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the MANAGEMENT ACCOUNTANT

THE JOURNAL FOR CMAs

OCTOBER 2014 VOL 49 NO. 10 ₹100

URBAN DEVELOPMENT AND ECONOMIC GROWTH

Though urbanisation is an integral part of the economic and social transformation of an economy, India faces formidable challenges in managing the rapid growth of cities

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- **Alok Sharma,** Member Parliament for Reading West, House of Commons, UK
- **Professor Sir Andrew Likierman,** Dean, London Business School, UK
- **Vindi Banga,** Sr. Partner, Clayton Dubilier UK & Rice & Ex Chairman Hindustan Unilever.
- **Jessica Fries,** Director, IIRC Board and Executive Chair, A4S, UK
- **Helen Brand OBE,** Chief Executive, Association of Chartered Certified Accountants (ACCA)
- **Dr. A S Durga Prasad, President, The Institute of Cost Accountants of India**
- **Maxine Mawhinney,** BBC TV News Anchor, UK
- **Justin Keeble,** Managing Director, Accenture Strategy, Accenture Sustainability Services, UK
- **Dr. Santrupt Misra,** CEO, Carbon Black Business and Director, Group HR, Aditya Birla Group
- **Anthony Harbinson, FCCA,** Chairman, Consultative Committee of Accountancy Bodies (CCAB)
- **Carina Wessels,** President, Corporate Secretaries International Association
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The Institute of Cost Accountants of India

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA (erstwhile The Institute of Cost and Works Accountants of India) was first established in 1944 as a registered company under the Companies Act with the objects of promoting, regulating and developing the profession of Cost Accountancy.

On 28 May 1959, the Institute was established by a special Act of Parliament, namely, the Cost and Works Accountants Act 1959 as a statutory professional body for the regulation of the profession of cost and management accountancy.

It has since been continuously contributing to the growth of the industrial and economic climate of the country.

The Institute of Cost Accountants of India is the only recognised statutory professional organisation and licensing body in India specialising exclusively in Cost and Management Accountancy.

MISSION STATEMENT

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

VISION STATEMENT

The Institute of Cost Accountants of India would be the preferred source of resources and professionals for the financial leadership of enterprises globally.

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

Behind every successful business decision, there is always a CMA

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FROM THE EDITOR'S DESK

Greetings!

Urbanization is amongst the most important contributors to the economy of the nation as they both are inextricably linked. To strengthen urban development the Government has launched many reform-linked urban investment programmes in India.

In India out of the total population of 1210.2 million as on 1st March, 2011, about 377.1 million are in urban areas. The net addition of population in urban areas over the last decade is 91.0 million. The proportion of urban population has increased from 19.9% in the year 1971 to 31.16% in the year 2001. There has been an increase 3.35 percentage points in the proportion of urban population in the country during 2001-2011.

There are different schools of thought regarding Rural-Urban continuum. Some sociologists have used the concept of rural-urban continuum to stress the idea that there are no sharp breaking points to be found in the degree or quantity of rural urban differences. Other sociologists treat rural-urban as dichotomous categories and they found difference between two at various levels including occupational differences, environmental differences, differences in the sizes of communities, differences in the density of population, differences in social mobility and direction of migration, differences in social stratification and in the systems of social interaction. A third view regarding rural and urban communities comes from Pocock and Hudson (1978) who believe that, both village and city are the elements of the same civilization and hence neither rural-urban dichotomy nor continuum is meaningful.

The indicators in the process of socio-economic development of urban areas of a state can broadly be placed into four categories. These are: (a) economic, (b) employment and poverty (c) infrastructure development, and (d) socio-demographic development. The economic indicators can further be classified into macro indicators such as per capita income, per capita FDI, etc. Employment and poverty dimension comprise WPR, unemployment rates, and poverty ratios taken separately for rural and urban areas. The infrastructural development indicators pertain to the facilities that promote the development and growth of other sectors, such as roads per 100 sq. km, railways per 100 sq. km, etc. The socio-demographic indicators constitute sex ratio in rural and urban areas, and indicators of social development like literacy in rural and urban areas, schooling facility per thousand persons, hospitals and dispensaries per thousand persons, etc.

This issue presents a good number of articles on the cover story theme 'Urban Development and Economic Growth' by distinguished experts and authors and interview from industry stalwart. We look forward to constructive feedback from our readers on the articles and overall development of the journal under this section. Please send your mails at editor@icmai.in. We thank all the contributors to this important issue and hope our readers enjoy the articles.

PROPER COST ACCOUNTING WILL HELP TO CONTROL COSTS IN URBAN INFRA PROJECTS

CMA Dr A S Durga Prasad
President, The Institute of Cost Accountants of India

My Dear Professional Colleagues,

Urban Development, Infrastructure and CMA Profession

Time is the costliest and irreplaceable resource that impacts every one's life. Wealth creation of the nation depends upon the useful time spent by every individual in all walks of life in adding value to his or her personal life as well as the entity they serve. The infrastructure in the country has a direct link to the useful time spent by the population. The irreplaceable resource of time can be saved by a good infrastructure that reduces travel time, moves goods faster, and makes resources such as water and electricity available at the right time and quantity apart from others.

The Government of India has rightly linked the rapid economic growth of country on its infrastructure development. The Government has begun to place increasing stress on physical infrastructure such as Energy, Railways, Roads, Ports, Irrigation, Water supply and Urban trunk infrastructure. The goals of inclusive and high level of economic growth can be achieved only if this infrastructure deficit is overcome. Infrastructure development would also help in creating a better investment climate in India. This connects the rural and semi urban population to the main stream economy and enables them to participate and benefit by the growth story of India. To develop infrastructure, there is a continuing need to revisit the issues of budgetary allocation, tariff policy, fiscal incentives, private sector participation and public private partnerships to ensure that required infrastructure development takes place.Recognizing the almost limitless infrastructure requirements of the country, the Government has called for US$ 1 Trillion in infrastructure spending in five years through 2017.

Cost and time overrun is a common phenomenon in urban Infrastructure Projects. Effective monitoring of projects, in terms of time and cost, helps to avoid cost and time overrun in completion of industrial projects and thus benefits the industry immensely. For example many highways projects are on Public Private Partnership mode and tariff fixation has become one of the sensitive issues asit requires a transparent tariff fixation mechanism based on costs and reasonable return. An active monitoring of costs right from the Initial tariff fixation till the time full recovery is made, will enable the reduction of toll recovery period and thereby reducing the toll charges to the benefit of the general public. A proper cost accounting system will enable reporting of the cost and profitability of each of the project on periodic basis leading to cost control. Since the Infrastructure sector has been included in the purview of Cost Rules, the Institute is in process of developing Guidance Notes/ Technical papers for the sector to help the members.

The Prime Minister in his Independence Day message sought the helping hand of professionals to voluntarily devote a part of the time in educating aspiring youth of the country in their chosen vocation for knowledge creation. I appeal to the willing CMAs to be part of this nation building exercise by making VidyaDhaan (gift) and GyanDhaan to the CMA aspirants in your organization or locality and making them add to their VidyaDhan

(wealth) and GyanDhan. The Institute and its arms will facilitate this process.

Proposed new annual tax return by the Government

The Ministry of Finance, Government of India, plans to introduce a new annual tax return that will include information from income tax audit report including TDS and Income Tax Returns and cost audit report, as it looks to draw information from multiple sources to clamp down on evasion of central excise and service tax. It is a welcome move initiated by the Government of India, which would be a giant leap towards a unified tax regime, to supplement the roll out of Goods & Service Tax in India and the proposed Direct Tax Code. It gives me immense pleasure to express our professional gratitude to the Ministry of Finance, Government of India, for accepting our suggestions made through the Pre-Budget Memorandum/s on Union Budget - to devise/design tax return forms aimed to draw relevant information from multiple sources including cost audit report - to clamp down on evasion of central excise and service tax. The CMA profession has a distinct role in maintaining governance system in the country's economy, ensuring transparency, proper disclosure and social security for consumers at large.

The role of Cost and Management Accountants had always been to analyse transactions and establish the correlation of cost and income, on the basis of cost plus approach, which leads to proper assessment of income instead of analyzing cost through a regression analysis of income. The effective application of Generally Accepted Cost Accounting Principles (GACAP) and the Cost Accounting Standards (CAS) issued by the Institute shall help to ensure proper disclosure and transparency, hence is much needed for proper assessment, plug revenue leakages and augment the revenue of the Government. The information made available from Cost Audit Reports and Cost Accounting Records facilitates in fair adjudication process - under tax laws in India.

I am confident that the mandatory compliance and recommendation for documentation of Cost Audit Reports and reference to Cost Accounting Records, which are in conformity with Cost Accounting Standards issued by the Institute, shall strengthen the mechanism to administer and assess income for levy of tax. All the relevant information available through the Cost Accounting Records can be effectively used by the Revenue Authorities to identify evasion, plug leakage thereby augmenting revenue for the exchequer. We look forward to extend our professional expertise towards establishing and implementing a uniform tax administration for the benefit of its stakeholders.

Update on Cost Rules 2014

The Expert Committee of MCA, constituted to examine the issues relating to Companies (Cost Records and Audit) Rules, 2014, met on 17th September 2014 at New Delhi and I along with the Vice-President made a presentation on behalf of the Institute before the committee on the Genesis of cost records and cost audit; Observations on the structure & contents of the Companies (cost records and audit) Rules, 2014; and International practices. The response of the members of the Expert Committee on the presentation was very positive. The members of the Committee have raised certain queries during the discussion and the Institute's response on those issues. We will respond them in due course. Institute has already submitted its suggestions and justifications on the Companies (Cost Records and Audit) Rules 2014 for the consideration of the Expert Committee on 4th September 2014. We are also continuously pursuing the matter of postponement of Cost Rules with the MCA officials and I hope that the issue will be resolved very soon.

