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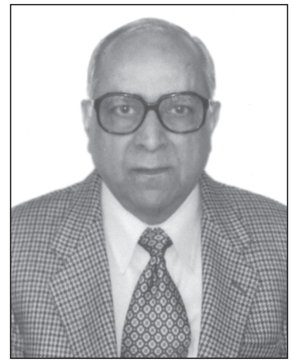
From The Editor's Desk

CORPORATE GOVERNANCE ~ ACCOUNTABILITY OF STATUTORY AUDITORS

The term ***"Corporate Governance"*** has gained universal importance during the last two decades. In simple language, the Corporate Governance signifies efficient, effective and transparent system of managing a business enterprise to ensure profitable growth of the Company through prudent and optimum deployment of its resources to safeguard the interests of the promoters and the share holders. It must also comply scrupulously with the regulatory frame work of the Government and discharge its social-obligations. It may, however, be borne in mind that the business organizations have always existed on the horizon ever since the dawn of modern civilization and they were managed to the advantage of promoters and share-holders. Therefore, the concept of "Corporate Governance" is not new though it has now acquired wider dimensions enlarging its scope and its implementation being monitored by the stock exchanges and the regulators. With the passage of time, the tools of management have significantly improved as a result of far-reaching developments in the field of management education and technology. In India, a number of Committees have deliberated on this subject in the recent past and made variety of recommendations for imparting transparency and effectiveness to the corporate management.

The corner stones of Corporate Governance emerging from the recommendations of the various Committees comprised, among others, that the Board of a listed company should have 50% independent Directors, and that it set up an Audit Committee to be presided over by an independent Director. The Audit Committee chaired by independent Director shall inspect the company's financial statements and can also recommend replacement of the statutory auditors. Another important requirement of Corporate Governance is the appointment of statutory auditors and their accountability to the share holders/regulators. It must be mentioned that notwithstanding the above ingredients of corporate management, the fact remains that the promoters of the organization continue to call the shots and the above requirements are complied with as a matter of formality. I have yet to come across an independent director in any corporate entity. In practice, the IDs are not really independent and are not acting as conscience keepers of the company. In most of the cases, the IDs are close friends, relations, associates of the management and hence it is generally observed that they never antagonize the management in any manner. There are a number of IDs who get appointed because they are willing to lend their names to the companies to enjoy lucrative benefits. The basic malady lies in the appointment of IDs which vests with the promoters. Unless the appointment of IDs is made by an independent agency on the basis of suitability and competence, nothing is going to change. Similarly, audit committee is also dominated by the promoter directors in actual practice and does not perform its designated role.



Shri K.K. Mudgil

For the purpose of this write up, I would like to critically examine the accountability of statutory auditors which is considered to be the backbone of any business organization in a democratic set up. Like Lawyers and Judges in India, Chartered Accountants have always been placed on a pedestal one step higher than any other professional. In a developing country with liberalized economy, the Statutory Auditors play a very crucial role in facilitating close interaction between the corporate sector and the share-holders on one hand and regulators of the financial system on the other. The Statutory Auditors are required to certify the liquidity, profitability and solvency of a corporate entity by finalizing its Balance Sheet and the audit report. They serve as a sound basis on which investment decisions are taken by the investing public and financial institutions. Further, the share-holders of corporate entities largely depend upon the audited statement of accounts to know about the safety of their investment in the company. The Statutory Auditors are, therefore, expected to act as custodians of public interest, an important source of feedback to the Government for formulation of realistic corporate policies, assist the financial institutions in taking investment / lending decisions, as also facilitate regulators in regulating the financial sector. Notwithstanding, the useful role required to be played by the Statutory Auditors in the Corporate sector, our experience has been contrary to the above expectations and uniformly most disheartening. I have been associated with the financial sector for nearly 35 Years and have functioned on the boards of several Commercial Banks and Public Limited Companies. I have observed that by and large the Balance Sheets of the corporate entities certified by the Statutory Auditors conceal much more that what they disclose. The auditors who are supposed to exercise independent judgement about the financial position of a company and realisability of its assets were found to be functioning under the pressure of the promoters/management in showing a rosy picture of the company's financial position. With a view to window-dressing the actual position and avoiding their statutory responsibility, they qualify the Balance Sheet by giving a long list of explanations in the audit report. If one carefully reads the said qualifications in the notes and then goes through the Balance Sheet, one would find the total earnings and profitability indicated in the Balance Sheet to be highly manipulated.

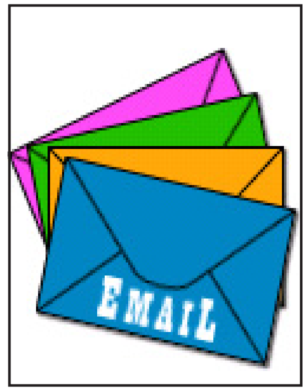
I would like to give a few instances, which are borne out of my own experience. In one of the companies, the Statutory Auditors did not assess the realisability or exchangeable value of the company's assets invested in its subsidiaries by way of equity and loan and showed a net profit in the Balance Sheet. In the qualifications however, the auditor mentioned that the company's subsidiaries, where it had invested a substantial amount, had negative net-worth and their losses had eroded their entire assets. Without expressing their own opinion, they have simply agreed with the management that their investment will be recovered in due course. Had the auditors objectively assessed the realisability of company's assets such investments would have certainly been treated as bad assets affecting the company's profitability and consequently the company would have shown substantial loss instead of profit. In another case of a nationalised bank, the Statutory Auditors in collusion with the management showed a net profit in the Balance Sheet while on actual scrutiny it was found that the bank should have shown a substantial loss instead of profit. Since I was on the Board of that bank, the management was forced to recast the Balance Sheet accordingly and the Statutory Auditors were suitably brought to book. In yet another case of housing co-operative society, where I was also involved, the promoters had mis-appropriated 75% of the money collected from the Members. The Chartered Accountants who audited the society's accounts had certified a fictitious Balance Sheet in collusion with its management committee. I can say with all the emphasis at my command that let any one scrutinise any number of Balance Sheets pertaining to corporate sector, they would be found to conceal the factual financial position of the company in financial terms. It would not be an exaggeration to say that the scams, which had taken place in the financial sector during the last one decade with serious implications, were to a large extent the handiwork of the Chartered Accountants connected with the financial intermediaries.

Recently, accounting scandals of the Enron and World Com had cast their shadow over India too. When these scandals broke, public opinion was vociferous about the need for over hauling the regulatory frame-work for the Chartered Accountants. Many people highlighted the ICAI's poor record in handling disciplinary cases against its Members. It was also suggested that Auditors in the companies should be changed every 3 years and stressed the need for a Public Over-sight Board. While some others recalled that the Joint Parliamentary Committee on the 1992 Stock scam had rapped several Chartered Accountants for shoddy bank audits and called for strict disciplinary action on them the ICAI's follow-up action had left a lot to be desired. Added to this, Indian auditors too were part of the Modi/ Xerox like scandals in the past. It has been generally observed that the Chartered Accountants instead of exposing the mal-practices perpetrating in the corporate entities including banks and financial institutions rather tend to assist them with their specialised knowledge of accountancy in their perpetuation and concealment. Recently, Naresh Chandra Committee on Corporate Governance constituted by the Government of India had submitted its report. The report exhaustively deals with the role of Chartered Accountants/ Statutory Auditors and the independent Directors in the corporate entities. The Committee has obviously not addressed the main issues pertaining to the conduct of Statutory Auditors and the need to impart transparency in the accounting standards. There is an imperative need to do away with the 'qualifications' in the Balance Sheets of corporate entities. The Statutory Auditors must exercise their independent judgement with regard to the 'qualifications' and incorporate such items in the Balance Sheet. The Balance Sheet should be a transparent document reflecting the financial worth of a company, without reading the finer prints of the audit report. This responsibility should be squarely put on the Statutory Auditor. He cannot take shelter under the 'qualifications' of the Balance Sheet. The Chartered Accountants need to perform their jobs without any fear or pressure. They have to be more transparent in accounting practices. There is enough scope for improvement in the Professional Integrity and Accounting Systems.

{ K.K. MUDGIL }

APPOINTMENTS

- Shri V. Nagi Reddy, IAS has been appointed as Vice Chairman & Managing Director, Andhra Pradesh Industrial Development Corporation Ltd. (APIDC), Hyderabad vice Shri Vinod Kumar Agrawal, IAS.
- Shri Priyabrata Patnaik, IAS has been appointed as Chairman & Managing Director, Orissa Industrial Infrastructure Development Corporation (IDCO), Bhubaneswar vice Shri Hemant Sharma, IAS.
- Ms. Alka Diwan, IAS has been appointed as Managing Director, Omnibus Industrial Development Corporation of Daman and Diu & Dadra and Nagar Haveli Ltd. (OIDC), Daman vice Shri Vikas Anand, IAS.



- Shri K.K. Nair, IFS has been appointed as Managing Director, Kerala Financial Corporation (KFC), Thiruvananthapuram vice Shri V. Gopinathan, IFS.

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INFLATION IN INDIA : TRENDS, CAUSES AND POLICY

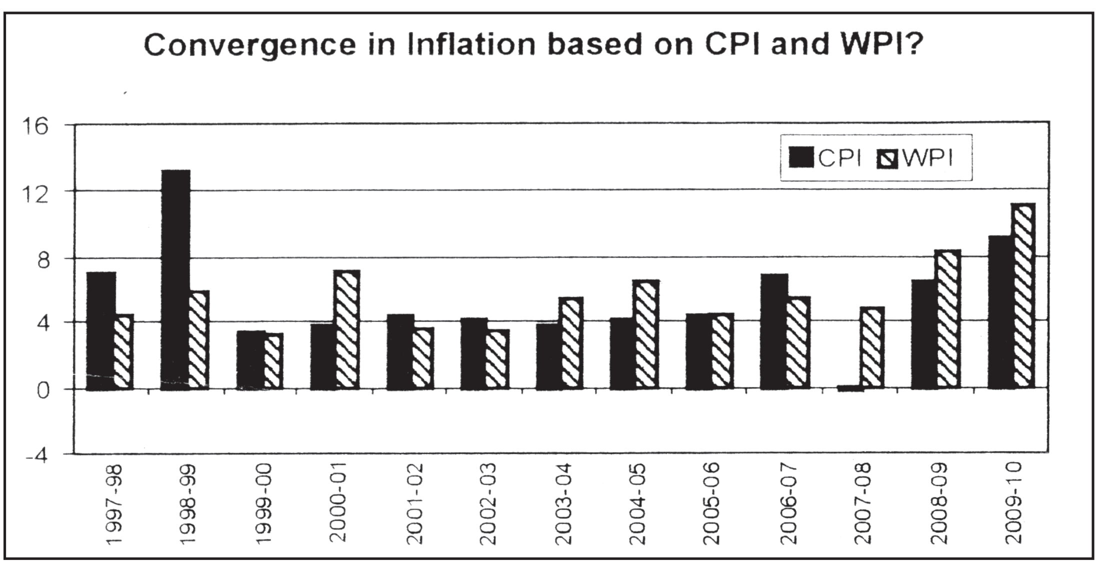
By
N.R. Bhanumurthy #

As defined in economics text books inflation is a sustained rise in the general level of prices of goods and services over a period of one year. In other words, it indicates the percentage rise in the general prices today compared to a year ago. The rise (fall) in inflation means that purchasing power of money declines (increases). This measure is very useful in understanding the trends in cost of living and also in comparing the trends in major macroeconomic variables. From the policy point of view, particularly for the monetary authorities, tracking of inflation is quite essential in formulating necessary growth policies.

In the recent period, India has been witnessing very high inflation rates and this has become a serious policy concern as it could have adverse impact on both growth and welfare of the country. The recent data shows that the headline inflation in May 2010 is at 10.16%, against the RBI's comfortable level of around 5%, as stated in the April 2010 Annual Credit Policy statement. In this context, here we look into the recent trends in the inflation rates (both headlines and also the sub-components) and the main drives of these high rates. In the end, some discussion on the policy options that might help in containing inflation would be specified.

Recent Trends

Before we look into the recent trends in the inflation rates, we need to understand the existing measures of inflation. As in any economy, India also has two broad estimates that cover the prices in whole sale market (which is called Wholesale Price Index (WPI)) and the retail market (Consumer Price Index (CPI)). Within CPI there are three sub indices that cover three groups namely industrial workers, urban non-manual employees and agricultural laborers. But there is no consolidated CPI for the whole economy. In the case of WPI, the index covers only the prices of goods and not the services, thus, making difficult for the policy makers and researchers in choosing the appropriate price index for target and also for research. However, WPI is the one that is tracked by the analysts and policy makers as the information flow is faster with WPI compared to CPI, which comes with a lag of two months. It is also generally assumed that any changes in the prices in wholesale market would eventually transmit (or pass-through) to the retail market. Hence, WPI might be a better indicator for tracking the general price level in the economy. However, a look at the graph below shows that the convergence between WPI and CPI inflation is quite weak, particularly during the high inflationary periods, and also takes a long lag. Thus, this divergence in price indices also results in divergence in the policy impacts as well.



The recent trends in the inflation numbers show that India is experiencing high inflation situation since the end of 2009 and currently it is at an uncomfortable level of 10.16% in May 2010 and there are expectations that this would increase further. At the disaggregated level, one may note that the prices of both food and non-food and the fuel group are increasing sharply since the middle of 2009, while the inflation rate in the manufacturing sector was almost subdued at around 6% for a long time. As minimum rise in the inflation rate acts as an important incentive for the production activity, this could have adverse impact on the consumption and could particularly affect the poor who are largely not indexed in India. Based on this, our own studies in the past have shown that the threshold (or the optimal or tolerant) inflation for India is at around 4 to 4.5%. Policy makers (particularly the monetary authorities) would try to contain the inflation at around this range. Although India does not follow the inflation targeting regime (where the inflation rate should be controlled at a level fixed by the legislation. For instance, UK has fixed the inflation target at 2%), it is generally clear from the policy statements (such as manual Credit policy) that the Central Bank would try to control the inflation once it crosses the 'comfortable level'.

