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BI MONTHLY JOURNAL OF COUNCIL OF STATE INDUSTRIAL DEVELOPMENT and INVESTMENT CORPORATIONS OF INDIA

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

From The Editor's Desk

Relevance of State Financial Corporations (SFCs)

The process of economic liberalisation and financial sector reforms initiated in 1991 had brought about complete transformation of the economic scenario in the country. As a result of de-regulation of the financial sector and gradual move towards universal banking, the State Financial Corporations (SFCs) have been steadily losing their ground and facing formidable problems in the competitive environment. It may be mentioned at the very outset that the economic reforms were introduced by the Government largely 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 serve its debt obligations to the World Bank and IMF. Since the focus of these reforms was limited and confined to elite segments, they had unfortunately bypassed the primary sectors of the economy, i.e. agriculture, rural development, state level institutions etc. Since the reforms did not embrace all the segments of the economy including SLFIs, the SFCs were the biggest victim of such reforms in asmuchas while the SFCs had to function within the bounds of SFCs Act, 1951 which was highly restrictive in character, the commercial banks and other FIs were functioning with greater autonomy and operational flexibility. This process went on till September, 2000 when SFCs Act was amended by the Government to bring about necessary reforms in their functioning. Simultaneously a Committee was set up by the Government of India to look into the problems of SFCs and suggest measures for their restructuring and recapitalisation. During the period from 1991-2000, SFCs had suffered heavily in their business operations and were virtually struggling for their survival. With the amendment of SFCs Act in September, 2000 followed by the recommendations of the Gupta Committee for recapitalisation of SFCs an attempt was made by the Government of India to remove legal hurdles in the way of SFCs' functioning and providing them with a level playing field with other Financial Institutions. However, these reforms came too late when the damage had already been done. Consequently, majority of the SFCs were not able to take advantage of the relaxations made in the Act because of their weak financial position. On account of their financial instability, most of these Corporations were not able to mobilize resources from the market on their own by way of floatation of bonds, debentures or equity or public deposits since none would like to invest on the strength of their weak balance sheet. Therefore, the amendment of SFCs Act authorising these Corporations to mobilize resources was not of any help to them unless their equity base was strengthened.

A controversy has been going-on during the past decade as to whether in the wake of liberalisation and de-regulation of the financial sector, it was necessary to continue these SFCs. The self-styled leaders of the financial sector including some of the apex financial institutions who were not familiar with the crucial role played by the SFCs in the past in developing industries in rural, semi-urban and backward regions of the States have been carrying mis-information among the masses regarding relevance and usefulness of such Corporations. Such protagonists of liberalisation and reforms have to be told that SFCs were set up in the States in early 50s and 60s when there was no institutional arrangement in the country for dispensing credit in the rural, semi-urban and backward regions of the States for developmental activities including SSI & village industries. These institutions were created not for profit maximisation, but for fulfilling critical socio-economic obligations of the state like entrepreneurial development, employment generation, removal of poverty, reduction in regional imbalances etc. The SFCs over a period of more than ***4 decades***, have played a crucial role in the promotion of first generation entrepreneurs and have recorded an impressive performance in providing financial assistance to the industries in the decentralised sector. The SSI Sector in the country today occupies a place of pride in the national economy. Currently, the sector accounts for around ***95 percent*** of the industrial units in the country, contributing to 40 percent of the manufacturing sector output and to more than one-third of the nation's exports. At the end of March, 2005, there were ***118.59 lacs*** SSI units providing direct employment to around ***292.91 lacs*** persons. The SSI sector has achieved a growth of ***13.9 percent*** during the year 2004-2005, as compared to the growth of ***8 percent*** by the industrial sector as a whole. It will not be an exaggeration to say that such an impressive performance of SSI Sector has been made possible due to the ceaseless efforts of the SFCs in the past.

A question, therefore, arises ***"as to whether the SFCs can be dispensed with and can commercial***

banks and other financial institutions replace SFCs ?". This question was put to all the concerned authorities in the country including Government of India, RBI, IDBI, SIDBI etc. during the course of COSIDICI's discussions with them in the past. The general consensus among the authorities was that SFCs are as relevant today in the country's economy as they were ***50 years back***. Although the SFCs had been facing financial crisis and most of them had lost their owned funds as a result of mounting NPAs, they have a great role to play in the country's economy for industrial development of rural, semi-urban and backward regions of the States. No other financial institutions have wherewithal and outreach to penetrate into the far-flung areas of the States for promoting small scale and tiny industrial units. The SFCs' main role has been promotion and financing of first generation entrepreneurs, an activity which no other financial institution in the country can engage in. If that is the view of the Government of India and concerned financial institutions including RBI, IDBI & SIDBI why there has been general reluctance on the part of these agencies to implement the recommendations of G.P. Gupta Committee on restructuring and recapitalisation of the State Financial Corporations. Besides, IDBI/SIDBI which are supposed to nurture these financial institutions have not been responding positively to the legitimate need and aspirations of these corporations. In the absence of adequate resources, SFCs' efforts to provide financial assistance to small scale and tiny industry in decentralised sector has been impaired to a great extent resulting in a severe set back to the SSI sector.

An important reason for keeping SFCs afloat is to maintain the flow of credit to SMEs. Bank credit to SSI sector as a proportion of total bank credit has been declining - it fell from 16% in 1999 to 12.5% in 2002. It is futile to expect banks which are shy of lending even to corporates to be enthusiastic about lending to SSI sector. At best, banks may lend to the existing units; they will not be keen on financing new ventures i.e. ***first generation entrepreneurs*** - the constituency that SFCs were intended to serve. Widespread closure of SFCs could thus impact adversely on a dynamic segment of the Indian economy and undermine industrial growth. There has been phenomenal spread of banking services in the country during the past four decades and an important feature of this expansion was opening of more branches of commercial banks in rural and semi-urban areas. As on June 30, 2002 out of total banks' branches at 66,186 as many as 57,186 are located in rural and semi-urban areas accounting for nearly 71% of the total number of branches of commercial banks. With the spread of banking services in such areas, the commercial banks have gained access to the community's savings which they mobilise in these areas and deploy them elsewhere, thus depriving such areas of much needed resources for their development. According to the current instructions of Government of India/RBI, banks are required to maintain Credit Deposit Ratio (CDR) of 60% separately for metropolitan/urban and rural/semi-urban areas. However, a look at the CDR of commercial banks would reveal that in some of the States like *Bihar (21.3%); Jharkhand (24.9%); Uttar Pradesh (29.4%); Uttaranchal (23.3%); Kerala (43.3%); Himachal Pradesh (21.3%); Haryana (41.0%) etc.* the Credit Deposit Ratio of commercial banks has been abysmally low. Further, although separate statistics are not available in RBI' report regarding Credit Deposit Ratio of rural and semi-urban areas separately, I can say with confidence that Credit Deposit Ratio of commercial banks in such areas is below 10%. Again if one looks into the statistics of providing credit to weaker sections in such areas like small and marginal farmers, agricultural labourers, artisans, small traders etc. involvement of commercial banks is almost negligible. I have yet to come across a single instance where any commercial bank or an FI ever endeavoured to enter the rural, semi-urban and backward areas of the States and financed first generation entrepreneurs. There is a strong case for compelling the commercial banks to open a general line of credit to SFCs to bridge the gap in the stipulated CD ratio. It is in the context of these realities that one has to appreciate the relevance of SFCs in the country. If the concerned authorities are satisfied about the useful role played by SFCs in carrying industrial culture to far-flung area of the States, the Government must come to the rescue of these corporations and immediately initiate measures for their recapitalisation as recommended by G.P. Gupta Committee. The Government has already recapitalised public sector banks and RRBs to the extent of Rs.21,000 crore and Rs.1,800 crore respectively to strengthen their bottom-line. Further, the Government has also approved a package for recapitalising the Co-operative Credit Institutions in the country to the extent of Rs.8,000 crore. When Central Government have recapitalised the above financial institutions, there appears to be no reason why the SFCs should be denied the benefit of recapitalisation. The Central Government should, therefore, consider the matter in national interest and extend this facility to SFCs urgently to enable these financial institutions to continue to play their developmental role in the States.

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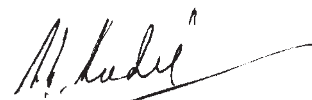

(K.K. MUDGIL)

APPOINTMENTS

- Shri P.V. Trivedi, IAS has been appointed as Managing Director, Gujarat State Financial Corporation (GSFC), Gandhinagar vice Shri Arvind Agarwal.
- Shri Kuldeep Ranka, IAS has been appointed as Managing Director, Rajasthan State Industrial Development & Investment Corporation Ltd. (RIICO), Jaipur vice Dr. Rakesh Hooja.
- Shri Irfan Yasin has been appointed as Managing Director, Jammu & Kashmir Industrial Development Corporation Ltd. (J&K SIDCO), Srinagar vice Shri V.K. Bakshi.
- Shri Rattan Singh has been appointed as Managing Director, Pondicherry Industrial Promotion Development & Investment Corporation Limited (PIPDIC), Pondicherry vice Shri A.K. Singh.

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PROFILE OF MEMBER CORPORATIONS

DELHI STATE INDUSTRIAL DEVELOPMENT CORPORATIONS LTD. (DSIDC)

Delhi State Industrial Development Corporation Limited (DSIDC) was set up under the Companies Act, 1956 for promotion and development of medium and large industries giving new thrust and providing new directions for a better Delhi. Capitalising sensibly on the vast potential, (DSIDC), has been leading the integrated industrial development of Delhi, giving ample space, scope, infrastructure & facilities to the small scale industries of Delhi, expanding its horizons, looking anew towards possibilities & making the best of them. DSIDC has been instrumental in carrying out developmental projects expanding throughout Delhi. It has set new parameters in its areas of concern. Accredited with the prestigious ISO 9001: 2000 certification, DSIDC over the years has acquired a new energy & enthusiasm, laying special emphasis on new areas, and exploring fresh avenues of revenue generation.

New thrust areas

With the shifting of focus from traditional industries to environment-friendly, technology-savvy industries, DSIDC has planned to expand its work ambit to cover, among other commercial ventures:

- Assaying Centre for Hallmarking of Gold
- Gems & Jewellery Institute
- Fashion / Apparel Park
- Computerised Weigh Bridges at entry points in Delhi
- Water Body at Bawana

Certifying Purity- Hallmarking of Gold

Recognized as the official certification for purity of gold, hallmarking is necessary for the sale of any gold jewellery all over the world. Whereas in India, almost all jewellery is sold without hallmark seal. Hence, to give a boost to the jewellery industry, DSIDC is set up an Assaying Centre for the hallmarking of Gold. Formal approvals are expected soon from the centre.

A Sparkling Avenue- Gems & Jewellery Institute

With a view to capitalize on the growing market for diamonds and precious stone studded jewellery, it is proposed to create a centre for excellence in design, research, manufacture and export of these items from Delhi. This centre will provide infrastructure and necessary facilities for manufacturers and exporters, alongwith in- house training institute for skill upgradation in the trade.

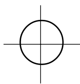
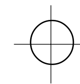
Designing Fashion Street- Fashion Park

DSIDC has proposed to set up an exclusive Fashion Park which will provide facilities like designing, product development, fabrication, training, manufacturing, testing, sale outlets and display centres including a hall complete with ramp, proper sitting and lighting arrangements and recreational facilities. Once set up, this Fashion Park would attract local and foreign tourists, as a hub of cultural activities.

Quick, Easy and Accurate -

Computerised Weigh Bridges at entry points in Delhi DSIDC has proposed to install state-of-the-art weigh bridges to be run on B.O.O.basis, on the main entry points of Delhi to record the weight of goods transported by trucks and other vehicles, and to provide facilitation to inter-state travellers.

This will enable quick and easy calculation of taxes, and penalty for carrying extra weight than permitted and hence would help in regulating better traffic flow apart from a one-stop shop containing outposts of MCD, Police, Tourism Department and food courts.

Getting closer to mother nature- Water Body at Bawana

Inspired by the Jurang Bird Park in Singapore, DSIDC has set up a small water body in Bawana Industrial Area. Spread over about 15 acres, the water body will be an ideal breeding place for various species of bird and fish. Besides making Bawana an environment friendly industrial area, this landscaped water body would enable recycling of industrial waste water, after treatment in CETP, thus demonstrating that the water here is safe for thriving of birds and fish.

Vending it in style- Retail sale of Liquor

DSIDC has a chain of exclusive retail outlets in Delhi selling liquor. These outlets have been revamped with trendy interiors and ample corridor space, and glamorous looks. These outlets also give the customers the convenience of self-service too in choosing the brands of their choice. 5 such unique "boutique vends" have been proposed, the site for which has been finalised. DSIDC also proposes to revamp the sale and service of liquor in collaboration with an *'Integrated Service Provider.'* Liquor outlets of DSIDC have come up as a major revenue earner.

A feather in it's cap - Relocation of Industries

A) In order to reduce the congestion in Delhi, the government has decided to shift industries from Delhi's non-conforming areas. The task of relocation of industries has been given to DSIDC. With a never-say-die attitude, DSIDC has gone about this Herculean task and has achieved tremendous progress.

The relocation of industries in Bawana in north west Delhi is spread over 1900 acres of land, where the provision of basic facilities has been completed in right earnest. These include construction of road over 143 kms, sewers over 140 kms, water pipes over 144 kms and storm water drains over 269.5 kms. Divided into five zones, Bawana industrial area, the largest industrial relocation scheme in Asia is expected to benefit a workforce of 250,000. Bawana once fully developed will have the following:

- Wholesale Market
- Raw Material Market
- Workshops
- Warehouses
- Godowns
- Public and Semi-public offices
- Community Centre with Product-cum-Process Development Centre
- Product Exhibition Centre
- Business Centre
- Conference Hall
- Showrooms and Corporate Offices
- Truck Terminal
- Advanced Communication Facilities
- Police Station and Police Post

Bawana will also have 7 solid waste collection centers from where solid waste shall be transported to sanitary land fill sites.