Telugunadu CMA Convention

I attended the Telugunadu CMA Convention organized by the Visakhapatnam & Ukkunagaram Chapters in association with Godavari, Vijayawada, Nellore and Hyderabad chapters of the Institute on the theme "Opportunities & Challenges for Industrial Growth in 'Successor States' - Role of CMA Professional" at Visakhapatnam on 19th& 20th September 2014. Vishakhapatnam Chapter has completed glorious 50 years of its existence this year. The contribution of the Chapter for the fifty years in the growth of the Institute and profession is immense and I hope the chapter will continue to scale new heights of success and growth.

Corporate Cost Management Week

The Institute celebrated the 'Corporate Cost Management Week' during 8th to 13th September 2014 on the theme 'Business Sustainability and Cost management'. The objective of 'Corporate Cost Management Week' was to spread the message that Cost Management is essential irrespective of whether the company is operating in a competitive environment or not. Even when a Company does not operate in a competitive environment Cost Management enhances the productivity of the scarce resources and thus, improves the GDP of the country.The celebrations covered six major cities i.e. Hyderabad, Kolkata, Mumbai, New Delhi, Bangalore, Chennai respectively. I am happy to inform that our Chapters also actively initiated the celebrations and organised program in their respective jurisdiction.

To apprise all the members about the activities / initiatives undertaken by the Departments/ Directorates of the Institute, I now present a brief summary of the activities.

Advanced Studies Directorate

The Webinars in all the Diploma Programs are being conducted as per schedule. The Department will commence the second batch for all the programs and the last date for applying for Diploma in IS audit and Control has been extended till September 30th 2014 and for Diploma in Management Accountancy is 10th October 2014 without late fee and 20thOctober 2014 with late fee.

CPD Department

Apart from coordinating the Corporate Cost management Week, during the month a webinar was organized for members on 'Valuation of Services'. You may find the earlier webinars on the website of the Institute under Archive. During the month, our Regional Councils and Chapters actively organized many programs, seminars and discussions for the members on the topics of professional relevance such as on Penalties under Companies Act 2013, Financing Options for Small & Medium Enterprises, ERP as a Cost Management Tool, Health Care and Service Sector, The Companies Act 2013 - Raising Corporate Governance Standards, Contemporary issues on Service Tax Laws, Corporate Debt Restructuring, Practical Aspects of Excise and Service Tax, Risk Insurance, Profitability and Cost Management, Anti-Dumping Duty and Role of CMA, Indirect Taxes (VAT & Service Tax), Strategic Marketing Planning, and so on.

ICWAI MARF Program

The program on ‘Contracts Management, Negotiation and Major Aspects of Procurement’ was organized for Nepal Electricity Authority at New Delhi, Goa and Mumbai during 24 August – 02 September, 2014 which was attended by Senior and Middle level officers. Another program on ‘Finance for Non-Finance Personnel’ was organised for GAIL (India) Limited at CMA Bhawan, New Delhi during 11-13 September, 2014, which was attended by Middle and Junior Level officers. The program on ‘Contracts and their Management’ was organized during 16-19 September, 2014 at Alleppey (Kerala), which was attended by officers from different organizations.The program on ‘Overview of Companies Act, 2013 & Finance Act, 2014’ was organized for Container Corporation of India Limited at CMA Bhawan, New Delhi during 18-19 September, 2014 which was attended by Senior and Middle level officers.

International Affairs Department:

The next SAFA Events are scheduled to be held at New Delhi during 9-11th October 2014. Representatives from the Institute will be attending the meetings.

Membership Department

The Members’ Facilities & Services Committee, realizing the tremendous potential that technology can have in making things easier and simpler for members, had prioritized the use of technology in helping members to make use of the same for their various purposes. The launching of ‘E-Services’ for members is a step in this direction. The latest addition to the list has been the ‘Members Search’ facility where in any member can view the details of a member by keying in the member’s name. Members are requested to make increasing use of e-services which are not only hassle free but also saves valuable time and efforts.

Professional Development Directorate

The Institute has launched a dedicated separate “Professional Development Portal” on 18th September 2014. The portal provides information on professional front, which are required by our CMA fraternity. It provides daily updates, latest professional information, opportunities available for CMAs to apply against the tenders floated by the companies for internal audit work, cost audit and other services. It also provides for download of Guidance Notes by the members free of cost. I urge members to visit the Professional Development Portal and offer valuable suggestions for improvement in terms of content and information that may be useful for the CMA fraternity.

I wish prosperity and happiness to members, students and their family on the occasion of Gandhi Jayanti, Dassehra, Bakrid, Laxmi Puja, Deepawali, Kali Puja and Chhath Puja.

With warm regards,

(CMA Dr A S Durga Prasad)
1st October 2014

Corporate Cost Management Week

8th to 13th September 2014

The Institute celebrated the 'Corporate Cost Management Week' during 8th to 13th September 2014 on the theme 'Business Sustainability and Cost management'.

The objective of 'Corporate Cost Management Week' was to spread the message that Cost Management is essential irrespective of whether the company is operating in a competitive environment or not. Even when a Company does not operate in a competitive environment Cost Management enhances the productivity of the scarce resources and thus, improves the GDP of the country.

Cost management is a philosophy, an attitude, and a set of techniques to create more value at lower cost. In this fast space competitive scenario, Cost Management information increases customer value.

Technical session deliberations covered in the programme were:

I. **Total Cost Management** - Total Cost Management is a company-wide systematic and structured approach, which provides a holistic framework to control, reduce and eliminate costs, throughout the value chain. This process of managing the financial outcome of activities encompasses all operations, internal and external.

The investment in any sector depends upon its sustainability and growth opportunities and ability to sustain depends upon Cost Management and competitiveness of the organisation.

II. **Augmenting TCM through Cost Audit** - TCM is a systematic approach to managing cost through life cycle of any organization. Cost Audit can be effectively dove tailed for improving effectiveness of total cost management program in an organization. The Cost Audit is a tool for assisting management in improving efficiency of operations, rationalizing costs, improving profitability and enhancing stakeholder's value. Investment in any sector depends on sustainability and growth opportunities.

Companies Act, 2013 aims to strengthen corporate governance by empowering the board of directors. The board of directors need an assurance from an independent agency about the integrity of cost and revenue information that is placed before it.

Cost Audit can be effective tool for improving effectiveness of Total Cost Management model in an organisation

III. **Activity Based Costing for Service Industry** - Service companies have had problems coming up with decent cost accounting systems because they have been modelling them after systems found in manufacturing firms. The problems with this are that manufacturing firms place emphasis on valuing inventory, which service firms do not have, and use standard costs calculated for direct materials and labour. Nonetheless, service firms do need to know accurate costs for product profitability analysis.

They need to find out:

- Which products are profitable
- Which products should be emphasized
- Trends in product profitability over time
- Product costs as a basis for setting prices

Costing in service sector is forward looking and Activity Based Costing is a tool for such analysis.

Activity Based Costing is emerging in Service Sector and will continue to prove useful and become prevalent.

IV. **Value Added to Value Management** - Role of CMAs - Recent years have seen a plethora of new management approaches for improving organizational performance: total quality management, flat organizations, empowerment, continuous improvement, reengineering, kaizen, team building, and so on. Many have succeeded—but quite a few have failed. Often the cause of failure was performance targets that were unclear or not properly aligned with the ultimate goal of creating value. Value-based management (VBM) tackles this problem head on. It provides a precise and unambiguous metric—value upon which an entire organization can be built. Value is created only when companies invest capital at returns that exceed the cost of that capital.

CMAs provide strategic information and analytical support to the management of an organization for creation, preservation and enhancement of the stakeholder's value.

The Corporate Cost Management week celebrations covered six major cities i.e. Hyderabad, Kolkata, Mumbai, New Delhi, Bangalore, Chennai respectively.

Our Chapters also actively initiated the celebrations and organised programme in their respective cities. Overwhelming participation of members at Madurai, Mettur-Salem, Erode, Dhanbad-Sindri, Tiruchirapalli, Surat–South Gujrat, Kottayam, Puducherry, Vishakhapatnam, Trivandrum, Bhubaneswar and Cochin.

The active response from our members during the week; around thousand members attended the sessions and initiative was well appreciated.

ICAI-CMA SNAPSHOTS

1. CMA Dr A S Durga Prasad, President of the Institute lighting the lamp on the commencement of the 'Corporate Cost Management Week' in Hyderabad on September 9, 2014. Others seen are CMA DLS Sreshti, Council Member, CMA Ch. Venkateswarlu, Vice Chairman SIRC, CMA Radha Krishna Komaragiri, Chairman, Hyderabad chapter, and CMA S Nagendra Kumar, Secretary, Hyderabad chapter

2. CMA Dr A.S Durga Prasad, President being felicitated in Bhubaneswar Chapter. Also seen are Mr. Pradip Kumar Amat, Hon'ble Cabinet Minister, Department of Finance & PE, Govt. of Odisha, CMA Srikanta Kumar Sahoo, Chairman, EIRC and CMA Damodar Mishra, Secretary of the chapter

3. Seminar on Companies Act, 2013, organized by Guwahati Chapter of Cost Accountants. On the dais are, from left Mr C Kharkhong, Director MeECL, CMA S K Saha, Chairman Guwahati chapter, Mr. Anurag Goel, Commissioner and Secretary, Information Technology & Power, Govt. of Assam, CMA Dr A S Durga Prasad, President of the Institute and Mr. S K Baruah, Director (Finance), Numligarh Refinery Ltd.

4. CMA TCA Srinivasa Prasad, Council Member addressing the house at the seminar on Companies Act 2013, organized by Guwahati chapter. From the left are Mr C Kharkhong, Director MeECL, CMA S K Saha, Chairman of Guwahati chapter, Mr Anurag Goel, Commissioner and Secretary of Information Technology & Power, Govt. of Assam, CMA Dr A S Durga Prasad, President, Mr S K Baruah, Director (Finance), Numligarh Refinery Ltd and Mr Atish Banerjee, Director, National Power Training Institute

ICAI-CMA SNAPSHOTS

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5. The President, CMA Dr A S Durga Prasad, Dr U D Choubey Director General, SCOPE and CMA Dr S R Bhargave, Council Member, at the program on 'Service Tax – Compliances' organized by the Institute in academic collaboration with SCOPE on 28 August 2014 at New Delhi

6. CMA Dr A S Durga Prasad, the President being felicitated by present Chairman of Asansol Chapter CMA Sudip Dasgupta, along with past Chairmen of the Chapter CMA Subrata Banerjee and CMA Amal Hom Roy, in the presence of Council Member CMA Aruna Vilas Soman

7. Meeting with Hon'ble Union Minister for Urban Development, Shri M Venkaiah Naidu on the ONAM festival day September 6, 2014, in Chennai, by CMA H Padmanabhan, Chairman SIRC and CMA V Kalyanaraman, past president of the Institute and SAFA.