Causes for high inflation

As discussed above, currently, in May 2010, the WPI inflation is above 10%. Monetarists, led by Nobel Laureate Milton Friedman of Chicago School, across the globe believe that 'in the long-run, inflation is always and everywhere a monetary phenomenon'. This means that the money supply growth is the major determinant of inflation and in the long run higher inflation rate can be controlled only through tight monetary policy. But there are other competing schools, such as Keynesians, that say that money is not so important rather than the aggregate demand caused by private and government spending that determines inflation. Hence, Keynesians suggest that money is not the one determinant of inflation. Money has a role only when its growth is higher than the economy's capacity to absorb. There is also a view that explains 'cost-push' version of inflation, which is largely due to supply-shock that results in fall in aggregate supply. Overall, while there are many theories that explain the causes of inflation, based on enumerable empirical studies, relying on one school of thought might not be wise. In India also there were many studies on inflation determinants and their conclusions are quite diverse. As the behaviour of inflation is very dynamic the theoretical explanations of this behaviour could also be dynamic. Hence, this needs to be examined on a regular basis.

In the case of India, one may also need to note that within the WPI basket there are many commodities' prices that are still administered by the government. For example, the prices of many of the food items, such as rice wheat, pulses and edible oils, are still announced by the Government through its Commission for Agricultural Cost and Prices (CACP) that declares the Minimum Support Prices (MSP) before the harvest session. In the fuel group also, until very recently the price were administered and even now the prices of diesel and kerosene are regulated. In that sense, only two-third of the WPI consumption basket is determined by the market forces.

The current high inflation is caused by sharp rise in the prices of primary articles and the fuel group prices. The causes behind this rise are many. First, as we know, Indian agriculture still heavily depends on the monsoon, bad monsoon last year has crippled the agricultural output growth and, hence, resulted in rise in food prices. Secondly, the Government, to support the agricultural activities, has hiked the MSP on many important commodities atleast four times in the past three years. This has had a permanent shift upwards in the overall agricultural prices. Thirdly, there is also a rise in the overall cost of production due to rise in the labour costs, which has been attributed to labour shortages following the successful implementation of MGNREGS (Mahatma Gandhi Rural Employment Guarantee Scheme) in many of states. Fourthly, there is also a general rise in the world commodity prices (in particular, food and fuel prices) following the huge global stimulus packages that were warranted following global financial meltdown. These global prices appear to have passed on to domestic prices through commodity exchanges. Fifthly, the recent government's decision to deregulate the fuel prices and do away with fuel subsidies has also resulted in inflationary expectations. Lastly, in the post-Lehman collapse, the government, similar to other industrialized countries, has launched both fiscal and monetary stimulus programs. This has pushed the fiscal deficit (both centre and state) to nearly 10.8% of GDP in 2009-10. This could have also pushed the inflation from the demand side through rise in the aggregate demand with given output. Apart from all these factors, the current high inflation could also be due to very low base last year. For example, the headline inflation even upto September 2009 was close to zero with deflation in June 2009.

Overall, as the inflation numbers, similar to other macroeconomic variables, have seen sharp volatility both at domestic and also at international level, the year 2010-11 could be a year of some macroeconomic stablization.

Policy Options

High inflationary situation has created policy dilemma. As managing inflation is largely the responsibility of the monetary authorities, there were calls for the RBI to tighten the monetary policy. (RBI had followed accommodative policy by cutting the policy interest rates by 400 basis points, in the post-Lehman saga as part of stimulus program). But, as the economy was just recovering after the global slowdown, there were also apprehensions that any tightening at this juncture could restrain the economy from robust recovery. As India was experiencing increasing inflationary expectations, the RBI has decided to hike the interest rates by 25 basis points in July 2010. This is based on the judgement that the demand side (or core) inflation is firming up within the headline inflation, which can be controlled only by monetary tightening.

As the inflation is not purely due to demand side reasons and core inflation (estimated as non-food and non-fuel inflation) is building up but only at around 6 to 7%, monetary tightening measure alone is not sufficient to contain this double-digit inflation. Fiscal and sectoral policies also have vital roles. Reducing fiscal deficits is identified as one of the policy measures to achieve stable inflation with growth. Towards this, the Central Government has already laid down the path for fiscal stimulus reversal that could contain aggregate demand-Push inflation. This year, the government has already shown its seriousness in implementing other fiscal measures such as disinvestment to bring down the deficits. But there are many other structural measures that are needed. One such measure is to bring in changes (or)revamping in the current public distribution system (PDS), which, given the huge food stocks, could have been a major channel through which food inflation could have been contained.

To sum, following both monetary and fiscal stimulus packages, the Indian economy is strongly coming out of the slow-down phase. But the high inflation appears to create dilemma for policy makers. As the choice is between high growth and high inflation, one could suggest that even at the cost of India achieving slightly lower growth, moderating inflation is crucial as the cost of high inflation is much high than the loss of growth. This is particularly more so for a country such as India, where the people working in the unorganized sector is very high and they are not protected from the rising cost of living. Further, as the trickle down of prices is faster than the trickle down of incomes for the poor, controlling inflation could be prioritized.

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The author is Professor, National Institute of Public Finance and Policy, New Delhi
Courtesy : Yojana

Life is like a river: The twists and turns along the way are meant to guide us, not stop us.

LETTER TO THE EDITOR

July 20, 2010

Dear Editor,

I have received your letter of July 13, 2010 together with your latest book "Decentralised Economic Development". It makes a very interesting reading.

I have noted that a case study on Mangalam Cement is also included in the book. Mangalam Cement is also controlled by me.

Regards,

Yours sincerely,
Sd/-
{ B.K. BIRLA }
Chairman, B.K. Birla Group
Birla Building, 9/1, R.N. Mukherjee Road,
Kolkata - 700 001

HARI SINGH
7290, B-10,
Vasant Kunj,
New Delhi-110070

August 10, 2010

Dear Editor,

I read with great interest the Editorial ***"Agriculture Credit ~ Priority Sector Lending – A Farce"***. The editorial brings out clearly and comprehensively how the commercial and co-operative banks have not met the credit needs of most of the farmers but found easy way out for parking funds in schemes such as RIDF (Rural Infrastructure Development Fund). The obligation of 18% of the lending for agriculture – a priority sector has not been met.

The banks should have no option to invest elsewhere. The 18% of the lending meant for agriculture - a priority sector, to boost agriculture production to feed our vast population, improve the lot of 60% of the population dependent on agriculture and to improve contribution from agriculture to GDP should only be invested in this sector. The banks must follow pro-active policies to make adequate credit available to needy farmers including those who are illiterate, not well informed but misled by greedy money lenders. The bank credit to farmers at cheap rate of interest must meet credit needs of farmers such as for agriculture, tree plantation, water harvesting, sprinkler irrigation system, setting up of infrastructure to use wind and solar energy for irrigation, to create facilities for storage of foodgrains for own use as well for FCI and food processing.

With warm regards,

Yours sincerely,
Sd/-
(HARI SINGH)
Principal Director {Retd.}

PROFILE OF MEMBER CORPORATIONS

TURNAROUND OF ORISSA STATE FINANCIAL CORPORATION {OSFC}

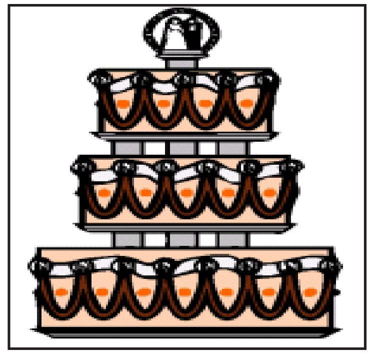
The performance of the Corporation in key operation area of sanction and disbursement since inception as on 31.03.10 stood at Rs. 1306.26 crore and Rs. 1305.12 crores respectively to 28209 number of units. The total cumulative recovery of the Corporation as on 31.03.10 aggregated to Rs. 1845.36 crore. OSFC has its major presence in preparing seed bed for blooming MSMEs in the State. It has financed in all areas including transport, tourism, mining and service sector. It has also provided financial assistance in marine sector to boost up export earning. Keeping in view of the up-liftment of rural artisans, it has provided loan under composite loan scheme.

The State Government has withdrawn restrictions for fresh investment. The MoU with SIDBI and State Government has already been executed by the Corporation on 16.11.2009 to avail the line of credit at market competitive rates. During the year under review the principal collection decreased to Rs.17.74 crore against Rs. 32.50 crore in the previous year registering a decline of 45.41%. The interest income increased from Rs.20.28 crore during the year 2008-09 to Rs. 21.10 crore during 2009-10 registering growth of 4.04% in comparison to previous year.

Recently the State Government has realized the importance of OSFC for development of MSME sector in the state. Without the development of MSME sectors, the desired economic growth of the State can not be achieved & therefore apart from focusing on large & Mega projects, efforts are being made by the State Government to develop MSME sectors in the State & after revival, OSFC can take up this challenging job once again. With the upcoming of several Mega Projects in the State, there is ample scope for further investment in ancillary/down stream industries. In addition, the Corporation is giving priority for revival of potentially viable sick units.

Restructuring Of OSFC

An Inter Departmental Committee was set up by the Govt. in 2003 to examine the pros& cons of restructuring of OSFC. The committee selected UTI Bank to develop a restructuring package for revival of OSFC. The said Bank furnished its report in March 2004.



The Board of OSFC, IDBI and SIDBI approved the restructuring package of OSFC. The financial and organizational restructuring of the Corporation was also approved by State Cabinet during Dec'06 and Feb'09.

PROGRESS OF APPROVED RESTRUCTURING PACKAGE OSFC

Organization Restructuring

- Staff strength has been reduced from 914 to 297 by introduction of suitable VR/VS Schemes.
- 588 nos. of employees have availed VR/VS Scheme declared by the Corporation from time to time.
- The State Government has provided Rs. 13.90 crore and OSFC from its own fund paid Rs. 1.35 crore making a total of Rs.15.25 crore for payment of VR benefit.

Debt. Restructuring

- IDBI Refinance has been settled at Principal Outstanding only and fully repaid with waiver of interest outstanding of Rs.21.05 crore.
- Share Capital of Rs. 38.89 crore held by IDBI has been transferred to SIDBI with notification by Central Government U/s 4(H) of SFCs (Amendment) Act, 2000.
- SIDBI has waived 50% of interest dues up to 30.09.05 (Rs.48.09 crore) and funded the balance interest of Rs. 48.09 crore at 0% interest.
- Interest on SIDBI outstanding reduced to 7.50% per annum from average cost of 12.20% w.e.f. Oct. 2005 on signing of MoU with SIDBI by the State Government & OSFC on dt. 16.11.09.
- Outstanding refinance rephrased/

rescheduled is being repaid in monthly installment @ Rs. 1.25 Crore per month. In addition, interest dues are also being paid on monthly basis as per agreed terms on the restructuring of SIDBI Refinance dues. OSFC is regular paying SIDBI's dues in time. Principal Outstanding of SIDBI as on 31.03.10 stood at Rs.129.65 crore.

- ❖ Government has infused of Rs. 254.00 crore towards settlement of SLR Bonds under OTS as per the approved Restructuring Package. Bond liabilities to the extent of Rs. 0.90 crore only are remaining for settlement. Persuasion is being taken for early settlement of Bonds.

Financial Restructuring

- ❖ Authorized Share Capital has been raised to Rs.500.00 crore from Rs.100.00 crore by the Government.
- ❖ Government has converted Rs. 40.21 crore (Loan Rs.19.76 crore, LISC Rs.6.23 crore & Subvention Rs. 14.22 crore) to Share Capital.
- ❖ The Government infused Rs. 254.00 crore to settle SLR Bonds and converted the infused fund of Rs. 254.00 crore to share capital.
- ❖ The Government has waived Rs.98.36 crore (Guarantee Commission to the extent of Rs. 5.59 crore, interest on Loan in lieu of share capital Rs.9.64 crore, Dividend Rs. 10.69 crore, interest on loan Rs. 72.43 crore.
- ❖ The Government has funded Rs. 13.90 crore for VRS/VSS.
- ❖ The Government has allowed resumption of investment. MoU with SIDBI has already been executed on dt.16.11.09 by OSFC and Govt. to avail line of credit on market competitive rate.

Pending Issues of Restructuring

- ❖ Negotiation with SIDBI is continuing in order to assist capacity building project of OSFC.
- ❖ SIDBI to issue notification for conversion of LISC Rs.6.22 crore & interest thereon Rs.0.93 crore making a total of Rs. 7.16 crore to share capital.
- ❖ To issue notification for conversion of dividend payable amount of Rs.25.48 crore to share capital.
- ❖ Waiver of interest outstanding of Rs. 7.42 crore on LISC (up to 31.01.08)

Future Plan

- ❖ OSFC has already framed the New Credit Policy in line with suggestion of SIDBI.
- ❖ New Credit Risk Module is kept in place to ensure safe investment. Adoption of new credit rating for finalizing investment with assistance from SIDBI.
- ❖ To invest and gradually build up high quality loan portfolio.
- ❖ To associate SIDBI for consortium finance and also capacity building.
- ❖ To create a data bank for MSMEs with assistance from SIDBI.
- ❖ Complete computerization by central processing for delivering service in doorstep.

Profitability

(i) Net ProfitThe Corporation's net profit during the year 2009-10 stood at Rs.1.80 crore as against net profit of Rs.2.71 crore during 2008-09 reflecting the decline of 33.58%. The decrease in net profit during the year is driven by decrease in interest income.

(ii) Net Worth The net worth of the Corporation has become positive and stood at Rs. 9.74 crore as on 31.03.10 compared to Rs. 7.94 crore as on 31.03.09 and thereby recording a growth of 22.67%.

(iii) Capital Adequacy RatioThe Capital Adequacy Ratio has also become positive and stood at 8.76% as on 31.03.10 compared to 7.60% as on 31.03.09 against the benchmark of 9% set by SIDBI.

FINANCIAL PERFORMANCE

Income & Expenditure

The gross income earned by the Corporation during 2009-10 amounted to Rs.23.47 crore comprising of interest on loan and advance of Rs.21.10 crore which includes interest accrued on standard loan amounting to Rs.0.41 crore and excludes interest income on agency loan and other income to Rs. 2.37 crore as against Rs.23.28 crore in 2008-09 registering increase in 0.82%. The personal and administrative expenses, which were Rs.8.30 crore in 2008-09, has gone up to Rs. 8.44 crore during 2009-10, registering a growth of 1.68%. The Corporation switched over from Cash System of Accounting to Accrual System of Accounting as per SIDBI guidelines since F.Y. 08-09. Interest income during the year includes interest accrued but not due up to 31.03.10 on standard assets and staff advances. The financial expenses includes accrued interest on all borrowing not due for payment but accounted for while personnel and administrative expenses includes the expenses for full year chargeable under cash system and all expenses due up to 31.03.10. The total income for the year has marginally increased to Rs. 23.47 crore (previous year Rs. 23.28 crore) while total expenses has also reduced to Rs.19.59 crore (previous year Rs.21.40 crore).

