by the powerful and the bizarre and remain true to the ideals of those who freed this country and gave the poor, rights. Men with smaller visions want the civil service to serve their smaller interest. That is why the second proposal to pick out the best and put them in a fast track need full support.

This pattern is followed by corporate systems. Assessments every ten years some specialisation and the best training of the selected are followed elsewhere and should be implemented in the higher civil services.

Progress on some of the parameters stated above seems easy as the technical aspects have at least been outlined. The more complex questions are the institutional ones. There is general disquiet on governance and yet very little discussion of known bottlenecks to change and well known solutions to problems. It can be genuinely stated that while the need for reform is universal in acceptance, there is hardly any organised political debate and action on the operationalisation of change. The governance debate is in a cul de sac of ideas.

There has not been much popular pressure on the legislature to accept the Supreme Court's judgement on treatment of criminals in political activity.

The proposal that while the political executive has the right to make executive appointment, if unusual decisions are taken, say a transfer in less than three years, then a spoken order must be placed on the file as to the exact nature of public interest served in the decision. I can say from personal experience that the most venal pressures are exerted at the time of appointments. Also reform is easily subverted.

Similar trends are known in other areas. The Navratnas have been decimated with party functionaries replacing experts. Security concerns have been openly flouted. Civil service and systemic reform is on the backburner.

One is almost led to the position that governance does not seen to matter. However in the long run, activism of the kind contained in a meeting of this kind which is primarily academic and not largely action oriented is perhaps the only answer. Detailing the right questions is terribly important in an area of great vested interest.

MEMBER CORPORATIONS THEIR ACTIVITIES

HSIDC

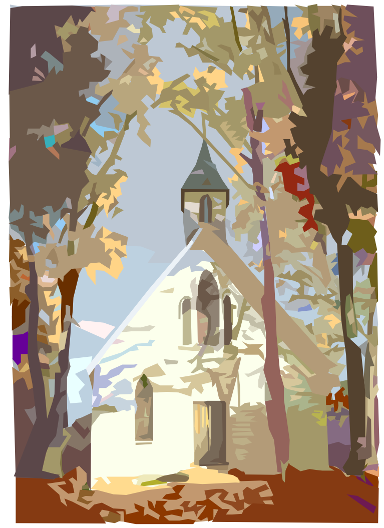
Haryana SEZ approved by GoI

As a sequel to the new Industrial Policy announced by the Hon'ble Chief Minister Ch. Bhupinder Singh Hooda, the Govt. of India has approved in principle the setting up of a Special Economic Zone (SEZ) near Garhi Harsaru in District Gurgaon.

The SEZ is being set up in two phases over an area of 3000 acre at an estimated cost of Rs.2,060 crore. The SEZ, which is being set up by HSIDC would help in accelerating growth-led development besides promoting Foreign Direct Investment (FDI) and resultant exports. The scheme was introduced in the Exim Policy 2000 with a view to provide hassle free environment for export production. The focus of SEZ is to remove restrictive export-import regulations, ensure trade liberalisation, simplify procedures relating to administration of foreign trade and providing incentives to certain export categories to generate exports from the country.

The proposed SEZ will be a duty free enclave and a deemed foreign territory where no license would be required for imports. The import of capital goods, raw-materials, consumables etc. and their procurement from the domestic market will be exempted from customs duty and central excise. The supplies from Domestic Tariff Area (DTA) to SEZ units will be treated as deemed exports. 100% FDI in manufacturing sector will be allowed through automatic route for the projects being set up in SEZ and the profits earned by these units will be allowed to be repatriated freely without any dividend balancing requirement. In addition to above the goods imported or procured locally without the payment of duty shall be utilised over the approval period of 5 years. The SEZ units will be provided in-house custom clearance and no separate documentation would be required for custom and Exim Policy.

The proposed site is on the State Highway leading from Gurgaon to Pataudi abutting the Delhi-Jaipur National Highway. The SEZ has been planned to cater to a wide spectrum of target segment such as ; automobiles and auto components, high precision industries, textiles and readymade garments, pharmaceuticals, IT industry, white goods and light engineering goods. The project has been conceived to be developed as an integrated self-contained industrial township with a flyover on NH 8 to provide free flow of traffic. Industry related infrastructure of truly international standard shall be provided in the form of wide roads, dedicated electrification, water supply, storm water drainage, common effluent treatment plant etc.



1715 acres of land for the first phase of this project is in an advanced stage of acquisition and the process to acquire the land for the second phase is being initiated shortly. About 2400 units would be set up in this township providing direct employment to more 60,000 workers. When implemented, these units are expected to generate export earnings to the tune of Rs.42,000 crore.

Rs.790 crore investment for Growth Centre Bawal

The Industrial Growth Centre at Bawal in District Rewari has registred an unprecedented demand for industrial plots from the domestic and multinational companies. The integrated complex on Delhi-Jaipur Highway has been developed by HSIDC under the Growth Centre Scheme of Government of India. During the first half of July, the Corporation allotted industrial plots of various sizes to 17 companies catalysing an investment of more than Rs.630 crores.

Growth Centre Bawal was set up by HSIDC about 15 years ago in the relatively backward area of the State. A large number of multinational and domestic companies are already operational in this complex. Prominent among these are : YKK, Nerolac paints, Becton Dickinson, REI Agro and Mushashi Auto. Besides the industrial plots, the growth centre has dedicated sectors for housing, institutional and commercial activities. The residential sector at Bawal has been fully allotted to the entrepreneurs and general public.

The projects which have been allotted industrial plots recently involve a capital investment of more than Rs.30 crores. As per the existing policy of the state government, such cases are placed before a high level allotment committee chaired by the Principal Secretary, Industries.

HSIDC to set up Footwear Park at Bahadurgarh

HSIDC has decided to set up a dedicated Industrial Estate for footwear manufacturers at Bahadurgarh adjacent to its existing industrial estate. A decision to this effect was taken in the meeting of the the Board of Directors of the Corporation. The footwear park is being set up in response to the demand from the Footwear Manufacturers Associations of Delhi and Bahadurgarh. The Association had submitted the application to each individual prospective unit during their meeting with the Hon'ble Chief Minister Haryana, Shri Bhupinder Singh Hooda. The Corporation has already received about 200 applications for various sizes of industrial plots ranging between 300 sq. mtrs. to 20,000 sq. mtrs. The land, which is already available with the Corporation in Sector 16 of Bahadurgarh, has been planned as per the demand of the association as indicated in the representation submitted to the Hon'ble Chief Minister, Haryana.

During a meeting with the representatives of footwear manufacturers held with Mr. Rajeev Arora, Managing Director, HSIDC at New Delhi, the allotment rate and other terms and conditions of allotment were explained to the members in detail. The representatives of the association informed during this meeting that the proposed footwear park will also have state-of-the-art design institute for catering to the requirements of footwear manufacurers. The land has also been earmarked in this park for conference facility, corporate offices, commercial establishments and idle parking. HSIDC is preparing a project report of this footwear park for submission to the Government of India, Ministry of Commerce for the grants available for such projects from the Central Government.

In addition to above, a proposal for setting up of a cluster of agricultural implements projects was also approved in this meeting. The cluster will be set up at Karnal within the existing industrial estate of the Corporation for which an additional land has been acquired. This would meet the long standing demand of the agricultural implements industry in Karnal which has been asking for a dedicated area for such units to improve linkages for better productivity and marketing.

HSIDC to develop 10,500 acres

HSIDC is to develop 10,500 acres for new industrial estates in the state in view of the interest shown by entrepreneurs to set up units in the state.

Haryana's industrial development had received a tremendous impetus as a result of the new industrial policy implemented by the state government

An HSIDC official spokesman said that in view of increasing demand, the corporation was in the process of acquiring land at various locations to develop new industrial estates and expand the existing ones. The processing of the applications had suggested that the projects were likely to catalyse an investment of more than Rs.2,000 crore.

Auto major Maruti Udyog Limited (MUL) had been allotted 600 acres of land in Manesar. The capital cost of the venture, included a diesel engine unit at an estimated cost of Rs.3,272 crore. The new unit would produce three lakh vehicles every year in addition to the ongoing production at MUL's Gurgaon plant.

The official said industrial entrepreneur memoranda (IEMs) had been filed by 63 industrial units catalysing an investment of Rs. 170 crore, with an employment potential of more than 13,000 persons.

KSFC

Lending Policy 2005-2006 of KSFC

KSFC has come out with the lending policy for the year 2005-06. The lending policy is aimed at building up quality portfolio. The industrial activities are classified under four sectors as follows, keeping in view the govt. policy, growth potential of industries, quality of existing portfolio etc:

Thrust sector represents high priority areas like Agro & food based industries covering modern Rice mill, establishment of software park/software development and training centre, IT related electronic industries, Export oriented industries, Hospital & Nursing Homes, Diagnostic Centres, Clinics, Agro & Food based industries, Tourism related activities like Restaurants, Hotels, Convention Centres, Amusement Parks, Offset printing/ colour printing/publishing, Electric & Electronic industries, Infrstructure projects, Bio Technology, group housing, mini steel plant etc.