8. The Secretary (Acting), CMA Kaushik Banerjee, hoisting the CMA flag on September 8, 2014, at the Institute Headquarters in Kolkata

Glimpses of "Corporate Cost Management Week" 8th to 13th September, 2014

Glimpses of "Corporate Cost Management Week" 8th to 13th September, 2014

REACH YOUR CUSTOMERS THROUGH THE MANAGEMENT ACCOUNTANT

The Institute of Cost Accountants of India

The Institute of Cost Accountants of India (ICAI) is a statutory body set up under an Act of Parliament in 1959. The Institute, as a part of its obligation, regulates the profession of Cost and Management Accountancy. The Institute also believes that cost competitiveness, cost management, efficient use of resources and structured approach to cost accounting are the key drivers of the profession. ICAI is headquartered in Kolkata. It has four Regional Councils in Kolkata, Delhi, Mumbai and Chennai and 96 Chapters in important cities in India and nine Overseas Centres. The Ministry of Corporate Affairs, Government of India, has administrative control of the Institute.

the MANAGEMENT ACCOUNTANT

The Institute publishes ***The Management Accountant*** Journal for Cost and Management Accountants (CMAs). The magazine, which touched its 49th year of publication in 2014, has insightful and informative articles on current developments and changes in the global and national financial scenarios. The wide circulation and inputs from academicians, researchers and industry stalwarts are the keys to the success of this journal.

Circulation and content

- The magazine reaches about 40,000 members, students, non-members, Government departments and organisations, corporates, educational institutions and libraries
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PAPERS INVITED

Cover stories on the topics given below are invited for *The Management Accountant* for the four forthcoming months.

Issue months	Themes	Subtopics
November 2014	Agriculture and the Indian Economy	• Pricing of agricultural products and its marketing • Cost of input, storage, distribution, R&D and its analysis • Drop out problem of agricultural land and labour • Food security • Application of cost management in agriculture • Accounting of agricultural activities • Agriculture and sustainable economic growth
December 2014	Strengthening Human Resource – Building the Nation	• Human Resource Accounting • HRIS for strategic decision making • Ethical HR and Governance for sustainable growth • Cross-cultural issues in HRM • Industrial relations and challenges in the new era • Compensation and benefits for effective talent management • Performance management for strategic goal setting • Case Studies
January 2015	NPA Management and Corporate Debt Restructuring (CDR)	• Cost of Risk & Risk Based Internal Audit • SARFAESI Act & Vigilance • Risk mitigation techniques and models • Basel norms and stressed assets • CDR / ARC / DRTs and redressal structure • Cost implication of NPAs • Role of Independent Evaluation Committee (IEC) • Credit appraisal & its Audit
February 2015	Cost Competitiveness through Leadership	• Economic development through effective leadership • Strategic cost management • Leadership and organizational competitiveness • Essentials of cost leadership • Differential leadership strategy • Related case studies

The above subtopics are only suggestive and hence the articles may not be limited to them only. Articles on the above topics are invited from readers and authors along with scanned copies of their recent passport-size photograph and scanned copy of declaration stating that the articles are their own original and have not been considered for publication anywhere else. Please send your articles by e-mail to editor@icmai.in latest by the 1st of the previous month.

Directorate of Research & Journal
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ECONOMY UPDATES

Central Excise

- **CENVAT Credit (Eighth Amendment) Rules, 2004** - CBEC seeks to extend CENVAT credit benefit on the basis of Service Tax Certificate for transportation of goods (STTG Certificate) issued by the Indian Railways vide *notification no. 26/2014-CENT dated: 27-08-2014.*

- **Amendment in Cenvat Credit Rules, 2004** – As per *notification no. 25/2014 - Central Excise (N.T.) dt. 25-08-2014*, where the Central Government, having regard to the extent of misuse of CENVAT credit, nature and type of such misuse, is of the opinion that in order to prevent the misuse of the provisions of CENVAT credit as specified in these rules, it is necessary in the public interest to provide for certain measures including restrictions on a manufacturer, first stage and second stage dealer, provider of taxable service or an exporter, specify nature of restrictions including restrictions on utilization of CENVAT credit and suspension of registration in case of a dealer and type of facilities to be withdrawn and procedure for issue of such order by an officer authorized by the Board.

- **Benefit of CENVAT credit** - Assessee manufacturers of vehicles and were purchasing the various forgings from the market - Forgings were being sent by them to their job workers M/s Eicher Engineering Components Ltd., in terms of the provisions of Rule 4(5) (a) - Assessee has again taken credit of the duty paid by M/s Eicher Engineering Components Ltd - Held that:- admittedly M/s Eicher Engineering Components Ltd. had "paid" the duty and M/s V.E. Commercial Vehicles Ltd. has availed the duty paid by M/s Eicher Engineering Components Ltd. It is well settled law that the credit of duty "paid and not payable" is available. The entire situation is revenue neutral. Tribunal in the case of Bharat Heavy Electricals Ltd. vs. CCE & ST, Meerut-I vide [2014 (3) TMI 203 - CESTAT NEW DELHI] has dealt with an identical situation and has held in favour of the assessee. By following the same, we dispense with the condition of pre-deposit of dues against the appellants and allow both the stay applications - Stay granted.
Source: M/s VE Commercial Vehicles Ltd and M/s Eicher Engineering Components Ltd versus CCE & ST, Indore [2014 (8) TMI 571 - CESTAT NEW DELHI - Central Excise]

- **Denial of CENVAT Credit** - Whether the appellants are entitled to avail the CENVAT credit of duty paid on welding electrodes and gases used for repair and maintenance of plant and machinery - Held that: - duty paid on the items used for repairs and maintenance would be available as CENVAT credit - Following decision of Samruddhi Cement Ltd. Vs. C.C.E., Indore [2012 (9) TMI 885 - CESTAT NEW DELHI] - Decided in favour of assessee.
Source: M/s The Oudh Sugar Mills Ltd versus Commissioner of Central Excise, Lucknow [2014 (8) TMI 570 - CESTAT New Delhi - Central Excise]

Customs

Safeguard duty - Based on Notification no. 03/2014 – Cus. (SG), dt 28-08-14 provisional safeguard duty has been levied on imports of Saturated Fatty Alcohols.

Tariff Value in respect of some of the imported goods – CBEC amends principal notification no. 36/2001-Customs (N.T.), dated the 3rd August, 2001 vide Notification No. 73/2014 – Customs (N.T.) dated: 29 August, 2014 and fixes the tariff values specified in column (4) of the Table below, in respect of the imported goods of the description specified in the corresponding entry in column (3) of the said Table and falling under Chapter or heading or sub-heading No. of the First Schedule to the Customs Tariff Act, 1975 (51 of 1975).

Sl. No	Chapter/ heading/ sub - heading/ tariff item	Description of goods	Tariff value US $ (Per Metric Tonne)
(1)	(2)	(3)	(4)
1	1511 10 00	Crude Palm Oil	743
2	1511 90 10	RBD Palm Oil	752
3	1511 90 90	Others – Palm Oil	748
4	1511 10 00	Crude Palmolein	771
5	1511 90 20	RBD Palmolein	774
6	1511 90 90	Others – Palmolein	773
7	1507 10 00	Crude Soyabean Oil	890
8	7404 00 22	Brass Scrap (all grades)	4077
9	1207 91 00	Poppy seeds	3429

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Sl. No	Chapter/ heading/ Sub-heading / tariff item	Description of goods	Tariff value US $ (Per Metric Tonne)
1	71 or 98	Gold, in any form, in respect of which the benefit of entries at serial number 321 and 323 of the Notification No. 12/2012 - Customs dated 17.03.2012 is availed	420 per 10 grams
2	71 or 98	Silver, in any form, in respect of which the benefit of entries at serial number 322 and 324 of the Notification No. 12/2012 - Customs dated 17.03.2012 is availed	645 per kg

Sl. No	Chapter/ heading/ Sub - heading/ tariff item	Description of goods	Tariff value US $ (Per Metric Tonne)
1	080280	Areca nuts	2017

Service Tax

- **Amendment in Service Tax Rules, 1994**

In the Service Tax Rules, 1994, after rule 10, the following rules have been inserted vide Notification No. 19 /2014 - Service Tax dated: 25th August, 2014:

Rule 11 - Determination of rate of exchange – The rate of exchange for determination of value of taxable service shall be the applicable rate of exchange as per the generally accepted accounting principles on the date when point of taxation arises in terms of the Point of Taxation Rules, 2011.

Rule 12 - Power to issue supplementary instructions – The Board or the Chief Commissioners of Central Excise may issue instructions for any incidental or supplemental matters for the implementation of the provisions of the Act."

These rules shall come into force from 1st day of October, 2014

- **Works contract services - valuation - composition scheme - applicability of Rule 2A of the Service Tax (Determination of Value) Rules, 2006** - Held that: - In the contracts there was a specific mention as to the value of the goods supplied. The quantum of consideration in respect of service is also mentioned. The case of the Revenue is that the applicants are paying service tax on the estimate value mentioned in the contracts. It was found that before the adjudicating authority the applicants produced the actual data regarding the value of goods transferred in execution of the contract and the VAT paid in respect of all the contracts.

The actual value of property of goods transferred in execution of the contract is the value adopted for purposes of payment of VAT and shall be taken as value of property in goods transferred in execution of the said work contracts for determination of value of service portion in the execution of the contract. In the present case, data in respect of actual value of property in goods transferred in execution of the work is available and produced before the adjudicating authority and the same has not been taken into consideration while confirming the demand - matter requires reconsideration - matter remitted back - decided in favor of assessee.