FEE BASED BUSINESS ACTIVITIES

In the Business Plan of the Corporation for 09-10, emphasis is given to diversify the business activities to Non-Fund Based area through better deployment of its existing human capital and to recognize additional income from the new activities to improve the viability of the Corporation. The Corporation has under taken the following fee based activities and to explore new avenues on a continuous basis.

- Marketing of Insurance products. (Life & General)
- Valuation of assets.
- Preparation of Project Profiles.

Marketing of Insurance Product:

The Corporation with a view to augment fee based income had tied up with M/s HDFC Standard Life Insurance Company and M/s New India Assurance Company Limited to market both Life Insurance and General Insurance products to its borrowers and others on commission basis. Strategy has been drawn up to boost up the business from the new activities, which would be complementary to the core activities in future.

Valuation of assets:

The Corporation, leveraging its rich experience with the pool of technocrat from various disciplines, is providing asset valuation service at a reasonable fee. Therefore, the Corporation took up the new challenge of taking up valuation of the asset at a pre-determined fee structure.

Preparation of Project Profile:

The Corporation is in the business of Project Identification, Loan appraisal, Monitoring and Follow-up activities for the last five decades. It has successfully achieved its goal for the industrialization of the State. The manpower available with the Corporation is well versed with the finer minutes of loan management to MSMEs. Therefore, OSFC took up the responsibility of preparation of the project profile for MSMEs at an affordable fee. During the current year, the Corporation received encouraging response from perspective entrepreneurs for preparation of project Profiles of various products and process. During the year, the corporation has prepared 55nos of project profiles of different clients. The Corporation has been able to accomplish the job to the best satisfaction of the customers.

OPERATIONAL REVIEW:

Sanction

The embargo imposed by the State Government for fresh investment has been withdrawn during the current fiscal. The MoU with SIDBI & Govt. has been executed on 16.11.09. to avail refinance at market competitive rate. After discontinuance of lending for a period of five years, the Corporation was be able to sanction Rs. 0.93 crore during the year. Focus has been given to mobilize a sizable number of proposals in the coming years. The cumulative sanction as on 31.03.10 stood at Rs.1306.26 crore.

Disbursement

The cumulative disbursement as on 31st March 2010 stood at Rs.1305.12 crore to 28207 units.

Recovery

Recovery of the loan dues has become the thrust area of operation and has been given prime importance by the corporation to achieve the twin objective of reduction of NPA as well as desired level of resource mobilization. Keeping an eye on these objectives, the Corporation had reactivated the existing system in the preceding years by decentralizing most of the activities for timely decision coupled with better NPA management. The annual recovery target has been distributed on monthly basis among the 17 branches based on their loan portfolios. All the employees of offices were involved in the process.

During the year the overall recovery of Rs. 40.25 crore has become possible due to dedicated team spirit of the employees of the corporation, continuous monitoring by the management and more specifically due to introduction of Modified OTS 07 Scheme, in spite of prolonged industrial recession in the economy. During the year 2009-10, under Modified OTS-07 Scheme, the Corporation has received 2691 nos. of cases having outstanding amounts were settled under OTS and Rs.21.29 crore has been realized during the current fiscal. The Corporation waived/sacrificed interest/ penal interest amounting to Rs.105.75 crore and Principal of Rs.0.03 crore for settling these accounts under OTS.

* * *

GIDC to develop chemical, engineering zones

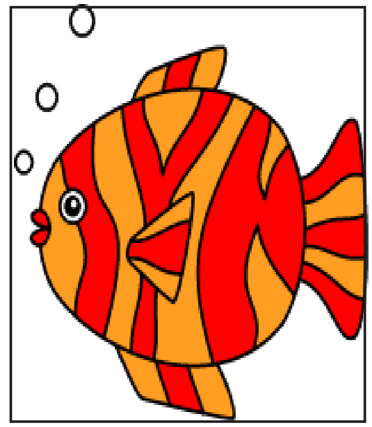
In a bid to create an ecosystem of both large and small companies in the chemical and engineering industries, Gujarat Industrial Development Corporation (GIDC) is developing specific zones for small and medium enterprises in these two sectors.

At its 4,000-hectare industrial estate near the Dahej Special Economic Zone, GIDC has reserved around 1,000 hectares for SMEs in the chemical and engineering industries.

"GIDC will give preference to those SMEs from chemical and engineering sectors which have forward and backward linkages with large enterprises already present in the estate in Dahej. The idea is to create an environment where hardly anything gets wasted, and everything gets utilised within the industrial fraternity at Dahej," said Shri Arvind Agrawal, Chief Executive Officer and Managing Director of GIDC.

GIDC intends to make the zone self-sufficient, with raw materials and waste products being utilised by both SMEs and large units to create other products and by-products. While SMEs in the chemical zone will be allotted 350-400 hectares, engineering units will get about 600-650 hectares. The GIDC industrial estate already boasts of such companies as Indian Petrochemicals Corporation Limited (IPCL), Adani Power and Meghmani Organics, among others.

Instead of dumping the waste, it should add value to someone else's product. Hence, SMEs that can either provide raw material to large units through their waste, or vice versa, will be encouraged to set up units in this zone. GIDC is in possession of the land at Dahej and has also started receiving applications from units. Earlier, the Gujarat government had asked state-run companies like Gujarat State Fertiliser Corporation, Gujarat Alkalis and Chemicals Limited and Gujarat Narmada Valley Fertiliser Corporation to work with GIDC for value-addition in the chemical sector. The idea was to promote the establishment of SMEs, especially chemicals units, in areas near the plants of these three companies, so that small units could use their chemical products and by-products. Also, many SMEs produce raw materials which are used by big chemical companies. Gujarat is a hub of the chemical industry.



Honda Starts operations in Rajasthan

Honda Motorcycles and Scooters India Limited (HMSIL) commenced construction of its 2-wheeler manufacturing plant in the state, in RIICO's Khushkhera industrial area in the Alwar district. Shri Ashok Gehlot, Chief Minister, Government of Rajasthan (GoR) was the Chief Guest at the ground breaking of HMSIL's manufacturing facility. He said, industrialization in the State was growing in a planned manner and Rajasthan would set a new record on the industrial map of the country. The HMSIL planned to invest Rs. 1100 crore in the unit, employing about 13000 people. The state government had been working on readying the basic physical infrastructure in terms of water, power, road, transportation and communication. The two-wheeler manufacturing unit will manufacture 6 lakh two-wheelers (Motorcycles & Scooters) per annum with a provision of expanding the production capacity upto 12 lakh per annum. HMSIL would make an initial investment of around Rs. 500 crore which will go upto Rs.1100 crore when it touches the annual production capacity 12 lakh two-wheelers. The company will provide direct employment to 3000 persons in first three years.

The Honda Group of Companies is already setting up two green field projects in the Bhiwadi region in the Alwar district. Honda Siel Cars India Ltd. (HSCIL) is setting up a car manufacturing unit with an installed capacity of at least 50,000cars per annum. For this project RIICO has allotted 455 acres of land at Tapukara Industrial Area in Bhiwadi region. The company is currently manufacturing sheet metal parts, crank shaft and connecting rods with an investment of around Rs. 800 crore.

RIICO has developed a dedicated Auto Zone on an area of around 200 acres at Pathredi in Bhiwadi. Companies such as, Motherson Automotive, Motherson Sumi Systems, Shree Ram Pistons & Rings, JBM Auto Limited, Supreme Hifidility, Thyssen Krupp, TPS Infrastructure Ltd., etc. have already taken land in this zone. These companies would be manufacturing a wide variety of products such as car audio systems, wiring harness, automotive plastic parts, automotive castings, piston and piston rings etc. in this zone, investment of around Rs. 1000 crore has already been lined up. At Neemrana, RIICO has already developed an exclusive enclave for Japanese investment. This is the first such enclave in the entire country and is a result of RIICO's understanding with the Japan External Trade Organization (JETRO). It is being developed on a total area of around 1100 acres and 50% saleable area has already been allotted.

The ministry of Micro, Small & Medium Enterprises (MSME), Government of India has finalized Bhiwadi for setting up of a Tool Room.

Bhiwadi The Next Big Automobile Hub

RIICO has developed a cluster of industrial areas in Bhiwadi belt on land over 6500 acres. The prominent industrial areas, besides Bhiwadi itself include Chopanki, Pathredi, Khushkera, Tapukada and Kaharani. The Bhiwadi industrial area belt is very well developed in terms of industrial, social and commercial infrastructure. It is accessible from Delhi-Jaipur NH-8. it is about 70 km from Delhi and 200 km from Jaipur. Indira Gandhi International airport is approachable within one hour drive. Bhiwadi, has developed into an auto and auto ancillary hub of Rajasthan.

The Rajasthan Investment Promotion Scheme, 2003, which is operational since July 1, 2003, provides incentives to various sectors. Under the Scheme, interest subsidy of 5 per cent and wage/employment subsidy of 25 per cent is reimbursed for seven years, subject to a maximum of 50 percent Sales Tax/VAT paid to the Government. Government of Rajasthan is also providing 50 per cent exemption on stamp duty and 50 per cent exemption on electricity duty for seven years.

Simplification and Incentive Initiatives Received Well by Entrepreneurs

RIICO has taken a number of incentive-related and simplification initiatives which have been well taken by the entrepreneurs.

Special incentives for tribal dominant areas: Under the 'Tribal Areas industrial Promotion Scheme 2009-10', those entrepreneurs who have a newly allotted plot in RIICO's industrial areas of Sirohi district post 8.7.2009—and establish an industrial unit and begin commercial production before 30.06.2010 will be reimbursed an amount of 50% of the development charges. However, if their unit commences production before 31.12.2010, 25% of the development charges will be reimbursed.

Similarly, those entrepreneurs who already have plots in RIICO's industrial areas of Dungarpur and Banswara districts — and establish an industrial unit and being commercial production before 30.06.2010 will be reimbursed an amount of 50% of the development charges. However, if their unit commences production before 31.12.2010, 25% of the development charges will be reimbursed.

Hotel in Industrial Areas: Now hotels can be set up on allotted industrial plots in RIICO's industrial areas on payment of requisite charges.

Warehousing in Industrial Areas: Warehouse for captive use in the 50% area of the allotted plot can now be set up without payment of any additional charges. Requisite fee is to be paid for commercial warehousing activities.

Non-Electronics Projects in Electronics Complex, Kota: Non-polluting projects other than electronics can now be set up in Kota's Electronics Complex often obtaining the requisite permission from the Rajasthan State Pollution Control Board.

Sub-Division Rules for residential Plots Simplified: The rules pertaining to sub-division of residential plots in industrial areas simplified for Khatedars. For entrepreneurs (non-khatedar allottees) too the rules have been simplified.

Transfer of Vacant Plots: The allotted vacant industrial plots, on payment of requisite fee can now be transferred.

Reduction in Conversion Fee for Educational/Training Institution: The conversion fee for setting up educational and training institution on allotted industrial plot in industrial areas has now been reduced.

25% Commercial Use of Auto Repairing Units: A maximum of 25% of the plot area allotted for automobile repairing and auto-service centre can now be used for commercial activities related to the service centre.

Change in Land Use: Allottees of industrial plots can now apply for land use change within 3 years of allotment after commencing commercial production.

Others Rebates as well: A number of other rebates on allotment of land.

Fillip to industrialization in Tribal Areas

To promote industrial development in the tribal areas of Banswara, Dungarpur and Sirohi districts, the State Government has launched 'Tribal Areas Industrial Promotion Scheme 2009-10' and will be applicable in the industrial areas developed by RIICO. Those entrepreneurs, who commence commercial production of their projects by a fixed date, will be promoted by way of reimbursement of development charges.

As per this Scheme those entrepreneurs who have a newly allotted plot in RIICO's industrial areas of Sirohi district post 8.7.2009 – and establish an industrial unit and begin commercial production before 30.06.2010 will be reimbursed an amount of 50% of the development charges. However, if their unit commences production before 31.12.2010, it will be reimbursed an amount of 25% of the development charges.

Similarly, those entrepreneurs who already have plots in RIICO's industrial areas of Dungarpur and Banswara districts – and establish an industrial unit and begin commercial production before 30.06.2010 will be reimbursed an amount of 50% of the development charges. However, if their unit commences production before 31.12.2010, it will be reimbursed an amount of 25% of the development charges.

Now Affordable Group Housing Scheme in Industrial Areas

RIICO has launched an innovative scheme for 'affordable' and 'low cost' group housing in its industrial areas. The prime objective of the scheme is to benefit the lower and middle income groups by way of providing low-cost residential units.

For the first time the Corporation will now allot land in industrial areas to private builders for group housing on the basis of the Rajasthan Government's "Affordable Housing Policy 2009". Offers from the private builders for developing the housing scheme are being invited through expression of interest. Only those builders which have a minimum annual turnover of over Rs. 200 crore and an experience of at least 3 years will be considered for selection. The selected companies will have to complete the project within 3 years after the allotment of land. The scheme will be a boon for industrial areas at a distance from town and cities.

RIICO Participates in Singapore SEZ Seminar

RIICO participated in an international seminar on "Opportunities Available in the SEZ Sector in India" in March in Singapore. RIICO's Managing Director, Mr. Rajendra Bhanawat, IAS made a presentation on the initiatives undertaken by the Government of Rajasthan for development and promotion of Special Economic Zones (SEZs). In his presentation he particularly focused upon the opportunities in the SEZ sector in Rajasthan as well as the newly created opportunities in the Delhi Mumbai Industrial Corridor (DMIC). Mr. Bhanawat urged the gathering for investment in SEZs and other areas in Rajasthan. He assured them full support and cooperation on behalf of RIICO as well as the State Government.

The Seminar was inaugurated by the minister for Trade and industry, Singapore, HE Mr. Lim Hng Kiang, the welcome address was delivered by the High Commission of India in Singapore, Dr. TCA Raghvan. Senior officers of the Export Promotion Council of the EOCs and SEZs, Ministry of Commerce, Government of India and the State Governments of Gujarat, Maharashtra, Andhra Pradesh and Karnataka participated in the seminar.

