Inside *This Issue*

The Management Accountant

Official Organ of the Institute of Cost and Works Accountants of India established in year 1944 (Founder member of IFAC, SAFA and CAPA)

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C O N T E N T S

IDEALS THE INSTITUTE STANDS FOR

❏ to develop the Cost and Management Accountancy profession ❏ to develop the body of members and properly equip them for functions ❏ to ensure sound professional ethics ❏ to keep abreast of new developments.

MISSION STATEMENT

"ICWAI Professionals would ethically drive enterprises globally by creating value to stake-holders in the socio-economic context through competencies drawn from the integration of strategy, management and accounting."

VISION STATEMENT

"ICWAI would be the preferred source of resources and professionals for the financial leadership of enterprises globally."

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Looking back at the year that has just passed by, it gives us a sense of one of hope and despair, pleasantries and disappointments, and astonishments and anticipations — and as we move to 2012, India would herald the 12th Five Year Plan and also complete its sixty years of journey as a planned economy. The Eleventh Plan that we are about to complete, has been, more or less, a success. With a population well over one billion, and the fear of recession and uncertainty looming large, (albeit assertions by our Hon'ble Finance Minister that India will soon revert to the path of higher growth trajectory) India has achieved a near double digit growth to draw admiring attention from the rest of the world. However, the dismal picture of poverty and hunger in India leaves little scope for us to be complacent. India is the home to the largest number of illiterates and hunger-stricken people in the world. It appears that the poor have very little to gain from the planning, which is premised upon lofty ideals of just and equitable society. In fact, a candid admission of the failure of our planning process to include the poor has come from none other than the Hon'ble Prime Minister himself, who said that, "We have yet to achieve comparable success in inclusiveness". That India cannot afford to ignore the graveness of the issue, is reflected in the clarion call in the Approach Paper to the Twelfth Plan for a "faster, sustainable and more inclusive growth".

Inclusiveness is a multi dimensional concept which *inter alia,* connotes lower incidence of poverty, broad-based and significant improvement in health outcomes, universal access for children to school, increased access to higher education and improved standards of education, including skill development. It also means financial inclusion, which remains an important component of policy intervention to bring the hapless millions out of the clutches of poverty and widespread financial exclusion.

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Financial exclusion is not just an India centric problem–this is a global conundrum as well. Speaking with evangelical fervour on the occasion of the International Year for Microcredit (2005), the former Secretary-general of the United Nations, Kofi Annan, observed, "The stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. The great challenge before us is to address the constraints that exclude people from full participation in the financial sector.... Together, we can and must build inclusive financial sectors that help people improve their lives."

India, of course, did not remain a passive spectator as it had set up a committee to measure the extent of financial exclusion and credit gap under the stewardship of noted economist and the chairman of the Prime Minister's Economic Advisory Council Prof. C. Rangarajan. The Report, published in 2008, had redefined the scope of inclusive banking, the first phase of which was indeed marked by the nationalisation of banks in India way back in 1969. Unfortunately, the fruit of bank nationalisation was not fully reaped; Rangarajan Committee now reveals that well in excess of 73 percent of the farmer households in India have no access to credit and almost half of the country remained unbanked. Such a yawning gap can be closed only by huge efforts by the banking institutions – opening at least 12.5 million new accounts each year.

The task is arduous, but challenge must be met and all the innovations in finance and technological possibilities must be explored to bring more people within the ambit of inclusive growth and social justice.

The Rangarajan Committee has defined financial inclusion as "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost." In this context, the role of the Management accountants appears to be cut out. Since cost and its management is their forte, they can serve the financial institutions by identifying a range of appropriate financial services and measuring the cost implications for their organisation. This financial inclusion initiative is not charity. It is a way to extend the same rights and services to the poor that are available to everyone else. It is recognition that poor people are the solution, not the problem. It is also a way to build on their ideas, energy, and vision.

The contributors to this edition of the Management Accountant have left indelible mark of scholarship in exploring the areas of inclusive finance which is increasingly being recognised as a weapon against poverty and hunger.

I am sure; this edition of the journal will make some happy readings for the New Year !

M. Gopalakrishnan, President

> **The future depends on what we do in the present.**
> **—Mahatma Gandhi**

Dear Professional Colleagues,

First of all, let me offer my best wishes for the New Year 2012 to you and members of your families.

Our Tryst with destiny

Very rarely moments come into the life of a professional body, where a call is taken on the way forward, so as to realise its true potential. Such a moment came in December 2011, when emotions ran high amongst us, as to what will finally emerge through the churning process that happened in the Parliament - the highest legislature of the country, which passed the Cost and Works Accountants (Amendment) Bill 2011. As all of you are aware, the Rajya Sabha passed the bill on 12th Dec 2011 with some amendments. The Lok Sabha passed it without further amendments to the bill that was passed in Rajya Sabha. While this entire episode had our profession, in the centre of the arena fighting a battle, but the happenings on the sidelines by unaffected parties, turned the tables against our just demand for decades. The details of the bill passed by Rajya Sabha is available at

http://164.100.24.219/BillsTexts/RSBillTexts/PassedRajyaSabha/cost%20work.pdf

The assent by the Hon'ble President of India and the final notification by the Ministry of Corporate Affairs will put in operation the new name as well as designated letters as provided in the Bill which our members can use to denote our membership.

All the members are aware that the odds were heavily stacked against us, right from the time the Standing Committee on Finance (2009-10) gave its report on the Bill on 26th August 2010. During the course of the discussions with the Hon'ble Minister of Corporate Affairs, Dr.M. Veerappa Moily, he stressed the need to strengthen the hands of the Government and the Ministry in their various initiatives in making the economy stronger and vibrant, during the challenging period ahead. I assured the full fledged co-operation of the Institute in this matter, and also requested him to facilitate all the three professions, to co-ordinate better with each other than the past. This is very much required in the emerging period, when all the professions have to act in unison, to enable the country to face the enormous challenges that are on the anvil. Passage of the same bill along with other Institutes' paves the way of formation of LLPs, which will accelerate the growth of the profession. Each cog in the wheel of economy has its own role and place to take the country forward, whatever may be its size.

It is time for us to put the past behind and look forward to convert the challenges into opportunities for realising the true value what our profession can deliver. It is very important for the rank and file to concentrate our efforts for propagating and inculcating cost competitiveness in all spheres of economy, as optimum use of finite resources will become the game changer during these challenging times. This will enable us to showcase that our motto "Enhancing the Value for Enterprise" is an essential part of our profession's DNA.

As we enter into the New Year, I look back with satisfaction, the pace of activities that were kept up both by the previous Council up to 21st July 2011, followed by the new Council after taking over on 22nd July, 2011. The first year of the new term, involves laying down the policies and strategies which can be carried on in the subsequent period aimed at launching the profession into a higher orbit. The work-in-progress of the earlier term such as Cost

Accounting Records and Cost Audit, name change, Cost Accounting Standards, efforts on taxation area etc., has reached a logical phase during the last quarter of the 2011. Many new initiatives which I have shared with you earlier, are in the pipe line and I am sure that the coming year will see the acceleration of their phase of implementation.

Companies Bill, 2011

Among other important legislations, the Companies Bill 2011 was tabled in the Lok Sabha. The bill contains various new provisions like 2% spend on CSR, Class Action suits, One person Company, Improved role of independent directors, etc. In addition, there is a complete overhaul of the Cost Audit system in the country which points to the way forward for the profession to develop. We from our Institute share the optimism of Dr. M. Veerappa Moily, Hon'ble Minister of Corporate Affairs, Government of India who is confident of passage of the Companies Bill, 2011 in the next session of the Parliament.

Chapter Activities

I am very pleased that our Chapters have started conducting programmes, which highlight national issues and explore the contribution the cost and management accounting profession, can make in those areas. The first one at Asansol organized by the Asansol Chapter of the Institute on 4th December, 2011 was on the role of our profession in eradicating corruption. I was able to present to the large numbers of members assembled there, our role in propagating the current transformation being piloted by the Government in eradicating corruption.

The cost and management accountant has a very key role, in helping the business enterprises in managing the expected economic downturn looming large before us. I found that the seminar on "Lean Manufacturing and Cost Management" organized by Nagpur Chapter of the Cost Accountants on the Sunday, the 11th December, 2011 concentrate on this key aspect. In another programme organized by Pimpri Chinchwad Akurdi chapter on 17th December, 2011, I could see another key aspect of enabling cost competitiveness in Indian industry was the focus.

I addressed the members during the Regional Conference organized by Western India Regional Council at Indore on 24th Dec 2011, by the Indore-Dewas Chapter. The well attended two day event concentrated upon 'Achieving Sustainable Excellence through Cost Management & Statutory Compliance'.

I am happy to announce Bahrain Centre of ICWAI which was established in March, 2010 has got its letter of affiliation from Bahrain Accountants Association which enabled it to commence the centre from mid-December, 2011. This is a historic development wherein ICWAI has been able to have its voice in another country of strategic importance having more than 200 members. I wish the team led by the Chairman of the New Centre at Bahrain all the cooperation from the Institute for its smooth functioning.

To strengthen the base of the Institute and offer better services to Members and Students in the area, the Council of the Institute has constituted a new chapter being Vapi-Daman-Silvassa Chapter of Cost Accountants. I am sure this chapter will address the needs of the stakeholders in an exemplary manner.

Other Activities

As per the past practice, Ministry of Corporate Affairs under the guidance of Hon'ble Minister of Corporate Affairs Dr.Veerapa Moily is planning to celebrate India Corporate Week and Investor Awareness Programmes in a befitting manner. Under the Ministry's guidance, our Institute will be an active partner to the series of events to be held in February, 2012.

It is always a pleasure to be part of programmes, in which I could see the growth of students to our profession. I was able to have an interaction with the High Commissioner of Rwanda, Mr.Williams Nkurunziza, at Chennai for inauguration of oral coaching of SIRC, on 17th December, 2011, and agreed to extend all possible assistance to establish a professional accounting Institute in their country.

The adoption of accrual accounting and adoption of Government Accounting Standards, in the Government is a major initiative being accelerated by the Government Accounting Standards Advisory Board (GASAB). I was able to present our views on the successful implementation of the same during the meeting of GASAB at New Delhi on 20th December, 2011. The role of ICWAI in this matter was also well acknowledged by GASAB, in their briefing.

I am also happy to note that various committees of the Council Viz., Research and Publication, Indirect Taxation, Advanced Studies, Management Accounting, IT & Infrastructure Committee, and Regional Council & Chapter Co-ordination held their respective meetings during the month, in which many key decisions for the development of the profession were taken.

I was able to interact with Shri. Arabinda Das IA & AS, Principal Director, Regional Training Institute-Kolkata of Comptroller and Auditor General's office, on 28th December 2011, during which both of us agreed to explore possibility of taking up specific applied research relating to performance management indicators in local bodies. This pilot project will enable ICWAI to associate with C&AG and design training programmes for their officers to do a performance audit of Government Schemes.

Directorate of Studies

IEPS (Integrated Education Processing System) has been launched w.e.f. 6th December, 2011 and students are now being registered online from the Regions and Chapters across the country. Various other initiatives on fine tuning the knowledge delivery mechanism to the broad spectrum of students, including those belonging to postal stream are being finalized.

Directorate of Examination

I am pleased over the smooth conduct of the December 2011 examination, in which the highest number of candidates of around 72000, have appeared in about 103 venues all over India and abroad. I am happy to share that for the first time, the admit cards were issued to the students with their scanned photo and signature on it.

Membership Department

Individual letters have been sent to the members requesting them to pay their outstanding dues and update their address and other particulars to enable providing them better services. I request all members of the Institute to cooperate in this regard.

A General Meeting of the Benevolent Fund for the members of ICWAI has been called on 16th January, 2012 for amendment of Regulations of the Benevolent Fund. The notice of the meeting is uploaded on Institute's website www.icwai.org. All members of the Benevolent Fund are requested to attend the meeting at the Headquarters of the Institute at Kolkata

Directorate of Continuing Education Programme (I)

I am also happy to note that the CEP Directorate continues to hold key programmes in Management of Taxation— Service Tax, VAT, Excise and Custom, TDS and Proposed GST & DTC and Finance for middle and senior management. The Directorate also conducted the sixth exclusive tailor made in-house programme organized for NHAI on Finance and Accounts at Chennai during 19-23 December, 2011.

The Institute is in discussion with National Institute of Banking Studies and Corporate Management for organizing exclusive IFRS Programme for the Banking Sector. The Institute also is in discussion with Railway Board, Ministry of Railways for organizing exclusive programmes for Indian Railway Accounts Officers on Financial Management and IFRS.

The Institute is maintaining in focus on IFRS training and the CEP Directorate is planning to organize two IFRS Certificate Course programmes during January and February, 2012 at Delhi (18-22 January, 2012) and Chennai (8-12 February, 2012) respectively. I am sure that the Government will shortly come out with a road map, on the implementation of IFRS.

Directorate of Continuing Education Programme (II)

Members may recall that Institute has started focused programmes to address the needs of the members arising out of new circulars, initiatives, etc. by the Government through the new Directorate CEP II. Since XBRL requires hands on practical approach, I am happy that the many programmes were conducted by the Directorate with practical inputs.

Keeping the accelerated focus required on Generally Accepted Cost Accounting Principles, Cost Accounting Standards, Cost Accounting Records Rules 2011 and Cost Audit Report Rules 2011 a programme for members was conducted on 21st December 2011 at Scope Complex, New Delhi.

Shri.Arvind Kumar Awasthi, Dy.Comptroller and Auditor General of India while inaugurating the programme, drew attention of the participants on the need to focus on 5Es i.e. Economy, Efficiency, Effectiveness, Environment and Equity. He also advised to have a panel of experts in the area of Power, Coal, Mines and Petroleum whose services can be utilized by CAG. He welcomed the Institute to suggest the mechanism by which Cost Audit Reports can be made use of by CAG while conducting Proprietary/ Efficiency Audit.

Shri. J K Puri, Chairman - National Task Force on CARR & CAR in his key note address informed the participants, of the role being played by the National Task Force. In my address, I informed the attendees about recent Notifications and Circulars issued by the Ministry of Corporate Affairs, Govt. of India and the regular release of clarifications on queries raised by members through FAQs.

The coming year will bring into fruition the policies and strategies laid down by the Council and I am sure that the wider dissemination of the knowledge amongst the stakeholders is possible with the active co-operation of the Regional Council and chapters who are the operational arms of the profession, in these initiatives.

I wish the members of the Institute, Regional Councils and chapters a productive year 2012 once again, and best wishes for Lohri, Sakranti, Pongal, Basant Panchami and other festivals in advance.

With kind regards,

(M Gopalakrishnan)
President, ICWAI
31st December, 2011

Chairman's Communique (Cost Audit and Assurance Standards Board)

S. C. Mohanty, Chairman

Dear Professional Colleagues,

I am thankful to the President and my Council colleagues for bestowing upon me the responsibility of Cost Audit & Assurance Standards Board (CAASB). The Companies Bill 2011 **recognised** Cost Auditing Standards issued by the Institute under Explanation to section 148.

The ICWAI Council has broad based the CAASB considering representations from different stakeholders to formulate standards and develop guidance notes in the areas of auditing, assurance, related services and quality control with the following objectives :

(a) To serve the public interest by setting high-quality auditing and assurance standards and by facilitating the convergence of national and international standards, thereby enhancing the quality and uniformity of practice throughout the world and strengthening public confidence in the auditing profession.

(b) To demonstrate to the regulators, investors, business community, interested third parties and the wider public our commitment to upholding and developing professional standards that command public confidence and to provide comfort and assurance to users of cost/financial statements, regulators and third parties.

(c) To establish appropriate quality assurance standards and guidelines in relation to audit practice of the members/ firms that are considered essential in the interest of the profession, in the public interest and to comply with the requirements of Institute's as well as Statements of Membership Obligation (SMO)-l on Quality Assurance issued by the International Federation of Accountants (IFAC).

(d) To provide support and guidance to help members/ firms to develop and improve their practices.

(e) To recommend to the Council for appropriate disciplinary measures against firms and members, following identified instances of non compliance with prescribed standards.

The Board has finalised the following structure to develop the Cost Audit and Assurance Standards & guidelines for the benefit of the Practicing members and other stake-holders :

Section 1 – Preface & Authority. Section 2 – Frame work

Section 3 – Audits and review of Cost Information

1. CAAS 300 – Basic Principles governing Cost Audit
2. CAAS 310 – Objectives & Scope of the audit of Cost Records
3. CAAS 320 – Planning an Audit of Cost Statements
4. CAAS 330 – Cost Audit Engagement–Terms and Responsibility
5. CAAS 340 – Documentation

Section 4 – Risk Assessment and Response to Assessed Risk

6. CAAS 400 – Knowledge of Business and Process
7. CAAS 410 – Audit Materiality
8. CAAS 420 – Risk and Internal Control Assessments

Section 5 – Audit Evidence

9. CAAS 500 – Analytical Procedures
10. CAAS 510 – Audit Sampling
11. CAAS 520 – Quality Control of Audit and Reporting
12. CAAS 530 – Related Party and Transfer Pricing

Section 6 – Using work of others

13. CAAS 600 – Relying upon the work of an Internal Auditor
14. CAAS 610 – Using the work of any other Auditor
15. CAAS 620 – Using the work of an Expert

Section 7- Audit and Assurance Engagements

16. CAAS 700 – Assurance Engagement
17. CAAS 710 – Analysis of Cost Statements
18. CAAS 720 – Responsibility on Engagement to sign a Compliance report
19. CAAS 730 – Auditing in IT Environment.
20. CAAS 740 – Auditing under XBRL Environment.

Section 8 – Audit Conclusions and Reporting

21. CAAS 800 – Auditor's Report on Cost Statement
22. CAAS 810 – Qualifications in Audit Report
23. CAAS 820 – Cost Audit Reporting under XBRL.

Section 95 – Related Services

24. CAAS 900 – Responsibility on Engagement to Compile Cost Records.
25. CAAS 910 – Limited Review of Cost Statements

I would like to seek the support and valuable inputs from the members to develop standards and guidance notes thereon. I heartily acknowledge the continued support and guidance received by me from the Secretariat , Members of the Committee Vice – President & President to discharge my responsibilities towards the profession.

I wish all of you and your family a merry Christmas and a very happy & prosperous New Year 2012.

With personal regards,

1st January, 2012

(S. C. Mohanty)

Financial Inclusion—Not just a CSR but a viable business model for Banks

L. Srinivasan

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The India-Puzzle

Let us start our discussion with a simple question: Is India a poor nation or a rich nation? If we take a referendum among any group of people, on this question the verdict will be a vertical split! The reality is, though India is prospering and the GDP growth is encouraging, the prosperity is not equitably distributed among the population. The gap between the rich and the poor is ever-widening and more than 35 crore of the population still live below the poverty-line—wherever you draw the line. What we need is "inclusive growth", a growth that will include and embrace all sections of the society. It is imperative that nobody should be financially excluded.

Financial Inclusion Plans of Banks

Dr. Rangarajan, heading the Committee on Financial Inclusion, defined Financial Inclusion as the "Process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income…in short, financial inclusion means access to savings, loan and remittances to the entire population of the country."

On the directives of Ministry of Finance and Reserve bank of India, each Bank devised its own financial inclusion policy drawing a blueprint for its financial inclusion initiatives.

The Financial Inclusion Plans of the banks include a gamut of activities, which can be enumerated as :

(a) No Frills Savings Bank accounts with diluted Know Your Customer (KYC) for the poor and the downtrodden sections of the society
(b) General purpose credit cards, in the form of cash credit limit
(c) Temporary overdrafts in No Frills SB accounts
(d) Information and Communication Technology (ICT) enabled Smart card banking
(e) Micro credit to the poor, especially through Government sponsored schemes such as Swarna Jayanthi Gram Swarozgar Yojana (SGSY), Swarna Jayanthi Shahari Rozgar Yojana (SJSRY), Self Help Groups (SHG), Prime Minister's Employment Generation Programme (PMEGP), Scheme for Rehabilitation of Manual Scavengers (SRMS) etc.
(f) Facilitating remittances, both inward and outward, across the country.

India's Poor and the Corporate Social Responsibility (CSR) of Banks

During the initial phase, financial inclusion initiatives appeared to every stakeholder, especially the banker, mainly as a social responsibility. Banks took the Financial Inclusion initiatives as a Corporate Social Responsibility (CSR) cast on them by the situation prevailing in the country.

More than sympathy or empathy, the poor need money. Only financial help can empower the downtrodden and the unprivileged sections of the society. Affordable credit facilities, for example, will help the villagers to come out of the clutches of the usurious money lenders. If families living Below Poverty Line (BPL) have to come above the Poverty Line, it is possible only when multiple doses of credit are made available to them.

Secondly, the significant small savings of the poor households, lying with them as physical assets, should come to the financial system and should be converted into financial assets for safety and economic returns.

The third issue relates to the continuous migration of the poor people—through the length and breadth of the country—in search of jobs and the need for a remittance-mechanism.

To meet the above requirements of the vulnerable sections of the society, banks are expected to rise to the occasion. The question that naturally arises is: if banks, sitting on huge money, do not lend a helping hand, then who else will?

Apprehensions of banks in aggressively taking ahead their Financial Inclusion (FI) plans

Banks had apprehensions initially as regards financial inclusion initiatives. These concerns related to the following issues :

1. Will financial inclusion initiatives affect profitability?

2. Will financial inclusion drive affect banks' stability?

3. Can profitable models be developed within financial inclusion framework?

Though considerable time has passed since the concept of financial inclusion has been converted into specific actions, it cannot be gainsaid that the above apprehensions are still there in the thoughts of a large number of bankers. If these issues are addressed properly, there is no doubt that financial inclusion will become a grand success and we can ensure equitable distribution of wealth among all sections of the society.

Financial inclusion and profitability of banks

The amazing truth is that FI initiatives of banks can lead to their profitability, which can be sustained and significant. Let us discuss the issues :

CASA and base-rate

RBI introduced Base rate system in banks, with effect from July 2010. The base rate is fixed by banks based on (a) their cost of funds and (b) Operational efficiency. If a bank can bring down its cost of deposits, it can also afford to bring down its base-rate significantly, thus attracting retail borrowers into its fold. It is obvious that cost of deposits can come down when CASA portfolio (the current deposits and the Savings Bank deposits) increase.

CASA portfolio, for any bank, represents the core-deposit segment. When banks open a large number of savings bank accounts of the poor people and help them to convert their physical assets into bank balances, CASA will increase, bringing down the cost of funds.

Electronic Benefit Transfer (EBT) is becoming popular, thanks to technology. The payments and doles given by various Governments such as subsidy, margin money, scholarships, pension etc. are sought to be given under EBT, directly to the bank accounts of the beneficiaries, avoiding middle-men and cash payments, which normally mean leakage of money in its passage to the final beneficiaries. These monies come directly into the accounts of the poor people and remain as core deposits.

ICT-enabled Smart Card Banking

The Smart Card is the latest technology-initiative of banks. Banks tie-up with a technology solutions provider. Bio-metric cards are issued to the Business Correspondents and the account-holders. In this **"virtual banking"** environment, the poor villagers enjoy banking at their door steps. Interest on Savings Bank deposits has since been de-regulated and such interest is paid on daily balance basis. Since the BC visits the villagers frequently, the account-holders will like to retain their savings in their accounts and would withdraw only what is needed and when needed.

Micro-credit to the poor and the downtrodden

Banks have experienced that Non-Performing Assets are higher among borrowers who enjoy large-ticket advances than among poor borrowers. It is an old adage in Banking that schematic lending is better than sporadic lending. Most of the schemes meant for BPL families are Government-sponsored schemes. If banks lend to the poor under their financial inclusion plans, through such schemes they will enjoy immense benefits. The credit-risk is spread. Identification of borrowers, arriving at the scale of finance, documentation, end-use verification, monitoring, and recovery all become easier. Moreover, under Basel norms, regulatory retail portfolio requires minimum capital requirements.

Financial inclusion and financial stability

The key challenge is how to achieve the goal of (Financial Inclusion without compromising the stability of the banks. Empirical evidence suggests that with higher financial access and with a large number of bank branches, there is a distinct rise in the income levels of the countries. During any financial crisis, a steady deposit base is ensured, because low income savers and borrowers tend to maintain steady financial behaviour throughout any crisis. Anti-Money Laundering(AML)/Combating of Financing of Terrorism (CFT) guidelines are also facilitated when small depositors and small borrowers are encouraged in the banking system. Greater financial innovation facilitates cost-reduction for the banks and operational efficiency. Even though outsourcing of financial inclusion, such as appointment of Business Correspondents, may pose some risk to the system, a carefully designed compensation structure will ensure the success of the model.

Profitable models within the framework of financial inclusion

Banks can work out innovative and profitable models, which will lead to a win-win result both for the beneficiaries of financial inclusion and banks themselves. The banks can exploit technology and other intermediaries to reach and teach the farmers in the agricultural sector. For example, individual agricultural farming model can be replaced by agri-business farming model. By financing agri-clinics and agri-business consultants, financial literacy can be imparted. Such methods will lead to increased

Contd. on Page 61

Financial Inclusion

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Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low income groups. Unrestrained access to public goods and services is the sine qua non of an open and efficient society. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy.

The term ''Financial Inclusion" has gained importance since the early 2000s, and is a result of findings about financial exclusion and its direct correlation to poverty. Financial inclusion is now a common objective for many central banks among the developing nations.

In India the basic concept of financial inclusion is having a saving or current account with any bank. In reality it includes loans, insurance services and much more.

Scope of financial inclusion

The scope of financial inclusion can be expanded in two ways :

(a) Through state-driven intervention by way of statutory enactments (tor instance the US example, the Community Reinestment Act and making it a statutory right to have bank account in France).

(b) Through voluntary effort by the banking community itself for evolving various strategies to bring within the ambit of the banking sector the large strata of society.

When bankers do not give the desired attention to certain areas, the regulators have to step in to remedy the situation. This is the reason why the Reserve Bank of India is placing a lot of emphasis on financial inclusion.

In India the focus of the financial inclusion at present is confined to ensuring a bare minimum access to a savings bank account without frills—to all. Internationally, the financial exclusion has been viewed in a much wider perspective. Having a current account or savings account on its own is not regarded as an accurate indicator of financial inclusion. There could be multiple levels of financial inclusion and exclusion. At one extreme, it is possible to identify the 'super-included', i.e., those customers who are actively and persistently courted by the financial services industry, and who have at their disposal a wide range of financial services and products. At the other extreme, we may have ihe financially excluded, who are denied access to even the most basic of financial products. In between are those who use the banking services only for deposits and withdrawals of money. But these persons may have only restricted access to the financial system, and may not enjoy the flexibility of access offered to more affluent customers.

'Major Three Aspects of Financial Inclusion' make people to

- Access financial markets
- Access credit markets
- Learn financial matters (financial education).

Financial Inclusion includes Accessing Of Financial Products and Services like :

- Savings facility
- Credit and debit cards access
- Electronic fund transfer
- All kinds of commercial loans
- Overdraft facility
- Cheque facility
- Payment and remittance services
- Low cost financial services
- Insurance (Medical Insurance)
- Financial advice
- Pension for old age and investment schemes
- Access to financial markets
- Micro credit during emergency
- Entrepreneurial credit.

Financially Excluded People : The financially excluded sections largely comprise:

- Marginal farmers
- Landless labourers
- Oral lessees
- Self-employed and unorganized sector enterprises

- Urban slum-dwellers
- Migrants
- Ethnic minorities and socially excluded groups
- Senior citizens
- Women
- The North East, Eastern and Central regions contain most of the financially excluded population.

Factors affecting access to financial services

• **Legal identity :** Lack of legal identity like voter I, driving license, birth certificates, employment identity card etc.

• **Limited literacy :** Particularly financial literacy and lack of basic education prevent people to have access from financial services.

• **Level of income :** Level of income decides to have financial access. Low income people generally have the attitude of thinking that banks are only for the rich.

• **Terms and conditions :** While getting loans or at the time of opening accounts, banks place many conditions, so the uneducated and poor people find it very difficult to access financial services.

• **Complicated procedures :** Due to lack of financial literacy and basic education, it is very difficult for those people who lack ability to read terms and conditions and account-filling forms.

• **Psychological and cultural barriers :** Many people voluntarily excluded themselves due to psychological barriers and they think that they are excluded from accessing financial services.

• **Place of living :** As the name suggests, commercial banks operate only in commercially profitable areas and they set up branches and main offices only in those areas. People who live in under- developed areas find it very difficult to go to areas in which banks generally reside.

• **Lack of awareness :** Finally, people who lack basic education do not know the importance of the financial products like Insurance, Finance, Bank Accounts, cheque facility, etc.

Consequences of Financial Exclusion – Two Major Threats

• **Losing opportunities to grow :** In the absence of finance, people who are not connecled with formal financial system lack opportunities to grow.

• **Country's growth will retard :** Due to vast unutilised resources that is in the form of money in the hands of people who lack financial inclusive services.

Other Consequences

• **Business loss to banks :** Banks will lose business if this condition persists for ever due to lack of opening of bank accounts.

• **Exclusion from mainstream society :** The people who lack financial services presumed that they are excluded from mainstream society.

• **All transactions cannot be made in cash :** Some transactions can be made in cash. In this technological world everybody wants to have electronic cash system like debit and credit cards and also Electronic Funds Transfer.

• **Loss of opportunities to thrift and borrow :** Financially excluded people may lose chances to save some part of their livelihood earnings and also to take loans.

• **Employment barriers :** Nowadays all salary and other financial benefits from various sources like Governments scholarships, any compensation, grants, reliefs, etc. are paid through bank accounts.

• **Loss due to theft :** Banks provide various schemes of safety-locker facility. It mitigates the risk due to thefts.

• **Other allied financial services :** People who do not have bank accounts may not go to bank as far as possible. So they lack basic financial auxiliary services like DD, Insurance cover and other emergency need loans, etc.

Benefits of Inclusive Financial Growth

• **Growth with equity :** In the path of superpower we the Indians will need to achieve the growth of our country with equality. It is provided by inclusive finance.

• **Get rid of poverty :** To remove poverty from the Indian context everybody will be given access to formal financial services. Because, if they take loans for business or education or any other purpose they get the loan to pave way for their development.

• **Financial Transactions Made Easy :** Inclusive finance will provide banking related financial transactions in an easy and speedy way.

• **Safe savings along with financial services :** People will have safe savings along with other allied services like insurance cover , entrepreneurial loans, payment and settlement facility, etc.

• **Inflating National Income :** Boosting up business opportunities will definitely increase GDP and this will be reflected in our national income growth.

• **Becoming Global Player :** Financial access will attract global market players to our country – that will result in increasing employment and business opportunities.

Relationship between Financial Inclusion and Development Indicators

• Economic growth follows financial inclusion. In order to achieve the objective of growth with equity, it is imperative that infrastructure is developed with financial inclusion :

- Savings and credit accounts—indicators of financial inclusion.
- Per capita income—indicator of economic development.
- Electricity consumption and road length—indicators of infrastructure development.
- All the above influence economic development which follows adequate financial and credit facilities.

Expectations of poor people from financial system : Taking into account their

- Seasonal Inflow of Income from agricultural operations,
- Migration from one place to another,
- Seasonal And Irregular Work Availability and Income; the existing financial system needs to be designed to suit their requirements,
- Security and safety of deposits,
- Low transaction cost,
- Minimum paperwork,
- Frequent deposits,
- Quick and easy access,
- Product suitable to income and consumption.

Steps towards financial inclusion

In the context of initiatives taken for extending banking services to the common man. the mode of financial sector development until 1980s was characterized by

- A hugely expanded bank branch and cooperative network and new organiazational forms like Regional Rural Banks (RRBs).
- A greater focus on credit rather than other financial services like savings and insurance, although the banks and cooperatives did provide deposit facilities.
- Lending targets directed at a range of 'priority sectors' such as agriculture, weaker sections of the population, etc.
- Interest rate ceilings.
- Significant government subsidies channeled through the banks and cooperatives, as well as through related government programs.
- A dominant perspective that finance for rural and poor people was a social obligation and not a potential business opportunity.

It is absolutely beyond any doubt that the financial access to masses has significantly improved in the last three and a half decades. But the basic question is : Has that been good enough? As mentioned earlier, the quantum of deposit account (current and savings) held as a ratio to the adult population has not been uniformly encouraging. There is a tremendous scope for financial coverage if we have to improve the standards of life of those deprived people.

With a view to enhancing the financial inclusion as a proactive measure, the RBI in its Annual Policy Statement for the year 2005-06, while recognizing the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, urged banks to review their existing practices to align them with the objective of financial inclusion. In the Mid Term Review of the Policy (2005-06), RBI exhorted the banks, with a view to achieving greater financial inclusion, to make available a basic banking 'no-frills' account either with nil or very minimum balances as well as charges that would make such accounts accessible to vast sections of the population. The nature and number of transactions in such accounts would be restricted and made known to customers in advance in a transparent manner. All banks are urged to give wide publicity to the facility of such no-frills account so as to ensure greater financial inclusion.

Further, in order to ensure that persons belonging to low income group both in urban and rural areas do not face difficulty in opening the bank accounts due to the procedural hassles, the KYC procedure for opening accounts has been simplified for those persons who intend to keep balances not exceeding rupees fifty thousand (Rs. 50,000/-) in all their accounts taken together and the total credit in all the accounts taken together is not expected to exceed rupees one lakh (Rs. 1,00,000/-) in a year.

The Way Forward

The banks should come out of inhibited feeling that very aggressive competition policy and social inclusion are mutually exclusive. As demonstrated elsewhere, the mass banking with no-frills etc. can become a win-win situation for both. Basically, banking services need to be ''marketed'' to connect with large population segments and these may be justifiable promotional costs. The opportunities are plenty :

- In the context of India becoming one of the largest micro finance markets in the world, especially in the growth of women's savings and credit groups (SIIGs) and the sustaining success of such institutions which has been demonstrated by the success of SEWA bank in Gujarat, low cost banking is not necessarily an unviable venture/proposition.
- It may be useful for banks to consider franchising with other segments of financial sector such as

Contd.on Page 21

Financial Inclusion : A Study on the Self Help Groups (SHGs) in West Bengal


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Introduction

Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. This has to become an integral part of our efforts to promote inclusive growth. In fact, providing access to finance is a form of empowerment of the vulnerable groups. Financial Inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The various financial services include credit, savings, insurance and payments and remittance facilities.

The objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempt must be to lift the poor from one level to another so that they come out of poverty. Financial inclusion is the availability of banking services at an affordable cost to dis-advantaged and low-income groups. In India the basic concept of financial inclusion is having a saving or current account with any bank. In reality it includes loans, insurance services and much more.

The first-ever Index of Financial Inclusion to find out the extent of reach of banking services among 100 countries, India has been ranked 50. Only 34% of Indian individuals have access to or receive banking services. In order to increase this number the Reserve Bank of India had the Government of India take innovative steps. One of the reasons for opening new branches of Regional Rural Banks was to make sure that the banking service is accessible to the poor. With the directive from RBI, our banks are now offering "No-Frill" Accounts to low income groups. These accounts either have a low minimum or nil balance with some restriction in transactions. The individual bank has the authority to decide whether the account should have zero or minimum balance. With the combined effort of financial institutions, six million new 'No-Frill' accounts were opened in the period between March 2006-2007. Banks are now considering Financial Inclusion as a business opportunity in an overall environment that facilitates growth.

Financial Exclusion—Background

The ever-looming spectre of India is of urban poverty and rural inequities, a spectre which refuses to go away. A shocking 30-35% of India's total population still lives below the poverty line. Poverty, accompanied by low health and nutrition levels, high infant mortality and illiteracy, is now almost uniform in terms of the proportion of population in rural and urban areas. Using the Indian defintion based on income needed to acquire food to provide the minimum required calories (2,100 for rural and 1,800 for urban adults), roughly 260 million people or 26% of the population fall below the poverty line. Using another definition of poverty—those living on less than $1 per day—the number of poor would be much larger at around 400 million, accounting for over 36% of the population. Sixty four years after independence, these are disturbing statistics and in many ways an indictment of the effectiveness of our policies and efforts so far. Even more disturbing is that within these poof are tie poorest, who live on an income of less than Rs. 50 per day.

The Government of India wishes that the poor people should be benefited by Financial Incfusion. They have to be given loan for trading activities or paying back the loans from moneylenders.

The Reserve Bank of India permits Financial Inclusion by allowing banks to grant loan to non- registered bodies subject to fulfilling certain norms. On the basis of group performance, groups or individuals may be extended loans. Savings, repayment capacity and cash flows should be the criteria.

NSSO data reveal that 45.9 million farmer households in the country (51.4%), out of a total of 89.3 million households do not access credit, either from institutional or non-institutional sources. Further, despite the vast network of bank branches, only 27% of total farm households arc indebled to formal sources (of which one-third also borrow from informal sources). Farmer households not accessing credil from formal sources as a proportion to total farm households is especially high at 95.91%, 81,26% and 77.59% in the North Eastern, Eastern and Central Regions, respectively. Thus, apart from the fact that exclusion in general is large, it also varies widely across regions, social groups and asset holdings. The poorer the group, The greater is the exclusion.

The main reason for financial exclusion is the lack of a regular or substantial income. In most of the cases people with low income do not qualify for a loan. The proximity of the financial service is another fact. The loss is not only the transportation cost but also the loss of daily wages for a low income individual. Most of the excluded consumers are not aware of the bank's products, which are beneficial for them. Getting money for their financial requirements from a local moneylender is easier than getting a loan from the bank. Most of the banks need collateral for their loans. It is very difficult for a low income individual to find collateral lor a bank loan. Moreover, banks give more importance to meeting their financial targets. So they focus on larger accounts. It is not profitable lor banks to provide small loans and make a profit.

Financial Inclusion : A New Paradigm

Typically, financial inclusion in India is characterised by :

1. Lower outreach by financial institutions/MFIs/ SHG Bank Linkage Programme in comparison to below poverty line (BPL) and low income population.

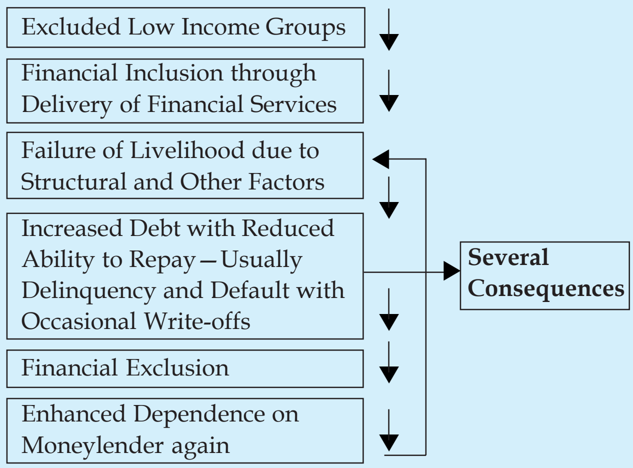
2. Priority Sector Lending norm of 18% advances to agriculture is not met in many states. Also, agriculture's share in Priority Sector Lending has been declining in some states.

3. Financial inclusion is characterized primarily as either general access to loans (mostly consumption or consumer loans rather than livelihood loan) or access to savings accounts. Very few risk management and vulnerability reducing products are available to small holder producers.

4. Access to finance is primarily a bridging resource for many low income groups.

Given the above context, to truly financially include the poor would require creating a variety of risk/ vulnerability management mechanisms and ensuring that they are *consistently* and *simultaneously* available. Unless major *risks* are simultaneously covered, the likelihood of one risk wiping out an entire livelihood is a very high possibility, and people who have been temporarily included would be excluded again. A diagram showing Cycle of Financial Inclusion and Exclusion is placed below.

Figurue 1 : Cycle of Inclusion and Exclusion



Objectives of the Study

The presenl study humbly attempts to assess :

i. the progress of SHGs in West Bengal,
ii. the social and economic impact of SHGs in West Bengal.

Methodology

The study is a desk study based on secondary sources of data. The scope of study is the state of West Bengal. The study covers all the districts in the state of West Bengal. Period of study is 2000-2010. Available up-to-date data have been used. They include books, journals, and reports. The sources include the Ministry of Self Help and Self Employment, Govt. of West Bengal, NABARD. SIPC, S1DB1, SUDA etc.

SHG Approach and Financial Inclusion

Micro credit or micro finance is a novel approach to "banking with the poor". This approach was very successfully tried in Bangla Desh where bank credit is extended to the poor through Self Help Groups (SHGs), Non-Government Organisations (NGQs), credit unions, etc. Micro credit attempts to combine lower transaction costs and high degree of repay-ments. A study by Ahlin and Tounsend (2003) considered the presence of joint liability loans versus individual loans on the basis of data gathered from Thailand. Their study showed that the wealth level; showed a 'U'-shaped relationship with group loans, and it was also found that the higher the probability of success of the project, higher is the likelihood of taking a group loan. There have been many studies on the working of SHGs in different parts of India. These studies mostly covered the SHGs working in the States of Orissa, Andhra Pradesh, Maharashtra, Tamil Nadu, and Uttar Pradesh. A study by NABARD (National Bank for Agriculture and Rural Develop-ment) covering 560 SHG member households from 223 SHGs across f 1 states, showed many positive results on the impact of participation of rural poor in the SHGs, it shows that there have been perceptible and wholesome changes in the living standards of SHG members in terms of ownership of assets, borrowing capacities, income generating activities, income levels and increase in savings. It indicates that the average annual saving per household registered an increase over three-fold (NABARD, 2002).

As an innovative credit channel, the Self Help Group (SHG) approach was introduced in 1992, to link poor people with bank credit. Under this programme, about 40 million families have been linked with banks up to March 2007 (NABARD). The notable feature was the active women participation— 90 per cent of the groups linked with the banks were exclusively women groups. Also there was strong repayment performance—at more than 95 percent of the loans disbursed. The distinguishing feature of this approach as compared to other sponsored credit schemes is the learning management of own money by the poor before availing bank loan. Moreover, the approach (not SGSY) does not involve any subsidy; hence, it is sustainable with its strength. A number of studies have found that SHG approach reduces the transaction cost of banks and loan availing cost of borrowers. In financing SHGs. the requirement of collateral by banks has been replaced by peer group pressure and, hence, this approach has enabled social and economic inclusion of women by waiving the requirement of collateral. Some important highlights of SHG achievements in India are :

i. Up to March 2007, 2.925 million SHGs and about 40.95 million families have been linked with bank credit.
ii. Of the total SHGs, women groups are 86 percent.
iii. During 2006-07, 0.686 million SHG linked with banks.
iv. During 2006-07 loan amount of Rs. 664.3 million disbursed to SHGs.
v. Average Bank Loan per SHG is Rs. 61,000.
vi. Up to March 2007, Bank loan of Rs 180,000 million provided to SHGs.

The stale-wise outreach of the SHG programme in India is given in Table 1.

Table 1 : State-wise cumulative credit linked SHGs as on 31 March

Sr No	States	2005	2006	2007	% to total in 2007	%of adult covered under SHGs
1	Andhra Pradesh	49,2927	587,238	683,619	23	21.64
2	Tamil Nadu	2,20,698	312,778	400,477	14	14.19
3	Karnataka	163,198	224,928	317,636	11	14.52
4	Orissa	123,256	180,896	234,451	8	15.58
5	Maharashtra	71,146	131,470	225.856	8	5.63
6	Uttar Pradesh	119,648	161,911	198,587	7	3,38
7	West Bengal	92,698	136,251	181,563	6	5.54
8	Rajasthan	60,006	98,175	137,837	5	6.78
9	Kerala	60,809	86.98S	117,913	4	8.03
10	Assam	31,234	56,449	81,454	3	8. 10
11	Bihar	2B,015	46,221	72,339	2	2.47
12	Madhya Pradesh	45,105	57,125	70,912	2	3.16
13	Gujarat	24,712	34,160	43,572	1	2.11
14	Chhattisgarh	18,569	31,291	41,703	1	5.21
15	Jharkhand	21,531	30,819	37,317	1	3.80
16	H imachal Pradesh	17,798	22,920	27,799	1	10.91
17	Uttarakhand	14,043	17,588	21,527	1	6.74
18	Sub-total	1,591,350	2,199,616	2,873,035	98	7.78
	All India	**1,591,350**	**2,238,786**	**29,24,786**	**100**	**7.57**

Source : Government of West Bengal July 2008

Note: The table shows that outreach of the programme is maximum in southern stales, which account for 52 per cent of the total SHGs in India and it may be one of the reasons for higher financial inclusion in terms of saving as well as credit amounts in this region. To test this relationship, at ihe first stage correlation was computed between Ihe percentage of adults covered under SHGs, savings, and credit accounts per 100 adults respectively. In this exercise, the states with less than one per cent of adults covered by SHGs and Lhe regional level data were excluded. The correlation coefficients were 0.417 and 0.596 in case of savings and credit accounts respectively.

SHGs in West Bengal

Even though the SHG movement has had a late start in the state of West Bengal, of late it has gained tremendous momentum. It is estimated that there are more than three and a half lakh SHGs in the state, out of which little more than 1 .5 lakh SHGs have been formed under the Swarnajayanti Gram Swarojgar Yojana (SGSY) alone. The two major programmes which had been supporting the movement are 1) the SGSY, and 2) the NABARD supported SHG-Bank Linkage programme.

Apart from these two programmes, the Forest department has facilitated large number of SHGs in areas where their programmes are under implementation and more and more women are now being able to actively participate in FPC and EDC for their own economic development as well as giving a new vigour in forest protection and preservation. Other attempts like Swayamsiddha (IWEP—upgraded IMY) by government through West Bengal Women's Development Undertaking is a woman-focused SHG initiative to enhance economic, health, nutrition, education status for women using access to micro-credit and convergence for services. As of now, the scheme targets 3,900 women SHGs in 39 block level federations—though target surpassed long ago—and uses both government and non government facilitation in the scheme.

The Backward classes Welfare Department is also assisting the Scheduled Castes and Scheduled Tribes, and other backward classes to form Self-help Groups for economic development by providing training, infrastructure, and institutional finance. There are similar programmes for Minorities implemented through the Minorities Development and Finance Corporation. The Cottage and Small Scale Industries Department has a scheme named Deen Dayal Hathkharga Protsahan Yojana to provide support to Handloom Weavers through Self-help Groups recognised by State Handloom Cooperation and Apex Handloom Weavers' Co-operative Society in the form of capacity building, infrastructure and financial assistance. Similar support is provided to self-help groups of artisans through another scheme known as Baba Sahib Ambedkar Hasta Shilpa Vikash Yojana.

Under the watershed projects being implemented by the Panchayat and Rural Development Department, formation of self-help groups and user groups has been conceived as grassroot level organisa-tions. Director of Sericulture has been implementing a scheme (Sen, 2000) under which support is provided to self help groups in the form of capacity building and institutional finance. The Department of Food Processing & Horticulture is also encouraging groups of small and marginal farmers. Animal Resource Development Department uses SHG concept to organise and strengthen poor and marginal sections of the society into women's dairy cooperatives, which are ultimately linked up with marketing cooperatives and processing industries.

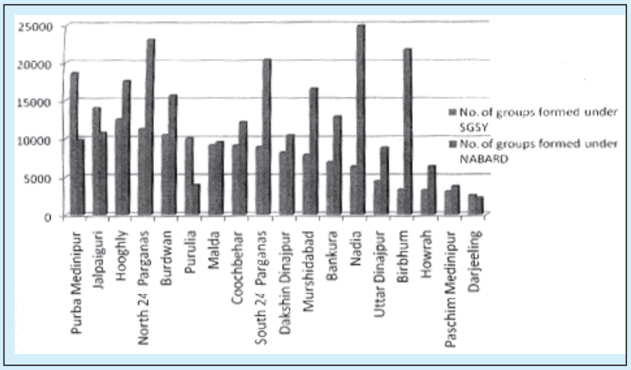
Under the non-government category, organisations like CARE promoted informal SHG banking. The process is based on identifying and empowering selected Self Help Promotion Institutions (SHPI) in promotion and nurturing SHGs and initiate SHG-banking. Presently, about 7,000 groups have been promoted by partnering SHPIs under CASHE project of the CARE and the institutionalisation of federations with a focus on community owned sustainable micro-finance model, is providing a lot of learning experience for the sector. Alternative microfinance institutions are also being developed by MF promoters such as STDBI. The three categories listed above have different channels for obtaining finance and pay different rates of interest.