Source: Schindler (I) Pvt Ltd. Versus Commissioner of Service Tax, Mumbai-Ii [2014 (9) TMI 216 - CESTAT Mumbai - Service Tax]

- **Classification of service - information technology service - Intellectual Property Rights Services - trading activity or service activity - purchase and sale of third party's standardized software products - sale of in-house developed customized software - sale of hardware - refund of services tax for services provided in SEZ**

Held that:- The fact of purchase and resale of software and payment of VAT/ ST on the software also point to the fact that the transaction entailed 'sale of goods' and not supply of services. Similarly, sale of hardware would be clearly a trading activity. Therefore, this is also clearly outside the purview of information technology software service. As regards the sale of in-house developed software, we have seen the product literature furnished by the appellant. From the product literature for the software developed in-house, it is seen that they are standard software, which are sold to a particular class of buyers, such as banks, insurance companies, mutual funds and various other financial service providers, under a trade/brand name. Therefore, they appear to be goods, which can be marketed or sold. Inasmuch as the appellant has discharged the sales tax/ VAT liability on such software, there is merit in the contention of the appellant that liability to pay service tax does not arise on a sale transaction. - prima facie case is in favor of assessee - stay granted.

Refund for services provided to the SEZ unit - Held that:- It is clear that exemption has to be claimed in the

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manner prescribed and the manner has been provided vide Notification No. 9/2009-ST dated 3-4-2009. In the present case it is an admitted fact that the said procedure has not been followed. Therefore, prima facie in the absence of compliance to the procedure prescribed, the appellant cannot claim exemption from levy of service tax. - assessee directed to make pre-deposit of Rs 1.40 crore for services provided in SEZ - stay granted partly.
Source: 3I INFOTECH LTD versus COMMISSIONER OF SERVICE TAX [2014 (8) TMI 590 - CESTAT MUMBAI - Service Tax]

SEBI

- **Information regarding Grievance Redressal Mechanism -** SEBI has been taking various measures to create awareness among investors about grievance mechanisms available to them through workshops as well as through print and electronic media.

As an additional measure and for information of all investors who deal/ invest/ transact in the market, it has now been decided that offices of all Stock Brokers (its registered Sub-Broker(s) and Authorized Person(s)) and Depository Participants shall prominently display basic information, as provided in Annexure-A, about the grievance redressal mechanism available to investors. For other intermediaries, the information as provided in Annexure-B shall be prominently displayed in their offices.

The intermediaries shall take necessary steps to implement the provisions of this circular and ensure its full compliance in respect of all its offices on or before 60 days from the date of this circular.
Source: Circular no. CIR/MIRSD/3/2014 dated: August 28, 2014

- **Formats for disclosure under Regulation 30 of SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011(Regulations)**

The format for the reports/disclosures to be filed under Regulation 30 of the Regulations has been prescribed by SEBI vide Circular No. SEBI/CFD/DCR/SAST/ 1/2011/09/23 dated September 23, 2011. The format for continual disclosures under regulation 30(1) and 30(2) of the Regulations has been revised vide Circular CIR/CFD/POLICYCELL/5/2014 dated: August 25, 2014.

For details please visit: www.sebi.gov.in

Banking

- **External Commercial Borrowings (ECB) in Indian Rupees**

With a view to provide greater flexibility for structuring of ECB arrangements, it has been decided by RBI that recognized non-resident ECB lenders may extend loans in Indian Rupees subject to the following conditions:
a. The lender should mobilize Indian Rupees through swaps undertaken with an Authorized Dealer Category-I bank in India.

b. The ECB contract should comply with all other conditions applicable to the automatic and approval routes as the case may be.

c. The all-in-cost of such ECBs should be commensurate with prevailing market conditions.

For the purpose of executing swaps for ECBs denominated in Indian Rupees, the recognized ECB lender, if it desires, may set up a representative office in India following the prescribed laid down process.
Source: Circular No.25 RBI/2014-15/207, dated: September 3, 2014

- **Modification in guidelines for transfer of Assets and Liabilities of Urban Cooperative Banks to Commercial Banks**

With a view to ensuring that the process of consolidation by way of non-disruptive exit of weak entities by a scheme of transfer of assets and liabilities of UCBs to commercial banks is undertaken in a transparent manner without affecting the financial health of the acquiring entities and the banking system as a whole, it has been decided to modify the existing guidelines for transfer of assets and liabilities of UCBs to commercial banks by stipulating the following conditions:

a) The acquiring bank should not incur any loss arising out of the said merger/ transfer of assets and liabilities.

b) Big depositors holding deposits in excess of Rs. 1.00 lakh each will be required to sacrifice in proportion to the deposit erosion of the target bank.
Source: RBI/2014-15/206 (UBD. CO. BPD. PCB. Cir. No. 12 /09.19.900/2014-15) dated: September 3, 2014

- **Simplification of KYC Norms - Creating Public Awareness**

The Reserve Bank of India, in the recent times, has been taking several measures to simplify KYC requirements to help the common man open bank accounts. It is, however, observed that despite such measures the general public is still facing problems in opening a bank account as these measures have not been given adequate publicity and the common man still lacks awareness on the basics of opening a bank account.

In order to address these issues, create public awareness and give wide publicity

to these KYC simplification measures, Reserve Bank has issued a Press Release together with a poster and a booklet comprising a few common questions relating to Know Your Customer (KYC) norms for opening bank accounts. In this regard, RRBs and StCBs/CCBs are also advised to initiate steps to create awareness and give wider publicity by circulating the poster and booklet amongst all their branches. Branches are also advised to make available the booklet to the customers / general public and display the poster prominently in their premises.
Source: RBI/2014-15/220 (RPCD.RRB. RCB.AML.No.2797/07.51.018/2014-15) dated: September 9, 2014

- **Basel III Liquidity Returns**

'Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio (LCR), Liquidity Risk Monitoring Tools and LCR Disclosure Standards' vide Circular No. RBI/2012-13/635/DBOD. BP.BC.No.120/21.04.098 /2013-14 dated June 9, 2014, has prescribed certain liquidity returns to be submitted by banks to monitor their resilience to potential liquidity disruptions under stress scenarios. These returns, covering global operations are effective from September 2014, are listed below:

Sr. No.	Name of the Basel III Liquidity Return (BLR)	Frequency of Submission	Submission Deadline
1	Statement on Liquidity Coverage Ratio (LCR)-BLR-1	Monthly	within 15 days
2	Statement of Funding Concentration - BLR-2	Monthly	within 15 days
3	Statement of Available Un-encumbered Assets - BLR-3	Quarterly	within 21 days
4	LCR by Significant Currency - BLR-4	Monthly	within 15 days
5	Statement on Other Information on Liquidity - BLR-5	Monthly	within 15 days

The above returns are required to be submitted in XBRL platform. Submission of XBRL returns assume generation of required instance documents (XML files) from source data. It is therefore emphasized that banks may take necessary steps to fine tune their systems, controls and MIS to generate the required instance documents from own data source. However, as a temporary measure, excel based installers will also be made available for compilation and generation of instance documents for banks which are not ready to create instance documents on their own. Separate communication will be issued as and when the XBRL site and installers are ready for submitting the returns.
Source: RBI/2014-15/213 (DBS. No.OSMOS.2915/33.01.001/2014-15) dated: September 5, 2014

- **Risk Management and Inter**

Bank Dealings: Hedging Facilities for Foreign Portfolio Investors (FPIs)

FPIs are permitted to hedge the coupon receipts arising out of their investments in debt securities in India falling due during the following twelve months subject to the condition that the hedge contracts shall not be eligible for rebooking on cancellation.
Source: Circular No.28 (RBI/2014-15/216) dated: September 8, 2014

- **Upper age limit for Whole Time Directors on the Boards of Banks**

The upper age limit for Managing Director & CEO and other Whole Time Director of banks in the private sector should be 70 years, i.e. beyond which nobody should continue in the post. Minimum age of MD or WTDs should be not less than 21 years. Within the overall limit of 70 years, individual bank's Boards are free to prescribe a lower retirement age for the WTDs, including the MD & CEO, as an internal policy.
Source: Notification no. RBI/2014-15/217 (DBOD. APPT.BC.No. 40 /29.39.001/2014-15) dated: September 9, 2014

- **Opening of Bank Accounts in the Names of Minors**

With a view to promote the objective of financial inclusion and also to bring uniformity among banks in opening and operating minors' accounts, StCBs / DCCBs are advised as under:

a. A savings /fixed / recurring bank deposit account can be opened by a minor of any age through his/her natural or legally appointed guardian.

b. Minors above the age of 10 years may be allowed to open and operate savings

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bank accounts independently, if they so desire. StCBs / DCCBs may, however, keeping in view their risk management systems, fix limits in terms of age and amount up to which minors may be allowed to operate the deposit accounts independently. They can also decide, in their own discretion, as to what minimum documents are required for opening of accounts by minors.

c. On attaining majority, the erstwhile minor should confirm the balance in his/her account and if the account is operated by the natural guardian / legal guardian, fresh operating instructions and specimen signature of erstwhile minor should be obtained and kept on record for all operational purposes.

StCBs / DCCBs are free to offer additional banking facilities like ATM/debit card, cheque book facility etc., subject to the safeguards that minor accounts are not allowed to be overdrawn and that these always remain in credit.

Source: Notification RBI/2014-15/225 (RPCD.CO.RCB.BC.No.29/07.51.010/2014-15) dated: September 09, 2014

- **Need for Bank Branches / ATMs to be made accessible to persons with disabilities**

RBI has advised StCBs/DCCBs to make all new ATMs installed as talking ATMs with Braille keypads in future. StCBs/DCCBs should lay down a road map for converting all existing ATMs as talking ATMs with Braille keypads and the same may be reviewed from time to time by the Customer Service Committee of the Board.

In addition to the above, magnifying glasses should also be provided in all branches of StCBs/DCCBs for the use of persons with low vision, wherever they require for carrying out banking transactions with ease. The branches should display at a prominent place notice about the availability of magnifying glasses and other facilities available for persons with disabilities.