Normal Sector represents the activities which may be traditional ones, but still doing alright by virtue of good demand. A few examples are paddy harvester, bakery products, cold storage, Hotel related activities like mobile canteen, ropeway facilities, Tele-communication activity like Internet Service Provider, Engineering, mechanical and allied products like metal & Die casting, sponge Iron, Heat treatment, electrical consumer & industrial goods, Tool Room, Vehicle body building, gears, manufacturing of automobiles, Purchase of Transport vehicles, industrial estates, Industrial Complexes, Commercial complex, business centres, office complexes, Rubber components in the consumer/ industrial sectors, latex rubber gloves (surgical/ industrial), Textiles, cotton ginning, pressing & spinning, Earth moving equipments/excavator, cinema, Theatres / multiplexes etc.

Restricted Sector represents areas, which require more careful scrutiny than usual and certain amount of restraint. A few examples are Poultry farms, feeds, Floriculture, Roller flour mill, Mineral water, Resorts, stone quarrying, granite quarrying, wooden furniture, Footwear and leather garments, Tyre retreading etc.

Prohibited sector represents such activities where the Corporation is not inclined to lend. It insists on obtaining a collateral security of 125% after examining the merits of the case and obtaining the prior approval of the designated authorities based on the preappraisal note.

Exposure limit:

The Corporation has fixed total exposure to a particular sector during the financial year at 20% of the total loan targeted for sanction during the year.

Minimum loan:

The minimum loan size is Rs.5.00 lakhs for all activities except Medical and Veterinary Doctors where it is Rs.2.00 lakhs. The maximum loan size is fixed at Rs.5.00 crore. The exposure limit however is Rs.8.20 crores to a group, which is inclusive of all fund based assistance and 50% of non fund based assistance.

Higher delegation of Sanctioning powers:

Delegated powers of sanction for loans by the super 'A' grade, 'A' grade & 'B' grade branches have been enhanced. The project clearance committee at branches level is introduced for detailed analysis of projects and to take suitable action/process for sanction of loans to avoid delay.

Fore closure:

Any foreclosure/pre-payment proposal in respect of standard category cases shall require the prior approval of the Managing Director. The prepayment premium has been enhanced to 2% of the total loan balance except for the following **:**

1. Loans closed under OTS;
2. Loans under commercial and residential complexes – in case of sale of space and to the extent of sale proceeds remitted towards repayment of loan.

It is decided not to accept proposals from wilful defaulters including those appearing on the RBI defaulters list.

Schemes of financial assistance for construction of commercial complexes

The commercial complexes are an important infrastructure for the growth of SME service units, marketing outlets and for small business. With a view to facilitate the development of this infrastructure, a scheme of financial assistance is in vogue. The assistance is given for establishing commercial complexes at taluk head quarters/town municipality, district head quarters & city.

Eligible borrowers:

Individuals, firms companies etc. are eligible for this facility.

Purpose of assistance:

- The assistance under this scheme is provided for construction of building
- Interior decoration, air conditioning, etc.
- Providing lift and communication facilities etc.
- Any other facilities connected with the commercial complexes.

The commercial complexes constructed can be either leased or sold on out right basis with the prior approval of the Corporation.

Land

The land shall be owned or leased for a minimum period of 30 years. The lease period may be relaxed but not less than 20 years with the prior approval of the Corporation. When the freehold rights of land are assigned to the Corporation, the lease period can be 10 years. The lease shall be registered.

Amount of loan

Minimum of Rs.10.00 lakhs and maximum of Rs.2.00 crore for individuals and partnership firms and Rs5.00 crore for companies and others. This can be enhanced upto Rs.8.00 crore for individuals and partnership firms and Rs.20.00 crore for companies as special cases.

Any relaxation in minimum limit may be considered only with the prior approval of the Competent Authority.

Promoter's contribution

Minimum promoter's contribution shall be 25% of project cost.

Security:

First charge on the land and other units to be created out of loan.

Collateral security of 125% for loan allocated for interiors and 50% for plant & machinery.

Repayment period

Not exceeding 8 years including moratorium period of not more than 2 years.

Rate of interest

11.00% P.A (net rate)

APIIC

APIIC to set up refinery and SEZ with ONGC

APIIC will hold a 30% equity in the export-oriented oil refinery and a special economic Zone (SEZ) being built with an overall investment of Rs.7,000 crore at Kakinada. The state government has earmarked about 10,000 acres for the proposed SEZ and 1,000 acres for the refinery project.

The new oil and natural gas find in the KG basin would lead to various energy consuming industries coming up in the SEZ like power fertiliser and metallurgy.

According to preliminary estimates, the refinery project will cost Rs.5,500 crore and the SEZ Rs. 1,500 crore, which may go up to Rs.3,000 crore.

APIIC promotes SEZ near Hyderabad

The Andhra Pradesh government has announced plans to create two software product-specific special economic zones (SEZs) near Hyderabad.

Of the two SEZs, one would come up at Pappalguda village in a 200 – acre land owned by the Hyderabad Urban Development Authority (HUDA) and the other would be located near the international airport at Shamshabad where part of the 1,200 – acre land is in possession of the Andhra Pradesh Industrial Infrastructure Corporation (APIIC)

This apart, another 2,500 acres under the 5,000 – acres under the 5,000-acre land being acquired by APIIC in the same vicinity will be earmarked for allotment to ICT industry, both software and hardware, in the second phase, Ms. K Ratna Prabha secretary to government, Information Technology & Communication (TT &C) department, said. According to her, part of the 1,200 acre land would be developed as a hardware electronic product specific SEZ. The development of these SEZ will primarily be led by private investors and developers who would undertake international class and scale of infrastructure development.

Apart from the central incentives available for SEZs, the state government would also extend a set of incentives and facilities to the developers and the units. The area incorporated in the proposed SEZ is free from environmental pollution. The incentives include full exemption in electricity duty and tax on sale of electricity for self-generated and purchased power, permission to generate and supply power within SEZ, exemption from state sales tax, octroi, mandi tax, turnover tax, duty cess levies on supply of goods from domestic tariff area to SEZ units. Power under the Industrial Disputes Act and other related Acts would be delegated to the Development Commissioner among other things. She said that the demand for allotment of land from IT companies as well as the projected requirement of built-up office space for software industry in the near future have necessitated steps such as software SEZs in Hyderabad.

PICUP

PICUP given OTS by IDBI

PICUP (Pradeshiya Industrial Investment Corporation UP) has inked a deal with the IDBI for One

Time Settlement (OTS) of its outstanding dues. Picup had defaulted in repayments since January 2002.

The PICUP board has approved a proposal to settle the dues under OTS by allowing IDBI to dispose pledged shares of Hindalco Industries and Indo-Gulf Fertilisers Ltd, through the market route at the prevailing market rate and adjust the sale proceeds as per the negotiated settlement.

PICUP had pledged a little over Rs.4.62 lakh shares of Hindalco and Rs.11 lakh shares of the Indo Gulf with the IDBI, for securing a loan in 2000-01. PICUP had availed refinance facility from 1977-78 to 2000-01, under various schemes of IDBI. The total liability on the PICUP on March 2005, was Rs.108 crore, which included Rs.72 crore as principal amount and Rs36 crore overdue interest. As per the deal, cut off date for OTS would be May 1, 2005.

The principle amount shall be adjusted against the sale proceeds of shares of Hindalco and Indo Gulf. Any shortfall in the sale proceeds to cover the outstanding principle, would be met by the PICUP. The overdue interest would be paid in 24 equal quarterly installment commencing from May 1, 2010 and ending in February 2016. At the current market price the securities are estimated to be Rs.65 crore. If the dues are not settled now the interest burden of over Rs.11 crore would continue to accrue.

New SEZ guidelines to offer sops for jewellery sector

The Government is set to announce new special economic zone (SEZ) rules this month, which will include generous exemption for gems and jewellery industry.

"India may be looking at an export opportunity of up to $300 billion in next 2-3 years in the gems and jewellery business. We cannot let go off the opportunity. In the new SEZ rules, there may be 100% exemption in the first five years and 50 % in next five years. If the profits are reinvested, then there can be a 50% reduction in taxes being charged, "said Shri LB Singhal, Director of Gems and Jewellery Export Promotion Council. He was speaking at a seminar organised by Confederation of India Industry (CII) and the Delhi State Industrial Development Corporation (DSIDC). The council works under the ministry of commerce and industry. The ministry has been deliberating on the rules after the SEZ act was passed in October 2004.

The Minimum Alternate Tax might also see some exemptions, Shri Singhal added. There may be incentive for SEZ developer as well. The construction material used by them will attract no import duty (if imported by them) or excise duty (if bought domestically). This will be in addition to the 10 years income-tax exemption that will be granted to a developer.

State level levies may also be done away with Shri Jalaj Shrivastva, Managing Director, DSIDC also announced the establishment of a National Institute of Jewellery and designing by October this year. He said, "we intend to set up a gems and jewellery-focused SEZ in Delhi by 2009-2010. It will have both a 'front-end' and a 'back-end'. While the back-end will focus on manufacturing units, the front-end will focus on sales and marketing."

Don't get through thinking before thinking things through.

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 September 30, 2005 at New Delhi.

They were well attended by members from various Corporations. The members discussed the strategies adopted for revival of SFCs and noted the contents of the meeting which COSIDICI held with the Deputy Governor, RBI, Mumbai. It was decided to constitute a 'Working Group' comprising of Ms. Neeru Nanda, IAS, CMD, DFC; Dr. Kshatrapathi Shivaji, IAS, CMD, MSFC; Shri T.K. Sinha, IAS, MD, WBFC; Dr. V.M. Gopala Menon, IAS, MD, KFC; Shri J.P. Joshipura, GM (F), GSFC; and Shri K.K. Mudgil, Member Secretary & Secretary General, COSIDICI to prepare a detailed paper on revitalisation of SFCsin the light of suggestions made by RBI.