The number of savings-linked SHGs under the two major programmes are :

Table-2 : District-wise Number of SHGs formed under SGSV and NABARD

Districts	No. of groups formed under SGSY	No. of groups formed under NABARD
Murshidabad	7,900	16,568
Darjeeling	2,561	2,232
Malda	9,173	9,546
Uttar Dinajpur	4,422	8,816
Dakshin Dinajpur	8,224	10,451
Birbhum	3312	21,701
Hooghly	12572	17,606
Purba Medinipur	18695	9853
Paschim Medinipur	3038	3757
Jalpaiguri	14044	10786
Howrah	3243	6380
Coochbehar	9130	12181
Nadia	6356	24836
Bankura	6940	12881
Purulia	10046	3938
Burdwan	10514	15672
North 24 Parganas	11270	23066
South 24 Parganas	8944	20402

Source : Ministry of Self Help and Self Employment, Govt. of West Bengal; NABARD



Source : Compiled from the data contained in Table 2

Self-Help Groups and Economic Development

Contrary to popular belief, the poor households are engaged in myriad types of micro enterprises which are linked to their livelihood. As a source of employment, the micro enterprise has a lot of potential because of its ease of entry and low start-up capital. It also plays a significant role in self-employment when employment in organized sector or even wage employment is scarce. The micro-credit support extended to the self help groups together with other extension support such as skill upgradation. enhancing entrepreneurial abilities along with providing necessary infrastructures and marketing support helps the SHGs to cross the barriers that keep them below the poverty line.

Table 3 below is an illustrative list of the various types of activities taken up by the SHGs, who have passed Grade I level formed under SGSY in the State. Support of professional bodies are being taken for upgrading skills of the SHGs for improving quality of the products as well as to meet the tastes of the people. A tie-up has been made with the National Institute of Fashion Technology (NIFT) for training selected SHGs engaged in manufacluring of certain products like Kantha Steech Sarees, handicrafts, leather goods etc.

The Comprehensive Area Development Corpora-tion (CADC) is also extending training support to all those engaged in primary sector activities like agriculture, horticulture, animal husbandry etc. for augmenting their income. Many groups have been found to take up agricultural activities by taking land on lease for raising suitable crops during the period when the owners normally keep it fallow. To supplement both income and nutritional support to the people—particularly the women and the children —a very large number of groups, irrespective of their prime economic activities, have been given training on vegetable cultivation for developing good kitchen garden and even to use the roofs of their huts for growing vegetables.

Table 3 : Activity-wise number of SHGs in West Bengal

Serial no.	Name of activities	No. of SHGs
1	Agriculture	2,607
2	Animal Husbandry	17,336
3	Paddy Processing	4,632
4	Vegetable & Mushroom Cultivation	571
5	Horticulture	42
6	Nursery	895
7	Floriculture	284
8	Fishery	2,708
9	Food Processing	597
10	Milch Cow	316
11	Zari embroidery	2,980
12	Kantha stitch & Embroidery	455
13	Silk, Tasar & Handloom	1,590
14	Jute Products	307
15	Readymade Garments/Tailoring	57S
16	Imitation Jewellery	148
17	Leather Products	109
18	Sericulture	74
19	Betel vine	1,5%
20	Minor Irrigation	96
21	Boutique	145
22	Mat Making	167
23	Dhoop Making	90
24	Cane & Bamboo Products	248
25	Marine Jewellery	53
26	Detergent & Phenyl Making	44
27	Wig Manufacturing	3
28	Bee Keeping	95
29	Wood Products Manufacturing	36
30	Carpentry	20
31	Bell-metal utensils manufacturing	19
32	Shola works	8
33	Bel Mala	25
34	Pottery	44
35	Spice Making	30
36	Plate making (shal leaf)	160
37	Babui rope	70

Source: Government of West Bengal, West Bengal; July 2008

They have also been given seeds of common vegetables, which have been very popular and an annual feature in the liaising exercise. Many SHGs have been given training on nursery-raising for supplying planting materials to the Pancnayats for social forestry, which has become a good source of income for those group members. The Panchayats have excavated large number of tanks out of National Food For Work programme and other employment-generation programmes.

Order has been passed by the L & LR Department allowing the SHGs to be given lease of those tanks owned by the government for growing fish. Many groups have taken up composite culture of taking up pisciculture, duckery and horticulture on such leased in tank including its embankments. Other inputs like chicks, piglets and kids have also been distributed in large numbers by the Animal Resources Development Department and the DRDCs of the Zilla Parishads. In districts covered under RSVY such inputs have been distributed in large numbers out of RSVY fund in most of such districts. Small infrastructures like working sheds, machines for making Saal leaf plates, godown for storing Sabai grass etc in areas of Bankura, Purulia etc. where such grass is grown as well as larger infrastructure like food processing centre, paddy processing facilities etc. have also been constructed in large numbers for helping the groups in pursuing their economic activities. In quite a few districts the SHG groups have started selling rice processed by group members to the agents of the Food Corporation in fulfilling their procurement target. Providing marketing support to the SHGs for selling their products is another important support that is being provided by the State Government and the local bodies. Fairs are organized in the districts and the State headquarter for promotion of sale of products of the SHO groups. Some of them also participate in fairs outside the State. However, much more is required to be done in this regard and the business enterprises of the State have been approached through their organizations like the Confederation of Indian Industries for developing linkages between the SHGs and those enterprises for helping the SHGs in improving and selling their products as well as to augmenting their marketing skills.

Very recently a few organizations have shown their interests, which is yet to take concrete shape At-a-glance the profile of how the SHGs have been doing in the state is given :

- Savings of the SHGs under SGSY: Rs. 107 crore (approximately)
- Savings of the SHGs under NABARD : Rs. 97 crore (approximately)
- No of SHGs under SGSY to have passed Grade I : 1 ,42,490
- No, of SHGS under SGSY to have passed Grade II : 36,595
- No. of SHGs under SGSY to have got cash credit loan : 1,15,000
- Amount of such cash credit : Rs. 250 crore (approximately)
- No. of SHGs under NABARD to have got first input of loan : 1,93,086
- Amount of cash credit for NABARD SHGs : Rs. 395 crore (approximately)
- Refinance amount for NABARD SHGs repaying first input of loan : Rs. 127.43 crore (approximately)
- No. of SHGs under the State Cooperation Department getting loan : 70,000 (approximately)
- Amount of such loan : Rs. 115 crore (approximately)

The position of Savings and Credit Linked SHGs (both NABARD and SGSY) for the State of West Bengal for last 4 years is given :

Table 4 : Position of Savings and Credit Linked SHGs (bolh NABARD and SGSY) for West Bengal

(Amt. Rs in)

Year	Target No.		Achievement	Achievement	
	Deposit Link	Credit Link	Deposit Linked	Credit Linked	
			No.	No.	No.
2006-2007	150,000	150,000	101556	78,730	373.03
2007-2008	150,000	150,000	134106	128,148	388.50
2008-2009	150,000	150,000	109617	105,450	450.88
2009-2010	150,000	150,000	117372	152,067	615.13

Source: SLBC (State Level Bankers Committee, West Bengal)

Recovery Status of selected Employment generation schemes as on March 2010 in comparison to March 2009 is :

Table 5 : Recovery Status of selected Employment generation schemes as on March 2010

Sector					Amt. Rs in crore	
	March 2009		March 2010			
	Demand	Recovery	%	Demand	Recovery	%
PMRY	125	30	24	146	36	24
SJSRY	17	6	35	24	9	38
BSKP	119	60	50	125	59	47
REGP	101	60	59	96	49	51
SCP/TSP	64	32	50	120	56	47
SGSY (Individual)	37	18	49	36	19	52
SGSY (Gr)	139	99	71	197	136	69
SHG	228	205	90	353	287	81

Source. SLBC (State Level Bankers Committee, West Bengal)

Concluding Observations

There were numbers of traditional and informal ways of forwarding credit before the emergence of the SHGs. All of them provided very little attention to the question of both empowerment and sustaina-bility. Along with this there was a casual approach towards the accountability of the credits leading to adverse impact on both repayment as well as further outreach. The conclusion that emerges from this study is that SHGs are playing a vital role in the rural empowerment, although most of the SHGs are formed as female groups.

- The distinguishing feature of this approach as compared to other sponsored credit system is that it imparts the knowledge of managing money to its subscribers before they go for availing any loan from the banks.
- Moreover, the SHG approach does not involve any subsidy, hence it can sustain with its own strength.
- In financing SHGs, the requirement of collateral by banks has been replaced by peer group pressure and, hence, this approach has enabled social and economic inclusion of women by waiving the requirement of collateral.
- Of the total SHGs, women groups are 86 per cent.
- It can be commented that the whole scenario of SHGs flourishing in West Bengal is not at all satisfactory in comparison to southern and western states. Though it took off very slowly, the Self-help group movement in West Bengal has acquired considerable quantitative momentum. ❒

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cooperatives, RRBs etc. so as to extend the scops of financial inclusion with minimal intermediation cost.

- Since large sections of low income groups transactions are related to deposits and withdrawals, with a view to containing transaction costs, 'simple to use' cash dispensing and collecting machines akin to ATMs, with operating instructions and commands in vernacular would greatly facilitate financial inclusion of the semi-urban and rural populace.

Conclusion

The main reason for financial exclusion is the lack of a regular or substanlial income. In most of the cases people with low income do not qualify for a loan. The proximity of the financial service is another fact. The loss is not only the transportation cost but also the loss of daily wages for a low income individual. Most of the excluded consumers are not aware of the bank's products, which are beneficial for them. Getting money for their financial requirements from a local money-lender is easier than getting a loan from the bank. Most of the banks need collateral for their loans. It is very difficult for a low income individual to find collateral for a bank loan. Moreover, banks give more importance to meeting their financial targets. So they focus on larger accounts. It is not profitable for banks to provide small loans and make a profit.

Financial inclusion is a great step to alleviate poverty in India. But to achieve this, the government should provide a less perspective environment in which banks are free to pursue the innovations necessary to reach low income consumers and still make a profit. Financial service providers should learn more about the consumers and new business models to them. ❒

Financial Inclusion

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Introduction

Micro credit is not a new concept in India. Priority sector credit in general and weaker sector credit in particular was actually a kind of micro credit. But in the 1990s, during the banking reforms, the definition of priority sector underwent a sea change. So far as micro-saving services are concerned, these are indeed recent with the advent of self-help group (S.H.G.) movement. However, it is still in experimental stage, till now. Micro-savings has been a proxy to micro-insurance.

Microfinance is financial service of small quantity provided by financial institutions to the poor. These financial services may include saving, credit, insurance leasing, money transfer and equity transactions provided to the customers to meet their normal financial needs. According to some experts, life cycle, economic opportunity and emergency are the only qualifications their transaction value is small and customers are poor.

The Grameen Bank in Bangladesh

The microfinance is the brainchild of Dr. Muhammad Yunus of Chittagong University who felt concern at the pittance earned by landless women after a long arduous day's work laboring for other people. He reasoned that if these women could work for themselves instead of working for others they could retain much of the surplus generated by their labors, currently enjoyed by others. Established in 1976, the Grameen Bank has over 1,000 branches in every province of Bangladesh. A branch covers 25 to 30 villages around 240 groups and 1,200 borrowers. There are borrowing groups in 2,800 villages, 12 lakh borrowers, with over 90% being women. It has an annual growth rate of 20% in terms of its borrowers. The most important feature is the recovery rate of loans, which is as high as 98 %. A still more interesting feature is the ingenious manner of advancing credit without any collateral security. The Grameen Bank lending system is simple and effective. To obtain loans, potential borrowers must form a group of five; gather once a week for loan repayment meeting and, to start with, learn the bond rules and "16 Decisions' which they chant at the start of their weekly session. These decisions incorporate a code of conduct that members are encouraged to follow in their daify life. A study has shown that about 42% of the members had no income earning occupation at the time of application of the first loan. Thus, the Grameen Bank has helped to generate new jobs for a large proportion of the members. About 50 percent of the loans taken by male members were for the purpose of trading and shop-keeping, 75 percent of loans given to female members were utilized for livestock, poultry raising, processing and manual counting activity.

Self-Help Groups

The movement for financial inclusion has been one of the real hopes for inclusive growth. The poor and the excluded have successfully organized themselves into 40 lakh self-help groups. II has an average of 12 members per SHG and an average family size of five members. The total population touched by SHGs is of the order of 15 crore. Most of these SHGs are registered with specific names and possess a bank account. They have established systems of viable monthly financial management thai include routine deposits and rule for inter-loaning and repayment.

The SHG movement started in 1992 and initiative with NABARD has triggered a complete social transformation in the same area or villages. Minimum 10 persons, particularly women, in the same area or village can come forward and form a SHG. They save regularly and the savings arc deposited in the bank in the name of SHG. 25% of the savings are utilized for urgent needs of the members. All the members have to attend the meetings and the decisions are taken in the meetings. The chairman of the SHG is normally a lady member. The banks provide loans to these SHGs. Thus, with the help of SHGs, the women are independent, confident and assertive, finding satisfaction in there world of work and recreation, seeking excitement, adventure and fulfilment.

Review of Literature

The literature relating to the topic is reviewed :

(i) Khandelwal Anil K. (2007). In banking and policy making field, microfinance has become one of the most debated and documented but still much confused buzzword.

(ii) Dasgupta Rangarajan (2005) concluded that in the reform process microfinance has to be the focal point. All issues related to definition and scope of financial architecture, capital structure, prudential norms, legal aspects, regulatory and supervisory role. Support and capacity building mechanism need to be addressed. However, a comprehensive policy is required for microfinance in which both FII and MFI have to take part.

(iii) Tiwari Piyush and Fahad S.M.L. (1998) concluded that microfinance can contribute to solving the problem of inadequate housing and urban services as an internal part of poverty alleviation programmes. The challenge lies in finding the level of flexibility in the credit instrument that could make it match the multiple credit requirements of the low income borrower without imposing unbearably high cost of monitoring its end-use upon the lenders.

(iv) Jana Madan Mohan (2011), concluded that the main reason for financial exclusion is lack of regular income and educational backwardness. Therefore, position has to be made as an at-most-care for augmentation of education of rural people and presentation of value added banking services to rural and urban poor at an affordable cost.

(v) Ramanathan Ramesh (2011) concluded that in such an ecosystem, for profit MFIs can play a credible, responsible and sustainable role. These MFIs need to operate under and be held accountable to clear regulations that are overseen by a single regulator—RBl, with inputs from State Governments.

(vi) Pali A. P. (2009) concluded that looking at the macro level analysis it appear that SHGs have targeted poorer segments of the rural population in an effective manner. Particularly, the potential of SHGs in making effective financial inclusion is enormous in North East India. Further gains in terms of outreach in this region could be achieved by involving the upcoming branches of private-sector banks and MFIs.

(vii) Trivedi I.V. and Deepti Bhargara (2009) concluded that large number of poor is still beyond the reach of SHGs and formal financial institution. Only 30% SHGs have been able to take loan from banks. Microfinance is limited to micro savings and credit. Most microfinance products and services should be based on the needs of the clients. Largely, the SHGs are promoted to meet project requirements. There are many operational problems in SHG-Bank linkage.

Objectives of the study

The objectives of my study are :

1. To study the concepts of financial inclusion, Self Help Groups and SHG-Linkage programs.
2. To Study the growth of SHGs and their performance.
3. To evaluate the SHG-Linkage programs of Banks.
4. To make suggestions for implementation of financial inclusion.

Research methodology

The present study is exploratory in nature to provide a clear guidance for empirical research. It is also descriptive where the focus is on fact-finding investigation with adequate interpretation. For this purpose secondary data were collected. The secondary data were collected through newspapers, magazines, books, journals, conference proceedings, Government reports and websites.

Data Analysis

The Secondary data were collected and analysed as :

A. Financial Inclusion

Financial inclusion denotes delivery of credit and other financial service at cost to the vast sections of the disadvantage and low income groups. The objective of financial inclusion is to extend Ihe scope of activities of the organized financial system to include within its ambit people with low income. Through graduated credit, attempt should be to lift the poor from one level to another so that they come out of poverty. Despite the success of microfinance institutions, only about 2% of world's roughly 500 million small entrepreneurs are estimated to have access to financial services.

Table 1
The Excluded

Country	Population Excluded (in million)
China	263
Africa	230
Rest of Asia	162
India	135
Latin America(Excluding Brazil)	28
Brazil	14
Middle East	20
East Europe	19
West Europe	I8

Source : Microfinanc World January/March 2011

Table 1 reveals that the population excluded is a phenomena all over. Even the developed countries have people excluded from financial services.

The access to finance for the unbanked is not alien concept for the Indian Economy. Access has always been available through intermediaries like SHGs and MFIs.

Microfinance Industry

With the phenomenal growth recorded by microfinance in recent years—62 % per annum in terms of the number of unique clients and 88 % per annum in terms of portfolio over the past five years and around 27 million borrowes accounts—India now has the largest microfinance industry in the world. The high growth rate of microfinance has been fuelled by commercial bank funding which inherently gravitates towards for—profit institutional structures. There is a continued India-wide trend towards the transformation of microfinance institutions into for profit Non-Bank Finance Companies (NBFCs) so that over 50 % of the 66 MFIs in the M.CRIL analysis now consist of such institutions. At the regional level the South continues to dominate the sector in the concentration of MFIs. With 27 million borrower accounts served by MFIs by March 2010, Indian microfnance represents a significant sub-sector of the financial system. It exceeds the number of borrower accounts served by the Regional Rural Banks (RRBs) by 50 % and represents 40 % of the total number of micro-borrower accounts of value less than Rs. 25,000.

Indian MFIs are amongst the most eost-eOitient in the world. The cost of loan servicing by Indian MFIs is $11.90, very low in comparison with the global benchmark of $139. In real terms the cost of serving microfinance borrowers has declined from Rs. 620 in 1990-2000 to just Rs. 298 in 2009-10 (at 2002 prices). This could indicate the growing efficiency of Indian microfinance over this period.

Self Help Group Linkage Programme of Banks

The SHG Linkage programme has grown in India to help the poor people and make the people self-dependent. The specialized institutions like NABARD has played a significant role to increase this activity. The status of SHG linkage programme is shown :

Table 2
SHG Linkage Programme (Rs, Crores)

Year	Total SHG Finance (000)	Growth Rate %
1992-99	33	—
1999-00	82	148
2000-01	149	82
2001-02	198	33
2002-03	256	30
2003-04	362	41
2004-05	539	49
2005-06	620	15
2006-07	686	11

Source : NABARD

Above table reveals that the bank finance to SHGs has increased manifold. The SHG linkage programme has achieved a phenomenal growth over the years but there is still a larger segment of society that is denied access to financial services. Therefore, the poor still continues to depend on informal sources of credit. Due to the fast growth of the SHG bank linkage programme, the quality of SHG has come under stress.

Some of the factors affecting the quality of SHG are (i) the target-oriented approach of some of the government in promoting groups (ii) Inadequate incentives to NGOs for nurturing them on a sustainable basis, and (iii) low level of skills on the part of SHG members in managing their groups.

SKS Microfinance Ltd.

SKS Microfinance Ltd., India's lone listed micro-finance lender, has lost its position as the largest Indian microfinance institution. Andhra Pradesh is the biggest market for India's Rs 20,000-crore micro-finance industry, SKS posted a loss of Rs. 384.54 crore in the September 2011 quarter on account of provisions and write-offs. Its stock has lost 38% since the announcement of the second quarter results on 7th November. The stock ended at Rs. 122.40 on BSE the lowest since it listed at Rs. 985 per share in August 2010. MFIs give tiny loans to poor borrowers at a 24-36% rate of interest and source money from banks to do business. A. P. government enacted the law in the wake of a series of suicides due to alleged coercive recovery practices of some MFIs.

Conclusions

More than 65% of the Indian population is still 'unbanked' and does not have access to basic banking facilities. As a mission to sustain the economic development of the country it is imperative of these people be brought, initially, into the banking fold, which subsequently can act as a base for providing other services. The movement of financial inclusion has been one of the real hopes for inclusive growth. The poor and the excluded have successfully

Continued on Page 29

Financial Inclusion—Role of Banking Industry

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The country has moved on to a higher growth trajectory. To sustain and accelerate the growth momentum, we have to ensure increased participation of the economically weak segments of population in the process of economic growth. Financial Inclusion is the road which India needs to travel towards becoming a global player. Financial inclusion of hitherto excluded segments of population is a critical part of this process of inclusion.

The banking industry has shown tremendous growth in volume and complexity during the last few decades. Despite making significant improvements in all the areas relating to financing viability, profitability and competitiveness, there are concerns that banks have not been able to include vast segment of the population, especially the underprivileged sections of the society, into the fold of basic banking services. Internationally also, efforts are being made to study the causes of financial exclusion and designing strategies to ensure financial inclusion of the poor and disadvantaged. The reasons may vary from country to country and hence the strategy could also vary but all our efforts are being made as financial inclusion can truly lift the financial condition and standards of life of the poor and the disadvantaged.

What is Financial Inclusion?

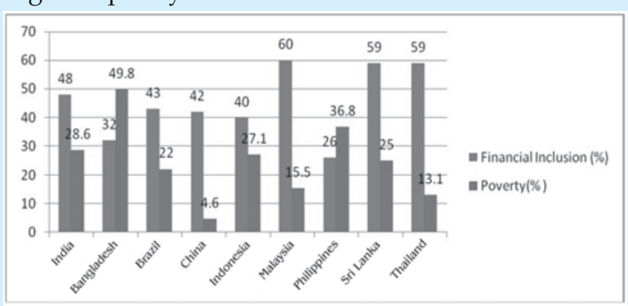
"Financial inclusion is process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost." —C Rangarajan, Chairman of Committee on Financial Inclusion.

"Financial inclusion is expanding access to financial services, such as payments services, savings products insurance products, and inflation-protected pensions."—***Raghuram Committee on*** Financial Sector Reforms (CFSR).

By financial inclusion, mean delivery of banking services and credit at an affordable cost to the vast sections of disadvantaged and low income groups. The various financial services include savings, loans, insurance, payments, remittance facilities and financial counseling /advisory services by the formal financial system. An open and efficient society is always characterized by the unrestrained access to public goods and services. As banking services are in the nature of public goods, financial inclusion should therefore be viewed as availability of banking and payment services to the entire population without discrimination of any type.

Financial Inclusion and Development indicator

Recent data shows that countries with large proportion of population excluded from the formal financial system also show higher poverty ratios and high inequality.



Source : World Bank (2006) and (2008)

Reasons for financial exclusion

Followings are the common reasons for financial exclusion :

1. Remote, hilly and sparsely populated areas with poor infrastructure, physical access itself acts as a deterrent.
2. From the demand side, lack of awareness, low incomes/assets, social exclusion, illiteracy act as barriers.
3. From the supply side, distance from branch, branch timings, cumbersome documentation and procedures, unsuitable products, language, staff attitudes.
4. Higher transaction cost apart from procedural hassles.
5. On the other hand, the ease of availability of informal credit sources makes these popular even if costlier.
6. The requirements of independent documentary proof of identity and address can be a very important barrier in having a bank account especially for migrants and slum-dwellers.

Whether Financial Inclusion is a Viable Business activity?

Contrary to common perception, financial inclusion is a potentially viable business proposition because of the huge untapped market that it seeks to bring into the fold of banking services. Financial inclusion, prima facie, needs to be viewed as 'money at the bottom of the pyramid' and business models should be so designed to be at least self-supporting in the initial phase and profit-making in the long-run. It is important to keep in mind that service provided should be at an affordable cost. The future lies with those who see the poor as their customers, as commerce for the poor is more viable than the rich.

There is huge scope of business at the bottom of the pyramid, where almost half the population of the county is unbanked. 45% population has no deposit account and only 9% have credit accounts with bank. There are only 33,495 rural branches in more than 6 lakh villages. There is one bank branch per 14,000 people. Only 20% population has any kind of insurance and 9.6% of the population has non-life insurance coverage.

Initiatives taken by RBI/Government for financial inclusion

1. Concept of no-frills accounts : Basic banking no-frills accounts with nil or very low minimum balance as well as charges that make such accounts accessible to vast sections of the population. Banks have been advised to provide small overdrafts in such accounts.

2. Relaxation on know-your-customer (KYC) norms for opening of no-frill accounts : KYC requirements for opening bank accounts were relaxed for small accounts in August 2005, thereby simplifying procedures by stipulating that introduction by an account holder who has been subjected to the full KYC drill would suffice for opening such accounts. The banks were also permitted to take any evidence as to the identity and address of the customer to their satisfaction. It has now been further relaxed to include the letters issued by the Unique Identification Authority of India containing details of name, address, and Aadhaar number.

3. Introduction of General Credit Cards : With a view to helping the poor and the disadvantaged with access to easy credit, banks have been asked to consider introduction of a general purpose credit card facility up to Rs 25,000 at their rural and semi-urban branches. The objective of the scheme is to provide hassle-free credit to banks' customers based on the assessment of cash flow without insistence on security, purpose or end-use of the credit. This is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned.

4. Business correspondents (BCs) and Business Facilitators (BFs) Model : The Reserve Bank permitted banks to engage BCs and BFs as intermediaries for providing financial and banking services. The BC model allows banks to provide doorstep delivery of services, especially cash-in-cash-out transactions, thus addressing the last-mile problem. The list of eligible individuals and entities that can be engaged as BCs is being widened from time to time. With effect from September 2010, for-profit companies have also been allowed to be engaged as BCs.

5. Use of technology and Micro Credit : Recognising that technology has the potential to address the issues of outreach and credit delivery in rural and remote areas in a viable manner, banks have been advised to make effective use of information and communications technology (ICT), to provide doorstep banking services through the BC model where the accounts can be operated by even illiterate customers by using biometrics, thus ensuring the security of transactions and enhancing confidence in the banking system.

Mobile Banking

Data Collection

Transactions Devices

Card

Biometric ATM

Rural BPO

SHG

MFI

6. Creation of funds for Financial Inclusion: Financial Inclusion Fund and Financial Inclusion Technology Development Fund were created by Central Government for meeting the costs of development, and promotional and technology interventions. A fund of Rs. 5,000 crore in NABARD was also created to enhance its re-finance operations to short term co-operative credit institutions.

7. Branch authorization in Tier III to Tier VI Centres : To address the issue of uneven spread of bank branches, domestic scheduled commercial banks were permitted to freely open branches in Tier III to tier VI centres with a population of less than 50,000 under general permission, subject to reporting. In the north-eastern states and Sikkim, domestic scheduled commercial banks can now open branches in rural, semi-urban and urban centres without the need to take permission from the Reserve Bank in each case, subject to reporting.

8. New branches in unbanked rural centres : To further step up the opening of branches in rural areas so as to improve banking penetration and financial inclusion rapidly, the need for the opening of more bricks-and-mortar branches, besides the use of BCs, was felt. Accordingly, banks have been mandated to allocate at least 25% of the total number of branches to be opened during a year to unbanked rural centres.

9. Banking services in unbanked villages with a population of more than 2,000 : Banks were advised to draw up a road-map to provide banking services in every unbanked village having a population of over 2,000 by March 2012. The Reserve Bank advised banks that such banking services need not necessarily be extended through a brick-and mortar branch, but could also be provided through any of the various forms of ICT-based models. About 73,000 such unbanked villages were identified and allotted to various banks through state-level bankers' committees.

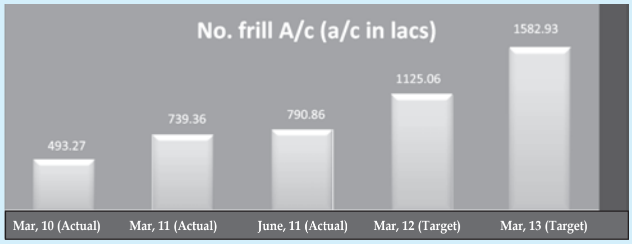
10. Plan of banks for financial inclusion : The Reserve Bank advised all public and private sector banks to submit a board-approved, three-year financial inclusion plan (FIP) starting April 2010. These plans broadly include self-set targets in respect of rural brick-and-mortar branches opened; BCs employed; coverage of unbanked villages with a population above 2,000, as also other unbanked villages with population below 2,000 through branches; BCs and other modes; no-frills accounts opened, including through BC-ICT; Kisan Credit Cards (KCCs) and General Credit Cards (GCCs) issued; and other specific products designed by them to cater to the financially excluded segments.

11. Consolidation of Regional Rural Banks (RRBs) : The Central Government has kicked off a major consolidation exercise among RRBs which will play an important role in the country's scheme of financial inclusion. The number of banks will be cut to 46 from 82 after the merger process. A consolidation of existing rural banks will make them more viable.

12. Parameter for performance appraisal of bank staff : Banks were advised by RBI to integrate board-approved FIPs with their business plans and to include the criteria on financial inclusion as a parameter in the performance evaluation of their staff.

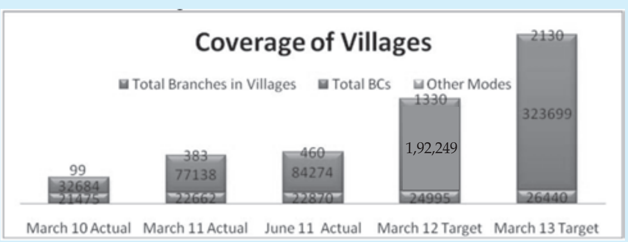
Financial Inclusion—Excellent work done by Banks : The progress by commercial banks (excluding RRBs) during the year 2010-11 clearly indicates that banks are on the right path towards deploying BCs, villages covered, opening of no-frills accounts, and grant of credit through KCCs and GCCs. The numbers would be much higher if the figures pertaining to RRBs were to be added. A criticism that the bankers often face is that they are not doing enough, or that they are not sincere enough. But is that really true? Following statistics from the consolidated FIP of the scheduled commercial banks debunk some of these myths :

balance of Rs. 5,944.73 crore. These figures, respectively, were 4.93 crore and Rs. 4,257.07 crore in March 2010.



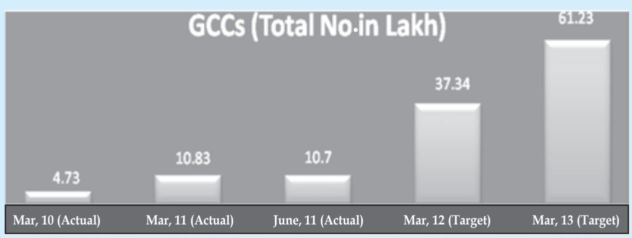
Sr No.	Particulars	March 2010 Actual	March 2011 Actual	June 2011 Actual	March 2012 Target	March 2013 Target
1	Village Covered – Grand Total (2+3+4=5+6)	54,258.00	1,00,183.00	1,07,604.00	2,18,574.00	3,52,269.00
2	Village Covered – Total Branches	21,475.00	22,662.00	22,870.00	24,995.00	2,6440.00
3	Village Covered – Total BCs	32,684.00	77,138.00	84,274.00	1,92,249.00	3,23,699.00
4	Village Covered – Total Other Modes	99.00	383.00	460.00	1,330.00	2,130.00
5	Village Covered > 2000	27,353.00	54,246.00	59,640.00	86,806.00	91,440.00
6	Village Covered < 2000	26,905.00	45,937.00	47,964.00	1,31,768.00	2,60,829.00
7	Urban Locations covered through BCs	433.00	3,757.00	4,524.00	6,068.00	8,614.00
8	No Frill A/cs (No. in Lakh)	493.27	739.36	790.86	1,125.06	1,582.93
9	Amount in No-Frill A/cs (Amt in Crore)	4,258.07	5,702.94	5,944.73	7,449.86	8,871.55
10	No-Frill A/Cs with OD (No. in Lakh)	1.31	6.32	9.34	183.61	286.54
11	No-Frill A/Cs with OD (Amt in Crore)	8.34	21.48	37.42	1,008.04	1,636.32
12	KCCs – (Total No. in Lakh)	176.30	201.91	202.89	276.59	350.36
13	KCCs – (Total Amt in Crore)	98,749.51	32,352.31	36,122.31	44,685.51	72,775.00
14	GCCs – (Total No. in Lakh)	4.73	10.83	10.70	37.34	61.23
15	GCCs – (Total Amt in Crore)	753.49	2,328.36	2,356.25	4,266.13	6,715.07
16	ICT Based A/cs – Through BC (No. in Lakh)	125.42	295.41	338.36	641.73	1,014.74
17	EBT A/cs – Through BCs (No. in Lakh)	74.81	146.51	164.60	249.07	368.96

1. Coverage of villages : Banks have, up to June 2011, opened banking outlets in 1.07 lakh villages up from just 54,258 as on March 2010. Out of these, 22,870 villages have been covered through brick-&-mortar branches, 84,274 through BC outlets and 460 through other modes like mobile vans, etc.

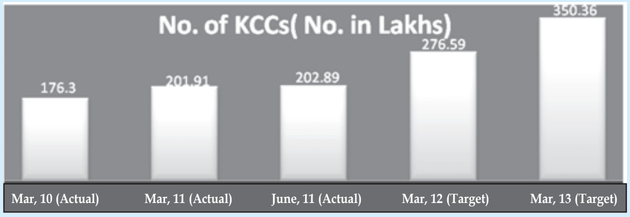


2. Opening of No-frills accounts : Basic banking 'no-frills' account, with 'nil' or very low minimum balance requirement as well as no charges for not maintaining such minimum balance, were introduced as per RBI directive in 2005. As on June 2011, 7.91 crore No-frills accounts have been opened by banks with outstanding

3. General Credit Cards(GCCs) : Banks have been asked to consider introduction of a General Purpose Credit Card (GCC) facility up to Rs. 25,000/- at their rural and semi-urban braches. The credit facility is in the nature of revolving credit entitling the holder to withdraw up to the limit sanctioned. Based on assessment of household cash flows, the limits are sanctioned without insistence on security or purpose. Interest rate on the facility is completely deregulated. As on June 2011, banks had provided credit aggregating Rs. 2,356.25 crore in 10.70 lakh General Credit Card (GCC) accounts.



4. K isan Credit Cards (KCCs) : Kisan Credit Cards to small farmers have been issued by banks. As on June 30, 2011, the total number of KCCs issued has been reported as 202.89 lakh with a total amount outstanding to the tune of 1,36,122.32 crore.



Conclusion

An inclusive growth will act as a source of empowerment and allow people to participate more effectively in the economic and social process. Banks that have global ambitions must meet local aspirations. Financial access will also attract global market players to our country that will result in increasing employment and business opportunities. If we look at the progress that has been achieved, banks are able to scale up and sustain their efforts, India is quite hopeful that the targets set by the banks and objective of achieving universal financial inclusion is attainable. ❒

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Continued from Page 24

organized themselves in 25 lakh self-help groups (SHGs). With the phenomenal growth recorded by microfinance in recent years — 62 % per annum in terms of the number of unique clients and 88% per annum in terms of portfolio over the past five years and around 27 million borrower accounts, the SHG linkage programme has achieved a phenomenal growth over the years bus there is still a larger segment of society that is denied access to financial services. SKS Microfinance Ltd., India's lone listed microlinancc lender has lost its position as the largest Indian microfinance institution. MFIs give tiny loans to poor borrowers at a 24-36% rate of interest and source money from banks to do business.

Suggestions

The following suggestions are made for the implementation of Financial Inclusion in India :

I. The MFIs need to operate under and be held accountable to clear regulations that are overseen by a single regulalor—RBI.

II. In an ecosystem for profit, MFIs can play a credible, responsible and sustainable role. Therefore, there is a need to have financial inclusion regulation in our country.

III. The government had placed a draft micro-finance bill in July 2011 that sought to put MFIs outside the purview of state level legislation. It is expected that the bill will be discussed and passed in the winter session.

IV. The access to finance for the poor should be available through intermediaries—SHGs and MFIs and such others. ❒

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Towards a Systemic Pattern of Financial Inclusion in India—A Review

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Introduction

Financial inclusion (FI) of the excluded people is a major and burning issue challenging the Indian economy. The excluded or the unserved people are basically rural, unorganized and commercially not very significant. India has the second highest number (135 million in 2005) of financially excluded households in the world. Approximately 40% of India's population has bank accounts while only 10% of them have the coverage of life insurance. In order to maintain the present level of GDP growth, we need to serve the financial need of this segment of Indian population, presently which is consisting of more than 60% of the total population. Unless we engage this unorganized and unserved section of people into our developmental process, the whole system and motion of development may get distorted and disoriented.

The banking data sources reveal that credit exclusion is very high in 139 districts of the country. In these districts, less than 10% of the population have access to credit. The results of All India Debt and Investment Survey (2002) indicate that the ratio of non-institutional credits to the total credits of the cultivator households has increased from 30.6% in 1991 to 38.9% in 2002. This reveals that, in spite of having a large network of the institutional credit system, it has not been able to penetrate the rural markets properly and, consequently, has failed to accomplish its mission.

Objectives

The paper has been conceived with the following objectives in mind :

(i) To explain the role of Financial Inclusion (FI) in furthering equitable economic growth in India.

(ii) To analyse various important regulatory initiatives taken by the Reserve Bank of India regarding FI.

(iii) To examine the role of banking sector in FI, including various problems and prospects associated with it.

(iv) To suggest some possible solution sets for FI in Indian perspective.

Financial inclusion—Indian evidences

Financial Inclusion is the process of ensuring fairly and timely access to the financial services (such as savings, credit, remittance, insurance etc.) to the unserved persons. The purpose of FI is to lift the standard of living of the poor and to cover them under the organized financial system. FI can help the excluded people to improve their standard of living at the community level, and leverage the process of economic growth and poverty reduction at the national level.

The main reason behind financial exclusion is the lack of regular or substantial income which leads to a disqualification for granting a loan. The proximity of the financial service providers and the residence of the unserved people is another fact for financial exclusion. Here the loss is not only the transportation cost but also an opportunity loss of daily wages for an individual who is having low income. Apart from the above factors the non-awareness of banking products among the persons, easier access to the local moneylenders, stringency of banking norms etc. can also be triggered as a reason for financial exclusion. Although financial exclusion is widespread, the situation is more severe in case of low income group people in India. This is depicted in Table 1 and 2 :

Table 1 : Percentage of Indian earners having bank account

Annual Income (Rs.)	Urban	Rural	Total
Up to 50,000	34.1	26.8	28.3
50,000 to 1,00,000	75.5	71.2	73.0
1,00,000 to 2,00,000	91.8	87.4	89.9
2,00,000 to 4,00,000	95.5	93.6	94.9
More than 4,00,000	98.0	96.3	97.6
Overall	61.7	38.0	44.9

Source : Report on Currency and Finance 2008-10

Table 2 : Sources of loan (percent of indebted earners)

Annual Income (Rs.)	Banks	Money-lenders	Other institutional- and non institutional sources	Total
Up to 50,000	13.0	34.9	52.1	100
50,000 to 1,00,000	34.5	19.6	45.9	100
1,00,000 to 2,00,000	49.3	12.0	38.7	100
2,00,000 to 4,00,000	51.6	11.8	36.6	100
More than 4,00,000	62.8	5.5	31.7	100

Source : Report on Currency and Finance 2008-10

It is very much evident from the above tables that financial inclusion and level of income is very much positively correlated. This is, as discussed earlier, due to the fact that the majority of the people in the low income bracket are more dependent on non-institutional and other private sources. This proportion declines sharply as the annual income increase.

Financial inclusion and economic growth : The Interface

Economic development, in a country, is not possible without people's active participation. People of a developed country should not only enjoy the benefits but they generally generate those benefits as well. If growth benefits only the rich and higher income earner segment of the society, it is not sustainable and cannot be termed as development. According to the World Bank (World Development Report, 1991) : ***"The challenge of development is to improve the quality of life. Especially in the world's poor countries, a better quality of life calls for higher incomes—but it involves much more. It encompasses as ends in themselves better education, higher standards of health and nutrition, less poverty, a cleaner environment, more equality of opportunity, greater individual freedoms and a richer cultural life."*** Modern development economists like Amartya Sen, M. P. Todaro have also indirectly supported this view. This development and sustainable economic growth is not possible without the participation of around more than half the population. Thus, the role of FI in furthering the growth and development process is very significant. Dr. D. Subbarao illustrated the following points while discussing the role of FI in economic growth:

***(i) Mobilizations of savings* :** A significant benefit of FI is mobilization of their savings and thus by doing that their savings are channelized through a formal financial system and converted to investments. Apart from increasing the chance of exploring new investment opportunity and, thus, the chance of generating more surpluses, it has two additional benefits. One is increasing the domestic savings rate and ensuring the country's economic growth more sustainable and inclusive. The second benefit is that the banks will get some low cost deposits.

***(ii) Poverty eradication* :** FI provides some economic opportunity to the vulnerable. Access to financial services provides them the motivation and platform to build their savings, make investments, and avail various credit facilities provided to them by various authorities. Thus, in this way, they can reduce the dependency on private moneylenders and can generate more surplus by way of mobilizing their savings through proper channel.

***(iii) Increasing effectiveness of government social programs* :** Government makes various payments under various flagship programs such as National Rural Employment Guarantee Programme, Social Security Programme, etc. The major distributional problems under these schemes are procedural complexity of cash payments, unnecessary delay, leakages of money before reaching the hands of the beneficiaries, high transaction costs, etc. All these problems can permanently be solved through FI by transferring the funds directly to the accounts of the beneficiaries.

Regulatory initiatives on financial inclusion

The Government of India and Reserve Bank of India have been continuously trying to implement financial inclusion over the last few decades. They have also taken some regulatory initiatives to accelerate the process. Some of the major initiatives are highlighted :

***(i) No frills accounts* :** The Reserve Bank of India (RBI) had, in its Annual Policy Statement 2005-2006, asked all the banks to introduce 'no-frills' account for low income individual with zero or low minimum balances and charges. The nature and number of transactions in these types of accounts are limited. RBI had also instructed all the banks to make extensive publicity for such no-frills accounts to enable financial inclusion. All the nationalized banks and some private banks had responded quickly to this RBI instruction, followed by the other private and foreign banks. For example, SBI is offering no-frills account to anyone having income up to Rs. 5,000 p.m. The initial deposit is Rs. 50 and the customer can maintain zero balance thereafter. The maximum permitted credit balance is Rs.10,000. The bank also offers free ATM-cum-debit card and cheque facility with these accounts. The interest rate applicable to these accounts is at par with normal SB account.

(ii) Simplification of KYC norms **:** The RBI has simplified the **'Know Your Customer' (KYC)** norms to reduce the procedural complexities involved in opening a bank account. This is basically intended to the excluded peoples to open bank accounts without producing various documents related to identity and residential proof. In such cases, banks can take the introduction (including authentication of photograph and address) of the individualM from an existing account holder on whom the full KYC procedures has been completed and has had last six months satisfactory transactions with bank. Customer fulfilling the simplified KYC norms can lengthen their credit balances up to Rs. 50,000 in all their accounts taken together.

(iii) Priority sector lending **:** RBI has directed to all the Urban Co-operative Banks (UCBs) to lend their funds in the priority sectors such as agriculture, small enterprises, retail trade, micro credit, etc. The targets under priority sector lending is linked to Adjusted Bank Credit (ABC) [ABC = Total loans and advances plus investments made by UCBs in Non-SLR bonds] or credit equivalent to the amount of Off-Balance Sheet Exposures (OBE), whichever is higher. Credit equivalent to OBE is calculated on current exposures method. Inter-bank exposures cannot be considered for the purpose of priority sector lending targets/ Sub-targets. Table 3 reflects the targets and sub-targets set by the RBI under priority sector lending policy.

Table 3 : Targets and sub-targets set under priority sector lending

Total Priority Sector advances	40 per cent of Adjusted Bank Credit (ABC) or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.
Agriculture advances	No target.
Small Enterprise advances	Advances to small enterprises sector will be reckoned in computing performance under the overall priority sector target of 40 per cent of ABC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.
Micro enterprises within Small enterprises sector	(i) 40 per cent of total advances to small enterprises sector should go to micro (manufacturing) enterprises having investment in plant and machinery up to Rs 5 lakh and micro (service) enterprises having investment in equipment up to Rs. 2lakh; (ii) 20 per cent of total advances to small enterprises sector should go to micro (manufacturing) enterprises with investment in plant and machinery above Rs 5 lakh and up to Rs. 25 lakh, and micro (service) enterprises with investment in equipment above Rs. 2 lakh and up to Rs. 10 lakh **(Thus, 60 per cent of small enterprises advances should go to the micro enterprises).**
Advances to weaker sections	Of the stipulated target for priority sector advances, at least 25% (or 15% of the ABC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher) should be given to weaker sections.
Advances to minorities	Within the overall target for priority sector lending and the sub-target of 25 per cent for the weaker sections, sufficient care may be taken to ensure that the minority communities also receive an equitable portion of the credit.

Source : RBI Master Circular No. 11./09.09.001/2007-08 dated July 4, 2007 on primary sector lending.

Clearly, the norms stipulated by the Reserve Bank India for primary sector lending is a welcome move as the same is expected to remove the sectoral disparity and inequality that would be instrumental in helping the excluded sections to be financially stable.

(iv) Business Facilitator model **:** With the objective of ensuring greater financial inclusion and increasing the outreach of the banking sector, the RBI has directed the banks to use the services of the intermediaries in providing financial and banking services through the use of business facilitator (BF) model. The Non Governmental Organisations (NGOs), Self-help groups (SHGs), Micro finance institutions (MFIs) or other Civil society organisations (CSOs) may act as intermediaries.

Business facilitator means the Banks may used intermediaries such as NGOs/Farmers' Clubs, IT enable rural outlets of cooperate entities, post offices, insurance agents, Village Knowledge centers, agri clinics/agri Business centers for providing facilitation services. Such services may include 1) identification borrowers and fitment of activates. 2) Processing and submission of applications to Banks. 3) Post-sanctions monitoring. 4) Monitoring and hand holding of self-help groups/joint liability groups/credit groups/others.

This model intends to benefit the government in a twofold manner — by creating employment opportunity and by accelerating the pace of financial inclusion. It is expected that there would be huge requirement of BFs in the coming years to manage the task of financial inclusion more comprehensively.

(v) Liberalisation of the rules of expanding bank branches and ATMs **:** The RBI, very recently, allowed domestic scheduled commercial banks (other than RRBs) to open branches in towns and villages having population of less than 50,000. At least one-third of such additional branches must be established in the underbanked districts. Moreover, the RBI has also given the full freedom to the banks for the location of ATMs. India has been witnessing increasing number of commercial bank branches (some of these branches has been established in unbanked areas), which is definitely an indicator of positive movement towards financial inclusion. This is shown in Table 4.