B) In Narela, 900 plots have been developed and allotted under the Relocation Scheme and 600 more plots are under development. Narela industrial project will have all the basic facilities including Common Effluent Treatment Plants, besides storage godowns of Central Warehousing Corporation, Guest House, National Dairy Development Board Bottling Plant, Banks, ITI and Facility Centres. Narela will have roads covering 33.68 kms, storm water drains over 63.11 kms and sewer lines over 26.25 kms.

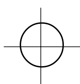
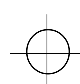
Another 378 flatted factories have been allotted in the Jhilmil Area (in East Delhi) as part of relocation scheme.

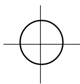
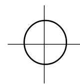
C) Another 450 acres of land has been taken by DSIDC at Bhorgarh for industrial estate phase-II.

More land has been acquired in Bhorgarh in West Delhi for relocation of industries.

Building beautiful homes- Rajiv Gandhi Housing Project

DSIDC understands that relocation of industries does not solve all the problems. The new industrial

estates that are developed are located in far-flung areas of the city. As factories are shifted, it poses quite a few problems for the workers. In order to reduce the problems of commuting by workers to the relocated sites, a prestigious scheme for housing, exclusively for the benefit of industrial workers has been launched under the name of Rajiv Gandhi Housing Project, in Bawana. A comprehensive housing scheme developed for various categories of workers in Bawana, this project will be spread over 23.55 acres of land where 3164 dwelling units are proposed to be constructed. The estimated cost of the housing project is Rs. 38.65 crore.

Countering Pollution- Construction of Effluent Treatment Plants

To minimize the level of industrial pollution in Delhi, DSIDC has set up 7 Common Effluent Treatment Plants (CETPs). Work on three CETPs is underway, and shall start on another three in the near future. DSIDC has been assigned the task of constructing the first Hazardous Waste Disposal Plant in Delhi.

Artistic deals for a cause- Delhi Emporium 'Bharati'

'Bharati' is committed to promote Indian handicrafts and deals in Handlooms, Handicrafts, Leather, Pottery, Garments and Jewellery made by SSIs. This emporium attracts both domestic as well as foreign visitors. DSIDC is also into exports of artefacts to promote the cause of craftsmen.

The emporium is being revamped totally to give it a fresh look. The interiors & lighting are being done aesthetically by reputed professionals.

Managing 'Skills'- Overseas Manpower Bureau

To safeguard the interests of people going abroad in search of employment opportunities, DSIDC runs an Overseas Manpower Bureau. This bureau sends professionals and skilled workers to the Middle East. Of late the bureau is receiving enquiries from reputed firms from abroad too.

Development Activities :

The Corporation has constructed 944 industrial sheds spread over eight well laid-out complexes and 4000 work sheds for unemployed graduates belonging to Economically Weaker Sections (EWS).

In 1978, DSIDC was designated as a Land Development Agency for the development of land at Narela. In the first phase, 1800 plots were developed and allotted in Narela with all modern facilites - Shopping Complexes, Parkings, proposed Common Effluent Treatment Plants and green spaces.

Similarly DSIDC has constructed a Computer Complex at Okhla, a Packaging Complex at Kirti Nagar and an Engineering Complex at Mangolpuri. Under the Self Financing Scheme, DSIDC has constructed and allotted 444 sheds to entrepreneurs.

Construction Division :

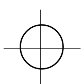
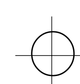
The Construction Division of DSIDC is fully equipped with latest infrastructure, Engineers, Site Supervisors and a full-fledged Architecture Wing, to execute different type of construction assignments. During the last two years more than two thousand crores worth of construction work has been executed, and it provides the mainstay of DSIDC's turnover.

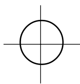
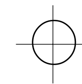
Deposit Works

Under Mini-Master Plan Scheme, planned & integrated development of rural areas in Kanjhawala Block of Delhi was prepared. Construction of 27 MPCCs has been completed. The other projects include upgradation of various DTC Depots, Udyog Sadan Building at Patparganj, Labour Welfare Centre at Hari Nagar, Cultural Centre for the Sahitya Kala Parishad at Janakpuri, Godowns for DSCSC, Cultural Centres at Lakshmi Nagar and Shahdara, DFC Building at Janakpuri, World Bank funded co-ed Polytechnic at Rohini, High Tech Vocational Training Centre with Italian collaboration etc. These are a few examples, of our participation in the fulfilment of the socio-econonic responsibilities of the Delhi Government.

Other Construction Activities.

DSIDC also has a few more industrial projects namely Narela Industrial Estate, an Eco-friendly industrial park for 3600 industries with support infrastructure & facilities, 8000 Work Centres for socio - economic backward craftsman, a number of industrial estates for

educated unemployed and specific product based, besides setting up of Biotechnology Centre at Delhi University South Campus.

Development of Community Work Centres

To provide self-employment opportunities to weaker sections, DSIDC has developed 54 Community Work Centres under which 4000 Work Spaces have already been allotted to people of resettlement colonies.

We are actively participating in the development of 3 villages in Dwarka and Integrated Freight Complex on behalf of DDA.

Other areas of concern

DSIDC provides marketing assistance to small scale & cottage industries. It helps them in participating in various exhibitions. Through its laboratories at Okhla & Wazirpur it undertakes Quality Control checks. It has also undertaken Software Development in a major way. DSIDC is also involved in Sand Mining. It also provides Technical Consultancy to the entrepreneurs of various fields.

DSIDC - A Mission with a Vision

DSIDC has initiated the upgradation of basic civic infrastructure in the industrial estates of Delhi. Bio-technology would be a blue chip sector in the future for which DSIDC is promoting Research and Production of projects in the field of Bio-technology. As an environment-friendly step it plans to develop a 15 acre Ecological Park for which initiatives have been taken, and a 200 acre ***'Knowledge Park'*** to keep up with the march of our country in the new millennium.

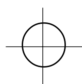
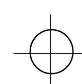
To provide for the lack of cultural facilities for East Delhi, the Poorva Sanskritik Kendra is now ready. Modeled on the pattern of India Habitat Centre Lodhi Road, the Laxmi Nagar Cultural Centre has been visualized by a professional team of DSIDC & is seen as a happening place for cultural activities.

The Udyog Sadan building at Patparganj too is ready & will be functional very shortly, with a new enthusiasm. ***'Lifeline of Delhi's industries'*** in true sense, DSIDC is at work at a fast pace & is surging ahead steadily, managing development with a humane approach.

DSIDC will set-up a Business and Investment Forum especially devoted to ANMC-21and will cater to all other business and investment opportunities in Delhi.

DSIDC will collaborate in a joint venture for usage of plastic waste in construction of roads in Delhi, thus combining state-of-the-art road longevity technology with our city's compulsions for management of non-biodegradable plastic waste, in our mission for a clean and green Delhi.

God is a master of the impossible. He made the world out of nothing. - Pretty good old world, isn't it? He hung it on nothing. - Hangs pretty good, doesn't it? Nothing is too hard for him!

SPECIAL ECONOMIC ZONES

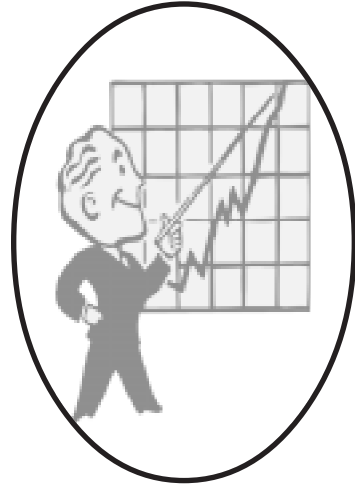
The Government of India embarked on Special Economic Zones (SEZs) led growth for the infrastructure sector to improve the country's competitive positioning with respect to other countries in the region. In the little over four years since the SEZ policy was announced, existing Export Processing Zones (EPZs) have been converted into SEZs and ***"in-principle"*** approvals have been given for 17 SEZ projects proposed for different states. The lack of enthusiasm shown by the private sector in setting up green field SEZs can be attributed to a variety of reasons such as incomplete policy framework, inappropriate structuring of projects or even absence of appetite for such projects.

All except one project of the 17 approved are in early stages of project preparation and bidding. Only the Navi Mumbai SEZ project is being evaluated by financial institutions.

Compare this with the success of countries such as China, UAE, Malaysia and Philippines where more than a dozen such SEZs have been developed in the last decade and half. These zones have emerged as focal points especially for foreign investments and have attracted over 20% of foreign direct investments besides contributing over a quarter of country exports. Also, these zones have served as testing grounds for reforms and policies for governments. In an indirect way, the free zone programmes in these countries have also helped improve competitiveness of local industry, job creation, local skill upgradation and technology absorption from FDI.

Many factors have contributed to the success of SEZs in other countries. Key among them are the basic objectives for setting up such zones, role and approach of the public sector to SEZ development and the prevailing economic environment as well as compulsions at the time of launch of these programmes. There are interesting comparisons between the Indian model and that implemented in the Asian emerging markets.

Free zones in these countries were primarily public funded in which economic gains prospects assumed far more significance than financial viability considerations. Consequently, the responsibility of market to promote such zones and to attract tenant industries was primarily shouldered by governments.

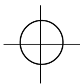
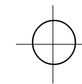


Unlike this, the Indian model envisages private sector ***"led"*** development of such zones in which the responsibility / risk of financing (or atleast the bulk of it), marketing and promotion has been vested with the private sector. Both these are hitherto untested areas for private sector-not only in India but also internationally (albeit with limited experiences). Herein lies the key difference in the Indian approach and the observed international experience.

Second, with the exception of China, all the other ***"tiger"*** economies that were powered by such export led growth programmes had a small domestic market. Hence, production was primarily for exports and not so much for the consumption of the small domestic markets. Hence, much of these investments turned out to be ***"fleeting"*** in nature wherein the manufacturing / assembling facilities shifted to other neighbouring countries that offered lower costs of doing business. The 1000 million strong domestic market would make investments in India SEZ more likely to be firmly "grounded" than "fleeting" in nature.

Third, the context in which these zones took shape in Asian "tiger" economies including China has changed considerably. Earlier, Japanese companies, in their endeavour to remain competitive vis-a-vis American companies, largely fuelled investments into free zones in the "tiger" economies. This model was followed by American companies and trend still continues, only the drivers have changed. The key considerations in the current context are the vast domestic markets in India, China and ASEAN countries in addition to their attractiveness as a "sourcing base". This underscores the importance of the "Look East" strategy for identifying private investment for both creating zone infrastructure and for investment from locating industries.

Courtesy : Yojana ~ A Development Monthly

Fourth, differences in economic and political structures also give rise to differences in the zone development models. India is not a command economy- foreign investors are not confined to SEZs only - which make these zones a little less special than were China's where SEZs used to be the only route through which foreign investors could enter the country. Besides, India has no equivalent to HongKong or Taiwan where industries had a pressing need to relocate and China served as a ready relocation base. In contrast, India has a significantly larger English-speaking workforce than does China. India also has an edge in a number of key knowledge based industries such as software and IT-enabled services, engineering products, medical services, drugs and pharmaceuticals and agro-based industries.

India's SEZs are therefore, likely to develop along quite different lines from China's. Indian zones will more likely attract investments in high-end human skill based industries and services sector. This is as distinct from investments in areas where lowest cost is a key determinant of competitive advantage, wherein Chinese zones will continue to enjoy a head start. Also, manufacturing investment into such zones is likely to be firmly "grounded" and less "fleeting" in nature given the vast local market.

Proportionately more of the investment in Indian zones is likely to be from domestic private sector because India's private sector is more developed today than was China's in 1980's. Also, in the light of the increasing economic "engagement" of India with ASEAN and China, it is also likely that a greater proportion of investments into Indian zones could come from these countries than from America or Europe.

It would be critical for policy makers and state governments to recognize these distinctive features of the Indian SEZ model and accordingly evolve project structures to realize the vision of private investment in developing zone infrastructure. This is discussed as follows.

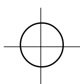
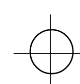
Issues and Alternatives

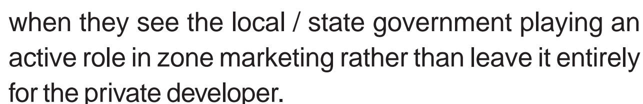
The Indian Govenment can consider several steps to fuel growth in SEZs. These interventions should address some of the pressing issues impacting not only zone infrastructure creation but also encouraging inward investment into these zones from locating companies.

The first issue to be addressed is, what comes first - visible creation of zone infrastructure or the anchor locating industries ? The countries cited earlier adopted the "infrastructure first" strategy wherein governments first invested public funds in creating quality zone infrastructure. This visible demonstration of infrastructure creation combined with local factor advantages helped attract locating countries. What this means in the Indian context is that funding for zone infrastructure creation should especially have low cost, extended maturities and longer moratorium. While this can be said for most infrastructure projects, this is especially true for projects such as special economic zones and industrial parks where the so called ***"traffic risk"*** goes beyond the boundaries of the state and extends into country specific factors such as investment climate, country rating, export prospects, competitiveness of local industry and country comparative advantages. What makes such projects especially challenging is that it involves creating mini cities and economic enclaves that under normal circumstances take years to reach a steady state. In this context, any role that state and central governments could play in accessing funds, such as from multilateral institutions, insurance companies and possibly pension funds would help boost the prospects of privately sponsored zones becoming a reality.

Following the permission to allow 100% FDI in the construction sector including in building townships of a minimum size of 25 hectares, the central government could also consider allocating a part of the forex reserves proposed to be utilised to fund infrastructure projects.

This leads to the next issue - *who can best handle marketing risks in such projects* ? As mentioned earlier, investment promotion and marketing have been functions largely in the government domain, not only in India but also internationally. Private sector has limited or no experience in this subject. It is, therefore, worth debating whether it would be prudent to vest private sector with this responsibility or should the sponsoring state governments provide certain "minimum assured" level of "traffic" of locating companies. Alternatively, the concerned state government could promise an "anchor" tenant that would in turn spawn downstream investment and inflow of locating companies. The option of appointing "channel partners" or marketing agents to "place" space has worked well in the IT sector, especially in IT parks. Private developers could apply this model for attracting investments into the zones. Notwithstanding any of these models, locating companies derive relatively more comfort



when they see the local / state government playing an active role in zone marketing rather than leave it entirely for the private developer.