With regard to preparation of revitalization plan Shri P.V. Trivedi, IAS, M.D., GSFC, Gandhinagar suggested that our approach in this regard could be different from the one adopted by the G.P. Gupta Committee, since that report had not been accepted by the Government. He added that we may have to think of different strategies for proposing restructuring and revitalization of SFCs to RBI. He added that political support was equally important to push through the case of SFCs in the Government/RBI. In this connection, Dr. Kshatrapathi. Shivaji, IAS CMD, MSFC, Mumbai mentioned at great length the negative role so far played by SIDBI in nurturing the SFCs and meeting with their genuine expectations. Besides, functioning as apex refinance organization, SIDBI has been directly competiting with SFCs in financing SSI units and rather they have been taking away good clients from SFCs by offering them soft terms. Continuing, Dr. Shivaji said that the MoU being entered into with SIDBI was a great force and the contents thereof were highly detrimental to the interest of both the State Governments and the State Financial Corporations since it did not address the long term problems of SFCs. The role of SIDBI as direct financer of SSIs was incompatible with its position as apex level refinance organization and regulatory body for SFCs. This issue, Dr. Shivaji said needs to be properly addressed while formulating our proposals to RBI.

Training :

The Executive Committee appreciated the efforts of Secretary General, COSIDICI in making long term arrangement with RBI for providing training facilities to the officers of SLFIs could be finalized after great efforts and personal contacts. So far College had arranged about ***9 regular training programmes besides 5 on-site training programmes and about 350 Officers have benefited***. It was pointed out that though the tuition fee for the one week programme had been further reduced by RBI by more than 50% (from Rs.9,750/- to Rs.4,600/- per participant), the response from the SLFIs has not been encouraging. In asmuchas a number of training programmes did not attract required number of participants and there was ***shortfall of 40 – 50% of the optimum number***. Similarly, the two days Seminar which was organized by the College in June, 2005 for the benefit of the Chief Executives of SLFI had to be cancelled for want of adequate number of participants. These short comings had attracted some criticism from the College authorities and during the course of my recent visit to Pune, the Principal of the College had expressed his apprehensions about continuance of this arrangement if this shortfall persisted. In the light of the above developments, the Secretary General had requested the Chief Executives of SLFIs to take personal interest in this matter and try to depute as many officers for training as possible so that this arrangement could continue.

Read COSIDICI COURIER REGULARLY AND BE UPTODATE

PROFILE OF MEMBER CORPORATIONS

KERALA FINANCIAL CORPORATION (KFC)

Introduction

Dr. V.M. Gopala Menon, IAS is presently the Managing Director of Kerala Financial Corporation, Thiruvanantha-puram.Kerala Financial Corporation (KFC) incorporated under the State Financial Corporations Act of 1951, is a trend setter and path breaker in the field of industrial finance to service sector projects. It plays a major role in the development and industrialisation of Kerala by extending financial assistance to suit the requirements of the enterpreneurs.

Its Head office is at Thiruvananthapuram, the city of Kerala. It has sixteen branch offices in the State with delegation of powers to ensure adequate support to each and every client.

Till the financial year 2002-2003, KFC had sanctioned industrial loans amounting to Rs. 25000 million to establish 40,000 industrial units, spread over the length and breadth of the State, providing rewarding employment to millions.

The Corporation achieved the status of Category A State Financial Corporation (SFC) as a result of its excellent performance during the financial year 1995-96, thus joining the list of the top six State Financial Corporations in the country.

The range of financial assistance available from KFC was widened by the inclusion of various new schemes such as- the ISO 9000 scheme and the Technology Development and Modernization (TDM) scheme. Introduced with refinance support from SIDBI, these schemes are for existing, well performing units aimed at improving the quality of products and for making Kerala based units more competitive in the highly demanding overseas markets. The ultimate objective is to enthuse firms to aim at the high quality, high value addition product segment.

KFC now means more than term loans. It also covers schemes like Working Capital finance and Short Term apart from schemes focused at the weaker sections of the society extending equity type assistance (National Equity Fund). Modified revolving Fund, Modernisation schemes for SSIS,Tourist Homes & Hospitals,TV Serial Production are innovative schemes introduced to suit changing customer requirements.

Also, the Corporation is engaged in developmental activities. Client meets are being organized regularly in the major towns and cities of the State. A series of sector specific seminars are being held in the State and these are organized by KFC. The aim throughout is to bring together academic entrepreneurs and various Govt: agencies so that sectors with high potential in the State are established with state of the art technology.

Assistance under SME Fund scheme :

During the FY the Corporation started offering loans under the SME Fund Scheme. Eligible projects are being assisted at rates of interests in the band of 10.50% to 11.50% based on rating assigned. A rebate of 1% is allowed for prompt repayment. Penal interest of 2% p.a. will be charged for default.

Recovery :

Total recovery for the F.Y. 2004-05 was Rs.244.68 crores as against 272.84 crores during the previous year.

Asset Quality :

The Corporation adopted a strategy of aggressive recovery to realise the value locked up as NPAs and also applied stringent standards in selection of new advances to prevent new NPAs out of fresh sanctions. On account of the above the trend of growth in NPAs could be reversed and could contain Net NPAs at 52.36% as against 54.06% in the previous year.

Capital Adequacy Ratio :

Capital to Risk Assets Ratio (CRAR) improved from 15.20% to 16.96% as on 31.03.2005 and is well above the benchmark prescribed.

ISO Certification :

Quality Management System Certificate awarded to the Corporation as per IS/ISO 9001:2000 upto June, 2004 has been extended upto June, 2007 by the Bureau of Indian Standards. Further, the certification has been extended to all the branches of the Corporation. Earlier only HO and Branch Office Thiruvanthapuram were having the above ISO certification.

Asset Liability Management :

The Corporation could repay Rs.113.90 crores of SLR Bonds bearing very high interest rate without payment of foreclosure premia. The above alongwith reduction of 2% in weighted average cost of past borrowings from SIDBI and lower cost of incremental borrowings have resulted in reduction in weighted average cost of borrowed funds from 10.74% to 10.01%. The Corporation is pursuing with the remaining bond holders for pre-payment without foreclosure premia.

SIDBI Refinance :

The Corporation availed refinance of Rs.42.44 crore from SIDBI by way of LOC and Rs.3.38 crore by way of NEF. Repayments during the year was Rs.16.04 crores towards principal and Rs.3.22 crore towards NEF. Payment towards interest and service charges to SIDBI is Rs.29.30 crore. Balance outstanding at the year end was Rs.329.80 crore.

SLR Bonds :

During the FY the Corporation redeemed SLR Bonds of Rs.135.10 crore (including pre-redemption Rs.113.90 crores). Balance outstanding as on date is Rs.218.04 crore. KFC disburses finance under its various schemes which are as under :

Normal Term Loan Scheme

- GENERAL SCHEME FOR SSI UNITS
- GENERAL SCHEME FOR MSI UNITS
- SINGLE WINDOW SCHEME
- NATIONAL EQUITY FUND (NEF) SCHEME
- FINANCE TO HOSPITALS AND NURSING HOMES
- SCHEME FOR ASSISTANCE FOR VETERINARY CLINICS
- SCHEME FOR FINANCING ACTIVITIES RELATING TO MARKETING OF SSI PRODUCTS
- SCHEME FOR ASSISTANCE TO INFORMATION TECHNOLOGY AND SOFTWARE DEVELOPMENT SECTOR
- SCHEME FOR ASSISTANCE FOR PHARMACIES
- SCHEME FOR ASSISTANCE FOR MOBILE CATERING
- SCHEME FOR ASSISTANCE TO TOURISM RELATED ACTIVITIES
- FINANCE TO HOTELS, MOTELS AND TOURISM
- SCHEME FOR ACQUISITION OF COMPUTERS
- SCHEME FOR ACQUISITION OF GENERATOR SETS
- TRANSPORT LOAN SCHEME .
- SCHEME FOR QUALIFIED PROFESSIONALS
- WORKING CAPITAL FINANCE
- SHORT TERM LOANS
- ISO 9002 SERVICE CERTIFICATION ASSISTANCE SCHEME FOR SSI UNITS
- TECHNOLOGY DEVELOPMENT AND MODERNISATION
- TRANSPORT LOAN SCHEME
- SHOPPING COMLEX/COMMERCIAL COMPLEX
- COM MUNITY HALL/KALYANAMANDAPAM
- TOURISM SCHEME FOR MODERNISATION AND UPGRADATION
- SCHEME FOR FUNDING FOR ACQUISITION OF EXISTING ASSETS
- SHORT TERM LOAN FOR TV SERIAL PRODUCTION
- FINANCIAL ASSISTANCE FOR INFRASTRUCTURE PROJECTS
- SCHEME FOR MODERNISATION AND UPGRADATION OF HOSPITALS, CLINICS, DIAGNOSTIC CENTRES AND HEALTH CLUBS
- FINANCIAL ASSISTANCE FOR MARKETING OF SSI PRODUCTS

- Scheme for Financial Assistance to small and Medium Enterprises(SME) sector
- CREDIT LINKED CAPITAL SUBSIDY SCHEME FOR TECHNOLOGY UPGRADATION OF SMALL SCALE INDUSTRIES

Special Schemes :

- TECHNOLOGY DEVELOPMENT AND MODERNIZATION.
- GUIDELINES FOR SPECIAL SHARE CAPITAL.