Table 5 : Bank Groupwise Number of Branches of Commercial Banks Closed/Opened during last 3 years (1st April to 31st March)

Bank Group	Years					
	2006-07		2007-08		2008-09	
	Closed	Opened	Closed	Opened	Closed	Opened
SBI and its associates	5	227	10	1,078	–	885
Other nationalised banks	54	1,356	28	1,660	21	1,557
Regional rural banks	34	57	20	229	12	377
Other scheduled commercial banks	2	808	10	971	–	866
Foreign banks	–	18	–	7	–	16
Non-scheduled commercial banks	–	5	–	–	–	–
All commercial banks (Total)	**95**	**2,471**	**68**	**3,945**	**33**	**3,701**

Source : adapted from www.rbi.org.in

(vi) Project financial literacy **:** Financial literacy is the first step towards financial inclusion. Financial literacy is the need of the moment, considering the complexity of the financial market. The RBI has initiated a **'Project financial literacy'** with an intention to disseminate information regarding the central bank and the general banking concepts to the target groups, including school – and college-going children, women, rural and urban poor, defense personnel and senior citizens. The tools and programmes of this project are films, currency notes posters, games (puzzles to recognize notes), essay competition for school children, basic banking online story book for school kids, etc.

Banking sector — A facilitator of financial inclusion

The Government of India and RBI has taken concrete steps to expedite the process of FI. Recently Government of India has adopted a movement called ***'swabhiman'*** to bring basic financial services to all 73,000 unbanked villages with over 2,000 population by March 2012. In response to that different banks have taken initiatives to fulfil the dream. ICICI bank has come up with a joint venture with Aircel to expendite the process. UBI has set a target to serve 1880 unbanked villages; this number is 1,144 for Andhra Bank.

To facilitate the process the banks adopt different strategies, such as :

- Encouraging agents and intermediaries
- Using technology
- Providing basic low cost financial services
- Emphasizing financial literacy
- Simple loan product for general products and process
- Facilitation of low cost remittance products.

As FI is not a lucrative source of income, banks are basically going for FI after getting an impetus from RBI. The banks are also faced with some challenges in this process. These problems stem from the demand side and supply side of the financial services.

The problems relating to demand side can be listed as :

- Lower financial literacy
- Lack of awareness
- The unfriendly attitude of the banks (although currently it has been changed to some extent after the entry of private banks)

On the other hand, in the supply side, the cost of transaction and customer acquisition is high and it is not at all cost-effective.

In spite of these problems, banks are taking steps for financial inclusion.

Future Directives

In order to make financial inclusion successful, a win-win solution set is to be provided to both the parties—the provider and the beneficiary. In other words, it should be a viable investment alternative to the financial institutions and should also be an attractive one to the borrowers. The financial institutions, especially the banks, can accelerate the financial inclusion process by :

(i) Increasing enrolment of SHGs through bank linkage programme.

(ii) Designing appropriate product on the basis of the requirement of a particular group of borrower.

(iii) Leveraging technology to reduce the opportunity cost of financial inclusions in the rural areas.

(iv) Applying business facilitator and correspondent model more intensively.

(v) Inspecting the infrastructure of rural branches of the banks.

Financial inclusion is a strategy to achieve the inclusive growth provided it is supported by various factors like real initiatives from banks and financial institutions, technological development, financial literacy and so on. The role of Central Government and RBI regarding policy making and the role of state governments with respect to land settlement rights, providing economic and social infrastructures etc. are also very crucial. The time has come to implement policies and schemes adopted by various authorities for rural India to uplift its standards of living and to include it within the periphery of basic financial services. Attempts therefore should be made at the grassroot level to implement those ideas keeping in mind the panoramic view of inclusive growth prevailing in India. ❒

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For June 2012 Examination

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NRS/005703 (except 5161-225, 5283-5305, 5324-5393, 5402-5700)

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The students whose Registration Numbers have been cancelled (inclusive of the students registered up to 31st December 2004) as above but desire to take the Institute's Examination in June 2012 must apply for DE-NOVO Registration and on being Registered DE-NOVO, Exemption from individual subject(s) at Intermediate/Final Examination of the Institute secured under their former Registration, if any, will be treated as per prevalent Rules.

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Wishing you a very happy and prosperous New Year.

Date : 21st December 2011

Arnab Chakraborty
Director of Studies

UID (Aadhaar) — ITS Effect on Financial Inclusion

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Introduction

Attributes like father's name/ mother's name, date of birth, permanent residential address, etc. are not sufficient to distinctly identify a person. Thus a unique identification number is necessary to serve the purpose of identification of that person in every sphere of his life i.e. from Birth to Death. This unique identification is done by allotting every individual a distinct number and with his biometric character like fingerprint, photo of his face and Iris scan, also his demographic information like the bearer's full name, address, photo, profession, rank, and religion and citizenship status.

This unique identification is necessary for the Government to identify Individuals and also organizations like schools, hospitals, even private organizations so that they can be easily tagged for providing more specifical service. The universal adoption of identity cards is supported by law of enforcement to make **vigilance** and identification of criminals easier. Most of the countries issued citizen ID numbers which have become a de facto national identification number. An example of this would be the Social Security Number (SSN) in United States of America. It was initially issued to track the disbursement of social benefits, but now, SSN is mandatorily required for other purpose as well like opening bank account or obtaining driving license. But still US does not officially have a unique identification document.

In some countries like Belgium, Colombia, Hong Kong, Malaysia etc. it is obligatory for their citizens to carry UID card at all times for various purposes.

UIDAI (Aadhaar) in India

Unique Identification Project is the brain, child of Planning Commission for effective monitoring of various schemes of the Government. This was first discussed in the year 2006 for the project "Unique ID for Bellow Poverty Line (BPL) families".

UIDAI was set up as an attached office of the Planning Commission with a core team of 115 officers. Regional Offices were in Bangalore, Chandigarh, Delhi, Hyderabad, Guwahati, Lucknow, Mumbai and Ranchi. A Technology Centre has been setup in Bangalore. UIDAI at present has a total sanctioned strength of 383 officers and subordinate staff.

Organizational set-up

The UIDAI's HQ is at Delhi with Shri Nandan Nilekani as the Chairman and Shri Ram Sevak Sharma as the Director General and Mission Director. In the organizational design the DG is to be assisted by even Deputy Director Generals, officers of the level of joint secretary, who are in charge of various wings. One of the DDGs heads the Finance wing. The DDGs would be supported by 21 ADGs, 15 Deputy Directors, 15 Section officers and 15 Assistants. The HQ has a total sanctioned strength of 146 officers and staff of which 85 have been appointed.

Each of the Regional Offices is headed by a Deputy Director General (DDG). A Technology Development Unit (TDU) consists of experts in technology, legal framework, procurement of hardware and software etc.

The Program Management Unit (PMU) has been set up with a core team of experts who are professionals with high experience. The team has been established with the assistance of the National Institute of Smart Government (NISG).

The UIDAI Biometrics Centre of Competence (UBCC) is being set up as a part of the organization needed to deliver on the mandate of issuing Unique IDs to all residents of India. The UBCC will build a core group of eminent scientists and engineers who specify initial biometric system and introduce new technologies time to time.

Goals and Achievement of UIDAI (Aadhaar)

The prime objective of the UID is to provide their basic identity i.e KYR (Know Your Resident) to the mass, specially to the financially excluded people so that they can establish their identity to public and also the private organization across the country. By this identification the Government can provide the services to the specific persons concern who are actually eligible to get that services. The Government had taken various Schemes for the benefit of financially excluded people or for development of certain specific sectors of population like marginal farmers, landless labors, urban slum-dwellers, ethnic minority, women, migrants, socially excluded groups, senior citizens etc.

The schemes have taken by the Government like PDS, NREGA, JNNURM (BSUP), Old age Pension, etc. needs proper identification of the beneficiaries for effective utilization of the fund.

The role that the Authority envisions is to issue a Unique Identification Number (UID) that can be verified and authenticated in an online, cost-effective manner, which can eliminate duplicate and vague identities.

The first UID number will be issued over the next 12-18 months counted from August 2009. Over five years, the Authority plans to issue 600 million UIDs. The number will be issued through various 'registrar' agencies across the country.

The persons who currently don't have any identity documents and therefore "excluded" from beneficiary lists, can also get an 'identity' through the 'introducer' system.

Currently, UIDAI is undergoing a pilot run in Karnataka which is expected to be complete by 2012. Several IT companies, including IBM, TCS, Wipro, Intel, HP, HCL and Sun Microsystems are involved with the same.

Karnataka would be the first state to come under the UID project issuing a unique ID number. Besides, any person who is below the poverty line will be entitled to a payment of Rs 100 for registering for Aadhaar and the cash incentive to every one above the poverty line will be Rs 50.

Ranjna Sonevate, a resident of Tembhli village in Nandurbar district of Maharashtra, has become the first recipient of India's ambitious Unique Identity (UID) project.

Different State Governments of India had taken steps to fulfil the dream project UID (Aadhaar). In Andhra Pradesh, Government expect to complete this by March 2012. Number of enrolments are 1.3 crore and number of UID (Aadhaars) generated are 26 lakh. In Himachal Pradesh, Government plans to issue ratio cards based on the UID (Aadhaar) number for stopping pilferages in the public distribution system (PDS).

LIC has details like name, gender, sex, fathers and mother name of policyholders. It only has to add the biometric details to it. As a registrar, SBI will collect both demographic and biometric information of the banks. The bank plans to inform its account-holders on the day they can get enrolled in the system.

Union Finance Minister Mr. Pranab Mukherjee launched the LIC-Aadhaar Project of Life Insurance Corporation of India (LIC). This Project is the implementation of UID Project of the Unique Identification Authority of India (UIDAI) wherein LIC is delivering Unique 12-digit Identity — "Aadhaar" Numbers to the Indians.

Process of Enrolment for UID (Aadhaar)

The UIDAI focuses on enrolling India's poor and underprivileged communities. To prevent any identity with erroneous and duplicate/ghost beneficiaries, the Authority plans to enrol residents into its database with proper verification of their demographic and biometric information. The Authority will ensure that the Know Your Resident (KYR) standards do not become a barrier for enrolling the poor. The UIDAI will offer a strong form of authentication (through the Internet, mobile phone, telephone, etc.). The UIDAI is also responsible for recruiting Registrars, approving enrolment agencies and providing a list of introducers among other. Registrars are required to store such documents, and have them available for later investigation/audits. Registrars may also receive and have access to some of the data specifically collected by the UIDAI. Registrars are also authenticators.

Residents of India, who wish to obtain an Aadhaar, are expected to provide appropriate documentation to meet the KYR norms or to be introduced by an appointed introducer. Residents are expected to truthfully provide information and documentation to meet the KYR norms, or be introduced by an introducer. The agencies may store the information of the residents they enrol if they are authorized to do so, but will not have access to the information in the Aadhaar database. The UIDAI will answer all requests to authenticate identity only through a 'Yes' or 'No' response. The Authority will also enter into contracts with Registrars to ensure the confidentiality of the information they collect and store.

The authority will place all the aggregated data for public to access under RTI. However, Personal Identity Information (PII) will NOT be accessible by any entity.

Financial Inclusion of UID : The government's Unique Identification (UID) number project initiated recently is expected to become the initial linkage for widespread financial inclusion in the country. UID is fundamentally the key instrument by which one can identify the beneficiary. The concept of Unique identity (UID) is to act as a catalyst for achieving financial inclusion in the country. It will draw on the strengths of the banking industry and the communication channels to provide a reliable and effective service mechanism to every individual in the country.

UID provide online authentication services from any authentication centre that can also be done even through a cell phone. If the banks had business correspondents (BCs) in villages equipped with a mobile phone, a finger-print reader and an ATM-kind of software, cash transactions could be done at the village itself. "Getting the payment infrastructure right is the first step for getting financial inclusion of the poor".

BCs could have micro ATMs worth Rs. 5,000 each. Any kirana shop-owner could be appointed as a BC by which transaction costs through economics of scale. Micro ATM concept is especially valuable for the poor — it offers a cushion to a group whose incomes are often volatile and small. It gives them opportunities to build savings, make investments and thus protect themselves against Poverty. However, due to the lack of access to financial services, many of the Indian poor face difficulties in accumulating savings.

To mitigate the lack of financial access in India, the RBI has focused on improving the reach of financial services in new and innovative ways—through no-frills accounts, the liberalization of banking and ATM policies, and branchless banking with business correspondents (BC), which enable local intermediaries such as self-help groups, post offices and kirana stores to provide banking services. These efforts have also included the promotion of core-banking solutions in regional rural banks; and the incorporation of the National Payment Corpora-tion of India (NPCI) as an apex switch—for payments and settlements. All these have been focused by ATM and greater mobile connectivity. It helps greater accessibility and physical closeness to their customers.

The cost of providing banking services for the currently excluded segment is also a big challenge. The currently excluded segment prefer withdrawing money and making deposits in 'micropayments' of, say, Rs. 10, rather than Rs. 100. Banks discourage such payments, as transaction costs under this model would be too high. The Unique Identification number (UID), which identifies individuals uniquely on the basis of their demographic information and biome-trics, gives individuals the means to clearly establish their identity to public and private agencies across the country. Still, banks have been implementing many commendable initiatives in this direction and have also recently committed to cover all villages with population of more than 2,000 by March 2012.

Advantage of UID in Financial Inclusion

- The UID-enabled bank account targets to be a global address for residents, similar to an email ID or a mobile phone number. As, UID Number acceptable throughout the world.
- Banks in India are required to follow customer identification procedures while opening new accounts, to reduce the risk of fraud and money laundering.
- The UID's authentication processes will allow banking institutions to verify under-privileged residents—both in person and remotely. This is possible for the development of Information Technology.
- Rural residents will be able to transact electronically with each other as well as with individuals and firms outside the village, reducing their dependence on cash. This will reduce the risk of handling of liquid cash.
- The UID will mitigate the high customer acquisition costs, high transaction costs and fixed IT costs.
- The UID-Enabled Bank Account (UEBA) will bring financial access and affordability to millions of residents who are presently excluded from formal financial systems.
- A UID-Enabled Bank Account will also help residents make cheaper, faster electronic transactions and remittances in the form of micropayments.
- Large-scale financial inclusion can pave the way for electronic benefit transfers (EBTs) for residents.
- Central and state governments will be able to eliminate the identity-related fraud that exists. This will ensure compliance with Anti-Money Laundering laws and Financial Action Task Force standards.
- The use of the central payments switch to move cash electronically at the last mile will dramatically cut down on cash handling and transaction costs for banking institutions.
- The cost of customer acquisition would also be significantly reduced.
- The reforms that encouraged the expansion of ATM, internet and mobile banking have made financial access affordable and accessible for large numbers of residents. The transformation, however, has been most significant for India's urban, non-poor residents with the poor still financially deprived.
- The UID cards will play a key role in the financial inclusion by providing national portability of identity of migrant populations, which would give them access to basic services such as banking and telecom services.
- By UID all the black money transfer from black money account will be stopped.

Linking the UID number to a universal, accessible, and affordable micropayments model can transform the access the poor have to banking services in the country. This transformation, ultimately, aims at empowering every individual in India.

The utility of using UID (Aadhaar) are very much effective for the users in different spheres. Some critics and activists argued that personal information included in UID database may be misused by others. Some defense experts also opposed to UID and claim that the database may be hacked by unscrupulous persons for their personal benefit as the database is to be linked to other database—like bank, telephone companies.

Considering all, this UID project and its effect on financial inclusion is a dream project in India and "Every Good Project should have some small Dark Side". ❐

Financial Inclusion in India : An Overview

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Meaning of Financial Inclusion

Rangarajan's committee on financial inclusion defines it as:

"Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."

The essence of financial inclusion is in trying to ensure that a range of appropriate financial services is available to every individual and enabling them to understand and access those services. Apart from the regular form of financial intermediation, it may include a basic no frills banking account for making and receiving payments, a savings product suited to the pattern of cash flows of a poor household, money transfer facilities, small loans and overdrafts for productive, personal and other purposes, insurance (life and non-life), etc. While financial inclusion, in the narrow sense, may be achieved to some extent by offering any one of these services, the objective of "Comprehensive Financial Inclusion" would be to provide a holistic set of services encompassing all of the above.

Financial Inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players.

In advanced economies, Financial Inclusion is more about the knowledge of fair and transparent financial products and a focus on financial literacy. In emerging economies, it is a question of both access to financial products and knowledge about their fairness and transparency.

Background

Financial inclusion is delivery of banking services at an affordable cost to the vast sections of underprivileged and low income groups. By financial inclusion we mean the provision of affordable financial services, viz., access to payments and remittance facilities, savings, loans and insurance services by the formal financial system to those who tend to be excluded. It is important to recognize that in the policy framework for development of the formal financial system in India, the need for financial inclusion and covering more and more of the excluded population by the formal financial system has always been consciously emphasized.

Bank nationalization in India marked a paradigm shift in the focus of banking as it was intended to shift the focus from class banking to mass banking. The rationale for creating Regional Rural Banks was also to take the banking services to poor people. The branches of commercial banks and the RRBs have increased from 8,321 in the year 1969 to 68,282 branches as at the end of March 2005. The average population per branch office has decreased from 64,000 to 16,000 during the same period.

The importance of an inclusive financial system is widely recognized in the policy circle and recently financial inclusion has become a policy priority in many countries. Initiatives for financial inclusion have come from the financial regulators, the governments and the banking industry. Legislative measures have been initiated in some countries. For example, in the United States, the Community Reinvestment Act (1997) requires banks to offer credit throughout their entire area of operation and prohibits them from targeting only the rich neighbourhoods. In France, the law on exclusion (1998) emphasises an individual's right to have a bank account. In the United Kingdom, a 'Financial Inclusion Task Force' was constituted by the government in 2005 in order to monitor the development of financial inclusion.

Rationale for Financial Inclusion in Indian Perspective

The acceleration of overall economic growth over this past decade (until the onset of the global economic and financial crisis) has been accompanied by a significant acceleration in the growth of credit in the economy. This broad trend suggests that high economic growth has been accompanied by financial deepening. Despite such expansion of the financial sector, increasing concern has been expressed on financial inclusion in recent years.

The Government of India has expressed its explicit concern on the issue of overall inclusion in the development process through its various initiatives such as the National Rural Employment Guarantee Scheme, the Bharat Nirman programme, the Sarva Shiksha Abhiyan, and the like. A committee on financial inclusion (Chairman: Dr. C. Rangarajan) was also constituted by the Government of India in June 2006 to recommend a strategy to achieve higher financial inclusion in the country.

Enabling access to a greater number of the population to the structured and organised financial system has explicitly been on the agenda of the Reserve Bank since at least 2004. Unlike several central banks, which focus solely on inflation, many developed and emerging economies, including ours, focus also on growth. There is currently a perception that there are a vast number of people, potential entrepreneurs, small enterprises and others, who are excluded from the financial sector, which leads to their marginalisation and denial of opportunity for them to grow and prosper. Not only is financial inclusion essential because of its implications for the welfare of citizens but it needs to be stressed that it has to be an explicit strategy for fostering faster economic growth in a more inclusive fashion. It is in this context that it is appropriate to place the strategy of financial inclusion in the wider context of economic growth and financial deepening.

The Indian economy has been growing at a steady rate of 8.5-9% over the last five years. From an annual average growth rate of 3.5% during the 1950 to 1980 period, the growth rate accelerated to 6% in the 1980s and 1990s. With the average growth rate of Gross Domestic Product (GDP) at 5.8% during the first decade of reforms (1992-2001), India is among the 10 fastest growing economies2 in the world.

In fact, a testimony to India's progress is the improvement of the country's Human Development Index (HDI) from 0.406 in 1975 to 0.571 in 1999. Legislations enacted in recent years also validate the case that India is a country well on the highway to progress. The 73rd and 74th Constitutional Amendments passed in 1992 have strengthened political participation at the grassroots level and brought more than a million women into public life. The 83rd Constitution Amendment Bill, which recognizes the right to primary education as a fundamental right, has also been passed.

From an annual average growth rate of 3.5 per cent during 1950 to 1980, the growth rate of the Indian economy accelerated to around 6.0 per cent in the 1980s and 1990s. In the last four years (2003-04 to 2006-07), the Indian economy grew by 8.8 per cent. In 2005-06 and 2006-07, the Indian economy grew at a higher rate of 9.4 and 9.6 per cent, respectively. Reflecting the high economic growth and a moderation in population growth rate, the per capita income of the country also increased substantially in the recent years. Despite the impressive numbers, growth has failed to be sufficiently inclusive, particularly after the mid-1990s. Agricultural sector which provides employment to around 60 per cent of the population lost its growth momentum from that point, though there has been a reversal of this trend since 2005-06. The percentage of India's population below the poverty line has declined from 36 per cent in 1993-94 to 26 per cent in 1999-2000. While India has witnessed unprecedented economic growth in recent past, its development has been lopsided with the country trailing on essential social and environmental parameters of development. The approach paper to the Eleventh Plan indicated that the absolute number of poor is estimated to be approximately 300 million in 2004-05. Accordingly, the 11th Five Year Plan has adopted "faster and more Inclusive growth" as the key development paradigm.

Financial Inclusion in India (A Statistical Review)

The nature of financial inclusion in India or other developing countries is different from developed countries. The number of financially excluded people is much larger in India compared to developed countries. Numerous studies on financial inclusion are done in developed countries. In India, though the concept of financial inclusion is an old phenomenon, recently it is coming into prominence. According to the study done by Elaine Kempson and Claire Whyley (1999), around one and half million households in Britain are deprived of most basic financial services, like bank accounts and insurance coverage. In India, the number of people deprived of basic financial amenities is estimated at around 40% of total population. Several steps have been taken by RBI include more and more people under the umbrella of basic financial services.

Table 1 : No. of scheduled commercial bank (SCB) offices across India

	2003		2005		2007		2009		2010		2011	
	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
Rural	32283	47	30790	44	30409	41	31598	38	32529	37	33602	36
Semi-urban	15135	22	15325	22	16770	22	19337	23	21022	24	23048	25
Urban	11566	17	12419	18	14202	19	16726	20	18288	21	19156	21
Metropolitan	9516	14	11839	17	13272	18	15236	18	16364	19	17274	19
Total	68500	100	70373	100	74653	100	82897	100	88203	100	93080	100

• **Enhancing the presence of Commercial Banks at rural and semi-urban area**

As can be seen from Table 1, the representation of branch banking has reduced over the years. This is alarming. In 2003, 47% of the total branches were in rural areas, which came down to mere 36% in 2011.

Financial Inclusion in India from Policy Perspective

The extent of financial exclusion is acute in India. Presently almost half of the population is unbanked. Only around fifty-five percent of the population possesses deposit accounts and around nine percent of population has credit accounts with bank. The picture will be clearer, if we compare the number of bank branches with the number of villages. In India, there are only 33495 rural branches in around 6 lakh villages. In 2011, only 36 percent of the total numbers of SCB branches are situated in rural areas. Financial exclusion is not only limited to rural areas; it is predominant in urban areas also. A large proportion of urban poor is outside the coverage of basic financial facilities.

Several steps are taken in the past to eliminate financial exclusion, and bring more and more people under the financial services network. Some of them are:

• **Co-operative Movement :** Opening of co-operative banks in rural, semi-urban, and urban areas to bring large number of people under the aegis of banking services.

• **Nationalisation of Banks :** After the nationalization of banks in sixties, the spread of banking services has reached to remote areas. Thousands of new bank branches are opened.

• **Lead Bank Scheme :** The Lead Bank Scheme (LBS) was introduced in 1969 under the recommendation of Gadgil Study Group. Under the scheme, each district was allotted to a bank to act as Lead Bank. The lead banks acted as facilitator for expansion of branch banking and credit expansion.

• **Regional Rural Banks (RRB) :** The RRBs were first come into existence in mid-seventies. RRBs played an important role in spreading banking services in rural areas. Starting from a single bank branch in 2nd October, 1975, today around 15475 branches are operating across India.

Despite of taking such measures in the past, it is a still a long way to go. Several reasons responsible for not achieving the desired result are as below :

- Deficiency of Banking Technology
- Deficiency of Reach and Coverage
- Deficiency of Workable Delivery Mechanism, and
- Not having a Proper Delivery Model

Suggestions for Improvement

However, today the scenario is different from the past for the following reasons :

• **Improved Banking Technology :** The banking technology has improved in an unprecedented manner over the past few years. With the help of technology, it is now easy to reach mass population with a click of a mouse. Any branch banking and ATMs had changed the way to bank drastically over the past few years.

• **Arrival of Microfinance :** One of the important realizations during the past few years is that the poor can be bankable. The banks and microfinance institutions started lending to people, who were earlier denied credit under conventional banking system.

• **Intensive Focus on Inclusive Growth :** Though Financial Inclusion is a continuous process, today RBI and Indian government is taking some specific steps to accelerate the process.

Despite the policy push, a lot is to be done in the area of financial inclusion. RBI and its Annual Policy (2005-06) mentioned :

• RBI will implement policies to encourage banks which provide extensive services while disincentivising those which are not responsive to the banking needs of the community, including the underprivileged.

• The nature, scope and cost of services will be monitored to assess whether there is any denial, implicit or explicit, of basic banking services to the common person.

• Banks are urged to review their existing practices to align them with the objective of financial inclusion.

Some of the recent developments in the area of financial inclusion at the insistence of RBI are as follows

- No-Frills Banking Account with Overdraft facility
- Usage of Regional Language
- Simple KYC Norms
- Entrepreneurial Credit such as General Credit Card, and Kisan Credit Card
- Extensive use of information technology for banking services
- Initiating Financial Literacy programme

Conclusion

Keeping in view of the vastness, and diversity of India, financial inclusion is a large responsibility. The expectations are huge. With proper initiative, and the help of technology only this target can be achieved. Good news is the process has started, and the bad news is lot is to be done. ❒

Financial Inclusion through Micro-Finance

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Introduction

Financial inclusion through micro-finance is the promising alternative that offered funds at the doorstep of the poor. There has been a lot of debate on the nature, concept, regulations and practices of financial inclusion through micro-finance in India. Many development economists believe that economic prosperity can not come with out financial inclusion and micro-finance is being considered as an effective and efficient vehicle for financial inclusion in Indian economy especially in rural economy. This is true. But as of today, micro-finance has not made any significant contribution in financial inclusion and economic prosperity especially in rural India. To my mind micro-finance is a myth as cooperatives have failed in brining or attaining financial inclusion and economic emancipation. Much has been left on the part of micro-finance institution and their regulations. For this system to work it had to have very low defaults. The present paper is a modest attempt in this direction. The paper explores the issues which have made the nature, concept, regulations and practices of financial inclusion through micro-finance.

In India especially in rural India '**the real India**', the majority of the population lives in rural areas and hence, their overall development is the need of the hour. Development process requires financial access. Micro-finance could be most convenient way or method of attaining financial inclusion and inclusive growth. It is an undisputed fact that financial inclusion and inclusive growth have to go hand-in-hand.

The concept of micro-finance was the out come of an inspiration got from the success of the concept and practice in Bangladesh wherein the pioneer Mr. Yunus got the Nobel Prize for his outstanding contribution in the field of micro-finance resulting into financial inclusion in the rural areas of the Bangladesh economy. The enormous success in Bangladesh has become an eye opener for Indian planners and policy makers and accordingly, transformed the idea into practice in a different way namely-self-help groups (SHGs) in India especially in rural India.

Basic Aims

The business of micro-finance was commenced in the middle of the decade of 1980s. The Government of India, which was vying for the affordable and available loaning option for the poor and weaker section of society, encouraged the idea. The very aim of transforming the idea of micro finance was to take out rural people from the clutches of the traditional money lenders on the one hand and on the other hand to extend easy, convenient and affordable loans to facilitate the much needed economic empowerment of the rural people, particularly women and youths.

Scenario in Developing Economies

World's financial crisis has reduced investment opportunities in different continents of the globe, lending to India's poor has come up as a good option for private firms or equity funds from the developed economies. In many developing nations, access to financial services is greatly confined due to a number of institutional weaknesses and other reasons that prevent people from achieving their respective economic potential and opportunities, resulting into a limited economic growth. Inadequate availability of financial services has further raised the sense of equality, as it does affect disproportionately the poor and people living in rural areas.

In developing world, the size and scope of the micro-finance institutions have been increased rapidly, and it is expected to growth further since the demand for financial services by poor person's remains largely unmet. There are estimates that the potential and opportunities of micro-finance i.e. financial services world over stood at 500 to 700 million people and less than $1/9^{th}$ of theme are being covered by MFIs.

The basic objective of initiating the idea of micro-finance in developing nations was to promote much needed financial sector as a part of the Monterrey Consensus on financing for development. Accordingly, micro-finance schemes have also been inducted or introduced in developed economies to serve people living in disadvantaged areas such as inner cities.

Can micro-finance attain Sustainable Development?

In case of India, micro-finance has relevance as bulk of the population lives in rural areas and hence, development economist call "**rural India the real India**" therefore, its sustainable development is of paramount significance.

Among different poverty eradication schemes that are being carried out through micro-finance are being considered as the spring boards for sustainable development. The very first step in this direction was taken as back as 1980 when the Integrated Rural Development programme was initiated which was called as IRDP. The main objective of introducing IRDP was to generate self-employment among the poor in the rural areas through micro-credit extended by the commercial banks. This micro-credit was meant for purchasing productive assets and supported with subsidies given by the Central Government.

The magnitude of poverty and disparities among various social groups had called for planned State intervention to give succor and relief especially disadvantaged and marginalized groups' namely - Schedule Caste, Schedule Tribes, and women. Keeping this in mind as well as having regard to the positive facets and deficiencies, the earlier

Self-employment schemes such as TRYSEM, SITRA, GKY, DWCRA, IRDP and MWS were amalgamated and got a shape of SGSY on April 1, 1999 to attain sustainable development which is still considered as the dream of developing economies.

The SGSY is being considered as a holistic scheme of micro-institutions concentrating all facets of self-employment and creating effective and efficient links between the different ingredients namely- organization of the rural poor into Self Help Groups, their respective capacity and ability building, planning of operation clusters, infrastructure build up, technology, credit and marketing etc.

MFIs and Inclusive Growth

Micro finance enterprises are being considered as a promising alternative for expanding the base of financial services to the poor and weaker sections especially in developing economies. The following arguments may go a long way in achieving inclusive growth through micro-finance.

(a) Micro-credit has been established as a spring board for empowerment of people, taking out from poverty and extending helping hand in the economic progress sine-quo-non for inclusive growth;

(b) Micro finance enterprises extend credit as well as other financial services to low income persons, weaker sections and informal business;

(c) Micro-finance institutions create a effective and efficient mechanism for poor people to absorb the affects of income shocks on consumption, explore safe and affordable repositories for their savings, share advantage of profitable investment potential and opportunities and minimize risk;

(d) Micro-finance enterprises have created a variety of innovative tools namely- weak legal creditor protection, ineffective and inefficient enforcement of laws and rules, lack of usable collateral, poor means of communication facilities and weak prudential oversight over saving enterprises;

(e) Micro-finance institutions have extended their range of financial services beyond micro-credit. These institutions are now covering transfer of funds and insurance.

(f) Micro-credit has been accepted as a major instrument in the attainment of MDGs by the end of 2015.

Working

After a considerable gap of 19 years, another step was taken in the name of Swarnajayant Gram Swarojagar Yojana by the Central Government in 1999 as a replacement of IRDP and its allied schemes. Under the then scheme namely- IRDP nearly 5.4 million families of rural areas were assisted with bank loan amounted to Rs. 2, 30,000 million along with subsidies amounting to Rs. 1,45, 000 million.

The Indian model of micro-finance known as Self Help Group Bank Linkage Programmed; Kisan Credit Card (KCC) scheme, Rashtriya Swasthya Bima Yojana (RSBY); financing Regional Rural Banks (RRBs), Cooperatives and Public Sector Banks that are lending to rural population are the existing instances of financial access or financial inclusion. This is also true that these agencies have contributed significantly and positively in creating financial access to rural population. But there has been left much to be attained as the performances of these agencies are more politics based rather than economics based. This is true as financial services are more effective in reaching electorate. These services are being used by the politicians to intact vote bank rather than enhancing quality of life, purchasing power and over all welfare of the rural population.

Keeping in mind the very basic aims of evolving and practicing the concept of micro-finance, Micro-Finance Institutions were established and they got enormous success in the attainment of financial inclusion. This very fact could be tested from the fact that in the year 2003 these agencies have lent an amount of Rs. 12 million and in 2010 this figure has touched upon an impressive amount of Rs. 17 billion.

Within a short-span of five years, Indian micro-finance segment which was build around carefully nurtured affinities and an appropriate rate of increase depends upon the capacities, has resulted into a chaotic marketplace wherein there are very little regulations to regulate in the right perspective and spirit. As a result there has been a diverse offering from multiple players and scant regard for proper group formation (Sine-Quo-Non) for the success of the concept and practices of micro-finance. According to an estimate, nearly Rs. 30,000 crore is chasing the poor and being collected from them, whether they are ready for it or not.

Thirty million or three crore poor women in Indian villages have acquired small amount in loans and started productive ventures. With these loans they buy a cow to supplement their respective income by selling milk. Some of them invest these loans in purchasing a sewing machine to sell cloths. Others have preferred to open a kirana shops to enhance their purchasing power. What is the most interesting, astonishing and worth mentioning is the transformation of charity work carried out by Non-Governmental Organizations (NGOs) into a self-sustaining business due to the entry of Micro-Finance Institution (MFIs). These organizations are replacing the village money lenders and bringing out rural people from the clutches of money lenders.

The most heartening fact that has come up is emerging out is in Southern India micro-credit is as common as panwala or cell phones. The MFIs have been providing dignity to the people especially women to raise their heads in the society on the one hand and on the other bringing the most wanted segment 'financial inclusion". There is a true saying that success always created envy. Accordingly, in October 2010 the issue of micro-finance was politicized and as a result, politicians started accusing MFIs that these institutions have sharking loans and are also responsible for farmers' suicides because of the exorbitant rate of interest charged by MFIs.

In India MFIs charge interest between 24 per cent and 32 per cent which is being considered on a high side. But if we compare these interest rates with the interest rates charged on credit cards (30 per cent) and village money lenders (65 per cent) then this rate of interests is normal. Even in Bangladesh the rate of interest charged by MFIs is 20 per cent (based on subsidized credit). The most impractical issue that has been affecting the working of micro-finance in India especially in many States of the country is that the State Government of Andhra Pradesh has issued an Ordinance wherein it is specifically given that Micro-finance Intuitions have to take permission from the State Government for every loan. It is practically not possible for MFIs to undertake. Even in Andhra more than a crore people are the consumer of micro-finance. If this is carried out then what would happen in case of Uttar Pradesh and Bihar States. This is a sort of License Raj which is beyond imagination in the present globalize scenario. Added to this, the evil of bribery would be rampant in micro-finance agencies.

In Bangladesh, the truth is that it is relatively expensive to deliver and collect loans weekly in the villages. Users of micro-finance does not think it unfair because these people are earning far more from the business which they started by taking micro-finance. It is really strange that why in India the concept has not been getting its due and the people started believing that micro-finance, nature, contents, philosophy and practices are becoming the myth.

The SGSY is being considered as a holistic scheme of micro-institutions concentrating all facets of self-employment and creating effective and efficient links between the different ingredients namely-organization of the rural poor into Self Help Groups, their respective capacity and ability building, planning of operation clusters, infrastructure build up, technology, credit and marketing etc.

The main purpose of the scheme is to bring up the existing poor families above poverty line. It is a credit cum subsidy program with the involvement of banking and financial enterprises. The expenditure under SGSY is hared by the Central Government and the State Governments with ratio of 3:1 or 75: 25. Subsidy would be given 30 per cent of the project cost subject to a maximum of Rs. 7,500 and 50 per cent for SC/ST subject to a maximum of Rs. 10,000. For groups, the rate of subsidy is 50 per cent subject to a maximum ceiling of Rs. 1.25 lakh. Under SCSY scheme nearly 29 lakh. SHGs have been formed since inception of the scheme till the end of 2008-09.

According to an estimate nearly 7 lakh SHGs or 70 lakh beneficiaries have been covered for taking up the economic operations. So far more than 110 lakh swarozgaries or 40 lakh individual have been assisted. Total investment is amounted to Rs 23000 crore consist of credit mobilized Rs. 15,500 crore and subsidy disbursed Rs 7500 crore. Per cpita investment has increased from Rs. 17000 in 1999-2000 to Rs. 28700 in 2008-09 showing a rise of about 70 per cent over the same period.

What's wrong with Micro-Credit/Finance?

In rural India [the real India], the rural indebtedness "a child is born in debt; lives in debt and die in debt" is not the off-shoot of micro-finance intuitions, but in reality, the major chunk of rural debt among households is non-micro-finance credit. The major contributors are unregulated local money-lenders who extend financial services which are fast and flexible and in return they charge usurious interest rates ranging between 60 and 120 per cent per year.

There reports in regard to debt-related suicide in different parts of the India. According to Micro-finance Institutions Network (MFIN), 40 MFI's are accounted for Rs 30,000 crore as loan outstanding with 3 crore poor people. There are certain vital arguments against MFIs which demand immediate attention and solution by the planners and policy makers :

(1) Micro-finance institutions are charging exorbitant rates of inertest;

(2) Micro-finance enterprises are carrying out unethical practices in their lending and recovering of loans;

(3) Micro-finance institutions are aggressively poaching from Government and banks to capture their borrowers.

(4) Micro-finance enterprises lack in transparency with regard to practices in respect of their interest rates structure.

(5) Micro-finance institutions are adopting and practicing multiple financing mode which is against their spirit and aim.

Keeping in mind the above arguments, micro-credit requires different treatment from normal banking especially due to the fact that microfinance assets consist of many small, uncollateralized loans which are un-guaranteed both in terms of nature and contents.

Myth

The following are the myths on which the working and performance of micro-finance institutions are based on :

(a) The very purpose of financial inclusion through micro-finance was not to give loans only. But it does include mobilizing deposits and providing basic banking services to the rural masses making it as mass banking. These are the missing links in existing contents of the MFIs.

(b) MFIs are supposed to reach to those people in rural areas who have not access to banks. This is not true. These agencies concentrate on tapping into established SHGs for making loans resulting into two fold problems namely- duplication or multiple lending and excessive debt burdens.

(c) MFIs are also being considered as an instrument for poverty reduction. But the biggest issue is that the loans are going for consumption purpose rather than productive purpose i.e. income supplementation which is the need of the hour for enhancing the purchasing power of the rural masses. Added to this, these loans are also used in agricultural operation wherein the rate of return is very low and it is become difficult for the loanee to bear 24 per cent rate of interest.

(d) MFIs were created for replacing traditional money lenders in providing access to credit in the rural areas. This is also a myth. Still money lenders are dominating the rural credit scene. MFIs are marketing their credit instead the rural masses come to them. The most astonishing trend is that most of the traditional money lenders have established MFIs and making use of this facility for their own benefits. This means old wine in new bottle.

(e) Operational cost is high and hence, high rate of interest i.e. 24 per cent is being charged. How sanctioning and disbursing loans are economically viable for poor, marginal and weaker section of the society to afford such rate of interest. Therefore, the very aim of easy and convenient loans to rural masses has been defeated.

(g) Capacity building among borrowers is another myth. Rural masses have failed on this count also.

(h) As in India, agriculture is till dominant sector and is responsible for rural poverty, micro-finance can not making much needed breakthrough in poverty eradication.

Reality

The following are the harsh truths in respect of micro-finance availability to the poor and marginal farmers as well as weaker section of the society.

(1) MFIs have emerged as profit-driven agencies.

(2) MFIs are not different from private banks as these agencies are undertaking marketing of loans. They are running on the lines the US banks are marketing sub prime loans.

(3) From a vision of creating slow and steady small fortune for the bottom of the pyramid, some micro-finance institutions moved to sell selling glittering story of quick and large fortunes from the bottom of the pyramid.

(4) In India micro-finance sector, built around carefully nurtured affinities and an appropriate pace of scaling up based on capacities, has turned into a chaotic market places with little regulation.

(5) The movement of micro-finance which was come up with the hope that poor, marginal farmers and weaker section of the society could create for all of them some economic and social value is over running by the idea that loose coalitions of joint liability groups could enable individuals to escape poverty.

Continued on Page 47

100% Financial Inclusion—A Challenging Task Ahead & Future Action

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Financial Inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players. In other words, financial inclusion is the availability of banking services at an affordable cost to disadvantaged and low-income groups. In India the basic concept of financial inclusion is having a saving or current account with any bank. In reality it includes loans, insurance services and much more.

Extent of Financial Exclusion—India

- In India, almost half the country is unbanked.
- Only 55 per cent of the population have deposit accounts and 9 per cent have credit accounts with banks.
- India has the highest number of households (145 million) excluded from Banking.
- There was only one bank branch per 14,000 people.
- 6 lakh villages in India, rural branches of SCBs including RRBs number 33,495.
- Only a little less than 20% of the population has any kind of life insurance and 9.6% of the population has non-life insurance coverage.
- Just 18 per cent had debit cards and less than 2 per cent had credit cards.

Measures by RBI and GOI towards Financial Inclusion

The Reserve Bank of India (RBI) and the Government of India (GOI) have been making efforts to increase banking penetration in the country. Some of these measures are :

- Cooperative Movement
- Setting up of State Bank of India
- Nationalization of banks
- Lead Bank Scheme
- RRBs
- Service Area Approach
- Self Help Groups

Moreover, the Government of India has also expressed its explicit concern on the issue of overall inclusion in the development process through its various initiatives such as the Rural Employment Guarantee Scheme, the Bharat Nirman programme, the Sarva Shiksha Abhiyan.

Current Indian Scenario

Bank nationalization in India marked a paradigm shift in the focus of banking as it was intended to shift the focus from class banking to mass banking. The rationale for creating Regional Rural Banks was also to take the banking services to poor people.

The new Branch Authorization Policy of Reserve Bank encourages banks to open branches in these under-banked states and the under-banked areas in other states. The new policy also places a lot of emphasis on the efforts made by the Bank to achieve, inter alia, financial inclusion and other policy objectives. But the study of Distribution of Commercial Bank Branches-Region /State/Union Territory) shows that, there are certain under-banked states such as Bihar, Orissa, Rajasthan, Uttar Pradesh, Chhattisgarh, Jharkhand, West Bengal and a large number of North-Eastern states such as Assam, Manipur and Nagaland, where the average population per branch office continues to be quite high compared to the national average of 16,000 people per bank branch.

Major Roadblocks to Financial Inclusion

The interaction with the NGOs and the SHGs brought to light underpinning problems of financial inclusion, which are briefly stated as :

- ***Poverty*** **:** being on a low income, especially out of work and on benefits.
- ***Ignorance*** **:** low levels of awareness and understanding of products caused by lack of appropriate marketing or low levels of financial literacy.
- ***Environment*** **:** lack of access to financial services caused by several factors, including: geographic access to bank branches or remote banking facilities; affordability of products such as insurance, where premiums often price out those living in the most deprived and risky areas; suitability of products like current accounts, which offer an overdraft and an easy route to debt.
- Cultural and psychological barriers, such as

language, perceived/actual racism and suspicion or fear of financial institutions.

The lack of access by certain segments of the society to appropriate, low-cost, fair and safe

Financial products and services from mainstream providers actually results in Financial Exclusion. This is a critical policy concern, because the options for operating a household budget, or a micro/small enterprise, without mainstream financial services can often be expensive. This process becomes self-reinforcing and can often be an important factor in social exclusion, especially for communities with limited access to financial products, particularly in rural areas.

The Model for Financial Inclusion

Deepening the financial system and widening its reach is crucial for both accelerating growth and for equitable distribution, given the present state of development of our country. The model discussed below will be instrumental in bring hundred percent financial inclusion in our country.

Stage I : Create Awareness & Financial Literacy

Intensive awareness, education and promotion drive to create an in-depth impact on the masses.

- Government should promote introduction of basic banking – relevance, services, merits as a topic in secondary and higher secondary classes in all education institutions.
- Government-sponsored publicity campaigns through all medias—radio; television; newspapers; e-choupal; village panchayat; movies; local stage shows etc
- Banks should design and organize aggressive education cum promotion campaigns in unbanked parts of urban, semi–urban and rural areas to enhance financial literacy and awareness, as well as to remove the doubts and apprehensions that the masses have towards the banking sector.
- Banks should involve the knowledgeable and well-informed local inhabitants in such activities. This will help the banks to consolidate and ensure prompt and extensive response from the populace.
- Banks should gather support from the NGOs, retired bank personnels, and academic institutions to reach the desired numbers within a limited span of time.

Once the fallacy is removed from the minds of the general public, they automatically will join the mainstream. The all-round awareness and education simulation will drive them to open savings and current accounts. This will mark the beginning of basic banking in true sense.

Stage II : Basic Banking

The banks need to adopt a considerate approach towards this new clientele, to remove their qualms and disbeliefs. It is necessary that the basic banking should be comprehensive in scope and have attractive USPs that can lure people at large :

- All banks should allow no-frill accounts i.e. savings accounts which can be opened with a nominal amount of Rs.5/- or even with zero balance. They should allow 6-7 withdrawals in the accounting period and should not restrict the number of deposits.
- RBI, along with banks, should toil hard to reduce the amount of paper work in relation to the opening of an account as well as in getting small credits. This would reduce the complexity and also speed-up the processing at banks.
- Banks should make sure that local people are positioned in the front offices, so that the general public does not have to endure language problem and does not have to suffer perceived/actual racial discrimination.
- It is all the more necessary for the banks that besides offering the conventional products and services they should set up teams who can understand the needs and requirements of the common man and design innovative products and services having greater suitability and desirability. Also, banks should work as one-stop store and offer diversified products in banking and insurance.
- Despite the risk, financing of first time entrepreneurs is a must for financial inclusion and growth. Banks should arrange and provide technical advice for these entrepreneurs. They will have to tone up their risk assessment and risk management capacities, and provide for these facilities.
- Banks should give free financial counsel to low-income households and small entrepreneurs.
- The pricing of the product should be also done keeping in mind the pockets of the potential clientele. The cost burden should proportionately be shifted to high potential sectors, who can afford a little upswing in their banking cost

Stage III : Innovative Strategies

Basic banking itself needs to be supported by innovative strategies, in order to improve the reach and reduce the operating cost of the banks :

- Infrastructure sharing amongst banks and other organizations will help in lowering the operating cost and thus the cost benefit can be transferred to customers.
- Bank should open small extension counters at organization providing public utility services such as local schools, primary health care centres, village mandies, farmers' associations, cold storages and warehouses, railway stations, bus stops etc.
- This should simultaneously be supplemented by

mobile banks. Wherever it is not economical to set up a branch, credit camps/loan 'melas' must be organized on weekly basis, to disburse small loans on easy terms.

- Greater use of technology should be made by the banks to improve their reach, speed of processing, as well as to cut down the operating cost.

Last but not the least, the Government of India should initiate a 'civil rights law' prohibiting discrimination by banks against low and moderate income neighborhoods. This will create a pressure on banks to play an important role in bringing financial inclusion in the country.

Conclusion

As poverty levels decline and households have greater levels of discretionary incomes, they will be first time financial savers. They will, therefore, need to have easy access to formal financial systems to get into the banking habit. Banks will need to innovate and devise newer methods of including such customers into their fold. Innovation in the form of business facilitators and correspondents will be needed for banks to increase their outreach for banks to ensure financial inclusion. Financial inclusion is a great step to alleviate poverty in India. But to achieve this, the government should provide a less perspective environment in which banks are free to pursue the innovations necessary to reach low income consumers and still make a profit. Financial service providers should learn more about the consumers and new business models to reach them. New entrants to the banking system need households at their doorstep.

There has been a burst of entrepreneurship across the country, spanning rural, semi-urban and urban areas. This has to be nurtured and financed. It is only through growth of enterprises across all sizes that competition will be fostered. To conclude, I wish to stress that, with increasing liberalization and higher economic growth, the role of banking sector is poised to increase in the financing pattern of economic activities within the country. Financial inclusion will strengthen financial deepening and provide resources to the banks to expand credit delivery. Thus; financial inclusion will lead to financial development in our country which will help to accelerate economic growth. ❒

Continued from Page 44

(6) Astonishingly high salaries of top management.