Mahindra World City, ILGFS and Ascendas among others also participated in the event; as did

200 delegates from various industries and companies from Singapore. Some Singapore companies evinced keen interest in the investment opportunities in the State.

RIICO – The nodal agency for SEZ

RIICO is also the Nodal Agency of the State to promote and develop the SEZ Sector in the State.

Rajasthan was one of the first States in India which enacted the SEZ Act in 2003 and established SEZs in Government Sector through RIICO at Sitapura, Jaipur for gems & jewellery and at Boranada, Jodhpur for handicrafts.

SEZ-I in Sitapura, Jaipur is spread over 21.50 acres of land whereas SEZ-II is spread over 89 acres of land. In SitaPura SEZs, 100 units are under production for activities relating to gems and jewellery and 32 units are under construction. SEZ Boranada Jodhpur is spread over 180 acres of land. 10 units are under production for activities related to handicrafts (wooden, iron products, hand made furniture, etc.) and 6 units are under construction. The present export is about Rs. 612 crore from Jaipur SEZs and about 30 crores from Boranada, Jodhpur. These SEZs have generated employment for about 6,000 persons.

Total estimated investment from present notified and formal approved SEZs in the State would be about Rs. 13,000 crore and would generate employment for 2 lakh persons.

Incentives & Facilities by the Government of Rajasthan:

- Land conversion @ Rs.100 to developers in rural areas.
- 100% exemption on stamp duty to developers and also to units in RIICO SEZs. In case of other SEZs, however, 100% exemption from the date of enactment of New SEZ Act.
- Exemption in stamp duty on rent deeds to units establishing in rented premises from the date of enactment of New SEZ Act.
- 50% exemption to units from electricity duty for 7 years, however, 100% exemption for 10 years from the date of enactment of New SEZ Act.
- 100% exemption from work contract tax to units and developers for 7 years.
- 100% exemption from Entry tax to units on capital goods brought into local areas by the unit required for use as capital goods for setting up industry in SEZ.
- 100% exemption from VAT to units on sale or purchase by a registered dealer being an industrial unit established in SEZ, of goods specified in certificate of registration, for the purpose of exclusive use in the manufacturing of goods for sale in the course of export out of the country.
- 100% exemption from luxury tax for 7 years.
- 50% exemption from entertainment tax for 7 years.

Rs. 150 Crore ICD to be Set Up near Hindaun City

A Rs. 150 crore rail-linked Inland Container Depot (ICD) with necessary allied facilities, will be set up by Kribhco Infrastructure Limited (KRIL) at village Beda Banki, near Hindaun City Railway station in Karauli district. RIICO will acquire 147.53 acres for the project.

A memorandum of Understanding (MoU) to this effect was inked by RIICO's MD, Mr. Rajendra Bhanawat, IAS and KRIL's MD, MR. B. N. Shukla in the presence of Mr. Rajendra Pareek, minister of Industries, and Sunil Arora, Principal Secretary, Industries and Chairman RIICO.

Apart from the ICD, the KRIL also intends to establish Free Trade Warehousing Zone (FTWZ), agri-commodity warehousing, etc. and wants to develop the area as a Rural Business Hub. A cheque of Rs. 64.79 lakh, as keenness money (10% of tentative total cost of the land), was presented to RIICO on the occasion.

The Minister hoped that this project will enable Hindaun city to have its own dry port for export oriented industries. The state was increasingly making efforts to provide facilities to the investors and entrepreneurs.

Mr. Arora urged the KRIL team to identify other projects for being taken up by them in Rajasthan. Mr. Bhanawat said that the project will bring about development in the area. Mr. Shukla, MD of KRIL, informed that the organization has acquired license to operate Private Container Trains in Category-I for entire rail network in the country.

KRIL is a 100% subsidiary of Krishak Bharati Cooperative Limited (Kribhco).

Now Hotel on the allotted industrial plot

The Infrastructure Development Committee (IDC) of RIICO has accorded 'in-principle' approval that permission may be given to a allottee of an industrial plot to set up an hotel there. This decision has been taken in the backdrop of the fact that the state government has notified tourism as an industry.

The decision gives a distinct advantage to entrepreneurs for setting up a hotel on an industrial plot without going for any change in land use for commercial purposes of the plot. For this facility, the concerned allottee will not be required to pay any conversion charges. However, the allottee concerned will have to pay the differential development charges worked out at the prevailing industrial rate less the development charges already paid at the time of allotment of the plot.

RIICO's approval for the hotel project, however, will be subject to observing the technical norms and building parameters, as are relevant for setting up a hotel.

RIICO to Accept RTGS Payments

RIICO will now accept payments from entrepreneurs and customers through Real Time Gross Settlement (RTGS). This enables an entrepreneur to make the payment from anywhere in the world. The Corporation has also taken a decision to accept local cheques as well. The priority of allotment of plots will be decided with the date of clearance of cheques in RIICO's account. This has been done to facilitate the entrepreneurs and investors.

RIICO to develop new Industrial Areas

RIICO will be developing new industrial areas in Jodhpur, Bhilwara and Sikar districts. For their development, it will acquire 1088 hectares private land and getting allotted 819 hectares Government land for the development of new industrial areas. Clearance for the acquisition was given by RIICO's Infrastructure Development Committee (IDC), chaired by Principal Secretary, Industries and Chairman of RIICO, Mr. Sunil Arora recently.

The Managing Director of RIICO, Mr. Rajendra Bhanawat, said that industrial areas in these districts had saturated and there was a long standing demand from the entrepreneurs as well as the industries associations for developing new industrial areas. Furthermore, with almost 40 percent of the Delhi Mumbai Industrial Corridor (DMIC) passing through Rajasthan, RIICO has decided to increase its stock of industrial land and create a land bank.

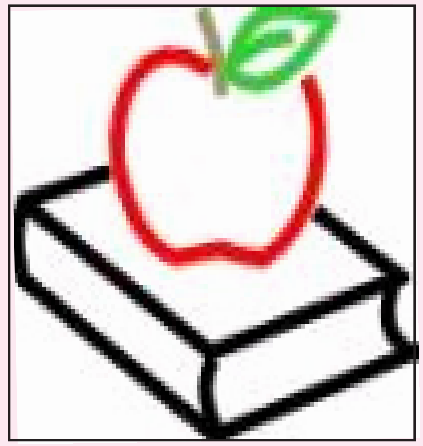
RIICO will be acquiring 459.25 hectares private khatedari land on the Jodhpur-Pali road and allotment of 175.50 hectares Government land for developing a new industrial area. Furthermore, the existing industrial area at Boranada in Jodhpur will be expanded for which 509.67 hectares of private khatedari land will be acquired. RIICO will also be getting allotted 53.77 hectares Government land at Mandalgarh on Bhilwara—Kota Road for developing an industrial area. Similarly, 466.42 hectares Government land will be getting allotted at Village Ban Ka Khera near Bhilwara.

In the Sikar district, 119.88 hectares private khatedari land will be acquired and 123.47 hectares Government land will be allotted near Neem Ka Thana for developing a new industrial area.

* * *

Decisions can be hard for a man to make, but hard decisions make a man.

QUESTIONS OF CYBERQUIZ ~ 25



1. What is a person called who engages himself/herself in hacking activities with political or social agendas ?

   [a] Computerphile; [b] Cracker; [c] Hacker; [d] Hacktivist.

2. When an attacker over the Net harasses a victim with threatening messages delivered through e-mail or instant mesaging or posted to a Website or a discussion group, it is called :

   [a] Cyber squatting; [b] Cyber terrorism; [c] Cyber woozling; [d] Cyber stalking.

3. An employer would never like a cyber slacker. What does a cyber slacker do ?

   [a] She or he steals data from the organisation's system and sells outside; [b] She or he hates the IT tools and does everything manually or by old equipments; [c] She or he uses organisation's Internet connectuib during work hours to surf the Net, shop online, send personal emails, look for new jobs, etc. [d] Uses company email to send anonymous messages to others.

4. When somebody has been "dot-commed", what has happened to him/her ?

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

5. Who is a cyber tourist ?

   [a] a person who visits websites of tours and travel companies; [b] a person who stays in a website for few minutes only; [c] A person who goes online only on weekends and holidays; [d] A person who visits the websites of famous tourist destinations of the world.

For Answers See **Page No. 23**

NEWS FROM STATES

PUNJAB

Punjab to check haphazard growth

In a bid to check haphazard growth in the state, the Punjab government is set to amend the Punjab Apartment Property Regulation (PAPR) Act, 1995. It will insert stringent provisions of law to deter the erring colonisers and builders indulging in the construction of unauthorised colonies on one hand and fleecing the innocent people on the other.

Shri Prakash Singh Badal, Chief Minister of Punjab also asked the chairman of the Punjab Pollution Control Board to issue 'No Objection Certificate' to the promoters and the colonisers positively within 90 days and in case of not raising any objection in this regard within the stipulated time frame, failing which it would be deemed to be issued. The board was also asked to ensure that at the time of receiving applications it should intimate the entire procedure to the promoters and thereafter no piecemeal objections should be raised.

HARYANA

Haryana to improve power facilities in Panipat

The Uttar Haryana Bijli Vitran Nigam (UHBVN) and the Haryana Vidyut Prasaran Nigam(HVPN) have jointly made a comprehensive plan to strengthen the distribution and transmission network in Panipat at a cost of Rs.550 crore. This will be implemented in a phased manner in the next four to five years. Two 220 kv substations were being setup at Samalkha and Chhajpur and two 132 kv substations at Beholi Road and Kabri Road, Panipat would be commissioned during the current financial year to meet electricity requirement of more than one lakh consumers. The HVPN has also approved construction of a 220 kv substation at village Bijawa with an installed capacity of 2x100 mva and 220/132 kv transformers.

He said the construction work of 33 kv substation Jalalpur and Babarpur would be completed during this year. Power utilities have also planned to augment the existing capacity of eight 132 kv and 33 kv substations by installing higher capacity or additional transformers. In order to streamline the distribution system, it has been planned to add 20 distribution transformers of 200 kva, 300 distribution transformers of 100 kva and 300 distribution transformers of 63 kva in the system every year. This will help release of new electricity connections and minimize overloading on the system.

Haryana farmers oppose land acquisition for N-Plant

The fate of the proposed nuclear power plant in Haryana has become uncertain as opposition parties like Indian National Lok Dal (INLD) and Haryana Janhit Congress (HJC) have extended support. The farmers of Haryana are opposing acquisition of land for the nuclear plant as they hold the view that their subsistence depended on their land and they would not sell their land at any cost. They have also submitted a memorandum to the government requesting it to acquire alternative land for the plant. Some of them even threatened to commit suicide if the government goes ahead with its plan to set up the plant. Shri Ashok Tanwar, Member of Parliament from Sirsa said "With the setting up of this power plant, the state would get additional power and new era of development would be ushered in this area. The plant would be set up at a cost of Rs 12,000-crore and interests of farmers would be fully protected". The state government had recently issued a notification under Section 4 of the Land Acquisition Act-1894 for acquiring 1,313 acres of land in Gorakhpur village for the proposed plant. Earlier, the nuclear thermal plant was to come up at Kumharia.

UTTARAKHAND

Uttarakhand to have a body to settle unpaid dues of MSMEs

The government of Uttarakhand has decided to set up a facilitation council — an arbitration tribunal — with quasi-judicial powers. It will decide all disputes arising from unpaid dues of micro and small enterprises for goods or services supplied by them. The Industries Association of Uttarakhand (IAU), a leading body of SMEs, estimates that there are 100,000 micro and small enterprises (registered and unregistered) in the state, having a total annual turnover of over Rs.500 crore. These enterprises sell goods like micro bulbs, packaging material, pharmaceuticals and processed foods, which are bought by the government as well as businessmen.

"Nearly 3 to 5 per cent of our payments used to remain blocked. For getting our payments released, there was a long-pending demand for a facilitation council," said Shri Pankaj Gupta, President of the IAU.

The council would have quasi-judicial powers to impose penalties on defaulters. Under the Micro, Small and Medium Enterprises Act, payments must be made within a period of 45 days. If payments are delayed, micro and small enterprises will have the right to move the council in order to settle the account. Only the high court will have the power to admit pleas against the council.

HIMACHAL PRADESH

Himachal to spend Rs.909 cr on rural schemes this fiscal

The Himachal Pradesh government has been able to cover 78% of its rural population under rural employment guarantee scheme.

The rural department has earmarked Rs.909 crore during the 2010-11 fiscal to cover another 4.5 lakh families under the scheme. Already, 9.40 lakh families have been covered which is approximately 78% of total rural families of the hill state. Kangra district has taken a lead in implementation of this scheme in the state and the district has been awarded with National Excellence Award for successful implementation of Mahatma Gandhi National Rural Employment Guarantee Scheme at the national level.

The rural development department has formulated Rs 4,688-crore scheme for watershed management, agriculture development and employment generation, which has been sent for the approval of government of India. This programme is basically an area development programme and aims at integrated development of natural resources like land, water, vegetation etc by taking up watershed development projects. The works carried out by the department are employment oriented so that employment opportunities could be generated for the maximum number of people. Professional agencies are being involved in preparing detailed project reports (DPR) of watershed projects with a view to benefit people, besides carrying rain water harvesting activities and development of natural resources.

The state government has launched a comprehensive strategy to tackle the sanitation challenge through implementation of the Total Sanitation Campaign (TSC). It has also launched schemes like Swarn Jayanti Gram Swarozgar Yojna, Watershed Management, Indira Aawas Yojna, Atal Aawas Yojna aimed at rural development.

ANDHRA PRADESH

AP industrial policy targets 17% growth, Rs. 75k-crore investment

The Andhra Pradesh government on 18th June, 2010 announced a new industrial policy for the next five years aiming to attract Rs. 15,000 crore investment annually. The policy is likely to create 5,00,000 jobs every year. The policy has set a target of 17% growth in manufacturing and increased investment subsidy for micro and small enterprises from Rs. 15 lakh to Rs. 20 lakh.

The proposed policy for 2010-2015, which received the state Cabinet approval on 18th June, 2010, offers a series of incentives, especially for micro, small and medium enterprises (MSMEs). Claimed to be the best industrial policy in the country with potential to transform Andhra Pradesh into the top investment destination, the policy focuses on MSMEs and food processing units. It is also aimed at facilitating reduction of regional and sub-sectoral imbalances. The industrial policy would come into effect from July1.