Source: Notification RBI/2014-15/224 (RPCD.CO.RCB.BC.28/07.51.010/2014-15) dated: September 09, 2014

- **Inoperative Accounts**

In reference to Paragraph 2(iv) of our Circular UBD.BPD. (PCB).Cir. No.9/13.01.000/2008-09 dated September 1, 2008 on Unclaimed Deposits / Inoperative Accounts in Banks in terms of which a savings as well as current account should be treated as inoperative / dormant if there are no transactions in the account for over a period of two years. Further, in terms of Paragraph 2(vi), for the purpose of classifying an account as inoperative, both the types of transactions i.e. debit as well as credit transactions induced at the instance of customers as well as third party should be considered.

In this connection, it is clarified that since dividend on shares is credited to Savings Bank accounts as per the mandate of the customer, the same should be treated as a customer induced transaction. As such, the account should be treated as operative account as long as the dividend is credited to the Savings Bank account. The Savings Bank account can be treated as inoperative account only after two years from the date of the last credit entry of the dividend, provided there is no other customer induced transaction vide *notification no. RBI/2014-15/227 (UBD.BPD.Cir.No.14/12.05.001/2014-15) dated: September 11, 2014*.

- **Amendment to Public Provident Fund Scheme, 1968**

The Government of India has enhanced the individual subscription limit under the Public Provident Fund (PPF) Scheme, 1968, from existing Rs 1,00,000 to Rs 1,50,000 in a financial year vide *Notification no. RBI/2014-15/187 [DGBA.CDD. No.867/15.02.005/2014-15] dated: August 22, 2014*.

Purchase and sale of securities other than shares or convertible debentures of an Indian company by a person resident outside India

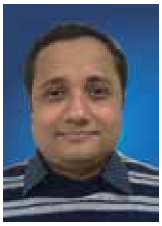
Eligible investors, viz., SEBI registered Foreign Institutional Investors (FIIs), Qualified Foreign Investors (QFIs), registered Foreign Portfolio Investors (RFPIs) and long term investors registered with SEBI, may purchase eligible government securities directly from the issuer of such securities or through registered stock broker on a recognized Stock Exchange in India. With a view to providing flexibility in regard to the manner in which government securities can be acquired by eligible investors, it has now been decided to remove any stipulation as to the manner of acquisition from the said Regulations. Consequently, the eligible investors can acquire such securities in any manner as per the prevalent/approved market practice.

Source: Circular No.22 (RBI/2014-15/197) dated: Aug 28, 2014

(For further details on these issues, please visit the Institute's website: www.icmai.in for the complete CMA E-Bulletin, October 2014, Vol 2, No. 10, in the 'Research and Publications' section.)

PUBLIC-PRIVATE PARTNERSHIP IN PUBLIC TRANSPORTATION

Successful public transportation projects normally require the role of governments. From this perspective, there is a need for more flexible and strategic oriented framework for the expansion of PPP initiatives and an alternative model that is intended to face obstacles



Jitu Sharma
Economist, Rail India Technical and Economic Services (RITES), Gurgaon

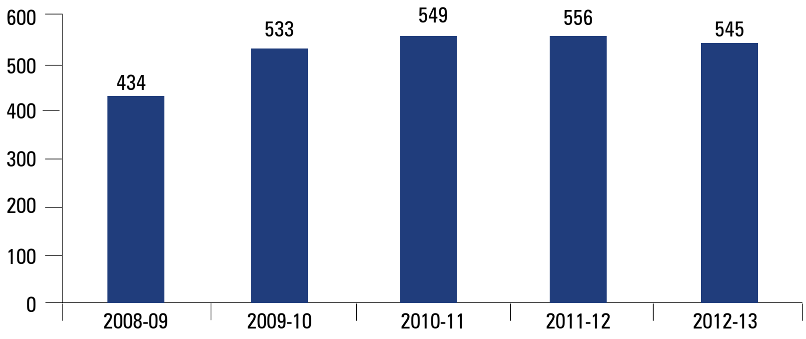
THE rapid growth of urbanization has created the mobility challenges in most Indian cities. As economic activities increasingly shift to the urban centres, it would generate demand for mobility of goods and services. Due to imbalance between demand and supply, public transportation problem has assumed crisis proportion in all cities in India. Crisis gets manifested in high social costs in the form of congestion, pollution and accident. In this situation, there is an urgent need of developing public transport infrastructure and improving accessibility through intermodal transferability, spatial coverage of transport network, affordability and the issues of safety and social inclusiveness. To develop such infrastructure, there is a need of huge investment. Because

of financial constraints, government needs support from private sector for operation of public transportation.

Public transport in India

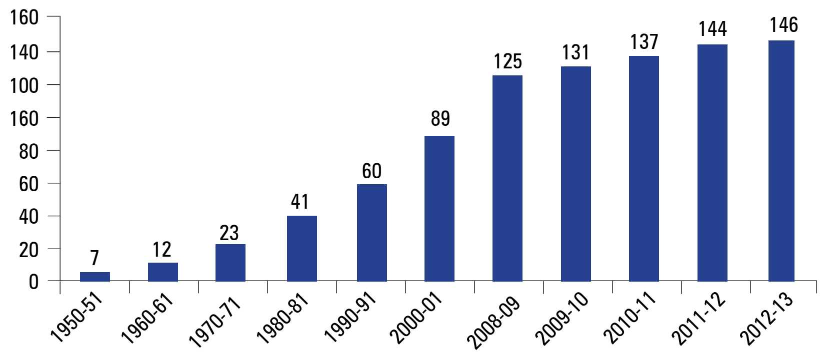
There are three types public transport namely: Mass Rapid Transit, Intermediate Public Transport and Personalized Public Transport. Mass Rapid Transit is the backbone of city transport as it is the only mode that carries a very large number of commuters using minimum space. The main modes of Mass Rapid Transit are: High capacity - Metro rail, Commuter rail; Medium capacity - Bus Rapid Transit (BRT), Light Rail Transit (LRT), Monorail, High Speed Surface Transport (HSST) (Maglev), Linear Metro, Automated Guide-way Transit (AGT), Automated People Mover (APM) and several other modes ; Low capacity: buses of various sizes operating in mixed traffic . Intermediate Public Transport i.e. tempos and mini buses supplement mass rapid transit in large cities and are the main mode of public transport in nearly all medium and small size cities. Personalized public transport i.e. autos, taxis and cycle rickshaw cater to the demand

Figure 1: Growth of Bus Passenger in India (SRTUs) (in billion Passenger kilometers)



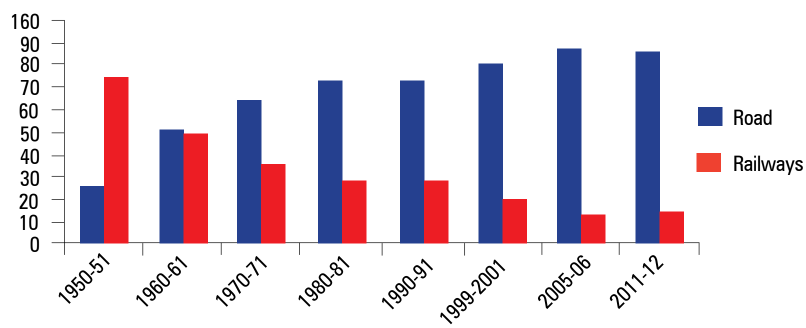
Source: Ministry of Road Transport & Highways, Government of India

Figure 2: Growth of Sub-urban Rail Passenger in India (in billion Passenger kilometers)



Source: Indian Railways Year Book 2012-13.

Figure 3: Relative Share: Passenger Transport (in%)



Source: Ministry of Road Transport & Highways, Government of India

of commuters seeking a substitute for personal transport.

In India, High capacity Metro rail and Commuter rail (Suburban Rail) are already in use in India; so are buses of various sizes. From amongst medium capacity modes, BRT has started operating in Ahmedabad, Delhi, Pune and Jaipur. An increasing number of cities in India are constructing/planning facilities to operate BRT.

Passenger Traffic

Bus-based public transport system continues to be dominated by the State Road Transport Undertakings (SRTUs), which provides passenger transport services for rural, inter-city and urban areas. The total number of passengers carried by the reporting SRTUs during 2012-13 was 2,52,7.16 crore passengers and passenger kilometers performed 544.53 billion. The growth of bus passenger kilometers in India is given in Figure 1.

Indian Railways is the commonly used mode of public transportation in the country. In 2012-13, it carried 4477 million sub urban passengers. Passenger kilometers (sub urban), which is calculated by multiplying the number of journeys by mean kilometric distance was 146 billion in 2012-13. The growth of sub-urban passenger traffic from 1950-51 is given in Figure 2.

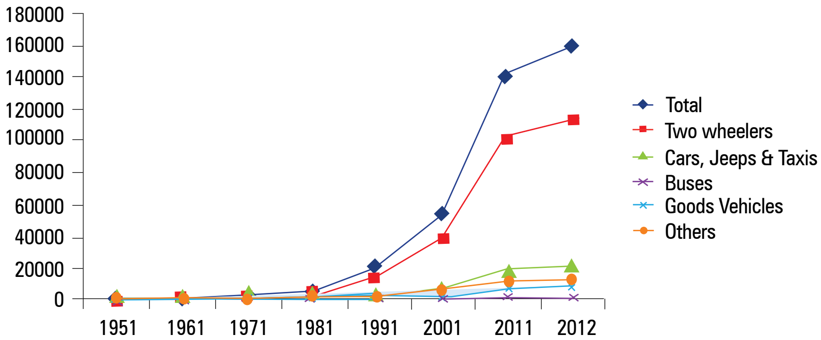
Passenger movement pattern has been tremendously changed in India after 1950. In 1950-51, share of railway in passenger movement was 74% against 26% of road. But in 2011-12, it is completely an opposite scenario. In 2001-12, share of rail in passenger movement was only 14% against the 86% of road. The relative share of passenger transport between road and rail is given in Figure 3.