Scheme for Existing well run profit making enterprises

- ACESS (SHORT LOAN SCHEME)
- WORKING CAPITAL TERM LOAN SCHEME
- SHORT TERM LOAN SCHEME
- CIVIL CONTRACTORS WORKING CAPITAL TERM LOAN SCHEME
- CHEME FOR SHORT TERM LOAN TO TV SERIAL PRODUCTION
- SCHEME FOR FINANCIAL ASSISTANCE FOR INFRASTRUCTURE PROJECTS
- MODIFIED SCHEME OF FINANCIAL ASSISTANCE FOR MARKETING OF SSI PRODUCTS AND SERVICES
- CREDIT LINKED CAPITAL SUBSIDY SCHEME FOR TECHNOLOGY UPGRADATION OF THE SMALL SCALE INDUSTRIES (CLCSS)
- SCHEME FOR ASSISTANCE FOR MARKET RESEARCH ADVERTISE-MENT, PRODUCT LAUNCHING, PARTICIPATION IN TRADE FAIRS EXHIBITION ETC.
- TOURISM - SCHEME FOR MODERNISATION AND UPGRADA-TION OF WELL RUN PROFIT MAKING TOURIST RESORTS/HOTELS
- SCHEME FOR FUNDING FOR AQUISITION OF EXISTING HOTEL/ TOURIST RESORT
- SCHEME FOR FINANCIAL ASSISTANCE FOR MODERNISATION & UPGRADATION OF HOSPITALS, CLINICS, DIAGNOSTIC CENTRES & HEALTH CLUBS
- SCHEME FOR FINANCIAL ASSISTANCE FOR MARKETING OF SSI PRODUCTS
- SCHEME FOR ASSISTANCE TO SMALL AND MEDIUM ENTERPRISES (SME) SECTOR PRODUCTS

Superstar or team player ?
Share the spotlight with others for the moment and you'll have others to share the memories with forever.

ECONOMIC SCENE

Trade with EU increases

During 2004-05, EU-India trade jumped to $ 35.3 billion, registering an increase of 19.9% over the previous year's figure of $ 29.43 billion. Two-way trade was only $ 5.3 billion in 1980. Trade between the two countries is more or less balanced with India exporting goods worth $ 19.40 billion to EU in 2004 and importing goods worth $ 20.41 billion.

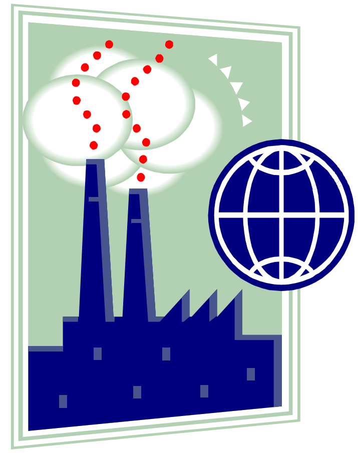
Although EU is India's largest trading partner, there is a lot of scope for the figures to improve as India accounts for just 1.7% of total EU trade. EU is India's largest source of foreign direct investment (FDI). Realising the potential of enhanced economic cooperation, the EU decided to upgrade its relationship with India to the level of strategic partnership, which got endorsed at the 5th India-EU summit in The Hague last year. Only five other countries which include US, Canada, Russia, Japan and China have strategic partnership with EU so far.

India-EU economic relationships is spread over a fairly large area. The areas include textiles, health and family welfare, maritime transport and science and technology. There is also an agreement on sugarcane under which EU has undertaken to purchase and import at guaranteed prices a specific quantity of raw or white sugarcane originating from India. The prices are set on a yearly basis.

Both sides signed a customs cooperation agreement on 28th April, 2004. The agreement entails cooperation between the parties with the objective of making customs procedures less complex and developing trade facilitation in matters pertaining to customs in accordance with international standards.

It also sets up mechanisms of mutual administrative assistance for exchanging information and carrying out inquiries, with a view to counter fraud against respective customs legislation.

Other recent bilateral agreements signed by the two sides include bilateral investment protection agreements, which happened after EU membership expanded to 25.



India has also signed double taxation avoidance agreements (DTAAs) with 18 of the 25 EU member states. Negotiations for signing DTAAs with Lithuania, Estonia, Latvia, Slovakia and Slovenia are now in advanced stages.

ADB doubles India aid to $ 3bn

The Asian Development Bank (ADB) 31st August, 2005 offered to double its assistance to India to $ 3 billion annually and expressed its keenness to invest in the infrastructure sector, including energy, urban development, rail freight corridor, roads and airways. ADB President Shri Haruhiko Kuroda discussed progress of the bank-funded projects in the country and the future funding requirements in key areas like infrastructure with the government.

Fiscal deficit up at Rs.77,480 crore

India's fiscal deficit during April-July has risen to Rs.77,480 crore, accounting for 51.3 per cent of the budget estimate, on increase in plan expenditure coupled with a near stagnant tax revenue. The deficit in the same period last year accounted for only 36.7 per cent of the budget estimate.

According to the data released by the Controller General of Accounts, the plan expenditure at Rs.37,632 crore was 26.2 per cent of the budget estimate compared to 20.8 per cent in the corresponding period the previous year.

Non-plan expenditure at Rs.98,441 crore was, however, marginally lower as a percentage of the budget estimate accounting for 26.5 per cent against 28 per cent in the previous year.

Manufacturing grows 11.7% in June

The manufacturing sector during June 2005 registered a growth of 11.7% on an year-on –year basis, the highest since May 1996.

According to a Crisil report, among the 17 industry groups in the manufacturing sector, only metal products and parts registered negative growth, while the rest grew at 12.5%, against 8.1% a year ago. Consumer goods posted a remarkable growth of 23.7% in June, against 9.1% during the corresponding month in the previous year with 90% of the contribution coming from non-durable.

The prime contributor to the performance in non-durable accounted for the increased growth in sugar production. The industry expects domestic production of 180 lakh tonne in 2005-06 (Oct-Sept) at a growth rate of 32% compared with the corresponding period of the preceding year.

Bilateral trade between India and Pakistan up by 74%

The volume of trade between India and Pakistan has shown a positive growth. During the year 2004-05, the volume of trade was valued at US $ 600.77 million as compared to US $ 344.59 million during 2003-04 registering an increase of 74%.

A Joint Study Group (JSG) at the level of Commerce Secretaries of India and Pakistan has been set up for adopting a strategy for boosting trade between India and Pakistan. They constituted two Working Groups-(1) on Customs Cooperation and Trade Facilitation Measures and (2) on Non-tariff Barriers. The setting up of JSG is expected to pave the way for enhanced volume of bilateral trade as both the countries would, inter-alia, strive to address the problems relating to non-tariff barriers and customs cooperation.

Direct Tax revenue grows 32% to Rs.36,000 crore

Direct tax collections till September 15 – inclusive of FBT, BCTT, STT and wealth tax till Auguat 30 –grew 32% to Rs 36,000 crore compared with Rs 27,300 crore in the year ago period, short of target by 2% .

Corporate tax collections were recorded at Rs.18,000 crore during the period, against Rs.11,600 crore in the corresponding period last year. PIT collections stood at a little over Rs. 16,000 crore as on September 15, against Rs. 15,280 crore a year ago.

FBT collection was a trifle below Rs. 800 crore till August, while revenue from BCTT was Rs. 63 crore, STT collections stood at Rs. 770 crore, while wealth tax collections rose to Rs. 65 crore, from Rs. 55 crore in the year ago period.

Nearly every convenience you enjoy today is the result of someone's toil, sacrifice, and tears. Heaven knows what blessings may come from yours.

SMALL SCALE INDUSTRIES

15% more subsidy to SMEs for technology upgradation loans

The finance ministry has decided to raise the capital subsidy given to SMEs on loan taken for technology upgradation from 12% to 15%. This will give a boost to the SME sector. The government is planning to relax the cap on the technology upgradation loan amount eligible for capital subsidy. SMEs are now eligible for capital subsidy on loan up to Rs.1 crore instead of 40 lakh. The Credit Linked Capital Subsidy Scheme (CLCSS) for SSIs has been amended by the Cabinet Committee on Economic Affairs (CCEA). The credit linked capital subsidy scheme that has been operational since 2000, provides small and medium enterprises capital subsidy on loan taken for technology upgradation, through investment on plant and machinery. About 865 small-scale units all over the country have benefitted from this scheme. The scheme is applicable only to units that upgrade technology through investment in new plant and machinery. Investments made to replace existing equipment or installing second hand machinery are not eligible for the subsidy. The move comes at a time when the government has announced a package for setting up credit to SME.

Stricter norms for late payments to SMEs

The provisions of the Small and Medium Enterprises Development Bill, 2005 are being amended to include stricter norms for delayed payments to the small scale sector. The concept of mirco enterprises is also being included in the Bill. The amendments are in line with the recommendations made by a Parliamentary standing committee and have been referred to a group of ministers headed by Defence Minister Pranab Mukerjee.

