अरविन्दर सिंह
ARVINDER SINGH

सत्यमेव जयते

परिवहन, शिक्षा, गुरूद्वारा चुनाव
एवं गुरूद्वारा प्रशासन विभाग मंत्री
राष्ट्रीय राजधानी क्षेत्र दिल्ली सरकार
MINISTER OF TRANSPORT, EDUCATION
GURUDWARA ELECTIONS
& GURUDWARA ADMINISTRATION
GOVT. OF NCT OF DELHI

D.O. NO. F.[illegible] 679
Date 13.5.10

MESSAGE

I am glad to know that Council of State Industrial Development & Investment Corporations of India i.e. COSIDICI being the apex body of all State Level Financial Institutions i.e. SLFIs functioning in different states of the country, is going to publish its Journal titled "COSIDICI COURIER"

It is appreciable that the COSIDICI is providing a common platform to SLFIs for ventilating their problems and grievances to the Government and All-India Financial Institutions and also serves as a mouth piece of the sector for influencing policies of the government. It is also commendable that since its inception COSIDICI has been playing its role efficiently and also influenced the growth of SLFI sector by providing specialized training programmes for the officers of SLFIs and rendering useful services to its member corporations

I convey my best wishes for the successful publication of the Journal

(ARVINDER SINGH)

Sh. K. K. Mudgil
Secretary General
Council of State Industrial Development
& Investment Corporations of India
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CONTENTS

From The Editor's Desk

AGRICULTURE CREDIT~PRIORITY SECTOR LENDING~A FARCE

In retrospect, till the nationalization of major commercial banks in 1969, Cooperative Credit Institutions comprising State Cooperative Banks (SCBs) at the state level, District Central Cooperative Banks (DCCBs) at the district level and Primary Agricultural Credit Societies (PACS) at the village level together with Land Development Banks were the only institutions providing credit to agriculturalists for their seasonal agricultural operations and marketing of crops as also their long term/medium term needs for minor irrigation, land improvement, purchase of tractors / harvestors, implements etc. Following the recommendations of the Rural Credit Survey Report (1954) which conclusively recommended strengthening of cooperatives in the country for meeting the credit requirements of farmers had observed that despite the pivotal role played by the cooperatives in providing credit in the rural areas, these institutions could hardly meet about 3-5% of total requirements of the cultivators. This situation was largely on account of the structural and financial weaknesses of these institutions and lack of support from the government. Realizing the need for strengthening the cooperatives for providing production credit to the farmers, the RBI had undertaken comprehensive structural reforms of cooperative credit institutions and decided in consultation with the Govt. to extend its regulatory control over these banks (*SCBs & DCCBs*). Consequently, some of the important provisions of the banking regulation Act, 1949 which was primarily meant to regulate the working of commercial banks were extended to cooperatives in 1965 by virtue of a separate enactment namely Banking Regulation Act, 1949 (As applicable to Cooperative Societies). The RBI provided a special line of credit to the state cooperative banks at **3%** below the Bank Rate to channelise these resources to the farmers through the DCCBs and PACSs. The state Govts. also liberally participated in the share capital of the societies/banks as also provided managerial support to improve their bottom-line. To ensure proper utilization of these funds, RBI started regular inspection of these institutions including the societies. Needless to add that the credit requirements of the farmers at the village level was assessed realistically and their limit fixed by the society. These measures initiated by the RBI had proved very effective and depending upon the credit absorption capacity of these institutions, sufficient funds were made available to fully meet the credit requirements of the farmers. It must be stated that on account of inherent weakness/ handicaps of these cooperatives and unwarranted interference in their working by local politicians etc. their operations did not expand to the desired extent; the eligibility of the individual members for fresh loan was largely affected due to recurring default and over dues. Despite these measures, the share of Cooperatives in meeting farmer's credit needs had marginally improved.

Shri K.K. Mudgil

After the nationalization of banks in 1969, Government of India launched upon a massive spread of banking services in rural areas to provide banking services to the people by way of depositing their surplus resources and also availing of credit and other facilities from the bank to which they had no access earlier. The government of India and the RBI devised special schemes to involve the commercial banks in the rural areas. It was stipulated that the commercial banks should deploy 40% of their total bank credit in financing the priority sectors which included, among others, agriculture, small/village industries etc. Out of 40% threshold limit, 18% was required to be deployed for providing direct loans to agriculture. This prescription was primarily aimed at providing credit support to agriculturalists particularly small and marginal farmers. Simultaneously, the lead bank scheme was introduced in terms of which the lead bank in a district/state was entrusted with the task of coordinating the activities of various banks functioning in the district and ensuring adequate flow of credit to the target groups. With a view to enforcing some accountability on the commercial banks it was further stipulated that the commercial banks would maintain a credit deposit ratio at 60% separately for rural and semi-urban areas to ensure that the banks did not take away the deposit resources and invest elsewhere depriving these areas of much needed development finance for financing agriculture and allied activities.

It is disquieting to observe that commercial banks which had penetrated the rural areas with their branch network were interested only in mobilizing deposits and did not provide loan to agriculture and other priority sectors. To enable commercial banks fulfill their priority sector obligations, the Government/RBI had devised short-cut methods such as subscription to Rural Infrastructure Development Fund (RIDF); priority sector bonds etc. With regard to their obligation to finance direct agriculture to the extent of 18% of their total priority sector lending, the banks were permitted to invest the short fall in the RIDF announced by the Government of India in its annual budget in the year 1995-96. I wish to confess that I was also a party to the formulation of this scheme of RIDF when I was Chief of the Rural Planning and Credit Deptt., RBI during the relevant period though I was opposed to it in principle. Since the shortfall in direct agriculture credit was substantial, contribution towards this funds by commercial banks was quite sizeable. The very structure of this fund defy any reason or logic and defeated the very purpose of providing credit support to small and marginal farmers who had no access to the banks and were not being financed by the cooperatives on account of their weak financial health. I feel that the rural infrastructure projects intended to be financed out of this corpus should have been financed by the state Governments out of their budgetary allocations but certainly not depriving the poor farmers of their credit needs. It is disappointing to observe that the use of RIDF has now been further stretched to finance medium and small scale industries sector. The budget for 2009-2010 has announced allocation of Rs.4,000 crore out of RIDF for lending to SME sector through SIDBI. I fail to understand why this had formed part of the annual budget of the Government when no budgetary allocation of resources was involved. The diversification of fund's use could have been effected through administrative instructions. It is no wonder if other budgetary allocations particularly to agriculture also suffer from similar jugglery. In this connection, I wish to pointout that a number of packages announced by the government during the past couple of years to provide relief to farmers did not yield any fruitful result in asmuchas the growth rate of agriculture, which is the backbone of our economy on which over ***70%*** of our population depends for their livelihood has been steadily declining and stood at ***1.6%*** for the year ended March, 2009.

Although the commercial banks have been showing in their balance sheets and other statistics that they have exceeded the threshold limit of 40% in financing of priority sectors yet the primary sectors of the economy like agriculture, rural development, village industries etc. have been starved of credit. This is borne out by the fact that the credit deposit ratio of commercial banks in rural areas ranges between 10-20% as against the stipulated level of 60% of their total deposits mobilized.

I am constrained to observe that on the basis of my personal experience commercial banks would never provide crop loan to small and marginal farmers including agricultural labourers/oral tenants for want of skill and outreach as also mental bias etc. In the absence of credit support as also lack of any incentive from the government, the farmers in various states continue to commit suicides.

With the entry of commercial bank in the rural areas in a massive way and setting up of RRBs at various place in the states, the cooperative credit institutions had lost their priority. The Government of India had concentrated on nurturing the commercial banks under the false hope that they were providing finance to priority sectors in the rural areas. Even the reforms process initiated in 1991 had completely ignored the existence of cooperative credit institutions. With the result, more than 50% of the PACS had become dormant on account of lack of resources resulting in steep rise in the incidence of default and over dues rendering the members ineligible for fresh loans. Similarly, more than half of the district banks have been categorized as sick. As mentioned above, the cooperative credit institutions are still considered to be the most appropriate agencies to provide credit to the farmers for meeting their credit needs. If the Government of India and RBI are really serious about increasing the flow of credit to agriculture sector particularly to small and marginal farmers who constitute more than 70% of the total operational holdings, the cooperatives must be strengthened and financially restructured; their NPAs may be written off and they should be adequately recapitalized. In this connection, I would like to suggest that with a view to channelise the priority sector funds of the commercial banks for financing agriculture operations they may be encouraged to keep their resources at the disposal of the DCCB and/or PACS for onwards loaning to the individual farmers. The experiment launched by RBI in 1970 whereunder PACS in various districts of Haryana were ceded to commercial bank for financing may be revived. This initiative would solve the problem of availability of adequate resources and at the same time push up the credit deposit ratio in the rural areas and also help the commercial banks in fulfilling their priority sector obligation without resorting to window dressing. The PACS should be encouraged to raise local deposits so that their dependence on higher financing agencies may be reduced. For that purpose, as already indicated by me, a suitable scheme for providing deposit insurance to depositors of the society may have to be evolved to inspire confidence among the local people to fearlessly keep their deposits in the society.

(K.K. MUDGIL)

APPOINTMENTS

- Shri J.P. Singh, IAS has been appointed as Chairman & Managing Director, Delhi Financial Corporation (DFC), Delhi vice Dr. R.D. Srivastava, IAS
- Dr. J. Balaji, IAS has been appointed as Managing Director, Assam Industrial Development Corporation Ltd. (AIDC), Guwahati vice Shri H.K. Sharma, IAS.
- Shri K.K. Pant, IAS has been appointed as Managing Director, Himachal Pradesh Financial Corporation (HPFC), Shimla vice Shri Sanjay Gupta, IAS.
- Shri J.P. Gupta, IAS has been appointed as Managing Director of Maharashtra State Financial Corporation (MSFC), Mumbai vice Shri V. Giriraj, IAS.
- Shri E. Vallavan has been appointed as Managing Director, Pondicherry Industrial Promotion Development & Investment Corporation Ltd. (PIPDIC), Pondicherry vice Shri B.R. Babu.