Growth of vehicles

The registered motor vehicles in India increased from about 0.3 million as on 31st March, 1951 to 159.5 million as on 31st March, 2012. The share of two wheelers in total registered motor vehicles in India stood at 72.4% during 2012 as compared to 8.8% during 1951. Concomitantly, the share of cars, jeeps and taxis in the total number of registered vehicles was at 13.5% as on 31st March, 2012, marking a steep decline from 52% as on 31st March, 1951. The share of buses (including omni buses) in total registered vehicles declined from 11.1% as on 31st March 1951 to 1.1 % as on 31st March 2012.

The total registered vehicles in the country grew at 12.4% in 2012. Amongst the various categories of vehicles, the highest growth in 2012 was recorded by two-wheelers (13.3%) followed by cars, jeeps and taxis (12.2%). The number of registered buses, including omni buses, increased by 4.6% during 2011-12. There were 16.8 lakhs buses, including omni buses, as on 31st March 2012. Between 2001 and 2011, the total vehicle population grew at a CAGR of 9.9% vis-a-vis the CAGR of 3.4% in the total road length. The growth of registered motor vehicles is given in Figure 4.

Figure 4: Growth of Registered Motor Vehicles (in thousand)



Source: Ministry of Road Transport & Highways, Government of India

Table 1: Public Transport share comparison 1994 to 2007			
City Category	City Population (Range in Lakhs)	WSA, 2007 (%)	RITES, 1994 (%)
1	< 5	0-15.6	-22.7
2	5-10.0	0-22.5	22.7-29.1
3	10.9-20	-50.8	28.1-5.6
4	20-40	-22.2	35.6-45.8
5	40-80	32.1	45.8-59.7
6	Above 80	35.2-54.0	59.7-78.7
Source: India Transport Report, NTDPC			

Share of public transport

The report (May 2008) on 'Study on traffic and transportation policies and strategies in urban areas in India' commissioned by Ministry of Urban Development (MOUD), Government of India, has reported that the share of personal modes especially of two wheelers has gone up at 12% per annum in the past two decades, while public transport has generally dwindled. The table below compares the share of mass transport in cities of various sizes as observed in 1994 and 2007. A general decline in the public transport trips is noticeable in cities of all sizes.

Vehicular penetration

A cross-country comparison of buses (both SRTU and others) indicates that the bus penetration in India was much lower as compared to some developed countries like Australia, Japan, UK and USA and other developing countries like Brazil, China, Malaysia, Mexico, South Africa and Thailand

Need of Public Private Partnership (PPP)

Bus is the main mode of public transport in India. Buses carry more than 90 percent of public transport in Indian cities. Most cities have minimal rail transport and depend on buses auto rickshaws, cycle rickshaws and taxis for transportation. Heavy demand leads sub urban trains and buses overstuffed with passengers. The rapid growth of population has put tremendous pressure on all its transport system. The increasing travel demand has put a strain on already weak transport infrastructure and service. So public transport has needed an immediate attention. So public transport in India needs to be developed through Public-private Partnership and this will definitely ease some of the financial burden of government.

A public-private partnership (PPP) constitutes a sustained collaborative effort between the public sector (government agencies) and private enterprises. Privatization of public transport in India was strongly encouraged by the World Bank (2002), which accused publicly owned and operated systems of being inefficient and highly un-

PPPS ARE COMPLEX INSTITUTIONAL ARRANGEMENTS INVOLVING MANY PLAYERS FROM DIVERSIFIED FIELDS AND THUS BRINGING MORE RISK TO THE PROJECT

profitable, providing insufficient and low-quality services, and failing to respond to market demands. In recent times, PPP in public transportation has been seen in India. The operation of public transport in Goa through a public-private-partnership (PPP) mode has been proposed wherein all private and Kadamba buses are hired by the government through a 'special purpose vehicle' (SPV). Delhi Airport Metro Express Line was operated through public-private partnership between Delhi Airport Metro Express Private Limited (DAMEPL), a subsidiary of Reliance Infrastructure, and Delhi Metro Rail Corporation (DMRC). Recently, DAMEPL has decided not to operate the Airport Express Line citing financial non-viability.

However, it has been observed that private sector participation in public transportation is very limited and while PPP projects in public transportation has achieved only limited success. Issues relating to project implementation, monitoring, revenues, social concerns and dispute resolutions are the major concerns for PPP in public transportation.

Issues relating to PPP

Public Private Partnerships have widely been accepted as an alternative form of public infrastructure delivery. But, PPPs are complex institutional arrangements involving many players from diversified fields and thus bringing more risk to the project.Various research studies have been conducted to assess risks and success factors for establishing PPP projects. But, as eagerness for PPPs in transportation projects is increasing around the world, more problems and partnership failures are being witnessed. It is also found that the adoption of PPPs in different parts of the world was motivated by specific reasons besides financial and technical concerns. These specific reasons had played important roles in the project success and failure. Here, we have discussed few issues in context of India which are very crucial for successful implementation of PPP projects.

In India, it is seen that political and bureaucratic constraints, such as fragmented decision making due to the involvement of multiple public agencies, the prevalent emphasis on administrative procedures rather than on strategies and results and lengthy tendering process (normally split in three or four phases, from planning to final operation) lead the problems for implementation of PPP projects in public transportation. In the design and development of a public transport project, three main stakeholders are involved: (a) transport users (who are part of the larger group of the society as a whole and of the taxpayers); (b) the government (i.e., public sector); and (c) private sponsors or providers (to which, other actors, like lenders, are related). The interaction between these three stakeholders must be kept into account for structuring PPP projects. In India, there is complete lack of interaction specially with transport users.

The collection of revenues is highly uncertain in most of public transportation projects. The financial constraints originate in the fact that transport investments are (a) often large and their costs can be recovered only over long periods of time, and (b) largely sunk as the assets cannot be used elsewhere except at a great cost. The private investment has not been successful in Airport Metro Express Line because the usually unstable revenues which make them commercially unviable. A trade-off is then often present in the case when the financial rate of return is below the market rate for private funds; some form of public support is required to make the project feasible (viability gap funding). The financial rate of return may be improved by way of additional user charges then economic rate of return may be affected negatively.

The regulatory environment is very necessary to attract private investment as well as for successful of PPP projects. Due to the lack of regulatory framework, problems i.e. excessive control of private management, risk sharing arrangements, have been sourced. In India, there is no independent PPP regulator as of now.

A key element of the public transport supply is its integrated policy. The first level of integration is the institutional. The integration of the different public authorities has to be involved in the transport system. The second level of integration is in the fare structure. The third level of integration is the physical integration of the various transport modes. There is a need to improve the physical connection among modes through the construction of Intermodal Exchange Stations (IESs). In India, it is observed that there is a lack of service integration between different operators and across different modes.

The success of a PPP project for public transportation greatly depends on demand analysis. A realistic assessment of the service demand in future is often difficult and tricky. For traffic demand forecasting, there is a need of comprehensive data base on various parameters from population to environment. The determination of parameters concerning location, size, structure and capacity entirely depends on demand for the services. Another reason for failure of Airport Metro Express Line is the lack of realistic demand analysis.

Conclusion

Successful public transportation projects normally require the role of governments. But the question is what the role for government should be and how best should be the government intervention. From this perspective, there is a need of more flexible and strategic oriented framework for the expansion of PPP initiatives and alternative model that is intended to face the obstacles. These principles should help re-oriented the project development framework and tap the increasing breadth of experience and proved efficiency of the private sector in designing, managing and operating public transport infrastructure investments and assets. These principles should encourage innovations, reduce and balance risks and create a win-win strategy.

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TRENDS IN URBAN DEMOGRAPHY AND URBAN INFRASTRUCTURE DEVELOPMENT IN INDIA

In the ultimate analysis, forensic accounting and forensic auditing are concerned with finding the truth to help punish the guilty and protect the innocent

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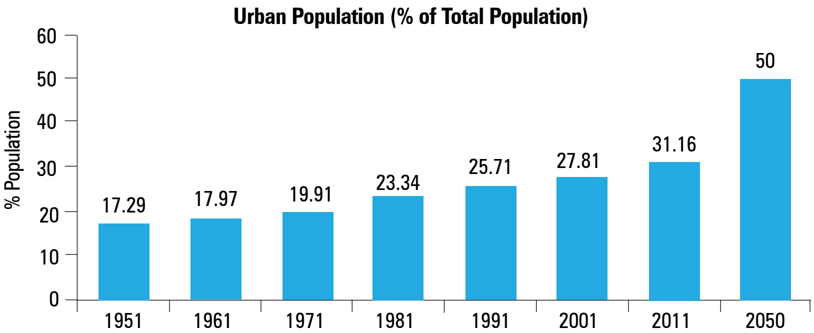
Studies on urbanization reveal that there is necessary correlation between economic growth of a nation and urbanization. Urbanisation transferred the agricultural society into an industrial developed society. That's why; it is an integral part of the economic and social transformation of an economy. In India, urbanization is the catalyst for economic development as it contributes 70% of our GDP by 31% of our total population. In spite of its significant contribution, India faces truly formidable challenges in managing the rapid growth of urbanization. At present India is the second most populous country in the world, with a population of 1210.20 million and of this, 377.10 million (31.16 percent) live in urban areas in its 7,935 cities and towns.

Even though the rate of urbanization in India is not faster than many developing countries still its absolute urban population is higher than the total population of many developed countries like USA, Brazil and Indonesia individually. Besides that, the absolute number of urban population added each year in Indian cities is quite substantial in comparisons to other nations. The percentage of urban population has increased from 17.29 % in 1951 to 31.16% in 2011 and it is projected to surpass 50% by 2050 (Figure-1).