The other lacuna in the Indian context is the absence of a central SEZ legislation even as some states have already formulated their own SEZ legislation. The government of India's SEZ policy is indeed attractive when compared with that in competing countries. As a logical next step, this needs to be translated into a central legislation. Likewise, states also need to translate their respective SEZ policies into legislations. This would help give a sense of certainty to the Indian SEZ policy and also comfort to lenders appraising private SEZ project. Absence of such legislations both at central and state levels could impede the process of financial closure of such projects. Two specific recommenations worth including in the proposed central SEZ Act are - reduced peak tax rates after the expiry of the tax holiday period (as in China - 15%) and limited preferential access to the domestic market (as a % of export income) to provide a natural hedge for locating companies.

Next, every rupee spent on creating zone infrastructure potentially requires an equivalent amount to be spent in strengthening external connecting infrastructure, if not more. These investments are neither immediately apparent nor a part of the project cost for the private zone developer. Thus, public funding through state government budget is possibly the only way to fund these "missing link" projects unless any of these can be developed on a BOT basis (the chances of which are remote). While one way of achieving this is through departmental budgets, constrained state finances place a limitation on the extent to which states can fund such infrastructure. This can be one of the reasons why not all of India's planned SEZs will succeed since the state governments launching them differ markedly in the quality of their vision, their capacity to build infrastructure and the political constraints under which they operate.

To overcome such problems, the central government could as part of its new Foreign Trade Policy set aside a "Fund" to finance states to take up such connecting infrastructure projects under deferred payment schemes. Certain eligibility conditions could be stipulated (such as passing a state SEZ Law, securing a final approval from GoI, successfully selecting a private zone developer etc.) to create both an incentive and a healthy competition to draw money from such a Fund.

As an extension, SEZs could also be considered under the "Viability gap" scheme of the Ministry of Finance, Government of India.

Further, given the multiple risks that private developers perceive in such projects and the associated possibility of these risks translating into either higher cost of funds or higher expectation of returns, state government (depending on their inclination and appetite) could structure projects to better reflect the economic gains likely to accrue in the long run. For example, governments could initially build basic infrastructure in such zones through public funds or with the help of multilateral funds and subsequently structrue ***"O&M concessions"*** for future zone infrastructure creation and/ or zone maintenance. This model can combine the advantages of speedy implementation at the least cost with the advantages of private efficiencies in managing zone management. As a variant, zone infrastructure could also be funded through either deferred suppliers credit on an annuity EPC. In this model, the funding risk is transferred to the private sector while the government still retains the market and marketing risks.

Government-to-Government (G-to-G) partnership could be another way of identifying zone developers. In this model, choosing the partner country would be crucial and would depend on factors such as whether the partner country is extending concessional finances for the project, complements economic objectives of the state, is a good destination for Indian exports, has proven expertise in developing such projects or is a source of investment from potential locating companies.

Finally, the Indian SEZ policy at the central and state level must be accompanied by labour reforms without which Indian zones will lack the desired competitive edge. While this might be politically difficult, critics must within the limited confines of the SEZs test what works best. Next, any relaxation in labour laws in these zones would prospectively apply to new investments that might otherwise not materialise if such steps are not taken.

In conclusion, India has the right mix of factors such as availability of large and skilled workforce, intrinsic comparative advantage in several industries, a strong policy framework, availability of complementing and supporting ancilliary industry, an already buoyant export sector and vast local markets. SEZs can combine these factors into a powerful alchemy to power investment creation. Government interventions in some of these areas could considerably enhance the prospects of creating such zones in public private partnership format.

DEVELOPMENT FINANCIAL INSTITUTIONS IN NEW ENVIRONMENT

by

Dr. Kshatrapati Shivaji, IAS *

Development Financial Institutions (DFIs) in the present form are no longer sustainable and DFI model is loosing its relevance. Some of them have undergone change in its structure, where as some have become non-functional and choked institution with high NPAs etc. Universal banking and one stop solution have become the Mantra of survival for all the Financial Institutions (FIs) in the changed economic environment. In essence, the DFI model of India, can no longer remain cherished agencies of growth for providing much desired credits needs of the ***"Long-gestation & infrastructure projects"*** though, infrastructure still remains one of the most critical bottlenecks for accelerated economic growth in India.

Recent developments in financial sector have put tremendous strain on DFIs. Most of the performance indicators reveal that these institutions are in distress, their cost of funds and lending rates are high, their margins and spread have been squeezed, thereby rendering them in-competitive, unsustainable with high non-performing assets (NPAs).

ICICI in 2002 merged with its subsidiary bank and became universal bank. IFCI have almost collapsed with its high NPA & Negative Net Worth. IDBI has also been restructured by huge financial support of Rs.9,000 crore by Government of India and slated to be merged with IDBI Bank. The conditions of all other DFIs e.g. IRBI, EXIM Bank, SFC, IDCs are also not better.

In the absence of well developed capital market, Indian Financial system has traditionally been classified as ***"bank based"*** system, where Banks, Insurance Companies, Provident & Pension Funds, Mutual Funds, DFIs etc. have been playing dominant role in the financial system. However, there has been steady growth in deepening, widening of the capital market in the Country and Capital Market is providing accelerated complimentary support in delivering increased credit needs to the industry.

Banks generally have short term funds, which are mobilised mainly through deposits, they were permitted to meet short term credit needs e.g. working capital etc. Whereas, DFIs were encouraged to provide long term credits and finance long gestation and infrastructure projects.

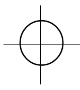
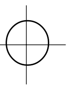
Long Term Lending has inherently high-risk, with high certainities, which become all the more pronounced in a fast changing economic environment. There has been sea change in the economic policy, since nineties, specially with regard to taxation, Foreign Direct Investment (FDI), Exim Policy etc. Hence, the estimation of its impact on credit risk and to factor in such long term project finance is difficult, which has been one of the main reason for increased strains to DFIs. Sudden dismantling of the controlled and administered rate structures have adversely affected DFIs, because these DFIs have floated highly rigid financial instruments, which had near absence of modern/flexible options of mid course corrections/tenure changes e.g. call/put, redemption option etc. floating / index rate financial instrument, which provide easy escape route with negligible exit cost / barrier in case of such adverse financial environment / policy changes.

Due to inherent risky credit exposure for long term lending, thereby general reluctance for this by Financial Institutions and its crucial importance for economic growth, after independence, Government of India, first set up IFCI in 1948 under IFCI Act as a Statutory Corporation, which was incorporated as a company in 1993. IDBI was also set up in 1964 by an act of Parliament as a wholly owned subsidiary of RBI. Later in 1976, ownership was transferred to Government of India (GoI). In 1994, IDBI Act was amended and in 1995, GoI's holding was reduced to 72.14% and then to 58.47%.

IRBI was set up in 1985 under IRBI act as principle credit and reconstruction agency for assisting rehabilitation of sick and closed industrial units.

SIDBI, set up in 1990 (under SIDBI Act, 1989) was carved out of IDBI by taking over the outstanding portfolios and activities pertaining to small scale sector. SIDBI is a DFI with 100% ownership of IDBI and later in 2000, 51.1% equity has been transferred to PSU banks, LIC, GIC and others.

* The author is Chairman & Managing Director, Maharashtra State Financial Corporation, Mumbai

These DFIs were set up with more of developmental objective as promotional agencies with extended arms of Government and not merely as a commercial agency.

SFCs were also set up in each State under the SFCs Act 1951, as State level DFIs, mainly with the equity subscriptions of IDBI and of respective State Government. The shares of IDBI in SFCs after amendment of SFC Act in 2000 are expected to be transferred to SIDBI. SFCs being the lower tier of DFI, have operations at cutting edge level for providing long-term credit needs to SSI sectors, in every part of the State and also to the first generation entrepreneurs. SFC's credit exposures have been highly risky due to the following reasons **:**

- Inherent high credit risks due to long term financing.
- Lendings are to SSI, which are more prone to risks on account of several factors.
- Most of the project finance are to the first generation entrepreneurs, who opted to venture for such SSI projects as last option at the end, with very little background / experience.
- Such projects were undertaken more from employment objectives, with no or little expertise on its manufacturing / marketing of its products etc.
- High administrative cost due to small and highly scattered units.
- SFCs have been bearing complete recovery / credit risk with lower margins, as dictated by SIDBI and SIDBI gets interest income without any recovery risk.
- SIDBI, with no promotional role is lender and also regulator and continues to be the biggest beneficiary of the concessional funds, without any risk.
- Caught between rapid adverse market changes and rigid terms / attitude of SIDBI.

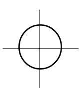
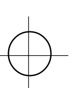
SFCs are now under tremendous strain on account of the followings **:-**

- All these DFIs including SFCs were set up with more of development functions and with extended arms of Government agencies and not merely as commercial agencies. DFI model of India envisaged to encourage DFIs for delivering long term credit in risky sectors / segments by providing concessional funds, on the premises of development role of the Government.
- In commensurate with the developmental objectives of Government for growth by felicitating long term credit, Government through RBI had been providing National Industrial Credit (long term operation) fund [NIC (LTO) fund] at concessional rate of DFIs till 1992 and thereafter it has been stopped.
- RBI used to permit SFCs to float SLR Bonds, which have now been stopped.
- When interest rate has come down, then high interest bearing SLR Bonds were allowed by RBI for debt swap at prevailing market interest rates to State Government. Where as the very same facility has been denied to SFCs, even though the need is more to SFCs.
- SIDBI/IDBI, even though they were supposed to provide developmental guidance/support/ assistance, but have been working both as lender and also as regulator. They have always been framing rules etc. favourable to them and not for SFCs/SSI entrepreneurs.
- Considerable part of the NIC(LTO) and other concessional fund have always been retained with SIDBI/IDBI and thus continue to get direct advantage of such concessional funds, though these benefits were to be passed on to SFCs and to entrepreneurs.

As a result of the above, it is likely that the long term credit needs for balanced regional development and for unemployed competent, qualified youth may not be fulfilled. Some of the risky sectors may also be deprived of the timely and adequate long-term credit.

Options :

- SFCs continue to be captive customer of SIDBI / IDBI for source of fund, which has always been dictated upon. This needs to be diversified.
- Banks have natural advantage of getting deposit funds at lower cost. Hence, option to convert into banks, with universal banking activities may be tried upon.
- Major disadvantages to SFCs are high risk credit due to need based lending operations, may be changed to high security based lending.
- To reduce credit risk, DFIs should also be now highly choosy in selecting customer to enhance its comfort level and credit quality.
- Most important need in the new environment is to provide tailor made customer service by providing ***"One Stop Solutions"*** of all types for the credit needs to customer.

MPFC

Centre to provide cheap loans to MP

The Madhya Pradesh Finance Corporation will get loans from the Centre at low interest rates. This Corporation has set a target of distributing loans of about Rs.200 crore to industrial units in MP this year. This initiative would ensure an investment of about Rs.1,000 crore.

GIDC's Dahej SEZ approved

The Board of Approval has cleared the Dahej chemical and petrochemical special economic zone (SEZ), a joint venture between the Gujarat Industrial Development Corporation and ONGC, it was cleared at a meting of the board in the 2nd week of July. A special purpose vehicle has been formed by GIDC and ONGC for the SEZ, in which ONGC has 26 per cent equity. The SEZ is spread over 1,740 hectares out of 4,100 hectares of land owned by GIDC.

HSIDC

HSIDC reduces floating rate of interest

As an impetus to its term lending activity, the Corporation has reduced its floating rate of interest by 0.5% w.e.f. 1.4.2005. The term loans under the scheme shall now be available at 11.50% p.a as against 12% p.a. earlier. The Corporation is providing term loan assistance to its borrowers on floating and fixed rate of interest based on weighted average of funds. Besides the term loan, HSIDC also offers working capital loan and equipment finance. 1% rebate being offered to the borrowers for timely payment. The industry in Haryana has welcomed the decision of the Corporation to reduce the floating rate which is now almost at par with the term loans being offered by commercial banks and SIDBI.

The Corporation is also offering line of credit for the existing profit making companies besides financing commercial complexes under its term lending gamut. In order to finance bigger projects, the exposure limit of the Corporation has been enhanced to Rs.12 crore per project for IT and Textile industry and Rs.10 crore for other projects. In addition to above, the Corporation has also enhanced the maximum limit of term loan assistance under the equipment finance scheme from Rs.4 crore to Rs.5 crore per proposal. In order to liquidate its non-performing assets (NPAs), the Corporation has adopted onetime settlement policy for genuine cases. The benefit of this policy shall however not be passed on to the willful defaulters.

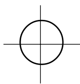
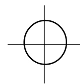
As per the policy and guidelines of the Govt. of India, Ministry of Food Processing, HSIDC decided to set up dedicated industrial estates for food processing and allied industries. Four sites were identified by the Corporation for setting up these food parks in the year 2002. These sites are at Rai (Sonipat), Saha (Ambala), Narwana (Jind) & Dabwali (Sirsa). The development works of food parks at Saha and Rai have already been completed and industrial plots of various sizes have been allotted to the entrepreneurs.

The Corporation has now decided to take up the infrastructure development at the food park at Narwana. The land for this Food Park has already been acquired and the site plan has been finalised. This Food Park will be spread over an area of 108.01 acre and a total number of 231 industrial plots of various sizes shall be carved out for allotment. The Food Park shall be provided with the best of industry related infrastructure such as internal roads, water supply, sewerage, external electrification, drainage etc. The estimated cost of providing the basic infrastructure has been worked out at Rs.17.73 crore. The Ministry of Food Processing, Govt. of India will be providing a grant-in-aid assistance for development of this park upto 40% of the project cost. The Food Park at Dabwali shall also be developed shortly.