* * *

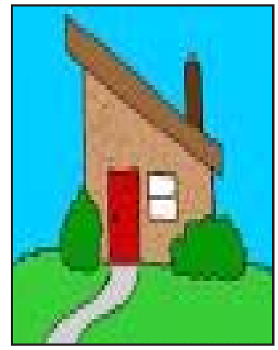
CHALLENGE OF AN INDIAN VILLAGER

Samit Kar *

Like democracy, development would prove to become socially relevant and meaningful should it be ***"by the people, of the people and for the people"***. Ever since the days of freedom movement, our nationalist leaders delved at length about the immense relevance of rural development in the process of nation building. In the document of the National Planning Committee, our nationalist leaders laid great stress upon the programmes of ***"land to the tiller"***. They righty considered, abolition of intermediary rights, fixation of upper ceiling limit of agricultural land holdings and ultimately distribution of ceiling surplus agricultural lands to the landless and semi-landless peasants would prove to be path locator in the process of equity oriented rural development which would lead to a visible social transformation in post-independence India.

After independence, our policy planners were fast to enact suitable land legislations at the state level. But due to a number of reasons, the programme proved to be a virtual non-starter barring few expectations. Apart from initiation of land reforms, soon after 1952, various Community Development Projects (CDPs) were initiated in select districts of India in order to unleash comprehensive rural development. Later on, the programme was spread over to larger parts of our country with generous Ford Foundation support. But prior to the second general election of India, scheduled to take place in 1957, Pandit Jawaharlal Nehru decided to form a one-man study team with Balwant Rai Mehta as the Chairman to examine reasons why the Rural development Programmes unleashed in independent India were unable to render the desired results.

The Mehta study team found that owing to lack of popular enthusiasm behind many of the Government sponsored rural Development programmes, the same were unable to produce the desired objective. In order to break this imbroglio, the Mehta Study Team recommended to form 3 tier Panchayati Raj Institutions as a watchdog of rural development so that popular participation in the process of implementation of rural development programmes could be ensured and debureaucratization of the perspective of rural development may assume proportion. But sadly after more than 6 decades of independence, there are reasons to argue that much to the chagrin of the recommendation of the Mehta Study Team and the basic spirit of popular enthusiasm in the task of rural development is on the wane and in many of the areas of village development work, reliance on bureaucracy and technocracy had been widely escalating.



This is not a serious threat before the functioning of the Panchayati Raj Institutions (PRIs) as the mandatory agency of rural development in modern India. The way the yawning number of responsibilities are being added to the PRIs, without giving these bodies adequate manpower, both technical and administrative, it is not very unnatural to make these Institutions slowly yet steadily become dependent on the members of the bureaucracy who often do have superior educational administrative and technical skills.

The democratically elected village leaders of the PRIs do have majority support of the village behind them. But after the passage of the 73rd (Amendment) Act of the Indian Constitution in 1994 in order to revamp the PRIs, it had become a rather arduous and complex task for a leader from the grassroots to govern a local body by following all the rules and regulations pertaining to administration, finance and development. As PRIs had become fairly successful in discharging its multi-faceted responsibility, the number of responsibilities and obligations are getting piled up almost daily. In such a situation, Panchayat Ghar i.e. an office

The author is Associate Professor of Sociology, Presidency College, Kolkata
Courtesy : Kurukshetra

which is supposed to be under the aegis of the local villagers and a potential source of dynamic participation of the masses, had been steadily proving to become an administrative office like any other line department of the Government e.g. the office of the Government of Public Works, Public Health Engineering, Irrigation etc.

Bureaucratization

Bureaucratization of the Panchayats has a number of serious implications since the days of the 73rd (Amendment) Act of the Indian Constitution in 1994. Popular enthusiasm in running the PRIs is gradually plummeting owing to excessive dependence on stringent rules and regulations as determined by the Government from time to time. The way the PRIs are becoming an important agency for rural development in terms of deliverance of development, financial and administrative matters, it is rather inevitable for these bodies to become bureaucratized at least to a certain extent. But the severe weakness of the PRIs in terms of its leadership potentials in administrative and managerial matters, manpower and technical capabilities – it is destined to become bureaucratized and thereby get isolated and distant from people at the grassroots. This form of bureaucratization is absolutely against the basic spirit of the panchayat system.

Secondly, bureaucratization of the PRIs would make the local bodies alienated from the masses and this makes the managers of these bodies indulge in corruption, nepotism and red tapism owing to little social auditing on behalf of the local people.

Thirdly, it may also lead to a serve waywardness in the functioning of the Panchayats and in such a situation there are indeed dangers that the process of development may fail to become *"by the people, for the people and of the people"*. Gurudev had been categorical in upholding the collective action of the villagers in order to inculcate the entrepreneurial ability of an average Indian villager which would be able to make the concept of "development from below" or *"bottom-up planning"* effective, target-driven and beneficial for those for whom it is actually intended.

WHAT IS DEVELOPMENT?

Development is not a function of land, labour, capital and technology alone. There is the need to combine these in correct proportions, set the task and see to its accomplishment. And it is here where the organizer's or entrepreneur's role assumes importance. An entrepreneur may be the manager, the risk-taker or the administrator. It may even be an Indian villager. It is often felt that the scarce resource in less developed countries is not capital as often assumed, but organisation. Entrepreneurs, middle—level managers and *"genuine decision-makers"* are in very short supply. This is the reason why mere raising of the aggregate savings and investment ratio is not enough in such countries. It is because there has often been considerable wastage of capital resources due to the wrong choice of investment projects, inefficient implementation and management and inappropriate pricing policies.

The appalling poverty of a huge number of villagers and the mindset of an average Indian villager is often averse to risk-taking. The belief in the spirit of 'Karma' and 'Rebirth' is deterrent to risk taking. Such a sociological view with regard to implementation of development planning in India is yet to be considered extensively. But this is a matter of great concern especially when the prevailing process of rural development does prove to be wanting to meet the wide –ranging aspirations of a villager who is now a resident of a global village indeed. Thus taking a cue from Tagore, it is high time that the entrepreneurial ability of an average Indian villagers needs to be harnessed with right earnest which may lead to the much sought after de bureaucratization of development perspective in today's villages of India.

* * *

Every day is a journey, and the journey itself is home

Matsuo Basho

WINNING FORMULAE FOR SMEs

Shobha Ahuja *

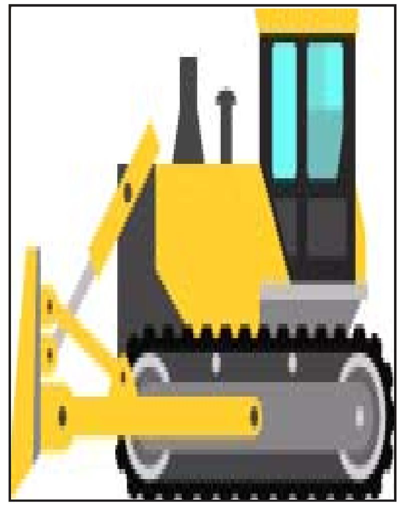
SMEs make up the 'spine' of the nation. They employ 60 million people and account for 45% of the manufacturing output and 40% of exports. Unlike large enterprises, SMEs have the inherent capability to use resources efficiently and satisfy local needs. Their size gives them agility, innovation-orientation and an ability to adapt to changes.

Such advantages have helped many units to rise above the constraints posed by a difficult external and operational environment. Over the years, many SMEs have emerged out of the shadows to become big names in corporate India. One such example is Bharti Airtel which started as a small manufacturer of telephone instruments and then took advantage of emerging opportunities to become one of the biggest players in the Indian telecom sector. The Hero group had begun as a small business of manufacturing bicycle components in Ludhiana in the 1950s. A company that manufactured 60 bicycles a day then has now become a diversifed group manufacturing 17,000 cycles a day. Lijjat Papads, which started as a small cooperative of seven women in Girgaum (Mumbai) on a terrace in 1959 to produce four packets of papads with a borrowed sum of Rs 80, is today a Rs.325-crore turnover enterprise with 66 branches.

For all such success stories, the fact remains that most SMEs are small and vulnerable. This is also borne out by the fourth census of micro, small and medium enterprises (MSMEs), which states that almost all those covered are either proprietorship or partnership enterprises and 95% units are not even registered, which means they are not covered by any formal data collection exercise like the annual survey of industries.

There is a need to empower such units by providing them the wherewithal to compete in the tough global market place.

The question now is **:** what should be done to help SMEs face the challenge of competition?



If SMEs are to emerge as growth engines of the economy, they should be provided with a conducive and enabling investment climate for the orderly conduct of business. This would imply provision of adequate and timely credit at cost-effective rates, supportive infrastructure, facilitation of technology transfer, training in skill development, marketing support and reduced rigours of legislation and over-governance.

Let us take credit availability. The SME sector faces a huge shortage of credit. This acts as a dampener in meeting their needs for working capital, purchasing machinery, equipment and raw materials, funding technology upgradation and providing finance for marketing. The best of SMEs get credit at interest rates that are at least 175-200 basis points higher compared to bluechip companies. Smaller units are the most distressed. It is important that SMEs be provided credit cheaper, faster and with least documentation.

Besides, banks should set aside at least 15% of the 40% priority sector lending for SMEs. In the US, around 57% is earmarked for SMEs. Further, there is a need to encourage SMEs to explore alternative sources of finance such as venture capital investment, angel funds and other innovative sources of finance.

Secondly, urgent technological upgradation is needed for SMEs to enhance their cost competitiveness and product quality. As suppliers to large industries, SMEs have to attain technological

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Courtesy : Financial Express

standards demanded of them by large units. Hence, partnership between SMEs and government agencies/R&D institutions as well as the creation of technology incubation centres by the government from which units can source technology at cost-effective rates can help in modernising SMEs.

At the policy level, the government can provide for industry-specific interest rate subsidy schemes for SMEs along the lines of TUFs for textile industry. The government should also consider setting up more tool rooms and training centres, and ITIs should be geared up for training workforce to industry requirements.

Empowering SMEs would also mean giving them the freedom of entry and exit. In our country, it takes a long time to register or dissolve a company. Compare this situation with a country like Taiwan, which has the reputation of a hugely successful SME sector. The policy of free entry and exit has promoted efficiency among SMEs in Taiwan. This model should be considered for our country as well.