The urban population in India has increased from 286.10 million in 2001 to 377.10 millions in 2011, is around 31.81 % of higher than the urban population of 2001. Increase of 91.1 million persons to urban population during 2001-2011 is not only the highest registered thus far; it is also higher than the increase of 90

Figure-1: Urban Demographic Trajectory



Source: Census of India, GoI

Table 1-Urban Decadal Footprint

Urbanisation Trends-Census 2011			
Particulars	2001	2011	Change
Districts	593	640	+47
No. of Towns	5161	7935	+2774
Statutory Towns	3799	4041	+242
Census Towns	1362	3894	+2532
Urban Population (in millions)	286.10	377.10	+31.81%
Total Population (in million)	1028.73	1210.20	+17.64%
Urban population as % of Total Population.	27.81	31.16	+3.35

Source: Census of India, GoI

million persons to rural counterpart too. Economic reforms have given considerable impetus to the growth of urbanisation and it is expected that by 2050, more than half of our population will be living in its cities and towns. The top 100 India's largest cities produce 42 percent of GDP with 16 percent population and with just 0.24 percent of land area. Similarly, the number of metropolitan cities has risen sharply, from 35 to 53 during 2001-2011 accounting for about 42.6 percent of the total urban population. This means the existing cities will continue to grow larger and many new cities and towns will be added to the present number in the future too. This will definitely create excessive pressure on urban infrastructure and urban amenities. Density and development must go hand in hand, so substantial infrastructure investment required to meet the growing need of urban centres and will push India to the next level of economic growth. Hence there is need to reconstruct the existing infrastructure and make better and sufficient provision of resources for better provisioning of facilities and amenities in urban area.

Urban Infrastructure: Issues & Challenges

Even though urban sector contributes largely to the GDP, still there is no significant improvement in the quality of urban life. Rapid growth of urban population is placing rather increasing stress on ecology and infrastructure. The positive effect of urbanization is often overshadowed by the obvious deterioration caused to physical infrastructure, environment and quality of life in the urban areas. This widens the gap between demand and supply of various essential services, housing and infrastructure. Most of the cities and towns are not financially equipped and organizationally structured to act in response to infrastructural needs of the urban people. Public investment in urban infrastructure is not adequate to meet the growing need of the cities and towns.

The major challenges confronted by urban government is how to accommodate the growing urban population not only by creating employment avenues and but also need to provide better infrastructure and other basic amenities like housing, sanitation, health etc.

Report of FICCI on "Urban Infrastructure in India" has identified a few key areas of intervention for the improvement of urban infrastructure. These are:

- Improved planning at regional, city and area level
- Transportation infrastructure for better mobility through public transport, improved walkability and most importantly a policy on parking
- Urban services: sewerage, drainage and water supply, power distribution
- Solid waste management
- Housing including affordable housing
- Social infrastructure such as parks, playgrounds and leisure spaces.

- Preservation of heritage precincts

Urban Infrastructure Investment

Ministry of Urban Development (MoUD) constituted a High Powered Expert Committee (HPEC) for estimating the investment requirements for urban infrastructure services in addition to establishing the physical and financial norms; suggest financing options, reforms and institutional changes necessary to ensure flow of investment into urban infrastructure services sector. According to HPEC, there is requirement of investment in urban infrastructure to the tune of Rs. 39.2 lakh crores (2009-10 prices) over next 20 years (see Table-2).

Apart from the above long term plan, the working group has estimated the required capital expenditure (CAPEX) for the 12th Five Year Plan is Rs.387576 crore ranging from 2012 to 2016.The details of the required expenditure on water supply, sewerage, solid waste management, storm water drains and urban transport is given in Table 3:

The budgetary resources of Central, State and Local Governments are not sufficient enough to finance the urban infrastructure development. Hence, urban local bodies have to manage their resources from the market and private players and should go for public-private partnership in financing various projects. Although JNNURM provide assistance to Urban Local Bodies (ULB) to the extent of 35-90% cost of the project under it, but beyond a limit; financing all the ULBs projects of various cities and towns by the JNNURM is not possible in long run. That's why; there is need to finance the urban projects and infrastructure through external assistance and from the capital market. Few broad propositions are discussed here with for financing urban infrastructure in India:

- Small and medium towns should meet and manage their financial requirement from pooled financing model.
- There is need to promote pooled

*URBAN INFRASTRUCTURE NEEDS TO BE STRENGTHENED ACROSS THE BOARD. PRIMARILY:

1. Provision of basic amenities like safe drinking water, sewerage, waste management facilities and sanitation facilities in urban conglomerations, while also ensuring that the urban poor have access to these facilities at affordable cost.
2. Improved water management, including recycling of waste water in large cities and new townships.
3. Transportation in urban centres is a major constraint. Currently, public transport accounts for less than a quarter of urban transport in India. Therefore, urban mass transit including metro, rail, electric buses and trams as well as other forms of public transport must be greatly strengthened especially in under-served urban centres.
4. Strengthening preventive healthcare, including 100 per cent vaccination, safe drinking water, management of MSW and ambient air quality and aggressive control of vectors that cause diseases. A National Urban Health Mission may be considered to meet these objectives.
5. Strengthening the secondary and tertiary healthcare systems using PPP models wherever possible, and ensuring adequate availability of such services to weaker sections.
6. For inclusive urban growth, policy initiatives must result in an enabling environment for productive and dignified self-employment. Permissions, as well as provisions of spaces and other facilities for small enterprises are necessary. Institutions of self-help groups, producer societies, and other forms of cooperatives can be one approach amongst others. The formation and growth of formal enterprises may be facilitated too to enlarge opportunities for good employment within the cities.
7. The Skill Development Mission must be geared to creating extensive skilling facilities for a wide range of contemporary occupations.
8. The housing business is largely in the private sector. Government should consider using land as leverage for market based strategies and PPP models to greatly improve the scope of affordable housing for weaker sections.
9. The condition and needs of the most vulnerable urban citizens must always be kept in the forefront if urbanisation is to be inclusive. Without doubt, the most vulnerable are 'street children' in Indian cities, who have no option than to live and work in miserable conditions on the streets. Safe housing and care of the elderly is also becoming a major concern in Indian cities.

*Source ;*Excerpt from Planning Commission Report-October, 2011- Faster, Sustainable and More Inclusive Growth-An Approach to the Twelfth Five Year Plan (2012-17), Government of India*

Table 2: Urban Infrastructure Investment (Required for next 20 Years)		
S. No.	**Particulars**	**Rs. in Crore**
1	Urban Roads	17,28,941
2	Urban Transport	4,49,426
3	Renewal & Re- development including slums	4,08,955
4	Water Supply	3,20,908
5	Storm Water Drains	1,91,031
6	Sewerage	2,42,688
7	Capacity Building	1,01,759
8	Traffic Support Infrastructure	97,985
9	Street Lighting	18,850
10	Solid Waste Management (SWM)	48,852
11	Other Sectors	3,09,815
12	**Total**	**39,18,670**
Additional Rs. 20 lakh crores for operation & maintenance of assets old and new		
Source: HPEC Report-2011, GoI		

Table 3: Requirement of CAPEX as per Working Group (12th Plan) (in Rs. Crore)						
Particulars	**2012**	**2013**	**2014**	**2015**	**2016**	**Total (Rs. Crore)**
Water Supply	5539	6536	7713	9101	10739	39628
Sewerage	4189	4943	5833	6883	8121	29969
Solid Waste	839	989	1168	1378	1626	6000
Storm Water Drains	3297	3891	4591	5418	6393	23590
Urban Transport	40611	47742	56155	66083	77799	288389
Total	**54475**	**64101**	**75460**	**88863**	**104678**	**387576**
Source: Twelfth Five Year Plan Document, Volume II, Planning Commission, Government of India						

finance development scheme by Ministry of Urban development and deepen the municipal bond market in India.

- There is need to establish a range of financial intermediaries to encourage external capital injection in urban financing.
- Private participation should be encouraged as one of the viable options.
- Capacity building and raising efficiency of ULBs is the urgent call of the day for inclusive urban development.

Conclusion

Urban development and related subject matters are the most germane issues in all the nations and particularly in India. Efficient and effective urban governance is need of the hour. The major challenges faced by all ULBs regarding financing the urban infrastructure need to be addressed to achieve sustainable urban development. Besides, there is need to develop people-centered approaches in urban development where the need of the poor and deprived people has to be addressed simultaneously with the inclusive growth strategy.

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ECONOMIC DETERMINANTS OF URBANISATION: A STATE LEVEL ANALYSIS

A study of the interdependencies between urbanisation and various socio-economic correlates during the past two decades throws up some surprising results

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ACCORDING to the Population Census of 2011, about 377 million Indians comprising 31.17 per cent of the country's population, live in towns and cities. India's pace of urbanization during the previous decade was slower than projected earlier by United Nation experts (2000 and 2010) as well as Registrar General of India (2006). The urban population recorded an annual growth rate of 2.76 per cent during 2001-11 as compared to a growth rate of 2.73 in the previous decade (Table 1). The 2011 Census reported a dramatic increase in the number of urban agglomerations (UAs), 91 new UAs came up in the past decade. The Class I UAs/towns accounted for 70 per cent of the urban population, their number increasing by 74 during 2001-11, from 394 in 2001 to 468 in 2011. Furthermore, the 2011 Census also recorded an increase of million-plus UAs/cities from 35 in 2001 to 53 in 2011. These accounted for 42.6 per cent of the urban population. The largest UA in the country is Greater Mumbai followed by Delhi UA.

It is important to note that the economically developed states have registered the highest level of urbanisation in the country in 2011. These states have also registered the highest growth rates and also the maximum increase in the number of census towns, with the exception of Uttar Pradesh. Infact, a substantial rise in the level of urbanisation in the country could be attributed to the mushrooming of 2532 census towns during the last decade. These census towns which are actually rural settlements governed by gram panchayats need to be reclassified as statutory towns in order to bring about balanced urban development in these settlements.

It is a generally accepted notion that urbanization accompanies economic development. As countries witness sectoral diversification, that is move from primarily agrarian economies to industrial and service sectors, they are also expected to urbanize. This is because urban areas provide the agglomeration benefits that the industrial and service sectors need. Due to this factor, for the first time in the history of mankind, more people live in urban areas than in rural areas if we take into account the global population. Compared to several other parts of the world, our urbanization levels are still low. China is urbanised over 50%, several countries in Africa have 40% of their population living in urban areas and many countries in Latin America are over 70% urban. The developed countries are urbanised in the range of 75 per cent to 80 per cent.