Rs.10 crore loan for multiplex at Panipat

M/s DAP Estates Private Limited have been sanctioned a term loan of Rs.10 crore by the Corporation for setting up a commercial building (multiplex) in Sector 11, at Panipat. The company proposes to develop a fully integrated family entertainment centre to capture the consumers who are spending not only on individual activities but also to benefit from the synergies associated with inter linkages that various business have amongst them. The proposed multiplex shall have ultra modern design with metal cladding and curtain glass walls which shall be an attraction in itself.

The total cost of the project has been estimated at Rs.2075 lakh which is proposed to be financed by a term loan of Rs.1000 lakh by HSIDC, share capital of Rs.750 lakh and interest free unsecured loan of Rs.325 lakh. The multiplex will have approximately 7456 sq.mtrs. of super area comprising of two basements and four floors. The commercial area shall be leased out by the Company to various establishments and the multiplex, consisting

of three multi purpose auditoriums, shall be run by the company. Both the upper and lower basement shall be used for parking of vehicles. The entire building shall be centrally air conditioned with 100% standby arrangements in case of power failure.

The site, which has been purchased by the company from HUDA in an open auction, falls in the main commercial hub of Panipat. The company has already started civil construction at site and the project is expected to be operational by June 2006.

M/s Shivani Locks to expand

HSIDC has sanctioned term loan of Rs.700 lakh to part finance an expansion project of M/s Shivani Locks Pvt. Ltd. at Tehsil Palwal, Distt. Faridabad. M/s Shivani Locks is an existing profit making company which is engaged in the manufacture of Latch Locking System, Door Striker and Window Regulators for Automobile industries. The Company is supplying these products to various OEMS i.e. Ford India Ltd. Hindustan Motors Ltd. Maruti Udyog Ltd. Mahindra and Mahindra Ltd. Eicher Motors Ltd. TELCO, General Motors, Honda Siel Cars (1) Ltd. etc.

The existing available space in Unit-1 and Unit-II is congested and scarce whereas the business potential base of the company requires ample space to meet the current incremental demand of the OEMs with new potential for exports.

The total cost of the expansion project has been estimated at Rs.1170.72 lakh which is proposed to be financed through a term loan of Rs.700 lakh from HSIDC, internal accruals amounting to Rs.400.72 lakh, and an interest free unsecured loan of Rs.70 lakh.

The promoters of the company are having more than 20 years of experience in the automobile industry. The company has successfully created a reputation for supply of its quality products in time and at most competitive rates. The proposed unit will cater to the demand of the existing customers as well as overseas clients. The implementation of the proposed project is in full swing at site and the company has already invested a sum of Rs.191.47 lakh in land, building and plant and machinery. The project is likely to go on stream by March, 2006.

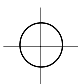
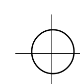
HSIDC organised a business contact programme at New Delhi for mobilising term loan business and to disseminate information regarding financial and other services of the Corporation amongst the entrepreneurs on 20th May 2005. Shri Rajiv Arora Managing Director HSIDC alongwith senior officers of the Corporation were available on this occasion for on-the – spot decisions. The programme received response from 29 companies who discussed their financial assistance proposals. Concrete term loan proposals worth Rs.89.51 crore besides additional loan enquiries of Rs.19.25 crore were entertained during this meeting. This is the highest ever term loan business generated by the Corporation in a single business meet which speaks volumes about the confidence reposed in HSIDC by the industry in Haryana. When implemented, these projects are likely to catalyse an investment of over Rs.240 crore besides generating valuable employment and revenue for the State exchequer. The major projects accepted were for textiles, automobile components, Medical Equipment, Readymade Garments, High Pressure Gas Cylinders, Engineering Goods, Packaging and Food Processing. The entrepreneurs evinced keen interest in the financial services of the Corporation and appreciated the role of HSIDC, which has widened and adapted itself to suit the growing needs of industry. The services now being provided include infrastructure development, term lending, equipment finance, equipment leasing and project promotion. The Corporation plans to organise such programmes in all the important towns of Haryana on regular basis in the near future.

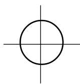
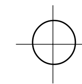
Relaxation in payment of instalment of Industrial plots

As per the existing policy, the allottees of industrial plots in the industrial estates developed by HSIDC are allowed to make 75% payment of cost of plot in five equated six monthly instalments alongwith interest prevailing from time to time. In case the allottee defaults in making payment towards any of the instalment on due date, he is liable to pay a higher interest on the defaulted amount from the due date till the date of payment. Further, the maximum period available for clearance of such default is six months from the due date of payment. In case the allottee does not pay the total amount alongwith interest within this period, the plot becomes liable for resumption.

It was observed that some of the allottees are defaulting towards payment of instalments for various reasons such as the delay in sanction of loans or some financial or other constraints. In many of these cases, the allottees have invested huge amount on their projects and raised substantial civil construction on plots. Resuming such plots on account of non payment of instalments leads to unnecessarily litigation especially where the allottees have raised civil construction at site.

Taking a lenient view, the Corporation has now decided to accept the instalments alongwith penal interest for the delayed period beyond the period of six months in all the estates in cases where the overall period

of implementation of three years has not expired or the allottee otherwise is eligible for extension for implementing the project. This would also be applicable to the cases where the allottee was able to implement his project within the stipulated period and the case is required to be regularized retrospectively or the plot is not otherwise re-sumable on any account.

Development of infrastructure at Phase-III & IV, IMT Manesar and Phase-II of Barhi

HSIDC has been designated as the nodal agency by the State Govt.to develop industrial and related infrastructure in the State of Haryana. In furtherance of this mandate, HSIDC has developed a number of industrial estates /townships at strategic locations in Haryana. IMT, Manesar in Gurgaon is the flagship industrial township developed by HSIDC with a truly international standard infrastructure. Initially, the first phase of IMT Manesar was developed by HSIDC over an area of 1750 acre. The level and quality of infrastructure provided at IMT has paid rich dividends in the form of an overwhelming response from reputed companies/entrepreneurs including MNCs. In view of this response, HSIDC further acquired 180 acre of land for phase-II, 600 acre for phase - III and 650 acre for phase-IV thus making IMT Manesar a sprawling 3180 acre township. The development work for the first two phases has been completed by the Corporation and a large number of industrial units are either operational or in the final stages of completion.

The Corporation has now undertaken the development activities in phase-III and IV of this township by way of providing internal roads, water supply, sewerage and drainage etc. The total estimated cost of these works would come to Rs.171 crore including a provision of maintenance of services for 10 years. HSIDC has also allotted 600 acre of land in phase- III to Maruti Udyog Ltd. for their expansion project and diesel engine manufacturing facility. All the plots carved out in phase-IV also stand allotted to various entrepreneurs companies.

HSIDC has also decided to develop the second phase of industrial estate at Barhi in Distt. Panipat. The development works on the first phase spanning 275 acre has already been completed and the area is humming with industrial activity. In view of an encouraging response, an additional land measuring 330.47 acre has been acquired to develop the second phase of this estate. The development work for providing basic infrastructure in the second phase is being taken in hand by the Corporation against a total estimated cost of Rs.46.84 crore including the provision of maintenance of service for 10 years.

SIPCOT

The State Industries Promotion Corporation of Tamil Nadu (SIPCOT) will jointly set up a Textile Processing Park with South Indian Mills Association (SIMA) for which it has earmarked 1100 acres of land.

The association is laying great store by this project as it will both give the cluster state of the art infrastructure and eliminate the chronic environmental problems that have beset Tirupur, the established textile knitwear cluster.

The first phase will cover 300 acres with an investment of Rs. 500-600 crore. The total investment will be about Rs.2,500 crore. This will provide direct employment for 15,000 people and indirect employment for 75000 people.

The Tamil Nadu government is providing land at economical costs. The state government will reimburse 40 per cent of the investment per company up to a maximum of Rs.40 crore, whichever is lower.

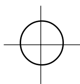
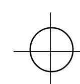
The 300 acres already earmarked at the SIPCOT industrial complex's phase III is designed to accommodate 15 greenfield projects to process yarn, fabrics and garments. Nine companies have confirmed their participation and many more have shown interest in the park.

According to an estimate, the project will process a minimum of 6 lakh metres of fabric a day and this can give a boost to the export of value- added finished products from the state. The Tamil Nadu government has already agreed to dedicate a power station for the park.

"Our source of energy will be steam generation and since the Cuddalore port is nearby we can even import coal for this purpose" said Shri Selvaraju, Secretary SIMA. SIMA also plans to build a storage and testing facility in the park. The construction will be world class and will meet international standards, whether it is processing or effluent management.

The Cuddalore processing park will handle problems such as lack of sufficient water for processing and difficulties in safe disposal of effluent. The area carries abundant ground water and sea discharge of treated effluent while remaining within the stipulated pollution norms is possible.

The greatest advantage of the location is that if the situation arises, a desalination plant can be set up to draw water from the sea. Among the technology options looked into to handle the effluent including the disposal of solid wastes in the TPP are the water frugal technology and biological treatment.

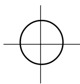
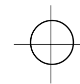



Meeting with the Deputy Governor, RBI, Mumbai

A delegation from COSIDICI comprising two Chief Executives of State Financial Corporations (SFCs) namely Dr. Kshatrapati Shivaji, IAS, CMD, MSFC, Mumbai and Shri T.K. Sinha, IAS, M.D., WBFC, Kolkata alongwith the Secretary General, COSIDICI, Shri K.K. Mudgil, held a meeting with *Smt. K.J. Udeshi, Deputy Governor, RBI at 3:00 P.M. on August 17, 2005* to discuss the current financial crisis faced by SFCs and the imperative need for their revitalization to improve Flow of Institutional Credit to SSI Sector. A Memorandum indicating various issues for discussion was earlier forwarded to her which formed the basis of discussions. Smt. Usha Thorat, Executive Director and Shri Gangopadhya, Chief General Manager, RBI were also present at the meeting.

RBI was requested to formulate a suitable revitalization package for SFCs to enable them to continue to perform their developmental role in the decentralized sector. It was also requested that RBI may allow SFCs to avail the facility of SLR Bonds, ad-hoc limits and raising of fixed deposits from the markets. The matter of RBI prevailing upon SIDBI to reduce the rate of interest of refinance and to provide working capital term loans at cheap rates and to make available adequate and cheap resources to SFCs was also taken up.

Responding to the points raised by the representatives of COSIDICI, the Deputy Governor, RBI, Smt. K.J. Udeshi at the very outset stated that SFCs were essentially the entities of the state governments having major share-holding and managing their affairs right from their inception. The state governments must come forward and assess the situation in the SFCs and evolve some viable solution. The state governments must talk to SIDBI and Government of India regarding their problems and show their willingness to participate in the recapitalisation process of SFCs. Once the state governments indicate their willingness to help SFCs, other stake-holders would also fall in line. The viability of SFCs have to be looked into by the respective state governments. Smt. Usha Thorat, E.D., RBI mentioned that the general performance of SFCs has not been encouraging in asmuchas majority of SFCs have eroded their net worth; the net worth of all the SFCs put together was negative to the tune of about ***Rs.3,800 crores,*** their recovery performance has been very poor and the level of NPAs steadily rising. The SFCs must, therefore, make sincere efforts to recover their NPAs, streamline their functioning and improve their operational efficiency, so that they could command some support from the Government and financial sector to enable them to take to competitive lending. Referring to the demand for allocation of SLR Bonds, raising of fixed deposits and restructuring of SLR Bonds liabilities of SFCs, Smt. Thorat stated that RBI as an apex bank of the country has to maintain and safeguard the sanctity of the trustee securities and protect the interest of the depositors and looking to the weak financial health of these SFCs and their inability to carry on their operations under the changed market scenario, it was not considered proper to allow them to afloat such securities in the market. Smt. Thorat also suggested that SFCs could also explore the model of NBFCs which were also providing finance to SMEs. Smt. Udeshi appreciated the problems mentioned by Dr. Shivaji and Shri Sinha and had observed that SFCs had played a very useful role in the past for nurturing the SSI sector which was the backbone of the country's economy and also observed that keeping in view the limited outreach of commercial banks in the rural and semi-urban areas and their reluctance to provide finance to first generation entrepreneurs, the SFCs still have a great role to play in decentralizing industrial activities and providing employment opportunities in the rural and semi-urban and backward regions of the states. She

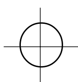
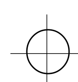
expressed a view that while the respective state governments and SFCs could carry on their dialogue with the Government of India and SIDBI regarding their operational problems, she requested that SFCs through COSIDICI should prepare a ***"self-contained paper"*** indicating as to how the SFCs could become viable financial institution in view of their inability to compete with commercial banks. While preparing such a paper, SFCs may proceed on the assumption that they would start with their clean balance sheet The viable status of individual SFCs could be discussed in the said paper. She reiterated the views that if SFCs were to function as viable unit, their cost of funds must come down so that they could compete with commercial banks. The paper must contain the role of various stake-holders in implementing the revitalisation package and more specifically the involvement of the respective state governments and SIDBI.

Training Programme :

The Secretary General, COSIDICI attended the meeting of the College Advisory Committee of CAB (RBI), Pune held on 09.07.2005 at CAB, Campus, Pune to which he has been nominated (by name) as a special invitee. The Advisory Committee is headed by Deputy Governor, RBI and its members comprise of CMDs of commercial banks and other financial institutions. The training programmes for officers of SLFIs and their modules were discussed in the meeting. It was observed that the course content and the quality of the training programmes was found to be good and useful by the participants. However, the level of participation needed to be improved upon.

The great men and women of history are remembered, not because they never made mistakes or never failed, but because they didn't let their failures stop them. They kept on until they succeeded.