(7) Bureaucratic interference leads to reduce the degree of flexibility which is essential for the success of micro-credit concept.

(8) Bureaucratic hurdles also leads to corruption and hence, administrative cost goes up appreciably.

How to get MFI's back on track?

Keeping in mind the relevance, significance and contribution of micro-finance enterprises in rural areas, the need for better, effective, and efficient regulation of these institutions has become difficult to neglect. But on the other side of it, the moral edge these institutions are enjoying through extending loans to the poor and weaker sections of the population is being rapidly eroding.

The borrowers often needed to pay over a third of what they borrow as interest every year. This is because of the rising operational; costs which include very high salary to the mangers. This is why; the for-profit facet of these institutions is rapidly overwhelming the not-for-profit players.

In order to reap out the real fruits of micro-finance as a means of eradication of poverty on the one hand and on the other hand to bring economic emancipation to rural population, the concept and practices must eventually move into enterprises which are licensed and supervised by nation's financial authorities. These units could also be brought together in a large network and must control by their respective representatives. The functioning of each local unit could then be dominated by the local borrowers and savers.

Formidable Challenges

The existing concept, structure and practices have to face tough challenges in years to come: They are given as under :

(a) To ensure quality of Self-helping-group and effective links between these groups and the banks;

(b) Even distribution of micro-credit and keep balance between savings and lending;

(c) Extension in the tenure of micro-finance products;

(d) How to make conscious the illiterate member of SHG in respect of marinating records and accounts;

(e) Lack of perennial job opportunities to SHGs.

Conclusion

From the foregoing discussion and analysis, it is clear that micro-finance is a promising alternative which offers funds at the doorstep of the poor and weaker section of the population in rural areas. For this system to operate upon, it has to have very low defaults. The success of micro-finance is based upon local mechanism that offers a great deal of flexibility that allows for lending decisions based on knowledge about specific individuals. What immediately required is to strengthen the voice of borrowers and curb that of national and global capital?

As the global recession hits investment potential and opportunities elsewhere in the world, lending to India's poor population could be extremely attractive options for private firms from the developed economies. ❒

Financial Inclusion—An Overview

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Introduction

In economics, the earlier theories of development considered labour, capital, institutions, etc. as important factors contributing to the growth and development of an economy. These theories hardly considered the role of finance in economic growth and development. This is because they were based on the assumption that markets are perfect and there are no frictions. However, in the course of time, the research done by Nobel Laureates like Joseph Stiglitz and George Akerlof and many others emphasized the role of financial markets in the real economy. Hence, now finance is attributed as the brain of an economic system and most economies strive to make their financial systems more efficient.

Banks are considered as an important ingredient of the financial system. Tremendous reforms and developments have been taken place in the banking sector in India since 1960s till date. For instance, in early 1960s the focus was on channeling of credit to the neglected sectors of the economy and weaker sections of the population. But from 1990s, the focus has shifted to strengthening financial institutions as part of the financial sector reforms. Moreover, the developments in banking technology in the second half of 1990s have transformed banking from the brick–and–mortar infrastructure like staffed branches to a system supplemented by other channels like automated teller machines (ATMs), credit/debit cards, internet banking, online money transfers, etc.

Problem of Financial Exclusion

It is pertinent to note that although tremendous developments have taken place in the banking technology, the access to such technology is restricted only to a certain segments of the society. Hence, still there is large section of the population who lacks access even to the most basic banking services. Thus, there is said to be enough of 'financial exclusion'.

The extent of financial exclusion is revealed from the following :

- Out of the 6,00,000 habitations in the country only about 30,000 have a commercial bank branch.
- Just about 40 per cent of the population across the country have bank accounts, and this ratio is much lower in north–east of the country.
- The proportion of people having any kind of life insurance cover is as low as 10 per cent and proportion having non–life insurance is an abysmally low at 0.6 per cent.
- People having debit cards comprise only 13 per cent and those having credit cards only a marginal 2 per cent.
- As per National Sample Survey (2003) out of the 89.3 million farmer households in the country, 51 per cent did not seek credit either from institutional or non–institutional sources of any kind.

The problem of financial exclusion is not an India–specific problem but it is a global phenomenon. For instance, 2.5 billion adults, which is just over half of the world's adult population, do not use formal financial services to save or borrow. Moreover, about 2.2 billion of these unserved adults live in Africa, Latin America, and the Middle East.

Financial Inclusion—As A Solution

To overcome the problem of financial exclusion, the concept of financial inclusion has emerged in the recent years. Financial inclusion, thus, has become an issue of worldwide concern relevant equally in economies of the underdeveloped, developing and developed nations. Building an inclusive financial sector has gained growing global recognition bringing to the fore the need for development strategies that touch all lives, instead of a select few.

In India, a Committee was set up under the Chairmanship of Dr. C. Rangarajan to suggest measures to increase financial inclusion. The Committee submitted its report in January 2008. The Committee has given various recommendations to increase financial inclusion in the country across regions and across institutions. It has initiated a mission called National Rural Financial Inclusion Plan. (NRFIP).

Definition of Financial Inclusion

The Rangarajan Committee has defined financial inclusion as "the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."

In other words, it means delivery of the banking services and credit at an affordable cost to the vast sections of the disadvantaged and low income groups. The various financial services include savings, loans, insurance, payments, remittance facilities and financial counseling/advisory services by the formal financial system. An open and efficient society is always characterized by the unrestrained access to public goods and services. As banking services are in the nature of public goods, financial inclusion should, therefore, be viewed as availability of banking and payment services to the entire population without discrimination of any type.

Objectives of financial inclusion

The main objectives of financial inclusion are :

- to take banking services to everybody to meet their entire savings, credit and remittance needs initially;
- to cater to the needs for all other financial products and services subsequently;
- to focus on the villages with a population above 2000 initially;
- to cover villages with a population below 2,000 over a period of next 3 to 5 years;
- to provide banking services to entire population residing in urban and metro areas through a functional approach;
- to involve stakeholders like Non–Government Organisations (NGOs), industry associations, mutual fund companies, and society at large.

Importance of Financial Inclusion

The importance of Financial Inclusion can be revealed from the following :

1. It is a necessary condition for sustaining equitable growth.

2. It protects the poor people from the clutches of usurious moneylenders.

3. It will make possible for the governments to make payments under the social security schemes like National Rural Employment Guarantee Programme (NREGA) through bank accounts of the beneficiaries, by Electronic transfers. This will minimize transaction costs including leakages.

4. It provides an avenue for bringing the savings of the poor into the formal financial intermediation system and channel them into investment.

5. The large number of low cost deposits will offer banks an opportunity to reduce their dependence on bulk deposits and help them to better manage both liquidity risks and asset–liability mismatches.

Reserve Bank's Initiatives Towards Financial Inclusion

The Reserve Bank's approach towards Financial Inclusion aims at 'connecting people' with banking system and not just opening accounts. This includes meeting small credit needs of the people, giving them access to the payments system and providing remittance facilities.

Since past couple of years the Reserve Bank has adopted the following strategy towards financial inclusion :

(a) No frills accounts **:** In November 2005, the RBI asked the banks to offer a basic banking 'no frills' account with low or zero minimum balances and minimum charges to expand the outreach of such accounts to the low income groups.

(b) Easier credit facility **:** Banks were asked to introduce a General Purpose Credit Card (GCC) facility up to Rs. 25,000. By end March 2009, 0.15 million GCC were issued.

(c) Simpler KYC norms **:** KYC procedure for opening accounts was simplified for those accounts with balances not exceeding Rs.50,000 and credits thereto not exceeding Rs.1,00,000 in a year.

(d) Use of Information technology **:** (a) Smart cards for opening bank accounts with biometric identification. These would help the customers to get the banking services at their doorsteps.(b) Link to mobile handheld electronic devices for banking transactions.

(e) EBT **:** The Reserve Bank is in consultation with state governments to encourage them to adopt Electronic Benefit Transfer (EBT) system.

(f) 100 per cent financial inclusion drive **:** The RBI launched a financial inclusion drive targeting one district in each state for 100 per cent financial inclusion.

(g) Business Correspondent Model **:** The Business Correspondent (BC) model ensures a closer relationship between the poor people and the organized financial system. In 2006, the banks were permitted to use the services of NGOs, Micro-finance institutions, retired government employees, etc. to act as business correspondents in providing financial and banking services.

(h) Bank branch and ATM expansion liberalized **:** In 2009, RBI totally freed location of ATMs from prior authorization. In October 2009, branch opening was made free in towns and villages with population below 50,000.

Continued on Page 54

Net Banking on Financial Inclusion with an Indian Perspective

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Introduction

In most developing countries, the vast majority of the population, particularly low-income group people, has very little access to financial services, both formal and semi-formal. As a consequence, many of them have to necessarily depend either on their own or high cost informal sector sources of finance such as moneylenders. The term financial inclusion needs to be understood in a broader perspective to mean the provision of the full range of affordable financial services, viz. access to payments and remittance facilities, savings, loans, financial advisory services and insurance services by the formal services system to those who tend to be excluded from these services.

Financial Inclusion, the remedy for financial exclusion, is a process of facilitating and ensuring formal and affordable broad range formalized financial services/products is easily accessible with hassle-free and at affordable costs to all sectors/segments of the vast unreached population where needed, including the vulnerable such as weaker sections and low-income groups, un-banked in far-off remotest villages, either as individuals or as groups.

The financial products for the rural vulnerable clients may have the following categories like (i) deposits products, (ii) credit products, and (iii) micro-insurance products (life and non-life).

Objectives of Financial Inclusion

Increased levels of Financial Inclusion support both economic efficiency and equity. One of the fundamental aims of comprehensive Financial inclusion is to increase the outreach of the formalized well-functioning banking system to reach the unreached poor population and the unbanked areas. Access to safe, easy and affordable credit and other financial services by the poor and vulnerable groups, disadvantaged/remotes areas and lagging sectors/segments is recognized as a pre-condition for accelerating growth and reducing income disparities and poverty eradication. At present, there are about seven billion people in the world but nearly half of the population is unbanked *(GSMADFID* website, 2010). Financial inclusion index designed by ICRIER clearly depicts the poor status of developing countries in terms of financial inclusion. According to NSSO data, in India the farm households not accessing credit from formal sources is as high as 72.70%. The farm households not accessing credit from formal sources in the North Eastern, Eastern and Central regions of India is as high as 95.91%, 81.26%,& 77.59%, respectively.

In view of the real need of Financial Inclusion, particularly in developing countries like India, the following areas need to be addressed :

(i) Mop up micro deposits.

(ii) Reach the end customer and increase the overall relationship values.

(iii) Provide easy, safe and affordable credit/overdraft including the establishment of credit counseling and financial education centres for the clientele of the banks and RUDSETI$_S$ where banks and NGO$_S$ come together.

(iv) Provide micro insurance covering not only life and death issues but also crops, assets and accidents—services as measure of crisis mitigation.

(v) Provide safe money transfers.

(vi) Provide advice and counseling on investments of personal finance and so on.

(vii) Provide the add-on services like agriculture-portal and financial advices and so on.

(viii) Encourage entrepreneurship and productivity.

Major Initiatives taken up for Financial Inclusion

The India Government has a long history of taking initiatives to expand and better coverage of financial services to remote and un-banked rural areas. Given the socio-demographic complexities in India a host of measures have been initiated by the Government of India and RBI with the objective of attracting the financially excluded population into the formalized financial services—such as two phases of nationalization of Scheduled Commercial Banks (1969 and 1980) [intended to shift the focus from class banking to mass banking], the Lead-Bank Schemes (1970), setting up of Regional Rural Banks (RRBs) [1975], service-area approach like financial literacy as well as financial education and credit counseling (a multilingual website in 13 Indian languages on all matters concerning banking and the common people has been launched by the RBI on June, 18, 2007), utilize the Bank Linkage Policy Support of Non-Governmental Organizations (NGOs) and Self Help Groups (SHGs) – concept of pool money and group mode of financing from their savings and extended micro loans among the groups of poor women in a sustainable manner (Formally launched in 1992), Micro Finance Institutions to provide improved and reliable access to credit, No-Frills banking accounts for making and receiving payments either with nil or very low minimum balances as well as overdraft facilities with no or negligible charges (November 2005), entrepre-neurial credit facilities through, particularly for small, marginal and sub-marginal farmers, women and asset-less families, General Credit Cards (GCC), Swarojgar Credit Card (SCC) (1999) and Kisan Credit Card (KCC) — crop loans to small farmers (1998-99) to the banks' constitutions in rural and semi-urban areas (December 2005) which offer collateral-free or linkage to any purpose of small loans or credit facilities for economic activities, policy initiative for capacity building of Business-Facilitators (BFs) or Business-Correspondents (BCs) model by various banks (January 2006) for low-cost doorstep banking services in distant and isolated villages.

All banks are directed to implement financial inclusion plans, with a road-map to cover villages with more than 2,000 people, by March 2012. Recently, the RBI directed banks to open 25 percent of new branches in unbanked rural centres and simplified of Know-Your-Customer (KYC) norms procedures (Prevention of Money Laundering Act 2002, and Money Lenders & Accredited Loan Providers Act, 2007). Besides providing all rural banks with the Core-Banking Solution (CBS), multichannel approach is encouraged, agriculture debt waiver & debt relief scheme (2008) etc. facilitating use of handheld devices, mobiles, cards, micro-ATMs branches, Kiosk banking, mobile-wallets, and so on integrating the front-end devices' transactions with the bank's core-banking solution.

In order to address the issues of financial inclusion comprehensively in all dimension and the needs of the weaker sections and low-income groups' society in urban, rural and semi-rural areas, the Government of India constituted a "Committee on Financial Inclusion" on June 26, 2006 under the Chairmanship of Mr. C. Rangarajan, to suggest the measures to increase the financial services. The Committee submitted its report to the then Hon'ble Union Finance Minister on 4th January 2008.

The Committee observed the following major recommendations for greater coverage of financial inclusion and easy distribution of microfinance as well as small loans to the poor and low income groups sections/ segments society in the rural and urban areas :

(i) Launching of National Rural Financial Inclusion Plan (NRFIP) to provide access to comprehensive financial services of the financially excluded rural cultivator/non-cultivator,

(ii) Constitution of two funds with NABARD — the Financial Inclusion Promotion & Development Fund (FIPDF) and the Financial Inclusion Technology Fund (FITF) with an initial corpus of Rs. 500 crore to each,

(iii) Need to create institutional structure such as SHGs, micro finance institutions, etc, to provide improved and reliable access to credit and setting up of risk mitigation mechanism for lending to small farmers/share cropper/tenant farmers,

(iv) Improve network of extensive and well-organized rural banking system in the cooperative sector. PACSs, have deep roots in rural India, the base level cooperative society, DACBs the district level and SCBs the state level cooperative banks as Business Correspondents and Business Facilitators,

(v) Micro Finance—Non Banking Finance Companies (MF-NBFCs) could be permitted for garnering deposits and remittance services, credit, micro-insurance, remittances and other financial services up to a limited amount to the poor, in rural, semi-urban and urban areas,

(vi) Opening of specialized micro finance branches/ cells in potential urban centers as a valuable source for exclusively catering to Micro-Finance Institutions (MFIs) and SHGs – Bank Linkages Programme requirements of the rural/urban poor.

(vii) Suggesting measures for improving credit absorption capacity especially amongst marginal and sub-marginal farmers and poor non-cultivator households.

(viii) Existing banking infrastructure and NGOs should be made optimal use of for enabling outreach of banking services in rural areas.

Banking Technology Solutions—A Review of Indian Scenario

Technology can be very valuable tool in providing easy access to banking products/services in remote unbanked areas. Technology deployed for financial inclusion initiatives include bio-metric card, handheld biometric points-of-sale (POS) device with voice guidance in the local language for authentication and transaction, GPRS-enabled mobile phones and Core Banking Solution (CBS)/Total Banking Application (TBA). Internet-mobile payments service (IMPS) offers an instant round-the-clock interbank electronic-transfer service through mobile phones.

The introduction of mobile technology for providing financial services has enhanced the reach of financial inclusion. Banks are given one time approval to commence mobile banking based on criteria set by Reserve Bank of India. In India fifty two banks have been approved to commence mobile banking services. The volume of mobile banking transactions in July 2011 was 1.74 million with a value of Rs.1.51 billion, an increase of 223% over the position in July 2010 as reported at FINCONET meeting-OECD Head Quarter, Paris held on November 9, 2011. The mobile penetration in India is growing rapidly. According to Cellular Operators Association of India (COAI) the total number of mobile subscribers in India stood at 380 million till December 2009. They are expecting the number of subscribers to double by 2012 of which rural India will be the major contributor. With the growing number of mobile subscribers in rural India, banks can enhance mobile banking to rural people.

Several foreign banks operating in India like the Citibank, Standard Chartered, Hongkong and Shanghai Banking Corporation (HSBC) are the pioneers in banking technology usage. Similarly, private sector banks like HDFC, Axis Bank, ICICI Banks are closing in ranks with the foreign banks in context of use of banking technology solution. This highly competitive dynamic banking environment—where the survival is only for the fittest—has forced Public Sector Banks to formulate banking technology solution for rapid computerization in present day's changing banking environment.

SBI, a leading Public Sector Bank, has implemented the banking technology solution in a very big way. It has adopted a core banking solutions approach to link all its computerized branches to its head office using Very Small Aperture Terminals (VSAT). Airtel and SBI have set up a joint venture for operating the banking technology solutions. F.SS Tech and BOB, Vodafone and ICICI Bank; Idea and Axis Bank have also tied up for working together. The freedom of SBI, ICICI's i-Mobile, Corporation Bank with TATA, YES Bank with NOKIA, HDFC's NGPAY and MCHECK etc. permit clients to conduct the basic banking needs, such as transfer of funds, purchasing tickets, request for check books and utility payments among others.

But still there is huge untapped financial inclusion market in India. Following are the details of few market players in India :

FINO was launched in 2007 and has partnered 25 projects with 14.5 million registered users till 31st May 2010. FINO is the largest branchless banking entity in India which has partnered with not only banks but also with public and private sectors, micro finance institutions, government entities etc. It has covered 233 Districts and 21 States.

ALW was launched in 2007 and has partnered with SBI. It has 4 million registered users.

EKO, established in 2009 with SBI as partner, has 32,000 registered users, mainly in Delhi and Bihar.

GREEN MOBILE, launched in December 2009, has partnered with Corporation Bank and TATA (only for payment). It has 10,000 registered users in Maharashtra, Kerala and Karnataka.

MOBILE MONEY SERVICES by YES BANK powered by NOKIA was launched in February 2010 and has 1,000 registered users, mainly located in Pune, Maharashtra.

By the end of this year, one in every ten Indians will be an internet user, making the country the third-largest internet based-business in the world after China and United States. At the end of December 2011 about 121 million people in India (the figure was 112 million by September 2011 and the last year it was about 95 million only) will be accessing the internet at least once a week to check e-mails, chat or log on to a social network, a survey has found (IMRB and the Internet Mobile Association of India) [2011].

Ever since the Business-Correspondents (BC) guidelines by RBI, India has seen emergence of various branchless banking channels but the fact remain that still India faces a huge levels of financial exclusion and this poses a challenge as well as an opportunity to multi-stakeholders. The need was felt for more innovative cost effective and easily accessible delivery channel which would take the financial services to the nook and corners of India. What is needed is a pioneering business model addressing the key concerns of security deposits, minimum transaction costs, expedient operating time, less paperwork, numerous deposits and easy/safe access to affordable credit/overdraft and remittances – all are customized according to the income and consumption pattern of the segmented population.

Financial Inclusion Technology Options and Models

Recent development in banking technology solutions for financial inclusion have transformed banking operations from the traditional brick and big gun infrastructure like staffed branches to a system supplemented by other channels like ATMs, credit/debit cards, net banking, online money transfers, and so on. The various models of Financial Inclusion Technology (FIT) considered for implementation are :

(i) Application Service Provider (ASP) : It will provide end-to-end solution to the banks so that they could focus on business and servicing clients rather than on technology details and its implementation. If multiple banks have a common ASP there will be most cost-effective of software/hardware system and minimum implementation time.

(ii) Owned model : In this model, the bank has an individual Transfer Processing Software (TPS) through which the bank serves its current clients through internet (public domain).

(iii) Financial Inclusion Technology Provider (FIT) : The various technology options available range from mobile banking to smart cards, conventional cards, hand-held devices, biometric security tools, and so on. FIT provider is that entity that provides the optimum level technology support to the bank for implementing the banking technology solutions and ensures smooth functioning. Incidentally, M/s Zero-mass Foundation–SBI, M/s Tecways India, M/s Samtech Infitech, M/s FINO are some of FIT solution providers to the bank.

(iv)Stand-alone model (People's e-branch) : In order to enable RRBs and Cooperative Banks to use FIT to increase their outreach, the People's e-branch has been evolved. The rural clients of the bank could transact banking business with People's e-branch through FIT provider. The People's e-branch model is being field tested as a pilot project in various states in India.

(v) Mobile banking (m-banking) : Since 2002, the availability of mobile phone services has dramatically increased and services are provided in the remotest areas of country. Therefore, it provides an excellent platform for providing low-cost banking technology solutions for increasing outreach of the FIT providers. The remotely located clients of the bank are approached by BC with mobile phone for financial and banking services. They can easily access their account and transact business, transfer funds etc. with the bank through their individual mobile phone of the BC without carrying cash. The BC model allows banks to do "Cash in – Cash out" transactions at the location of the BC and allows branchless banking. M/s Tecways India is one of the banking technology solution providers for the m-banking technology solution.

(vi) Smart Card-Mobile Technology : This is a hi-tech technology consisting of a smart card and mobile phone. The smart card contains the account details of the client of the bank and it communicates with the bank through the individual mobile phone with an add-on circuit. The clients of the bank are approached by BF with mobile phone. M/s Zero-mass Foundation–SBI is one the banking technology solution providers for the smart-card and mobile technology.

The evolution in telecommunication technology has resulted in banks being able to offer services of different types with the banking technology that was available, as indicated in Table 1 below.

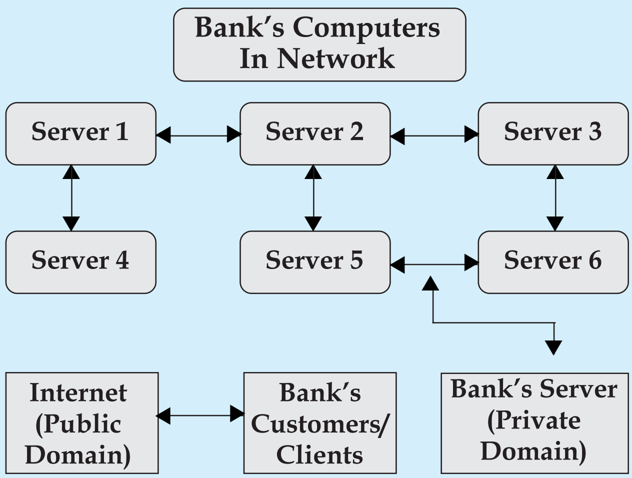
Table 1

Services Offered by Banking using Relevant Banking Technology

Information Technologies	Services Offered by the Banks
Telephone	Answering simple queries of customers
Computers	Less waiting time, better services to customers
Internet	Net Banking services
Mobile Communication	Phone-banking, Mobile-banking, Smart-Card-Mobile Technology, People's e-branch, etc.

Figure 1 below shows the access to outside world by the banks or customers/clients to banks, through relatively cheaper internet banking technology.

Figure 1 : A Bank and Customers/Clients Communication through Internet



Source : The Journal of Institute of Public Enterprise, Vol. 32, July-December 2009, P 93.

Future Perspectives and Conclusion

It is becoming increasingly apparent that addressing financial exclusion will provide a set of holistic approach on the part of the banks creating financial literacy, education and awareness about :

(a) Financial products/services such as micro-remittance, micro-savings, micro-credits, micro-insurance etc. — both formal and semi-formal.

(b) Financial literacy, education, awareness etc., and credit counseling, which are core to the achievement of financial inclusion, particularly poor and marginalized sections of the society, who face persistent downward financial pressures. It refers to an individual's basic understanding of the benefits and risks and aware of their rights and responsibilities associated with common financial decisions regarding their personal finance.

(c) Advice on money management, credit counseling, savings and affordable credit to the last-mile clients—especially the vulnerable groups, either as individuals or as groups.

The banks would have to develop specific strategies to make bigger outreach of dynamic formalized banking services, in order to support financial inclusion. If the financial inclusion is to be taken forward to its logical conclusion, it would be necessary to ensure that at least one member in every rural and urban family has a bank account and that various financial entitlements are directly credited so as to minimize leakages.

There are quite a lot of challenges that need the concentrated efforts from the banks, mutual funds, NGOs, micro finance institutions, the RBI, the Government—to ensure easy, expedient and cost-effective delivery of financial services to the population at large, to the remotest areas in our country. Once the compre-hensive financial inclusion is completed, the real beat up on rural eradication can be taken up in the right direction. ❐

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Continued from Page 49

(i) Project financial literacy **:** It includes the (i) spread of financial education through website in 13 languages; (ii) opening of credit counseling centres in the country to provide financial education to people in rural and urban areas on the various financial products; (iii) introduction of financial curriculum in schools and colleges.

(j) Financial Inclusion Plan (FIP) **:** Banks are asked to formulate a board–approved Financial Inclusion Plan which must be integrated with the normal business plans for a period of three years.

Challenges Before the Banks

Although steps have been taken by the banks to deliver the banking services and credit facilities to the vast sections of the population belonging to the disadvantaged and low income groups, it is still a challenging task . This is because of following reasons :

- Due to limited literacy, especially financial literacy, there is lack of awareness about the financial services and products;
- The financial products are unsuitable for low income groups and the attitude of banks towards such customers is unfriendly & unempathetic;
- The low income groups cannot fulfil KYC norms due to lack of proper documents regarding identity, address, income proof, etc;
- The fees charged by banks are exorbitant & non-transparent; apart from this the terms and conditions are burdensome;
- There is a lack of communication due to language barriers.

Hence, in order to achieve proper Financial Inclusion, it is necessary for the banks to overcome the above-mentioned challenges in due course of time.

Conclusion

The objective of 'inclusive growth with stability' emphasized in the Eleventh Plan (2007 – 2012) is not possible without achieving universal Financial Inclusion. The concept of 'inclusion' should be seen as a process of including the excluded as agents whose participation is essential in the very design of the development process, and not simply as welfare targets of development programmes. The banks will really have to gear up in the near future for successful implementation of Financial Inclusion plans. If they are successful in executing the plans, then India can be a role model to the world. Thus, Financial Inclusion is no longer a policy choice today but a policy compulsion. ❐

Financial Inclusion — Indian Context

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The objective behind the Bank Nationalization in 1969 was social welfare, priority sector lending, controlling monopolies of business and, above all, developing the banking habits among the poor. Our childhood "Bachat Khata" reminds us of the bank with high grills, collapsible gates and long queues to either deposit or withdraw the cash in bank contrary to present day banking of open offices and Net Banking. Banking in 1970s was solely the prerogative of the rich and urban people and the socially underprivileged people could seldom use the facilities of banking system. Thus the basic purpose of Nationalization was not achieved primarily due to the fact that the use of banking and other public finance schemes were not preached or propagated in proper form.

The term Financial Inclusion was first used by United Nations in 2003 when we realized that India had taken such steps way ahead of the world but could not succeed due to proper coining of the word and also propagating in better way. Perhaps this became the hot talk of the world after the success of Gramin Bank project at Bangladesh where Micro Finance shown the way how the credit facility can be extended to a group of people for their benefit with the inclusion of the group member of the community for the benefit of the poor, needy and socially underprivileged people.

The need for Financial Inclusion in India perhaps required to be implemented at the earliest and rank next to the priority list of basic infrastructure like good health, sanitation and hygiene. Most of our villages are not having bank branches and still using the local post offices for keeping their money in either post office savings schemes or term deposits. Even where the banks and insurance companies have opened their branches, this is used by the rich and influential people depriving others of getting the benefits of such facilities. To such people net transfer, credit cards, plastic money etc. are weird words having no practical meaning to them.

The Financial Inclusion thus meant for the Landless Laborers, Urban slum dwellers, Farmers, disabled, migrants, employees of unorganized sectors and self-employed for the purpose of following benefits :

(a) Low cost Financial Services : Providing Financial Services to the people who do not have the habit of regular savings but have potential for savings once the savings habit is cultivated in them like providing the benefits of SIP and Recurring Deposit account or small savings schemes etc.

(b) Old age Pension : General rural population is dependent on the daily labor or on their daily earning and do not have the means or schemes for saving for the old age. Suitable pension schemes available in the market, if made available, and educating the people for contributing in the same shows better future prospects. Govt. of India's initiative of National Pension Scheme is a good step towards this direction.

(c) Electronic Fund Transfer : Transfer of fund from one place to another becomes a problem even in this 21st century. It is very much crucial for a person with limited means to wait for the fund when he actually needs them for education, hospitalization and, in some cases, during emergencies. RBI has taken a step towards this by introducing RTGS and NEFT facilities in banking. Still a lot more improvements are required.

(d) Insurance : Life and General: Till date very little percentage of Indian population is having cover of Life through Life Insurance. This is primarily due to high premium rate. As a matter of practice, the LIC policies, in general, are having with profit policies and term insurances were never preached by LIC to the common mass. Opening up of the sector to private parties has actually developed this sector where more and more people took Life Insurance through Term Plans where higher covers are available with low premium.

(e) Medical Insurance : Due to the high cost of medical facilities and complicated diseases, this becomes a necessity these days. In urban society there are very few people available without medical insurance but there are still a large number of people who are not having the benefits of medical insurance. This also deprives them of better medical facilities which sometimes are not availed due to high cost factor. Private insurance companies have drawn attractive plans to motivate people towards this habit.

(f) No frill accounts **:** Privatization of banking has seen high amount of balance in the accounts where the banks are providing various benefits. Simple banking accounts were not available for the common people to transact through banks. Government intervention and, through public sector banks, no frill accounts were introduced for the people who want to avail the scheme.

(g) Simple KYC norms **:** The biggest problems faced by the people are their identity documents. Usually, migrant farmers, landless labors are not having any kind of identity etc. for their opening of bank accounts or the banks/financial institutions to complete the KYC norms. Recent introduction of Adhar card and linking the same with the bank account and also introduction of voter card have addressed this issue. But there is a long way to go.

(h) Overdraft facility : The farmers and agricultural laborers are more of such needs when they need the finances for buying seeds, pesticides etc. for a short term and they have the capacity to pay off. Already some banks have introduced micro finance facilities in their rural branches where such facilities have been addressed.

(i) Easier credit facilities **:** Credit cards and instalments are very much required financial products which the rural mass need for their use. The banks were not using credit cards or hire-purchase schemes to the agricultural labors, urban slum dwellers etc. Some public sector banks have now started issuing credit cards in rural sectors and some sectoral cards like Kishan Card etc. are being issued to get such benefits.

(j) Investment awareness **:** This is the most important aspect of the financial inclusion. The benefits of credit as well as the ways and means to invest their surplus need to be explained to the poor and common mass so that they can best avail of the facility. Ministry of Corporate Affair and ICWAI has already joined hands for continuing such campaigns to the common people.

It may be seen from the discussions above that the Government has already taken various steps so that the benefits of Financial Inclusion reaches to the persons they are intended to. Yet there is a lot which needs to be done. Obviously there are few factors which are affecting financial services to take off:

i. Limited Literacy
ii. Stringent terms and conditions
iii. Complicated procedures
iv. Low level of income
v. Psychological and cultural barriers
vi. Lack of awareness.

Opening up of economy has given us the scope to expand ourselves and now, through financial inclusion we can reach to the common and rural mass and deliver the world class financial benefits which they can use for their good. There are various hindrances to this growth :

1. Transaction costs for the financial products are very high compared to the benefits provided on the investment. This is because the transaction costs are always fixed keeping an eye on the volume of transaction and not on the basis of volume of business. A correction here is required.

2. The target people for the financial inclusion are daily workers, agricultural laborers etc. who do not have time during the day for operating their banking or financial needs. They can operate at the day end. To give better effect to the financial products, the transaction timings need to be reviewed so that such people can transact at their convenience.

3. The documentation portion of the transaction is the main part where the contracts are drawn. A person with limited education is not conversant with the legalities of such contract and, therefore, need assistance in such documentation. Local touts often misguide them. Government should provide registered financial guides to such people who will guide them towards documentations.

4. Access to the financial products should be quick and easy. The cash in hand for the needy and poor is very much liquid and, if not invested or kept in proper deposits, may land up in unnecessary expenditure and the money is spent.

5. The financial products need to be suitable to the persons targeted, and as per their income and requirement. Otherwise the whole purpose of the scheme is not successful.

6. There are many such cases where the common people have lost their money due to lack of financial security regulations. The need for an authority regulating the entire financial inclusion products are necessary who will be easier to approach for the rural people instead of the present structure of having several authorities.

Government has taken several steps and more are likely. The conviction for Financial Inclusion will take the rural people towards great heights in achieving their Financial Goals. ❐

Rejuvenating tax common law : New principles from cases and controversies

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The Modern era is marked by a phenomenal growth in statutory legislation and legal instruments. Before the advent of such statutory laws, principles and norms of what was known as common law occupied a pivotal field in the sphere of litigation, especially in the Anglo-Saxon system of jurisprudence to which the Indian Legal system continues to be in homage. The common law consisted of guiding lights and immutable principles handed down from historical usages of the peoples, customs of the trade and decisions of the judges. With the march of the centralized state in history and the monopoly of law-making in the hands of the centralized monarch/ government, laws soon were issued by the sovereign power compelling the citizens to render obedience and compliance. Many old rules of Common Law in the process yielded place to the statutory law. This new world of legislation in almost every sphere of human activity has led many jurists to believe that the application of Common Law Jurisprudence is diminishing in importance. This conclusion may not be entirely appropriate. The Common Law derives from Principles taken not only from ageless customs and usages but also significantly from decisions conveyed by the Judges that have stood the test of time. Even though Modern Statutory law appears to leave little scope for the continual application of the Old Common Law as we know it, nevertheless the Courts still find themselves increasingly called upon to determine cases and controversies arising from the need to interpret various aspects of the so called Statutory Law. The human ingenuity and patience in laying down Statutory Law is limited and is also fraught with failures against the march of time and technology. New developments will severely test the prevalent understanding behind extant statutory provisions. Thus, the Courts and Tribunals do continue to contribute to Case Law, which is a significant sphere of the Common Law. In this Article we shall look at some of the important and useful Principles that are being developed, not through Statutory Law, but through Case Law.

1. Circulars issued by the Tax Administration: Oppressive circular Vs Beneficial circular :

The Tax Departments are bestowed with statutory power to issue Circulars to their subordinate administrative echelons ostensibly in the interest of uniformity in assessment practice. Such Circulars are binding on the Departmental officials and not on Tax Payers who are free to contest any adverse point in such Circulars. Often the existing Circulars are withdrawn, superseded or modified by new Circulars. The change of Circulars raises the question whether the ratio of the new Circular is applicable to the earlier periods or otherwise. Sometimes the Circular might themselves solve this dilemma by deciding on the period of implementation. Often they do not do so.

The vexed issue of restrospectivity of a Tax Circular has been resolved by the Hon'ble Supreme Court of India vide ***Commissioner of Central Excise,*** Guntur—2007-TIOL-09-SC-CX. In this case, the Hon'ble Apex Court has laid down that a ***beneficial*** Circular has a retrospective application while an ***'oppressive'*** Circular can only be applied prospec-tively. Thus, when the Circular is against the tax paying assessees, they have the right to claim enforcement of the oppressive Circular prospectively.

Tax Refunds

The Statutory provisions governing tax refund generally provide for a band of time within which the claim for excess tax has to be made. Claims filed belatedly may be treated by the Tax administration as 'time barred' unless the tax had been paid under **"protest".** However, the Courts and Tribunals have laid down principles under which ***forced*** payments of tax have been held to amount to payment of tax under 'protest'. For example, payment of tax made as a result of a departmental investigation or an audit which if later was held to be unsustainable, will be refundable and restorable to the assessee without reference to any time bar under the statutory provisions.

Recently the High Court of Madras, in the case of ***Natraj and Venkat Associates Vs Asstt Commissioner of Service Tax, Chennai-II – 2010-TIOL-67-HC-MAD-ST*** held that tax not payable but paid by misunderstanding of Law is not tax and its refund will not be governed by the Limitation in terms of section

11B of the Central Excise Act. The Court drew attention to the fact that the Bar of Limitation prescribed under Section 11B (1) of the Act applies only to "any person claiming refund of any duty or excise and interest" and that where no tax was payable they will not come within the mischief of the Limitation, subject to proof regarding unjust enrichment.

Staying on refunds, it is common experience that the Tax Department is prone to pick holes in the refund claim format submitted by the tax payer and would send the claim papers back in rejection. When the assessee resubmits the refund claim, the Department may not honour the original date of submission and would tend to treat the claim as time-barred counting from the date of resubmission. The Customs, Excise and Service Tax Appellate Tribunal has come to the help of such hapless assessees by holding in the case of ***M/s Siddantha Textiles Pvt Ltd. Vs. Commissioner of Central Excise, Salem – 2010-TIOL-136-CESTAT-MAD*** that when a claim for refund is returned to the assessee for filing in a "proper" format etc, rejection of the claim as time barred on the basis of filing of the revised claim is not correct and that for the purpose of computing the Limitation, the date of filing of the original claim will still be relevant.

Cenvat Credit

Controversies in the area of CENVAT Credit are dime a dozen. Every change in the Rules invites a flood of litigation. A grey area of great practical inconvenience to the manufacturing industry is the absence of a provision, such as Rule 57-J that was available under the previous MODVAT Credit Rules. This old Rule bestowed significant operational flexibility by allowing manufacturers to send inputs directly for job work from the place of purchase without having to first bring them into the factory of the manufacturer, which was a condition laid down in the Rules for availing tax credit. The manufacturer would suffer a financial loss if he were forced to first ship the inputs to his factory and then dispatch it to the place of the job worker if the distances and the waste of time were too unaffordable. Under the old Rule 57-J, even though the inputs were directly shipped from the market to the premises of a job worker, the manufacturer was put in a position to take tax credit in respect of such inputs immediately after the return of the inputs in the job worked condition. Thus, the manufacturer had only to incur a small time delay, but otherwise was able to avail the credit under the Rule. Without this Rule, the manufacturer would not have been in a legally sound position in availing the credit for the simple reason that the Rules put up a condition that tax credit was available only when the inputs were received in the factory of the manufacturer.

The current CENVAT Credit Rules are conspicuous by the absence of a facility of the nature of Rule 57-J. There have been numerous instances when the Department has disallowed credit when inputs were not first brought into the factory of the manufacturer but sent directly to the place of job worker without bringing the input first into the factory. The Tribunal has come to the rescue of the tax payers in this regard. In the case of ***Bharat Heavy Electricals Ltd., Vs. Commissioner of C. Ex., Bhopal – 2011 (274) E.L.T. 359 (Tri. – Del.)*** the Tribunal held that the despatch of inputs to the job worker instead receiving it in the factory first and then again sending it to the job worker amounted to constructive delivery in the factory and it cannot lead to denial of credit.

Often after the assessee has taken CENVAT Credit, the final products may become exempted from tax subsequently, even though credit was taken when the products were taxable. In such cases, the Department is known to push for reversal of the Credit or to insist on lapsing of the Credit on the ground that the final product is no longer taxable. The Tribunal, in the case of ***Choksi Enterprises Vs Commissioner of Central Excise, Mumbai-II – 2011 (274) E.L.T. 401 (Tri. – Mumbai)*** has held that reversal of the Credit availed on inputs when subsequently the final product became exempt from duty is not warranted. However, the Tribunal in this case controversially held that such Credit would lapse. Here, the order for lapsing is as good as asking for the Credit to be reversed. In my view, the Credit should be allowed to stand and be adjusted, if need be, in terms of Rule 6 of CENVAT Credit Rules, rather than be held to be wholly liable to lapse.

Now it is well known that 100% export-oriented undertakings are hurrying to de-bond & exit and convert back to domestic tariff area units due to changes in general economic circumstances and decline in the tax attractiveness of the EOU Model. In this context there is a question regarding the treatment of accumulated Cenvat Credits in the hands of the exiting EOUs. The Tribunal, in the case of ***Technocraft Industries (India) Ltd., Vs Commr. of C. Ex., Thane-I, 2011 (274) E.L.T. 446 (Tri. – Mumbai)*** has taken a preliminary view that there is no case for lapsing of Cenvat Credit lying in the books of account at the time of de-bonding and that the DTA Unit will be entitled to avail such Credit on transfer from EOU Unit.

Interest

The 'Interest' in tax jurisprudence is a shadow of the tax and goes with it. Generally, interest is charged for belated payment of tax. What if the tax is paid but not the interest? Is there any Limitation for the Department in demanding recovery of tax interest? In the Customs Act, 1962, the interest has to be demanded within time limit in terms of Section 28 if such interest had remained unpaid by the assessee in default. Recently, the Tribunal in the case of ***Canara Bank Vs. Commissioner of C. Ex., LTU, Bangalore – 2011 (24) S.T.R. 634 (Tri. – Bang.)*** held in an Interim order that the Limitation under Section 11A of the Central Excise Act is applicable for the purpose of demand of interest. This decision when confirmed finally will put paid to several older decisions which took the view that there was no need for a formal demand notice for recovery of interest where the interest was not paid with the tax. Of course, the department may take care to demand the interest with the original tax within stipulated time limit and avoid having to lose the recovery of interest by time bar later.

Payment of pre-deposit of tax, interest & penalty for appeal

The requirement of pre-deposit of cent percent of the tax dues confirmed by the tax authorities is often an onerous obligation in appeal and if the appellate forums do not grant waiver it may be a ruinous prospect for stricken assessees. The assessees may well rely on reported precedents of the Tribunal in their application for waiver of pre-deposit. The Bombay High Court has laid down a salutary principle that where the assessee has good case on prima facie view and the Tribunal has granted waiver of pre-deposit of tax dues in two such similar cases already, it would not be desirable to deny the waiver of pre-deposit — vide *Wardha Coal Transport Pvt Ltd Vs Union of India – 2009 – TIOL- 79 – HC – Mum.*

Conclusion

The examples briefly discussed above would go to show that the tax common law is still alive and will gain increasing salience in the years to come. There are several principles of the tax common law that may be awaiting an appropriate time for taking the centre stage in future litigation. The earlier common law norms that there is no taxation without representation, that there is no tax without personal consent of the tax payer and no tax without assured protection of the life & property of the tax payer may appear too far fetched in the era of representative republican government. However, it is a moot question whether the tax paying citizens are granted any systemic leverage or voice in the formulation of tax policies of the governments and whether the governments of the modern era could continue to tax as they please without involving the tax paying citizens in a role-recognizing, meaningful debate of tax policies, establishing the moral & social legitimacy of current and additional taxation and showing that the tax monies are well and wholly spent in the welfare of the citizens. It is here that a rejuvenation of the jurisprudence of the tax common law can devise a meeting ground and serve as a bridge between the tax paying citizens and the nominally sovereign tax administrations. A widely understood and well-accepted tax will fetch far more than a tax underpinned only by an opaque tax policy and a top-down tax enforcement system. ❒

The Management Accountant — February, 2012 will be a special issue on

'INNOVATIONS IN FINANCE'.

Articles, views and opinions on the topic are solicited from readers along with their passport size photographs to make it a special issue to read and preserve. Those interested may send in their write-ups by e-mail to rnj.sumita@icwai.org, followed by hard copy to the Research & Journal Department, 12, Sudder Street, Kolkata-700 016 to reach by 8th January, 2012.

The Management Accountant — March, 2012 will be a special issue on

'SUSTAINABLE GROWTH'.

Articles, views and opinions on the topic are solicited from readers along with their passport size photographs to make it a special issue to read and preserve. Those interested may send in their write-ups by e-mail to rnj.sumita@icwai.org, followed by hard copy to the Research & Journal Department, 12, Sudder Street, Kolkata-700 016 to reach by 8th February, 2012.

Tax Titbits

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Black money trail

The matter of monies belonging to Indians held abroad has drawn public attention in the light of the information, which the Government has acquired from the German Government relating to Liechtenstein investments and other information being obtained from other Governments by activising Agreements for Exchange of Information. Public interest in this regard is reflected by a decision of the Supreme Court at the instance of many prominent citizens in Ram Jethmalani v. UOI (2011) 339 ITR 107 (SC) in the light of the stand taken by the Government, that the information collected cannot be public property and that such information cannot be divulged without infringing the Fundamental Rights under Articles 19, 21 and 32 of the Constitution and the terms of Double Taxation Avoidance Agreements, where the information is obtained under such Agreements. It was this understanding of law, which was challenged in the aforesaid decision of the Supreme Court.

Conflict of interest as between the confidentiality as regards personal matters of citizens on one hand and the right of the State to enforce the law on the other would require to be balanced. There is no doubt that the majesty of law would required to be upheld. But availability of personal information to the public is a different matter—either under the Right to Information Act or otherwise. According to the Government, it has obligation to maintain secrecy under the Agreements except for proceedings for tax evasion and criminal activities against the persons concerned. The Supreme Court found that though India is not a signatory to the Vienna Convention as regards interpretation of international agreements, they cannot altogether be disregarded, when they are universally recognised, especially by other partner/ partners to the Agreement. Constitutional rights could not also be disregarded except where the law permits the same as under criminal law.

It is to be equally understood that the money held abroad illegally and against foreign exchange law cannot have the protection of fundamental rights. State can certainly compel citizens to reveal personal details for purposes of enforcement of law. There is also the moral duty of citizens to share their information for upholding the authority of law.

The Supreme Court recognised the rights of both citizens and the State and decided that the public have the right to know except where it would amount to breach of fundamental rights of citizens or would be in violation of the obligations of the State in international Agreements. It was also understood that where investigation has started by issue of show cause notices after partial or complete processing of the case, there can no longer be any requirement of secrecy.

In the light of the representation made before the Supreme Court by responsible citizens apprehending inaction on the part of Government or misuse of such information for political reasons, the Supreme Court took upon itself the responsibility of ensuring proper use of information by constituting a Special Investigation Team (SIT) in respect of information relating to accounts obtained from Liechtenstein to ensure that necessary action is taken under direction or supervision of this body. This decision makes a significant departure by the Supreme Court by recognizing a pro-active role. But then, this was the response in the light of the pressure from the enlightened public, which would require the law to be enforced.

Treatment of software under income tax law

There is hardly any large business which can be carried on without a large input on software. Surprisingly, there is no uniform treatment under the different tax laws. Software has been treated as goods for purposes of sales tax in Tata Consultancy Services v. State of Andhra Pradesh (2004) 271 ITR 401 (SC), whether it is ''made available in any disc, tapes, perforated media or other information storage device, whether they are CD, floppy, diskettes, paper or any other media or whether it is canned or uncanned, licensed or unlicensed, branded or unbranded, tangible or intangible, being a commodity capable of being transmitted, transferred, delivered, stored, processed, etc.”. This decision was followed in Bharat Sanchar Nigam Ltd v. UOI (2006) 282 ITR 273 (SC). In fact, income tax law itself classifies it as plant and machinery by providing for depreciation at 60% under Entry 5 of Appendix I to the Rules effective from A.Y. 2006-2007 under the title “computers including computer software”. Computer software is defined to mean “any computer programme”. It is for this reason that receipts from entertainment software relating to telecasting rights has been found to be export of goods and not royalty as understood by the Supreme Court for purposes of export relief under section 80HHC of the Income Tax Act in CIT v. B. Suresh (2009) 313 ITR 149 (SC) approving the view taken by the High Courts in a number of decisions on the subject.