We have included nearly 98 per cent of the recommendations of the committee. Since a vast majority of the enterprises anre micro with investments of up to Rs.25 lakh in plant and machinery, the committee has suggested that each clause in the Bill must mention micro, small and medium enterprises, Shri Anupam Dasgupta, Secretary, ministry of small scale industries.

The committee had also recommended widening the scope of the National Small and Medium Enterprises Board to include micro enterprises. It had suggested inclusion of promotional measures such as easier procurement and transportation of inputs and final products.

The ministry had also circulated a draft proposal for a separate promotional package for the small scale sector. " The package will focus on measures needed to improve the quality of entrepreneurship through training and technical expertise in addition to the scope for improving infrastructure."

The ministry would soon operationalise the Rs.100-crore fund for the regeneration of traditional industries. Clusters would be identified for providing assistance in the form of common testing facilities and market access.

To improve credit availability to the sector SIDBI along with commercial banks would set up Small Enterprises Financial Centres in select clusters for increasing credit delivery and attending to the sector's incipient sickness through financial assistance.

National Expo of Small, Agro and Rural Industries

"Now is the appropriate time to prepare and work for assisting the Indian private industry, particularly the small and medium enterprises to enhance its technical capability, by facilitating technology transfer through formation of joint ventures or co-production units, leading to strengthening of the defence industrial base in the country and increasing the country's self –reliance in defence preparedness". This was stated by the Defence Minister Shri Pranab Mukherjee in his inaugural address at the National Expo of Small, Agro and Rural Industries in New Delhi.

Shri Mukherjee went on to say that by providing an environment of conducive policies and focused packages of supportive measures, this sector can be enabled to accelerate widely dispersed and sustainable development of this vast country of ours. The Defence Minister said that the Union Minister of Small Scale industries and Agro & Rural Industries has introduced the first ever legislation for the development of small and medium enterprises in the Lok Sabha during the last Budget session and the Bill has been examined by the Parliamentary Standing Committee on industry and the recommendations of the Committee are now before a Group of Ministers for consideration.

SIDBI, SBI, ICICI & Standard Chartered float SME rating agency

SIDBI, SBI, ICICI and Standard Chartered floated a rating agency for the SME segment. The proposed rating agency- Small and Medium Enterprises Rating Agency (SMERA) — will rate the overall strength of company, unlike most rating agencies whose core business have been to rate the debt instruments.

While SIDBI has the largest share of 22% followed by banks like SBI & ICICI Banks, which would have 10 to 13%. Five other PSU Banks would be acquiring about 28% stake in newly formed SME rating agency. These include Punjab National Bank, Bank of Baroda, Bank of India, Canara Bank and Union Bank of India. Beside Credit Information Bureau of India Ltd. (Cibil), too, will be acquiring some stake in the company. The company will have capital of Rs.5 crore.

An SME company will be rated on three key parameters by the new rating agency. These include financial strength, management and the sector. The rating fee is likely to be partly shelled out by the company itself.

In the meanwhile, to promote the funding of SME segment, Sidbi has entered into a Memorandum of understanding with several public sector banks. As per the MoU, Sidbi will provide term loan, the bank will provide working capital loans to companies defined under the SME segment. Sidbi has tied up with banks like Oriental Bank of Commerce, UCO Bank, Bank of Baroda, Bank of India, Indian Overseas Bank and Corporation Bank.

Crisil launches SME rating services for banks

The small and medium enterprises (SMEs) are expected to receive a boost with rating agencies launching their rating services to this segment. Crisil on Wednesday launched its SME rating services to facilitates banks to undertake better pricing decision while extending credit to SME. This is in line with the government thrust to expand the credit outlay to the SME segment.

Crisil rating service has been extended to all entities with the turnover upto Rs.100 crore as against the RBI's guideline which classifies an entity having a turnover upto Rs.10 crore as medium sized enterprise.

The rating will be based on the market position of the entity, projected cash flows, their current debt-equity ratio, future borrowing plans and management evaluation.

"Although SME exposure accounts for a large portion of non performing assets of the banks, going forward this is expected to come down considering the tighter credit norms dictated by the RBI and the ratings provided to the SMEs by external rating agencies" according to Shri Ravimohan, CEO & MD CRISIL.

Credit dispersal to SMEs falls to 9.4%

Despite robust growth in the SME sector, credit dispersal to the sector has declined over the last three years. The share of SMEs in Net Bank Credit (NBC) dispersed has declined from 11% in 2003 to 9.4% in 2005. This comes at a time when credit flow to SMEs in absolute terms has increased from Rs. 52,988 crore in 2003 to Rs. 67,600 crore in 2005.

This is mainly because Net Bank Credit (NBC) has grown at a faster rate than credit to the SME sector,"said a government official. This can be attributed to a change in the composition of NBC. With credit to the retail sector increasing at a rapid pace, the share of SMEs in net bank credit has seen a decline. For instance, the share of home loans in non-food gross bank credit has increased from 5.9% in 2003 to 8% in 2005.

Several initiatives are being taken to increase credit flow to the SME sector. The finance minister recently announced that credit dispersal to the SME sector has to be doubled from Rs. 67,600 crore to Rs. 1,35,000 crore in five years. In addition, the policy package to step up credit to the SME sector, announced in August this year, requires banks to achieve a minimum 20% year-on-year growth in credit to the SME sector. Moreover, to increase coverage of SMEs that can avail of these loans, all public sector banks are required to lend to at least five new units in the SME sector every year.

In addition, steps are also being taken to ensure incresed credit flow to SMEs from sidbi. An SME fund was set up last year whereby Sidbi was required to lend Rs. 10,000 crore to enterprises in the SME sector to be dispersed over two years. However, presently only Rs. 3,000 crore have been dispersed.

NEWS FROM STATES

Rs. 3000 cr road projects in K'taka approved

The government has approved 475-km length of eight different roadworks at an estimated cost of Rs.3,000 crore in Karnataka. The roadworks form part of phase IIIA of National Highways Development Programme (NHDP) said union minister of state for surface transport and highways Shri K.H. Muniyappa. The works are being taken up on Building-Own-Transfer (BOT) basis.

Under NHDP Phase III, 10,000 km of roads have been identified on the basis of traffic potential for 4-laning and Phase IIIA involving 4,000 km is now underway.

Center has also agreed to take up for examining economic viability of 4-laning Bijapur-Hospet sector (194 kms) on BOT basis in response to state request for inclusion under NHDP to ensure balanced regional development. Meanwhile, work on 4-laning Surathkal-Bantwal stretch of 40 kms costing Rs.168 crore will start in December under the port connectivity programme.

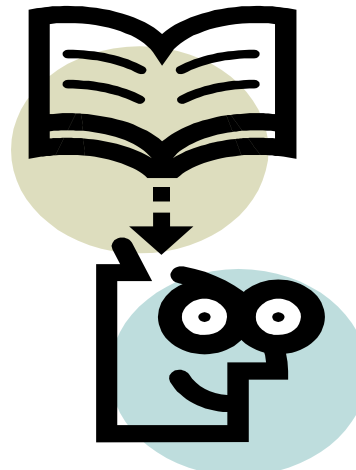
Feasibility study for construction of bypasses to Hubli, Kanakapura, Hospet, Bellary and Bagalkot have been taken up as a part of the plans to link all districts in the state to national highways.

Himachal vegetable project to get fund from Japan

Vegetable production may boom in the mid-hills of Himachal Pradesh as talks are completing with Japanese-funded Rs.80 crore agriculture project.

The mid-hills of the state lying between 1,000 metres and 1,800 metres are already emerging as a region for off-season vegetables in the summer months due to declining production in the plains. The state government had sent the vegetable project proposal to the Japanese government for improving vegetable production and diversification in the mid-hills, besides better marketing and processing methods of their produce. Even though the mid-hills have huge potentials for vegetable production, farmers are not taking it up in a big way and prefer the more established stone fruit cultivation. So the project will encourage farmers to diversify.

Himachal to grow 'wonder plant, of cold desert



After years of experiments, the successful plantation of seabuckthorn (SBT) in the cold desert of Himachal Pradesh's tribal area of Kinnaur and Lahaul Spiti opened doors for the prosperity of tribal people who are being encouraged to grow the "wonder plant."

The cold desert of Lahaul and Spiti districts, where the minimum temperature dips to minus 40 degrees during peak winter, are bereft of any vegetation and face a perpetual problem of shortage of food, wood & fodder.

Efforts made earlier to provide green cover to the cold deserts under desert development programme resulted in developing green patches only in some isolated pockets. But seabuckthorn was an ideal alternative for cultivation in such harsh and hostile weather conditions. Seabuckthorn is a deciduous shrub, widely distributed in cold deserts having an extensive root system for soil stabilisation nitrogen fixing ability for fertility, highest vitamin-C content, best quality fuel wood and fodder and high economic value of fruit and seed oil for variety of cosmetics, medicine and beverages.

The plant can withstand extreme temperatures ranging between minus 60 degree Celsius and 40 degree celsius and growing in dry arid zones with 300 mm rainfall. Climatic conditions in cold desert area are most suitable for cultivation of seabuckthorn and there is tremendous potential for growing this plant.

Pharma investment crosses Rs.2,000 crore in Himachal

The Pharma investment has crossed the Rs.2000 crore mark in Himachal Pradesh. Since early 2003, the pharma sector has grown rapidly. It has now crossed the Rs.2000 crore mark after the state government's single window clearance committee recently cleared seven more units in this sector.