According to chief minister Shri K. Rosaiah "The ultimate objective is to achieve manufacturing growth rate of 12% to 17%; create additional employment to five lakh persons per year—two lakh directly and three lakh indirectly; with special focus on MSME and food processing." To take maximum advantage of the natural gas availability, industries would be promoted along the gas pipeline of ever expanding services sector. The policy has also changed the definition of a mega project by enhancing the existing limit of Rs.100-crore investment to Rs. 250 crore. Also any project creating employment for more than 2,000 persons is also proposed for consideration under mega projects. Besides, the state will provide Rs. 100

crore annually to promote industrial infrastructure for micro and small enterprises.

KARNATAKA

Karnataka Industrial Policy 2009

Aims to increase share of manufacturing in the state's GDP from the level of 17% to 20% by 2014 through landbanks and incentives, such as exemption of stamp duty, waiving taxes and subsidy for effluent treatment plants.

GUJARAT

Gujarat Industrial Policy 2009

Aims to leverage existing strength to attract more capital investment, focuses on mega projects, special investment regions and clusters such as gems and jewellery. Several incentive packages such as financial assistance for last mile connectivity and promotion of ports and related industries are also on the agenda.

Punjab and Gujarat for FDI in retail

Punjab and Gujarat are in favour of FDI in multi-brand retail in food items while many others have vehemently opposed the idea. "Punjab has said FDI is necessary for economic growth. Some percentage of FDI should be allowed in retail business of foodgrains and vegetables as this will remove the middleman and help farmers get good prices". Gujarat government has also favoured the concept. Multi-brand retail FDI should be allowed but the small retailers should not be affected. At present, India does not allow FDI in multi brand retail, but permits up to 51% in single brand retail while FDI of up to 100% is allowed in wholesale cash-and-carry trade.

Gujarat to give push to tourism biz

Gujarat wants to make its mark on the global map as a popular tourist destination. From aspiring for foreign chartered planes landing at Kutch, to bird watching by travelers at Khijadiya, the state has chalked out an impressive tourism infrastructure development plan. The state's tourism development budget is up from Rs. 30 crore in 2006 to Rs. 350 crore this year.

As per the BIG Vision 2020 prepared by Gujarat Infrastructure Development Board, the total potential for investment in tourism assets in Gujarat is to the tune of Rs. 48,000 crore. About 45,000 crore out of this is expected from private sector. Of the total Rs. 48,000 crore investment, about Rs. 18,000 crore investment is expected in the next two to three years.

The state is open to the public private partnership model and at the same time set the stage for private players in the development. It is developing 15 beaches in the state. Rs. 150 crore will just be spent in infrastructure at Saputara, Dang, which does not include the resorts that will be anywhere around Rs.40 crore each.

* * *

Treat every obstacle as a rung in the ladder of success, and you'll keep moving up and onwards to bigger and better things.

DO YOU KNOW ?

SOLAR SYSTEM's MOST ABUNDANT ISOTOPES

ISOTOPE		MASS FRACTION IN PARTS PER MILLION
HYDROGEN-1	::	705,700
HELIUM-4	::	275,200
OXYGEN-16	::	5,920
CARBON-12	::	3,032
NEON-20	::	1,548
IRON-56	::	1,169
NITROGEN-14	::	1,105
SILICON-28	::	653
MAGNESIUM-24	::	513
SULFUR-32	::	396
NEON-22	::	208
MAGNESIUM-26	::	79
ARGON-36	::	77
IRON-54	::	72
MAGNESIUM-25	::	69
CALCIUM-40	::	60
ALUMINUM-27	::	58
NICKEL-58	::	49
CARBON-13	::	37
HELIUM-3	::	35
SILICON-29	::	34
SODIUM-23	::	33
IRON-57	::	28
HYDROGEN-2	::	23
SILICON-30	::	23

ECONOMIC SCENE

India gets biggest share of WB loans

India gets the World Bank's biggest share of aid in the form of loans, both among developing countries and the world's poorest nations.

The World Bank, through its lending arms IBRD and IDA, committed $9.3 billion in financial assistance to India in the 2009-10 fiscal, more than the aid committed by the US and the European Union. The International Bank for Reconstruction and Development (IBRD) committed $6.7 billion, or 15.1% of its total lending in the fiscal, to India.

In comparison, the second highest recipient, Mexico, got $6.4 billion. Next in line were South Africa ($3.8 billion), Brazil ($3.7 billion) and Turkey ($3.0 billion). IBRD serves middle-income countries with investment and advisory services.

The World Bank's concessionary lending arm, the International Development Association (IDA), which helps the world's poorest countries, committed 17.7% of its total aid, amounting to $2.6 billion, to India in 2009-10. In contrast, the IDA committed $1.4 billion to Vietnam and $0.9 billion each to Tanzania, Ethiopia and Nigeria. It aims to reduce poverty by providing interest-free credit and grants for programmes that boost economic growth, reduce inequalities and improve people's living conditions. Even in terms of actual disbursement, India was the largest recipient of World Bank financial assistance last fiscal, with a total of $4.7 billion—IBRD (3.4 billion) and IDA (1.3 billion)—being released.

The country was also the largest recipient of assistance from other external funding agencies like the International Fund for Agricultural Development (IFAD) and the UK's department for international development (DFID). While IFAD is a specialised agency of the United Nations dedicated to eradicating rural poverty in developing countries, DFID is the part of the UK government that manages Britain's aid to poor countries and works to get rid of extreme poverty.

Direct Tax grows by 15% in Q1

With advance tax payments growing at their fastest pace in five years, the direct tax collections went up by 15.49 per cent to Rs 68,675 crore, mainly due to an increase in collection of corporation tax.

Direct tax collections during April-June of 2009-10 were estimated at Rs 59,465 crore, 3.5 per cent higher than the year-ago level. With economic activity picking up, tax collections were expected to be robust in the coming quarters as well. The economy grew at 8.6 per cent during January-March and the index of industrial production has been rising at double-digit rates. Besides, corporate performance is expected to be strong this quarter.

The corporation tax collections in the first quarter have grown by 21.65 per cent to Rs 43,439 crore, against Rs 35,709 crore in the same period last year. Personal income tax, including securities transaction tax, residual fringe benefit tax and banking cash transaction tax, grew by 1.24 per cent to Rs 24,075 crore, compared with Rs 23,780 crore in the corresponding period last year. The growth was meagre as collections from securities transaction tax fell 25.21 per cent to Rs 1,094 crore, against Rs 1,462 crore in April-June last year.

SEZ grow exports 67% in Q1

Exports from SEZs as of June 30, 2010 stood approximately at Rs.58,756.68 crore, an increase of 67% in growth than the corresponding period last financial year. Exports from SEZ in the first quarter of last financial year were Rs.35,013 crore.

Exports from SEZs in the 2008-09 were approximately Rs.99,000 crore which increased to Rs.2,20,000 crore in the year 2009-10—a growth of 120%. Hence, this 67% exports growth in Q1 from SEZ is on top 120% growth registered last year. Exports from SEZs have gone up from Rs 22,000 crore in the year 2005-06 (SEZ Act and rules were made operational from 10-2-2006) to Rs.220,000 crore in the year 2009-10, showing a growth of approximately 10 times in four years.

Total direct employment in the SEZ as of June 30, 2010 is 5,50,323 as against 5,03,611 as on March 31, 2010 and accordingly additional direct employment for 46,712 has been created in the first quarter of current financial year. Total investments in the SEZs till June 30, 2010 is Rs.1,66,526 crore as against investment of Rs.1,48,488 crore as on March 31, 2010.

Exports grow 30.4% in June

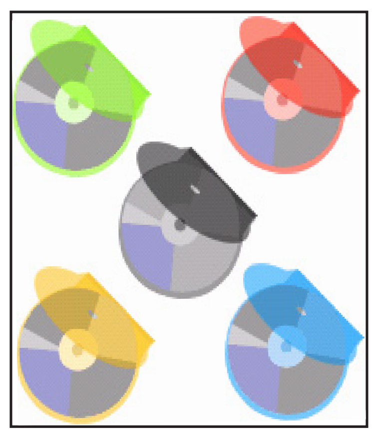
Exports grew by 30.4% in June, at $17.75 billion against $13.5 billion in the corresponding month a year ago. In the first quarter of the current fiscal year, exports were valued at $50.6 billion with an overall growth of 32.25% over the previous year. Imports for June surged 23% at $28.3 billion against $22.6 billion in June 2009 widening the country's trade deficit to $10.55 billion. Trade favored imports in May by $11.3 billion, according to the ministry of commerce and industry's revised trade figures.

In the first quarter of the current fiscal year, exports were valued at $50.6 billion with an overall growth of 32.25% over the previous year. Imports for June surged 23% at $28.3 billion against $22.6 billion in June 2009 widening the country's trade deficit to $10.55 billion. Trade favored imports in May by $11.3 billion, according to the ministry of commerce and industry's revised trade figures.

In the April-June period imports increased 34% to $83 billion, leaving the country with a trade deficit of $32.2 billion during the first four months of the fiscal. The sectors that have performed well in June are petroleum and oil products that grew 66%, engineering that increased 90% and gems & jewellery exports that increased 24%. However, exports of ready-made garments and tea contracted in June.

* * *

ANSWERS OF CYBERQUIZ ~ 25



1.[d] Hacktivist : Coined from hacker and activist.

2.[d] Cyber stalking : Needless to say, it is a crime. The attacker is called a cyber stalker.

3.[c] She or he uses organisation's Internet connectuib during work hours to surf the Net, shop online, send personal emails, look for new jobs, etc.

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

5.[c] A person who goes online only on weekends and holodays: A large number of cyber tourists may clog the Net on Sundays and holidays.

MSME products to get designer touch

Four Design Clinic Centres (DCCs), part of a Design Clinic Scheme started by the government will give help to India's micro, small and medium enterprises (MSMEs) according to Shri Pradumnya Vyas, director of the Ahmedabad-based National Institute of Design, the nodal agency for the scheme.

The four DCCs are at Delhi (which will be the headquarters of the Design Clinic Scheme, or DCS), Ahmedabad, Bangalore and Kolkata. The first three centres — which serve the northern, western and southern regions respectively are already operational.

The Kolkata centre, which will come up next, will look after the eastern region. A fifth centre may later be set up at Bhopal, to serve central India.

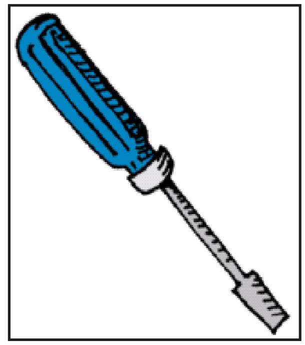
The Design Clinic Scheme is the result of an idea conceived at NID about 15 years ago to interact with MSMEs and improve the quality of their products.

This followed the Union Cabinet's approval of the National Design Policy in February 2007, which entailed "creation of awareness among manufacturers and service providers, particularly SMEs and cottage industries, about the competitive advantage of original designs."

The aim behind the DCS, to be run in collaboration with the NID, is to make MSMEs globally competitive in designing goods. It aims to bring MSMEs under a common platform to provide multi-disciplinary expert advice that offers solutions to real-time design problems. This would result in continuous improvements to add value to existing products and offer customers 'value for money'.

The design intervention scheme has budgesupport of Rs.73.58 crore, of which Rs.49.08 crore will be the Union government's contribution. While cutting down the product cycle time, it aims to make products cheaper, improve quality and cut costs, among other things. The project envisages interventions in the designing of MSME products, since small entrepreneurs are too preoccupied in day-to-day operations to focus on product design.

The DCS entails interventions in methods of production, ergonomics, creation of brochures, creation of an identity, logos and web designing. At the same time, "it is also aimed at fending off competition from the Chinese and fighting them at their own game in the global marketplace with better designs," said Vyas of NID.



Credit availability to MSMEs

The Prime Minister's high-level task force on MSMEs has made several recommendations for quick availability of credit. Shri Arun Maira, who heads a panel of credit availability for MSMEs, said at seminar organised by the Maharashtra Economic Development Council that the focus should be on timely availability of credit to MSMEs which would help them to become competitive. He reiterated that the panel under his chairmanship would make attempts to remove hurdles in disbursement of credit to MSMEs.

According to the recommendations of the task force, 40 per cent advances to MSMEs should go to micro (manufacturing) enterprises having investment in plant and machinery up to Rs.5 lakh and micro (service) enterprises having investment in equipment up to Rs. 2 lakh; 20 per cent of the total advances to the MSME sector should go to micro (manufacturing) enterprises with investment in plant and machinery above Rs.5 lakh and up to Rs.25 lakh, and micro (service) enterprises with investment in equipment above Rs. 2 lakh and up to Rs.10 lakh.

IIA comes out with finance consultancy cell for MSMEs

Indian Industries Association (IIA), the apex body of 7,000 micro, small and medium enterprises (MSMEs) has launched a finance consultancy cell to promote the interests of the sector. The cell would help MSMEs on all financial issues, be it regarding funding proposals for new projects or expansion modernisation and diversification of their industries or even day-to-day finance related issue and problems.

"We already have a panel of experts on different subjects relevant to MSMEs and this was the only area which required to be filled. We have been exploring for a quite a while and now we have found suitable professionals with about 30-35 years of experience in technical and financial project appraisal and rehabilitation of sick units etc, who would be able to guide our members properly," said Shri Anil Gupta, president of IIA.

Smaller units to get a big boost

In order to boost the sales of micro, small and medium enterprises (MSMEs), the National Small Industries Corporation (NSIC) has proposed that 20 per cent of the value of the government's annual purchases should be made from micro and small enterprises. The proposed draft rule is at the consultation stage and NSIC expects it to become a legislation within three to six months, once it is notified by the Ministry of Micro, Small & Medium Enterprises.

NSIC CMD Shri H P Kumar said, "In order to boost the MSME sector, we have framed the rules. The rules are part of the draft policy for procurement preference under Micro, Small and Medium Enterprises Development Act 2006. As per the rules Central government departments and PSUs have to make 20 per cent of their total purchases from micro units initially in three years, and later on an annual basis. Further, NSIC will certify the quality after inspection under the single point registration scheme. The rule is at the consultation stage and is likely to be notified by the Ministry of Micro, Small & Medium Enterprises within three to six months." He also said the state governments will frame rules to make it mandatory for state government departments to source 20 per cent of their total purchases from MSMEs.