Read COSIDICI COURIER
REGULARLY AND BE UPTODATE

India to be promoted as premier conference destination

The Government is working on various plans to promote India as premier Conference destination. Large Conference Centres will be set up at Mumbai, Hyderabad and Bangalore under viable funding-gap scheme and small Centres at Jaipur, Goa and some other cities. Infrastructure development projects like construction of new highways, upgradation of airports and tourism destinations are also being taken up with this purpose. Inaugurating the *"Conventions India",* buyers and sellers meet of conference planner across the world here today, Minister of state for Tourism Smt. Renuka Chowdhury said that India is poised to become a rewarding tourism and conference destination with launching of several other initiatives by the Government.

Highlighting the Government's priority for Tourism she said the Government is giving importance to infrastructure development not only in cities and towns but also in villages to showcase culture and heritage of the country. Aggressive marketing, campaigns are being planned to make the people aware of various assets of Indian tourism.

Addressing the Conference, Secretary, Tourism Shri A.K. Mishra said that very soon the shortage of tourism accommodation will be overcome. The Government is working on a scheme to create guest accommodation in metropolitan cities. Guidelines in this regard are being finalized in collaboration with Tourism industry. Several hotel projects are also coming up in various cities. He said Tourism trends for the current year are very encouraging during first seven months, there is about 23 per cent increase in foreign exchange earning through arrival. A study is being planned to project India as rewarding conference destination and to increase the share of India in the conference business of about 12 lakh crores world over annually. He expressed the hope that the conference will definitely create interest about the conference planner to opt for India as desired destination.

India to Develop strategy for Vanila

Shri Kamal Nath, Union Minister of Commerce & Industry, has said that India would develop a suitable long-term strategy for vanilla to increase its share both in the domestic and international market, as vanilla is a very important spice commercially for India and a huge market can be created for it. At a meeting convened by him to discuss issues relating to vanilla, Shri Kamal Nath directed the State Trading Corporation of India (STC) to immediately conduct a study on the domestic as well as international demand for vanilla. The study would help the growers by increasing the domestic consumption of vanilla.

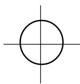
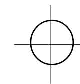
The demand for 'natural vanillin' extracted from vanilla beans is growing at a fast pace. Still, natural vanillin fulfils only 1% of the demand for vanillin, the rest is made good by 'synthetic vanillin'. This reflects the huge potential for export of vanilla. It could become an important item in India's export basket. At present, India produces only 5% of the world output of vanilla.

Number of persons trained under SJSRY

Under the self employment component of the *Swarna Jayanti Shahari Rozgar Yojana (SJSRY)* skill training is provided to the urban poor, living below the poverty line, in variety of services in manufacturing, trades as well as in local skills and local craft trades, suited to their aptitude and local conditions so that they can set up self-employment ventures or secure salaried employment with enhanced remuneration. Since its inception in 01.12.1997 till 30.6.2005 the number of persons trained is 7.31 lac.

India should pursue Gats Visa proposal in WTO

India should pursue its proposal for a special visa for its professionals-called the GATS visa-to facilitate movement of natural persons in the ongoing negotiations in the World Trade Organisation (WTO) for liberalisation

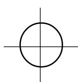
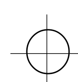
of world trade in services under the General Agreement on Trade in services (GATS), according to UNCTAD. India's proposal also addresses the issues of recognition, including facilitating the participation of developing countries in mutual recognition agreements (MRAs) and evolving multilateral norms for such recognition. Articulating UNCTAD's perspective at the stakeholder consultation workshop held on August 09, 2005 at New Delhi. Ms. Lakshmi Puri, Director in the Division of International Trade in Goods and Commodities/ UNCTAD, said that this was particularly important as the going was tough in respect of both the modes of services delivery of interest to India i.e. Modes 4 (movement of natural persons) and 1 (cross border supply which also covers BPO services), in the wake of heightened security concerns, political sensitivities and rising job-related protectionist sentiments in the major developed country markets.

The ongoing GATS negotiations both on market access and on rules are important to ensure that the kind of comparative advantage in services that India is currently enjoying in world markets is not restricted and in fact, is further secured and expanded through multilateral commitments in the WTO by its major trading partners. This is specially true in the case of Mode 1 and Mode 4 where markets and global enterprises demand and use Indian services and service providers and are way ahead of inter-governmental, multilateral and even bilateral commitments. *" Indian services providers have become indispensable through the rapid growth of the '24-hour knowledge factories' leading to efficiency and welfare gains for the world economy"*, UNCTAD says.

There is much at stake for India in the world services regime becoming more open, predictable, rule-based and equitable. The sectors of export interest to India on which it has made requests to its trading partners in the WTO include business services (mainly computer-related services, engineering services, medical and dental and R&D services), telecoms, tourism, health and social services.

Faith gives us the courage to tackle the seemingly impossible, as well as the determination to see it through.

It you want to be happy and successful in life, never stop learning.

New look N-E Policy soon

A major revamp of the central government's northeast industrial policy to be cleared by the Cabinet soon, would mark a shift in focus to employment-intensive and export oriented industries, besides ensuring greater dispersal of its benefits across the entire northeast region.

Under the modified policy, the existing subsidies on interest on working capital loans and capital investment would be substantially enhanced. The transport subsidy scheme, which accounts for 85% of the cost of the scheme at present, would also undergo a restructuring.

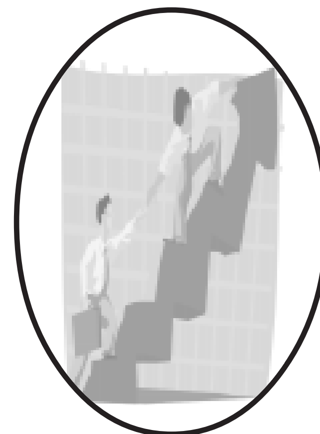
The Secretary, department of industrial policy and promotion, Shri Ajay Dua said the new policy would have some novel components too. The objective of the revision was to correct the present skewed pattern of distributing the bounties.

Currently, benefits under the scheme go predominantly (91%) to two states - Assam and Meghalaya. In fact, even within the state of Assam, the subsidies are mostly garnered by industrial units in Guwahati and Byrmihat.

Also, under the current structure of the scheme, excisable items have an advantage over tax-free items. This is because excisable industries prefer to set up base in northeast, lured by the comparative advantage of excise waiver for industries in the region. The official added that the existing scheme has also failed to promote industries that utilise local resources. SSI units would get a fillip under the revised policy.

Earlier, Tata Consultancy Services had critically evaluated the northeast industrial policy under a special mandate given by the central government. The TCS study has revealed that the intended beneficiaries have often been circumvented during the implementation of the scheme. The study also found there has been undue focus on Assam and mostly the benefits have gone to capital-intensive industries that do not use local resources.

Under the existing scheme, the northeast industrial units get a 3% interest subsidy on working capital loans and 15% subsidy on capital investment upto a maximum of Rs.30 Lakh. The transport subsidy is available for transport of raw-material as well as finished goods.



India has Trade Relations with 200 countries

India has export and import trade with about 200 countries. The trade details are as follows : -

(In US$ Billion)

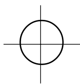
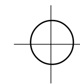
Year	Export	Import
2002-2003	52.72	61.41
2003-2004	63.84	78.15
2004-2005	79.25	107.07

India exported a variety of commodity basket consisting of engineering goods, gems & jewellery, chemical & related products, textiles etc. and imported cereals, pearls, precious stones, electronic goods and gold and silver etc.

Strengthening of the trade relations with countries and groups of countries is continuous and ongoing process. Efforts are regularly being made to expand and diversify trade through various activities such as trade market research, information dissemination, buyer-seller meets, participation in important trade fairs, meeting of the Joint Commissions/Councils to help identify potential areas/sectors for promoting trade.

Increase in Textile Exports to US

The Directorate of Commercial Intelligence and Statistics' (DGCI&S) provisional export data and the import data of US authorities show increase in India's textile exports to the US in the post quota period, i.e. after 01.01.2005. While DGCIS's data shows that India's textile exports to US during the period January-March, 2005 were 1.33% higher than the corresponding period of previous year, the US trade data shows a growth of 8.24% in import of textiles products from India during the period January-March, 2005 vis-a-vis corresponding period of last year.

Tax agreement with Singapore notified

The government has notified the revised double taxation avoidance agreement (DTAA) with Singapore effective from August 01, 2005, providing capital gains tax benefits at par with the pact with Mauritius.

As per the agreement, a citizen from Singapore making investments in India will not have to pay capital gains tax in India. A similar exemption will be available to Indian citizens investing in Singapore.

The notification states capital gains tax benefits will accrue under the DTAA with Singapore, so long as the capital gains benefits continue under the DTAA with Mauritius.

The DTAA also includes the provision for "exchange of information" on a request made by a contracting state. It also states the tax on royalties and fees for technical services accruing to a resident of the other country will not exceed 10 percent.

As per the DTAA, a shell or a conduit company will not be entitled to the benefits of the capital gain tax.

Railways earn Rs.8,569.07 crores freight revenue

Indian Railways have earned Rs.8,569.07 crores of revenue freight during the first quarter of the current financial year ending June, 2005 as compared to Rs.7,160.75 crores during the corresponding period last year.

The earnings from Railways freight during the month of June, 2005 was Rs.2,796.44 crore from 52.40 million tonnes (MTs) of revenue freight as compared to Rs.2,621.27 crore from 46.97 million tonnes of such traffic during the corresponding period of the previous year i.e. June, 2004, thereby registering an increase of 6.7% in rupee terms and nearly 11.6% in terms of million tonnes.

Of the total earnings, Rs.1,125.54 crore came from transportation of 22.92 million tonnes of coal, followed by Rs.140.05 crore from 4.21 million tonnes of raw-material to steel plants, Rs.128.25 crore came from 1.23 million tonne finished iron & steel, Rs.161.87 crore from 3.12 million tonnes iron ore for exports, Rs.217.95 crore from 4.50 million tonnes of cement, Rs.263.51 crore from 3.74 million tonne of foodgrains, Rs.115.82 crore from 2.39 million tonnes of fertilizers, Rs.243.83 crore from 2.92 million tonnes of petroleum oil and lubricant (POL), and Rs.399.62 crore from 7.37 million tonnes of other goods.

Steep increase in steel export during April-May, '05

There has been steep increase in export of steel during April-May, 2005. The total export of steel during the period has been estimated to 9 lakh tonnes showing an increase of 27.65 percent as compared to 7.05 lakh tonnes for the corresponding period last year.

This increase in export is on account of the high international prices particularly in February-March, 2005 when these orders were booked. Imports of steel have also increased substantially particularly from the CIS countries like Ukraine.

Steps taken by the Govt. for Development of the Textile Sector

In an attempt to give a boost to the textile industry the centre has initiated some measures, while a few existing schemes have been restructured to face new challenges in the post-quota regime. The steps taken by the Government are outlined below :-

(i) Cotton development and research programmes like Integrated Cotton Development Programme (ICDP) have been launched.

(ii) Bacillus Thuringiensis (BT) cotton has been released commercially w.e.f. 2002-03 cotton season by government of India to fight pest resistance being faced by cotton farmers in major qualities of the crop.

(iii) Promoting integrated cotton cultivation (contract farming) involving availability of seeds, pesticides, fertilizers etc. to the farmers for obtaining desired quality of cotton.

(iv) Setting up of a Cotton Technology Mission with an outlay of Rs.593 crores to improve the quality of cotton fibre at reasonable cost with a view also to export cotton at competitive prices in comparison to other exporting countries.

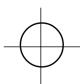
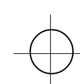
(v) Technology Upgradation Fund Scheme (TUFS) has facilitated modernisation and upgradation of textile sector.

(vi) The import of a large number of capital goods of man made fibres/yarns industry has been allowed under concessional customs duty of 5 percent. Besides, the cost of machinery has also been reduced through fiscal policy measures. Except for mandatory excise duty on man-made filament yarns and man-made staple fibres, the whole value addition chain has been given an excise exemption option.

(vii) 100% foreign direct investment is allowed in the textile sector under the automatic route.

(viii) The Government has dereserved the readymade garments, hosiery and knitwear from the SSI sector.

(ix) An Apparel Park for Export Scheme has been

launched to impart a focused thrust for setting up of apparels manufacturing units of international standards at potential growth centres upto Rs.17 crores per apparel park for infrastructure work, training and common facilities.

(x) Textile Centre Infrastructure Development (TCIDS) Scheme (Centrally Sponsored) has been introduced with the objective of modernizing infrastructure facilities at major traditional textile centres of the country. Government of India gives grant upto Rs.20 crores for a particular centre.

(xi) In order to facilitate modernization of the Powerloom Sector, Schemes such as High-tech Weaving Parks, Modernization and Strengthening of Powerloom Service Centres, Group Workshed Scheme and Credit Linked Capital Subsidy Scheme @ 20% have been introduced.

(xii) To facilitate import of state of the art machinery to make our products internationally competitive in post quota regime, in 2005-06 Budget, the customs duty on textile machinery has been brought down to 10% except 23 items of machinery appearing in List 49, which attract Basic Customs Duty (BCD) of 15%. The concessional duty of 5% continues to be at 5% on most of the machinery items.

(xiii) Government has launched the Debt Restructuring Scheme w.e.f. September, 2003 with the principal objective to permit banks to lend to the textiles sector at 8.9% rate of interest.

(xiv) The National Institute of Fashion Technology (NIFT) has been set up to provide a leadership role in sensitizing the Industry to the concept of value addition by inducting trained professionals to manage the industry. This has resulted in an increased demand for trained professionals in various sectors servicing the industry.

Industrial Production up by 12%

Industrial production in India during the first quarter of the current financial year (April-June, 2005) is estimated to have gone up by 12% compared to the same period of the previous financial year.

Indicating this, Shri Kamal Nath, Union Minister of Commerce & Industry has said : "During the month of June, 2005, the industrial production on 209 items groups which are monitored by the Deptt. of Industrial Policy & Promotion grew by 12.8%. In May 2005, the growth rate was 12.7% and in April, 2005 it was 10.4%. Thus, during the first quarter of the year the industrial production has grown by 12% as compared to 10.9% last year".