Since 2003, the state industries department has cleared 96 medium-and large-scale pharmaceutical units and 240 small-scale units. The state government has attracted a proposed investment of Rs.11,494 crore (including pharma) since a tax free package was offered by the central government in early 2003 in an effort to attract industry to the hill state.

"So far incentives have been in the proposed opening up of 5414 small-, medium- and large scale units and a total proposed investment of Rs.11494 crore has taken place since the announcement of the tax holiday in early 2003," said an official. *"These upcoming and proposed units have the potential of generating 182,607 jobs,"* according to Chief Minister Virbhdara Singh.

Pvt. parties to adopt monuments in Rajasthan

Rajasthan is evolving attractive strategies to upgrade tourism in the state. The department of tourism of government of Rajasthan is inviting participation from private parties through its programme "adopt a monument". The department, through this programme, is inviting public and private parties to adopt monuments. The party through this may take the responsibility of conservation and development of monuments. The government has identified 200 monuments open for adoption. NRIs are also being approached.

The party can either submit funds to the department for conservation and development or take the responsibility and manage the conservation and development of monuments. Inadequate resources and lack of sufficient manpower might help the department if the parties go with later option.

The state is also replicating the "Palace on Wheel" model, the new luxury train 'Royal Orient'. This 80-seat train will run seven days a week on meter gauge. The train with comparative low fares, will travel through the areas that are not accessible and not often visited by tourist. The department may tap companies in major way through this.

The department is working hard on promoting the state as round-the-year tourism destination. The state now not only aims to bank on heritage tourism but also on mice tourism, eco tourism, health tourism, rural tourism, alongwith others. The department by promoting mice tourism, aims to promote the state as the most preferred destination for meetings and corporate seminars. The State Bank of Bikaner has already proposed funds for the maintenance and conservation of 'Hawa Mahal'.

TN plans SEZ near Hosur highway

The Tamil Nadu government has identified 1,000 hectrares near the Hosur-Krishnagiri highway to set up a product – specific SEZ and is keen to get investment from Karnataka, notably Bangalore.

Consultants from Chennai met in Bangalore to hold talks with experts. The products being identified for Hosur, include sectors like pharma and apparel

Senior exporters in the city see the move to promote Hosur as an export hub as a clever one, given the town's proximity to Bangalore which houses the buying offices of several MNC firms who source out of India, like the US retail giant Wal-Mart.

J&K for fruit export via land route

The Jammu and Kashmir legislative council has passed a resolution that seeks Centre's support for exporting all fruits grown in the state to neighbouring countries including Afghanistan and Pakistan through the recently opened Srinagar Muzaffarabad road.

The resolution, moved by Congress member Abdul Ganj Vakil in the house yesterday, sought to declare agriculture as an industry, provide subsidy on pesticides and insecticides to fruit-growers and exempt interest on horticulture loans, besides seeking concrete steps from the central government for exporting fruits to neighbouring countries.

The house also wanted facilitation of fruit exports to Iran through the land route. State Agriculture & Cooperative Minister Shri Abdul Aziz Zargar noted that the state had decided to exempt penal interest on horticulture loans and reduce the interest rate on fresh horticulture loans.

Market intervention scheme has been launched in the state to provide support price to the fruit – growers on c-grade apples and implementation of Rs.100 crore technology mission programme for integrated development of horticulture was on full swing.

The J&K government has also taken up a survey for building a ropeway from Mubarak Mandi to Bahu fort to boost tourism in Jammu region, Tourism Minister Shri Ghulam Hassan Mir said. Being a heritage site, the maintenance of Mubarak Mandi would now be entrusted to the state tourism department. A bus service between Katra and Patnitop and on the Mansarovar route has already been introduced by the Jammu and Kashmir Tourism Development Corporation & (JK TDC) and State Road Transport Corporation (SRTC).

J&K government pushes for commercial farming

Prang village in Kangan, known for its scenic splendor, would be developed for the cultivation of aromatic and medicinal plants and Bulgarian roses on commercial lines, Jammu and Kashmir Agriculture Minister Shri Abdul Aziz Zargar said.

Besides green house, power tiller should also be provided for ploughing of land for various agriculture activities, the Minister said, adding that a subsidy to tune of Rs.40,000 per tiller was available to the beneficiaries under the technology mission. The entrepreneurs have jointly developed an agriculture farm on five hectares of land for different agricultural activities including pisciculture, floriculture, apiculture, mushroom and off-season vegetable cultivation.

He exhorted farmers to diversify into horticulture and floriculture, which he said has the potential to transform their socio-economic condition. In this context, he pointed out that growing Bulgarian roses could be immensely profitable for farmers, as one kg of oil extracted from it could fetch Rs.350 lakh in international market. Keeping in view the tremendous viability of floriculture, the government proposes to lure unemployed agriculture graduates toward this activity by way of providing a monthly stipend of Rs.2000 for two years to enable them to establish their income generating units. He said a model floriculture center has already been set up at Nuner in Ganderbal on the outskirts of the state capital to provide back-up material and technical know-how to interested entrepreneurs.

Walnut production, which was considered as the future crop of the state and mainstay of the economy, was being boosted in a big way by introducing European technology of walnut grafting. Walnut grafting technology aids the plant to bear fruit within three years compared to the 15 years taken by traditional walnut plant.

The government was taking initiatives for the revival of cooperative sectors, saying cooperative activities have been diversified to promote poultry sector in the state. The state imports 2.20 crore poultry birds annually and this potential could be tapped locally, for which 400 poultry cooperatives have been registered.

Cabinet nod for Rs.12,123 cr road development in N-E

The Cabinet Committee of Economic Affairs (CCEA) on September 22,05 approved a proposal for undertaking improvement of selected road length in the north-eastern region. The project, to be implemented in three phases, would cost the Government Rs.12,123 crore.

The first phase of the special accelerated road development programme will be completed between 2005 and 2006 and will cost Rs.4,618 crore. As per an official statement, the entire project will provide connectivity to the remote and backward areas of the north-east with the rest of the country as well as with neighboring countries. The statement also pointed out that better roads would enhance investment opportunities and trade in the region.

CCEA also approved the setting up of the Teesta Low Dam Hydroelectric project (stage IV) in West Bengal by National Hydroelectric Power Corporation Ltd. (NHPC) at an estimated cost of Rs.1061.38 crore at the march 2005 price point, including interest during construction (IDC) component and financing charge of Rs.69.71 crore. The statement said 75% of the equity would be provided by the Centre and rest 25% would be arranged by the NHPC.

The completion of project is likely to take 48 months after government approval. The entire power generated from this project would be allocated to West Bengal, thus helping reduce peaking power shortage in state. It has also approved implementation of the project deepening and widening of the main harbour channel and approach of the Jawaharlal Nehru port would be carried out at an estimated cost of Rs. 800 crore. It has also approved the construction of a 660-km long product pipeline by Oil India Ltd. from Numaligarh to Siliguri at an estimated cost of Rs. 468.92 crore.

INFRASTRUCTURE

PM launches India's first IT-SEZ in Chandigarh

Prime Minister, Dr. Manmohan Singh on September 24, 2005 inaugurated Rajiv Gandhi Chandigarh Technology Park (CTP) in Chandigarh. The tech park is expected to be the turning point in the economic transformation of the region.

Declared as a special economic zone (SEB) by the ministry of commerce, the CTP spreads over an area of 123 acres. It is one of the first IT sector-specific SEZs in the country. PM further said that it could show the way to other such socio-economic developments in the region.

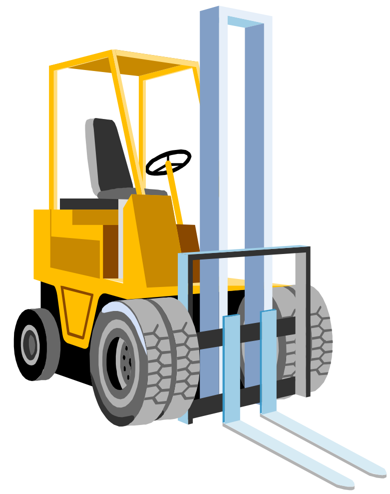
It was significant that the CTP had attracted interest not only from Indian firms like Infosys but also multinationals like IBM. The CTP will consist of flexible options for large and small companies including an Entrepreneur Development Centre which will also consist of a state-of-art plug and play research facility. This will enable small companies to occupy space on an incubation basis.

With an employment potential of over 20,000 in the IT/BPO sector and many other persons in the tertiary sector, the CTP could be an anchor of many such projects in the region. He noted that companies such as Infosys and DLF are investing around Rs.500 crore in the park.

Indore IT park to get SEZ status

Crystal IT Park, being developed in Indore, is to be India's first special economic zone for information technology (IT) and IT-enabled services (ITES). The Union government has given "in-principle consent" for the purpose and a notification will be issued soon. With this, the state government will drop the plan of creating a gems and jewellery park, which was being constructed in a four-storeyed building on the premises.

The park will have an eleven-storeyed building and a four-storeyed building.. Product-specific SEZ status will be awarded to crystal IT Park.



Spread over an area of 22 acres, the park is being set up near Indore University in Bhanwarkuan with an investment of Rs.85.57 crore.