Since software is always subject to licence of the supplier or the promoter, it is often misunderstood to be a payment for royalty. It is also misunderstood as technical fees for services rendered by supplier through the software. It is for this reason that service tax implications are sometimes inferred. But the same payment cannot be one for purchase and sale of goods and be liable for service tax or to be treated as royalty or technical fees. Such confusion arises mainly because it is not understood that sale of copyrighted product is different from assignment of copyright, a distinction which is easily understood in the case of a purchase of a book over which the copyright remains with the author or publisher, as the case may be.

There has been some consistency in the recent decisions when there was no inference of royalty and much less technical fees in purchase of software as decided by the Special Bench of the Tribunal in Motorola Inc. v. Dy.CIT (2005) 95 ITD 269 (Del)[SB] and Asia Satellite Telecommunications Co. Ltd. v. DIT (2011) 332 ITR 340 (Del) and GeoQuest Systems B.V. In re (2010) 327 ITR 1 (AAR). But then, for lack of clarification from Central Board of Direct Taxes, Assessing Officers continue to rely upon some decisions rendered *per incuriam* as in Gracemac Corp. v. Asst. DIT (2011) 8 ITR (Trib) 522 (Del) giving rise to obligations for tax deduction at source and disallowance of payments itself for non-deduction of tax at source. It is necessary that the Government should issue clarifications in respect of transactions in software for income tax, service tax and customs, so as to ensure uniform treatment and avoid proliferating litigation now pending decisions in the hierarchy of appellate fora. Early clarifications in respect of software industry is of importance both for domestic trade as well as exports.

Direct Taxes Code, Bill, 2010—Whither to?

Direct Taxes Code Bill, 2010, is now pending with a Parliament Committee to take final shape. Information is that the committee has yet to vet the Bill. There has been numerous amendments after the Bill in the two Finance Acts, 2010 and 2011, and there is yet to be another Finance Bill, 2012. All these will have to be digested in the new Bill for the sake of continuity. The implications of the changes in the Bill have not all been understood. There is additional liability for almost all categories of assessees. Leave encashment would be taxable for salaried employees. Deduction from rental income from property will go down from 30% to 20%. Business will have more deeming provisions, as for example loan waived will be treated as income. Relief for capital gains will be restricted only for rerolling in agricultural lands, besides housing restricted for persons not having more than one property other than what is transferred. In respect of income from other sources, proceeds of all insurance policies other than those with premia less than 5% of the assured sum would be taxable on the difference between the maturity amount and contributions made.

International transactions will be hit by the proposed dilution of treaty override, branch profits tax, controlled companies and a more rigid test for residential status for foreign companies. The expected reduction in tax rate earlier proposed has been given up, and now will be confined merely to slab adjustments and not reduction in rate with a view to "calibrate" the law to revenue requirements, so that the very purpose of a stable law has receded further.

Tax administration itself does not appear to be very keen, since it will not be easy to switch over to a new tax regime for effective administration, just as it would be too difficult for the taxpayers for safe compliance. But then, would the Parliament and the Ministry wait for a better draft sometimes later? That is a big question which awaits answer. ❐

Contd.from Page 11

agricultural productivity. Post-production warehousing of agricultural produce and cold storage units can be financed by banks.

Similarly banks can encourage micro and small business enterprises also with innovative models, utilizing soft interventions and hard interventions. Innovative liability and asset products can lead to prosperity to the poor people as well as banks.

Conclusion

The Philadelphia Charter proclaims : ''Poverty anywhere constitutes a threat to prosperity everywhere". Therefore, Financial Inclusion is necessary for the nation. For banks, Financial Inclusion initiatives offer a great opportunity. The words of the noted economist C. K. Prahlad were very prophetic: "There are pots of gold at the bottom of the pyramid!" Banks can see long-term profitability by looking at the bottom of the pyramid, rather than at the top. Financial Inclusion is not just a Corporate Social Responsibility but a viable business model too! ❐

Interpretation of the Word 'Plant' under the Provisions of Income Tax, 1961

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Introduction

Interpretation of statutes is inevitable. Many a litigation arises in interpreting the provisions of an Act. Tax laws are not exempted to this. Interpretation of statutes leads to the victory for assessees in some cases and for Revenue in some cases. In addition to merits of the case the interpretation of statutes is important in dealing tax matters. In this article the word interpretation of the word 'plant' by the courts is discussed with reference to decided cases laws.

Plant

The plant is a capital asset. Normally plant is not expressed alone. Plant and machinery is the words used to denote machinery. Plant and machinery are fixed assets. The assessees are entitled depreciation for these plants. Sec. 43(3) of the Income Tax Act, 1961 ('Act' for short) defines the term 'plant'. The said section defines plant which includes ships, vehicles, books, scientific apparatus and surgical equipment used for the purposes of the business or profession but does not include tea bushes or livestock or building or furniture and fittings. The definition is inclusive one. In **'Commissioner of Income Tax Act V. Elecon Engineering Company Limited' – (1974) 96 ITR 672 (Guj)** the High Court held that the word 'plant' is not necessarily confined to apparatus which is used for mechanical operations or is employed in mechanical or industrial businesses. It will not include stock-in-trade or even articles which are merely part of the premises in which business is carried on.

For an article to qualify as plant it must have a degree of durability, and that which is quickly consumed or worn out in the course of its operation, within a short span of time, cannot properly be called a plant. The test which the court suggested could be applied was, the operation of the apparatus/article involved, performed in the performance of the assessee's business i.e., did it fulfil the function of a plant in the assessee's trading activity. In other words, was it a tool of the taxpayer's trade? In this regard the Court held that the word 'plant', in its ordinary sense, was a word of wide import and it has to be construed broadly having regard to the facts that articles like books and surgical instruments were expressly included in the definition of plant under Section 43(3) of the Act. The word 'plant' in Section 32 would include not only such articles which were capable of diminution in value year after year by reason on wear and tear in the course of their application for the business of assessee's profession but also those which diminished in value on account of other factors such as obsolescence. The important aspect to be noted is that the court laid stress that plant would include such an article, whether animate or inanimate, which is used as a tool of the assessee's trade.

Functional test

The functional test formulated by the court for considering an article as 'plant' is –

- Does the article fulfil the function of a plant in assessee's trading activity?
- Is it a tool of the trade with which he carries on his business?
- If the answer is affirmative it will be a plant.

Case Laws

Knife

In '**Hinton (Inspector of Taxes) V. Maden and Ireland Limited' – (1960) 39 ITR 357 (HL)** it was held that knives and lasts having an average life of three years used in manufacturing shoes were held to be plant.

Sanitary & Pipeline Fittings

In **'Commissioner of Income Tax V. Taj Mahal Hotel' – (1971) 82 ITR 44 (SC)** the respondent, which ran a hotel, installed sanitary and pipeline fittings in one of its branches in respect whereof it claimed development rebate and question whether the sanitary and pipeline fittings installed fell within the definition of plant given in Section 10(5) of the 1922 Act which was similar to the definition given in Section 43(3) of the 1961 Act. The Court held that sanitary and pipeline fittings fell within the definition of the plant.

Documentation Servcices

In **'Scientific Engineering House (Pvt) Limited V. Commissioner of Income Tax' – (1986) 157 ITR 86 (SC)** the Supreme Court observed that the definition of the word 'plant' in Section 43(3) of the Act was wide.

It would include, broadly, both animate and inanimate things. In other words, plant would include any article or object fixed or moveable, live or dead, used by businessman for carrying on his business and it is not necessarily confined to an apparatus which is used for mechanical operations or processes or is employed in mechanical or industrial business. In order to qualify as plant the article must have some degree of durability.

In the aforesaid case, the assessee company was in the business of manufacturing scientific instruments and apparatus. For the purposes of its business it entered into two separate collaboration agreements with a Hungarian company which agreed to supply to the assessee technical know-how required for manufacturing such-like scientific instruments. The object of the agreement was to enable the assessee to manufacture the said instruments in India, under its own trademark under the licence of the Hungarian collaborator. The supply of manufacturing drawings, processing documents, design charts, plans and other literature which was termed as 'documentation services'.

The Supreme Court held that if the functional test is applied drawings, designs, charts, plans, processing data and other literature comprised in the documentation service it would be difficult to resist the conclusion that these documents as constituting a book would fall within the definition of 'plant'. But apart from the physical form the question is whether these documents satisfy the functional test. The purpose of rendering such documentation service by supplying these documents to the assessee was to enable to undertake trading activity of manufacturing theodolites and microscopes and there can be no doubt that these documents had a vital function to perform in the manufacture of these instruments. In fact, it is with the aid of these complete and uptodate set of documents that the assessee was able to commence its manufacturing activity and these documents really formed the basis of business of manufacturing the instruments in question.

The Supreme Court further held that it is true that these documents did not perform any mechanical operations or processes but that cannot militate against their being a plant since they were in a sense the basic tools of the assessee's trade having a fairly enduring utility, though owing to technological advances they might or would in course of time become obsolete. The Supreme Court, therefore, was of the view that the capital asset acquired by the assessee, namely, the technical know-how in the shape of drawings, designs, charts, plans, processing data and other literature falls within the definition of 'plant' and, therefore, a depreciable asset.

Horse – A Plant?

In **'Yarmouth V. France' – (1887) 19 QBD 647** a question arises whether a horse can be considered as 'plant' within the meaning of Section 1 (1) of Employers' Liability Act. In this case it was suggested that nothing that is animate can be plant i.e., living creatures can in no sense be considered plant. It was observed that in many businesses horses and carts, wagons, or drays seem to form the most material part of the plant; they are the materials or instruments which the employer must use for the purpose of carrying on his business and without which he could not carry it on at all. The principal part of the business of a wharfinger is conveying goods from the wharf to the houses or shops or warehouses of the consignees; and for this purpose he must use horses and carts or wagons. They are all necessary for carrying on the business. It cannot for a moment be contended that the carts and wages are not plant. Can it be said that the horses, without which the carts and wagons would be useless, are not? If, then, this horse was part of the plant, it had a defect, that is, it had the constant habit, whether in a stable or harnessed to a trolley, of kicking whatever was near it, whether a human being or brick wall. In short, it was a vicious asset that could not be managed or controlled by the most careful driver. The plant, therefore, was defective.

The above said is not involving the provisions of the Income Tax Act. The decision was rendered in the facts and circumstances obtaining in that case and in the background of the provisions of the Employers' Liability Act.

Human Part – A Plant?

In **'Norman V. Golden (Inspector of Taxes)' – (1945) 13 ITR (EC) 21 (CA)** it was held that a human body was not a plant.

In **'Shanti Bhusan V. Commissioner of Income Tax' – (2011) 336 ITR 26 (Delhi)** the assessee suffered a heart attack. He was advised by the doctor to undergo a bypass surgery. He underwent the said surgery in USA. During the assessment year 1983-84 he claimed the expenses of the treatment for bypass surgery as deduction under Section 31 of the Income Tax Act which permits deduction of expenditure incurred on current repairs of the plaint. Section 31 of the Act provides that in respect of repairs and insurance of machinery, a plant or furniture used for the purposes of the business or profession, the following deduction shall be allowed :

- The amount paid on account of current repairs thereto;
- The amount of any premium paid in respect of insurance risk of damage or destruction thereof.

The said expenditure shall not include any expenditure in the nature of capital expenditure. The assessee contended that the expenditure incurred by him on coronary surgery conducted on him, was akin to expenses incurred on current repairs of a plant. Thus his stand is that the human heart is a plant. He further submitted that after this surgery his revenue as an Advocate increased year by year because of the surgery undertaken by him.

The assessee further contended that for a professional musician, plant would include musical instruments used by him in connection with his profession and thus have a case to claim deduction in respect of expenses incurred on its repair or, even expenses incurred by a vocalist on repair of his vocal crds; a lawyer shall be allowed deduction on expenses incurred on repair of his heart under Section 31 of the Act. Similar examples were given of other situations such as a cricketer and a guitarist making use of their fingers and having to incur expenses in case they required repair. Further, the assessee contended that in case the expense incurred by the assessee was not allowable under Section 31 it surely fell within the domain of Section 37(1) of the Act. Section 37(1) of the Act provides that any expenditure (not being expenditure of the nature described in Sections 30 to 36 and not being in the nature of capital expenditure or personal expenses of the assessee), laid out or expended wholly and exclusively for the purposes of the business or profession shall be allowed in computing the income chargeable under the head 'Profits and gains of business or profession'.

The assessee further relied on the judgment of Bombay High Court in 'Mehboob Productions P Limited V. Commissioner of Income Tax'—(1977) 106 ITR 758 (Bom) the director who was the driving force in the company had traveled abroad. While he was abroad he suffered a heart attack. Therefore the expenses incurred in providing him medical facilities had been allowed as an expense. He contended that this case has applied to him also.

The Assessing Officer rejected the contention of the assessee and disallowed the expenditure. The assessee filed an appeal against this order before the Commissioner of Income Tax (Appeals) who affirmed the order of the lower authority. The Tribunal also confirmed the order of lower authorities. Hence he filed the present appeal before the High Court.

The High Court, after hearing both sides, held that the expenses incurred by the assessee are of personal nature. The Court distinguished the judgment relied on by the assessee holding that the expenses in that case were allowed on the principles of commercial expediency; having been incurred wholly for the purpose of the business of the company. In so far as the company was concerned, the expenses could not be regarded as personal in nature. The Court was of the view if the heart of a human being is considered a plant it would necessarily mean that an asset which should have a mention in the assessee's balance sheet of the previous year in issue, as also, in the earlier years. Apart from the fact that this is admitted not so, the difficulty that the assessee would face in showing the same in his books of account would be of arriving at the cost of acquisition of such an asset.

The Court further held that the fact that a healthy and a functional human heart is necessary for a human being irrespective of his vocation or social strata. This would not lead to the conclusion that the heart is used by a human being as a tool of his trade or professional activity. General well-being of the heart and its functionality cannot be equated with using the heart as a tool for engaging in trade or professional activity. At least the facts in this case do not demonstrate the same. Hence the claim for allowing deduction of the expenses incurred by him on his coronary surgery expenses under Section 31 of the Act was rejected by the Court.

In regard to the claim under Section 37(1) the Court held that the claim for deduction under this section should satisfy three conditions :

- It should be an expense which is incurred wholly and exclusively for the purpose of the assessee's business or profession;
- It should not be an expenses incurred to bring into existence of a capital asset, and
- It should not be an expense of a personal nature.

The claim of the assessee under this section does not fulfill the first condition which is that the expense in issue should have been incurred wholly and exclusively for the purposes of the assessee's profession. There is no direct or immediate nexus between the expenses incurred by the assessee on the coronary surgery and his efficiency in the professional field per se. Therefore the Court rejected the claim of the assessee under Section 37(1) of the Act.

Conclusion

In interpretation of a word in a tax statute the decision is rendered in the facts and circumstances of the case and the background of provisions of the law. This is also applicable to the word 'plant', but it has also to satisfy the conditions of functional tests as enumerated by the Court. Then only will it be eligible for depreciation or deduction under the provisions of income tax. ❐

The 'Glittering' Gold ETFs

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Introduction

The first ten years of 21st century has seen many innovations in almost all spheres of financial market — be it equity market, debt market, derivative market or mutual fund. Of these, one of the most significant is Exchange Traded Funds (ETFs). An **ETF** is a derivatively-priced security which trades intra-day on a national stock exchange. They are typically benchmarked to indices, stocks or even commodities. However the one that is in news now-a-days, at least in Indian bourses, is GOLD ETFs.

What is Gold ETF?

Gold ETFs (also known as Paper Gold) are defined in several ways. According to Bang (2009) Gold ETFs are basically open ended mutual fund schemes that invest the money collected from investors in standard gold bullion (0.995 purity) as its underlying asset. These instruments are listed on the stock exchanges and, hence, can be bought and sold just like buying and selling of shares. Hence an investor can buy and redeem the units either directly from the mutual fund, subject to certain stipulations, or from the stock exchange. Gold ETFs are passively managed funds and are designed to provide returns that would closely track the returns from physical gold in the spot market.

Origin and Historical Development of Gold ETFs

The first gold exchange-traded product was Central Fund of Canada which was first founded as a closed-ended fund in 1961. It later amended its articles of incorporation in 1983 to provide investors with an exchange-tradable product for ownership of gold and silver bullion. It has been listed on the Toronto Stock Exchange since 1966 and the AMEX since 1986.

However, the idea of a gold exchange-traded fund was first conceptualized by Benchmark Assets Management Company Private Ltd in India when they filed a proposal with the SEBI in May 2002. Unfortunately, it did not get regulatory approval at first and was only launched later in March 2007. The first Gold ETF actually launched was Gold Bullion Securities (ticker symbol "GOLD"), which was listed on 28 March 2003 on the Australian Stock Exchange. Gold Bullion Securities (GBS) are fully backed by gold which is both deposited and insured. GBS was launched to give financial institutions and private investors the scope to own gold and gain exposure to the price appreciation, without the inconvenience of storing physical gold.

Later, a number of fund houses launched Gold ETFs over the last few years, such as :

A. Exchange Traded Gold

These are several associated Gold ETFs grouped under the name Exchange Traded Gold and are sponsored by the World Gold Council. Exchange Traded Gold securities are listed on multiple exchanges worldwide by various ETF providers. These include—

1. SPDR Gold Shares

SPDR Gold Shares, marketed by State Street Global Markets LLC, an affiliate of State Street Global Advisor, accounts for over 80 percent of the gold within the Exchange Traded Gold group. As of 2009, SPDR Gold Shares is the largest and most liquid Gold ETF on the market, and the second-largest exchange traded fund (ETF) in the world. Stock market listings: United States (NYSE:GLD), Japan (TYP: 1326), Hong Kong (HKEX: 2840) and Singapore (SGX: GLD 10US$).

2. Gold Bullion Securities, ETFS Physical Gold and ETFS Physical Swiss Gold

ETF Securities "Gold Bullion Securities" (previously marketed by Lyxor Assets Management) listings: Australia (ASX: GOL), Belgium, France (Euronext: GBS), Germany (FWB: GG9B), Italy, Netherlands and United Kingdom (LSE: GBS and LSE: GBSS).

Similar to Gold Bullion Securities, ETF Securities' ETFS Physical Gold (LE: PHAU) and ETFS Physical Swiss Gold (LSE: SGBS) are also backed by allocated gold bullion. In September 2009 they launched ETFS Physical Swiss Gold Shares on the New York Stock Exchange (NYSE: SGOL).

3. Dubai Gold Securities and NewGold

Dubai Gold Securities (Sharia Compliant) (NASDAQ Dubai: GOLD), ABSA "NewGold" debentures (JSE:NewGold).

B. Goldist ETF

Goldist ETF (ticker symbol: GLDTR) was launched by Finansbank in September 2006 on the Istanbul Stock Exhange.

C. iShares Gold Trust

This was launched by iShars on 21 January 2005 and is listed on the NYSE (NYSE: IAU) and Toronto Stock Exchange (TSX: IGT). As of July 29, 2010, the fund claimed to hold 90.88 tonnes of gold in storage.

D. Julius Baer Physical Gold Fund

In October 2008 Swiss & Global Asset Management (formerly Julius Baer Asset Management) launched JB Physical Gold Fund with four unit classes traded in different currencies: CHF, EUR, USD, GBP (SIX: JBGOCA, JBGOEA, JBGOUA,JBGOGA).

E. Precious Metals Bullion Trust

On August 14, 2009 Brompton Funds Management Limited launched Precious Metals Bullion Trust (TSX: PBU.UN). The Fund invests in physical gold, silver and platinum bullion. F. Xetra-Gold

Xetra-Gold (FWB: 4GLD) was launched by Deutsche Börse Commodities in December 2007.

F. ZKB Gold ETF

The ZKB Gold ETF (SIX: ZLD, ZGLDEU, ZGLDUS, ZGLDGB) was launched on 15 March 2006 by Zrcher Kantonalbank. The fund invests exclusively in physical 12.5 kg gold bars having four unit classes traded in different currencies: CHF, EUR, USD, and GBP.

G. Index-tracking products

- ETFS Gold—In September 2006 ETF Securities launched ETFS Gold (LSE: BULL) which tracks the DJ-AIG Gold Sub-Index.
- Nomura Gold-Price-Linked ETF- On 10 August 2007, Nomura Assets Management launched the Gold-Price-Linked ETF (code "1328") on the Osaka Stock Exchange, Japan. Shares are sold in 1 gram gold units, with a minimum purchase of ten units. The fund is not backed by physical gold but by bonds traded in London which are linked to the price of gold.

How Does Gold ETFs Work?

In case of a physically backed GETF, the fund purchases large quantities of gold and maintain the physical metal in storage. It then issue units of ownership. These units increase in value according to the price of gold (a 10% increase in gold prices will increase the value by 10%, subject to the fund expenses). Investors open an online or in-person trading account and can trade in their GETF units during stock market hours. A large monetary investment is not required because people can buy GETFs in as small as one unit representing portions of an ounce (one 'gram' in case of India) of gold. This is really ideal since the price of one gram of gold these days is still not beyond the reach of investors. On the other hand, there may be some index tracking products (like ETF GOLD, Nomura Gold Price Linked ETFs) which replicate the returns of gold stock (gold mining) companies and, hence, follow gold stock index instead of gold price index.

How are GETFs Better than Physical Gold Investment?

There are enough reasons why gold should be included in any investor's portfolio whether in physical or paper form. However, investing in gold ETFs will give the investor all the advantages of investing in gold while eliminating drawbacks of holding physical gold.

The advantages of GETFs over physical gold are :

1. Convenience : GETFs are a convenient means of investing in gold because investors need not to worry about the storage and security aspects associated with investing in physical gold.

2. Quality : The purity of underlying gold in Gold ETFs should be 0.995 fineness and above. So investors need not worry about finding a reliable source to buy GETFs.

3. No Premium : There is no question of premium pricing in case of GETFs like that by Jewellers (5%-10% over market price) and Banks (up to 15% over the market price).

4. Low cost : Except the annual De-mat, trading account charges and fund house charges and that too of very insignificant in magnitude, investing in GETFs does not require huge storage cost like that of physical gold.

5. Transparent pricing : Unlike Physical gold, Gold ETFs have a transparent pricing mechanism by first converting International gold prices into Indian rupee term using the applicable exchange rate and then by adding various duties and taxes to arrive at the landed price of gold.

6. Tax efficiency : In Indian context, long-term capital gains tax is applicable on GETFs only after twelve months from the date of purchase vis-a-vis three years in the case of physical gold. Further, unlike physical gold, investments in Gold ETFs are not subject to Wealth Tax.

7. Liquidity and Resale value : Gold ETFs can be easily sold in the secondary market on a real-time basis (i.e. at the prevailing market price) while sale of physical gold is subject to deduction of making charges and wastage by jewellers. As regards banks, they refuse to buy back gold.

	GOLD ETF	GOLD ETF	GOLD ETF
PURCAHSE	Entry load-nil, brokerage – 1%	10-20% mark up charged by banks on spot price	Making charges 15-20%
ANNUAL MAINTENANCE	1-2%, but expected to go down	Cost of insurance, locker charges (Rs. 400-4000)	Cost of insurance, locker charges (Rs. 400-4000)
SELLING/ REDEMPTION COST	Brokerage of 1% or less	No repurchase by banks, premium paid is lost	Wastage of 10-20% depending upon purity
TAX	LTCG of 20% after 1 year, no wealth tax	LTCG of 20% after 3 years, 1% wealth tax on incremental amount	LTCG of 20% after 3 years, 1% wealth tax on incremental amount
IMPURITY RISK	NIL	HIGH	NIL
BID-ASK SPREAD	Very low	Very high	Can't sell back
TRANSPARENCY	Very high	Very low	High

Fig. 1: Gold ETF vs. Physical Gold Investment in India; At a Glance

Risks to Gold ETFs

1. Returns on Gold ETFs may be lower than those on physical gold due to management fees, transaction costs and other operational expenses levied by the fund house on the fund's NAV.

2. Trend reversal of gold prices directly affects the physically backed GETFs.

3. If due to scarcity a country's gold demand is mostly satisfied by imports, return from domestic GETFs of those economies will depress as the domestic currency appreciates. Thus the returns are subject to exchange risks. Also, Return from GETFs is subject to inflation woes. During inflation real return may be dampened.

4. The rapid growth of gold exchange-traded funds is a two-edged sword for gold, increasing volatility both up and down during short-term and, ultimately, in the long.

Mutual Fund	Launch Date	NSE Symbol	BSE Code
Benchmark MF	March '07	GOLDBEES	590095
UTI MF	April '07	GOLDSHARE	590101
Kotak Mahindra MF	July '07	KOTAKGOLD	590097
Reliance MF	Nov '07	RELGOLD	590100
Quantum MF	Feb '08	QGOLDHALF	590099
SBI MF	May '09	SBIGETS	590098
Religare MF	March '10	RELIGAREGOLD	533172
HDFC MF	July '10	HDFCMFGETF	533230
ICICI Prudential MF	Aug '10	IPGETF	533244
AXIS MF	Nov '10	AXISGOLD	N.A
Birla SL MF	May '11	BSLGOLDETF	533408

Gold ETFs in India

As stated earlier, the first Gold ETF, GOLDBEES by Benchmark AMC, was launched in India in March 2007. Followed by this three more fund houses (Kotak Mutual Fund, Reliance Mutual Fund, and UTI Mutual Fund) launched their schemes in the same year. Within just four years the number jumped to 11, with Birla Sunlife GETF being the youngest in the list, launched only in May 2011.

Date	Av. AUM (Rs. Cr)	No. of retail folios
31.03.2009	743.14	63422
30.09.2009	1008.43	99454
31.03.2010	1590.63	142270
30.09.2010	2849.76	235218
31.03.2011	4400.20	286415

Not only the fundhouses, the investors—mainly the retail investors—also have shown growing interest in GETFs. The data on the number of folios created by retail investors clearly show that there is a steady increase in the number of retail investor folio from 63422 on 31.03.2009 to 286415 on 31.03.2011. Among the ETF category also, GETFs outperformed others with its growing AUM (Assets Under Manageent) which rose from Rs. 743.14 crores on 31.03.2009 to Rs. 4400.2 crores on 31.03.2011 (Data available from AMFI website).

Another parameter that evidences this phenomenal growth in GETFs in India is the Daily Average turnover and Daily Average number of trades at NSE across the fundhouses clearly indicates that GETFs are gaining momentum day by day (data avalable from NSE).

As an investment avenue also, GETFs have left behind all the traditional investment modes, even equity stock. The average return across fundhouses well-dominated the Sensex or Nifty in the short run and even in the long run. On an average, 3 year returns on GETFs well surpasses the most successful mutual fund schemes even discounted by the inflation factors. (All Returns upto 08.11.11, Returns since inception up to 26.08.11 , return over 1 year is annualised — Source : Weekly Performance Report of MF by SBI CAPSEC LTD)

Continued on Page 69

Returns to Shareholders on Acquisition

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Jensen and Ruback (1983) and Agrawal, Jaffe and Mandelker (1992) suggest that acquiring firms sustain losses and the view is further supported by Loderer and Martin (1992), Loughran and Vijh (1997) and Mitchell and Stafford (2000) in their study by stating that the acquiring firms obtain virtually no abnormal returns. Black et al (2001) report negative abnormal returns over both a three-and five-year post-acquisition period for bidders in cross-border deals.

Michail Pazarskis, Manthos Vogiatzogloy, Petros Christodoulou and George Drogalas (2006) examined the M&A effect on a sample of Greek firms listed at the Athens Stock Exchange (ASE). Using financial, accounting and confidential questionnaire response data, the post-acquisition performance of fifty Greek companies that executed at least one merger or acquisition in the period from 1998 to 2002 was evaluated on a basis of certain non-financial characteristics (type of merger, method of evaluation and payment) and financial characteristics (a set of seven selected financial ratios). The interesting finding of the survey is that there is strong evidence that the profitability of a firm that performed an M&A is decreased due to the merger/acquisition event.

Erik Stalstedt & Jens Eriksson (2006) analysed data of share prices of three different mergers involving six different companies by using share prices 48 months before and 48 months after the M&A to examine the effect of acquisitions in the pharma-ceutical industry on stock returns.

The long-run effect was examined through regression analysis of several variables and their effect on the performance of a company and its share price. Also, a comparison was made towards different indices. To measure the effect, estimates were made on future stock returns of the selected companies. These estimates were then compared with the actual returns documented 48 months after the acquisitions.

The documented returns were also compared with both an industry related index as well as a more general market index. It was found by them that abnormal returns were achieved in three out of six cases against indices and in no case returns were abnormal when comparing actual and estimated stock performance.

The researchers viewed that the results from comparison with the indices and the chosen hypothesis, a result of three out of six, is not a clear-cut result. The industry related index has not performed as the S&P 500 and even has quite large deviations from each other at times. This affects the expectation of abnormal returns.

SAP (2007) in their research publication has been very categorical that post-merger integration is the key to success in any industry. The same point has been reiterated in the research carried out by Cap Gemini Ernst & Young (2001). Their study shows that while global M&A activity continues to set records, the cold reality is that 50% of major mergers since 1990 have eroded shareholder returns.

It is also stated in the study that the media is rife with examples of high-profile mergers in industries such as media, technology and communications that saw a dramatic reduction in shareholder value as a result of difficulties integrating the acquired company. In fact, Wharton research (2005) places the range of failure between 50% and 80%. Business Week (October 14, 2002) adds saying that the problems can leach the value from the deal when it is not planned for carefully.

Mark L. Sirower (1997) in his study stated that with the acquisition activity running into trillions of dollars, the acquisition alternative continues to be the favorite corporate growth strategy of this generation's executives.

He explains that, unfortunately, creating share-holder value remains the most elusive outcome of these corporate strategies and—after decades of research and billions of dollars paid in advisory fees— these major decisions continue to destroy value. He destroys the popular notion that the acquisition premium represents potential value.

He provides the functional definition for synergy, the specific increases in performance beyond those already expected for companies to achieve independently. Using several detailed examples of recent major acquisitions and through integration and extension of techniques from finance and business strategy, Sirower reveals the unique business gamble that acquisitions represent, the managerial challenges already embedded in current stock prices, the competitive conditions that must be met and the organizational cornerstones that must be in place for any possibility of synergy. He shows that, on an average, 2/3rd of all deals end up destroying shareholder value.

Falling in line, 'Business Strategy Review', in their 2005 issue, in an article named 'Merging on the Miraculous', had stated that more than 2/3s of M&As fail to create meaningful shareholder value.

Agarwal. A., Jaffe. J. and Mandelkar.G. N. (1992) studied post-merger performance with a different perspective. They adjusted data for size effect and beta weighted market return and found that shareholders of the acquiring firms experienced a wealth loss.

Their analysis provided evidence on two issues. First, after adjusting for the firm size effect as well as beta risk, the results indicated that stockholders of acquiring firms experienced a statistically significant wealth loss of about 10% over 5 years after the merger completion date.

This finding is based on a nearly exhaustive sample of mergers over 1955 to 1987 between NYSE acquirers and NYSE/AMEX targets. The result is robust to a variety of specifications and does not seem to be caused by changes in beta. Second, they tested whether the market is slow to adjust to the merger event. Under this hypothesis, the long run performance would reflect that part of the Net Present Value (NPV) of the merger to the acquirer that is not captured by the announcement period return.

Anslinger, Patricia L. and Thomas E. (1996) studied returns to shareholders in unrelated acquisition and they found that 80% of 829 transactions earned their cost of capital.

Loughran and Vijh (1997) conducted a study and found that long term shareholders do not gain significantly from merger and acquisitions and, similarly, Kiymaz, H. and Mukherjee, T. (2000) in their study stated that the participating companies failed to realize gains once the mergers were completed. By stratifying the sample and looking over a longer window, the authors found that firms that do tender offers perform better than those that do mergers.

Moreover, those that pay cash do better than those that pay with stock. And, long term returns to shareholders for stock mergers were found to be significantly negative.

Kummer. D. and Hoffmeister. R. (1978) found in their study through valuation consequences of cash tender offers that share prices of the acquiring companies experience systematic deterioration during the post-merger period.

Also, same is the case with most of the Indian acquisitions abroad. ❒

Continued from Page 67

GETF / PERIODS	Daily Av. No. of Trades				Daily Av. Turnover (Rs. Crores)			
	2007	2008	2009	2010	2007	2008	2009	2010
GOLDBEES	7663	17452	25230	50089	71.86	215.53	393.76	910.32
GOLDSHARE	6406	5810	5337	7696	60.21	71.62	82.36	137.33
RELGLD	2308	5633	5902	14282	23.64	68.82	89.34	248.67
KOTAKGOLD	5494	4211	2927	7013	54.80	51.17	45.91	128.75
QGLDHALF	5494	872	788	1830	N.A	5.39	5.99	16.49
SBIGETS	N.A	N.A	3023	2721	N.A	N.A	48.71	50.62
RELIGAREGOLD	N.A	N.A	N.A	482	N.A	N.A	N.A	8.99
HDFC	N.A	N.A	N.A	3316	N.A	N.A	N.A	64.43
IPGETF	N.A	N.A	N.A	1061	N.A	N.A	N.A	21.04
AXISGOLD	N.A	N.A	N.A	472	N.A	N.A	N.A	9.69

GETFs	1m	3m	6m	1year	3year	Since Inception
GOLDBEES	8.93	14.22	31.18	41.18	34.30	N.A
GOLDSHARE	9.01	14.77	31.83	41.89	34.41	25.87
KOTAKGOLD	8.99	14.76	31.82	41.88	34.37	30.17
RELGOLD	8.97	14.81	31.87	42.03	34.29	27.22
QGOLDHALF	8.97	14.78	31.81	41.88	34.31	24.73
SBIGETS	9.00	14.77	31.85	41.92	N.A	29.59
RELIGAREGOLD	8.97	14.22	31.73	41.79	N.A	37.06
HDFCMFGETF	8.96	1468	31.55	41.49	N.A	44.76
IPGETF	8.88	14.53	31.22	40.97	N.A	40.31
AXISGOLD	8.92	14.43	31.27	N.A	N.A	39.89
BSLGOLDETF	8.94	14.60	N.A	N.A	N.A	95.50
Average	8.91	14.59	31.68	41.67	34.33	N.A

Conclusion

Gold has always been considered as a haven invesment with least risk. Further, during this turbulent financial market across the world and debt default woes of even the world's leading economies (like U.S and Japan), gold has emerged as the most remunerative as well as the safest bet in India or even across the world. With such a sizzling backdrop, GETFs are really glittering like GOLD. ❒

E-Trading Model : Based on the Study of ICICI Bank Limited

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Introduction

With the increasing pace of globalization trend world over, there is tremendous growth and exposure in the field of Information Technology (IT). Now-a-days, every transaction is done electronically using the Electronic Computerized System (ECS) through various e-channels like Automatic Teller Machines (ATMs), Credit Cards, Debit Cards, Internet Banking, Mobile Banking, Tele-Banking, Electronic Funds Transfers (EFTs), Electronic Trading (E-Trading) etc.

Undoubtedly, ECS is the recent past development, which leads to greater efficiency with addition of new services for the customers majorly, such as round-the-clock banking with ATMs, off-line inter-bank payment system and cash-less transactions. Keeping in views of these developments, the Reserve Bank of India (RBI) established the Indian Financial Network System (INFINET) in 1999, which may be considered as an efficient and effective communi-cation system for banking sector with the addition of Structured Financial Messaging System (SFMS). For the first time in 2010, people of India started enjoying certain banking facilities using Mobile Financial Services (MFS). Today almost all of the banks have their own website that is fully interactive and they provide multifaceted globalized services, as well as facilities to their customers across the world. At least six positive effects of the ECS may be enumerated, viz., (i) it avoids wastage of time; (ii) convenient and speedy execution of trades; (iii) instant debit/credit of customers' accounts; (iv) access to detailed information; (v) easy management of accounts and financial transactions; and (vi) easy maintenance of records. The ECS has also popularized the concept of 'Anywhere Banking', as the internet facility is available in almost every part of the world and ultimately removed the geographical barriers besides integrating the wide customer base through a single Order Routing System (ORS).

E-Trading is an extension of ECS, which is an electronic method of trading in certain securities in a safe and efficient manner, such as; (i) shares, (ii) debentures, (iii) bonds, (iv) Mutual Funds (MFs), (v) government securities, and (vi) derivatives. It uses IT/electronic medium to bring together buyers and sellers to create a virtual market place for communicating the orders to the stock exchanges through the brokers' websites. National Association of Securities Dealers Automated Quotations (NASDAQ), New York Stock Exchange Archipelago (NYSE Arca), European Exchange (Eurex), Global Exchange (Globex), London International Financial Futures Exchange (LIFFE), National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) are some of the unique examples of electronic stock market places. The NSE is the 9th largest stock exchange in the world by market capitalization and largest in India by daily turnover and number of trades, for both equities and derivative trading; while BSE is the oldest stock exchange in Asia with the largest number of listed companies in the world. It is the 4th largest stock exchange in Asia and the 8th largest in the world. Both these exchanges are regulated by the Securities and Exchange Board of India (SEBI) and are called as Electronic Communi-cations Networks (ECNs). The NSE and BSE both switched over from manual system to computerized trading mode in 1995. The BSE electronic system is called as BSE On-Line Trading (BOLT) and NSE electronic system is called as National Exchange Automated Trading (NEAT). Both the systems have facilitated more efficient processing, automated order matching, transparency and faster execution of trade.

The increasing popularity of e-trading has some important implications such as; (i) reduced cost of transactions by automating the processes, often referred to as Straight-Through-Processing (STP); (ii) greater liquidity, as the electronic systems make it easier for different companies to trade with one another, irrespective of their location; (iii) greater global competition due to removal of geographical barriers within the industry; (iv) increased transparency, as it is easier to find out the price of securities online from any part of the world; and (v) tighter spreads, where 'spread' on an instrument is the difference between the best buying and selling prices quoted and it represents the profit made by the market makers. The increased liquidity, competition and transparency mean that the spreads have tightened, especially for commoditised, exchange-traded instruments. To protect the service attacks by intruders, an Intrusion Detection System (IDS) has also been developed for continuous monitoring of network activity.

Research Methodology

A vast Research Methodology (RM) was set up and followed in order to study the e-trading process with special reference to the ICICI Bank Ltd. as a part and the banking system as a whole. The developed e-trading model is a by-product, as the study set three objectives, viz; (i) to develop an E-Trading Model based on the analysis of e-trading process in the ICICI Bank Limited, (ii) to study the concepts and procedures involved, (iii) to study the role of various regulatory bodies. The ICICI Bank Ltd. was selected as the Study Unit using 'Purposive Sampling Technique', because the ICICI Bank Ltd. offered a wide range of online banking products and financial services to the corporate and retail customers through a variety of delivery channels, subsidiaries and affiliates, including areas of investment banking, life and non-life insurance, venture capital, asset management and IT. The ICICI Bank was promoted in 1994 by the ICICI (Industrial Credit and Investment Corporation of India) Limited, an Indian financial institution and was its wholly owned subsidiary. In 1999, the ICICI became the first Indian company and the first bank/financial institution from Non-Japan Asia to be listed on the NYSE. The online trading service of ICICI can be availed at www.icicidirect.com. Besides this, there are many other well known online trading facilitators in India also, eg. IDBI Paisa Builder, Reliance Money, Standard Chartered, HSBC Invest Direct, HDFC Securities, Angel Trade, Religare, Bonanza Online, Geojit BNP Paribas, Inani Securities, Indiabulls, ISJ Securities, Karvy Stock Point, Kotak Securities, Mangal Keshav Securities, M.M. Securities, Motilal Ostwal Securities, Navkar, Sharekhan, S.K. Mehta & Company, Stock Point, Sulabh Securities, Zuari Investments, Just Trade, etc. The ICICI Bank's online banking service is known as 'Infinity', i.e. the bank account opened with the e-invest account is an infinity bank account, which can be accessed online with the help of specific login ID and password. The Universe of the Study consisted of the bank s providing online trading service in the city of Udaipur.

There were thirty five Study Variables in all, viz., (i) Online Investing, (ii) Contract Note, (iii) Goods Till Cancelled Order (GTCO), (iv) Goods Till Date Order (GTDO), (v) Immediate Or Cancel Order (IOCO), (vi) Disclosed Quantity Order (DQO), (vii) Stop Loss Buy/Sell Order, (viii) Price Bands, (ix) Settlement of Trade, (x) Margin Trading, (xi) Cash Trading, (xii) Squaring Off a Position, (xiii) Threshold Market To Market Loss Percentage, (xiv) Book Closure/Record Date, (xv) No Delivery Period, (xvi) Ex-date, (xvii) Non Pari Passu (NPP) Shares, (xviii) Old New Compensatory Value (ONCV), (xix) Logon Individual Data (ID) and Password, (xx) Order Verification, (xxi) Short Delivery, (xxii) Auction, (xxiii) Convert To Delivery, (xxiv) Cash On Spot Trade, (xxv) Buy Today Sell Tomorrow (BTST), (xxvi) Digitally Signed Contract Note, (xxvii) Security, (xxviii) Market Order, (xxix) Limit Order, (xxx) Cash Projection, (xxxi) Order Book, (xxxii) Call 'N' Trade, (xxxiii) Margin Plus Trading, (xxxiv) Option and (xxxv) Futures.

The predesigned structured questionnaires, personal and telephonic interviews were the predominant methods used to collect facts, figures, data and information from total fifty respondents, which was the sample size. The respondents were selected on the basis of convenience sampling. The respondents were the demat account holders, those who traded in one or the other type of financial security. The study used both primary as well as secondary data. The primary data were collected from the people directly involved in the e-trading of financial securities, by circulating a pre-designed structured questionnaire, using interview schedules, telephonic surveys and personal interviews with the competent authorities of the study unit, in particular and the general public at large. The secondary data were collected from the published materials, reports, journals, circulars, documents, brochures, booklets, etc. in order to make this study more reliable, useful and effective. Besides this, the study also approached to the internet up to a certain extent in order to collect necessary information as recent as possible.

The collected data, figures, facts and information were analysed and observed phenomena were interpreted using certain statistical techniques such as (i) growth rate, (ii) trend analysis, (iii) financial ratio analysis, besides using tools such as (i) percentage, (ii) chart, (iii) line diagram, (iv) bar diagram, (v) pie diagram, etc. The period was last three years of the study. The study also incorporated comprehensiveanalysis of e-trading of various financial securities through www.icicidirect.com, the types of products, services and orders, the procedures involved, security aspect, e-trading system, the regulatory authorities, the customers' perceptions, the role of the players involved, etc.

Review of Existing Literature : The Existent Models

A few models were proposed by the researchers in the past taking one or the other aspect of ECS in the field of business and corporate world. Some of these are being considered here such as; Jaspal Singh & Gagandeep Kaur (2011) in their paper entitled "Determinants of Customer Satisfaction : An Empirical Study of Select Indian (Universal) Banks" investigated the determinants of customers' satisfaction of Indian banks collecting data from 180 respondents, using convenience sampling method. Factor analysis results revealed that the responsi-veness, tangibles, service innovation, reliability, accessibility, assurance, pricing, problem solving capability and convenient working hours are the main determinants of customer satisfaction. Bijith Marakarkandy & Ashish Daptardar (2011), in their paper entitled "Evaluation of Internet Banking Sites from the Dimensions of Functionality" evaluated the internet banking websites based on users viewpoint of banks in India and allowed the bankers to identify the grey areas to take corrective action by introducing facilities and features on their banks' web-pages. R. K. Uppal (2010) in his paper entitled "Customers' Perceptions Regarding E-Banking Services : Problems & Prospects" took a survey of 1,200 respondents amongst public sector, private sector, foreign banks and observed that the customers of all bank groups were interested in e-banking services but facing certain problems, i.e. (i) inadequate knowledge, (ii) poor network, (iii) lack of infrastructure, (iv) unsuitable location, (v) misuse of ATM cards; and, (vi) difficulty to open an account. He suggested education for customers through education campaigns, posters, publications, radio, television, lectures, seminars, training, etc.

Amol Ranadive (2009), in his article entitled "Internet and E-Business : Benefits and Challenges for the Indian Economy" described the benefits and challenges of e-business in the Indian context and scrutinized the reasons for lagging behind in e-business, in spite of having adequate IT resources, skilled manpower and fairly large number of well-established businesses. The reasons included widespread corruption, infrastructure problems, problems in accessing technology, cultural problems, undying possibilities of internet frauds, lack of legal constitution to sustain in global electronic market-places, lack of know-how and awareness of processes amongst the Indian customers. Debajyoti Konar & Chandan Mazumdar (2009) in their paper entitled "A Generalised Model of E-Trading for Gradual Secret Release Fair Exchange Protocol" proposed a generalised model of e-trading for the development of gradual secret release fair exchange protocols. A methodology was narrated based on the model to implement e-trading protocols, ensuring fairness and without using an additional trusted third party for which either party has to pay.

The model provided a scope to include the correctness of the product, money atomicity and customers' anonymity properties within e-trading protocol and the area of applicability. Similarly, Juan Carlos Roca, Juan José García & Juan José de la Vega (2009) in their paper entitled "The importance of perceived trust, security and privacy in online trading systems" tested the Technology Acceptance Model (TAM) in the online financial trading and also investigated certain factors such as; (i) perceived trust, (ii) security, (iii) privacy and, (iv) traditional TAM constructs and their influence on e-investors. They empirically tested the link between trust, security, privacy, usefulness, ease of use and behavioural intention in the online trading, suggesting improve-ments in security system.

In 2008, a project report entitled "APEC E-Trade Hub Reference Model Design and Development" by the APEC Committee on Trade and Investment, a reference model was proposed for paperless e-trading hub in order to facilitate Service Oriented Architecture (SOA) implementation, reuse of existing components and applications and to provide the guidelines for outsourcing of different e-trade functions. Besides the above, a number of models and architectures developed by the United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT) and World Customs Organization (WCO) were described in detail. The model corres-ponded to the strategy of cooperation amongst the international organizations to pursue common standards, procedures, elements, formats and intero-perability frameworks. This model, in short, defined an organization of cooperative enforcement.

Emanuela Pauselli (2003), in her paper entitled "From e-Business to Knowledge e-Trading" aimed to show investigations made in knowledge e-market places (Ke-markets). It was stated that at the time of advent of e-commerce, e-pricing models were static in order to manage the increase in volume and variety of products over large geographic regions. Catalogue solution is the simplest and most common e-commerce model. Auction is the efficient market-pricing model, which can occur where exists; unique items, price volatility, fragmentation of buyers and/or sellers, high participant familiarity, new market opportunity, and lack of time criticality in purchasing. It also presented the scope for further researches regarding suitability of pricing models for specific kinds of knowledge assets and trading situation, defining business models modelling in each different case. Li Fangmin, Xu Cheng, Peng Xiaobing & Jiang Xuemei (2003) in their paper entitled "Researches on the Platform of Network Manufacture Products Electronic Trading Based on Fair Exchange Protocol and Digital Watermark" stated that the security of multimedia's transmission on internet is very important. They discussed the digital watermarking technology and the protocol of fair exchange. The scheme of network manufacture products electronic trading based on fair exchange protocol and digital watermarking technology was also presented. The experiments showed that the scheme had the properties of fair exchanging and copyright protection and that it was a good scheme to solve security and fairness problems.