Indian MSMEs produce over 6,000 products and the department has classified around 358 items for exclusive purchase from micro and small enterprises. Micro and small enterprises registered with NSIC under its single point registration scheme will be entitled to various benefits and facilities, such as exemption from payment of earnest money and free availability of tender sets.

In order to enable MSMEs overcome raw material shortage more easily, NSIC has been given responsibility for raw material distribution under its raw material assistance scheme. The scheme aims to help small enterprises finance the purchase of raw material, both indigenous and imported. This gives small enterprises an opportunity to focus more on quality. NSIC has 40 raw material centres and distributes steel, aluminium and other ferrous metals across India. In order to further expand its presence and assist MSMEs, it is planning to open 10 more centres. NSIC has already applied to Coal India to appoint it as the distributing agency for micro and small units.

SMEs profitability in June quarter hit by rising input cost

Small and medium enterprises (SMEs), with annual net sales below Rs 500 crore, have outperformed the bigger corporate sector in the June quarter, with higher growth in net sales and net profit. However, despite the sales growth rate at 22.7 per cent, the profit growth rate slipped to 14.9 per cent from 197 per cent in the March quarter and 484 per cent in the December 2009 quarter. It is clear that the 24.4 per cent rise in cost of raw materials infected profit growth. The SMEs, which accounted for barely a 6.5 per cent share in revenue and profit of the corporate sector, have reported a first sign of hardening of cost of borrowing. The interest cost rose significantly by 23 per cent in the June quarter from a marginal 5-6 per cent in the previous three quarters. The impact is seen on sectors such as automobiles, steel, mining, capital goods, power, infrastructure and telecom.

Revenue growth for SMEs has come from automobiles, auto ancillaries, capital goods, construction, engineering, fertilisers, mines, metals and telecom. The sugar sector, showed a downward trend on a 30-40 per cent drop in prices from the peak level. Agro chemicals, cement, edible oil and packaging firms, Cables, dry cell batteries, FMCG, and infrastructure reported a slow revenue growth.

On profitability, the textiles sector did well, with firms reporting net losses down from 43 a year earlier to 20 in the quarter under review. The profit of auto ancillaries jumped over 100 per cent, but this growth rate was significantly higher during the previous three quarters. The casting and forgings sector reported net profit in a consecutive quarter, while steel companies reported net losses for the third quarter in a row. Sugar firms are in the red for consecutive quarters.

Of the 1,016 SMEs studied here, 808 firms had a net profit rise of 24.4 per cent, but cost of raw material increased 25.4 per cent. Many firms increased final prices to address cost pressure. The corporate sector as a whole, including oil and gas, banks and finance, manufacturing and services companies, underperformed SMEs with a 22.7 per cent growth in revenue and a 11.3 per cent decline in net profit during the quarter under review. The decline in net profit has been higher at 19.4 per cent, excluding the finance sector, indicating severe impact of the oil sector on corporate earnings. The remaining sample did well, with 16.7 per cent growth in sales and 8.3 per cent rise in profit.

* * *

SEZ tax sops retained till 2014

In a partial reprieve to special economic zones (SEZs), the Direct Taxes Code Bill has proposed to retain the current tax system of exemptions for zones notified till 2012 but imposed a 20% minimum alternate tax.

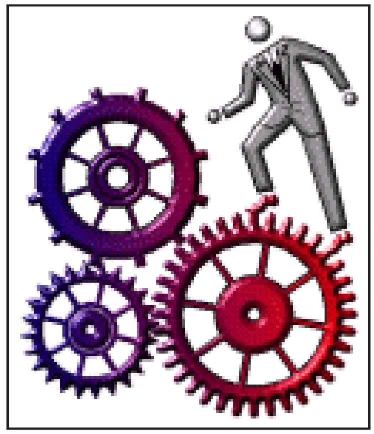
As per the Bill, any zone notified before March 31, 2012 and any unit that commences commercial operations by March 31, 2014 will be able to enjoy profit-linked tax exemption even as the Bill marks a shift in the criterion of corporate tax holiday. SEZ units get 100% tax exemption on profits earned for the first five years, a 50% exemption for the next five years and another 50% exemption on re-invested profits in the following five years. SEZ developers, on the other hand, get 100% tax exemption on profits for 10 years, which they can choose in the block of the first 15 years.

The Bill has suggested a phased withdrawal of the current regime of tax exemptions that are linked to profits, and replacing it with tax sops linked to investments. The finance ministry proposes to implement the DTC by April 1, 2012. The finance ministry is hopeful that this will help offset the revenue loss of nearly Rs.80,000 crore from tax exemptions.

But developers and units have opposed the move, as it would make investments in such zones unattractive. For sectors such as IT, where investments made are relatively low, it would definitely lead to lower exemptions. "The tax-free status is partly taken away by the imposition of 20% though the MAT will be creditable in future years". At present, there are nearly 576 formerly approved special economic zones of which 114 are operational. They are expected to garner nearly Rs.10 lakh crore.

IIFCL wants to offload up to 20% stake

IIFCL is expected to become a key institution that will provide long-term funds to infrastructure projects. The takeout financing scheme and the proposed credit enhancement product of IIFCL are aimed at providing long-term finance to infrastructure companies. IIFCL had cumulative sanctions of Rs. 24,376 crore at the end of 2009-10 while disbursals touched Rs. 11,837 crore. As per Union budget 2010-11, it has been asked to more than double its disbursements this fiscal. The initial role of IIFCL as a last-mile lender for long-term loans has undergone tremendous change in the last four years.



In a takeout financing arrangement, IIFCL takes out loans from the original lenders after a few years to lengthen the tenure of loans for the borrowers and to free up capital of lenders. Under the credit enhancement scheme, IIFCL will extend guarantees to bonds issued by infrastructure companies to improve their ratings.

IIFCL has sought government approval to make two changes to this scheme in order to make it attractive to investors. IIFCL has proposed to take out the entire loan of the original lender, instead of 75% currently permitted. IIFCL has also sought to take out entire infrastructure loans of banks one year after the commercial operation date of a project, instead of three years now.

No export duty on transfer of goods to SEZs, rules SC

The Supreme Court on July 12, 2010 said transfer of goods to special economic zones (SEZs) from areas outside these tax free enclaves would not attract export duty. SEZs are legal entities meant for increasing the country's exports, while areas within India but outside the SEZs are called domestic traffic areas (DTAs).

The Supreme Court dismissed the contention of the Centre that any transfer of goods from a DTA to an SEZ falls within the definition of exports. It was hearing an appeal filed by the Centre challenging an order of the Gujarat High Court barring export-oriented SEZs from DTAs. Passing an order on the plea of Essar Steel, the Gujarat High Court had on November 11, 2009, held that the export duty on the goods supplied by any firm from a DTA to an SEZ was not justified.

3 SEZs approved

The Board of Approval (BoA) under the Ministry of Commerce and Industry has approved three special economic zones (SEZs) in the country, including that of Videocon Industries in Navi Mumbai.

While Videocon Industries was allowed to set up an SEZ for electronics hardware and software in Navi Mumbai over 100 hectares, Coastal Ferrotech Ltd got the approval for its SEZ in Haldia, West Bengal, and Infoparks in Ernakulam districts, Kerala. The government also gave extensions to 24 developers, which included GMR Hyderabad International Airport Ltd., Unitech Kochi SEZ Ltd and Shri K. Raheja Corporation.

Infra investment to hit 10% of GDP in 2012-2017

The government expects infrastructure investment of close to 10% of gross domestic product in the 12th Five Year Plan starting April 2012, with underlying assumptions of 9% GDP growth and faster award of projects in the development of ports and roads. The projected investment in the next Plan is considerably higher than the new estimate of 7.55% of GDP in the ongoing Plan period. Due to massive private investments in telecommunication and oil & gas pipelines, the target for the current Plan will be nearly achieved. This is despite some slippages in investments in roads and ports in the initial years of the Plan.

"The economy will enter the 11th Plan in a much stronger position as far as infrastructure is concerned than existed at the start of the 11th Plan. The projections imply that investment in the infrastructure sector during the Twelfth Plan would be of the order of Rs. 40,99,240 crore or $1,024.81billion. At least 50% of this should come from the private sector," states 'Investment in Infrastructure,' a Planning Commission report.

In the first three years of the current years of the current Plan, the government was almost on target with the private sector investing significantly in telecom and oil & gas, while there was not enough interest in roads, ports and railways. This led to the government increasing the projection for telecom by over 30%. Targets for ports, roads and railways, on the other hand, have been reduced by 1-53%. Public investment in infrastructure is expected to increase from around Rs. 13 lakh crore during the current Plan to over Rs. 20 lakh crore in the next. In the current Plan, private firms are likely to contribute 36% of the total infrastructure investment, with the Centre and states putting in the rest.

* * *

God often looks at things differently than most of us. To him, pride is a weakness and humility a strength.

Biral

PSB's bad loans increase 30% to Rs.57,301 crore

Non-performing assets (NPAs) of scheduled commercial banks rose to Rs.74,685 crore at the end of March 2010.A major portion of these NPAs around Rs.57,301 crore were in the public sector banks, which grew over 30% from the corresponding period last year. In F.Y. '09, stateowned banks' bad loans were Rs.44,039 crore as against Rs.39,749 crore in the fiscal ended March 2008. Gross advances of state-owned banks was over Rs.25.19 lakh crore during F.Y.'10, with NPAs to loans ratio of 2.27%, Minister of State for Finance, Shri Namo Narain Meena said.

In the case of private banks, the NPAs were at Rs.17,384, an increase of around 3%. In the previous two fiscal, F.Y. '09 and F.Y. '08, gross NPAs of private banks were Rs.16,888 crore and Rs.12,976 crore, respectively. The NPAs to loans ratio for private banks was 3.25 in F.Y. '09 and 2.74 in F.Y. '08.

Financial services Secretary, Shri R Gopalan had said that NPAs of banks may go up slightly compared to last year because some of the restructured accounts had not performed the way expected.

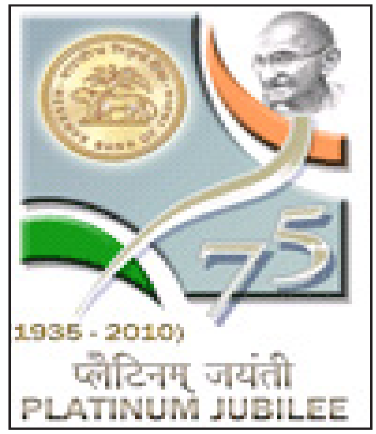
Banks increase recourse to SIDBI and NHB refinance

Banks increased their recourse to seeking refinance from the National Housing Bank (NHB) and SIDBI to tide over the tight liquidity in the quarter ended June 30.

Banks availed refinance to the tune of Rs 2,045 crore in April-June, according to NHB data. Demand was much less in the same period last year.

The amount of financial support that commercial banks can draw is linked to the business done in specific areas like housing and lending to small and medium enterprises in the previous year.

Refinance is term facility (loan with tenure beyond one year). Besides resource conditions, the cost of refinance also has a bearing on decision.



The rate charged for refinance is higher (around eight per cent) compared to what RBI charges banks for borrowing at the liquidity adjustment facility (LAF) window. The present repo rate is 5.5 per cent. RBI also provides banks refinance against the export credit. Similar to the NHB window, banks also approached Sidbi in the first quarter.

PSBs post better C-D ratio than private banks

With credit growing 18.8% during 2009-2010, credit deposit (C-D) ratio of 18 public sector banks (PSBs) rose to 73.51% at the end March, 2010 from 71.98% in March, 2009. On the other hand, the ratio of nine private banks dropped from 80.74% to 78.95% with credit growing 8% during the same period. Deposits of PSBs grew 16.3% as against 10.4% registered by the private banks.

While saving deposit growth of private banks was higher than the PSBs, term deposit growth of the latter was positive, at 12.7%, as against the decline of 2.1% in private banks. But the demand deposit growth was higher for PSBs compared to Punjab and Sind Bank, followed by Andhra Bank and Bank of Baroda.

"The growth in advances outpaced the growth in deposits of PSBs as there was strong credit demands from corporate, retil and infrastructure segments during 2009-2010", according to a banker.

Monetary & Credit Information Review of RBI

Statutory Liquidity Ratio

At present, banks obtain liquidity from the Reserve Bank under the liquidity adjustment facility (LAF) against the collateral of eligible securities that are in excess of their prescribed statutory liquidity ratio (SLR). The Reserve Bank has decided that, in addition, purely as a temporary measure, scheduled commercial banks may avail additional liquidity support under the LAF to the extent of up to 0.5 per cent of their net demand and time liabilities. The additional liquidity support will be available from the LAF auctions of May 28, 2010 to July 2, 2010. The Reserve Bank has advised that for any shortfall in maintenance of SLR arising out of availment of this additional liquidity support under LAF, banks may apply to the Reserve Bank in writing with a request not to demand payment of the penal interest thereon.

Imposition of Penalties on PDs

In order to maintain transparency with regard to imposition of penalties and in conformity with the best practices in disclosure of penalties imposed by the regulator, the Reserve Bank has decided that the details of the penalty levied on a primary dealer (PD) should be placed in the public domain. A press release will be issued by the Reserve Bank giving details of the circumstances under which the penalty is imposed on the PD along with the communication on the imposition of penalty being placed in the public domain. The penalty should also be disclosed in the "Notes on Accounts" to the balance sheet of the primary dealer in the next annual report.

Credit Flow to Agriculture

On the basis of representations received seeking enhancement of limits, the Reserve Bank has decided that banks may waive margin/security requirements for agricultural loans from the existing level of Rs.50,000/- to Rs.1,00,000/- with immediate effect. Banks have also been requested to give adequate publicity to this change while instructing their controlling offices/branches for immediate implementation.