Another area where the government can help is by changing the criteria for classifying an enterprise as micro, small or medium. The investment limit in plant and machinery for a medium enterprise should be raised to at least Rs 50 crore from Rs 10 crore now. Similar enhancements should be made for the micro and small sectors. Alternatively, the criteria can be employee- and turnover-based in line with international practices. Micro could be classified as a unit having a turnover of Rs 10 crore and employment of 100 workers, while small could have a turnover of Rs 50 crore with 300 employees. Medium could be classified as a company with a turnover of Rs 150 crore with an employee strength of 500.

SMEs should be incentivised to work towards capacity-building. Policies should be so aligned to help units to grow from micro to medium scale and then to large scale. It is in this context that the corporatisation of SMEs assumes significance. For this, greater awareness should be created about the Limited Liability Partnership Act, which has paved the way for SME corporatisation.

Small enterprises need to complement each other and collectively function as big entities to derive scale economies through shared production and become a part of the global supply chain. It is for this reason that SMEs function more efficiently in clusters. In fact, technological innovations percolate faster and resources are utilised optimally within such a set-up.

SMEs also need to make concerted efforts to improve product quality, packaging, product standardisation and certification. Greater use of information technology and e-commerce would help SMEs make the best use of emerging opportunities.

SMEs are India's future. This is where real growth will come from not marginal but explosive growth that is both inclusive and widespread. For this to happen, we need to empower the SMEs. This would mean adhering to 4 Is, which are required in combination and not in isolation inspiration, inquisitiveness, innovation and insistence.

Inspiration makes an entrepreneur. A successful entrepreneur is inquisitive and is keen to leverage the knowledge acquired for business development. Most enterprises are built on innovation and the most important of it all is insistence, ie. the perseverance to convert challenges into opportunities and opportunities into new benchmarks of success.

* * *

Study as if you were going to live forever; live as if you were going to die tomorrow

Maria Mitchell

PROFILE OF MEMBER CORPORATIONS

KARNATAKA STATE FINANCIAL CORPORATION {KSFC}

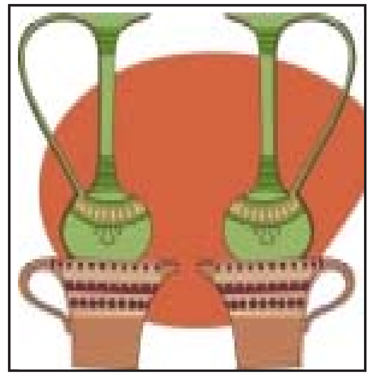
Karnataka State Financial Corporation is a State level financial institution established by the State Government in the year 1959 under the State Financial Corporations Act 1951to meet mainly the long term financial needs of Micro, Small and Medium Enterprises MSMEs) in the State of Karnataka. Today, while the State economy is making rapid trides in the global market, KSFC is moving in tandem.

In the 50 years of its existence, KSFC has contributed most significantly for the growth of SMEs, backward area development and promotion of first generation entrepreneurs. Its achievement in these areas is unparalleled. Since inception, KSFC has assisted more than 1.60 lakh units with cumulative sanction of more than Rs.9,102 crore out of which about than 50% is towards SMEs. KSFC an ISO 9001:2000 certified organisation is proud to have played a major role in the industrial development of the State. It is also the proud privilege of KSFC to have assisted many industries that are internationally recognised like INFOSYS & BIOCON.

Amendments to SFCs Act provided wide-ranging scope in financial assistance and operational flexibility. Keeping this in view, KSFC has re-engineered itself to ensure utmost customer satisfaction with new energy, thrust and speed. In line with this, the Corporation has put in place comprehensive, client-friendly, need-based policies in the areas of credit and recoveries. Apart from setting standards of performance, these policies would also achieve the objective of transparent governance.

FINANCIAL SERVICES

KSFC extends all types of financial assistance in the form of long-term loans, short-term loans (in the form of working capital term loans and corporate loans) and other financial services. KSFC's assistance covers almost all types of industrial and service sectors. The SFCs' Act prescribes broadly the types of activities, which are eligible for financial assistance from the Corporation. The Act also provides for SIDBI to include newer areas of activities for financial assistance from time to time. This apart, the Corporation has also evolved its own schemes under broad guidelines of SFCs' Act depending upon market potential. The activities which are eligible for financial assistance from the Corporation are grouped into following three broad categories :



- Activities as listed out in the SFCs' Act;
- Activities specifically permitted by SIDBI;
- Activities formulated by the Corporation.

Non Life Insurance

The Corporation has entered into an MOU with IFFCO TOKIO General Insurance Co. for marketing its non-life insurance policies. This would enable the clients of KSFC to have credit and the insurance cover under one roof. The premium tariffs applicable are same as the other insurance companies and at no extra service charges. An exclusive Insurance Cell with well-trained staff is in operation at Head Office and also at all the Branch Offices.

The general perils covered are :

Fire; Earth quake; Burglary; Machinery breakdown; Marine; Cash safe/transit; Fidelity guarantee ; Household insurance; Personal accident cover ; Medical insurance; Vehicle insurance; Bank's indemnity; Trade and office; Electronic equipment

Life Insurance

KSFC has entered into strategic alliance with Life Insurance Corporation of India, the largest and the oldest Life Insurance Company of the country, to market its Life Insurance products. The Corporation will help the customers in identifying the tailor made policies suitable for their future financial needs and extend professional service from procurement of policies to settlement of claims/ payment on maturity to the customers. The clients of KSFC can avail the group gratuity insurance scheme also for the welfare of their employees through Corporation. The services are available at no extra cost and at Head Office and at all the branches of the Corporation situated in the district head quarters. The Corporation believes that life insurance is not only an investment decision but also a risk protection. The key persons of the ventures who have availed the loans from KSFC can avail special policies to protect against the risk of burden of debt in case of happening of any unfortunate event to the key person. KSFC has well trained staff for servicing the clients of life insurance at Head Office as well as at all the branches.

Monitoring Agency

As per SEBI guidelines any company which is issuing more than Rs.500 Crore shares for subscription by the public, has to appoint a monitoring agency. KSFC is a notified agency for this. The work involves inspection of the books of accounts and physical assets of the company every six months, until the completion of the project to verify and certify that the proceeds of the issue are utilised towards the objects of the issue declared in the prospectus. The companies planning to issue IPOs can utilise the services of Corporation for Monitoring Agency assignment as per SEBI guidelines

Infrastructure Development

The Infrastructure Sector is an integral part in the economy of the nation and it is a catalyst in boosting the development and economy of the country. Realising this vital factor there is a national focus on infrastructure development. Keeping the need and potentiality in view, KSFC has decided to contribute in this sector also. Hence, as part of the new initiative and diversification process, it has decided to take up infrastructure development projects with public / private participation. The Corporation will initially focus and identify valuable vacant lands in the prime localities, to start with in and around Bangalore city, owned by various Government Departments / Governmental Agencies / Registered Societies/Trusts, etc., and explore for joint development including SEZ. The Corporation would take care of all the financial tie ups for development of these properties. The expected income out of different revenue models, will be shared with the owners of the properties in appropriate ratio on mutually agreeable terms, after studying economics / viability. The joint venture infrastructure will be of world class and state of art technology. It could be IT park, Shopping Mall, Commercial complex, SEZ, etc., depending upon the location of the property and potentiality. This new activity will ensure sustained cash flow for the concerned owner of the property as well as our Corporation by way of rentals and other earnings, which will obviously be mutually beneficial to both the institutions. Accordingly, a separate Infrastructure Development Department (IDD) has been created and necessary approval from SIDBI has also been obtained.

ROLES AND RESPONSIBILITIES OF IDD:

As an effort towards new initiative, the following broader roles and responsibilities have been assigned to the new department (IDD). The department will have to focus and identify valuable vacant landed assets in the prime localities, to start with Bangalore city, owned by various government departments / governmental agencies, PSUs, Registered Societies, Trust and private parties with whom joint development of the property can be explored. Initially, it is proposed to explore joint development in the properties owned by the government departments / agencies / societies etc., and later on, depending upon the situation, joint development with the private parties will be explored. Once the land is finalised, for joint development, Corporation would make financial tie-up with ILFS/ HUDCO / HFIs/ Commercial Banks and take lead in property development and share the commercial space / revenue, on mutually acceptable terms and Corporate undertaking after studying the economic / viability. The department will also explore the possibilities of joint infrastructure development ventures for development of SEZs, IT / BT Parks / Commercial Malls etc., The department will also explore the possibilities of joining hands with BMP / BDA / KEONICS / KIADB / KSSIDC in their existing infrastructure development ventures.

The department is to focus for developmental projects at new International Airport coming up at Devanahalli, besides, Bidadhi and other satellite townships. While exploring for infrastructure development in Bangalore, the department will in parallel, start identifying suitable commercial ventures in Tier – II cities like, Mysore, Mangalore, Hubli, Belgaum etc., With the above objectives in view, IDD has proceeded with contacting various government departments / agencies / PSUs / Regd. Societies, etc., after several rounds of discussions with Senior/ Top Management of respective institutions about KSFC's new initiative and it's interest for joint infrastructure development. The overall response is quite encouraging and many joint venture proposals are in very active stage. Hence, the potential property owners can contact KSFC so that, the vacant property can be suitably developed as joint venture on mutually agreeable terms and corporate understanding

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MEMBER CORPORATIONS~THEIR ACTIVITIES

KSFC

National Seminar on Intellectual Property Management in Small & Medium Enterprises

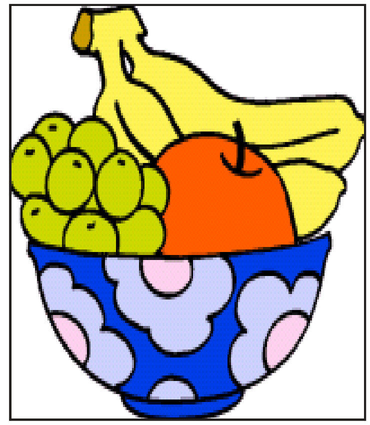
To help SMEs more fully utilize their IP assets in their business activities, Karnataka State Financial Corporation conducted a National Seminar on IP Management in SMEs. Intellectual Property (IP) Management is apparent for providing protection to new products, brand and creative designs which are invented and created by SMEs almost daily. Many SMEs are not aware of the intellectual property system or the protection it can provide for their inventions, brands and designs. Taking full advantage of the IP system enables companies to profit from their innovative capacity and creativity.