The government has initiated several steps to hasten the pace of industrial growth, including rationalisation in duty rates of customs and central excise. Measures to promote manufacturing and the requisite physical infrastructure such as the Industrial Infrastructure Upgradation Scheme (IIUS) to enhance productivity-competitiveness of the domestic industry by providing quality infrastructure in functional clusters and the Industrial Park Scheme have been initiated. Special incentives are being given to promote industrialisation in the North East Region and in the special category states.

Fiscal deficit increases to Rs.54,517 crore

The Centre's fiscal deficit increased to Rs.54,517 crore, 36 percent of the Budget estimates compared with around 30 per cent of the Budget estimates during April-June 2004, according to the latest data released by the Controller General of Accounts.

Revenue receipts at Rs.38,003 crore, accounting for around 11 per cent of the Budget estimates, was marginally higher than the previous year

The increase in receipts was due to higher tax revenue of Rs.31,668 crore, 12 per cent of the Budget estimate against 10 per cent during April-June 2004-05.

The marginal increase in the revenue receipts coupled with the check on both plan and non-plan expenditure helped to lower the revenue deficit during the first quarter to Rs.47,311 crore, which was 50 per cent of the Budget estimate of Rs.95,312 crore. The revenue deficit during April – June last year accounted for 61 per cent of the Budget estimate. On the spending side, total expenditure was pegged at Rs.93,584 crore in the first three months of the fiscal, which was 18.2 per cent of the Budget estimate of Rs.5,14,344 crore.

Of this, the non-plan expenditure stood at Rs.69,330 crore in the first quarter accounting for 19 per cent of the Budget estimate of Rs.3,70,847 crore for 2005-06.

Expenditure during April-June 2005-06 was Rs. 24,254 crore, which was 17 per cent of the Budget estimate compared with 16 per cent in the previous year.

Interest payments stood at Rs.26,428 crore in April-June this year, which was 19.7 per cent of Rs.1,33,945 crore estimated for the entire fiscal.

Market borrowings amounted to Rs.54,142 crore in the first three months against the budgeted Rs.1,10,291 crore for the entire financial year, accounting for 49 per cent.

Corporates to disclose liability to SME partners

The government is planning to introduce a new disclosure norm in the proposed new balance sheet format, which will require companies to reveal how much they owe to their SME partners for various services. The amended schedule six of the Companies Act will also require companies to disclose the interest paid or to be paid due to the default, company affairs minister, Shri Prem Chand Gupta said. The amount paid as interest will not be eligible for any deductions while calculating the taxable income.

The idea is to link the disclosure norms under the Companies Act with the proposed Small and Medium Enterprises Development Bill, which seeks to facilitate the growth of the small and medium scale firms. These firms form a substantial part of corporate India. The government believes the requirement for disclosing to the public that a company is a defaulter to an SME itself will be a deterrent against exploitation.

Those small companies, which are completely dependent on one or two big companies, are not bold enough to anatagonise their partners by moving a court of law for payments. They are also not willing to seek redressal under the provisions of the Delayed Payments Act either, said an expert, who scripted a report on SMEs for the World Bank, which recommended the disclosure norm to the government.

One of the major recommendations of the Institute of Chartered Accountants of India being considered by the ministry is the disclosure of profits and losses from investments on non-corporate and special purpose entities, to be separately shown in the profit and loss account. This is in addition to the disclosure on membership of a partnership firm and association of persons as required now. So far, companies have been including this in the "reserves" in the balance sheet that recognises only anticipated loss and not anticipated gains in line with the accounting principle of prudence.

Disclosing these separately in the P&L account gives a clearer picture of the company's health.

Centre urges states to check shifting of SSIs

Following demands by the affected SSIs in certain states, the Union Government has finally decided to convene a meeting on the issue of "shifting of industries from one state due to tax reliefs and other fiscal concessions provided to neighbouring states".

Towards this, a Parliamentary Standing Committee on Industry has been constituted alongwith the Chief Secretaries of those affected states which include Uttar Pradesh, Bihar, Karnataka, Uttaranchal, Andhra Praesh, J&K, Punjab, Haryana and Himachal Pradesh besides the representatives of associations/federations of industries in these states.

The meeting also follows the continuous representation made specially by the Organisation of Pharmaceutical Manufacturing (OPM) to save SSIs manufacturing formulations for the pharmaceutical industry. The proposed committee is expected to look into the serious problems faced by the small scale formulation units which are on the verge of closure due to MRP-based taxation and the pricing policy in some free economic zones.

This has created a mad rush to northern states where there are prices, place and market advantages. "While few companies have managed to set up plants in Himachal Pradesh, many small units are in the process of becoming NPAs.

It is learnt that about 50 formulation units from Andhra Pradesh, including Dr. Reddy's, Aurobindo, Natco Pharma, Sangfroid Remedies, Sarvotam Care, etc. have already set up manufacturing units in Baddi in Himachal Pradesh. The state is wooing many more such big units which are relocating from other states all for a package of incentives like exemption of income-tax, excise duties, reduced land rates, etc. forcing the formulation units to either close operations in other states or open a new unit in Himachal Pradesh.

According to him, while 40% of cost of production goes as excise duty in other states, the same is received back in Himachal Pradesh and there it is about 35% beneficial in Himachal Pradesh even while recovering the investment made in just two years. The new units may not adhere to the GMP standards even while it is being made mandatory by July 01, 2005.

Loan sanctions under TUFS jump 50%

Loan disbursals under the textile ministry's Technology Upgradation Fund Scheme (TUFS) saw a major jump in April-May, 2005, indicating that investments in the textile industry would pick up this year.

In the first two months of this fiscal, the TUFS sanctions and disbursals increased by over 50%. If the

trend is maintained, the year would see near doubling of investments under this interest subsidy scheme.

Total loans sanctioned under the scheme stood at Rs.735 crore in April-May, compared with Rs.2,990 crore in the whole of last fiscal. Disbursals were Rs.438 crore against Rs.1,757 crore in the previous fiscal.

According to industry analysts, the rise in TUFS investments reflected the industry's efforts to seize the huge opportunities thrown up by the dismantling of export quota restrictions. The introduction of optional Cenvat for the natural fibre industry has been a trigger too.

Of the Rs.11,045 crore in loans sanctioned till May 31, 2005, the spinning sector has the largest share, indicating that the sector is heavily investing in technological upgradation and capacity expansion.

Loans sanctioned under the scheme stood at Rs.3,398 crore involving a project cost of Rs.5,884 crore. Loans sanctioned for composite upgradation came next, involving a loan component of Rs.2,530 crore with project cost amounting to Rs.6,378 crore.

SIDBI and Dena Bank sign MoU for financing SMEs

Dena Bank and Small Industries Development Bank of India (SIDBI) has entered into a Memorandum of Understanding for joint-co-financing of projects in SME sector, service sector and development of infrastructure projects. Shri M.V. Nair, CMD, stated that the bank sees immense potential in the SME sector. The two banks through their alliance would also focus on joint initiatives in the area of micro credit, cluster development and development initiatives.

HSBC launches unsecured loan product for SMEs

HongKong and Shanghai Banking Corporation (HSBC) has launched an unsecured loan product for small businesses, by the name "Business Credit".

"The unsecured lending will be based on a score-card model that captures the past financial behaviour of an SME unit", said HSBC's global co-head, commercial banking, Margaret Leung. The bank will provide an unsecured line of credit from Rs.5 lakh to Rs.15 lakh. The borrower has an option to avail upto Rs.35 lakh with minimal security margin of 25 percent in the form of a fixed deposit with the bank. The rate of interest will range from 16 percent to 19 percent for the one-year facility, which can be revenewed every year. HSBC is offering a credit facility similar to a line of credit, where an SME pays interest only on the actual amount utilised and has the flexibility in repayment without attracting any penal charges.

The bank is targeting small enterprises, including dealers of corporates in the FMCG and petroleum sectors. "The line of credit is structured to best suit an SME's working capital needs. The SME could be as small as one with annual turnover of Rs.25 lakh", said Shri Subir Mehra, head-commercial banking, at HSBC India.

Lending to SMEs is seen as a very profitable business, with most being run by serious entrepreneurs.

SIDBI to launch credit-rating agency for SMEs

SIDBI will set up a credit rating agency for small and medium enterprises in association with Dun & Bradstreet.

The company will be a joint venture with these two partners and this, according to SIDBI, will empower the lending banks to quickly assess the status of small and medium enterprises they will lend to.

In addition to this initiative, SIDBI is also entering into pacts with nationalised banks across India to develop various industrial clusters in the country. SIDBI announced a pact with Corporation Bank to increase the flow of credit to the small and medium enterprises sector in south.

According to an MoU signed by the two financial institutions, it will aim to leverange the strength of SIDBI in term lending, and expertise and reach of Corporation Bank in working capital lending to deliver better value to customers of both the banks.

Both will work jointly to identify the prospects and take up co-financing or exclusive financing of term loans by SIDBI, while Corporation Bank will extend working capital finance. The alliance will also focus on joint initiatives in the areas of micro credit, cluster development and other development initiative.

Shri N. Balasubramanian, CMD, SIDBI said that the government and banking sector recognises the importance and contribution of the small and medium enterprise sector in the economy and places high priority for meeting the needs of the sector. Shri V.K. Chopra, CMD, Corporation Bank said that Small and Medium enterprises form the backbone of the economy not only in developed countries but also in emerging economies such as India. The small and medium enterprise sector in the country has been estimated to provide direct employment to over 20 million people, serving as the second largest provider of employment after agriculture and contributes over 34 percent of nation's exports and 7 percent of the gross domestic product (GDP).

NEWS FROM STATES

Orissa to set up two biotech parks

The Orissa government plans to set up two biotech parks. The parks will come up at Patrapada near Bhubaneswar along the National Highway No 5 and another on the Konark sea beach near Chandrabhaga.

The biotech parks would be aimed at encouraging biotech entrepreneurs and would be established with an initial corpus of about Rs.50 crore, said Chief Minister, Shri Naveen Patnaik while inaugurating an investors' meet on biotechnology organised by the Orissa science and technology deptt.

The biotech parks would provide laboratory infrastructure, world-class equipment, training centre and special programmes to develop biotechnology.

The park at Bhubaneswar will come up over an area of 74 acres, next to the medicinal plants garden developed by the state forest department. Similarly, the part to come up at Chandrabhaga will have marine life as its theme and will be set up over an area of 22 acres.

Stating that biotechnology was a frontier area of technology with immense benefits to the society in diverse areas such as food security, nutritional suplement, health care products and industrial applications, Shri Patnaik said both the parks would give a fillip to the biotechnology sector.

The Chief Minister informed that the state government had formulated a draft biotech policy, which would be finalised and implemented soon. The new policy would provide right kind of incentives to investors to make investment in this sector. The policy among other things prioritieses the thrust areas for basic and applied research and technology development, promotes innovation in research and development by providing financial and infrastructure support and by encouraging public-private partnership for research and development and promotes development of the industry by providing quality infrastructure and an enabling environment for sustained growth and international competitiveness.

Besides, it also aims at developing human resources in various areas of biotechnology, generate employment, build up capacity in the areas relating to IPR and biosafety, provide financial support and incenties to industry and provide an institutional framework and well defined modalities to achieve the above objectives. The Chief Minister underlined the need of larger inflow of venture capital funds to meet the growing demand of investment in the biotech sector.

Plans To Introduce Dedicated Airlines In The North Eastern Region

A serious move is being made to connect North Eastern region better with the rest of the country. A landmark is on the anvil to have better air connectivity in the North Eastern areas. The plan proposes to have an air service with STOL (*Short Take Off-Landing*) air crafts as these are efficient as well as affordable. The matter will be taken up with the Civil Aviation Ministry so that the connectivity can be provided in near future. It is expected that this move will give a tremendous boost to the tourism in the region. There is no dearth of beautiful locations in the north east and the tourism industry many a times suffers due to the lack of proper and convenient air connectivity. With the implementation of this plan it is likely that soon the destination in the North east will become the top choice of Indian as well as foreign tourists.

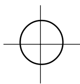
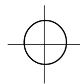
Centre approves Rs.3,054-cr aid for Kerala roads

The Centre had allotted Rs.3,054 crore for the development and extension of 654 Km of national highway in Kerala. The extension of the NW 3 (national waterway) between Kasargod and the southern tip of Kovalam would also be taken up after the work on some stretches was completed and cargo services began operation, said Union shipping and road transport minister Shri T.R Baalu. Laying the foundation stone for approaches to the railway overbridge on the NH-17 at Edappally near Kochi, he said the funds would also be spent on building railway over-bridges and approach roads.

Road Development work in J&K

The Union Minister of Shipping, Road Transport & Highways Shri T.R. Baalu has approved eight works for development of various roads in the state of Jammu & Kashmir which include the Widening and Improvement of Tikri-Katra-Vaishno Devi road in Jammu Province.

The other seven works include improvement of Pahalgam-Chandanwari road, development of North-South

Corridor from Soura to Pandoh, upgradation of Northern Foreshore Road from Nishat Junction to Naseem Bagh junction and upgradation of Verinag-Kokernag Road-all four in Srinagar distict; widening up of Janipur-Ambgrota road and widening and upgradation of double lane Satwari Airport – R.S. Pura road including construction of 100 m prestressed concrete bridge over Baloal Nallah in Jammu district. In Doda district improvement and upgradation of Doda-Dessa road would be taken up.

An amount of Rs. 51.63 crores has been approved from the Central Road Fund (CRF) from the appropriations of accruals to the CRF from the cess being levied on diesel and petrol. The Accruals to various States depend on the fuel consumed in particular State and according to this formula, the total accrual to J&K State for the year 2004-05 was of the order of Rs.48.6 crore. However, Shri Baalu has approved the above mentioned eight works amounting to Rs. 51.63 crores for the overall benefit of the people of J&K.

Floriculture potential

The Jammu and Kashmir government has adopted a multi-pronged strategy focusing on technology backup and marketing support to tap the vast floriculture potential of the state Agriculture Minister Shri Abdul Aziz Zargar said. He said agri-entrpreneurs in the private sector were being involved in a big way to take up floriculture while steps were underway to introduce latest floriculture techniques in the public sector. The state had floriculture potential of about Rs.100 crore. Flowers worth Rs.3 crore were produced annually.