It will offer a floor area of 500,000 square feet to companies investing in IT and ITES in Madhya Pradesh at Rs.18-20 per square feet with facilities like a telecommunications system, central air-conditioning, transport system, and uninterrupted power, this would be a golden opportunity for IT companies to invest in Madhya Pradesh.

Besides higher bandwidth, the park will have an integrated voice response system, conference rooms, each with a capacity for 200 persons to sit, a sound-proof auditorium that can accommodate 600 persons, a business centre, banks and ATMs, shops, a health club, a sports club, a restaurant (open-air and multi-cuisine), travel and courier facilities.

Mumbai firms to invest Rs.107 cr in Indore SEZ

Mumbai based Jai Corporation and India Nets will make a collective investment of Rs. 107 crore in Indore Special Economic Zone (SEZ) to set up textile units.

The Audyogik Kendra Vikas Nigam has issued a letter of intention to Virendra Jain, Managing Director of both the firms, regarding allotment of land area of 40,000 square meters in the SEZ. Jai Corporation will set up a High Density Polyethylene taps strips woven fabric unit with an investment of 52 crore. *"With this the company will generate at least 300 jobs. Both the investments will come up in phase one of the special economic zone. "The investment climate is changing and MP is now a* *preferred destination,"* said Shri Raghav Chandra, Managing Director of MP State Industrial Development Corporation.

India Nets will set up a HDPE/PP Taps Nylon Polyester Ropes unit with an investment of Rs.55 crore. The company has been allotted a land area of 38,900 square meters. This unit will generate an employment of 150 people.

Also Audyogik Kendra Vikas Nigam and Apparel Export Promotion Council New Delhi signed a memorandum of understanding for setting up an Apparel and Design Center at the readymade garment complex, Pardeshi Pura, in Indore. An area of the park will develop with an investment of Rs. 17 crore. The MP and Central government will contribute Rs. 8.29 crore each, for the project. AKVN has allotted a land area of 10,000 square feet for the purpose.

Rs.3,058 cr river project in MP

After signing a deal with Uttar Pradesh on Ken-Betwa river linking plan, the Madhya Pradesh and Rajashan Governments have executed Rs.3,058 crores Parvati-Chambal-Kalisingh river linking project. The project is expected to irrigate drought affected area of Ujjain, Dhar, Shajapur and Ratlam districts. Approximately 60 thousand hectares of area will be covered under the Guna, Rajgarh, Mandsaur and Shajapur districts, as first option. While the second option will cover an area of 90 thousand hectares contiguous to Chambal river. Further an area of 2,200hectares in the districts of Bhind and Morena districts will also be irrigated.

The traditional gravity flow will be adopted under the first option (total link canal length will be 243 km) to link rivers through Rana Pratap Sagar Dam in Rajasthan. Alternatively linking will also be done through release of 676 million cubic meters water from a link canal to the Gandhi Sagar dam, as second option (total length 201 km).

The project will give Rajasthan an opportunity to irrigate an area of 43 thousand hectares as first option, while under second option state will have availability of water to irrigate an area of 27 thousand hectares. A large population will also get drinking water.

New SEZ for IT near Delhi

The government has given its clearance for setting up SEZ for Haryana Technology Park (HTP) in Faridabad. The park will specifically cater to companies operating in IT/IteS sector. Located on Mathura Road (National Highway 2), the park will have a in-house clearance facility. The park is expected to generate about Rs.1,500 crore per annum to Haryana's GDP.

Think of life as a board game : For every kind word, you move one space forward; for every loving deed, you jump two spaces forward; for every grump, grouch, or unkind word, you go back one space. Now play to win.

ALL INDIA INSTITUTIONS

Debt Restructuring Mechanism for SMEs

As part of the announcement made by the Hon'ble Finance Minister for improving flow of credit to small and medium enterprises (SMEs) the Reserve Bank has issued detailed guidelines for restructuring debt of all eligible small and medium enterprises. All commercial banks have been advised to implement the guidelines.

Eligiblility

- The guidelines are applicable to entities which are viable or potentially viable as follows:
- All non-corporate SMEs irrespective of the level of dues to banks.
- All corporate SMEs which are enjoying banking facilities from a single bank, irrespective of the level of dues to the bank.
- All corporate SMEs which have funded and non-funded outstanding up to Rs.10 crore under multiple/consortium banking arrangement.
- Accounts involving wilful default, fraud and malfeasance would not be eligible for restructuring.
- In respect of cases under the purview of the Board for Industrial and Financial Reconstruction (BIFR) banks should ensure completion of all formalities in seeking approval from BIFR before implementing the package.

Viability

Banks should decide on the acceptable viability benchmark, consistent with the unit becoming viable in 7 years and the repayment period for restructured debt not exceeding 10 years.

Treatment of Restructured Accounts 'Standard' accounts

- A rescheduling of the instalments of principal alone, would not cause a standard asset to be classified in the substandard category, provided the borrower's outstanding is fully covered by tangible security. It should however, not be made applicable in cases where the outstanding is up to Rs.5 lakh, as the collateral requirement for loans up to Rs.5 lakh has been dispensed with for the small scale industries (SSI) and tiny sector.

- A rescheduling of interest element would not cause an asset to be downgraded to sub-standard category subject to the condition that the amount of sacrifice, if any, in the element of interest, measured in present value terms, is either written off or provision is made to the extent of the sacrifice involved.
- In case there is sacrifice involved in the amount of interest in present value terms, the amount of sacrifice should either be written off or provision made to the extent of the sacrifice involved.

'Sub – standard'/doubtful' accounts.

- A rescheduling of the instalments of principal alone, would render a '*sub-standard'/'doubtful*' asset eligible to continue in the 'sub-standard' / doubtful category for the specified period, provided the borrower's outstanding is fully covered by tangilbe security. The condition of tangible security would, however, not be made applicable in cases where the outstanding is up to Rs.5 lakh, as the collateral requirement for loans up to Rs.5 lakh has been dispensed with for SSI/tiny sector.
- a rescheduling of interest element would render 'such-standard'/ doubtful asset eligible to continue in the sub – standard/doubtful' category for the

specified period, subject to the condition that the amount of sacrifice, if any in the element of interest measured in present value terms, is either written off or provision is made to the extent of the sacrifice involved.

- In cases where the sacrifice is by way of write off of the past interest dues, the asset should continue to be treated as 'sub-standard' / doubtful'.

Provision

- Provision made towards interest sacrifice should be created by debit to profit and loss account and held in a distinct account. For this purpose, the future interest due as per the current benchmark prime lending rate (BPLR) in respect of an account, should be discounted to the present value at a rate appropriate to the risk category of the borrower (i.e) current PLR+the appropriate term premium and credit risk premium for the borrower-category) and compared with the present value of the dues expected to be received under the restructuring package, discounted on the same basis.

- Sacrifice should be re-computed on each balance sheet date till satisfactory completion of all repayment obligations and full repayment of the outstanding in the account, so as to capture the changes in the fair value on account of changes in BPLR, term premium and the credit category of the borrower . Consequently, banks should provide for the shortfall in provision or reverse the amount of excess provision held in the distinct account.

- The amount of provision made for non-performing assets (NPAs), should be reversed when the account is re-classified as a 'standard asset'.

Additional Finance

Additional finance, if any, should be treated as 'standard asset' in all accounts viz. Standard and doubtful accounts, up to a period of one year after the date when first payment of interest or of principal, whichever is earlier, falls due under the approved restucturing package. If the restructured asset does not qualify for upgradation at the end of the above period, additional finance should be placed in the same asset classification category as the restructured debt.

Upgradation

The sub-standard/doubtful accounts which have been subjected to restructuring, whether in respect of principal instalment or interest, by whatever modality, would be eligible to be upgraded to the standard category after the specified period, i.e., a period of one year after the date when first payment of interest or of principal, whichever is earlier, falls due under the rescheduled terms, subject to satisfactory performance during the period.

Asset Classification

During the specified one year period, the asset classification status of rescheduled accounts would not deteriorate if satisfactory performance of the account is demonstrated during the period. In case, however, satisfactory performance during the one year period is not evidenced, the asset classification of the restructured account would be governed as per the applicable prudential norms with reference to the pre-restructuring payment schedule The asset classification would be bank-specific based on record of recovery of each bank, as per the exisitng prudential norms applicable to banks.

Repeated Restructuring

The special dispensation for asset classification would be availabe only when the account is restructured for the first time.

Procedure

- Based on these guidelines, banks should formulate a debt restructuring scheme for SMEs with the approval of their board of directors. While framing the scheme, banks should ensure that the scheme is simple to comprehend and at the minimum, includes parameters indicated in these guidelines.

- The restructuring would follow the receipt of such a request from the borrowing units.

- In case of eligible SMEs which are under consortium/multiple banking arrangements, the bank with the maximum outstanding should work out the restructuring package, along with the bank having the second largest share.

Time Frame

Banks should work out the restructuring package and implement it within a maximum period of 60 days from the date of receipt of requests.

Review

Banks should review the progress in rehabilitation and restructuring of SME accounts on a quarterly basis and keep their board informed.

Disclosure

Banks should display the debt restructuring scheme for SMEs on their website and also forward it to the Small Industries Development Bank of India for placing on their web site.

Banks should also disclose in their published annual balance sheets, under 'Notes on Accounts, the total amount of assets, standard assets, sub-standard assets and doubtful assets of SMEs subjected to restructuring during the year.