The seminar was inaugurated by Sri S. V. Ranganath, IAS, Chief Secretary, Government of Karnataka. Sri Anil Sinha, Counsellor, SMEs, WIPO, Geneva was the Guest of Honour. The programme was presided over by Sri Kaushik Mukherjee, IAS, Managing Director, KSFC. The seminar was focused at informing the entrepreneurs of SMEs about the uses of Intellectual property in business and industry.

Sri S. V. Ranganath IAS, Chief Secretary, Government of Karnataka in his inaugural address, congratulated KSFC for taking an initiative to conduct a National Seminar on Intellectual Property. He complimented the big role played by KSFC as a leader in ensuring the SMEs in Karnataka are facilitated investments by assisting them financially. He portrayed KSFC as a *"Financial Power House"*, which succoured the SMEs through its sleigh of services. He called upon the participants of the seminar representing the SMEs to fully utilize and protect their IP assets including Patents, Trademark, Copyright, Industrial Design, Trade Secrets/ Undisclosed Information for their business success.

Shri Kaushik Mukherjee, IAS, Managing Director, KSFC emphasised to the participants of the seminar to enrich with Intellectual Property Management knowledge and also to learn to get patented to profit from their innovative capacity and creativity, which in turn will encourage and help fund their future innovation.

MIDC



MIDC in distribution pact with GAIL

With a view to build infrastructure for distributing gas to industrial consumers in the state, the Maharashtra Industrial Development Corporation (MIDC) is to enter into a joint venture with GAIL India. *"The JV company would tap GAIL's trunk pipeline between Tarapur in Mumbai and Dabhol in Ratnagiri. Arteries and spur pipelines would be set up along the trunk pipeline to supply gas to the industries on its periphery,"* MIDC chief executive officer Shri Kshatrapati Shivaji said. Currently, the state's gas requirement is about 40 million standard cubic meters a day, of which about 60% demand is from the industrial segment. The corporation and GAIL would have 50:50 equity and debt sharing in the JV.

GIDC

Major units in Goa : GIDC

Goa Industrial Development Corporation has allotted around 190 plots to 160 units with an investment potential of Rs. 334 crore and employment generation of 3,200 persons in the industrial estates of Goa during the last three years, Shri Ajit Naik, MD, GIDC said.

The Chief Minister has given assurance that he will make small plots in the industrial estates wherever possible to promote small entrepreneurs. The GIDC has already made about 84 plots in four industrial estates of Pissurlem and Kundaim in North Goa and Kakoda and Qutol iin South Goa where land was available.

From the 160 units, some of the major units that have come are Siemens India for the manufacture of electronic and electro-mechanical devices, BETTS India for manufacture of aluminium foils and polyester-based laminated tubes, CIPLA for biotechnology products and Glynwed Pipe system for manufacture of plastic injection moulded pipe fittings and couplings. There are other units in ophthalmic lenses, tooth brushes, food products, printing and stationary, etc.

Shri Naik said the GIDC's one-time-settlement (OTS) scheme operational for the last two years has evoked very good response such that the scheme was extended for a further period of upto June 30, 2010. About 40 units took benefit of the OTS scheme netting the corporation about Rs. 8 crore.

In GIDC's new industrial estate at Betul, the Corporation's focus is to provide high class infrastructure like total underground cabling and a dedicated water supply pipeline to the industrial estate. Under the guidance of the government, the GIDC has also framed guidelines for the revival of closed or sick industrial units which number about 130 in Goa. *"If a unit is closed and the owner wants to transfer to some one else for recovery of his finances, we allow the transfer. If the transfer is within family member or due to court order or through financial institution, we charge minimum transfer fees. Sometimes the units has more area than it requires. We allow the unit to sub-lease the excess area."*

HSIIDC

HSIIDC to set up food development centre

Haryana State Industrial and Infrastructure Development Corporation (HSIIDC) will set up Food Development Centre in Haryana in collaboration with the Manitoba Food Development Centre (MFDC), Province of Manitoba Canada.

* * *

QUESTIONS OF CYBERQUIZ ~ 24

1. What club is common to Adam Osborne, Steve Jobs and Steve Woznaik ?

[a] Homebrew Computer Club; [b] Lions Club; [c] Rotary Club; [d] Rotex.

2. Women employees in which software company have established an employee group named Hoppers and a scholarship with the same name?

[a] Microsoft; [b] Oracle; [c] Adobe and [d] Infosys.

3. Members of a "LUG" could be found discussing what ?

[a] Computer Languages; [b] LISP Language; [c] Liberty BASIC, a version of BASIC language; [d] Linux o/s.

4. Who is the only Indian so far to receive Turing Award, considered the *"Noble Prize"* in computing?

[a] Dabblal Rajagopal *"Raj"* Reddy; [b] Manindra Agarwal; [c] Narendra K. Karmarkar; [d] Vinod Dham.

5. Which company became the first in the Asia-Pacific region to remotely ring the opening bell for NASDAQ on August 31, 2006 ?

[a] Infosys Technologies Ltd; [b] Wipro Technologies; [c] Tata Consultancy Services; [d] Sify.

For Answers See **Page No. 21**

NEWS FROM STATES

FM assures states of Rs.50k-cr GST relief

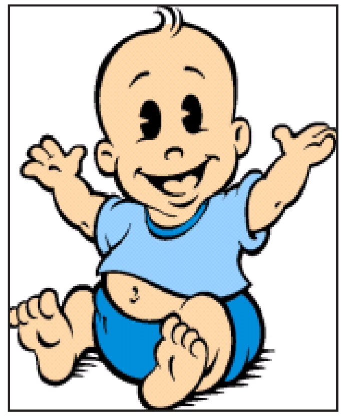
Finance minister Shri Pranab Mukherjee has assured states that the GST compensation package for them could be even beyond Rs. 50,000 crore suggested by the 13th Finance Commission. Shri Vijay Kelkar who heads the Commission had said if the states agreed to implement the model Goods and Service Tax, they could be given higher compensation than what was originally recommended by the Commission.

Disclosing the Centre's willingness for higher GST compensation to states, Shri Asim Dasgupta, chairman of empowered committee of state finance ministers, said that the Centre and states will prepare a working paper on the constitutional amendments required for GST within a fortnight. GST is a multi-point tax on value added that will replace most indirect taxes and militate against cascading of taxes, as each taxpayer but the final consumer gets credit for the input taxes. It is slated to be implemented from April 2011. He said the Centre has requested the states to suggest a scheme for compensating them for the revenue loss arising from a reduction in the Central sales tax to 2% from this fiscal. As the deadline for implementation of the indirect tax regime is drawing closer, states and the centre both are working hard to get all stakeholders to a common platform. The major issues that are facing the GST at this time are—threshold, tax base and the constitutional amendments required. An amendment will be needed in the constitutional for levy of GST by the Centre and the states. Meanwhile, states also fear that the proposed constitutional changes for ringing in GST may take away the fiscal autonomy they have been enjoying.

The states first want to clarify on the compensation package for all the losses that would arise to them on the GST count. Foregoing tax revenues on some counts to some states may be feasible, while others may not be ready for it. Shri Dasgupta also disclosed that revenue collections under VAT of all the states grew by 20 per cent during 2009-10.

K'taka gets Rs.4-lakh cr investment proposal

The two-day Global Investors Meet (GIM) was hosted by the Karnataka government on 3rd and 4th June, 2010 with investment proposals amounting to Rs. 4 lakh crore.



At the end of GIM, the state signed 352 memorandum of understanding (MoUs) with various companies, with the steel sector taking the majority share with Rs. 2,21,344 crore, followed by the cement industry at Rs. 36,991 crore and the power sector with Rs. 25,214 crore. The total investment proposals have the employment potential of 8.65 lakh people.

Shri B. S. Yeddyurappa, Chief Minister said the project proposals will be monitored in a time-bound manner and implementation aspects will be looked into by the chief secretary every month. The chief minister will be reviewing the progress on a quarterly basis. He said that the new mineral policy will provide iron ore mining leases to only those entities which are engaged in value addition.

Punjab's 2010-11 Plan pegged at Rs.9,150 cr

The Annual Plan 2010-11 for the Punjab government was finalised at Rs. 9,150 crore at a meeting held on 10th June 2010, between deputy chairman Planning Commission Shri Montek Singh Ahluwalia and Punjab Chief Minister Shri Prakash Singh Badal.

The plan outlay includes an additional Central Assistance of Rs. 333 crore earmarked for the priority projects, with 30% as central grant component. Giving details, a spokesman of the Punjab government said the outlay for Annual Plan 2010-11 was Rs.9,150 crore, against the outlay of Rs.8,600 crore last year. The top priority had been accorded to the energy sector for which 36% of the total plan outlay had been earmarked. Major share of the outlay would be spent on power generation, distribution and up-gradation of transmission. The social services sector with 26% of the plan outlay was the second priority sector.

Shri Prakash Singh Badal apprised Shri Ahluwalia about the plan performance and mentioned the target for growth of state's economy had been fixed at 5.9% during 11th Five Year Plan. The economic growth during the first three years of the plan had been 6.88%, 6.40% and 6.69% respectively. There had been hike in the expenditure from 70% to 84% during the last year on 16 flagship schemes. The total accumulated debt of the state was Rs. 64,924 crore coupled with the heavy borrowings at Rs. 9,000 crore and debt servicing of Rs. 6,570 crore in the year 2010-11.

PM gives sops worth Rs.1,000 cr for J&K

Prime Minister Shri Manmohan Singh on 8th June 2010 announced a sops amounting to over Rs.1,000 crore for Jammu and Kashmir, assuring the state that the Centre would do all it can to support it.

The Prime Minister ordered restoration of cuts amounting to about Rs. 400 crore to the state Plan outlay for 2009-10. He also announced that the Centre has decided to dispense with the cut-back of Rs. 691 crore in the current year's outlay in the reconstruction plan.

J&K congenial to investments, sops assured, says minister

J&K industries minister Shri S. S. Slathia in May said the atmosphere in the state was congenial for making investments in different sectors, and assured investors of incentives.

The state has witnessed a long turmoil, which has affected almost every sector. Now the situation has considerably improved and become congenial for making investment. Local investors would be given preference for setting up units to tackle the unemployment problem in the state. Local youth should come forward to avail the benefits of incentives under the industrial policy and start their industrial units. Educated youth should become job providers rather than seekers.