Sikkim govt plans 3,639 mw of hydro-electricity by '09-10

Sikkim govt. is set up to kick off a spate of new projects this year to create 3639 mw of fresh hydel capacity by 2009-10, says Shri Amalendu Kundu. Several of them are proposed through the joint sector route with private players. The power generated, besides feeding Sikkim, will be injected into the national grid. Sikkim will harness nearly 15% of this hydro generation for free. In the proposed joint sector hydro projects, the Sikkim government will hold 26%, while private partners will hold 74% stake. Some projects will also be executed by National Hydro Power Corporation on the 'build, own, operate' model. Recently, a MoU was inked between the Sikkim government and a five-member consortium of private hydro unit developers to set up the 1,200 mw Teesta Hydro-Stage III.

K'taka moots Rs.1,115-cr tourism plan

Karnataka has proposed a Rs.1,115-crore proposal with the Central government for the upgradation and development of tourist infrastructure in Hampi and the state's coastal belt. The Hampi project will be powered by a Rs.500-crore Japanese Bank for International Cooperation (JBIC) soft loan, spread over five-years. State tourism minister D.T. Jayakumar unveiled some of the future plans at an event organised to mark its shift to a new tourism brand *"One State Many Worlds"*. Unlike other states, Karnataka is focussing on multi-faceted tourist attractions.

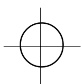
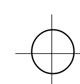
Tripura first state to get compensation for Vat loss

In the first case of Vat compensation, the finance ministry has sanctioned Rs.4.89 crore for the Tripura government to offset the revenue loss caused by the new multi-point value-added tax during the first quarter of this fiscal.

The ministry, which has provisionally earmarked Rs.5,000 crore to nullify the adverse impact, if any, of Vat on the state's revenue growth in the whole year, is close to sanctioning a larger claim of Rs.193.8 crore by Andhra Pradesh, according to officials.

The tax revenue of 'Vat states' had shown an average growth of 12% during Q1, with a higher growth of over 15% in June, when the implementation became more or less uniform and stable.

Forgiveness is a door in your heart that must be opened from the inside for happiness and peace of mind to enter.

APEDA to aim for Rs.10,000m floriculture exports in 5 yrs

The Agriculture and Processed Food Export Development Authority (APEDA) has taken new initiatives to boost floriculture exports with a view to achieve the Rs.10,000 million target within five years. At present its export of floricultue products is around Rs.2,490 million while the global market size is around $ 50 billion.

Mr. K.S. Money, Chairman, APEDA said that Apeda has undertaken a number of measures to facilitate floriculture exports. It has already set up integrated facilities for handling and storage of exportable perishable products at international airports in Mumbai, Delhi, Chennai, Bangalore, Hyderabad and Thiruvananthapuram. Such facilities are also being set up in Kochi, Ahmedabad, Amritsar and Kolkata airports. Proposals are under consideration for the setting up of such facilities at Bagdogra, Goa, Calicut and Coimbatore airports.

Bangalore Flora Expo has generated a business of Rs.7,00,000. Apeda has plans to host the next international flora Expo in Delhi in September, 2006. Mr. Money said that Apeda has urged the Union government to reconsider exempting perishable products from the purview of service tax. If this happens it will help the floriculture sector and other industries engaged in perishable products.

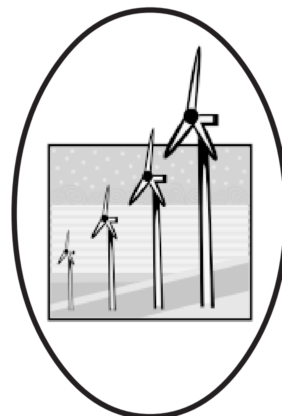
He said that the government has approved setting up of market-cum-flower auction centres at Bangalore, Mumbai and Noida (near Delhi) for facilitating exports of flowers. Besides APEDA has set up a market facilitation centre at Aalsameer in The Netherlands. With the assistance of this centre M/s Kanan Devan Hills Plantations have firmed up their diversification plans in floriculture. A technology and buy-back agreement with a Dutch firm is expected to be signed soon, he said.

A pilot project for supply of 3 pallets (each pallet contains 110 boxes of 60,000 stems) per week from a consortium of growers, namely Century International, Meghna Floritech, Blooms and Greens and Soex Flora to Amsterdam has been initiated from April, 2005.

Core projects SPV to be wholly-owned govt. co.

The special purpose vehicle (SPV) to fund infrastructure projects, to be christened India Infrastructure Finance Company (IIFC), will be set up as a wholly-owned government company under the Companies Act.

As per the structure, prepared by the finance ministry, all its borrowings will be guaranteed by the Union government. This is in marked contrast to a traditional SPV which raises funds on the strength of its future receivables.



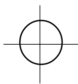
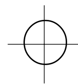
IIFC, which is being set up in pursuance of the announcement made by finance minister, Shri P. Chidambaram in his 2005 budget speech, will have an initial paid up capital of Rs.10 crore. The authorised capital however, has been fixed at Rs.1,000 crore. The borrowing limit for the current fiscal has been pegged at Rs.10,000 crore.

As per the Memorandum of Association (MoA) of IIFC, the company will fund projects in the infrastructure sector. These will include sectors like urban infrastructure, roads, power, railways, ports, airports and tourism. The projects may be in the public sector, private sector or may be schemes involving public-private partnership. The only caveat is that they should be commercially viable. IIFC will also fund those projects which become viable after receiving viability gap funding under a government scheme.

The viability of the projects will have to be assessed by the Inter-Institutional Group (IIG) of banks/financial institutions. The company will provide refinance to banks/ financial institutions for loans of five years or more. It will also lend directly to eligible projects. Investments in the new company cannot be used to meet mandatory statutory liquidity ratio requirements of banks. The company is proposed to be managed by a team of professional directors. These directors will be selected by a search committee to be set up soon.

No exemption for SEZ corporations from FBT

Corporate entities in the SEZ will have no exemption from the Fringe Benefit Tax (FBT) although they are exempt from several other central taxes and levies. The recently passed SEZ Act, 2005 does not provide the units in such zones exemption from the levy introduced in Budget 2005-06. As per the budget provisions, the tax has to be paid by all business enterprises that employ atleast one person and extends any of the amenities or even though they are entitled to a 10 year tax holiday otherwise.

Finance ministry officials said SEZ units and developers will have to pay the tax as the levy is strictly on the employer for the benefits extended to the employees and not on the unit. They pointed out the SEZ Act provides the exemptions from central taxes and levies such as dividend distribution tax, minimum alternate tax as well as customs, excise and service tax on inputs specifically to the unit. All units in the SEZ will have to pay 20%, 50% or 100% tax as prescribed on benefits provided such as entertainment expenses, hotel accommodation, club facilities, scholarships and contribution to superannuating fund.

Shamsabad to have nation's 3rd SEZ for gems and jeweller

In an effort to facilitate the growth of the gem and jewellery industry in Andhra Pradesh and enhance trade potential, the state government on 7th Aug.2005 announced the allocation of 200 acre of land in Kancha Imarat, Shamsabad, 25 km from Hyderabad to develop special economic zone (SEZ) for the gems and jewellery industry.

The SEZ will be the third one catering to the gem and jewellery segment. Santacruz (Mumbai) and Salt Lake (Kolkata) are the other SEZs in this segment. The Hyderabad SEZ – located strategically between Dubai, Hong Kong and Banglok, the world jewellery trading hubs is scheduled for completion in the next two years with a total investment of Rs. 200 crore. The proposed international airport is 7 km away from the SEZ with the national highway at a close proximity of 6km. The zone, once fully operational will generate 50,000 new jobs and may go up to 2.3 lakh in the due course. This will include designing, cutting and polishing of jewellery.

Mr. Acharya, MD of Andhra Pradesh Industrial Infrastructure Corporation (APIIC) said: *"The SEZ which would be ready by 2007, will boost the industrial growth for the gems and jewellery sector in the country due its close proximity to world jewellery trading hubs like Dubai, Hong Kong and Bangkok. At the same time, it will provide job opportunities for the talented artisans and training facilities for upgrading skills in the state. It's the governments endeavor to provide our complete support and backing for this project."*

The SEZ will be the contemporary destination for manufacturers, businessmen and entrepreneurs in the field of gems and jewellery for both gold and diamond. The facility will house cutting and polishing units, testing laboratories, certification centres, banks, merchandising centres and other services relevant to the trade. The SEZ will be strategically located where India's finest jewellery craftsmen are, to ensure availability of the requisite skills and enhance their talent by providing training opportunities by setting up institute for cutting and polishing, thereby ensuring success of the enterprise.

SEZ to be set up in Amritsar soon

Commerce and industry minister Shri Kamal Nath has said that the proposal for setting up a special economic zone (SEZ) in Amritsar is likely to be approved soon. In a statement in the Lok Sabha on August 03, 2005, Shri Nath said that the proposal received from the Punjab government had already been recommended for 'in principle' approval and once the specific product group of the proposed SEZ was identified by the state, the proposal would be processed for grant of necessary clearance.

The state government has sent a proposal for setting up a SEZ at Harigobindpur Road in January this year. The proposal was placed before the board of approval for consideration in its meeting in March.

Jharkhand kickstarts auto SEZ project at Adityapur

The Jharkhand government has started the process to promote automobile and auto-component special economic zone (SEZ) at Adityapur. It has an advantage that it has plenty of raw material that is steel available. Many majors producers have expressed interest in setting up mega steel projects in the state. The Jharkhand government itself was planning to set up a steel park in Jamshedpur to facilitate more investors in the steel sector. The SEZ would be spread over 90 acres of land in Ramchanderpur (52.96 acres) Shrirampur (17.57 acres) and Shikhadih (19.47 acres). Adityapur Industrial Area Development Authority (AIADA) is the implementing agency and has already acquired the land.

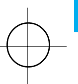
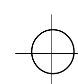
Ministry to spend Rs.7,500 cr. on setting up 25 textile parks in 2 years

The textile ministry has set up a Rs.7,500 – crore fund to build 25 textile and apparel parks in the country, which will be completed in two years.

Secretary in the textile ministry Shri R.Poornalingam, at an interactive meeting organised by the Bengal National Chamber of Commerce & Industry (BNCCI) said the Centre has initiated a number of promotional schemes to improve Indian textile products so that they can become more competitive and benefit from the withdrawal of the quota regime under the multi-fibre agreement.

Mr Poornalingam added that the average expenditure for each textile or apparel park on various subsidy accounts would be Rs. 300 crore, including Rs. 40 crore as grant for infrastructure development and interest, subsidies on purchase of machineries, raw materials, marketing and export initiatives etc.

India's textile export target has been fixed 25% higher at $ 15 billion for 2005-06 ($13 bn last year). He also said the government has set a target to increase textiles exports to $ 50 billion by 2007.

Overseas Investment Liberalised

With a view to promoting Indian investment abroad and to enable Indian companies to reap the benefits of globalisation, the ceiling for investment in overseas joint ventures (JV)/wholly owned subsidiaries (WOS) by eligible Indian entities under the automatic route, has been raised from 100 percent to 200 percent of their net worth.

The Reserve Bank has clarified that the ceiling is now not applicable to the investments made out of balances held in exchange earners' foreign currency (EEFC) accounts and out of the proceeds of American Depository Receipts (ADR)/Global Depository Receipts (GDR) issue.

Project Offices can open Forex Accounts

The Reserve Bank has decided to allow authorised dealers (ADs) to open foreign currency accounts for the project offices (established under the Reserve Bank's general/ specific approval), as well as permit intermittent remittances by project offices without the Reserve Bank's approval.

Opening of Foreign Currency Account

The concerned branch of the AD may open non-interest bearing foreign currency account for project offices in India provided -

a) The project office has been established in India, with the Reserve Bank's general/specific permission and has the requisite approval of the concerned project sanctioning authority.

b) The contract under which the project has been sanctioned, specifically provides for payment in foreign currency.

c) Each project has only one foreign currency account.

d) The permissible debits and credits in the account should be as below :-

Debits :

- Payment of project related expenditure.

Credits :

- Foreign currency receipts from the project sanctioning authority.
- Remittances from parent/group company abroad or bilateral/ multilateral international financing agency.

e) The responsibility of ensuring that only the approved debits and credits are allowed in the foreign currency account would rest solely with the concerned branch of the AD. The accounts should be subject to 100 percent scrutiny by the AD's concurrent auditor.

f) The foreign currency account should be closed on completion of the project.

Intermittent Remittances :

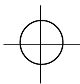
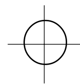
ADs may permit intermittent remittances by project offices pending winding up/completion of the project provided, they are satisfied with the bonafides of the transaction and provided the project office submits -

- An auditor chartered accountant's certificate stating that sufficient provisions have been made to meet the liabilities in India including income-tax etc. and
- An undertaking that the remittance will not, in any way, affect the completion of the project in India and that any shortfall of funds for meeting any liability in India will be met by inward remittance from abroad.

Reporting :

The foreign company establishing a project office in India should furnish a report through the concerned AD's branch to the Reserve Bank's Regional Office under whose jurisdiction the project office is set up, incorporating details as follows : -

- Name and address of the foreign company.
- Reference number and date of letter awarding the contract.

- Particulars of the authority awarding the projects / contract.
- The total amount of contract.
- Address/e-mail address/telephone number/fax number of the project office.
- Tenure of project office.
- Brief details of the project undertaken.
- AD's branch with whom the account has been opened and the foreign currency in which the account has been opened.
- An undertaking that the project office is eligible to avail of the general permision.

This Report should be forwarded through the AD's branch to the Reserve Bank's concerned Regional Office within 2 months of establishment of the project office.

The project office should also submit to the AD's branch on an annual basis, a certificate from a Chartered Accountant showing the project status and certifying that the accounts of the project office have been audited and the activities undertaken are in conformity with the general/specific permission given by the Reserve Bank.