Definition of SMEs

The Reserve Bank has defined SMEs in its circular of August 2005. The definition is reproduced below:

"At present, a small scale industrial (SSI) unit is an undertaking in which investment in plant and machinery, does not exceed Rs.1 crore, except in respect of certain specified items under hosiery, hand tools, drugs and pharmaceuticals, stationery items and sports goods, where this investment limit has been enhanced to Rs.5 crore. A comprehensive legislation which would enable the paradigm shift from small scale industry to small and medium enterprises is under consideration of the Parliament. Pending enactment of the legislation, current SSI/tiny industries definition may continue. Units with investment in plant and machinery in excess of SSI limit and up to Rs.10 crore may be treated as medium enterprises (ME)

OTS for SMEs

The Reserve Bank has announced a one-time settlement (OTS) scheme for small and medium enterprises (SMEs) for recovery of NPAs below Rs.10 crore. The guidelines provide a simplified, non-discretionary and non-discriminatory mechanism which all public sector banks should uniformly implement. The guidelines are indicated below:

Coverage

- The guidelines would cover –
- All NPAs in the SME sector which have become doubtful or loss as on March 31, 2004 with outstanding balance of Rs.10 crore and below on the date on which the account was classified as doubtful.
- NPAs classified as sub-standard as on March 31, 2004, which have subsequently become doubtful or loss where the outstanding balance was Rs.10 crore and below on the date on which the account was classified as doubtful.
- Cases on which banks have initiated action under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 and also cases pending before courts/debt recovery tribunals (DRTs)/BIFR, subject to consent decree being obtained from the courts/ DRTs /BIFR.
- The guidelines do not cover cases of wilful default, fraud and malfeasance.
- The last date for receipt of applications from borrowers would be as at the close of business on March 31, 2006. The processing under the revised guidelines should be completed by June 30, 2006.

Settlement Formula

NPAs classified as doubtful or loss as on March 31, 2004-the minimum amount that should be recovered would be 100 per cent of the outstanding balance in the account as on the date on which the account was categorised as doubtful.

NPAs classified as sub-standard as on March 31, 2004 which became doubtful or loss subsequently- the minimum amount that should be recovered would be 100 per cent of the outstanding balance in the account at on the date on which the account was categorised as doubtful, plus interest at the existing PLR from April 1, 2004 till the date of final payment.

Payment

The Settlement amount should preferably be paid in one lump sum. In cases where borrowers are unable to pay the entire amount in one lump sum, at least 25 per cent of the settlement amount should be paid upfront and the balance amount of 75 per cent should be recovered in instalments within a period of one year together with interest at the existing PLR from the date of settlement up to the date of final payment.

Sanctioning Authority

The decision on the one-time settlement and consequent sanction of waiver or remission or write-off should be taken by the competent authority under the delegated powers. Any deviation from these settlement guidelines for any borrower would be made only by the board of directors.

Reporting

Banks have been advised to give wide publicity through various means to the one-time settlement scheme and also to give notice by January 31, 2006 to the eligible defaulting borrowers to avail of the opportunity. Banks should also display the guidelines on their website.

Arcil recovers Rs.200 cr NPAs

The Asset Reconstruction Company of India Ltd. (Arcil) has recovered Rs.200 crore from the non-performing as sets (NPA) over the last two years, which company has recently distributed to sellers and investors.

During the last two years, Arcil has acquired 368 NPAs, of which 107 cases are identified as large cases and 261 as small, with total outstanding dues of Rs. 16,499 crore.

The Arcil, promoted by State Bank of India, ICICI Bank, IDBI and Punjab National Bank, has informed that 36 cases (40% by value) out of 107 large cases acquired have been resolved with an upside of around 20% on present value basis over the acquisition price.

Arcil has distributed 80% of the upside to sellers and investors. The company has also informed that settlement has been concluded in respect of 43 cases out of 261 small cases acquired at an average additional realization of 37% on present value over the acquisition price.

CD Ratios of top 10 banks rises by 4.7%

The credit deposit ratio of top ten public and private sector banks has risen by 4.7% in 2004-05 compared to 0.26% fall in the previous financial year. A higher growth reflects that there is higher demand for loans from India Inc and the industry, in general. Aggressive marketing by banks is adding more corporates to the client base of banks.

In 2004-05 the total mobilisation by top ten banks in public and private sector banks stood at Rs. 12,08,723 crore against Rs. 10,22,377 crore in 2003-04. Advances also rose to Rs. 7,26,147 crore in 2004-05, up from Rs. 5,56,038 crore in the previous year. The largest public sector bank, State Bank of India posted a 9.25 percentage points increase in the credit deposit ratio from 48.10 to 52.55 in 2004-05. The ratio for Punjab National Bank stood at 56.33, Canara bank 59.40, the Union Bank 61.42, and the Indian Overseas bank 53.08 in 2004-05 registering an increase of 5.4, 5.8, 7.,5, 9.96 percentage points, respectively.

CDR cell recasts 124 cases

The Corporate Debt Restructuring (CDR) cell, constituted by the Reserve Bank of India (RBI), has restructured 124 cases having aggregate debt of Rs. 72,721 crore between August 2001 and August 2005. Of these, 97 cases have been fully implemented, with nearly 75% cases performing well and meeting their debt service obligations in time. The CDR cell is currently working on 8 proposals aggregating Rs.1,909 crore.

MISCELLANY

What is the role of an ARC?

Assets Reconstruction Companies (ARCs) acquired non-performing assets (NPAs) from banks and financial institutions along with the underlying securities mortgaged/or hypothecated by the borrowers to the lenders. The secured assets could include manufacturing facilities like land, building, plant & machinery, current assets or even collaterals like personal properties. The ARCs then try and manage to resolve the NPAs acquired from banks. It can even infuse more funds in order to construct the assets. If reconstruction is not possible or the borrower is unwilling to repay the loan, the ARCs even sell the secured assets.

How is the Indian model of NPA resolution through ARCs different from that of other countries?

While the basic principle of ARCs is the same everywhere-acquire bad loans to resolve them, the essential difference is the ownership of ARCs, public or private. After the Asian crisis, countries like Indonesia, Korea, Malaysia and Thailand have adopted government owned and funded ARCs. The Philippines on the other hand, has opted for the private ARCs. India, too, has adopted the private sector model of assets resolution. Here, ARCs are set up as non-governmental vehicles mostly with support from the banking sectors and other investors. Also, India has opted for multiple ARCs, which helps in better pricing of bad loans, as opposed to the single ARC model followed in many countries. The RBI has also allowed licences to three ARCs and some banks are also planning to float ARCs.

What is the mechanism of NPA transfer to ARCs? How are the NPAs valued ?

ARCs acquire NPA by way of *"true sale"*. That is, once an NPA has been sold, the seller has no further interest in that asset. The ARC sets up trusts for the purpose of acquiring NPAs from the banks. The valuation of NPA and the price offered by ARCIL depends upon the nature of securities the lender has over the borrower's assets, the value realisable from the security, and the time taken to realise that value. The RBI has laid down the guidelines for valuation of NPAs. With banks being allowed to trade in NPAs, it is possible that in the future that a market for NPAs may emerge, which would make valuation easier.

After acquiring an asset, the trust raises resources through issuing Security Receipts (SRs) to eligible investors (Qualified Institutional Buyers). The money received from the issue of SRs are utilised towards payment of purchase consideration to the bank or FI from which the asset has been acquired. Subsequently, the trust becomes the legal owner of the assets and the SR holders the beneficial owners. In that sense SR represents undivided rights, title and interest of investor in financial asset held in the fund floated by the trust. These are deemed out of the realisation from financial assets held under the trust and carry no fixed return.

How do they resolve NPAs ?

ARCs are a product of Securitisation and Reconstruction of financial assets and enforcement of Security Interest Act 2002 (SARFAESI Act). And they derive their asset resolution powers from this Act. The act provides full rights to the investors acting in majority (*75% of the total debt by value*) to enforce the security interest (*term of loan*) without judicial intervention. Through buying out major lenders in a loan gone bad (to the extent of 75% of the value), through the mechanism mentioned earlier, an ARC is able to have recourse to SARFAESI Act, and thereby, acquire legal muscle to force a settlement. Just to highlight the powers available, ARCs can even effect and change in the business and management of the borrower or sell/lease part of whole of the business to resolve the NPAs.

Why is it best for banks to sell of their NPAs to ARCs, instead of trying to resolve them themselves?

It is true that if a bank itself has a 75% of the total value of debt in an NPA or is able to buy out others and accumulate the same then it also gets recourse to the SARFAESI Act. In that sense, banks are on a par with ARCs. That is why we now find that some banks are getting interest and acquiring bad assets, just like an ARC does. However, a bank's business is not to deal in bad as asset or try and reconstruct them. An ARC on the other hand, is in the business of reconstructing bad assets, and has acquired skill and experience in assets resolution. It is able to do the same job better. Moreover, selling an NPA helps a bank to clean its balance sheet, too.

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ECONOMIC REFORMS & POVERTY
TAX COLLECTION FOR BENEFIT OF COMMON MAN
GOVERNANCE AND DEVELOPMENT
HARYANA SEZ APPROVED BY GoI
15% MORE SUBSIDY TO SMEs FOR
TECHNOLOGY UPGRADATION LOANS
STRICTER NORMS FOR LATE
PAYMENTS TO SMEs
OTS SCHEME FOR SMEs