Spl package for Himachal & U'Khand is to continue

Commerce minister Shri Anand Sharma said the status of the special industrial package given to Himachal Pradesh and Uttarakhand in 2003, has not been withdrawn. He said the losses caused by the package of tax holiday to Himachal Pradesh had very little impact on Punjab and Haryana.

"The industrial package to Himachal and Uttrakhand has not been withdrawn but for the sunset clause, which ended the excise exemption. Other incentives like income tax holiday, capital subsidy continue".

Centre, UP govt to clean the Ganga

The river Ganga will get cleaned at the section where it crosses the pilgrimage city of Varanasi, with help from the Centre and the Uttar Pradesh state government. The Cabinet Committee on Economic Affairs in June approved a Rs. 497-crore project to set up infrastructure, including a sewage treatment plant of 140 million liter per day capacity, 34km of sewers and three pumping stations, under Mission Clean Ganga of the National Ganga River Basin Authority. While the Centre will pay 85% of the bill, the UP state government will pay the remaining Rs. 69 crore. The project allocation will be the largest approved by the authority since it was set up last year.

The project is the first in a series of schemes that will take into account the needs of the population in 2025-30, as opposed to being based on the current headcount. So, sewerage treatment facilities are being developed keeping in mind the requirements of a more populous city of 15-20 years later.

According to an environment ministry release, centre has taken a soft loan of around Rs. 550 crore from the Japan International Cooperation Agency, repayable over 40 years at an interest rate of 0.75%, and with a grace period of 10 years, for the project.

Haryana govt to tap solar power potential

The Haryana Power Generation Corporation Limited (HPGCL) has decided to tap the vast solar energy potential of the country by venturing into the field of solar power generation.

Shri Madhusudan Prasad, financial commissioner & principal secretary said solar energy has great potential as a future energy source, therefore, the board of directors of HPGCL has decided to set up grid interactive solar power plants on turnkey basis, on the available land at its thermal and hydel generating stations at Panipat, Yamunagar and Hisar.

To promote solar energy, Government of India has launched Jawahar Lal Nehru National Solar Mission (JLNNSM) under the brand name *"Solar India"* and the main objectives of the mission is 20,000 mw of installed solar generation capacity by 2022. He said setting up of solar plant with earning of carbon credits as one of the main objectives shall make the project more viable.

* * *

DO YOU KNOW ?

LIST OF MAIN INTELLIGENCE/INVESTIGATING AGENCIES OF THE WORLD

Australia

- Australian Security Intelligence Organisation (ASIO)
- Australian Secret Intelligence Service (ASIS)
- Defence Intelligence Organisation (DIO)
- Defence Imagery and Geospatial Organisation (DIGO)
- Defence Signals Directorate (DSD)
- Office of National Assessments (ONA)

Bangladesh

- Directorate General of Forces Intelligence (DGFI)
- National Security Intelligence (NSI)
- Directorate of Military Intelligence (Dte. Mil. Int.)
- Directorate of Naval Intelligence (DNI)
- Office of Air Intelligence
- Criminal Investigation Department (CID)
- Rapid Action Battalion (RAB)

Canada

- Canadian Security Intelligence Service (CSIS)
- Communications Security Establishment Canada (CSEC)
- Canadian Forces Intelligence Branch (DND)
- Criminal Intelligence Service Canada (CISC)
- Financial Transactions and Reports Analysis Centre of Canada (FINTRAC)
- Royal Canadian Mounted Police (RCMP)
- Canada Border Services Agency (CBSA)

China

- Ministry of State Security (MSS)

France

- Main article: List of intelligence agencies of France
- Direction Générale de la Sécurité Extérieure (DGSE) (General Directorate of External Security)
- Direction du Renseignement Militaire (DRM) (Directorate of Military Intelligence)

Germany

- Main article: List of intelligence agencies of Germany
- Verfassungsschutz (Protection of the Constitution)
- Bundesamt für Verfassungsschutz (BFV) (Federal Office for the Protection of the Constitution)

Hong Kong

- Criminal Intelligence Bureau (CIB) of the Hong Kong Police Force
- Joint Financial Intelligence Unit (JFIU) of the Hong Kong Police Force and the Customs and Excise Department

India

- Internal Security
- Intelligence Bureau
- Joint Intelligence Committee
- Central Bureau of Investigation
- Criminal Investigation Department
- Research and Analysis Wing
- Aviation Research Centre
- National Technical Research Organisation
- Electronics and Technical Services
- Defence Intelligence Agency
- Directorate of Naval Intelligence
- Directorate of Air Intelligence
- Image Processing and Analysis Centre
- Directorate of Signals Intelligence
- Directorate of Revenue Intelligence
- Economic Intelligence Council
- Narcotics Control Bureau
- Central Economic Intelligence Bureau
- Directorate of Economic Enforcement

Japan

- Cabinet Satellite Intelligence Center (CSICE)
- Defense Intelligence Division (DID)
- Defense Intelligence Headquarters (DIH)
- Military Intelligence Command (JGSDF)
- Fleet Intelligence Command (JMSDF)
- Air Intelligence Wing (JASDF)
- Public Security Intelligence Agency (PSIA)

Pakistan

- Inter-Services Intelligence (ISI)
- Intelligence Bureau (IB)
- Military Intelligence (MI)
- Naval Intelligence (NI)
- Federal Investigation Agency (FIA)
- Central Intelligence/Investigation Agency (CIA)
- Special Branch (SB)

Singapore

- Internal Security Department (ISD)
- Security and Intelligence Division (SID)

South Africa

- National Intelligence Agency (NIA)
- South African Secret Service (SASS)
- South African National Defence Force Intelligence Division (SANDF-ID)
- Crime Intelligence Division, South African Police Service

Sri Lanka

- State Intelligence Service (SIS)
- Directorate of Military Intelligence

Switzerland

- Strategischer Nachrichtendienst (SND) (Strategic Intelligence Service)
- Dienst für Analyse und Prävention (DAP) (Analysis and Prevention Service)
- Militärischer Nachrichtendienst (MND) (Military Intelligence Service)
- Luftwaffennachrichtendienst (LWND) (Air Force Intelligence Service)

Taiwan

- Ministry of Justice Investigation Bureau (MJIB)
- National Police Agency, Ministry of Interior
- All Service Units
- Military Police Command, Ministry of National Defense
- Military Intelligence Bureau, General Staff Headquarters, Ministry of National Defence

Thailand

- Sahmnakkhaogrong-hangshaat (NIA) (National Intelligence Agency)
- Armed Forces Security Center
- Department of Special Investigations
- Internal Security Operations Command (ISOC)
- Crime Suppression Division (CSD)

United Kingdom

- Joint Intelligence Committee (JIC)
- Security Service (colloquially MI5)
- Government Communications Headquarters (GCHQ)
- Special Branch - Each police force has their own Special Branch
- Military all source analysis and direction
- Defence Intelligence Staff (DIS)
- JARIC (National Imagery Exploitation Centre) (formerly MI4)

United States

- Central Intelligence Agency (CIA)
- United States Department of Defence
- Air Force Intelligence, Surveillance and Reconnaissance Agency (AF ISR) AIA
- U.S. Air Force Office of Special Investigations
- Defense Intelligence Agency (DIA)
- National Geospatial-Intelligence Agency (NGA)
- National Reconnaissance Office (NRO)
- National Security Agency (NSA)
- Naval Criminal Investigative Service (NCIS)
- Office of Naval Intelligence (ONI)
- Federal Bureau of Investigation (FBI), Directorate of Intelligence
- Office of Terrorism and Financial Intelligence

Vietnam

- Second Central Commission of Military Intelligence

Zimbabwe

- Central Intelligence Organisation (CIO)

* * *

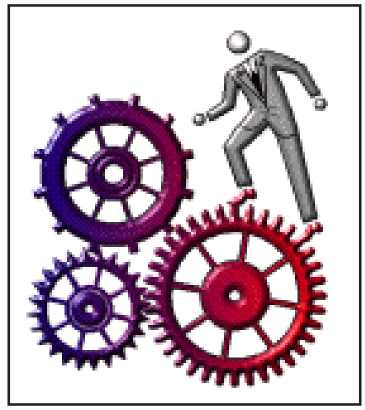
SUCCESS STORY OF MEMBER CORPORATIONS

GEI Industrial Systems Ltd., Bhopal

GEI was established in the year 1970 by Mr. C E Fernandes with an idea to develop on its own – Indian substitutes for imported parts and to provide Innovative Engineering Systems and Solutions. The mission of GEI is to provide Innovative and Reliable Engineered Products and Services in the Global Energy Sector at competitive prices, enhancing shareholders' value.

The works is situated in the city of Bhopal in Central India. GEI is spread over 6.5 Acres having infrastructure for design, engineering, manufacturing and testing of medium and large Air Cooled Heat Exchangers and Air Cooled Steam Condensers. GEI is accredited with ISO—9001-2000 Certification for quality system and hold ASME "U" and "R" Stamp Certificates for fabrication of Pressure Vessel and Heat Exchangers both in the factory and at the field or site. GEI is having about 650 qualified professionals and experienced workforce. GEI is one of the leading Companies dealing with Heat Transfer Products such as Air Cooled Heat Exchangers and Air Cooled Steam Condensers for the Energy Sector. GEI has supplied Heat Transfer Products to Africa, Australia, Europe, Middle East, South East and Far East Asian Countries and also to North and South America.

The products manufactured by GEI, finds application in Oil/ Gas Production, Gas Processing, Oil/ Gas Transport, Petroleum Refining, Petro-Chemical and Power Generation.



GEI offers optimum solutions of Steam Condensing using Atmospheric Air Thermal Power Plants. GEI has the credential of having installed more than 45 units of Air Cooled Steam Condensers which include 4 units, each of 150 MW Plant Capacity. Riding on import substitution of yesteryears, GEI has become a formidable player in Air Cooled Heat Exchangers and Condensers Market.

MPFC is associated with GEI since long and witnessed the phenomenal path of growth achieved by the Company. GEI has achieved turnover of INR 2500 Million.

MPFC wishes GEI and its Associates to sustain the growth momentum.