The E-Trading Model

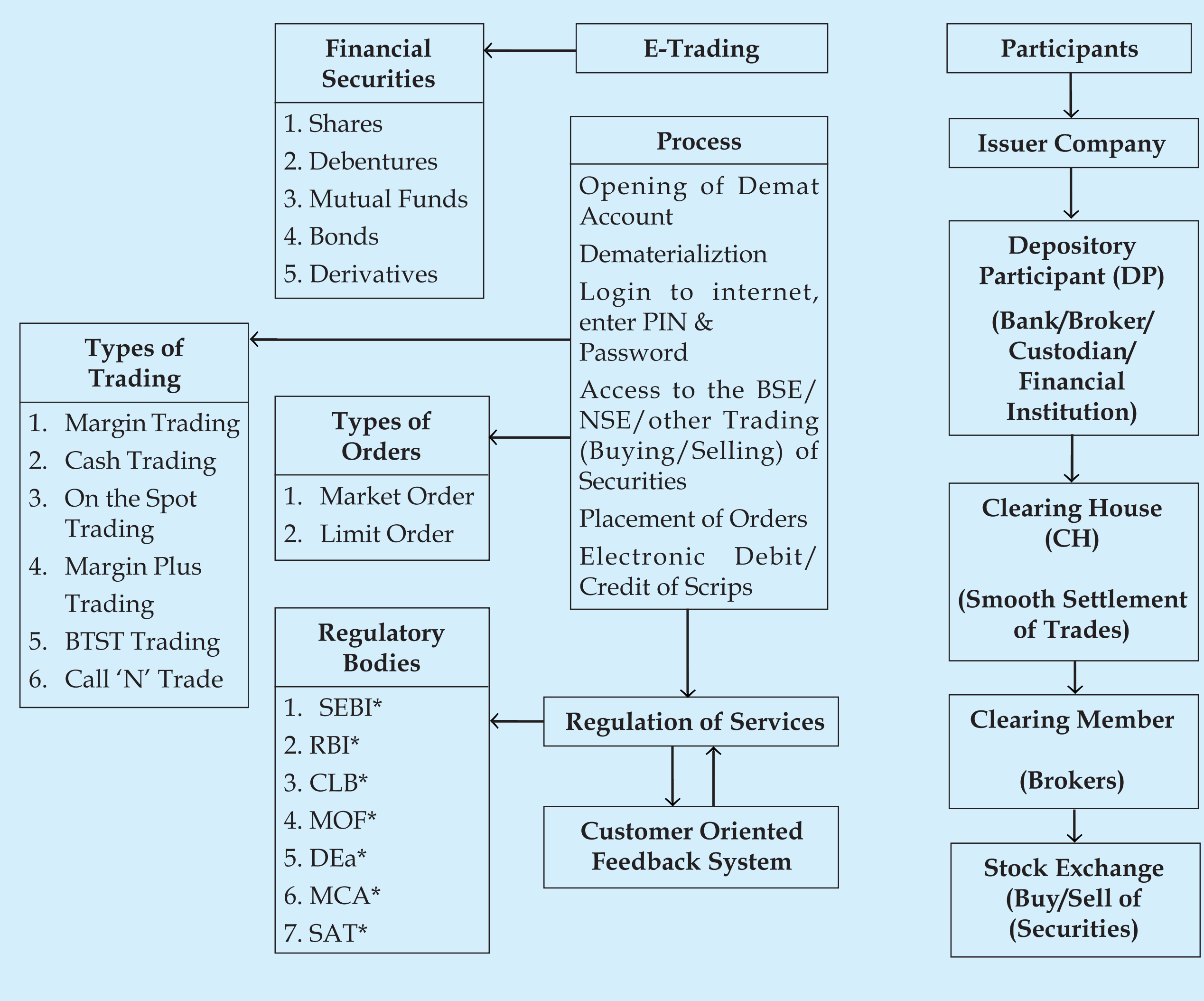
The developed 'E-Trading Model' comprised of the components, overall process of e-trading, the concepts, the dimensions, the players and the intermediaries involved, which may be depicted as follows :

Main Components

i. Financial Securities : The securities traded on the stock exchange include; (i) shares, (ii) bonds, (iii) debentures, (iv) MFs and (v) derivatives, which are eligible to be admitted to the depository for dematerialization.

ii. Dematerialization : The process of converting

E-TRADING MODEL



*1 Securities & Exchange Board of India, 2. Reserve Bank of India, 3. Company Law Board, 4. Ministry of Finance, 5. Department of Economic Affairs, 6. Ministry of Company Affairs, 7. Securities Appellate Tribunal the physical certificates into an electronic form, maintaining in the account with the Depository Participant (DP). The investor can get only those certificates dematerialized, which are already registered in their name and belong to the list of securities admitted for dematerialization at depositories.

iii. Depository : An agency in which the securities are deposited for safe-keeping, dematerialization and dealing with these on behalf of the owners or depositors. In India, National Securities Depository Limited (NSDL) and Central Depository Securities Limited (CDSL) are depositories.

iv. Depository Participant (DP) : The market intermediary, through which the depository services are made available to the investors, eg., banks, brokers, custodians, financial institutions, etc.

v. Clearing House (CH) : An entity set up by the stock exchange to ensure that the progress of settlement takes place smoothly. All the brokers of the stock exchange are generally members of the CH and it guarantees the settlement of all trades. In case of a default by a particular broker, the difference amount is recovered from his own funds.

vi. Clearing Members : They are the brokers, who are members of the BSE and NSE as well as are depository members, since clearing members trading in demat securities must have a clearing member account with any of the DP.

vii. Issuer Company, Registrar and Share Transfer Agent : If the issuer company proposes to admit its securities on the depository, an agreement is signed between the NSDL, the issuer company and the registrar. The share transfer agent installs the requisite hardware, software and telecommunication network to make the securities available for dematerialization. The securities are made available for trading in the depository segment of the stock exchange after a period of four weeks.

viii. Clients : The investors act as the clients and the major respondents to the depository services and thereby they are the key point of the e-trading system. These include not only the common investors but the sub-brokers also.

ix. Stock Exchange : It constitutes of incorporated or unincorporated group of people and plays an important role of an organized market for the purchase and sale of the listed industrial and financial securities along with their planning and control.

Assumptions for E-Trading Model

The proposed e-trading model is based on four assumptions, viz; (i) e-trading is not possible without the knowledge of basic operational requirements of computers; (ii) in order to trade in a specific security, the same should be listed in at least one stock exchange; (iii) only the dematerialized security is traded online; (iv) the online trader is rational and aware of certain aspects, eg., brokerage structure, the terms and conditions governing the e-trading process, various laws, rules and regulations concerned with the regulation of e-trading services.

Prerequisites for E-Trading

In order to trade the securities online, a trader has to have a computer with internet connection besides opening a demat account with the authorized service provider and an account in any of the online service provider banks. The speed and frequency of trading in the stock market depends on the internet access, therefore familiarity and using of internet connection is very important. However, the analogue telephone connections are slower than an Integrated Services Digital Network (ISDN) connection but a Broadband Connection, such as Asymmetric Digital Subscriber Line (ADSL) is the fastest. One can even trade conveniently from any location of choice with the help of wireless networking technology such as Wireless Local Area Network (WLAN). However, the security loopholes that the hackers can exploit tend to be greater with WLAN. The operating system is also an important consideration, the version of which should not be too old. For Windows Explorer version 6.0 or higher with service pack 1 or Firefox version 1.5 or higher is sufficient. For Mac, Safari 1.3 or Firefox 1.5 is adequate. To update both the operating system and the internet browser regularly is also necessary in order to keep the computer in suitable and operational order for e-trading. One important requirement for e-trading is to assess the trader's risk profile. The trader should also have basic knowledge of the stock market activities, computer operations and the e-trading system.

Operation of E-Trading System

The process starts with the opening of saving, brokering and demat account with the ICICI Bank Limited or with any of the other competitive online trading service provider company. The duly filled application form for opening an e-invest account is sent to the bank's regional office for preliminary scrutiny and then to the corporate office, which acts as a central process centre.

After the observation of necessary formalities, the e-invest account is opened and a specific user ID and password is sent to the customer through mail, which can be revised by the customer later on. For the activation of account, the client needs to click on 'Activate Your Account', under 'Customer Tools' on the customer service page. The client is required to fill in the User ID, Agent Registration Number (ARN), having a ten digits code and response ID of eight digits code. This information is available on the pin-mailer sent by the www.icicidirect.com. Upon entering the user ID and password on the web portal www.icicidirect.com, the customer is directed to NSE and BSE, where the trading in different financial securities may be started. A client may enter the name of security along with quantity to be either purchased or sold. The price specification is provided by the broker's website in the specified electronic space.

Once the broker's system receives the information, the same is checked electronically vis-a-vis the client's account and then is routed to the appropriate stock exchange. For example, in case of sale of shares, the order is first routed to the client's demat account. In case of sufficient holdings in the account the line is marked, else it is revoked through the square-off deal. The shares are debited on the pay-in day and sale proceeds are debited in the bank account within 12 hours of the pay-out day of settlement. The client receives a confirmation on the execution of order through e-mail as well as through the broker's website on the order placed.

The e-trading facility of ICICI Bank Ltd. as observed was synthesised mainly with three distinct services, viz; (i) banking, (ii) brokering, and (iii) demat. A specific brokerage is charged on each transaction along with certain depository charges. When a buy/sell order is placed, the system checks the cash balance and number of shares available in the bank account and demat account, respectively, and then executes the transaction on the stock exchange online. The bank and demat account are automatically debited/credited, without the requirement of writing cheque/Transfer Instruction for Delivery Slips (TIFDS), visiting DP or Broker. Hence there is no fear of losing the transaction in the e-trading. The e-trading of financial securities through www.icicidirect.com involves a number of steps :

i. Login : Click on the 'Login' on home page, enter user ID and password and click 'Start In'.

ii. Home Page : On the home page, click on 'Trading' to go to the trading screen, choose particular screen within the trading section.

iii. Limit : At any point of time, the availability of funds for future trading in current settlement can be checked by clicking on 'Limit' button on the left menu in trading section.

iv. Modify Allocation : At any point of time, the limit allocated for trading amount can be increased or decreased under 'Modify Allocation' screen. It helps in limiting the amount allocated for trading, in case large order for buying any scrip is punched mistakenly.

v. Demat Balances : At any time, the balances of the securities in the demat account can be checked by clicking on the 'View Demat Account' button. The buying and selling of scrips available in the demat account can also be done directly from this screen.

vi. Trading Centre : Buy or sell option on the left hand side menu is selected.

vii. Buy Order : In the buy screen, the order details are to be specified like the stock code, quantity, limit order, market order, etc.

viii. Order Verification : The system helps in order verification giving complete details of the orders entered, the pay in date, pay out date, etc. To confirm the order, 'Proceed' button at the bottom of the 'Order Verification Details' is clicked.

ix. Order Acknowledgement : After proceeding, the order is immediately sent to the stock exchange queue of pending orders to be executed. The system displays an order acknowledgement that 'Your order has been accepted for being sent to the stock exchange'.

x. Order Book : By clicking on the 'Order Book' link in the left menu, the status of all the orders placed, executed or unexecuted, cancelled, etc. may be known. More details of a particular order can be accessed by clicking on 'Order Ref. No.'. The partially executed orders can be seen by clicking on 'Partially Executed' and executed orders can be seen by clicking on 'Executed' in column for status. The latest status can be checked by clicking on 'Refresh' button.

xi. Modify Order : All pending orders, in full or part, have link for 'Modify' and 'Cancel' against them in the column. In the modify order screen, the orders can be modified with respect to its open and unexecuted quantity, whether it is a limit or market order.

xii. Cancel Order : All the pending orders have link to 'Modify' and 'Cancel' against them. In the cancel order screen, details are displayed and one can confirm the request for cancelling the order, on confirming 'Yes', an acknowledgement is received similar to that displayed while placing a new order.

xiii. Margin Position : By clicking on 'Margin Position' link in the left menu of the trading section, detailed open margin position for the settlement segment is viewed. These positions are required to be closed within the settlement.

xiv. Add Margin : By clicking on the 'Add Margin', additional margin in a particular scrip can be allocated.

xv. Convert to Delivery : By clicking on the 'Convert to Delivery' position, the margin position is converted into delivery and an acknowledgement is received for having converted the quantity to delivery.

xvi. Square-Off Margin Position : By clicking on 'Square Off Margin Position' over the margin position screen, a cover order is placed to square off the margin position.

xvii. Converted to Delivery : By this option, the details of earlier conversion of margin position into delivery is viewed and the conversion is displayed on specifying the settlement segment and settlement number on top.

xviii. Cash Projection : By this option, details of cash balance is obtained. The status report is available after the settlement. The net amount, by which the bank account is debited in case of receivable position, information on the date of debit/credit and the closing balance after the respective debit/credit is also displayed.

xix. Security Projection : By clicking over, it gives information about the date on which a particular stock will be debited/credited from the DP account in case of net sell/net buy position.

Essential Features

The observed seven essential features of e-trading model may be enumerated as, viz; (i) all the transactions are electronically executed, thus the client can lay back without worrying about the settlement, pay-in or pay-out days; (ii) there is no hassle of filling in the Delivery Instruction Slip (DIS), as the scrips are electronically debited from the demat account before the pay-in; (iii) in case of joint account holding, all the holders are not required to sign the DIS, as the PIN is provided to the first holder only, therefore the trading process remains unhampered; (iv) a subscriber of www.icicidirect.com can trade in the Indian equities while moving around the world without the limitation of sending DIS to his DP; (v) the brokers are not allowed to directly match order with the other members of the fraternity, as all the orders are necessarily routed through the exchange mechanism, which ensures security and transparency; (vi) the investors may be relaxed from any chances of manipulations or manual interventions, as the computer system takes care of the settlement cycles; (vii) the investor's portfolio and ledger account gets updated automatically to reflect the transaction, which enables him to view the information and quotes on a real time basis and act on it accordingly. Apart from this, the various facilities provided by the ICICI are : (i) Digital Contract Notes (DCNs), (ii) easy mails, (iii) online bills and accounts, (iv) live stock prices, (v) online guide, (vi) information on companies' backgrounds, balance sheets, profit and loss accounts, financial ratios of over five years, (vii) live news from Consumer News and Business Channel (CNBC) India, (viii) live market section denoting top gainers, losers, volume toppers during trading hours, (ix) Chief Executive Officer (CEO) call feature with interviews, reactions and comments from the industry leaders, and, (x) technical analysis by experts for the forthcoming trading week, covering likely market movements. Therefore, it may be considered that the ECS of the ICICI Bank Ltd. is highly advanced and flexible.

Dimensions of E-Trading

The buying and selling transactions in different securities is a matter of customers' choice, but the transactions are done majorly in five ways, such as :

1. Trading in Shares

There are six types of transactions, in all are generally done in shares, which may be explained as:

i. Cash Trade **:** It is a delivery based trade, wherein the customer has to have 100% funds for securities to buy or sell. In other words, the customer should have 100% of the amount required to purchase the shares in the bank account. In case of selling of shares, the receivables of the sale amount may be used to purchase the shares. Money for the purchase is deducted from the account prior to the settlement with the stock exchange and the shares received from the stock exchange are delivered to the demat account. However, it is not necessary that all purchases would result into delivery. The customer may choose to sell back the shares purchased before the end of the settlement, but these must be available for selling in the demat account.

ii. Margin Trade **:** In margin trading the customer takes buy/sell position in the stock with the intention of squaring-off the position within the same settlement. It is available only for certain selected scrips. Only a certain percentage of limit is blocked as margin for trades. The margin required is 25% for most of the scrips.

iii. Margin Plus Trading **:** In margin plus trading, the customer can make an intra settlement trading up to 25 times of the available funds, wherein long buy/ short sell positions in stocks can be taken with the intention to square off the position within the same day settlement cycle. It gives a higher leverage against the limits.

iv. On the Spot Trading **:** This type of trading is limited to selected scrips only and the shares are sold in spot segment. The sale proceeds are credited to the bank account on the same day.

v. Buy Today Sell Tomorrow (BTST) **:** It is a facility which allows selling of shares without having to wait for the receipt of shares into the demat account. For example, 'X' purchased share of 'A Ltd.', at 11 a.m. today. The next day, price raised to Rs.10/-. Under BTST option, 'X' can purchase shares today at 11 a.m. and sell it tomorrow at 2 p.m., without having shares in his demat account. The sale of BTST is permitted only on T+1 and T+2 days, not on T+3 day.

vi. Call 'n' Trade **:** This facility allows the customers to call on a specified local phone number and trade on telephone with the support of customer care executives of ICICI Bank Ltd.

2. Trading in Derivatives

A derivative instrument is a contract between two parties that specifies conditions in particular, dates and the resulting values of the underlying variables under which payments or payoffs are to be made between the parties. The derivatives are mainly traded in two forms :

i. Futures **:** In futures trading, the customer may either buy or sell positions in index or stocks contracts having a longer contract period of up to three months. During the period of contract, if the price moves in customer's favour then profit is made. Only selected stocks which meet the criteria on liquidity and volume are enabled for futures trading.

ii. Options **:** It is a contract, which gives the buyer the right to either buy or sell shares at a specific price on or before a specific date against a premium to the seller. There is no obligation on the buyer to complete the transaction if the price is unfavourable.

3. Investing in MFs

MF is an investment vehicle that is made up of a pool of funds collected from many investors for the purpose of investing in securities such as stocks, bonds, money market instruments and similar assets. There are a number of MFs but some of the MFs available for investment on www.icicidirect.com are; ICICI Prudential MF, JM Financial MF, Alliance MF, Franklin Templeton MF, Sundaram MF, Birla Sunlife MF, HDFC MF, Principal MF, Infrastructure Leasing & Financial Services (IL & FS) MF, DSP Merrill Lynch MF, Standard Chartered MF, Reliance Capital MF, Kotak Mahindra MF, TATA MF. The performance of investments can be monitored through online update of MF portfolio with current Net Asset Value (NAV). The www.icicidirect.com offers various options for investing in MFs as :

i. Purchase **:** An investor can purchase/invest in various MFs without the hassles of manual paperwork.

ii. Redemption **:** An investor can redeem the MF-Units and the amount is automatically credited to the bank account after three days of the order placement date.

iii. Switch **:** In case the investor wishes to shift money between different schemes, it may be done online within the same fund family without any hassles.

iv. Systematic Investment Plan (SIP) **:** It allows to invest a certain amount over a period of time. The customer fills only the investment amount, the period of investment and the frequency of investment in the form and ICICI automatically invests it periodically.

v. Systematic Withdrawal Plan (SWP) **:** It allows to withdraw a certain amount over a period of time.

vi. Transfer-in **:** The customer may convert the existing MF into electronic form through a transfer-in request.

4. Investing in Initial Public Offers (IPOs) and Bonds Online

The investor may also invest in IPOs, bonds and debentures online without going through the hassles of filling any paper. The investors need to get in-depth analysis of new IPO issues, which are about to hit the market. IPO calendars, recent IPO listings, prospectus, offer documents and IPO analysis are few of the features, which help the investors to keep on top of the IPO markets.

5. Types of Order

i. Market Order **:** It is an order to buy or sell securities at the best price obtainable in the market at the time, it is matched by the stock exchange. Therefore, chances of its getting executed are better. For NSE, all the unexecuted market orders become the limit order at the last traded price; while for BSE, market orders may be placed only during the market hours.

ii. Limit Order **:** It is an order to buy or sell securities, where the maximum price and minimum price per unit is specified. In case of a sell order, the actual transaction price may be more favourable than the price specified.

Regulation of Financial Services

The SEBI was established officially by the

Government of India in 1992 under the power entrusted in SEBI Act, 1992, which was passed by the Indian Parliament for the purpose of proper regulation, development and functioning of capital market in India. It is the main regulatory and governing body of the stock exchange, brokers, depositories, DPs and other participants in the primary and secondary markets of India. The three main objectives of the SEBI are : (i) to protect the interest of investors, (ii) to promote the development of securities market and, (iii) to regulate the securities market.

Besides SEBI, some of the other regulatory authorities are; (i) RBI, (ii) Company Law Board (CLB), (iii) Ministry of Finance (MOF), (iv) Depart-ment of Economic Affairs, (v) Department of Company Affairs (DCA) and (vi) Securities Appellate Tribunal (SAT). But now the SEBI is the earmarked and active functioning regulatory authority to regulate the working of the companies, stock exchanges, market players and other intermediaries operating in the capital market.

In order to achieve the pre-set objectives, the SEBI issued a number of orders, rules and regulations, which may be enumerated in brief : SEBI (Portfolio Managers) Regulations, 1993, say like Portfolio Managers (1993). Similarly, some of the regulations may be put as : Stock Brokers and Sub-brokers (1992), Prohibition of Insider Trading (1992), Merchant Bankers (1992), Registrars to an Issue and Share Transfer Agents (1993), Underwriters (1993), Debenture Trustees (1993), Appeal to Central Government (Rules 1993), Bankers to an Issue (1994), Foreign Institutional Investors (1995), Appellate Tribunal (Procedure Rules 1995), Custodian of Securities (1996), Depositories and Participants (1996), Venture Capital Funds (1996), Mutual Funds (1996), Substantial Acquisition of Shares and Takeovers (1997), Buyback of Securities (1998), Credit Rating Agencies (1999), Foreign Venture Capital Investors (2000), Procedure For Board Meetings (2001), Regulatory Fee On Stock Exchanges (2006), Issue and Listing of Debt Securities (2008), Intermediaries (2008), Public Offer and Listing of Securitised Debt Instruments (2008), Credit Rating Agencies (1999 as amended up to March 19, 2010), Foreign Institutional Investors (Amendment 2011), Stock Brokers and Sub-Brokers (Amendment 2011), Issue of Capital and Disclosure Requirements (Amendment 2011).

In order to afford adequate protection to investors, provisions have been incorporated in the different legislations such as : (i) the Companies Act, 1956, (ii) Securities (Contracts) Regulation Act, 1956 (iii) Consumer Protection Act, 1986, (iv) Depositories Act, 1996, and the listing agreement between the Stock exchanges and the listed companies is monitored by the SEBI, MOF and the Ministry of Law, Justice and Company Affairs from time to time. The Indian Trust Act, 1882, Insurance Act, 1938, RBI Act, 1934, Banking Regulation Act, 1949, etc., are some of the examples. The entry of private, domestic and foreign commercial banks, Non Banking Financial Companies (NBFCs), MFs and an array of other financial intermediaries are likely to greatly influence the choices of investors. But there are certain eligible factors also for the ECS, which have to be taken into consideration, such as : (i) transaction security, (ii) reliability, (iii) speed, (iv) traffic volumes, (v) stickiness, (vi) network security, (vii) least possible cost, etc.

Precautions and Suggestions

Meanwhile in the study of the e-trading process and developing e-trading model with reference to the ICICI Bank Ltd., a number of points were observed, which should be considered before starting the e-trading : (i) some fraud online brokerage companies might mislead people for getting their private financial information in order to fulfil their own foul interests, thus the traders should be very careful and should not reveal their personal financial information to anyone unless authenticated; (ii) the trader should be aware that the technological systems may be racked with faults and failures at certain times, thus the dealings can be slowed or halted, which can be of critical disadvantage while the share prices are speedily rising and falling; (iii) there is a possibility of errors, if the traders do not account for the time lag in price-updating and actual transaction, thus complete knowledge of the system is must before starting the trade; (iv) the traders should beware themselves of the judgmental errors, as the enhanced resources may appeal to them looking at the short-term movements in stock prices, which is extre-mely risky and it requires a serious and ongoing time commitment; (v) the brokers might often restrict how much a trader can invest in which shares, some brokers deliberately ignore the Alternative Investments Market (AIM) of young companies and do not issue share certificates, which entitles the trader to 'directly-delivered takeover information' and other shareholder perks, therefore the trader may only sell shares to the same broker from whom the shares have been bought. The trader should be aware of these practices in order to take preventive measures; (vi) before opening the trading account, one should try to insist the agent to get demo of the online trading software or terminal and should check its reliability and speed; and (vii) the absence of a broker results into the absence of an investment plan, therefore a new trader should always search out a good broker before beginning to trade a bit, which is a very important and serious step. Even an online brokering company should be selected carefully after considering certain points like (i) transaction security, (ii) reliability, (iii) speed, (iv) traffic volumes, (v) stickiness, (vi) network security, (vii) the cost of trading, and (viii) full knowledge of online trading software or terminal.

Besides the above-mentioned precautionary measures, there are certain aspects which should also be taken into account by the bank in order to make e-trading more reliable and successful. These may be enumerated as : (i) the bank should curtail its various charges, especially hidden charges in order to attract more customers; (ii) the bank should work upon the technical upgradation and user friendliness of its trading platform; (iii) the performance of the website should be improved and it should be made available to the traders for smooth trading at all times including more number of scrips, research reports of very good quality and sufficient data for a good decision making; (iv) the ICICIdirect's helpline service should be upgraded as soon as possible; (v) the bank should strive to reduce the processing time for opening and closing of the demat, trading and bank accounts; (vi) it should impart more importance on e-trading services as compared to its other offered services; (vii) the complaints should be solved on priority basis and those who have faced or are facing certain grievances should be invited by the bank for effective redressal; (viii) the customer care executives should be well-trained and aware of the overall process of e-trading and technical know-how of the system in order to resolve the customers' issues satisfactorily; (ix) the general awareness about e-trading through www.icicidirect.com should be spread over and disseminated by employing different measures such as publicity, demonstration, display, introducing attractive schemes, training programs, seminars, participation in trade fairs, IT carnivals, etc. Allying with the information centres, cyber cafes, training institutes and computer centres to carry out the programs/seminars for better understanding of the website www.icicidirect.com would prove to be fruitful. Similarly, other banks and brokering companies providing online trading are expected to take these precautionary measures and suggestions while using e-trading model. The proposed e-trading model provides a base to the prospective researchers with the scope of further refinement. ❐

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Corporate Governance and Environmental Reporting : A Study of Relationship for Better Stakeholder Satisfaction

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A little neglect may breed great mischief … for the want of a nail, the shoe was lost; for the want of a shoe, the horse was lost and for the want of a horse, the rider was lost and for the want of a rider the war was lost".

Benjamin Franklin

Introduction

Greater competition, corporate accounting fraud, sudden technological changes and unpredictable stock market changes in the form of fluctuation in indices have pressurised the management of companies to deliver superior performance and create greater value for the shareholders.

Today the shareholders have become much aware about their rights and have become more demanding. They have access to the information due to advancement in information technology and media. They know what changes and advancements are taking place in other corner of the world. The moment they get the information about some corporate scandal, they want their protection. Also, stakeholders have become smarter and want the best return on their money. They are aware of various investment alternatives and know when to pull out their money and invest it in some other profitable project. Due to all these, there is a great pressure on the management to continuously endeavour to increase the shareholder's wealth.

Management has now to deal with the entire globe and in this globalized era "stakeholders"include the whole world. When investments take place across national borders, the investors want to be sure that not only is their capital handled effectively and adds to the creation of wealth, but the business decisions are also taken in a manner which is not illegal or involving moral hazard. A good corporate governance practice is needed and a company has to adopt it to be and remain in a strategically competitive position. Cyert and March (1963) argued that corporate executives had to satisfy many groups and individuals through decision-making and, hence, the corporation was concerned with 'satisficing' rather than profit maximization.

The World Bank states (1999) that from a corporate perspective, corporate governance is about maximizing value subject to meeting the company's financial, legal and contractual obligations. From a public perspective, corporate governance is about nurturing an enterprise while ensuring accountability in the exercise of power and patronage by firms. The bank states that role of public policy is to provide firms with the incentives and discipline to minimize the divergence between private and social returns and to protect the interest of the stakeholders.

Corporate governance goes far beyond company law. The quantity, quality and frequency of financial and managerial disclosure, the extent to which the board of directors exercise their fiduciary responsibilities towards shareholders, the quality of information that management share with their boards, and the commitment to run transparent companies that maximize long term shareholder value cannot be legislated at any level of detail. Instead, these evolve due to the catalytic role played by the more progressive elements within the corporate sector and, thus, enhance corporate transparency and respon-sibility (CII, 1998).

Corporate governance is about commitment to values and ethical business conduct. It is about how an organization is managed. This includes its corporate and other structures, its culture, policies and the manner in which it deals with various stakeholders. Accordingly, timely and accurate disclosure of information regarding the financial situation, performance, ownership and governance of the company is an important part of corporate governance. This improves public understanding of the structure, activities and policies of the organization. Consequently, the organization is able to attract investors, and enhance the trust and confidence of the stakeholders. There are mounting pressures for accountability to other stakeholders as well. Progressive firms in India have voluntarily put in place systems of good corporate governance. Internationally also, while this aspect has been accepted for a long time, the financial crisis in emerging markets has led to renewed discussions and inevitably focused them on the lack of corporate as well as governmental oversight. Even in the developed world, increasing incidence of corporate scandals like the Enron affair and World com indicate that there are gaps in the system of governance of the boards even when the external regulatory issues have been tackled.

Corporate Governance and Environmental Performance

The growing number of companies such as Coca-Cola India, Pepsi, Union Carbide and many others that have suffered business setbacks due to mishandling of key environmental and social issues over the last decade has placed sustainability management on the corporate governance agenda. Codes of conduct, governance principles, and disclosure rules are moving companies to higher standards of non-financial reporting, including expanded coverage in their financial statements. Economic, environmental, and social indicators are appearing with increasing frequency, providing insights into the vision and effectiveness of management in anticipating new risks and opportuni-ties in the marketplace. For example, Indicators on the volume, trends, and nature of pollution releases will allow management to assess whether individual facilities are at risk from pending environmental regulations, or whether they are likely to become the target of regulatory authorities.

The issues—globalization and corporate governance, accountability, and citizenship—have now moved to the mainstream of policy and management debates in many organizations and the countries in which they operate. Pressures on corporations to establish and maintain high standards of internal governance are accelerating. As society witnesses the growing influence of corporations in driving economic, environmental, and social change, investors and other stakeholders expect the highest standards of ethics, transparency, sensitivity, and responsiveness from corporate executives and managers. Governance systems are increasingly expected to extend beyond their traditional focus on investors to address diverse stakeholders. The independence of board members, executive participation in external partnerships, compensation and incentive schemes, and the integrity of auditors are under increasing scrutiny (Sustainability Reporting Guideline, 2002). Consumers, supported by growing media coverage of sustainability issues, have ready access to information about organizations at an unprecedented level of detail.

Companies in particular are facing more clearly articulated expectations from customers and consumers regarding their contributions to sustainable development. Several recent high-profile events have exemplified the risks to reputation and brand image associated with poor sustainability management. An example of this is about Interna-tional Paper. International Paper was formed in January 1898 by the merger of 17 pulp and paper mills in the northeastern U.S. It has significant global businesses in paper, packaging and forest products. The company has operations in nearly 40 countries, employs approximately 80,000 people worldwide, and exports its products to more than 120 nations. Sales of almost $26 billion annually are derived from businesses located primarily in the United States, Europe, Latin America, Asia/Pacific and Canada. In 2002, International Paper spent approximately $53 million for capital projects to reduce environmental releases into the air and water, as well as to enhance environmental management and disposal of solid waste. International Paper spent approximately $134 million in 2003 (Sustainability Report of International Paper). International Paper paid $54,287 in civil environmental penalties for alleged compliance issues. Although International Paper feels that the relatively low cost of penalties for such a large manufacturing company is a testament to their diligence in protecting the environment, and operating their facilities in full compliance with environmental regulations. Environmental regulatory agencies conducted 331 inspections of company sites in 2002, issuing only 21 violation notices to them (Sustainability Report of International Paper, 2003).

What does corporate governance do with environmental performance? This relationship is becoming increasingly important as more and more institutional and individual investors focus on intangibles such as environmental, social and ethical issues to evaluate the overall performance of the organizations. High quality governance, and, particularly, transparency, is critical to accurate and timely reporting and disclosure of environmental, social and other intangible liabilities, obligations and risks. Environmental, social and even ethical issues are now commonly considered to be core governance issues with tremendous potential impact on financial liabilities and corporate reputation. Corporate managers are expected to manage these risks and it is now conventional wisdom that corporate policies, procedures and strategies must reflect this reality.

Russo and Fouts (1997) have shown a resource-based perspective as to why environmental activities may be positively related to financial performance (Return on Total assets).They have suggested that environmentally oriented redesign of the entire firm can lead to unique efiicient capabilities that are difficult to be matched by less environmentally proactive firms. Delmas (2001) and Melnyk, Sroufe & Calantone (2003) have shown that such a positive link exists when the firms strongly commit themselves to implementing environmental management systems. The companies should estimate the total expenditure on protection or enhancement of the environment. All environmental costs and obligations must be reported upon and disclosed.

With the emergence of "green" eco-conscious groups, companies are directly or indirectly required to comply with the environmental norms. A company manufacturing a product which is not environ-mental friendly and exports it will have severe problems and will have to face a severe reputation setback. In a study conducted by Karkoff et al in the US, it was seen that allegations or charges that a firm violated environmental regulations correspond to economically meaningful and statistically significant losses in the firm's share value. Using data of 283 cases, they found that firms investigated or charged with environmental violations experience statistically significant and economically meaningful decreases in common share value. Initial press announcements containing allegations of violation are associated wit an average abnormal stock return of –1.58% (Karkoff et. al, 2005).

To take an Indian example—The Bhopal Disaster took place in the early hours of the morning of December 3, 1984, in the heart of the city of Bhopal in the Indian state of Madhya Pradesh. A Union Carbide subsidiary pesticide plant released 40 tonnes of methyl isocyanate (MIC) gas, immediately killing nearly 3,000 people and ultimately causing at least 15,000 to 22,000 total deaths. Bhopal is frequently cited as one of the world's worst industrial disasters.

On December 3, 2004, the twentieth anniversary of the disaster, a man claiming to be a Dow representative was interviewed on BBC. He claimed that the company had agreed to clean up the site and compensate those harmed in the incident. Immediately, Dow's share price fell 4.2% in 23 minutes, for a loss of $2 billion in market value. Dow quickly issued a statement saying that they had no employee by that name — that he was an impostor, not affiliated with Dow, and that his claims were a hoax. BBC broadcast a correction and an apology. (source : http://www.democracynow.org/article.pl?sid=04/12/06/1453248)

There is strong evidence that this isn't just emotion talking—that investors who place their faith in "sustainable stocks" over the long haul are smart. For instance, the research conducted by KLD indexes shows that US-based Domini Social Index (DSI), where stocks were screened according to broad social and environmental criteria, had outperformed - albeit narrowly—S & P stock index on a total return basis since it went live in May 1990 (Please refer to http://www.kld.com/indexes/ds400index/performance.html).

According to the recommendation of ASX Corporate Governance Council, Australia, in "Principles of Good Corporate Governance and Best Practice Recommendation" (2003), good corporate governance practice might include **environmental protection policies**, support for community activities, donation or sponsorship policies.

The borderless global economy requires equally borderless governance structures to help direct private sector activity toward outcomes that are socially and environmentally—as well as economically—beneficial. New models of international governance, affecting such areas as greenhouse gas emissions, forestry and fishing practices, ozone depletion, labour practices, and financial accounting standards, exemplify a new generation of initiatives that align governance with the challenges of an increasingly complex and interconnected world. A key theme in all of these emerging governance models is the demand for higher levels of transparency (Sustainability Reporting Guidelines, 2000). India has crossed all borders and is now a global player. There is both inward and outward flow of technology, capital and knowledge in India. Internet has helped in crossing borders and the stakeholders have access to all information and have become very demanding. The level of transparency has increased. In fact the definition of "stakeholder" has now widened and includes general public who may not have a share in the company but might be interested to know as to what is happening in the company.

The financial industry—slowly but steadily—is embracing sustainability reporting as part of its analytical toolkit. Spurred in part by growing demand for social and ethical funds among institutional and individual investors, new "socially responsible" indices are appearing each year. At the same time, the exploration of the relationship between corporate sustainability activities and shareholder value is advancing. Linkages between sustainability performance and key value drivers such as brand image, reputation, and future asset valuation are awakening the mainstream financial markets to new tools for understanding and predicting value in capital markets (Sustainability Reporting Guidelines, 2000).

Better management of environmental costs can result in improved environmental performance and significant benefits to human health as well as business success. Understanding the environmental costs and performance of processes and products can promote more accurate costing and pricing of products and can aid companies in the design of more environmentally preferable processes, products, and services for the future. Competitive advantage with customers can result from processes, products, and services that can be demonstrated to be environ-mentally preferable. Today the total risk profiling of a company is important. This includes issues such as environmental impact of a company's action. To some extent the adverse economic fallout can be contained by transferring risk to the insurance company. However, the long-term adverse image of the company's action which led to environmental degradation has a long term adverse impact. Today the company has to realize that the stakeholders are not just the shareholders, creditors, employees and the customers but also the entire world. Further, today media and NGOs have become an important feature as they are important opinion-makers. So a company's management has to consider these ramifications while conducting its governance practice.

If a company in India exports a product in the export market which turns out to be environmentally unfriendly, the company may pass the "product liability" to the insurance company by will be blacklisted for ever. CSR in India has yet to realize its full potential. Individual and collaborative initiatives continue to be dominated by self-assertion rather than accountability. There is certainly no lack of CSR programs and projects in India: what is absent, however, are clear metrics for evaluating their actual impact in improving social conditions (Dasgupta, 2007). Along with environmental reporting, economic and social parameters are also important and needs to be discussed here in this paper. These three dimensions — environmental, economic and social dimension — integrated together is called Triple Bottom Line Reporting.

Better Corporate Governance through Triple Bottom Line Accounting

The Triple Bottom Line is the idea that the overall performance of a company should be measured based on its combined contribution to economic prosperity, environmental quality and social capital. At its narrowest, the term 'triple bottom line' is used as a framework for measuring and reporting corporate performance against economic, social and environmental parameters. At its broadest, the term is used to capture the whole set of values, issues and processes that companies must address in order to minimize any harm resulting from their activities and to create economic, social and environmental value. This involves being clear about the company's purpose and taking into consideration the needs of all the company's stakeholders.(GRI report, 2002). Many observers—including accountants themselves—recognise that characterising the "bricks and mortar" economy of the past will not suffice as a basis for characterising today's information economy. Valuing intangible assets—human capital, environmental capital, alliances and partnerships, brands, and reputation—must complement the valuation of conventional tangible assets—factories, equipment, and inventory.

Benefits of Triple Bottom Line Reporting as suggested in Global Initiative Report

The Global Reporting Initiative (GRI) is a long-term, multi-stakeholder, international undertaking whose mission is to develop and disseminate globally applicable sustainability reporting guidelines for voluntary use by organisations reporting on the economic, environmental, and social dimensions of their activities, products and services.

- Effective management in a global economy, where information travels at Internet speed, requires a proactive approach. Measuring and reporting both past and anticipated performance is a critical management tool in today's high-speed, interconnected, "24-hour news" world.

- Today's strategic and operational complexities require a continual dialogue with investors, customers, advocates, suppliers, and employees. Reporting is a key ingredient to building, sustaining, and continually refining stakeholder engagement.

- Reports can help communicate an organisation's economic, environmental, and social opportunities and challenges in a way far superior to simply responding to stakeholder information requests.

- Companies increasingly emphasize the importance of relationships with external parties, ranging from consumers to investors to community groups, as key to their business success. Transparency and open dialogue about performance, priorities, and future sustainability plans helps to strengthen these partnerships and to build trust.

- Sustainability reporting is a vehicle for linking typically discrete and insular functions of the corporation—finance, marketing, research and development—in a more strategic manner. Sustainability reporting opens internal conversations where they would not otherwise occur.

- The process of developing a sustainability report provides a warning of trouble spots—and unanticipated opportunities—in supply chains, in communities, among regulators, and in reputation and brand management. Reporting helps manage-ment evaluate potentially damaging developments before they develop into unwelcome surprises.

- Sustainability reporting helps sharpen management's ability to assess the organisation's contribution to natural, human, and social capital. This assessment enlarges the perspective provided by conventional financial accounts to create a more complete picture of long-term prospects. Reporting helps highlight the societal and ecological contributions of the organisation and the "sustaina-bility value proposition" of its products and services. Such measurement is central to maintaining and strengthening the "license to operate".

- Sustainability reporting may reduce volatility and uncertainty in share price for publicly traded enterprises, as well as reducing the cost of capital. Fuller and more regular information disclosure, including much of what analysts seek from managers on an ad hoc basis, can add stability to a company's financial condition by avoiding major swings in investor behaviour caused by untimely or unexpected disclosures.

Companies that subscribe to triple bottom line accounting scheme agree to report on the environmental, economic and social impacts of their activities, products and services following specific guidelines and standards. GRI, to give only one example, now boasts a list of 400 organizations employing their guidelines, including some of the world's largest and best-known corporations such as 3M, BP, Chevron Texaco Corp., Chiquita Brands, Citigroup, DuPont, GM, Henkel KGAa, Hewlett Packard, IBM, International Paper, Johnson and Johnson, Lafarge, McDonald's Corporation, Procter & Gamble, Royal Phillips Electronics, TDK, Volkswagen AG and others. There are many initiatives underway to improve corporate disclosure and reporting and these efforts are clearly part of a broader trend to equip investors with better information to assess intangible liabilities and risks and select companies that offer the best prospects for long-term value. In India, companies like Mahindra and Mahindra, Infosys, Wipro, Aditya Birla Group follow triple bottom line accounting and have benefited from it. According to Aditya Birla Group, they do TBL Accounting in the interest of their stakeholders—

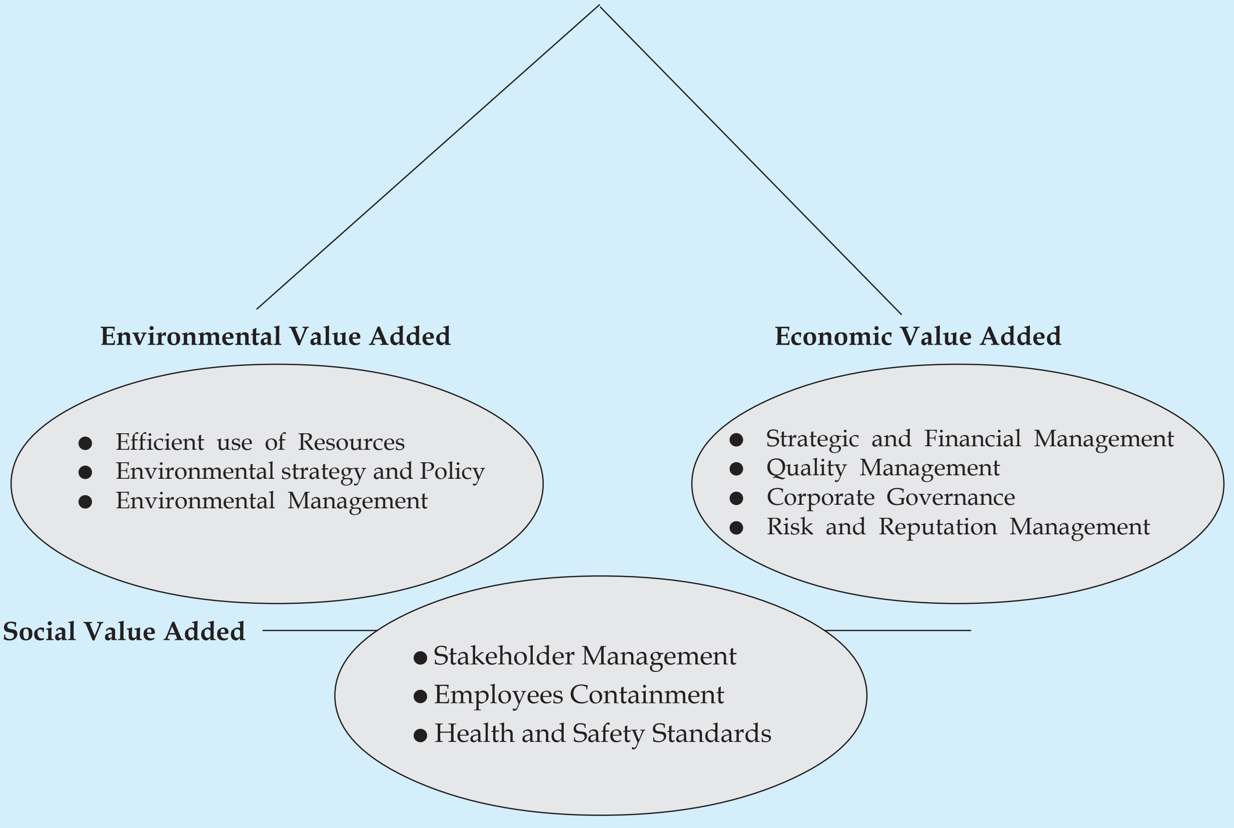

Fig. 1 : ***Key Parameters of Triple Bottom Line Reporting***
Source : Price Water house Coopers

shareholders, customers, suppliers and community at large. For Wipro, "Sustainable profit for a company is dependent on its brand. They have taken up socially relevant initiatives that help build the brand (Lincon, 2001). Companies can also derive financial benefits from TBL reporting. They can catch the attention of new investors, as well as attract and retain employees. TBL reporting allows for transparency of a company's environmental and social accomplishments, weaknesses, and future goals. Companies that strive for success may meet eligibility standards to be a part of certain environmental or social funds. Failure to meet such requirements could hinder stock performance (**Tschopp, 2003).**

Bharat Heavy Electricals Limited (BHEL) has joined the "Global Compact" of United Nations and has committed itself to support it and the set of core values enshrined in its ten principles. BHEL shares the growing concern on issues related to environ-mental, occupational health and safety; and is committed to protecting environment in and around its own establishment, and to providing safe and healthy environment to all its employees. For fulfilling these obligations, a Health, Safety & Environment Policy has been formulated and implemented through management systems.

For initiatives on sustainable development to succeed, business must be involved as the driver of sustainability agenda. Business can be made to realize that the pollution and waste are nothing more than business inefficiencies, process inadequacies; and there is money to be spent in their elimination. Business has a lot to gain from sustainable development. Private sector is the key to initiate an overarching strategy for a sustainable future for mankind. ''With the current rate of obsolescence, 90% of the products that we use today will disappear by year 2010. Business has a great opportunity in changing the production processes and steering the customer demand towards eco-friendly life styles'' (Mehra, 2002).

Conclusion

In summary, environmental and social issues are now a core issue for corporate governance, and good corporate governance, in turn, is essential for evaluating the environmental, social and ethical performance of the organisations. A proper environmental reporting is essential for full and fair disclosure of overall information to the stakeholders and it forms a part of good corporate governance. Good environmental governance can benefit financial performance, which in turn, will in wealth maximisation. Triple bottom line accounting may be one of the most effective tools to ensure that this happens at the corporate boards.

One of the biggest concerns about the effectiveness of the board is the lack of knowledge or absence of effective communication between the company and the board, an issue that keeps coming up whenever there is a big corporate scandal. The Cadbury Committee as well as the Kumaramangalam Birla Committee on corporate governance dwelt at length about the director level information as akin to the shareholder information and laid down guidelines as to how the directors should be kept informed by the company and how directors themselves should seek and ensure that they are kept informed. Once again no amount of rules or regulations would make this possible except when the directors themselves feel inspired or committed to seeking information to take right decisions. ❒

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Material Ledger — A Step beyond Standard Costing

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It has been experience of most ERP consultants in manufacturing industry that the discussions on deployment of enterprise applications in the context of finance and controlling do not generally get over without CFOs and business managers mentioning their need to valuate inventories at actual costs and to proportionately roll over variances to each level of subsequent assemblies after the initial assembly.

Advanced ERP systems, with their seamless integration between logistics and financials, provide a unique flow that drives financial P&L based on standard costs and resulting variances. Regardless of the degree of precision business can bring in, in its estimations for standard costs, differences between standard and actual costs can, at times, be too high to negate the effectiveness of standard costs.

Under such circumstances, it only becomes imperative for business to valuate inventories at actual costs **and** evaluate differences between actual and standard costs at each assembly or process level.