Placement of Deposits with other Banks

The Reserve Bank has advised non-scheduled UCBs, which have exposures to other non-scheduled UCBs on account of clearing arrangements, to review their exposures to such banks periodically based on their published balance sheet and profit and loss account statements. It was observed that the smaller non-scheduled UCBs were keeping current account/ minimum required balance for clearing purpose with relatively larger non-scheduled bank for sub member clearing arrangements. It was felt that the financial position of the nonscheduled UCB, with whom such deposits were kept, could take a hit due to unexpected downturn in its business and which could also affect the financial position of the depositing bank and its business. As per the extant provisions, the prudential interbank (gross) exposure limit and inter-bank counter party limit for placing deposits with other banks by UCBs for all purposes including for availing clearing facility has been prescribed. UCBs are required to formulate a policy taking into account their funds position, liquidity and other needs for placement of deposits with other banks, the cost of funds, expected rate of return and interest margin on such deposits, the counter party risk, etc., and place it before their board of directors which should review the position at least at half yearly intervals.

FEMA

Fictitious Lottery Schemes

The Reserve Bank has advised authorised dealer Category-I banks (AD Category-I banks) to be extra vigilant in view of the large number of fictitious lottery offers and offers of cheap funds from abroad being received by the public. As per the extant provisions, remittances in any form towards participation in lottery schemes are prohibited under the Foreign Exchange Management Act, 1999 (FEMA). Further, these restrictions are also applicable to remittances for participation in lottery like schemes existing under different names like money circulation scheme or remittances for the purpose of securing prize money/awards, etc.

Steps for Financial Inclusion

The Reserve Bank has taken the following steps recently to address the issue of financial inclusion :-

- All public and private sector banks were advised in January 2010 to come up with specific board approved financial inclusion plans (FIPs) by March 2010 incorporating some basic minimum qualitative features, and quantitative indicators with a view to rolling them out over the next three years. Such board approved FIPs will be an integral part of their business plans and will also include criteria on financial inclusion to be used in the performance evaluation of their field staff.
- To improve banking penetration in the north-east, the Reserve Bank has asked the state governments and banks to identify centres where there is a need for setting up either

full-fledged branches or those offering forex facilities, handling government business or for meeting currency requirements. It has also offered to fund the capital and running costs for five years provided the state government concerned is willing to make available the premises and appropriate security arrangements.

- In November 2009, banks were advised to draw up a roadmap by March 2010 to provide banking services through a banking outlet in every village having a population of over 2,000 by March 2011 which will result in extending financial inclusion to more than one lakh villages. Such banking services may not necessarily be extended through a brick and mortar branch but can be provided through any of the various forms of ICT- based models, including through business correspondents (BCs).

Bank credit to MSMEs

Pursuant to the recommendations of the Prime Minister's Task Force on Micro, Small and Medium Enterprises (MSMEs) (Chairman: Shri T K A Nair) constituted by the Government of India, the Reserve Bank has asked banks :-

(i) to achieve a 20 per cent year-on-year growth in credit to micro and small enterprises to ensure enhanced credit flow;

(ii) the allocation of 60 per cent of the MSE advances to the micro enterprises is to be achieved in three stages namely, 50 per cent in 2010-11, 55 per cent in 2011-12 and 60 per cent in 2012-13; and

(iii) to achieve a 10 per cent annual growth in number of micro enterprise accounts.

Banks have been further advised to open more MSE focussed branch offices at different MSE clusters which can also act as counselling centres for MSEs. Each lead bank of a district should adopt at least one MSE cluster.

Issuance of Non-Convertible Debentures

The Reserve Bank has issued directions to agencies dealing in securities and money market instruments, on the issuance of non-convertible debentures (NCDs) of original or initial maturity up to one year. The extracts from directions which will come into effect from August 2, 2010 are :

Definition

For the purposes of these Directions -Non-Convertible Debenture means a debt instrument issued by a corporate (including NBFCs) with original or initial maturity up to one year and issued by way of private placement. Corporate means a company as defined in the Companies Act, 1956 (including NBFCs) and a corporation established by an act of any Legislature.

Eligibility

A corporate would be eligible to issue NCDs if it fulfills the following criteria :

(i) the corporate has a tangible net worth of not less than Rs.4 crore as per the latest audited balance sheet;

(ii) the corporate has been sanctioned working capital limit or term loan by bank/s or all-India financial institution/s; and

(iii) the borrowal account of the corporate is classified as a standard asset by the financing bank/s or institution/s.

Rating

- An eligible corporate intending to issue NCDs should obtain credit rating for issuance of the NCDs from one of the rating agencies.
- The minimum credit rating should be P-2 of CRISIL or such equivalent rating by other agencies.
- At the time of issuance of NCDs, the corporate should ensure that the rating so obtained is current and has not fallen due for review.

Maturity

- NCDs should not be issued for maturities of less than 90 days from the date of issue.
- The exercise date of option (put/call), if any, attached to the NCDs should not fall within the period of 90 days from the date of issue.
- The tenor of the NCDs should not exceed the validity period of the credit rating of the instrument.

Denomination

NCDs may be issued in denominations with a minimum of Rs.5 lakh (face value) and in multiples of Rs.1 lakh.

Procedure

- The corporate should disclose to the prospective investors, its financial position as per the standard market practice.

- The auditors of the corporate should certify to the investors that all the eligibility conditions set forth in these directions for the issue of NCDs are met by the corporate.

- The corporate should comply with the requirements of all the provisions of the Companies Act, 1956 and the Securities and Exchange Board of India (Issue and Listing of Debt Securities) Regulations, 2008, or any other law, that may be applicable.

- The debenture certificate should be issued within the period prescribed in the Companies Act, 1956 or any other law as in force at the time of issuance.

- NCDs may be issued at face value carrying a coupon rate or at a discount to face value as zero coupon instruments as determined by the corporate.

Debenture Trustee

Every corporate issuing NCDs should appoint a Debenture Trustee (DT) for each issuance of the NCDs.

Any entity that is registered as a DT with SEBI under SEBI (Debenture Trustees) Regulations, 1993, would be eligible to act as DT for issue of the NCDs only subject to compliance with the requirement of these Directions.

The DT should submit to the Reserve Bank such information as required by it from time to time.

Investment in NCD

- NCDs may be issued to and held by individuals, banks, primary dealers (PDs), other corporate bodies including, insurance companies and mutual funds registered or incorporated in India and unincorporated bodies, nonresident Indians (NRIs) and foreign institutional investors (FIIs).

- Investments in NCDs by banks/PDs would be subject to the approval of the respective regulators.

- Investments by FIIs would be within such limits as may be set forth in this regard from time to time by SEBI.

Preference for Dematerialisation

While option is available to both issuers and subscribers to issue/hold NCDs in dematerialised or physical form, they are encouraged to issue/ hold NCDs in dematerialised form. Banks, FIs and PDs are, however, required to make fresh investments in NCDs only in dematerialised form.

Roles/Responsibilities

The directions also describe the role and responsibilities of corporates, DTs and credit rating agencies.

Disclosure and Penalties

Issuers of NCDs of maturity up to one year should follow the Disclosure Document brought out by the Fixed Income Money Market and Derivatives Association of India (FIMMDA), in consultation with the Reserve Bank as amended from time to time.

The Reserve Bank has further advised that the violation of these directions would attract penalties, which would include debarring of the entity from the NCD market.

Credit Card Operations

The Reserve Bank has advised all banks to strictly adhere to the guidelines contained in its Master Circular on Credit Card Operations dated July 1, 2010, both in letter and in spirit, failing which the Reserve Bank would be constrained to initiate suitable penal action, including levy of monetary penalties, under the relevant statutory provisions.

The advice came in the wake of continued receipt of numerous complaints from credit card holders regarding the credit card operations of banks, despite the issue of comprehensive instructions on credit cards to banks.

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Cheerfulness starts in the heart and works its way out.

ACTIVITIES OF COSIDICI

EXECUTIVE COMMITTEE OF COSIDICI :

The Executive Committee Meeting of COSIDICI was held on August 06, 2010 at India International Centre, New Delhi.

Financial Restructuring & Revitalisation of SFCs :

This agenda, as usual, evoked very lively, intense and meaningful discussions relating to devising strategies to strengthen the SFCs. The Government of India had earlier announced a financial package to provide some relief to SFCs through SIDBI. Consequently, eleven SFCs had entered into MoU with the SIDBI. Almost all these corporations have shown signs of turnaround while a few have already shown substantial net profits. It was informed that 2 more SFCs viz OSFC and AFC have signed the tripartite agreement with SIDBI. COSIDICI's efforts to convince the state governments had resulted in financial support from the Governments of Andhra Pradesh, Assam, Karnataka, Tamil Nadu, Kerala, West Bengal, Madhya Pradesh, Haryana, Rajasthan, Bihar etc. to their respective SFCs which has helped them to continue their support to SSI units. However, they still continue to be dogged by the twin problems of non availability of adequate resources at cheaper cost and their low capital base. In this connection Shri Shishir Sinha, IAS, MD, BSFC Patna suggested that a committee of MoU SFCs be formed to interact with SIDBI as it is the apex body of all SFCs. The Executive Committee welcomed the suggestion and Resolved :-

"to form a committee of MoU SFCs with Shri Shishir Sinha, IAS MD, BSFC as the coordinator. The Committee would seek a meeting with DMD SIDBI, to place before them the problems faced by SFCs and the need to provide adequate refinance to them."

SIDBI is the apex body of SFCs. Shri Kamal Chakrabarty, IAS, MD, WBFC suggested that it was, therefore, essential that SFCs seek the cooperation of SIDBI. The MoU SFCs then alongwith SIDBI may meet the Union Finance Minister Government of India to seek cheaper and adequate funds. The Executive Committee appreciated the suggestion and felt that this would avoid confrontation and develop better understanding between SIDBI and SFCs. the Executive Committee felt that SFCs had an inherent strength and were crucial for bringing about 'inclusive growth'. The SIDBI recognised this role of SFCs and was, therefore, willing to help them within the parameters of directives of RBI and Government of India. The SFCs may, therefore, deliberate with SIDBI on all relevant issues before taking up the matter at any other fora.

Proposal for Amendment in SFCs Act, 1951 :

The matter was placed before the Executive Committee for further discussions. The Executive Committee decided to constitute a committee comprising of the SFCs which have already signed an MoU with SIDBI. The Executive Committee Resolved that:-

"The Committee would deliberate on the amendments proposed by various SFCs keeping in view their business requirements, difficulties faced with regard to implementation of section 29 of the Act ibid and the need to provide SFCs with operational flexibility."

Shri Vikas Raj, IAS, M.D., APSFC was made the convenor of the Committee. The first meeting of the committee was held at the APSFC office Hyderabad on September 06, 2010. APSFC will be sending the minutes of the meeting which will be forwarded to all the Member Corporations.

Training programme at CAB (RBI) Pune :

The members appreciated the on-site training programmes being held at CAB (RBI) Pune as well as the On-site training programmes at the head quarters of the Member Corporations. They felt that these facilities have gone a long way in improving the human resources of the SLFIs by enhancing their operational skills and efficiency. The Executive Committee was happy that some officers of Member Corporations were attending additional training programmes at the above college. Shri Kaushik Mukherjee, IAS, MD, KSFC suggested that the members should inform each other about such programmes at good training institutes. Such exposure increases the level of preparedness of the officers in the fast changing market scenario. He informed the Executive Committee that KSFC had developed a new Software for SFCs which it had supplied free of cost to MPFC and DFC. The Software had been found to be user friendly. SIDBI had, therefore, agreed to give concessional rate of finance out of its Technological Fund to SFCs to incorporate the same.

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POLICY POINTERS

Direct Tax Code from 2012

The Direct Taxes Code (DTC) Bill that was introduced in Parliament on 30.08.2010 proposes some relief to individuals and companies. But women taxpayers, developers of special economic zones and units in these areas, as well as those investing in unit-linked insurance plans, are in for harder times.

The DTC will come into effect from April, 2012. companies will pay 30 per cent corporation tax, including cess and surcharge, instead of the present combined levy of 33.2 per cent. Besides, the tax rate for foreign companies will now be the same as domestic companies.

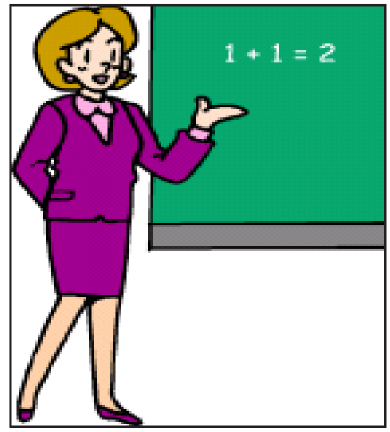
The Bill proposes to increase the exemption limit for individuals from Rs 1.6 lakhs to Rs 2 lakhs. Accordingly, the slabs have also been reworked. Those with a taxable income of Rs.2-5 lakhs will be taxed at 10 per cent; those in the Rs 5-10 lakhs bracket will have to pay 20 per cent; while taxable income of over Rs 10 lakhs will attract a 30 per cent levy.

Exemption on saving instruments, has been retained. There have been a few additions to the list such as investment in the New Pension Scheme. Senior citizens are also in for some relief.

By widening the ambit of the minimum alternate tax (MAT), the government is hoping to make up for some revenue loss caused by giveaways to individuals (Rs 14,343 crores) and companies (Rs.38,829 crores).

Govt gives Rs.1k-cr fresh incentives for exporters

The government gave Rs. 1,000-crore ($214-million) package of fresh incentives to exporters still struggling in an uncertain global market. The incentives are targeted at labour-intensive export sectors such as leather, carpets, handicrafts, engineering goods, jute and ready-made garments, which face an uncertain six months due to troubles in their largest markets such as the US and Europe. Exports account for less than a fifth of India's $1.2 trillion economy, but help reduce poverty in the country by creating a large number of jobs. The government is confident of achieving the targeted $200 billion exports for the year, despite a moderation in exports growth to 13.2% in July after five months of over 30% growth.



An extension was given to a host of schemes, including the Duty Entitlement Passbook scheme (DEPB). In case of the zero-duty Export Promotion Capital Goods scheme, the validity has been extended by a year to March 2012. The Status Holder Incentive Scheme (SHIS), which was to end in March 2011, will now be operational for another 12 months. Benefits for export of readymade garments to the European Union, under the Market-Linked Focused Products Scrips scheme, will be available for another six months up to March 2011.

Some of the sectors such as engineering goods and electronics, textiles, leather, handloom, handicrafts, toys and sports goods, where revival in export growth has been slow, came in for special focus by way of increasing the coverage of the existing schemes. Some of the engineering items, finished leather, tea, rubber products, among others, will now be entitled to bonus incentives.