Sharde Foundry Services Pvt. Ltd. Bhadravathi

Sharada Foundry Services, a private limited company, is a small scale unit established during the year 1993 for the manufacture of shell moulds and cores. The promoter, Mr. H.G. Satish, had availed financial assistance from KSFC amounting to Rs.48 lakhs, under the general scheme in 2001 and the credit linked capital subsidy scheme in 2008.

The unit has recorded a growth in the turnover from Rs.88.07 lakhs in 2007 to Rs.125.63 lakhs in 2008.

Sharada Foundry Services has been awarded the ISO 9001:2000 certification for its excellence in maintaining quality standards.

* * *

2009-10 fiscal deficit stands at 6.6% of GDP

The country's fiscal deficit ended lower than the estimated 6.7% in 2009-10 while the GDP grew at faster-than-estimated at 7.4% in the same fiscal, government data showed on May 31, 2010. The fiscal deficit stood at Rs 4.12 lakh crore, or roughly 6.6% of the GDP in 2009-10, as compared to a revised target of Rs 4.14 crore.

Fiscal deficit - which is the difference between the government's total expenditure and the revenue that it generates excluding borrowings—in the year 2008-09 was Rs 3.36 lakh crore. It widened in 2009-10 due to the cut in taxes and raised spending for economic recovery.

Measured in terms percentage of the revised estimates, the actual fiscal deficit amounted to 99.6% in 2009-10, as compared to 103.2% in 2008-09. The two key data points of deficit and growth show a slightly better performance than projected by the government on both the counts. Actual tax revenue as a percentage of the revised estimates was higher for the fiscal ended March 31, 2010 as compared to the previous fiscal. Total tax collection was at Rs.4.59 lakh crore, or 98.8% of the revised estimates in 2009-10, as compared to 95.1% in 2008-09. The tax receipts fell short of target by Rs.6,000 crore in 2009-10. Non-tax receipts amounted to Rs.1.16 lakh crore, or 103.4% of the actual estimates in 2009-10, as compared to Rs.100.8% in 2008-09.

Total expenditure stood at Rs.10.19 lakh crore, or 99.7% of the 2009-10 revised estimates, as compared to 98.1% in 2008-09. The expenditure was slightly lower than the revised target of Rs.10.21 lakh crore in 2009-10.

The deficit has been financed largely through market borrowings of over Rs 4.01 lakh crore and about Rs 28,500 crore raised via state provident funds and national small savings fund.

The Finance Secretary, Shri Ashok Chawla said that fiscal consolidation was a focus area for the government, though, the current fiscal's borrowing is expected to remain unchanged. The government plans to borrow a total of Rs 4.57 lakh crore in 2010-11, aiming to lower the deficit to 5.5% in the current fiscal, on the back of a lower subsidy bill and proceeds from 3G spectrum auction and disinvestment in government companies.

March exports grow 54%

India's exports grew by 54% to $19.9 billion in March, reflecting a demand revival in the United States and the European markets. However, exports for the last fiscal (2009-10) were 4.7% lower than the previous year owing to negative growth in the first seven months of the fiscal when the world trade was hit hard by recession.

India's shipments overseas dropped 4.7% to $176.5 billion in 2009-10 against $185.3 billion in the previous year. During the year, imports also came down by 8.2% to $278.7 billion, leaving a trade deficit of $102 billion as compared with $118 billion in the previous fiscal.

The Commerce Minister felt that the country will be able to achieve the annual export target for 2010-11. "We have a modest target of $200 billion of merchandise exports in 2010-2011. We are confident of achieving the target, and hopefully exceed it." India wants to double exports by 2014 from the current levels.

Shri K.T. Chacko, former Director General of Foreign Trade and currently Director of Indian Institute of Foreign Trade said the export target of $200 billion in 2010-11 could be very tough to achieve if India relies on traditional markets like the EU and the US. "Western markets are still not looking healthy for exports and therefore we need to constantly look for newer markets," he added. Research and Information Systems' Shri Biswajit

Dhar said, “India has to take the China factor into account because of its sheer aggressiveness in exports. The country should also push its exports or lose heavily to them.”

Industry grows by 17.6% in April

Industrial production grew 17.6% in April. Buoyant consumer demand and higher infrastructure spending propelled factory output growth to its strongest since December 2009. The industrial output numbers for April support the government’s expectations of an 8.5% growth in gross domestic product in the current fiscal year, compared with 7.4% last year.

Direct Taxes Code diluted

The government has retained the form, the Direct Taxes Code (DTC) to have a simple, clean tax system without exemptions. The highlights of the refreshed code is as under : -

For Individuals :

- Tax Exemption at all three stages - savings, accretions and withdrawals - to be allowed for provident funds, pension scheme administered by PFRDA, pure life insurance products and annuity schemes. DTC wanted to tax withdrawals.
- Proposal to introduce Retirement Benefits Account for depositing amounts received by salaried as retirement benefits such as gratuity to avoid taxes scrapped.
- Monetary limits for medical facilities and reimbursement provided by employers to be enhanced.

For Investors :

- Income from capital gains on equities and units of equity-oriented funds, both short term and long term, to be treated as income from ordinary sources and taxed accordingly.
- STT to be retained and calibrated based on revised taxation regime for capital gains and flow of funds to the capital market.

For Companies :

- Basis of calculation of MAT changed to book profit of the company from value of gross assets proposed in DTC.
- Existing units in SEZ to enjoy profit-linked deductions just like the developers of these zones for a limited period when the new code comes.

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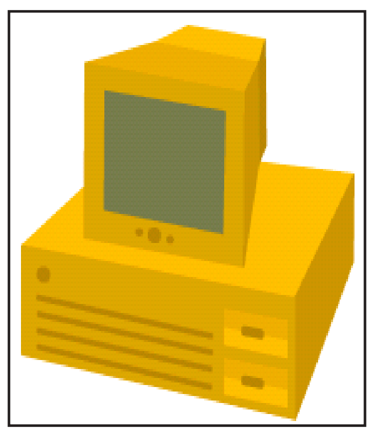
ANSWERS OF CYBERQUIZ ~ 24



1.[a] Homebrew Computer Club : It is a club of computer hobbyists originated in the USA in 1975.

2[a] Microsoft : The group and the scholarship have been established in honor of Rear Admiral Grace Murray Hopper.

3.[d] Linux o/s : LUG stands for Linux User Group. These groups are non-profit organizations and provide support to Linux users, particularly, inexperienced users.

4.[a] Dabblal Rajagopal “Raj” Reddy : Raj Reddy received the Award *“For pioneering the design and construction of large scale artificial intelligence systems, demonstrating the practical importance and potential commercial impact of artificial intelligence technology”*. Reddy is also a recipient of the Padma Bhushan Award by India and the Legion of Honor by President Franncois Mitterrand of France in 1984.

5.[a] Infosys Technologies Ltd. : The opening bell marks the opening up of the trading on NASDAQ. The symbolic opening of the stock exchange on that day marked the silver jubilee of the IT giant which has come to enjoy an iconic status in India.

ACTIVITIES OF COSIDICI

Executive Committee of COSIDICI :

The Executive Committee Meeting of COSIDICI was held on May 21, 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 relentless efforts made by COSIDICI and series of discussions held with the concerned authorities like Government of India, RBI, SIDBI etc. did yield some positive results. 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. 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, Gujarat, 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 Smt Sheela Rani Chunkath, IAS, CMD, TIIC, Chennai informed the delegates that she had met Shri R. Gopalan, IAS, Finance Secretary, alongwith Shri K.K. Mudgil, Secretary General, COSIDICI and Smt. Renu Seth Additional Secretary, COSIDICI on 20th May, 2010 to apprise him about the problems faced by SFCs. Smt. Ravneet Kaur, Joint Secretary, MoF was also present during the discussions. Shri Gopalan was informed that 10 SFCs out of the 11 which had signed the MoU with SIDBI have been showing operational/net profits. As a result the net worth of 8 SFCs had already turned positive and the remaining SFC were fast moving in the same direction. The main obstacle being faced by the SFCs was High Cost of funds. The present level of refinance to SFCs is only 35%-45% of their eligible advances. It was felt that this refinance may be hiked to 70-80% of their total SSI lending. SIDBI has obtained JICA line of credit at the interest rate of 6%. It is lending directly to the units at 9.75 to 10.25 rate of interest while it lends to SFCs @ 8%. SFCs, therefore, can lend to SSIs at not less than 12% to maintain reasonable margin. SIDBI may be requested to lend to SFCs under JICA at the same rate of interest at which they obtain the funds. This will provide a level playing field to SFCs. It was pointed out that SIDBI may provide adequate refinance to SFCs at the same rate as it lends to its branches. The branches of SIDBI are lending directly to MSME units and therefore, subject to normal lending risks. However, SIDBI's refinance to SFCs which are performing well is risk free as these Corporations have never defaulted in their commitments.

Though SIDBI has been assigned a regulatory role in the amended SFCs Act as also apex refinance organisation it was directly competing with SFCs in providing credit to SSI units at lower interest rates. SIDBI has also collaborated with Scheduled Commercial Banks (SCBs) for joint financing of SSIs which is detrimental to the interest of SFCs. In addition, SIDBI had entered into an agreement with the Faridabad Small Industries Association (FSIA) for providing all types of loans to the SSI units at 10.5% for its members for all types of purpose and without collateral securities upto the limit of Rs. 50 lakhs. This created unhealthy competition jeopardising the viability of SFCs. It was pointed out that SIDBI may not operate where SFCs were performing well. SIDBI may do so in underserved areas like North-East where there is good scope for business for them. Inspite of the above mentioned disadvantages SFCs were getting good clients because of their inherent strengths.

They provide single window clearance and help the first generation entrepreneurs by handholding them till they become viable. The SFCs are helping the entrepreneurs in financial appraisal, in getting clearance from pollution board etc and providing them with technical and marketing support. Being present on the spot helps the SFCs to better understand the local conditions which creates a better working relationship.

It was also agreed that SIDBI may provide adequate refinance to corporations on the basis of individual performance and their business needs. A peculiar situation being faced by TIIC was despite its good performance it is not able to obtain the requisite amount of refinance. TIIC had prepaid the refinance taken from SIDBI. Since SIDBI's refinance is based on outstandings of the previous year TIIC was getting less refinance than its requirements. Though its disbursements increased by Rs. 154 crores to Rs.570 crores this year from 416 crores last year the refinance given by SIDBI had been low being only 39.80% of our term loan disbursements. The refinance has increased by only Rs.30 crores from Rs.120 crores to Rs.150 crores. It was requested that SIDBI may provide refinance based on disbursements of a corporation for the previous year. Shri R. Gopalan had requested Smt. Ravneet Kaur, Joint Secretary, to look into the matter.