Advanced ERP systems provide solution, in the form of Material Ledger, to meet this need as well. However, for reasons of lack of knowledge and support on one hand and lack of well laid-out step-by-step approach to maintain it on the other, most implementation partners have dodged this genuine need in the industry.

The purpose of this write-up is to :

1. Highlight importance of Material Ledger in the context of business needs.

2. Highlight limitations of Standard Costing and why Material Ledger is an advanced step in providing vital inputs for managerial controls.

3. Give an example that brings out the essence of material ledger and how financial P&L will materialize in an environment where 'Material Ledger' is activated.

This article highlights in brief the limitations of standard costing and showcases an elaborate example of how Material Ledger works and its integration with financial P&L. It has been discussed with the help of an example that reflects Cost Object Controlling using Production Order as a cost object.

The example used portrays an industrial scenario — the product, its BOM and routing, results of actual operations in an accounting period, standard costs and its limitations and, finally, the results of executing actual costing run as an important step in application of material ledger and its impact on financials.

In the process, it highlights important milestones in shop floor operations for closure of production orders and their financial impact.

List of Abbreviations

Abbreviation/ Acronym	Expansion
BOM	Bill of Material
CFO	Chief Financial Officer
MAP	Moving Average Price
ML	Material Ledger
P B I T	Profit Before Interest and Taxes
P&L	Profit and Loss Account
R M	Raw Material
P O	Production Order

Material ledger is a step beyond application of Standard Costing and brings in advantages of both the Standard Costing and Actual Costing.

In Standard Costing we set standard costs for products and analyze variances at the period end. Variances serve as pointers where management controls are necessary. But from an overall perspective, standard costing does not cater to the following needs :1. To roll over variances of lower level assemblies to their next levels.

2. Valuate issues to subsequent assemblies or processes in manufacturing and/or inventories of semi-finished assemblies and finished products at actual costs.

In standard costing, lower level assemblies continue to be issued at standard costs.

Price variances for subsequent assemblies reflect differences only for such components or raw materials that are issued additionally at moving average prices.

Material Ledger plugs this gap

It allows valuation of production orders for assemblies and finished products at standard costs and calculation of variances for production orders closed during the period.

However, it goes one step further. In Material Ledger, you also get to see variances of lower level assemblies proportionately rolled over to subsequent assemblies or finished products, as the case may be.

Material Ledger, thus, correctly reflects the overall difference in standard and actual cost for assemblies at each level and for finished products in the end.

The System also reflects stocks at actual costs and the resultant price is referred to as Periodic Unit Price. System generates at the end of an accounting period a financial posting that reflects debit/credit to inventories and COGS and debit/credit to variance accounts.

The Master data set up needed for application of material ledger remains the same. There are few additional configuration steps needed to use material ledger.

More than anything else, it is a well orchestrated step-by-step approach practiced in a disciplined manner during month end closing that will fetch the desired result.

The example used here to explain application of Material Ledger is based on following assumptions.

1. Terms like work center, cost center, manufacturing process or operation are synonymous for the purpose of this example.

2. There was no work in process in the beginning of the period nor is it at the end of the period. All production orders created during the period are in 'Delivered' and 'Technically Completed' status.

3. All financials are in Indian Rupees.

4. Conversion cost of a product is inclusive of overheads. There is no separate charge made to products through the use of costing sheet.

5. Data pertains to the operations in an accounting period.

Example

Company XYZ manufactures and sells assembled steel plates for industrial applications.

The relevant standard manufacturing Routing and BOM are mentioned in Table 1 and Table 2.

Table 1 : Routing for Finished Product : Steel Plates for Industrial Applications

Sr No	Work Center	Operation	Output	Std Time Minutes	Cost Center	Activity Type	Rate/Hr	Std Cost/ Unit	Capacity Units
1	WC4	Packing	Finished Plates	36	CC4	AT4	60	36	2000
2	WC3	Painting	Painted Plates	30	CC3	AT3	30	15	650
3	WC2	Assembly	Assembled Plates	21	CC2	AT2	40	14	2000
4	WC1	Machining	Machined Plates	24	CC1	AT1	50	20	1000

Table 2 : Routing for Finished Product : Steel Plates for Industrial Applications

Sr No	Work Center	Operation	Input Material	Output	Material	UOM	Std Qty	Std Rate	Std Value/Unit
1	WC4	Packing	Box	Finished Plates	Box	Number	1	10	10
2	WC3	Painting	Paint	Painted Plates	Paint	Kg	0.2	60	12
3	WC2	Assembly	Hardware	Assembled Plates	Hardware	Number	4	2	8
4	WC1	Machining	Plates	Machined Plates	Plates	Number	1	40	40

Table 3, hereunder, shows that based on application of standard conversion cost, there is under-or over-absorption of cost for each of the cost centers.

Table 3 : Actual Operations Data for the Period

Work Center	Plan Hrs	Rate/Hr	Plan Cost	Actual Hrs	Actual Cost/ Hr	Actual Cost	Prod Orders Completed	Qty/ P.O.	Qty Mfd	Std Time/ Unit Minutes	Total Std Hrs
WC4	174	60	10,440	206	70	14,420	2	145	290	36	174
WC3	160	30	4,800	140	34	4,760	2	160	320	30	160
WC2	133	40	5,320	148	52	7,696	4	95	380	21	133
WC1	160	50	8,000	174	49.17	8,556	5	80	400	24	160

Variance calculation may be executed before or after revaluation of orders at actual activity prices.

It depends upon the option you choose for update of actual activities. If the update is active and relevant for price determination, the difference between standard price and actual price is settled to materials after actual costing run. In this example, the update is active and relevant for price determination.

Table 4 : Extract of Actual Material Consumption

Sr	Work	Operation	Input	UOM	Act	Act	Act RM
1	WC4	Packing	Box	Number	305	9.50	2,897.50
2	WC3	Painting	Paint	Kg	69	67.50	4,657.50
3	WC2	Assembly	Hardware	Number	1,543	1.90	2,931.70
4	WC1	Machining	Plates	Number	420	42	17,640.00

Upon execution of variance calculation, system will generate total variances Production Order-wise with their break-up in cost components and sub break-up in respective categories such as Price Variance, Quantity Variance etc.

Upon execution of settlement as the last step in period end closing for Standard Costing, the system will post total variance amounts to 'Price Difference' with contra debit or credit impact on 'Cost of Factory Output'. It does so for each of the production orders completed during the period.

Following this the system explodes BOM.

It starts revaluating issues from the lowest level assembly or output made in the first process and issued during the period to subsequent assemblies or processes, as the case may be, based on actual costs calculated as Weighted Averages.

At every stage, system will take cognizance of quantity issued to next manufacturing process and quantity maintained in the inventory.

It continues to revaluate issues step-by-step for all subsequent assemblies upward until it revaluates units of Finished Products issued against Sales/Delivery Orders.

Table 5 : Results of Production Order Settlement and Actual Costing Run

					Variances		
Sr No	Work Center	Qty Mfd	Std Cost/Unit	PO Confirmation	Order Settlement	Actual Costing Run	Total Actual Costs
1	WC4	290	155	44,950	2,135.50	5,160.34	52,245.84
2	WC3	320	109	34,880	463.50	3,518.10	38,861.60
3	WC2	380	82	31,160	1,031.70	3,593.19	35,784.89
4	WC1	400	60	24,000	2,340.00	(144.42)	26,195.58

The application of Material Ledger begins with the execution of Actual Costing Run.

Based on the same, it then posts proportionate amounts to be debited or credited to 'Cost of Goods Sold' and 'Inventory' accounts with contra debit or credit to 'Price Difference' accounts.

The unit rate to revaluate issues and inventory at different stages in manufacturing is cumulative based on opening inventory and production made during the period. Movement of 'In Process' and 'Finished' material during the period is shown in the following table.

Table 6 : Movement of Goods during the Period at Actual Cost

Particulars	Machined Plates			Assembled Plates			Painted Plates			Packed Plates		
	Qty	Rate	Value	Qty	Rate	Value	Qty	Rate	Value	Qty	Rate	Value
Opening Inventory	70	60	4,200	125	82	10,250	55	109	5,995	30	155	4,650
Production			24,000			31,160			34,880			44,950
Price Difference			2,196			4,625			3,982			7,296
Net Production	400		26,196	380		35,785	320		38,862	290		52,246
Cumulative Inventory	470	64.67	30,396	505	91.16	46,035	375	119.62	44,857	320	177.80	56,896
Issues/Sale	389	60	23,340	323	82	26,486	292	109	31,828	250	155	38,750
Price Difference			1,817			2,958			3,100			5,700
Net Issues/Sale	389	64.67	25,157	323		29,444	292	119.62	34,928	250	177.80	44,450
Closing Inventory	81	60	4,860	182	82	14,924	83	109	9,047	70	155	10,850
Price Difference			378			1,667			881			1,596
Net Inventory	81	64.67	5,238	182	91.16	16,591	83	119.62	9,928	70	177.80	12,446

System would generate financial posting as under, upon actual costing run. Please note that this posting is purely discretionary.

Table 7 : Financial Posting upon Revaluation of Issues and Inventories

Process	Cost of Goods Sold		Inventory		Activity Price Diff		Cost (Price) Diff - ML	
	DR	CR	DR	CR	DR	CR	DR	CR
WC4	5,699.88		1,595.96			2,060.00		2,135.50
WC3			881.26			560.00		463.50
WC2			1,666.79			1,776.00		1,031.70
WC1			378.39		144.42			2,340.00
Total	5,699.88		4,522.40		144.42	4,396.00		5,970.70

System would generate another financial posting, as under, at the beginning of next accounting period.

Table 8 : Financial Posting to Reinstate Inventories at Standard Cost

Process	Inventory		Gain / Loss – Reval. M L		Cost (Price) Diff - ML	
	DR	CR	DR	CR	DR	CR
WC4		1,595.96	1,128.82		467.14	
WC3		881.26	778.67		102.59	
WC2		1,666.79	1,294.97		371.82	
WC1		378.39		24.89	403.28	
Total		**4,522.40**	**3,202.46**	**24.89**	**1,344.83**	

So that it brings more clarity to process-wise cost of issues and inventories, Profit and Loss Account for the period is presented below in a traditional manner :

Table 9 : Profit and Loss Account for the Period

Particulars	Qty	Rate	Amount	Particulars	Qty	Rate	Amount
RM consumption			28,126.70	Sales	250	230	57,500.00
Expenses			35,432.00				
Cost of Consumption—Semi-finished				Cost of Output			
WC3	292	109	31,828.90	WC4	290	155	44,950.00
WC2	323	82	26,486.00	WC3	320	109	34,880.00
WC1	389	60	23,340.00	WC2	380	82	31,160.00
				WC1	400	60	24,000.00
Cost of Sales	250	178	44,449.88				
Price Difference—Settlement				Cost of Output—Settlement			
WC4	290		2,135.50	WC4	290		2,135.50
WC3	320		464.40	WC3	320		464.40
WC2	380		1,031.70	WC2	380		1,031.70
WC1	400		2,340.00	WC1	400		2,340.00
				Price Difference—M L			
				WC4			2135.50
				WC3			464.40
				WC2			1,031.70
				WC1			2,340.00
Activity Price Difference				Activity Price Difference			
WC1			144.42	WC4			2,060.00
				WC3			560.00
				WC2			1,776.00
P B I T			13,049.70				
Total			**208,829.20**	**Total**			**208,829.20**

Readers will note that profit for the period is impacted by the valuation of closing stock at actual cost as is reflected in excess of total net credit on cost of output over total net debit on cost of issues/cost of sales. We can cross-verify final balance in P& L, which is PBIT, in the following manner :

Total Net Credit to Cost of Output	140,960.70
Total Net Debit to Material Issues/ Cost of Sales	121,852.30
Excess of Cost of output over Cost of Issues/Sales	19,108.40

This is the amount of increase in value of inventory of semi-finished and finished products, i.e.191,08.40. When it is added to the profit derived from operations during the period, we will derive the same PBIT as is reported in P&L :

Table 10 : Snapshot of P&L for the Period

Particulars	Amount
Sales	57,500.00
R M	28,126.70
Expenses	35,432.00
Profit before adjustment of closing inventory	(6,058.70)
Add: Adjustment of closing inventory	19,108.40
P B I T (as reported in P&L above)	13,049.70

All of the period-end activities required in application of standard costing are the prerequisites to execute actual costing run.

System calculates actual cost of product at each of the stages in production exploding the BOM for it and taking cognizance of actual quantities of raw material and components and their actual costs per unit.

System will progressively calculate actual costs of issues to subsequent assemblies' from lowest level to the highest level. Thus, costs of products in subsequent processes are impacted by the actual cost of inputs from previous processes. These are the differences in costs over and above variances calculated before settling production orders. Operations management, in turn, gets vital leads on real pain areas.

In the process, system provides actual values of inventories, finished or semi-finished, in a scientific manner. Standard costs are prone to manipulations. Inventory valuation can tilt the marginal negative P&L balance to positive, or vice versa.

The importance of impact of the inventory valuation may not be underestimated. Most other financials reported in P & L can be objectively verified. This is not the case with inventory valuation based on standards. Many factors such as expected capacity utilization, BOM quantities or operation timings in different processes can impact development of standard costs. Furthermore, costs of vital material inputs could undergo significant change over a period of time.

Bearing in mind these considerations, many a times auditors require CFOs and controllers to provide with data on valuation of inventories at actual costs.

Material Ledger, therefore, may be considered indispensible from both perspectives—internal management since it highlights 'real' variances between standard and actual costs at each level of production; **and** external reporting since it provides inventory valuation at actual costs. ❒

Carbon Accounting Challenges in India — Some Practical Issues

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Introduction

Climate Change issue has become one of the greatest challenges of the 21st Century. Lately, the issues have been given a serious analytical thought amidst growing concerns among nations all over the world including India to reduce emission levels. It has been estimated that 60-70 percent of the Green House Gases (e.g., methane, nitrous oxide and hydro fluorocarbons) emission is through fuel combustion in industries like steel, cement, fertilizers, textile, chemicals, etc. So, consciousness and counter-measures on their part is a must for tackling this emerging fatal issue.

Carbon credits have become the key element of national and international counter-measures to neutralize the growth of such green house gases. They seek to reduce those emissions by offering a monetary value in such cases. Carbon credits are measured in units of Certified Emission Reductions (CER). Each CER is equivalent to one tonne of carbon dioxide reduction. Such a credit can be sold in the international markets at the prevailing market price. This has become an entirely new industry with great potential and opportunities for the companies (including Indian ones) and individual investors alike.

India could emerge as one of the largest beneficiaries accounting for more than 25 percent of the total global carbon trade based on World Bank report (NSWAI ENVIS,2007). Indian companies have started generating carbon credits and carbon credit trading in India has gained a lot of momentum in recent years. However, for keeping the pace Indian companies and the Institute of Chartered Accountants of India (ICAI) should formulate the required Standard to be followed in practice for carbon credit accounting and reporting.

World and Indian Carbon Market Scenario

Carbon trading had been growing across the globe in a stunning way from 2005-2008, but, lately has taken a pause (as shown in Table I).

Table I — Carbon Market at a Glance (Trading Values in $ billion), 2004–10

Year	EU ETS Allowances	Other Allowances	Primary CDM	Secondary CDM	Other Offsets	Total
2005	7.9	0.1	2.6	0.2	0.3	11.0
2006	24.4	0.3	5.8	0.4	0.3	31.2
2007	49.1	0.3	7.4	5.5	0.8	63.0
2008	100.5	1.0	6.5	26.3	0.8	135.1
2009	118.5	4.3	2.7	17.5	0.7	143.7
2010	119.8	1.1	1.5	18.3	1.2	141.9

Source : World Bank, Thompson Reuters Point Carbon, Bloomberg New Energy Finance and Ecosystem Marketplace

The World Bank Report (2010) has also pointed out :

Table II—World Vs. Indian Carbon Market Transactions

Year	Global CER Transactions (mCERs)	Indial CER Transactions (mCERs)	Indial (in % terms)
2006	466	56	12%
2007	551	33	6%
2008	395	16	4%
2009	200	04	2%

Thus, Table II shows enough opportunities for Indian companies to produce carbon credits and capitalize its economic benefits by trading. The growing Indian economy and its diverse sectors offer huge potential for CERs. Besides the CDM, the concept of voluntary carbon markets has been also picking up in India. Indian companies like L&T, Wipro, Asian Paints, ACC, Sterlite and Tata Steel are at the forefront to reduce their carbon emissions. Apart from being compliance and regulatory issue, "Respect for the environment" has become a core CSR aspect for the India Inc which also are showing proactive initiatives on go green practices.

According to Crisil Research Report (2010), the quantum of carbon credits generated from the carbon reduction projects undertaken in India will triple over in next three years and the numbers are expected to increase from 72 million in November 2009 to 246 million by December 2012 . Indian Market is extremely receptive to CDM. Various CDM projects are being undertaken by the Indian companies recently and if more and more companies take up clean technologies then quantum of carbon credits generated out of these projects would be multi-fold. Many companies have also already entered into the agreement of selling these credits in the international markets. Thus, India has emerged as the second largest seller of carbon credits (Participation of European buyers in Indian Carbon Markets, Ernst & Young,2010)

Objective

The objective of this study is to focus on key issues of carbon credit accounting which require proper attention and consideration of the Indian industries and companies, the Indian government, the ICAI, taxation authorities and chambers of commerce to arrive at a common opinion and formulate the required Standard in this regard.

Literature Survey

A number of studies have been conducted on carbon trading (Rajesh Sada,2007, Simon Tilford,2008, IDBI,2011,Pavan Sukhdev,2008) and its emergence in the world carbon market but less attention was given on its accounting and reporting part and practical issues in this regard.

A paper published by Deloitte Centre for Energy Solutions (2011) addressed some of the common accounting issues that a company would need to address and pointed out different accounting results that can exist when companies individually develop accounting regulations and policies in absence of explicit, full-proof and authoritative literature.

Manindra and Tiwari (2009) highlighted different issues relating to carbon accounting and also focused on tax impact of revenue generated from carbon credits.

Agarwal (2006) pointed out some critical financial accounting issues of CDM credits in India and concluded that ICAI should come up with some accounting guidelines for carbon credits.

Nomura, Yamagata and Matsuhashi (2004) attempted to focus on eco-carbon accounting and investigated how this method can be applied to carbon management projects that focus on forest activities.

Bothra, Kothari & Company (2008) also highlighted the key points of the exposure draft on guidance note on accounting for carbon credits by ICAI. However, the scope of the study was limited since the key accounting and taxation issues were not discussed.

This article has highlighted some of the emerging practical issues in this regard in Indian context.

Accounting and Taxation Issues

The carbon credit concept has already unveiled a few new financial accounting dimensions and dilemmas. The companies generating revenue by selling carbon credits are mostly in the dilemma whether to treat it either as inventory or as an intangible asset since it seems to have enjoyed the characteristics of both.

A large number of other practical accounting and taxation issues have been also growing, such as :

- Whether CERs are goods or assets?
- If credits are to be accounted, at what point of time these should be recognized in books of accounts and at what value?
- If goods and sold out, how to account for sale consideration of CERs and its disclosure in accounts and notes?
- How to account for expenditure on CDM project?
- Is carbon credit government grant?
- When carbon credits are sold to overseas buyers, whether sale of such credits to overseas units would tantamount to export or not?
- Is income from sale of CERs taxable under the head Business & Profession or being intangible taxable under the head Capital Gains?
- Whether it can be treated under the head Income from other sources?
- Whether service tax is leviable being trading in CERs is carried out either in spot market or in futures?
- If carbon credits are sold to indigenous buyers, whether Vat would be applicable?

The Settlement Debates

An attempt has been made to find the answer of all the above questions within the obtainable pronouncement of ICAI, as well as schedule VI requisites of the Company Law. However, such answers have yet to be settled as time-tested standard or regulations. The following debatable issues could be raised in this regard.

Accounting Issues

- **Whether CERs are goods or assets?**

According to a notification issued by the Government of National Capital territory of Delhi, CERs are tradable commodity as they have a market value, having a ready market and are freely transferable as other marketable commodities with the willing buyers and sellers.

In the case of Tata Consultancy Services vs. State of Andhra Pradesh it was, inter alia held and was reiterated in case of BSNL vs. UOI [2006] 152 Taxman 135/282 ITR 273/ 145 STC 1, that anything that had the following attributes would be regarded as goods - (a) its utility; (b) capable of being bought and sold; and (c) capable of being transmitted, transferred, delivered, stored and possessed. Therefore, CER by virtue of fulfilling the above mentioned attributes qualifies to be considered as "goods."

Not only that, in India CER is the new commodity to be traded in the Indian derivative market. The National Commodity and Derivatives Exchange (NCDEX), Indian's largest agri-trading exchange had also launched CER future contract in 2008. In NCDEX the domestic sellers can trade carbon credit at the price prevailing in the global market.

Thus, from the above discussions carbon credit appears to be "Goods" as they have all the attributes thereof.

- **If credits are to be accounted, at what point of time these should be recognized in books of accounts and at what value?**

If CERs are treated as "Goods", their sale proceeds have to be recognized in the financial accounts as per para.11 of the Accounting standard 9 (AS - 9) (i.e., Revenue Recognition). Para 11 of AS - 9 dealing with revenue recognition and the conditions of para.11 are self explanatory, and are reproduced below:

In a transaction involving the sale of goods, performance should be regarded as being achieved when the following conditions have been fulfilled:

(i) The seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and seller retains no effective control of the goods transferred to a degree usually associated with ownership.

(ii) No significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of goods.

- **If goods and sold out, how to account for sale consideration of CERs and its disclosure in accounts and notes?**

India is one of the major players in the global market on the supply side of CERs. Indian companies have started getting credits of CERs and some of them have entered into sale agreements with buyers in the international market. There is an urgent need for the Indian companies on the path of carbon accounting and its disclosures. As far as financial accounting and reporting is concerned, generally accepted carbon accounting principles are intended to highlight and guide carbon accounting and reporting to ensure that the reported information represents a faithful, true, and fair account of a company's carbon emissions.

Section 43(11) of the Companies Act, 1956, defines, 'Turnover' as "the aggregate value of the realization made from the sale, supply or distribution of goods or on account of services rendered, or both".

Part II of schedule VI of the Companies Act, 1956, requires a separate disclosure of "profit or loss in respect of transactions of a kind, not usually undertaken by the company or undertaken in circumstances of an exceptional or non recurring nature, if material in amount". Though CERs are goods, their sale is undertaken, if not in exceptional circumstances, certainly on non-recurring basis.

Thus, a collective interpretation of Section 43A and Schedule VI of the Companies Act makes it clear that sale proceeds of CERs should be disclosed as a line item of Schedule of other income, if amount is material.

At present most companies show earnings out of carbon trading as other income. A new set of norms to enable transparent accounting of carbon credits earned by the Indian companies is sought as there are no separate accounting standards for accounting, measurement and disclosure of carbon credits.

- **How to account for expenditure on CDM project?**

CDM being the relevant mechanism adopted in India for reduction in carbon emissions should not be viewed as a commercial transaction. A CDM is a way of making business environmentally conscious along with its profitable business opportunity. A CDM project is monitored or verified after the project has been approved or registered by the CDM Executive Board.

While undertaking a CDM project an undertaking has to go through huge expenditure. Several CDM projects are being undertaken in India but there remains a lot of ambiguity to its accounting, taxation and regulatory issues. Questions on accounting for expenditure on CDM projects are to be sought in the existing accounting standards. Any emission control devices installed under CDM project shall be accounted for as per Accounting Standard-10 (Accounting for Fixed Assets) while for reducing emissions, a company may carry out some research and development expenditure which may result into creation of some intangible assets and shall be as per AS–26 (i.e Intangible Assets). According to some experts CDM projects should be accounted for as a separate segment as per AS–17 (i.e Segment Reporting). But A CDM project cannot be a profit centre or cost centre in itself. Any CDM project can be identified with its parent segment in a multi-segment industry.

- **Is carbon credit government grant?**

According to some experts, carbon credit could be accounted for as Government Grant. Their suggestion is based on the definition of the term 'Government' prescribed in para. 3.1 of AS – 12(i.e Government Grants) which reads: "Government refers to government, government agencies and similar bodies, whether local, national or international". However, this approach would be inappropriate as government grants are received by an organization on concessional or free of cost, wherein government would grant or allocate some concessional benefit to a company. In case of CERs, it is not any benefit that is provided by government; it is an incentive provided to companies for doing well to the environment. Further, this logic appears to be misplaced, as in case of carbon credit transactions, neither monetary consideration would flow from any government or government agency nor there is any grant at all from any agency. Finally AS - 9 (i.e., Revenue Recognition) would cease to operate soon as carbon credits are accounted as Government Grants.

Taxation Issues

Trading in CERs, although at a budding stage, has resulted in huge foreign exchange earnings for the Indian companies being suppliers. Generally, the overseas buyers requiring carbon credits for meeting their emission reduction target enters into an emission reduction purchase agreement with a company engaged in an emission reduction project in a developing country. At present there is no clear definition in the tax laws about how carbon credits are to be treated.

- **Indirect Tax Issues :**

There is ambiguity regarding treatment of CERs from an indirect tax perspective. The following relevant practical issues may be or as highlighted for Indian companies supplying CERs:

(i) Whether CERs can be classified as goods or services from indirect tax perspective? Consequently question arises - **whether VAT would be levied on the sale of CERs or service tax would be levied on rendition of services?**

(ii) Whether sale of CERs to overseas buyers would qualify as export of goods or services?

As far as VAT or service tax is concerned, it is pertinent to determine whether CERs are classified as goods or services. At present indirect tax regime does not provide sufficient guideline on this evolving issue. In the event of CERs being taxed as goods, it is assumed that they should be accorded the identical treatment as electricity for VAT purposes, i.e., either CERs be excluded from the purview of VAT or be specified in the Schedule of exempted goods. As it has pointed out that trading in CERs has already being launched in commodity and derivatives markets. Service tax could be applicable on account of dealing in CERs on the exchange platforms.

Indian companies sell CERs to companies in developed countries, especially in Europe, through bilateral deals or through carbon exchanges. **Whether sale of CERs to overseas buyers should would tantamount to export or not?** In Indian regime, if sale of CER credits happen to overseas buyers, such sale, through sale of 'goods', would not attract any sales tax.

CERs or carbon credits are awarded by CDM executive board, an arm of the United Nations (UN), to projects in developing countries that ensure or certify reduce greenhouse gas emissions. In developing countries including India the clean technology is being encouraged. India, along with China, leads countries in earning carbon credits. Thus, CERs if made available to indirect taxes, may adversely affect the carbon credit trading boom in India. The Government is expected to grant tax incentive on carbon credit trading with a view to ensure its global commitment to the reduction of carbon emission.

- **Direct Tax Issues :**

There are also several practical relevant issues in regard to sale of CERs that are yet to be properly addressed in Indian context, such as:

(i) Whether income from sale of CERs should be accounted under the head Business and profession if treated as goods or services?

(ii) Whether it would be taxable under the head income from Capital Gains if treated as assets or income from carbon credits would come under head income from Other Sources?

CERs can both be accounted for as capital assets or goods. Corporate earnings from the trading of CERs have caught the attention of Income Tax department. Corporates have pitched for treating them as capital assets and further exempting them from Capital Gains Tax. On the other hand, the tax authorities plan to closely look at the companies found active in CERs trading after finding non-payment of taxes on such earnings. The objective of the company would determine whether CERs should be recoded as intangible assets or as inventory.

Self generated CER held with registry cannot be included in inventories as per AS – 2 (i.e Valuation of Inventories), as they are not held for sale in the ordinary course of the business. According to AS - 26 (i.e Intangible Assets) self generated CERs meet all the criteria of " Intangible Assets", i.e., (i) identifia-bility, (ii) control over a resource, and (iii) expectation of future economic benefits flowing to the enterprise.

CER credits are recognized in the books at the cost of acquisition if such credits are acquired from the other parties for the purpose of trading whereas self generated CERs are not reflected in the financial accounts.

Now there is no clear definition in the direct tax laws how income from CERs is to be treated. It is

Continued on Page 108

Continuous Audit : Aligning IA with ERM

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Liberalization- Privatization-Globalization (LPG), introduction of e-business model, more and more product/service launches, technological advancement, organizational issues, business complexity and overall GRC (Governance, Risk Management and Control) scenario compelling for a changed role of internal audit in the country, nay of the world. More value-add from audit assurance function and strengthening of internal audit is the need of the hour. This necessitates increased alignment and interaction between the assurance functions of ERM and Internal Audit, as mooted in King II Report –'the board should ensure that the IA and ERM functions are aligned'. Incessant reliance of management and Boards on internal audit to form an opinion on the effectiveness of the control environment within the business also pushing towards aligning ERM with IA. This will result in minimal duplication of effort, prevent gaps in the Risk Management processes and improve Governance culture within the Organization.

The Internal Audit (IA) functions in organizations are at a crossroads. The globalization of securities markets, along with the development of international accounting standards, require companies to think about risk on a global level — not just focusing on 'silo'. Against this backdrop, can IA continue to do what they are doing today? They need to embrace a more conti-nuous focus on providing risk management assurance. IA should, therefore, align its efforts with the com-pany's changing risk profile, especially those relating to strategic, operational, and IT risks that are integral to shareholder (stakeholder ?) value. As a result, Internal audit and risk mitigation need to be a conti-nuous function instead of one that is performed on a periodic or annual axis. IIA defined the three termino-logies viz. Continuous Audit, Internal Audit (IA) and Enterprise Risk Management (ERM) as follows :

Before introducing the concept of 'Continuous Auditing', let us delve on the commonalities between ERM & IA and reasoning behind alignment between the two. The following commonalities can be drawn between ERM and Internal Audit :

— Both ERM and IA support enterprise governance
— ERM is the management process (1st line of defence), IA is the assurance process (2nd line of defence)
— Both support achieving objectives
— Both are structured processes
— Objectives, risks and controls are at the core of both
— Both provides opportunity to capitalize on synergies and minimize duplication

There are many reasons why IA and ERM should be aligned :

1. To provide an accurate reflection of the risk profile to Board and Senior Management ensuring that IA reports and risk reports highlight the same issues — "talking the same language".

Lawrence Sawyer, in his book "Sawyer's Internal Auditing", suggested communication of audit results from a risk perspective. This approach is a significant departure from traditional audit reporting based on audit findings. Audit report results can be depicted using an 'ERM Map' that classifies control weaknesses

Definition by Institute of Internal Auditors (IIA)

Continuous Audit	Internal Audit	Enterprise Risk Management
Continuous auditing is "a method used to perform control and risk assessments automatically on a more frequent basis (than traditional reviews). Continuous auditing changes the audit paradigm from periodic reviews of a sample of transactions to on going audit testing of 100% of transactions". Almost similar view being echoed by the CICA (Canadian Institute of Chartered Accountants and the AICPA (American Institute of Certified Public Accountants).	An independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization achieve its objectives by bringing a systematic, disciplined approach to evaluate and improve the effec-tiveness of risk management, control and governance processes.	The concept of identifying, assessing and managing the risks of an organization known as Enterprise Risk Management. ERM is a process effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its appetite, to provide reasonable assurance regarding the achievement of entity objectives.

based on likelihood, severity (catastrophic, critical, major, medium, minimal, minor etc.) and financial impact.

2. To focus the Internal Audit function on high-risk areas by using the ERM and to audit the ERM Process.

3. Integration of Internal Audit with ERM provides boards and audit committees with a dynamic, comprehensive and single view of the risk and control environment.

IIA Performance Standard also specifies that the internal audit function should assist the organization by identifying and evaluating significant exposures to risk and contributing to the improvement of risk management and control systems by :

- Providing assurance on the risk management process
- Giving assurance that risks are correctly evaluated
- Evaluating risk management processes
- Evaluating integrity of the reporting of risks
- Reviewing and monitoring the management of key risks.

Continuous Auditing

Continuous auditing is "a method used to perform control and risk assessments automatically on a more frequent basis (than traditional reviews). Continuous auditing changes the audit paradigm from periodic reviews of a sample of transactions to ongoing audit testing of 100% of transactions".

The following features can be observed on analyzing the above definition :

- Frequent review of control and risk assessment
- Complete analytical review of all transactions
- Review of risk assessment process.

Under the traditional concept, Internal Auditors used to prepare "Annual Audit Plan "either on FOTP (Finger On The Pulse) or applying ERM methodology (commonly described as Risk Based Internal Audit Plan). Selection of audit coverage under FOTP is solely dependent on Auditor's conception about business, exposure to past events and experience etc. No formal database and/or process help the auditor in selection of coverage. This allows the internal audit activity to provide assurance to the board that risk management processes are effective, in relation to the risk appetite. Use of risk based approach (RBIA) to allocate scarce and valuable resource is dependent on answer to a simple question—If it is not a risk to the organization does it need auditing?

Under RBIA (Risk Based Internal Audit), Audit Team used to conduct audits of the areas/functions selected based on Risk Matrix (may not be validated) of the Organization. At times, such plan is vetted to Audit Committee for its concurrence. Mostly the annual plan again being broken down to quarterly coverage (prioritization), so that all areas selected are being covered during the plan-year. This methodology suffers from the following shortcomings :

- RBIA Plan may not be in tandem/sync with overall risk profile of the organization.
- Lesser flexibility for Audit Team to address issues cropped-up in course of the year while conducting audit in a different area already committed
- Dynamism of "Risk" with change of time and business scenario may not be possible to capture while planning, raising possibility of significant 'left outs'
- Compulsion of team members to complete the time-bound assignment may impact the quality of review
- Since one area covered once (say first quarter) under the RBIA Annual Plan, major concerns may be out of audit purview for a considerable period i.e till next review coverage
- Risk Profile/Risk Management Process may not be reviewed to assess its robustness and capability.

Under continuous audit, the unplanned audits are more significant than the planned ones. The fixed cycle of review is applied for the critical/high risk areas pertaining to the business for ensuring control effectiveness. The risk captured in the matrix/ anticipated are visited frequently by the audit team to validate its standing ,relationship and applicability for the business. In other words, instead of making the audit plan based on risk matrix, the risk base being reviewed. Without committing to a fixed audit plan, the audit team having flexibility to respond to the changing business scenario and risk impacts. The continuous focus on business and associated risks will make the business risk mitigation almost simultaneous. The business 'health check-up' becomes more frequent and coverage could be number of times for an accounting/audit year. The areas of lesser importance can be covered on annual/bi-annual basis like a fixed audit plan. The continuous validation process provides full control over risk matrix and mitigation process. The hygiene report may be used/ suggested for areas periodically reviewed.

Benefits of a Continuous Auditing Approach

Continuous auditing offers several advantages over traditional auditing approaches. Most importantly, it offers internal audit teams the ability to expand the scope, scale and frequency of audits within critical areas of the organization. This enables auditors to minimize risk and revenue leakage, improve operational processes, and support compliance. Moreover, as risk oversight evolves from a periodic to a real-time continuous process, audits will become more developed and nearer to decision-making process as business partner. Internal auditors will be able to establish key risk indicators (KRIs) to monitor risk conditions.

Continuous Audit approach provides the following advantages :

- Prioritization of audit activity/area coverage
- Opportunity to perform "right-time" transaction testing and data analysis
- Minimizing 'surprise elements' from audit
- Timely initiation of remediation efforts i.e. almost real time problem solving
- Reduce or maintain audit-related costs and resources while increasing audit activity
- Reduce errors and fraud
- Increase reliability of financial reporting
- The continuous audit process has a system of checks and balances to maintain the independence and objectivity of their work throughout the audit
- Improve financial and business process operations.

Establishing Priority Areas and frequency

The activity of choosing which organizational areas to audit should be integrated with the company's risk management program. While prioritization, the following aspects need to be in focus :

- Identification of critical business processes that need to be audited
- Understanding and availability of data
- Consider the corporate ramifications of continuously auditing the particular area or function
- Selection of area, where early demonstration of results might be of great value to the organization
- Fulfilment of at least one of the audit objectives i.e detective, deterrent (also known as preventive), financial, and compliance.

To provide this new level of service, internal audit should refine its risk assessment processes and enhance coverage (with resource limitation) by continuous auditing techniques. Continuous auditing approach can bring a major impact to a wide variety of areas, including regional/branch networks, large homogeneous loan portfolios, expenditure and variance etc. Continuous audit is expected to be a major area for development and expansion for almost all organizations in coming days. In this environment, with so many departments involved, robust commu-nication across the organization is increasingly important. Such communication includes face-to-face meetings with stakeholders as well as more frequent and improved reports that highlight emerging risks and control assessments based on the continuous auditing methods.

Most researchers, when describing interaction between Internal Audit and ERM, highlighted that Internal Audit should start its audits by auditing the ERM function and ERM processes. The information obtained in the phase through audits of the ERM function and processes should be analyzed to identify key business processes to be audited. This allows for a more focused "drill down" approach in the different business units and key business processes with serious control weaknesses identified through the audit of ERM processes. Such a continuous risk oversight process allows companies to help strengthen internal controls and mitigate many risk areas and better GRC culture for effectiveness of the board in discharging their duties and responsibilities.

Auditors and entities that are looking to implement a continuous audit approach need to be willing to walk an extra mile to move beyond their traditional yearly audit activities. Although not a lot of guidance exists today about the best ways to implement a continuous audit process (as with any major change), the evolution toward continuous auditing will take time and substantial attention from senior management. The implementation of a continuous auditing system can assist in making financial information of high quality and truly useful to end-users. The business organizations/corporates, need a new way of thinking about auditing (i.e. revamping the organization's culture) in order to implement continuous auditing system. The true quality of information—whether a continuous auditing system is in place or not—will rest in the corporate culture and internal control structure of the organization. ❐

An Overview of Public Private Partnership in India & Abroad

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Introduction

During the macro economic dislocation of the 1970s and 1980s, the burden and the concern for public debt exerted a pressure to change the standard model of public procurement. Governments encouraged private investments in infrastructure due to the accounting fallacies which arose from the fact that the public accounting system did not distinguish between recurrent and capital expenditures.

In the beginning, most public-private partnerships were negotiated individually, as one-off deals. In 1992, the conservative government of John Major in the UK introduced the private finance initiative (PFI), the first systematic programme aimed at encouraging public private partnerships. The 1992 programme focussed on reducing the Public Sector Borrowing Require-ment, although, the effect on public accounts was found to be largely illusory. Several Australian state governments have adopted systematic programmes based on the PFI. The first model was Partnership Victoria. Some of the corporations and investors who were active in the financing, ownership & development of Public-Private Partnerships around the world were Vinci; France, Balfour Beatty; UK, Cintra; Spain, SNC Lavalin ; Canada, Carlyle Group; USA, Siemens; Germany, Beijing Construction Engineering Group ;China.

An increased role for Public Private Partnerships (PPPs) in the developing world was one of the most novel outcomes of the world Summit on Sustainable development in Johannesburg in 2002. Public Private Partnership (PPP) describes a Government service or private business venture which is funded and operated through a partnership of government & one or more private sector companies. These schemes are sometimes referred to as PPP, P3 or P^3.Hence, the common defining elements in the definition of PPPs may be summarised as under :

- It is a contract or an arrangement between a government entity and a private entity.
- It aims to make provision of public infrastructure or public services through the private sector, with substantial risk transfer to meet government or social needs and rewarding or remunerating the private sector based on outputs.
- It has not been specified in majority of the cases whether the private sector will necessarily bring in private investments.
- The emphasis has been on service delivery to meet public service or infrastructure needs rather than asset creation or investments.
- None of the definitions have specified whether remuneration to private sector or PPP will necessarily be through user charges. In many countries such as UK, the majority of PFIs are provided payments by the government agencies.

The Department of Economic Affairs(DEA), India is facilitating mainstreaming Public Private Partnerships through Technical Assistance from Asian Development Bank after recognizing that strengthening the capacities of different levels of government to conceptualize, structure and manage PPPs will lead to more and better PPPs. As published by The DEA, India, the institutionalization of PPP skills include-

- Refining the PPP policy and regulatory frame-work.
- Meeting compliance/ public safety norms.
- Improving MIS
- Improving bidding documents and procedures
- Determining risk sharing
- Conducting value added research/analysis,&
- Determining adequate monitoring arrangements.

In order to avail of the Technical Assistance (which includes one PPP Expert on an individual basis focussing on project financial analysis and risk management, one Management Information Systems Expert on an individual basis focussing on information management and a panel of three legal experts on retainer basis to provide legal expertise on PPPs) the states are required to enter into an MOU with DEA detailing steps that would be taken to promote PPPs in the state.

In this perspective, this paper aims at :

- Analysing the position of PPP in India and in its various sectors like telecommunication, energy, etc.
- PPP's position in international market
- Comparative study of the position in India to that in International scenario.
- Examining the constraints of implementing PPP.

In order to address the above objectives, the remainder of the paper is organised as follows. Section 2 sketches the Indian scenario of PPP. Section 3 discusses the International scenario. Section 4 draws the comparison of Indian position with that of International market. Section 5 discusses the constraints of implementing PPP. The last section is devoted to concluding observations and suggestions.

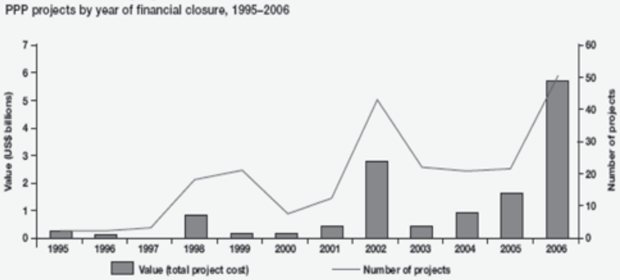
PPP in India

In recent years, there has been a rapid change in India's program of infrastructure. Its PPP program has grown rapidly in the past six to seven years. In 2002-2006 more than 150 PPP deals closed, compared with 66 in the previous seven years (Fig.1).This growth was mainly in the transport and urban infrastructure sectors, with road projects accounting for a large share of the increase, particularly in the number of projects.

FIGURE 1

India has seen PPP projects climb in number and value

PPP projects by year of financial closure, 1995–2006



Source: PricewaterhouseCoopers 2007.

According to the Planning Commission, an approximation of 8%of the Gross Domestic Product (GDP) needs to be invested. This would help in acquiring a prospective economy as stated in the 11th Five Year Plan. So, Fund Investment of over US $494 billion has been conceived of according to the 11th Five Year Plan effective from 2007 to 2012. Hence, the need to implement PPPs in India can be summarised as under:

- It would help to utilize the potential of the private sector in terms of their efficiencies, flexibility and innovativeness in order to provide better infrastructure and services at an optional cost and for better Value for Money (VfM) to the users.
- It can bring in position a transparent, consistent, efficient administrative mechanism, so that the stakeholders can get a level playing field.
- It will also help to get assistance in project development through funding from Government of India for essential infrastructure projects.
- It will also help to make assessment of the Value for Money (VfM) especially for major projects with exception for projects in backward areas or projects with social requirements, which at the first view may not be financially viable on PPP.
- It will help to provide Viability Gap Funding (VGF) where the essential projects are intrinsically unviable.

The investment sectors under consideration are inclusive of communications, electric power, water transport, road, rail, air, water supply as well as irrigation which amounts to about Rs.20,27,169 crores according to 2006-2007 prices. In order to meet such demands various PPPs have been promoted for implementation of infrastructure projects with private participation in India. With the broadest and most sustained efforts for attracting investment, India has attracted more investment commitments to infrastructure projects with private participation in 2006 than any other developing country, which can be exclusively attributed to the success of its reforms in transport and telecommunications.

In this regard the contribution of PPP in different sectors of India can be summarised as under :

(i) PPP in Telecommunication

India has seen a fast and steady growth in the spread and reach of telecommunication in India in the past few years, especially in the year 2007-2008. According to the reports, the targeted growth of 250 million for the year 2007 was already achieved in the month of October 2007.The year recorded the total number of 156.55 millions of telephone connection. Telecom market has grown at about 25 percent p.a. over the last 5 years. Wireless segment base grew at 8 percent p.a. and fixed line at about 10 percent p.a.

(ii) PPP in Transport

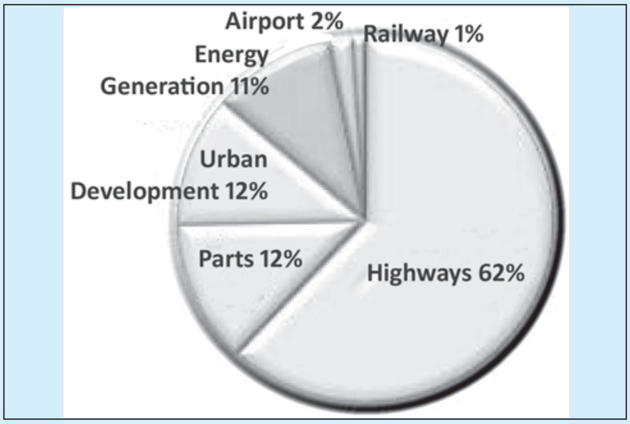
Transport has also become an important sector, attracting 18 percent of investment commitments in 2001-2006 and 34 percent in 2006.The main driver has been India's growing program of Public-private partnerships in transport, which reached financial closure on more than 40 projects in 2006 alone. A large share of the transport projects in India have been public-private partnerships including the expansion of the National Highway System. Activity has also been on the rise outside of roads. Indian Railways has already incorporated this practice by letting out some part of their work to private contractors. The Jawaharlal Nehru National Urban Renewal Mission (JNNURM) was also an initiative to this context. As a result of the surge in 2006, investment commitments to transport projects in India were roughly equal to those in telecommunications.

(iii) PPP in Energy

As on 21st November 2008, 280 projects had been sanctioned to be completed via the PPP route, out of which only 32 projects were in the energy sector. The pie chart below shows the percentage of various sectors in the PPP pie.

PPP percentages in various sectors on comparison of the various sectors according to the cost-outlay of the projects, the energy sector accounts for only $ 3.56 billon, which is just over 13% of the total planned

Figure : 2



Source : Website article, IIM Indore, 2010

outlay for PPP projects. This is mainly due to large investments required in the development of highways and ports. So, PPP in the energy sector in India is in a nascent stage of development, but the number of such projects is obviously growing.

(iv) PPP in Education

The Government of many developed countries have found a range of different ways to leverage the capacity and expertise of the private sector to provide education. It may be in the form of providing for certain provisions or it may also be in the form of financing.

Figure : 3

Financing and provision of services in public-private partnerships Provision

		Private	Public
Finance	**Private**	● Private schools ● Home schooling ● Tutoring	● User fees ● Student loans
		● Vouchers ● Contract schools ● Charter schools ● Contracting out	● Public schools ● Public universities

Source : Adaoted from World Bank 2006.

As published in The Hindu, in the field of education, PPP has been proposed as an important strategy in the 11th Five Year Plan. Among many things, the 11th Plan has proposed the setting up of 6,000 new model schools in secondary education, affiliated to the CBSE. Of these, 2,500 are to be under the PPP model. The intention is to set up these schools in the backward regions and remote areas where quality education is inaccessible.

It can be well judged from the above discussion that the contribution or involvement of PPP in different sectors of India has been varied. Now, putting the Indian scenario aside, let us have a glance at the International scenario of PPP strategy.

International Scenario of PPP

The contemporary thinking on PPPs is reflected in countries like UK, South Africa and Australia. They view PPPs as an alternate form of public procurement whereby public infrastructure and/or public services are procured through the private sector. They treat efficient delivery of services as the key driver of PPP as opposed to merely substituting private investment for public capital expenditure. Efficient delivery of services, in turn, is achieved by substantial transfer of risk to the private sector and remuneration being based on outputs achieved by the private sector. Therefore, private investments and user charges are not the essential defining features of PPP for them. It has also been observed that where delivery of public services involves private sector investment in infrastructure, the most common form of PPP is the Private Finance Initiative.