Similarly, textiles, leather manufactures and jute products will get 2 per cent interest subsidy during the current financial year to make these more competitive in the global market. So far, the facility had been meant for exporters of handicrafts, handlooms, carpets and small and medium enterprises. In case of the zero-duty EPCG scheme, certain chemicals, rubber, marine products, sports goods, toys and certain engineering products would also be covered now.

Tax-free status for NBFC infra bonds

In order to meet $1-trillion infrastructure spending requirement until 2017-18, the government in July 2010 allowed private non-banking finance companies and three financial institutions—IFCI, LIC and IDFC—to issue tax-free infrastructure bonds. For retail buyers, the tax incentive would be over and above Rs. 1 lakh threshold for deduction available for long-term savings.

Only NBFCs classified as an infrastructure finance company (IFC) by RBI can sell these bonds. Analysts said the move would put pressure on RBI to allow IFCs to take deposits from retail investors. In the absence of this window, the permission to issue tax-free infra bonds would not mean much for them as the bonds can be bought only by corporates. In February, RBI had created the IFC category and unveiled the guidelines for them.

LIC, IDFC, IFCI and the IFCs have been permitted to sell bonds with a minimum tenure of 10 years. The bonds will have a lock-in period of five years. "These bonds give us an additional avenue to raise long-term funds. Since these bonds have tax-free status, it will be at an attractive cost and a win-win situation both for the issuer and the investor." IFCs which are not allowed to mobilise retail deposits can issue only secured bonds. They have more leeway in funding single projects.

A buyer of these tax-free bonds can claim tax deduction up to Rs. 20,000 from his total income. This will be in addition to the Rs. 1-lakh deduction currently allowed for long-term savings.

Indirect tax increases by 43%

Reflecting a marked recovery in industrial activity, indirect tax collections increased by 43% to Rs.56,930 crore in the first quarter of this fiscal. The revenue from customs, excise and service tax, which make up the indirect taxes, during the April-June quarter of 2010-11 fiscal stood at Rs. 56,930.15 crore, up from Rs. 39,693.78 crore in the year-ago period.

Out of the total indirect tax collection, realisation from customs increased by 60% to Rs. 28,135 crore and excise by 55% to Rs. 19,536crore. Service tax collection, however, declined by 3% to Rs. 9,258 crore during the reporting quarter. The government has budgeted an overall tax mop-up of Rs. 7.46 lakh crore during this fiscal. While Rs. 3.16 lakh crore of this are expected to be realised from the indirect taxes front, Rs. 4.3 lakh are expected to be collected from direct taxes, which mainly consist of corporate tax and personal income tax.

CDR value rises three times to Rs.20,184 crore in 2009-10

Total value of corporates who have been referred to corporate debt restructuring (CDR) by the banks has shot up three times in 2009-10 over the last fiscal. During 2009-10, 31 cases worth Rs.20,184 crore were referred to the cell while in 2008-09, 34 cases valued at Rs. 7,118 crore were sent to CDR by banks like State Bank of India, Punjab National Bank (PNB), ICICI bank and Bank of Baroda (BoB). In 2009-10, CDR-approved sick corporates has been valued at Rs. 17,763 crore and only nine cases were yet to be implemented.

The CDR mechanism is a voluntary system based on debtor-creditor agreement (DCA) and inter-creditor agreement (ICA). It functions in accordance with the guidelines issued by the RBI and the policies evolved and approved by CDR core group from time to time.

Led by IDBI CMD, the core group of CDR comprises heads of State Bank of India, Punjab National Bank, ICICI Bank, Bank of Baroda, Bank of India and Indian Banks' Association. Currently, there are 58 members of CDR. Reducing rate of interest, extension of repayment period, conversion of parts of loan into equity and debt waiver and additional finance are certain things that are looked into when a particular case is referred to CDR.

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Don't think of setbacks as losses, but as opportunities-vacant lots on which to build new dreams.

SME & ICT : POWER OF TWO

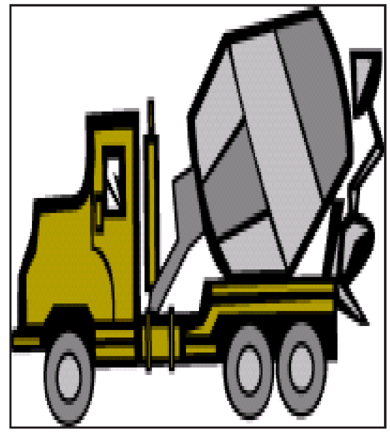
By
Yashika Singh #

The World Economic Forum's Global IT Report 2009-10, released in March this year, ranks India 43rd (among 133 countries) on the Networked Readiness Index (NRI)–an improvement of 11 places over the previous year. The index, which measures how prepared the countries are to employ information and communication technologies (ICT) effectively, ranks India 83rd on 'ICT Infrastructure Readiness' while it ranks the country an encouraging 23rd on 'Business Readiness'.

The rate of ICT adoption in Indian industry has increased over the last few years. Large manufacturing companies in India can boast of possessing state-of-the-art automation technologies and computing facilities. However, the levels of adoption among micro, small and medium enterprises, while on the rise, remain sub-optimal.

Independent surveys conducted by the Confederation of Indian Industry show SMEs have achieved a certain degree of basic computerisation (LAN for office automation and communication). Further, selective functions such as accounting, inventory/purchase management, payrolls and invoicing have also seen greater computerisation. However, the computerisation of core business processes, process automation and business networking (Decision Support System, Enterprise Resource Planning and e-commerce) is relatively scarce.

Ironically, these technologies are most critical for the SME sector, where information requirements are acute, primarily because costs of gathering and processing information involve economies of scale. The availability of validated data and information, as well as easy access to tool-based resources for business strategy, operations and networking can potentially lower search costs for Indian SMEs, greatly enhancing their export/ business competitiveness and awareness.



Not only is the adoption of ICT tools beneficial to SMEs, the relationship also works the other way around. The next stage of expansion in the Indian ICT industry (both for manufacturers and service providers) is increasingly dependent on SMEs embracing its wares.

The Internet and Mobile Association of India (IAMAI) estimates the number of Internet users in India at the end of 2009 at 71 million. If estimates of the 'Manufacturers Association of Information Technology (MAIT)—the apex body representing India's IT hardware—are to be believed, the figure could increase to around 500 million by 2012. Likewise, India could have 100 million broadband connections and 100 million linked devices by 2012. The ambitious projections were of course made, conditional on the government accepting the body's six-point agenda, primary among which is provision of incentives to SME for investing in IT hardware. The criticality of SMEs to the hardware industry can be gauged from the fact that these enterprises account for 50% of PC sales and 65% of server sales.

The writer is Head, Economic Analysis, Dun & Bradstreet India
Courtesy : Financial Express

When it comes to software, acquisition and implementation of ERP solutions have been receiving much attention. SMEs are being encouraged to embrace integrated ERP systems planning, control, and resource optimisation of the entire supply chain. The shared real time information database that the ERP encapsulates provides solutions across functions, including human resources, corporate finance, production planning and control, materials management, quality management, plant maintenance, services management and sales and distribution.

The benefits from ERP implementation are numerous (many of which are intangible) and include improved productivity, optimal production and inventory levels, better cash-flow management, relay of real-time orders information and the like.

However, SMEs have been using in-house software solutions as they cannot afford expensive ERP software from major vendors such as SAP and Oracle. Moreover, many SMEs that can afford the software find its implementation by consultants costly. SMEs cannot risk large amounts, especially if there is the slightest chance that the ERP is not suitable for them. As a result, production planning is typically error-prone, inventory handling is a challenge, management reporting is time-consuming, changes in delivery plans cannot be accommodated quickly and workforce productivity is affected. There have been innovations in recent years, both in ERP software and in making implementation reasonably priced (ERP outsourcing and open-source ERP), as vendors and implementation consultants realise that tapping SMEs is critical for enhancing their businesses.

SMEs also hold the key to the potential growth of online B2B marketplaces in India. Although penetration levels remain low, SMEs are maturing in their use of Internet-based tools. From using these merely for lead-generation and making enquiries, more and more SMEs are using Indian e-marketplaces like IndiaMART.com and Tradeindia.com for promoting their wares (online advertising) and trading. A paper by the Internet and Mobile Association of India (IAMAI), titled 'ICT Adoption by MSMEs in India', estimated the size of the B2B e-commerce market in 2009 at $89 billion, $36 billion of which was estimated to take place via e-marketplaces. MSMEs were estimated to have a share of $21 billion (58%) of the latter. The average value of business transacted annually remains low, however, because of the small size of individual orders.

It is indeed clear that SMEs and the ICT industry have interests that align with each other's. The IAMAI's representation to the government titled, 'Digital India—A Call for Action', cites a popular World Bank estimate that 'for every percentage point penetration of broadband services, there is an economic growth of 1.3 percentage points in developing countries'—a significant portion of which would presumably come from SMEs. Such is the power of ICT and the SMEs.

* * *

Every unseen act of love and kindness will be rewarded openly in heaven.

MISCELLANY

RBI's KEY POLICY RATES

What are the key policy rates used by RBI to influence interest rates?

The key policy or 'signalling' rates include the bank rate, the repo rate, the reverse repo rate, the cash reserve ratio (CRR) and the statutory liquidity ratio (SLR). RBI increases its key policy rates when there is greater volume of money in the economy. In other words, when too much money is chasing the same or lesser quantity of goods and services. Conversely, when there is a liquidity crunch or recession, RBI would lower its key policy rates to inject more money into the economic system.

What is repo rate?

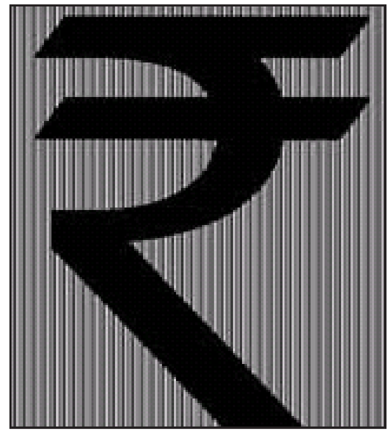
Repo rate, repurchase rate, is the rate at which RBI lends to banks for short periods. This is done by RBI buying government bonds from banks with an agreement to sell them back at a fixed rate. If the central bank wants to make it more expensive for banks to borrow money, it increases the repo rate. Similarly, if it wants to make it cheaper for banks to borrow money, it reduces the repo rate. The current repo rate is 5.50%.

What is reverse repo rate?

Reverse repo rate is the rate of interest at which the central bank borrows funds from other banks in the short term. Like the repo, this is done by RBI selling government bonds to banks with the commitment to buy them back at a future date. The banks use the reverse repo facility to deposit their short-term excess funds with the central bank and earn interest on it. RBI can reduce liquidity in the banking system by increasing the rate at which it borrows from banks. Hiking the repo and reverse repo rate ends up reducing the liquidity and pushes up interest rates.

What is Cash Reserve ratio?

Cash Reserve Ratio (CRR) is the amount of funds that banks have to park with RBI. If RBI decides to increase the cash reserve ratio, the available amount with banks would reduce. The central banks increase CRR to impound surplus liquidity. CRR serves two purposes: One, it ensures that a portion of bank deposits are always available to meet withdrawal demand, and secondly, it enables that RBI control liquidity in the system, and thereby, inflation by tying their hands in lending money. The current CRR is 6%.



What is SLR? (Statutory Liquidity Ratio)

Apart from keeping a portion of deposits with RBI as cash, banks are also required to maintain a minimum percentage of deposits with them at the end of every business day, in the form of gold, cash, government bonds or other approved securities. This minimum percentage is called Statutory Liquidity Ratio. The current SLR is 25%. In times of high growth, an increase in SLR requirement reduces lendable resources of banks and pushes up interest rates.

What is the bank rate?

Unlike other policy rates, the bank rate is purely a signalling rate and most interest rates are delinked from the bank rate. Also, the bank rate is the indicative rate at which RBI lends money to other banks (or financial institutions) The bank rate signals the central bank's long-term outlook on interest rates. If the bank rate moves up, long-term interest rates also tend to move up, and vice-versa.

BANKING OMBUDSMAN

What is the Banking Ombudsman Scheme?

The Banking Ombudsman Scheme provides an expeditious and inexpensive forum to bank customers for resolution of complaints relating to certain services rendered by banks. The Banking Ombudsman Scheme was introduced under section 35 A of the Banking Regulation Act, 1949, by RBI in 1995. The Banking Ombudsman is a senior official appointed by RBI to redress customer complaints against deficiency in certain banking services.

Where can one lodge his/her complaint?

One may lodge his/her complaint at the office of the Banking Ombudsman, under whose jurisdiction, the bank branch complained against is situated. For complaints relating to credit cards and other types of services with centralised operations, complaints may be filed before the Banking Ombudsman within whose territorial jurisdiction, the billing address of the customer is located.

Can compensation be claimed for mental agony and harassment?

The Banking Ombudsman may award compensation not exceeding Rs 1 lakh to the complainant only in case of complaints relating to credit card operations for mental agony and harassment. The Banking Ombudsman will take into account the loss of the complainant's time, expenses incurred by the complainant, harassment and mental anguish suffered by the complainant while passing such award.

What happens after a complaint is received by the Banking Ombudsman?

The Banking Ombudsman attempts to ensure a settlement of the complaint by an agreement between the complaint and the bank named in the complaint. If the terms of settlement (offered by the bank) are acceptable to one in full and final settlement of one's complaint, the Banking Ombudsman will pass an order as per the terms of settlement which becomes binding on the bank and the complainant.

Is there any further recourse available if one rejects the Banking Ombudsman's decision?

If one is not satisfied with the decision passed by the Banking Ombudsman, one can approach the appellate authority against the Banking Ombudsmen's decision. Appellate Authority is vested with a Deputy Governor of RBI. One can also explore any other recourse and/or remedies available to him/her as per the law. The bank also has the option to file an appeal before the appellate authority under the scheme.

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Civilisation is the encouragement of differences. Civilization thus becomes a synonym of democracy. Force, violence, pressure or compulsion with a view to Conformity, is both uncivilized and undemocratic.

Corporate Governance ~ Accountability of Statutory Auditors

Inflation in India : Trends, Causes and Policy

Turnaround of OSFC

GIDC to develop Chemical, Engineering Zones.

RIICO - The Nodal Agency for SEZs

Uttrakhand to have a body to settle unpaid dues of MSMEs

Govt. gives fresh incentives of Rs.1K cr to exporters