The members felt that SFCs may explore other means for augmenting their resources and approach the state governments for extending guarantee for raising of bonds to keep the cost of funds low. . Shri Kaushik Mukherjee, IAS, MD, KSFC informed the Executive Committee that KSFC had successfully raised bonds worth Rs. 20 crore in January, 2010 @ 8.3% without government guarantee. The Corporation had also signed an MoU with IDBI under which KSFC was giving term loan and IDBI the working capital. MPFC had been successful in getting bonds of Rs. 25 crore @ 9.75%. It had also taken funds from HUDCO for financing construction business.

The Executive Committee felt that SFCs were as relevant today as they were when they were set up. They have generated employment, contributed to the states' progress by way of sales tax, local duties etc. Though SCBs have opened branches in semi-urban and rural areas it is observed that Credit Deposit Ratio of commercial banks is very low. The commercial banks can be asked to open a general line of credit to SFCs to bridge the gap in the stipulated Credit Deposit Ratio. The SFCs have been performing exceedingly well and shown operational profits. Their NPAs in the past 5 years have also gone down. As the government has recapitalized the banks, the Regional Rural Banks and the development institutions like IFCI it could be worthwhile doing the same for SFCs which are taking development to the backward regions.

SIDBI's mandate was to provide refinance to the SLFIs which in turn were set up for bringing development to all the regions of the country. The Executive Committee decided that Shri Kaushik Mukherjee, IAS, M.D., KSFC and Shri B.S. Pai Angle, G.M., EDC Goa may study the Annual Report of SIDBI to examine their cost of funds. SIDBI's income from direct lending and from the SFCs as also their margin of profit from both may be studied and compared. Shri Kaushik Mukherjee was requested to write to Shri R. Gopalan (Finance Secretary) under the President's signature in the matter. It was to be pointed out that profit motive should not be a criteria for Development Banking. ADB being a refinancing agency keeps only a margin of 0.25% above its cost of funds and a similar policy could be followed by SIDBI. The Executive Committee Resolved that"the Managing Directors of SFCs may also write to the Finance Secretary to highlight the role played by SLFIs/SFCs, their inherent strengths, their relevance in bringing about 'inclusive growth' and the need to provide them with resources at low cost"

The Executive Committee also Resolved that "a delegation from COSIDICI may meet the Governor, RBI at an early date and he may be requested to help SFCs by allocation of SLR Bonds quota to enable them to access low cost funds."

Proposal for Amendment in SFCs, Act, 1951 :

The matter was placed before the Executive Committee for further discussions. It was decided to hold a meeting of the Committee constituted by the COSIDICI to examine the above proposals one day before the Executive Committee meeting scheduled to be held in Shimla/Chail in the month of July, 2010. The Committee would examine the amendments proposed by the SFCs in the light of the earlier proposals made to the Govt. of India.

Restructuring of ZIDCO, Mizoram – Assistance from COSIDICI :

The Members appreciated the efforts of COSIDICI towards restructuring of ZIDCO, Mizoram. Shri W.V. Ramanamurthy, M.D., EDC Goa, Panaji had been requested to take up this task on behalf of COSIDICI as he is a Management Consultant and has recently turned around EDC Goa. Shri Ramanamurthy has already initiated the process and is finalizing the terms of reference and other conditions for conducting a study of the Corporation. A team of Management Professionals from EDC Goa will be visiting the ZIDCO office in Aizwal and will study the business operations of the Corporation. Based on its experiences in turning around EDC Goa, the team will put forth suggestions for suitable remedial measures.

Shri S.I. Sharma, M.D., MANIDCO, Imphal informed the Executive Committee that MANIDCO was formed to promote balanced industrial growth in the state of Manipur. However, its performance is not satisfactory, its recovery of loans is dismal and the overhead costs are shooting up. The management of the Corporation, therefore, felt that there was a strong need for professional help to enable it to fulfil its desired mandate. He was requested to send a background paper on the operations of MANIDCO to COSIDICI to enable it to initiate the process of its turnaround.

Training Programme at CAB (RBI), Pune :

The contents of the Agenda item were noted by the Members. The Secretary General informed the members that a seminar On “Diversification of Activities of SLFIs” for the Chief Executive Officers of SLFIs will be held at CAB (RBI), Pune in the month of June/July, 2010. This development was welcomed by members. The Secretary General also pointed out that COSIDICI had finalized long term arrangements with RBI for providing training programmes for the officers of SLFIs after a great deal of effort. The quality of the training programme was found to be very good as per the feedback received from the participants. The Training Programme was also found to be need-based and met with the requirements of our officers and had resulted in their increased efficiency and productivity. He requested the Members to take full advantage of this tie-up and organise as many on-site training programme at their head quarters as possible.

* * *

Those who look into themselves, and enter into the calm ocean of the soul, will see with their own eyes, the priceless pearls, deep down

Qazi Qadan

Customise MSE credit, tech with biz cycle : RBI

The business cycles of micro and small enterprises (MSE) may not always coincide with the overall industry. Policies on credit and technology for the sector need to be customized to the nature of the their business cycle, nature of its product and markets it caters to said a Reserve Bank of India (RBI) study released on 4th June, 2010. MSEs comprise the largest private sector in India after agriculture. It provides social succor and empowerment to the weaker sections of the society like women and backward classes. Adequate attention needs to be channeled into areas of finance, social security and marketing of goods for small industries. If the sector has to build resilience to global shocks and economic slowdown like the current one, such impediments have to be addressed on a war footing.

The significance of credit at appropriate rates for the industry, is necessary for progress. Financial support and propitious investment climate to encourage the growth of such institutions may go a long way in aiding their growth. Innovative policy making is needed in order to tide over the risk averse behaviour of lending by banks and non-bank institutions towards MSEs during periods of crisis.

SMEs ignorant about stimulus packages

A large number of small and medium enterprises (SMEs) are mired in the slowdown, but a majority of them, especially the micro ones, have said they are not aware of the steps being taken by the government to help SMEs recover from the crisis. Those who know about the schemes have said these were not being implemented properly, and blamed the implementing agencies. Of those who were aware of the incentives, a majority indicated that these measures have not really enabled them to regain the business momentum. This is a cause for concern, as it appears that the benefits of the stimulus packages are not percolating down.

The Central government has introduced a scheme to support the implementation of lean manufacturing in SMEs. The aim was to bring down the cost of processing, labour and raw material. Under the scheme the government will reimburse 80 per cent of the training cost incurred by these units. While describing the scheme as among the best introduced by the government to help SMEs recover from the crisis, it was said, the agencies were not implementing this scheme properly and they lack enthusiasm. If SMEs implement lean management they would be able to bring down overall costs by at least 15 per cent. High cost of financing is a persistent problem. This is particularly bothersome as 90 per cent of the participants reported they were dependent on banks for funding their operations. Further, 62 per cent of the participants said banks did not encourage financing in the SME sector and 97 per cent of the respondents said the cost of finance had gone up over the last one year. Amidst the existing situation, which is already difficult, the support from banks is most critical.

A majority of enterprises in the leather and engineering clusters in Tamil Nadu, who were aware of the incentives, indicated that these measures have not really enabled them to regain the business momentum. The interest subvention announced for SME exporters is not reaching the intended beneficiaries. Though the government in the budget had set up a refinancing facility of Rs. 4,000 crore for the SME sector to make credit readily available, SMEs across sectors are still finding it difficult to raise funds.

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Whatever you create in your life you must first create in your imagination

Tycho Photiou

Dahej among top 25 global eco zones

The special economic zone (SEZ), being developed at Dahej in Gujarat, has figured in the top 25 'best global economic zones' in a survey by the London-based Financial Times Group.

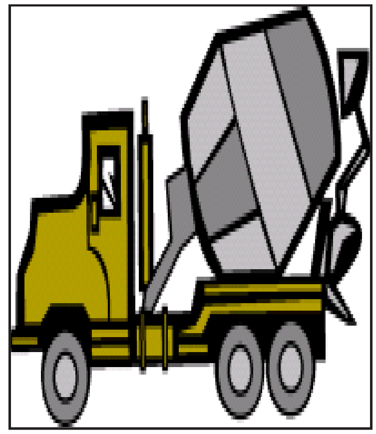
SEZ unit migration approved

The government has allowed industrial units to shift from one special economic zones (SEZ) to another after approval of the apex authority, the board of approval (BOA). The permission to relocate units will be given on a case-to-case basis by the BOA, a commerce department official has said. The board, chaired by commerce secretary, clears SEZ proposals and frames rules guiding these zones. Permission to relocate could easily be granted to units that are yet to start their operations or units that have started sourcing inputs but not started production. BOA may take a cautious approach in cases where production and exports have started. The BOA, therefore, decided that permission would be given to units seeking transfer on a case to case basis.

Allowing SEZ units to shift base could help in business consolidation as companies with several units in different SEZs would have the option of bringing them under one roof. It would also help if for reasons of geographical proximity to a source of input or to a market, a unit owner wants to move to another SEZ. The commerce department is also likely to come up with guidelines for transfer so that adequate monitoring takes place during the process.

IT SEZ employees can work from home

The government in May relaxed its policy for IT SEZs and allowed the employees to carry out their duties even from home. The ministry's decision comes following representations from IT professionals, SEZ developers and other stakeholders. The relaxation, however, would be allowed in certain specific cases. "It has been decided that only in respect of employees temporarily de-capacitated and in respect of employees travelling, they may be permitted to work from home or outside the SEZ," the ministry said. But the ministry made it clear that the resultant export must take place from the premises of the unit in SEZ.



Rs. 2,500-cr highway projects gets govt approval

The government on 10th June, 2010 approved Rs. 2,500 crore highway expansion projects. The National Highways Development Programme (NHDP) projects are located in Gujarat, West Bengal, Bihar, Madhya Pradesh and UP.