In South Africa, "public-private partnership" or "PPP" means a commercial transaction between an institution and a private party in terms of which the private party may perform an institutional function on behalf of the institution and / or acquire the use of state property for its own commercial purposes; or may assume substantial financial, technical and operational risks in connection with the performance of the institutional function and/or use of state property and receives a benefit for performing the institutional function or from utilising the state property.

The US Department of Transportation defines PPPs as essentially a form of procurement. They are taken as a single private entity entrusted with all the significant number of functions connected with a project. In transferring responsibility and risk for multiple project elements to the private partner, the project sponsor relaxes its control of the procurement, and the private partner receives the opportunity to earn a financial return commensurate with the risks it has assumed.

In Australia, PPP projects are defined as being where the private sector provides public infrastru-cture and any related services and there is private investment or financing.

Hence, PPPs as a procurement method are part of a broader spectrum of contractual relationships between the public and private sectors to produce an asset and/or deliver a service. They are distinct from early contractor involvement, traditional procurement (design & construct) and other procurement methods.

Public sector organizations in several countries like Brazil, Kenya, Mexico, and South Africa are becoming increasingly reliant on collaboration with the private sector and civil society to strengthen innovative capacity and respond to the needs of the rural poor.

On the other hand, The Federal Government of Nigeria (FGN) has applied for a credit from the International Development Association (IDA) and intends to apply part of the proceeds of this credit to payments for the services of highly qualified consultants for the Outline Business Case (OBC) Transaction Adviser through Public Private Partnership (PPP). The transaction is also under consideration for support by the World Bank Group as part of a broader initiative to support the FGN's Public Private Partnerships Program.

At present, PPP experience is modest in the Middle East and North Africa (MENA). Of the 158 global water sector contracts in the middle and low income countries signed with the private sector between 1989 and 1999, only 3% were in the Middle East and North Africa region, the lowest in all other regions of the world. A comparative study between the International and Indian scenario of PPP implementation at this point can make the situation more clear which is discussed in the following section.

International scenario of PPP Vs. PPP in India

In 2006, India had been able to attract most of the private investment in infrastructure than any other developing country. South Asia has also seen a recent surge in investment commitments to infrastructure projects with private participation. Of total commitments in 1990–2006, almost half came in the last three years of the period. Moreover, South Asia is receiving a greater share of the investment commitments going to all developing countries. While it attracted only 5 percent of the total in 1995–2000, its share grew to 13 percent in 2001–06. In 2006 its share was 19 percent.

Telecommunications accounted for 64 percent of investment commitments to infrastructure projects with private participation in South Asia in 2001–06 which was a big increase over its 39 percent share in 1996–2000. While India has seen the most dramatic growth in private investment in telecommunications, all countries in South Asia have benefited. Afghanistan has received around US$700 million in foreign direct investment in telecommunications since 2003.

Transport has also become an important sector, attracting a lion's share of the investment commitments from 2001 to 2006. Both India and Pakistan have pursued private participation in power distribution. In India, power distribution has been privatized in Delhi and the state of Orissa, and some states, such as Maharashtra, are developing franchise models in the form of lease contracts to bring in the private sector.

Though there has been less progress in the water sector in this respect, some initiatives are being taken now. In India the state government of Karnataka, working through a management contractor, is piloting a scheme to improve water supply in the cities of Belgaum, Gulbaraga, and Hubli-Dharwad.

It has also been found that commitments in India were nearly twice than those of its nearest rival, Brazil, and that of China. Hence, PPP model has already started showing promises and prospects in terms of increased efficiency, greater mobilisation of resources and improved quality of services along with reduced costs. However, it also generates some questions and issues which should also be dealt with.

Constraints of PPP implementation

The problems attached to the implementation of PPP strategy involves:

i. In the present financial scenario sufficient instruments as well as the ability to undertake long-term equity cannot be provided by the market.

ii. It also calls for a conversion and regulation of the existing policies suited to the PPP structure. To achieve the desired results, active participation of various state projects is essential.

iii. With the introduction of IFRS how these ownership arrangements will be dealt with is another area of concern.

iv. Substantial support on the part of the stakeholders in favour of PPP is essential for its full fledged implementation.

v. It was also found by some experts that although maximum part of the risk associated with the project was borne by the public sector, the private investors obtained a higher rate of return than the Government's bond rate.

Concluding Observations

Public Private Partnership is certainly a unique approach in this ever changing world of development. It will help in the effective mobilisation and better utilisation of private resources. Partnership of private enterprise and public administration may definitely enhance the levels of substantive freedom through integration of resources and competencies which, in turn, can amount to greater effectiveness and productivity. It is certainly the case that government debt is cheaper than the debt provided to finance PFI projects, and cheaper still than the overall cost of finance for PFI projects. It ignores the position of taxpayers who play the role of equity in this financing structure. Hence that is really an area of concern but simultaneously it is also true that if government can fund such projects, it will be able to do it at risk free borrowing rate provided its existing borrowing levels were below prudent limits. The constraints on public borrowing suggest, nevertheless, that borrowing levels are not currently too low in most countries. These constraints exist because government borrowing must ultimately be funded by the taxpayer.

With time more detailed ideas about different types of PPPs will come up and as more and more studies will be carried out, it may guide us to form sound factual basis for generalization about the various intricacies of this arrangement of Public Private Partnership. ❐

Retirement Planning for Individuals : Some Aspects & Issues

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Planning is an inherent activity of our life to achieve the desired result/goal. All of us know the saying " Plan your work and work through your plan". Proper planning is required in managing each & every sphere of one line. Naturally, planning is required to manage one's financial activities also. In our country and almost everywhere else the country prepares a plan for economic growth. Companies prepare business plans in advance to achieve desired/ better results during a specific period. Individuals prepare plans for a secure life. Planning is defined as anticipatory decision-making. (Russell L. Ackolf)." ''Planning is the conscious determination of course of action based on decisions on purpose, facts and considered estimates." (Harold Koontz and Cyrill O'Donnell)

Financial planning helps achieve their financial goals, whether it is buying a house, saving for their children, securing family through insurance, investments, managing their debts, and planning for retirement.

The concept of financial planning entails the following spheres :

(i) Make decisions about the money in hand as well as future outflows/inflows as to how it can be utilized to the optimal advantage.

(ii) Identify the needs and study the various alternatives that are available to achieve the needs.

(iii) Ensure that a secure future is confirmed to lead a comfortable life by proper planning and management of funds, inflows/earnings/as receipts etc.

(iv) Providing adequately for expected and well as unexpected outflow of money.

Importance of Financial Planning

(i) Income **:** It helps to efficiently manage & utilize the income earned. Assessing the quantum & time of receipt of income and the expected as well as contingent expenses through a proper financial planning helps in leading a stress-free life financially.

(ii) Cash Flows **:** Financial planning helps in proper cash flows management for the future.

(iii) Capital **:** Once there is an increase in cash flows there is an increase in capital base also. This permits one to venture in other investment avenues/portfolios also.

(iv) Family security **:** With right kind of insurance strategies and financial planning and taking into consideration the inflation effects, one can provide for one's family security.

(v) Maintenance of standard of living **:** The family's standard of living does not get effected & is maintained in the same level.

(vi) Savings **:** It helps in savings for Tax planning, & for the future.

(vii) Assets : Financial planning is important to ensure assets accumulation.

(viii) Financial security and Stability. By viewing each financial decision as part of a whole exercise, the short and the long term effects of one's life goals can be measured. This will help in adopting appropriate strategies and feel more secure and stable financially.

Objective of Financial planning

(i) Protecting oneself and family
(ii) Securing the family in case of inevitable happenings
(iii) Protecting the assets
(iv) Planning for the children
(v) Planning for retirement.

Need for Financial Planning

In simple terms financial planning is essential for achieving :

(i) Wealth accumulation
(ii) Wealth protection
(iii) Wealth distribution.

The process of financial planning

It is very important to start the planning process for the future as soon as one can. The following questions are to be asked :

(i) Where am I? (analysis of present scenario)
(ii) Where do I want to go? (in future)
(iii) How to get there? (the strategy and the road map)

(iv) When should I start? (just now, or when)

As stated above, retirement planning is a very important area of financial planning and this article discusses the importance of retirement planning and the various aspects of it. In earlier days retirement was considered to be relief for many from the monotonous working life and from the drudgery of the office responsibilities. This was because of the joint family system as those who retired did not worry much as to how they will meet their future needs during their retired life. But now—in the nuclear family culture—the problems faced by a person on his/her retirement are as big as starting a new career. To overcome these worries and tension and to secure one's future, retirement planning while in active service is a must.

What is Retirement Planning

Retirement planning is a very important part of one's total financial planning. Retirement planning, in a financial context, refers to the allocation of finances for retirement. This normally means the setting aside of money or other assets to obtain a steady income at retirement. The goal of retirement planning is to achieve financial and emotional independence (sometimes more important) so that the need to be gainfully employed is optional rather than a necessity. Retirement planning is a multidimensional task. Many of us think of it only from the investment point of view. But it is much more beyond that.

For working out an effective retirement plan the following points should first of all be considered :

1. Retirement plans provided by the employer (if employed)
2. Social security measures available (if any)
3. Taxation issues (as applicable)
4. Insurance cover (life/health)
5. Investments
6. Health care requirements
7. Changes in lifestyle.

Retirement plan is a comprehensive plan to be worked out by considering the above factors and accordingly build up funds while still working/ earning and take proper insurance cover for securing the future from unforeseen risks and contingencies.

Importance of Retirement Planning

Though the aim of each financial plan is to lead a more comfortable life, various stages in one's life require different kinds of planning. One such stage in life is the careful planning for the retired life. Achieving what is anticipated in retired life is the most difficult part of financial planning in today's scenario, due to the changes in the economic environment, the advancement in medical facilities, increased longevity that adds to many woes of the person in his retired life. Current statistics indicate average life expectancy at 65. Half of those who reach 55 will die before they reach 70, BUT the other half will live longer. Some may live up to 88 or 90. If we extrapolate the gains in life expectancy in the last 30 years and assume that similar gains will accrue in the next 30 years then we can add at least another five years to the current level of life expectancy. So the million dollar question is "How can it be ensured that one will not outlive his financial resources?" Inflation is another worrying factor. Inflation has a terrible negative impact on one's hard earned savings. As a result of an increasingly aging population, governments may be forced to suspend social security benefits in the future (in fact the government has already done it by introducing the new pension scheme {which is a contributory pension scheme) for those joining Central Govern-ment service on or after 01/01/2004}. The responsi-bility for financing retirement is being transferred to individuals. How much money you'll need to save for retirement will depend on your desired standard of living, your expenses, and your target retirement age. Hence it is a wise decision to plan for the future and lead a worry-free retired life.

Objectives of Retirement Planning

1. Maintaining pre-retirement standard of living
2. Financial Independence
3. Minimizing Taxes
4. Wealth Transfer
5. Improved Standard of living after retirement
6. Non–economic objectives like relocation to the home town, health problems etc.

Core characteristics of a standard retirement plan

(a) Continued maintenance of the present living standards through adequate, regular and scalable (inflation guarded) income support after retirement.

(b) Building up the funds for emergencies like accidents, disability, critical illness, chronic illness, hospitalization expenses etc.

(c) Providing for the expenses such as building construction/purchase, children's education, marriage.

(d) Providing adequate insurance so that it should include death benefits, health insurance, accident protection etc.

(e) Creating adequate fund out of disposable income which has to be managed carefully to earn a good return.

Concepts & models of retirement security plans

The retirement plans are based on certain concepts and different models are devised with these underlying concepts.

Concepts of retirement plans

***(a) Defined benefit plans* :** In this plan the benefit is stated as a percentage of the pre-retirement pay and is generally based on years of service which is defined in advance and payable for the remaining life of the employee.

(b) Defined contribution plans **:** Here a particular money is set aside every month/year either by the employee alone or by the employer alone or by both the employee and the employer.

(c) Hybrid Plan (ie DC + DB) plans **:** This is a combination of both the defined benefit and defined contribution plan and is very rare in nature.

Types of Retirement Plans

(a) State Retirement Security Plans **:** The Central and State Governments run several social security programs providing lump-sum pension benefits to their employees on retirement from service. Even for those who are non–Government employees there are different types of welfare schemes providing for pension.

(b) Occupational Retirement Security Plans **:** several legislations like EPF & MP Act, 1952, Payment of Gratuity Act, 1972, etc. have been enacted making it mandatory for the employers to contribute to such statutory schemes and also to maintain such accounts separately for audit.

(c) Self-funded Retirememnt Security Plans **:** There are several optional schemes like the PPF and other schemes of LICI and private insurers which would provide the desired benefits at the end of the selected term. The Government also allows tax relief/benefits in many of these schemes so that people are encouraged to save/invest in these schemes.

Setting aside of funds during the earning span of an individual and channeling the funds in a secure and remunerative manner with a view to achieving the present and future objectives is an important aspect of retirement planning as also in the case of a comprehensive financial planning. It makes sense to go for a balanced portfolio that suit your retirement planning objectives.

Strategic Approach to Retirement Planning

The word strategy refers to planned efforts being implemented to reach the desired objective. Therefore, the activities are to be prioritized and directions are to be defined with reference to the goal set with reference to retirement planning.

Strategic approach to retirement planning will include :

- Analysis of the various retirement benefits available from various sources such as the State, the employer, etc. to arrive at the additional/ differential needs to be met.
- Dependency needs of self and other family members requiring continuous inflow. Anticipation of possible changes to the employment conditions and the family circumstances which may require transformation.
- Decision on the savings pattern out of the present income to build the required corpus for the visualized and prioritized needs.
- Analysis of risk elements arising during the process.

Building flexibility for reshuffling of investment portfolio is very important in case a need arises. Beginning to save for retirement at an early age is one of the biggest factors in ensuring success. The power of compounding also works with taxes. Asset Allocation is a key factor in building any successful portfolio. The assets you choose will depend on your risk tolerance and investment time horizon. Diversification will help you to reduce the amount of risk in your portfolio, increasing the chances that you'll reach your retirement savings goals. Diversification can be summed in one phrase: Don't put all of your eggs in one basket. It is really that simple. Regardless of what type of investments you choose to buy—whether they are stocks, bonds, or real estate—don't bet your retirement on one single asset.

As you contribute savings to your retirement fund month after month, year after year, the last thing you want is for all your savings to be wiped out by the next Enron. And if there's anything we have learned from the Enrons and Worldcoms of the world, it is that even the best financial analysts can't predict each and every financial problem.

Given this reality, you absolutely must diversify your investments. Doing so isn't really that difficult, and the financial markets have developed many ways to achieve diversification, even if you have only a small amount of money to invest. Everyone saves for retirement and try to build up a financial portfolio as per their risk profile. However, sometimes we may ignore or overlook certain asset class which might make a critical difference in your retirement portfolio.

Each type of investment has distinct advantages and disadvantages, and because each tends to behave differently in different types of economic mood swings. Your retirement portfolio should be diversified and well-balanced to last for you and your dependants' lifetime. We may have various financial assets viz. debenture shares, gold, bonds, life insurance policies, annuities, mutual funds/SIPs', fixed deposit, company deposits, PPF, monthly income schemes, National Savings Certificates, etc. in your portfolio. In addition to this it may also contain tangible assets that can take the form of gold, silver jewellery, precious stones like diamonds, real estate, painting, etc. We may also have some insurance to cover risk.

But, how can we be sure that your portfolio has all the components adequate enough to cover all your retirement needs? Let's review various factors that we should consider while building your Retirement Portfolio.

Firstly, understanding your attitude towards taking investment risk is very important. Normally we come across two types of investors:

1. *Risk takers* : These people are willing to take high risk to get high return on their investments. They have high-risk tolerance. Their portfolios consist of equities, growth schemes of mutual funds, unit linked plans, variable annuities, real estate and long term deposits. The proportion of risky assets in the portfolio is much higher as compared to safe assets.

2. *Risk averse* : Generally, a large number of people are risk averse. They want to optimize the rate of return on their portfolio with minimum risk. They invest in diversified assets to minimize the risk of their portfolio. Their portfolio of assets varies from low return-low risk fixed deposits to low risk-low return shares. But a smaller proportion is devoted to equities and growth schemes of mutual funds and a large proportion is devoted to low and medium risk assets. Their investments include short-term deposits, fixed/ variable annuities, government bonds, mutual fund units or monthly income schemes.

Both these investment strategies are good, however, we should also consider the age and time horizon. Remember, the primary objective of retirement planning is to generate regular income after retirement.

Let us assume that the person gets a regular income of a fixed amount. This amount may be sufficient to start with. But inflation can result in increased financial needs over a period of time and the regular fixed income may become insufficient to meet the needs after a period of time. Hence, our portfolio should beat the inflation so as to generate a comfortable stream of income throughout our life. This is only possible if you take balanced approach and review and adjust your portfolio frequently.

How to determine the right portfolio mix?

We can follow a general rule of thumb (i.e. 100 minus our Age) to determine the allocation to risky assets in our financial portfolio. So, when the retirement is long way off, it is desirable to take greater risk to accumulate wealth but as a person reaches the retirement date he/she should change his attitude towards risk and adopt a more risk-averse investment strategy.

Rule of Thumb : Determining ones portfolio mix for retirement

Age at	Fixed Rate Investments (ie having minimal risk)	Market Linked Investments (ie having larger risk component)
20-30	20-30%	70-80%
30-40	30-40%	60-70%
40-50	40-50%	50-60%
50-60	50-60%	40-50%
60-70	60-70%	30-40%
70+	80+%	Less than 20%

For example, when we are in our 20s we can have up to 80% of our investments in Equities, Equity Mutual Funds or Unit Linked investments, and 20% in Fixed Deposits, Bonds, NSC, etc. As we grow older, allocation to fixed rate investments avenues needs to go up and market linked investments should be reduced gradually.

Failure to reduce the market linked investments as we grow older can cause severe consequences. Imagine, what will be the return on our portfolio if the share market collapses? When such a situation arises, the portfolio return reduces to zero or may even sometimes become negative i.e. principal loss, and then we will have to wait till the markets rises again. If the situation does not turn around in a short period, it will be very difficult for us to maintain our standard of living post-retirement. Never ignore the risk tolerance. While it is important to take greater risk early in the accumulation phase, bring down the risk exposure as we approach closer to your retirement to preserve and nurture accumulated wealth. One may also have a look into the NPS, ie invest a portion in the NPS (the so much hyped New Pension Scheme of the Central Government).

Liquidity of our Retirement Portfolio

After risk and return, portfolio liquidity is the important factor, which one should think of while planning for post-retirement. Liquidity refers to the ability to buy or sell an asset without inordinately influencing the price at which the transaction is consummated.

Often, to preserve tangible assets such as gold, silver jewellery, precious stones like diamonds, real estate, painting, etc. maintenance cost by way of insurance and storage would need to be incurred. During the post-retirement period, if this maintenance cost is draining one's retirement income, one might have to liquidate them and convert them into income-producing assets. Assets like real estate, other than self-occupied house, may be systematically liquidated over a short period of time to make the investments liquid. Alternatively, you may consider renting out such real estate to cover maintenance costs and generate some additional income stream.

Reviewing Life Insurance policies

No matter how much one has saved or invested over the years, sudden eventualities, such as death or critical illness, always tend to affect one's family financially apart from the huge emotional loss. Though one of the main objectives of taking insurance is to provide financial cushion to one's family for times when one is not around, but it's not the only objective. Insurance covers the risk of a person dying too soon or live too long. Insurance helps us to build a corpus for one's self; provides with comfortable retired life and even takes care of lengthy medical bills.

Even after one retires, one may need life insurance for many reasons. One important reason is to make sure your spouse will have enough income, if you pass away first. Some pensions pay reduced amounts or even nothing at all, to surviving spouses. Life insurance can provide the funds to help offset that possible loss of income.

You need insurance coverage and take additional cover to safeguard your family. When you retire, even though your original purpose for acquiring life insurance may have changed, as your children have grown up and your home mortgage is paid, you may still have a need for life insurance. Do not drop your life insurance without first consulting a financial planner or insurance expert. Once you lose your insurance, it may be difficult or even impossible to get insured again.

Medical Emergency Cover

With age comes health problems. With health problems come medical expenditure which may give a great shock to post-retirement income. Failure here could even lead to liquidate one's assets in order to meet such unforeseen expenses, which may adversely impact the total retirement plan at one go.

The retirement portfolio should contain insurance of your health i.e. Mediclaim, Personal Accident Insurance, Hospitalization policy, Critical illness policy, etc. so as to reduce the expenditure in the event of any medical emergency/contingency after retirement and to absorb the shock . It is worthwhile to take these medical covers as soon as possible as they tend to get costlier with your age and the premium amount goes on increasing if we don't invest early.

It is true that medical insurance provides compensation for the medical expenses incurred, but there are several limitations. Depending only on medical insurance may not be enough to take care of all medical expenses. Therefore, individuals must aim at building a separate medical corpus to supplement the medical insurance and cater to post-retirement medical treatment.

Conclusion

Retirement is one of the most significant events in one life. From the personal as well as the financial point of view, understanding the requirements of retired life is an extensive procedure that involves sensible retirement planning. All it requires is a proper plan, an accomplishable savings and investing pattern and a long-term commitment and constant review and monitoring at regular intervals. Ultimately, the best asset allocation for your retirement portfolio will depend on your own circumstances and tolerance for risk. Knowing your retirement needs and planning for it while you are still earning can take away lots of unpleasant surprises when you retire. Make a household budget to ensure that you are contributing as much as possible to saving for retirement and aim to reduce unnecessary expenses.

With some care and discipline you can build a retirement portfolio suitable for a comfortable and peaceful retirement. ❐

For Attention of Members

"CD of List of Members, 2011 will be made available for sale to the Members at a price of Rs. 100/- per copy. Members interested to procure the same may remit Rs.100/- by Demand Draft drawn in favour of 'ICWA of India', payable at Kolkata, addressed to the Secretary, ICWAI."

Mails to Editor

We would be too happy to publish your valued opinion/views/comments on subjects having a bearing on the profession or on matters of interest to members. If you have anything to share, please rush in your mails to :

rnj.rajendra@icwai.org.

MINISTRY OF FINANCE
(Department of Revenue)
(CENTRAL BOARD OF DIRECT TAXES)
NOTIFICATION
New Delhi, the 1st December, 2011
INCOME-TAX

S.O.2724(E).—In exercise of the powers conferred by section 295 of the Income-tax Act, 1961 (43 of 1961), the Central Board of Direct Taxes hereby makes the following rules further to amend the Income-tax Rules, 1962, namely :

1. (1) These rules may be called the Income-tax (9th Amendment) Rules, 2011.
   (2) They shall come into force on the 1st day of April, 2012.
2. In the Income-tax Rules, 1962 (hereafter referred to as the ''said rules''), after rule 40B, the following rule shall be inserted, namely :

''Special provisions for payment of tax by certain limited liability partnerships

40BA. The report of an accountant which is required to be furnished by the assessee under sub-section (3) of section 115JC, shall be in form No. 29C.''

3. In Appendix-II of the said rules, after Form No. 29B, the following form shall be inserted, namely :

''Form No. 29C

[See rule 40BA]

Report under section 115JC of the Income-tax Act, 1961 for computing adjusted total income and alternate minimum tax of the limited liability partnership

1. I/We* have examined the accounts and records of ______________________________
   (name and address of the assessee with PAN)
   engaged in business of ______________________________ in order to arrive at the adjusted
   (nature of business)
   total income and the alternate minimum tax for the year ended on the 31st March.
2. (a) I/We* certify that the adjusted total income and the alternate minimum tax has been computed in accordance with the provisions of Chapter XII-BA of the Income-tax Act. the tax payable under section 115JC of the Income-tax Act in respect of the assessment year ______________ is Rs.______________, which has been determined on the basis of the details in Annexure A to this Form.
3. In my/our* opinion and to the best of my/our* knowledge and according to the explanations given to me/us* the particulars given in the Annexure A are true and correct.

Date ____________

____
Signed
Accountant

Annexure A

[See paragraph 2]

Details relating to the computation of Adjusted Total Income and Alternate Minimum Tax for the purposes of section 115JC of the Income-tax Act, 1961

1. Name of the assessee				
2. Address of assessee				
3. Permanent Account Number				
4. Assessment year				
5. Total income of the assessee computed in the manner laid down in the Income-tax Act before giving effect to Chapter XII BA of the Income-tax Act.				
6. Income-tax payable on total income referred to in Column 5 above.				
7. The amount of deduction claimed under any section included in Chapter VI-A under the heading ''C''—Deductions in respect of certain incomes''	Sl. No.	Section under which deduction claimed	Amount of deduction claimed	

8. The amount of deduction claimed under section 10AA	
9. Adjusted total income of the assessee (5+7+8)	
10. Alternate minimum tax (18.5% of adjusted total income computed in column 9 above)''	

[Notification No. 60/2011/F. No. 133/70/2011-SO(TPL)]

Rajesh Kumar Bhoot, Director (Tax Policy and Legislation)

Note : The principal rules were published vide notification No. S. O. 969(E), dated the 26th March 1962 and last amended vide notification No. S.O. 2429(E), dated the 24th October, 2011.

Ref. No. : G/82(108)/12/2011 December 08, 2011

NOTIFICATION

In pursuance of Regulation 146 of the Cost and Works Accountants Regulations, 1959, the Council of the Institute of Cost and Works Accountants of India, by virtue of power conferred therein, has constituted the following Chapter of Cost Accountants :

Vapi — Daman — Silvassa Chapter of Cost Accountants
C/o. J. P. Enterprises,
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Opp. Azad Weigh Bridge,
N.H. No. 8,
Vapi-396 191, Gujarat.

Signed
Kaushik Banerjee
(Director & Joint Secretary)

Continued from Page 94

accounted for either as goods or capital assets. If treated as capital assets, it would appropriate to be taxed under the head Capital Gains, and claim for concessional rate of taxation if the holding period of credit exceeds thirty six months immediately preceding the date of transfer. As per Section 55(2) of the Income Tax Act the total sales consideration of the self generated CERs would be liable to Capital Gains Tax as there is no cost of acquisition for self generated CER credits. The rate of tax whether short-term or long-term depends on the period of holding.

In case the enterprise acquires CERs which are to be traded in the ordinary course of business, i.e., the enterprise holds the asset as 'available for sale'. According to AS -2 (i.e Valuation of Inventories)these should be accounted for as 'Inventory'. Para. 8 of the AS -26 (Intangible Assets) states that if any item under this Standard does not meet the definition of intangible assets, then the expenditure to acquire it or generate it is internally recognized as an expense when it is incurred. In that case the tax treatment of receipts from sale of CERs would be treated as Business income if CERs are treated as goods.

In the light of India undergoing amendment from regulatory perspective where corporate India is going to face lots of changes in various regime like the new Company Bill, proposed Direct Tax Code, Convergence to IFRS, Goods and Services Tax, etc., the treatment, accounting and reporting of carbon credits and their implications in tax areas have to commented accordingly.

Conclusion

A consensus is required at the National and International level to arrive at a common opinion regarding various unsettled practical accounting issues on carbon credit. There is debate and discussions going on across the world over how to account for carbon credits. Carbon accounting and its disclosure has become an important issue for the Indian companies. Now the government and the Accounting Regulator of the country, the ICAI, will need to unveil a carbon accounting standard which will be internationally compatible and build trust with stakeholders from investors to community to encourage India Inc. 'Go Green' initiative. ❒

Admission to Membership

The Institute of Cost and Works Accountants of India Advancement to Fellowhip

Date of Advancement : 7th December 2011

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The Institute of Cost and Works Accountants of India Admission to Associateship on the Basis of MoU with IMA, USA

Date of Admission : 5th December 2011

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M/31796
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M/31797
Shri Purushottam Kumar Choudhary
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A G M - Finance,
M/s. Vedanta Aluminium Limited, At / Po. Lanjigarh,
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M/31798
Shri Indranil Chaudhuri
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M/31799
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M/31800
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M/31801
Shri Anil John
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M/31802
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Patna 800 014

M/31803
Shri Sarada Prasanna Kar
MCOM, AICWA
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At - Gopinathpur,
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Kendrapara 754 213

M/31804
Shri Biswabandhu Mohapatra
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Bhopal 462 021

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M/31810
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M/31812
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Cuttack 753 014

M/31813
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M/31814
Shri Sujay Singha Roy
AICWA
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M/31815
Shri Prateek Sharma
AICWA
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M/31816
Shri Balram Sharma
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Delhi 110 006

M/31817
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Bhadrakali 712 232

M/31818
Ms. Bhaswati Sarangi
MCOM,AICWA
GA - 50 Niladri Vihar Near Budha Park
Chandrase-kharpur,
Bhubaneswar 751 021

M/31819
Shri Nipun Sagarbhai Shah
BCOM, AICWA
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C/o. Sagar Electric Centre,
Ghogha Gate,
Bhavnagar 364 001

M/31820
Shri Santosh Singh
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Ghaziabad 201 005

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Maramangalattupatti,
Mohan Nagar Post,
Salem 636 030

M/31822
Shri Vijay Kumar Sahu
AICWA
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Agra Road,
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Jaipur 302 002

M/31823
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M/31825
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M/31827
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M/31828
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Asansol 713 304

M/31829
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BCOM, AICWA
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HCL - Post,
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M/31832
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BCOM, AICWA
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Vijayawada 520 003

M/31834
Shri Pareshkumar Kantilal Solanki
AICWA
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Junagadh 362 266

M/31835
Shri Padarthi Venkateswarlu
BCOM, AICWA
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M/31837
Shri Murugesh C
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M/31838
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CORRIGENDUM

All concerned are requested to read Para 11(f) Managing Committee) of the Cost Accountants' Chapter (amendment) Bye Laws, 2010, as has been published in The Cost and Works Accountants Act, Rules & Regulations (Updated upto 8th March, 2011) under Appendix 7 and in the monthly Journal of the Institute — The Management Accountant, Vol. 45 No. 9 (September, 2011), as follow :

"(f) There shall also be included in this Committee one Member of the Regional Council and/or Central Council operating in the area so long as such Member (s) is/are locally available and is willing to act and who shall be nominated annually for the purpose by the Regional Council concerned or the Central Council as the case may be and such nominated member(s) shall be an ex-officio member of the Managing Committee."

Sd/-

(S. R. Saha)

Secretary

RCs & Chapter Coord, Comm.

Kolkata, the 2nd November 2011

Notification

18-CWR (1615)/2011 : It is hereby notified in pursuance of Regulation 18 of the Cost and Works Accountants Regulations, 1959, that in exercise of the powers conferred by Regulation 17 of the said Regulations, the Council of The Institute of Cost and Works Accountants of India has restored to the Register of Members, the name of :

1. Shri Brij Kishore Tambi, B.Com., LLB, AICWA, 225, Satyanarayan Bhawan, 7/1, Khan Abdul Jaffar Road, Near Venus Apartments, Worli, Mumbai 700 018, (Membership No. 2327) with effect from 2nd November 2011.

Sd/-
(M. Gopalakrishan)
President

Guidelines for Payment of Membership Fee at reduced rate

Eligibility :

A member of the Institute may obtain approval for payment of membership fee at a reduced rate by making an application to the Secretary in plain paper declaring that :

1. His age is 60 years or above.
2. He is not engaged in any gainful employment or not in practice.

Evidence :

The member concerned is required to produce evidence to the satisfaction of the Institute of his age and retirement.

Fees :

Upon approval from the Institute to pay membership fee at reduced rate, the member concerned shall pay a reduced annual membership fee as under :
Associate Member : One fourth of annual membership fee, i.e. Rs. 125/-.
Fellow Member : One fourth of annual membership fee, i.e. Rs. 250/-.

Members **who have attained 60 years of age or above** may send a **signed application** in plain paper **to the Secretary, The Institute of Cost and Works Accountants of India, 12, Sudder Street, Kolkata – 700 016** with the following declarations in terms of Regulation 7(4) of the Cost and Works Accountants Regulations, 1959 to the effect that they :

1. Have attained the age of 60 years or above;
2. Are not engaged in any gainful employment or not in practice.

The following clarifications are given in this context :

1. If a member is engaged in any occupation during a part of a financial year (i.e. 1st April of a year to 31st March of the next year) by way of employment, practice or any other manner, he will be required to pay full amount of membership fee pertaining to that financial year.
2. A member desirous of paying membership fee at reduced rate with retrospective effect shall be permitted to do so subject to fulfillment of other conditions in terms of Regulation 7(4) of the Cost and Works Accountants Regulations, 1959. If the name of a member is removed from the Register of Members for non-payment of fees but otherwise fulfils the conditions in terms of Regulation 7(4) of the Cost and Works Accountants Regulations, 1959, he shall also be permitted to pay membership fee at reduced rate with retrospective effect, but will have to pay additional fee of Rs. 500/- for restoration and submit appropriate form in terms of Regulation 17 of the Cost and Works Accountants Regulations, 1959.
3. A member who has obtained the benefit of paying membership fee at reduced rate in accordance with Regulation 7(4) of the CWA Regulations, 1959 as amended may be permitted to revert back to the status of regular membership only after paying the differential amount between the regular fees (depending on whether the member is an Associate or Fellow during the relevant period) and the reduced fees for the period during which the said member was paying fees at reduced rates.

For Attention of Members & Applicants

The following application forms have been revised by the Council :

1. Form of Application for Admission as Associate/Fellow Member.
2. Form of Application for the Issue or Renewal of a Certificate of Practice.
3. Form of Application for Particulars of Offices and Firms.
4. Form of Application for Restoration to Membership of The Institute of Cost And Works Accountants of India.

The members and applicants concerned are requested to visit our website www.icwai.org and download the aforesaid forms from the link: http://www.members.icwai.org/members/members-forms.asp.

MANAGEMENT DEVELOPMENT PROGRAMMES 2011-12

THE INSTITUTE OF COST AND WORKS ACCOUNTANTS OF INDIA

(Set up under an Act of Parliament)

Management Development Programmes 2011-12

Dates	Topic	Venue	Status & Fee (Rs.)	
			Non-Residential	Residential
	January, 2012			
03 - 06	Internal Auditing for Effective Management Control	Mahabaleshwar		33,000
03 - 06	Recent Trends in Financial Management including IFRS and new Schedule VI of Companies Act.	Mahabaleshwar		33,000
5th	Proposed DTC	Hyderabad	4,000*	
6th	Proposed GST	Hyderabad	4,000*	
17 - 20	Strategic Financial Management	Agra		33,000
17 - 20	Advance Tax, TDS & Tax Planning	Agra		33,000
	February, 2012			
09 - 10	Valuation Management	New Delhi	15,000	
21 - 24	Corporate Tax–Planning, Compliance and Management	Bhubaneshwar		33,000
21 - 24	Strategic Cost Management	Bhubaneshwar		33,000
23 - 24	Financial Risk Management	New Delhi	15,000	

Note : * Rs. 7000/- if any nomination is for both the programmes together.

For Non-Residential Programmes — **Fee includes course fee, course material, lunch, tea/ coffee etc.**

For Residential Programmes — **Fee includes course fee, course material, accommodation on Single Room basis, all meals and visits. The charges for accompanying spouse would be Rs. 1000/- (Rupees one thousand only) towards accommodation, all meals and visits for all the three days excluding International programmes.**

CEP Credit Hours — [For 1 Day Prog. – 4 Hours] [For 2 Days Prog. – 6 Hours] [For 3 Days more Prog. – 10 Hours]

For Kind Information

- For outstation programmes the participants are requested to get the confirmation from the Institute before proceeding to the venue. If any participant reaches the venue for the postponed/cancelled programme without getting the confirmation from the Institute, the Institute will not be held responsible for the same. The cancellation/postponement of the programme, if any, will be intimated to only those organizations whose nominations have been received by the Institute on time.
- For residential programmes normally the first day check-in at 12.00 noon and last day check-out at 12.00 noon.
- For International programmes, Faculty will be from the respective countries apart from the Indian Faculty.
- The Payment of the Fee is to be made by Cheque / DD in favour of 'The Institute of Cost and Works Accountants of India' payable at New Delhi.
- Details for ECS Payment: State Bank of India (60321), Andhra Association Building, Institu-tional Area, Lodhi Road, New Delhi -110003 Current A/c No.: 30678404793 MICRCode : 110002493 IFSCCode : SBIN0060321

For further details and Registration please contact :

Shri D. Chandru, Director (CEP)

The Institute of Cost and Works Accountants of India

ICWAI Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110 003

Phones : 011-24622156-57-58, 24618645

(D) 011-24643273 (M) 09818601200

Tele-Fax : 011-43583642/24622156/24618645

E-mail : mdp@icwai.org, cep.chandru@icwai.org Website : www.mdp.icwai.org, www.icwai.org

President

Shri M. Gopalakrishnan

Request for Comments

The Institute is in the process of development of XBRL Taxonomy for Cost Audit Report and Compliance Report. The Institute has approved the release of initial draft of ICWAI XBRL Taxonomy for public comments.

The proposed taxonomy may be modified in the light of comments/suggestions received.

Please submit your views/comments/suggestions on the XBRL Taxonomy, preferably by email, latest by January 31, 2012.

Comments should be addressed to :
Joint Director (IT)
The Institute of Cost and Works Accountants of India,
ICWAI Bhawan
3rd Floor
3 Lodi Road, Institutional Area
New Delhi 110 003

Email responses should be sent to : it@icwai.org

Best Cost Management Practices

Our esteemed readers are perhaps aware that "ICWAI 8th National award for Excellence in Cost Management – 2010" was organized at Vigyan Bhawan, New Delhi on 18th July 2011 to recognize the qualitative cost management practices adopted by the industry. The award has successfully propagated the potentials of the tools and techniques of cost and management accountancy in the challenging global economic environment which is fiercely competitive and ever changing.

ICWAI 8th National Awards for Excellence in Cost Management 2010

(Awards Recipients)

Category I :	**Private-Manufacturing : Organisation (Large)**	
	1. LG Electronics India Pvt. Ltd.	First
	2 HV Axles Limited	Second
	3 Amara Raja Batteries Ltd.	Third
Category II :	**Private-Manufacturing : Organisation (Medium)**	
	4 WABCO - TVS (India) Ltd.	First
	5 PME Power Solutions (India) Ltd.	Second
Category III :	**Private-Manufacturing : Units (Large)**	
	6 Shree Cement Ltd. Unit : Beawar	First
Category IV :	**Private-Manufacturing : Units (Medium)**	
	7 Greaves Cotton Limited, Light Engines Unit-II	First
Category V :	**Private-Manufacturing : (Small)**	
	8 Jenburkt Pharmaceuticals Ltd	First
Category VI :	**Public Manufacturing : Organisation (Large)**	
	9 National Fertilizers Limited	First
	10 Steel Authority of India Ltd.	Second
Category VII :	**Public Manufacturing : Organisation (Medium)**	
	11 Gujarat Alkalies and Chemicals Ltd.	First
Category VIII :	**Public-Manufacturing : Unit (Large)**	
	12 Bharat Heavy Electricals Limited, Unit : Tiruchirappalli	First
	13 Oil and Natural Gas Corporation Limited, Unit : Ankleshwar	Second
	14 Bharat Heavy Electricals Limited Unit : Boiler Auxiliaries Plant, Ranipet	Third
Category IX :	**Public-Manufacturing : Unit (Medium)**	
	15 GAIL (India) Ltd, Unit : KG Basin, Rajahmundry	First
	16 GAIL (India) Ltd, Unit : Vizag-Secundrabad	Second
	17 Bharat Heavy Electricals Limited, Unit : Jhansi	Third
Category X :	**Private-Service Sector (Large)**	
	18 ICICI Prudential Life Insurance Company Limited	First
	19 BSES Yamuna Power Limited	Second
Caterogy XI :	**Private-Service Sector (Medium)**	
	20 Yamuna Power and Infrastructure Limited	First
	21 B. E. Billimoria & Co. Limited	Second
Category XII :	**Public-Service Sector (Large)**	
	22 Engineers India Limited	First
	23 Paschim Gujarat Vij Company Ltd.	Second
Category XIII :	**Public-Service Sector (Medium)**	
	24 RITES Limited	First
	25 Transmission Corporation of Andhra Pradesh Limited	Second

Award Winning Companies

In the Private Manufacturing Units (Medium Category), **PME Power Solutions (India)** bagged the second prize. The management mantra today is 'conquer your costs, before they conquer you'; the company believes in this philosophy. The result suggests the firm has better insight for benchmarking and budgeting with ABC cost system. The firms are successful in capturing accurate cost and profit information from their Activity Based Costing (ABC) cost systems for value chain analysis. Both the ABC and traditional cost system, they have clarity of reasons for effective implementations of planning and budgeting process in their organization.

Following six practices are common to this company that routinely realizes annual cost savings:

- Center-led supply management organization,
- Strategic sourcing process,
- Talent supply management professionals,
- Strict processes for determining real cost savings,
- Executive compensation linked to cost reduction goals,
- Active investment in supply management technology.

In the Public-Service Sector (Large Category), **Paschim Gujarat Vij Company Ltd.** has won the second prize. To ensure transparent system of accounting and to survive in a global recession PGVCL has adopted the path for the application of cost control techniques with the creative and innovative approach. In the era of economic crisis, to minimize cost and control the cost of services provided, attempt is made by PGVCL to apply the costing techniques with practical approach by taking into consideration the nature of the service provided. Moreover, the focus and thrust of the company is on the application of innovative techniques to achieve creativity along with the cost control.

In the Public Manufacturing Unit (Large Category), **Oil and Natural Gas Corporation Limited.,** Unit-Ankleshwar bagged the second prize. Cost Management in ONGC poses huge challenge where it has to integrate with the growth strategy of the company and its business opportunities. And also in terms of generating reports to management where cost management has to meaningfully integrate with growth strategy and business opportunities. ONGC's Cost Management vision aims at " exceeding the wealth flow expectations of the stakeholders through excellence in Strategic Cost Management, enabled by a continuous emphasis on cost control and cost reduction through sound cost accounting methods and practices, better capacity utilization, efficient working capital management, quality management & environment protection and by leveraging advantages in Research & Development; leading to better decision making and optimal utilization of resources".

Obituary

We deeply mourn the sudden demise of our beloved Sri Soumitra Som who passed away on 3rd December 2011. He was the past chairman of Howrah Chapter of ICWAI. We extend our heartfelt condolence to Sri Som's family and friends.

May his soul rest in eternal peace.

NIRC

Seminar on Generally Accepted Cost Accounting Principles

The Northern India Regional Council of the ICWAI organized a seminar on Generally Accepted Cost Accounting Principles (GACAP) on 24th November 2011 at Scope Complex, New Delhi. The programme was inaugurated by lighting of the lamp by Shri M. Gopalakrishnan, President, ICWAI along with Shri Kunal Banerjee, Past President, ICWAI, Shri S.A. Murliprasad, Director, Sam Consultancy Services (P) Ltd. and Member, CASB, Shri B.L. Jain, Chairman, NIRC, Shri Vijender Sharma, Secretary, NIRC, and RCM's Shri Ravi Kr. Sahni, and Shri S.K. Bhatt. Shri Vijender Sharma, Secretary, NIRC, coordinated the seminar and Shri B.L. Jain, Chairman, NIRC, welcomed eminent personalities and participants.

Shri S.A. Murliprasad, keynote speaker of the seminar, in his speech explained the Generally accepted Cost Accounting Principles. The members were invited to raise their queries. The speakers clarified and replied to their satisfaction the various queries raised by members.

Shri Ravi Sahni proposed vote of thanks to the participants of the seminar which was followed by dinner.

SIRC

Institute – Industry Education Programme

In order to equip the man-power resources of industries, a model 'Institute–Industry Education Programme' (IIEP) was organized at Wipro BPO, Ltd. at Sholinganallur, Chennai on 21st November 2011. The employees of Finance/ Accounts of Wipro took active part in the programme. Shri M. Gopalakrishnan, President, ICWAI, and Shri B.R. Prabhakar, Chairman, SIRC, inaugurated the programme in the presence of senior executives of Wipro. In the first Batch, 16 employees had enrolled for the programme which was slated to commence from 21st December 2011. Similar models will be worked out for all the industries and corporates who are willing to equip their work force with accounting and finance skills. A MoU, in this regard, was signed by Shri B.R. Prabhakar, Chairman, SIRC, and Shri R. Ramaswamy, General Manager (Finance) of Wipro BPO, in presence of Shri M. Gopalakrishnan, President, ICWAI.

Shri M. Gopalakrishnan, President, ICWAI, who was the Chief Guest, in his address advised the employees to utilise this opportunity to upgrade their skill levels in order to be globally competitive. Shri P. Raju Iyer, Secretary, SIRC, while proposing vote of thanks, appreciated the initiative of the employees who had come forward to equip themselves with higher level knowledge and skills with a view to improving their work performance.

Meet on Service Tax Audit

A Professional Development Meet was organized on 9th December, 2011 at SIRC Premises on the topic 'Service Tax Audit'. Ms V. Geetha, Director (Cost), Central Excise Department, Chennai, was the Resource Person for the programme who explained the nitty-gritty of Service Tax Audit through a lucid Power Point Presentation. During the presentation, she elaborated on 'classification on taxable services', 'valuation of taxable services for charging service tax' and the rules for Service Tax Audit which were recently amended. A good number of members took active part in this meet.

EIRC

Members' meet at Rourkela Chapter

A Members' meet was held in the campus of Rourkela Chapter of Cost Accountants on 8th December 2011. Shri T.C.A. Srinivasa Prasad, Council Member, ICWAI, chaired the meeting and apprised the audience about the current developments of the Institute. Members deliberated on various current topics and offered numerous suggestions for the improvement of 'The Management Accountant' Journal.

Certificate course on IFRS

The Continuing Education Programme (CEP) Directorate of the Institute organised a five-day specialised Certificate Course on "International Financial Reporting Standards" (IFRS) during 2-6 November 2011 at the Golden Park, Kolkata. The Course was well attended by senior executives of Public and Private sector organizations. Shri T.C.A. Srinivasa Prasad, Council Member, inaugurated the Course and delivered the inaugural address. He stressed the need and importance of learning IFRS which is being implemented in India soon. The technical sessions of the Course were handled by Shri Govindarajan and Shri R G Rajan who were specialised speakers on IFRS. The Course was very well appreciated by all the participants and their organisations.

WIRC

Seminar on New Mechanism of Cost Audit & Cost Records

Pune Chapter of Cost Accountants organized a seminar on 23rd November 2011 on 'New Mechanism of Cost Audit & Cost Records' at Pune. Shri R.T. Goyal CFO & Company Secretary of Premium Transmission Ltd., was the Chief Guest for the Seminar. Dignitaries on the dais were Shri R.T. Goyal, Shri Dhananjay Joshi, Former President, ICWAI, Shri Vijay P. Joshi, Chairman, WIRC, Council Members Shri Sanjay Bhargave and Shri Amit Apte, Shri Neeraj Joshi, Treasurer, WIRC, and Shri Pramod Dube, Chairman, Pune Chapter. Shri Dube welcomed the dignitaries, speakers of the seminar and the delegates and felicitated the Chief Guest by offering a bouquet and memento. Dignitaries on the dais inaugurated the Seminar by lighting the traditional lamp. Shri Vijay P. Joshi, Chairman, WIRC, thanked Pune Chapter for conducting the second seminar within three months on this important subject. He added, this will help the members of the profession in practice as well as in employment to update themselves on the changes that are taking place in the development of the profession of Cost & Management Accountancy.

In his inaugural address, Chief Guest Shri R.T. Goyal observed that the applicability of New Mechanism on Cost Audit & Cost Records for almost all companies is a golden opportunity to the Management Accounting Profession. It is a landmark improvement in the evolution of the profession in view of the changes taking place in the economic world.