Inter-project transfer of funds would be permitted with the prior permission of the Reserve Bank's Regional Office under whose jurisdiction the project office is situated.

In case of disputes between the project office and the project sanctioning authority or other government/ non-government agencies etc. the balance held in such account should be converted into Indian rupees and credited to a special account which should be dealt with as per the settlement of the dispute.

A quarterly review of RBIs Annual Policy 2005-06

The RBI in its first quarterly review of monetary policy on July 27, 2005 said that the performance of the industrial sector was improving and the indicators of growth in services were positive. The investment climate remained favourable and the level of foodstocks and foreign exchange reserves was comfortable. It has, therefore, refrained from any rate hike and opted for status quo.

RBI has left the cash reserve ratio (CRR) unchanged at 5%. In another move to impart flexibility to the domestic banks, the apex bank has allowed them to accept foreign currency non-resident (FCNR) (B) deposits denominated in Canadian dollars and Australian dollars in addition to the existing four currencies - US dollars, pound sterling, euro and yen. The highlights of the quarterly review are:

Domestic Sector :

- Real GDP growth projected at 7.0% on the assumption of normal coupled with maintenance of growth momentum in industry and service sectors.
- IIP increased by 9.6%, aided by 10.5% growth in the manufacturing output.
- Scheduled commercial banks' credit increased by 6.6% (Rs.72,792 crore) upto July 08, 2005.
- Credit to agriculture and industry increased by over 35% and 17%, respectively.

External Sector :

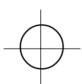
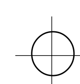
- In 2004-05, current account of the balance of payments (BoP) turned into a deficit after showing a surplus consecutively for three years.
- Exports increased by 19.5% as compared to 34.0% a year ago.
- Foreign exchange market witnessed orderly conditions with the rupee exhibiting two-way movements.
- Forex reserves declined by $4.0 billion to $137.5 billion on July 22, 2005.

Global Economy :

- Global economic growth is projected to slow down to 4.3% in 2005.
- The global oil economy continues to see high prices and considerable volatility.
- The paradigm shift in exchange rate policy announced by China is bound to have important consequences for the global economy.
- Recent months have witnessed unanticipated high volatility in currency markets and a sharp drop in long-term bond yields.

Policy Stance :

- With increasing absorption of capital flows by the economy and changes in the sources of liquidity, the MSS cap was retained at Rs.80,000 crore.

- The conduct of monetary policy is in accordance with the stance announced in the annual policy statement.
- The outlook for global growth and inflation remains broadly unchanged.
- International interest rate cycle gives a mixed signal.

Arcil NPA buyout at Rs.16,500 cr

Asset Reconstruction Company of India (Arcil's) buyout of non-performing assets amounting to Rs.16,500 crore till the end of June this year has led to a 13 percent reduction in NPAs from the system.

While the amount cannot be directly related to the Rs.90,000 crore NPA in the system, considering the principal debt of Rs.8,100 crore alongwith 50 percent of the Rs.8,400 crore interest component, approximately 13 percent NPAs have been reduced.

Importantly, 35 large cases out of the 108 cases acquired at a price of Rs.1,406 crore have been resolved. Arcil expects an upside of 17 percent (weighted average) on its acquisition price. The percentage has been computed taking into account a likely upside of 14 percent in the portfolio acquired upto March 31, 2004, a 33 percent upside for cases acquired in 2004-05.

In the first quarter of the current financial year, Arcil has acquired fresh dues of Rs.270 crore at an acquisition price of Rs.50 crore.

A total of 368 financial assets (108 large cases and 260 small cases) related to 17 different industries have been acquired by Arcil till June 30, 2005 from 25 banks and financial institutions.

Of the total dues acquired, ARCIL has been able to resolve 35 percent of the principal debt component : Of the 47 acquired in 2004-05, Arcil has been able to resolve six and has completed settlements with 32 small borrowers out of 260 at an average upside of more than 20 percent.

Sixty-eight percent of the units acquired (in value terms) in the large NPAs represent operating units while 22 percent are non-operating, and the remaining 10 percent represent partially operating units. The value realisation in resolving large cases has revolved around restructuring and mergers and acquisitions in 87 percent of the cases. In 13 percent of the cases, settlements have been through sales of assets.

RBI to monitor credit flow to 60 SSI clusters

RBI is planning to monitor direct credit arrangement to 60 small scale industrial (SSI) clusters all over the country according to its guidelines.

Shri K.S. Ludu, Additional Development Commissioner, SSI agriculture and rural industries deptt., government of India said that RBI has also come forward to directly handle some specialised clusters.

RBI had already identified product-based clusters which comprise foundry units, artifacts and jewellery units, ready-made garments and leather goods units. RBI initiative would help ease the credit flow to these clusters.

SIDBI, IL&FS tie up for financing textile parks

SIDBI and IL&FS have collaborated for development and financing of textile parks.

This private-public partnership comes in the wake of removal of quantitative restrictions on textile exports from January 01, 2005 so as to enable favourable global trade opportunities for the industry, said IL&FS Chairman & Managing Director, Shri Ravi Parthasarathy. Textile industry has been the backbone of Indian economy by way of its contribution to employment (single largest employment provider, next to agriculture), export earnings (accounts for 30% total exports) and industrial production. According to the Indian government, textile should contribute $ 50 billion worth exports by 2010.

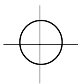
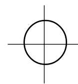
The textile industry is characterised by the predominance of small and medium enterprises located in specific geographic clusters. These clusters of SMEs face constraints like lack of adequate and quality infrastructure. These factors affect the competitiveness of the textile sector thereby limiting their ability to exploit the emerging global trade opportunities, said Mr. Parthasarathy.

In this regard, SIDBI and IL&FS have joined hands to establish exclusive textile parks in the country.

SIDBI Act amendment seeks to provide working capital to SMEs

Amendment to the SIDBI Act will be placed in the Parliament in the next four months, which will enable the development banking entity to extend working capital to small and medium enterprises (SMEs).

SIDBI's CMD, Shri N. Balasubramanian, said, *"As a development banking institution, we can only*

undertake term lending but we cannot extend working capital to SMEs. Amendment of the SIDBI Act will help us to facilitate the new exposure".

In a bid to step up the flow of credit to small scale industries (SSI), SIDBI is planning to mop up Rs.1,500 crore from the domestic market through capital gains bonds, priority sector bonds and fixed deposits. It is also in talks with Germany-based KFW for seeking a credit of euro 43 million as part of its plans to increase credit flow to small scale industries.

SIDBI has a tie-up with the world bank for a $ 120 million line of credit, UK-based DFID for a euro 20 million grant and with German based GTZ for euro 5 million this year. Bulk of the mobilised resources will be utilised to build new SSI clusters like auto components, garments, IT enabled services and develop the existing ones.

Yes Bank and SIDBI announced a strategic alliance to provide a wide range of financial services and products to SMEs. As per the public-private sector agreement, Yes Bank and SIDBI will form a co-brand under which financial solutions will be offered to SME clusters across the country.

The amendment will enable SIDBI to step up credit to small and medium enterprises (SMEs). As per the amendment SIDBI plans to redesign its business model and focus on direct lending rather than providing refinance to banks.

SIDBI has set up an SME fund of Rs.10,000 crore, of which Rs.2,800 crore has been disbursed. The SME growth fund having a corpus of Rs.500 crore has taken equity exposure in two small and medium enterprises (SMEs).

SIDBI for four-fold jump in microfinance biz

SIDBI expects its micro finance portfolio to touch Rs.800 crore from Rs.200 crore at present. It ventured into this segment in 1994, lending to Micro Finance Institutions, most of them trusts and societies, associated with a network of self help groups. SIDBI offers loans to MFIs at about 8%, which in turn offer them to SHGs at 18-24% for both consumption and productive purposes.

Besides loans for micro finance, it also offered loans for MFIs to convert itself to NBFCs. It has offered 10 such loans, to cover 50% of capital requirements. Two MFIs, Spandana of Guntur and BWDA, Vizhupuram are like to graduate to NBFCs shortly. *"The idea is to bring MFIs into formal, regulated structure"*, Shri A. Vikraman, CGM, SIDBI said.

"We also have expanded lending portfolio to include liquidity management products and micro enterprises loans", Mr. Vikraman said. The liquidity management support scheme takes care of MFIs working capital requirements, while micro enterprises scheme offers loans upto Rs. 5 lacs.

SIDBI's microfinance portfolio was Rs.53 crore in 2003, Rs.92 crore in 2004 and Rs.200 crore as at the end of March 2005. It's expected to touch Rs.400 crore this year. Once it crosses Rs.500 crore, which might happen sometime in the next financial year, SIDBI would also look at securitisation.

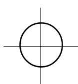
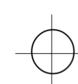
IDFC quarterly net up by 113% to Rs.108 crore

Backed by robust growth in total income, *Infrastructure Development Finance Company Ltd. (IDFC)* registered a 113% jump in the net profits to Rs.108.2 crore for the quarter ended June 2005 as against Rs.50.80 crore for the resultant quarter in the last year. The total income component witnessed a 85% rise to Rs.256 crore compared to Rs.139 crore in the corresponding quarter of the last year. This was boosted by income from treasury operations which doubled to Rs.22 crore from Rs.11 crore last year. For the first quarter ended June 2005, IDFC witnessed gross approvals of Rs.1,911 crores and gross disbursements of Rs.778 crore. As of June 30, 2005 disbursements made by IDFC amounted to Rs.11,377 crore for 123 projects.

Also the income from the company's operations grew by 83% to Rs.234 crore as compared to Rs.128 crore in corresponding quarter of the last year. Operating income of the company constituted 91% of the total income.

IDFC posted a rise of 72% in total expenditure to Rs.138 crore as against Rs.80.8 crore last year. This was followed by a rise in 68% jump in interest and other charges to Rs.111.6 crore as against Rs. 66.5 crore in the corresponding quarter of the last year.

Provisions and other contingencies registered 148% rise to Rs.20.4 crore as against Rs.8.2 crore in corresponding quarter of the last year.

MISCELLANY

Debt Recovery Tribunal - Its functions and composition

Banks and financial institutions have often faced a tough time in recovering loans, on which the borrowers have defaulted. To expedite the recovery process, the Committee on the Financial System, headed by Mr. Narasimhan, considered the setting up of special tribunals, with special adjudicatory powers. This was felt to be necessary to carry through financial sector reforms. Since there is an immense overload on the Indian legal system at the present, recovery of many unpaid debts, due to banks or financial institutions, are held up, indefinitely. This affects the balance sheets of the banks as the amounts involved are very large.

It was though that an independent forum was needed to deal with debts of these types. Thus, in 1993, the 'Recovery of debts due to Banks and Financial Institution Act' was passed. The Act, however, imposes a limitation and states that only those debts which are in excess of Rs.10 lakhs (or upto Rs.1 lakh, where the Central Government specifies certain types of debts) would come under its purview.

What is the composition of a debt recovery tribunal ?

The tribunals are set up by the Central Government. The Government also specifies the areas within which such tribunals will have jurisdiction. A DRT consists of the Presiding Officer - to be appointed, by notification, by the Central Government. The Government may, also specify that a Presiding Officer of one tribunal may, takeover the functions of the Presiding Officer of another tribunal.

What are the qualifications required for a Presiding Officer ?

A person has to be atleast a district judge to become a Presiding Officer of a Tribunal. He shall hold office for a term of five years from the date he enters upon his office or, until he attains the age of sixty-two years, whichever is earlier. The central government provides the tribunal with a Recovery Officer and other employees for manning the Tribunal.

How can banks apply to a DRT for recovering a debt ?

The very first step, involved in the recovery process, is to make an application to the Tribunal, under section 19 of the Recovery of Debts due to Banks and Financial Institutions Act, 1993. Every bank and financial institution, which stands to recover loans and other debts, shall initiate the procedure, by first forwarding an application to the Tribunal, within the local limits of whose jurisdiction the defaulter company is located. After the financial institution has filed an application before the Tribunal, and if there are other banks whose loan to the same company has become bad, the latter can join the recovery suit.

How does the DRT process the recovery suit?

After receiving a valid application, the DRT takes up the case and listens to arguments from the contesting parties. The parties to the suit or proceedings can be represented by an agent including a lawyer, in which case the application must be accompanied by a duly executed vakalatnama.

On which grounds can a recovery suit be rejected ?

The Registrar of the DRT shall endorse on every application the date on which it is presented, or deemed to have been presented, and shall sign the endorsement. If the application is found to be in order on scrutiny, it will be, duly registered and given a serial number. If the application is found to be defective and, if the defect is formal in nature, the Registrar may allow the applicant to rectify the same in his presence. If the defect is not formal in nature, the Registrar may allow the applicant to ractify the same in his presence or may allow the applicants a reasonable time to make the correction.

If the applicant fails to make the corrections within the stipulated time, the Registrar may by an order, decline to entertain the application and record his reason for doing so. An appeal against the Registrar's order can be made within 15 days of the order and the appeal shall be addressed to the Presiding Officer concerned, whose order shall be final.

To whom can one appeal against the DRT order ?

Appeals from the DRT shall lie with the Debt Recovery Appellate Tribunal. But before making an appeal, the debtor must deposit with the Appellate Tribunal, seventy five percent of the amount of debt due from him, unless the Tribunal waives or reduce the amount to be deposited.

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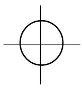
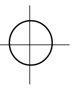

Cover Matters

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RELEVANCE OF SFCs

SPECIAL ECONOMIC ZONES (SEZs)

DEVELOPMENT FIs IN NEW ENVIRONMENT

SIDBI ACT AMENDMENT TO PROVIDE WORKING CAPITAL TO SMEs

DEBT RECOVERY TRIBUNAL - ITS FUNCTIONS & COMPOSITION

CORPORATES TO DISCLOSE LIABILITY TO SME PARTNERS

INDIA TO BE PROMOTED AS PREMIER CONFERENCE DESTINATION