The projects include four-laning of a 123-km stretch on Jetpur-Somnath section in Gujarat at a cost of Rs. 828 crore and a 78-km stretch on Krishnanagar-Baharampore section on NH 34 in West Bengal for Rs. 702 crore. With the completion of the project, the traffic on NH 34 would increase substantially due to strategic importance of the highway that connects north eastern states and neighbouring countries like Nepal, Bhutan and Bangla-desh. The project for Bihar include two-lanning with paved shoulders of a 82 km portion of Muzaffarpur-Sonbarasa section at an estimated cost of Rs. 512 crore. The Cabinet Committee on Infrastructure approved a Rs. 494 crore project for two laning with paved shoulders of a 164 km stretch on Jhansi-Khajuraho section in Madhya Pradesh and Uttar Pradesh.

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The more you praise and celebrate your life, the more there is in life to celebrate

Oprah Winfrey

RBI tightens regulations on NBFCs accepting deposits

In a bid to ensure effective supervision of the large number of non-banking financial companies (NBFCs), the RBI on June 08, 2010 said fresh approvals to NBFCs for accepting deposits will not be considered. Capital, liquidity and leverage requirements for those already permitted to accept deposits have also been tightened.

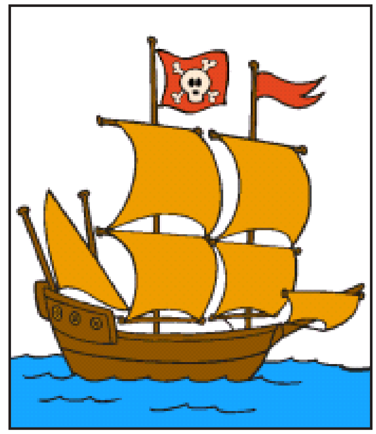
RBI deputy governor Usha Thorat said high rates of interest charged by NBFCs have also attracted attention. For lending to MFIs included in the priority sector, there should be a cap on the interest rates charged to the ultimate borrower.

Efforts at financial inclusion can be sustained only if the delivery models are viable and interest rate caps can be a deterrent. From a regulatory perspective, we emphasise on transparency, creating better awareness, customer education and effective grievance redressal systems.

Emphasising the need for greater financial inclusion and stability in the country, Smt. Thorat said that achieving financial inclusion in a country like India requires a high level of penetration by the formal financial system. She said that financial literacy has to be an integral part of financial inclusion.

Several countries have a very clearly articulated vision and programmes for financial literacy with initiative from the central banks and regulators. We, too, have a comprehensive financial literacy programme. At the grassroot level, financial literacy and grievance redressal is best delivered by arranging regular meetings of communities with people's representatives, local officials and bankers, NGOs and other stake holders, said Smt. Thorat.

A diversified asset portfolio lends to less volatility in earnings and thus financial inclusion can also promote financial stability. Meanwhile, one significant area, where the RBI has found that regulation could be a challenge in achieving greater financial inclusion, is in regard to know your customer (KYC) norms. In a country where most of the low income and poor people do not have any document of identity or proof of address it is very difficult to have KYC norms that insist on such documents. At the same time, to ensure integrity of financial transactions, it is necessary that each customer is properly identified before accounts are opened. As a solution to this issue, RBI is now asking for simpler KYC norms for small value accounts where the balances in the account do not exceed $1000 and where the annual credits in the account do not exceed $4000. There are similar dispensations for walk-in clients for small remittances and payments not exceeding $1,000.



Centre to inject Rs.6,211 cr into five PSU banks

The finance ministry on June 12, 2010 approved capital infusion of Rs 6,211 crore in five public sector banks — IDBI Bank, Central Bank of India, Bank of Maharashtra, UCO Bank and Union Bank. This is part of the Rs 16,500-crore bank recapitalisation plan announced by Finance Minister, Shri Pranab Mukherjee in Budget 2010-11 to ensure minimum 8% tier-I capital in public sector banks. Tier-I capital comprises of equity, disclosed reserves and perpetual debt. The government will infuse Rs 2,016 crore in Central Bank of India through a rights issue and Rs 3,119 crore in IDBI Bank by preferential placement of equity. It will also pump in Rs 590 crore, Rs 375 crore and Rs 111 crore in Bank of Maharashtra, UCO Bank, and the Union Bank of India, respectively, through perpetual non-cumulative preference shares route.

The infusion will help these banks attain a minimum of 8% tier-I capital by March 31, 2011. The government has already infused Rs 1,500 crore in four public sector banks last month. Another Rs 1200 crore was invested in the last fiscal. ***"****These banks would be able to leverage this capital and* *lend an additional approximate amount of Rs 77,637 crore to the productive sectors of the economy giving a push to all-round economic activity besides paying additional dividends and tax revenues to the government,"* the finance ministry said in a statement. Government-owned banks account for more than 70% of the banking business in the country.

Of the Rs 16,500-crore recapitalisation funds, Rs 14,500 crore is coming from the World Bank in two loans. The government is providing the remaining Rs 2,000 crore from its budgetary resources.

Cabinet clears Rs.450 crore World Bank support for SIDBI

The Cabinet Committee on Economic Affairs (CCEA) on June 16,.2010 approved a proposal on-lending of around Rs.450 crore, received from the World Bank, to the Small Industries Development Bank of India (SIDBI) for boosting support to micro finance institutions (*MFIs*). The World Bank had sanctioned a loan of $ 300 million (*around Rs.1,350 crore*), including $ 200 million (*around Rs.900 crore*) from the International Bank for Reconstruction and Development and a special drawing rights equivalent of $ 100 million (*around Rs.450 crore*) from the International Development Association. An official statement said that CCEA approved the proposal related to SDRs.

A SIDBI executive said the loan would be used to provide funding to MFIs to help scale up their operations, enhance their financial strength and ehable them to leverage funds for on-lending. Funding would include senior debt, sub-debt and equity. Besides, SIDBI inteds to use the funding to create a Lenders' Forum, which would be a mechanism to promote cooperation among MFI lenders and promote more reasonabe lending practices.

Micro and Small Enterprises (MSEs)

Accepting the recommendations of a working group to review the credit guarantee scheme (CGS) of the credit guarantee fund trust for micro and small enterprises (CGTMSE), the Reserve Bank has directed all scheduled commercial banks including regional rural banks and local area banks to not to accept collateral security in the case of loans upto Rs. 10lakh extended to units in the MSE sector. Banks have also been asked to strongly encourage their branch level functionaries to avail of the CGS cover, including making performance in this regard a criterion in the evaluation of their field staff. The report of the working group to review CGS containing several recommendations was released on March 06, 2010.

Priority Sector lending

The Reserve Bank has clarified that loans granted by banks for agricultural and allied activities are eligible for classification under priority sector, irrespective of whether borrowing entity is engaged in export or otherwise. The export credit granted for agricultural and allied activities may be reported separately under heading: "export credit to agriculture sector". Some of the banks had sought clarification in respect of classification of working capital limits granted to borrowers engaged in agricultural and allied activities and to food and agro-based processing units by way of export credit, under priority sector.

Finance for Housing Projects

The Reserve Bank has directed that while granting finance to housing/development projects, non-banking finance companies (NBFCs) should stipulate as a part of the term and conditions that:

The builder/developer/owner/company would disclose in the pamphlets/ brouchers/ advertisements etc., the name(s) of the entity to which the property is mortgaged. They should indicate in that they would provide no objection certificate (NOC)/permission of the mortgagee entity for sale of flats/property, if required.

The hon'ble High Court of judicature at Bombay, had recently observed that the bank granting finance in housing should insist on disclosure of the charge or any other liability on the plot in question or development project being duly made in the brouchre or pamphlet etc., which may be published by developer/owner inviting public at large to purchase flats and properties. The Reserve Bank has advised NBFCs also to ensure compliance with the above stipulations so that funds are not released unless the builder/developer/owner/ company fulfils the above requirements.

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MISCELLANY

Non-Performing Assets, Asset Reconstruction Companies & Banks

What are non-performing assets (NPAs)?

Non-performing assets are bad loans. Any asset, including a leased asset, becomes non performing when it ceases to generate income for the bank. As per the guidelines issued by the Reserve Bank of India (RBI), banks classify an account as NPA only if the interest due and charged during any quarter is not serviced fully within 90 days from the end of the quarter.

Are all loans where payment remains overdue classified as NPA?

Banks are required to classify non performing assets further into the following three categories based on the period for which the asset has remained non performing and the realisability of the dues. The three categories are — Substandard Assets, Doubtful Assets and Loss Assets. If an account remains NPA for a period of 12 months it is classified under Substandard, if it remains Substandard for 12 months it is classified as Doubtful. A Loss Asset is one where loss has been identified by the internal or external auditors.

Can an account be termed as NPA if the loan is given through a consortium?

Yes, an account can be classified as NPA even if there are multiple lenders. The classification is based on the record of recovery of the individual member banks and other aspects having a bearing on the recoverability of the advances. The banks participating in the consortium should, therefore, arrange to get their share of recovery transferred from the lead bank in the consortium or get a consent from the lead bank for the transfer of their share of recovery, to ensure proper asset classification in their respective books.

Do banks have to keep aside extra funds for NPAs?

Banks have to keep aside extra funds, called provisioning in banking parlance, for standard assets as well. As per the norms, banks have to make a general provision of 0.40% for all loans and advances except that given towards agriculture and small and medium enterprise (SME) sector. In case of NPAs, provisioning needs to be done as per the NPA category. For substandard loans, a general provisioning of 10% on the total outstanding amount is made if the loan is secured, for unsecured loans the total provisioning that needs to be done is 20% on the outstanding balance.

How do banks recover their NPAs?

Under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SARFAESI) Act, the banks can take legal recourse to recover their dues. If a borrower makes any default in repayment and his account is classified as NPA, then the secured creditor has to issue notice to the borrower giving him 60 days to pay his dues. If the dues are still not paid, the bank can take possession of the assets and can also give it on lease or sell it.

Can banks sell their NPAs?

A bank can sell NPA from its books to asset reconstruction companies such as ARCIL only if it has remained NPA for at least two years. Such sale can take place only on cash basis. The purchasing bank has to keep the accounts in its books at least for a period of 15 months before it is sold to other banks. The purchased NPA may be classified as 'standard' in the books of the purchasing bank for a period of 90 days from the date of purchase.

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Courtesy : The Economic Times