According to McKinsey Global Institute (2011) estimates, 80 per cent of the world's gross domestic product (GDP) is being generated in the urban areas. It is also estimated that the top 600 cities produce about 60 per cent of the global GDP; and the top 100 contributing about 38 per cent of the global GDP. Historically, urbanization and economic growth have been mutually reinforcing. This phenomenon is noticeable across the globe. In both developed as well as developing nations, urban growth has been rapid where economic growth rates have been high. This may be explained for by the forward and backward linkage effects of agglomeration economies.

This paper attempts to understand the interdependencies between urbanisation and various socio-economic correlates during the past two decades and whether there has been any pattern emerging with globalisation. The indicators selected for the study are per capita income, pace and level of urbanisation, access to basic amenities like safe drinking water, electricity and latrine facilities, percentage below poverty line etc. These indicators have been calculated based on the data from the Population Census.

The interdependencies

In India too, urbanization and the per capita state domestic products have quite high positive interlinkage effects in India. This can be shown through the logarithmic regressions. The links between urbanization and per capita income have grown stronger in the Indian economy (the fitted trend line for the level of urbanization and PCGSDP for 2001 and 2011 are upward sloping, with R2, or the explanatory power, being 0.549 and 0.614 respectively), indicating that cities hold the key to economic growth (Chart 1 and 2). But, the correlations are still low by international standards. The impact of economic growth on urban centres in India needs to be strengthened.

Chart 1: Interlinkage effects of per capita income and urbanization levels across states: 2001

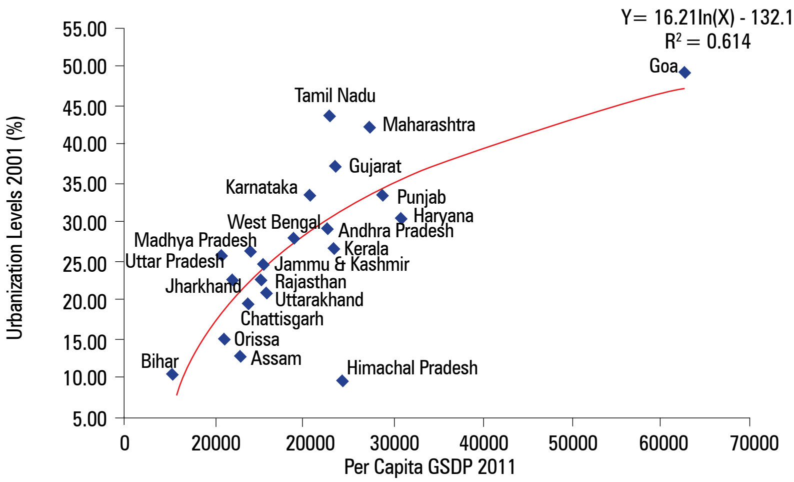
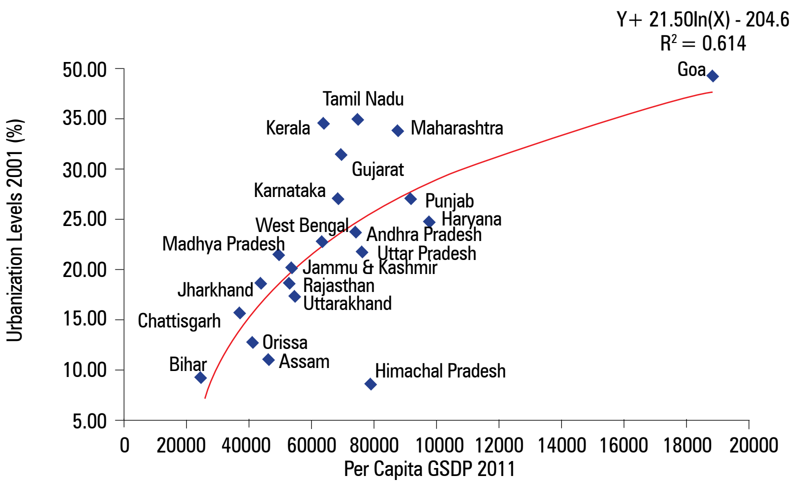


Chart 2: Interlinkage effects of per capita income and urbanization levels across states: 2011



Source: Calculations based on Census of India and Central Statistical Organisation data.

Density of population in urban areas and per capita gross state domestic product across the Indian states are also positively inter-correlated with each other. This could be attributed to the agglomeration economies that arise from the clustering of economic activities like manufacturing and services. In France, the United Kingdom, and the United States, 75 to 95 per cent of industry is localized. As economies develop, agriculture disperses but manufacturing activities form agglomerations. Industry and services are concentrated in cities where these sectors grow more rapidly than other sectors. This is because economies of scale in cities reduce transaction costs. High densities in cities allow both workers with differentiated skills and firms with specific needs to reduce their costs.

It is a fact that urban areas contribute a higher share of the GDP than rural areas. The share of the GDP from urban areas in India has been growing consistently in India. Both Eleventh and Twelfth Five-Year Plans have argued that urbanisation should be seen as a positive factor in over¬all development as the urban sector con¬tributes about 62 per cent of the Gross Domestic Product (GDP). There is also a growing realisation that an ambi-tious goal of 9-10 per cent growth of GDP depends upon a vibrant urban sector (Planning Commission 2008, 2013).

The Twelfth Plan envisages that urbanisation will be central to India's strategy of achieving faster and inclusive growth because agglomeration and densification of economic activities and habitations in urban conglomerations stimulates economic efficiencies and provides more opportunities for earning livelihoods. Thus, as per the Twelfth Plan, urbanisation would increase avenues for entrepreneurship and employment compared to what is possible in dispersed rural areas and, thereby, enable faster inclusitivity in the process of economic growth.

Table 1 : Level of Urbanisation

S.No	States/UTs	% of urban population		AEGR
		2001	2011	2001-11
0	INDIA	27.82	31.16	2.76
1	Jammu & Kashmir	24.81	27.21	3.05
2	Himachal Pradesh	9.80	10.04	1.45
3	Punjab	33.92	37.49	2.29
4	Chandigarh	89.77	97.25	2.38
5	Uttarakhand	25.67	30.55	3.50
6	Haryana	28.92	34.79	3.66
7	NCT of Delhi*	93.18	97.50	2.36
8	Rajasthan	23.39	24.89	2.57
9	Uttar Pradesh	20.78	22.28	2.53
10	Bihar	10.46	11.30	3.01
11	Sikkim	11.07	24.97	9.30
12	Arunachal Pradesh	20.75	22.67	3.19
13	Nagaland	17.23	28.97	5.15
14	Manipur	26.58	30.21	3.56
15	Mizoram	49.63	51.51	2.42
16	Tripura	17.06	26.18	5.66
17	Meghalaya	19.58	20.08	2.70
18	Assam	12.90	14.08	2.44
19	West Bengal	27.97	31.89	2.62
20	Jharkhand	22.24	24.05	2.80
21	Orissa	14.99	16.68	2.37
22	Chhattisgarh	20.09	23.24	3.49
23	Madhya Pradesh	26.46	27.63	2.28
24	Gujarat	37.36	42.58	3.06
25	Daman & Diu*	36.25	75.16	11.58
26	Dadra & Nagar Haveli*	22.89	46.62	11.53
27	Maharashtra	42.43	45.23	2.12
28	Andhra Pradesh	27.30	33.49	3.09
29	Karnataka	33.99	38.57	2.72
30	Goa	49.76	62.17	3.01
31	Lakshadweep*	44.46	78.08	6.24
32	Kerala	25.96	47.72	6.56
33	Tamil Nadu	44.04	48.45	2.40
34	Puducherry*	66.57	68.31	2.71
35	A&N Islands*	32.63	35.67	1.54

Source: Census of India 2001, 2011.

Correlation among urbanization and socio-economic indicators: 2001 and 2011

The absolute number of urban population both for 2001 and 2011 showed positive correlation with households with access to safe drinking water facilities (GOI, 2013). It is negatively correlated with literacy rates and households with access to electricity for both the decades. Though households with access to flush latrine facilities in 2001 showed weak and negative correlation to the absolute number of urban population; in 2011, the households with access to flush latrine facilities was positively correlated to this variable. Households with no latrine facilities have been positively correlated with the absolute number of urban population for both the decades, though the degree has lessened for the current period. The correlation of BPL population with absolute number of urban population has also shown a similar trend. The absolute number of urban population are absolutely uncorrelated with the per capita income figures for both the decades.

The correlation of level of urbanization (or percentage urban) with sex ratio has worsened for the recent decade of 2011; thus pointing out that more urbanized areas have worse sex ratios. These two variables were almost uncorrelated for 2001. The correlation of the literacy rates with the levels of urbanization has shown an improvement over the two decades of the analysis. Households with electricity are significantly correlated with the levels of urbanization for both the decades. Though households with flush latrine facilities for 2001 were quite significantly and positively correlated with the level of urbanization for 2001, it is seen to be absolutely uncorrelated with the level of urbanization figures for 2011. Households with no latrine and the level of urbanization are seen to be negatively correlated for both the time points of the analysis: 2001 and 2011, but it has become more significant for the latter period. The proportion of BPL population is negatively and quite significantly correlated with the levels of urbanization for both the time points, thus pointing out that more urban areas have lesser proportion of the poor population. Though per capita income is very significantly and positively correlated with level of urbanization for the both the time points of the analysis, but the correlation has weakened between 2011 and 2001.

The correlation of annual exponential growth rate of urban population for the time periods, 2001 and 2011 with urban sex ratios are negative, but the value has become more significant for 2011, thus pointing out that the states with higher rates of growth of urban population have worsening sex ratios. But, child sex ratios seem to be uncorrelated with the annual exponential growth rate of urban population for both the time periods of the analysis. The correlation of the annual exponential growth rate of urban population with literacy rates has shown a significant improvement from negative to positive values, thus pointing out that the states with higher rates of growth of urban population had lower literacy rates in 2001 but higher literacy rates in 2011. Households with access to safe drinking water facilities on the other hand, show the reverse trend, thus pointing out that while the states with higher rates of growth of urban population had higher access to safe drinking water facilities in 2001; the situation has reversed for 2011. Households with access to electricity were uncorrelated with the annual exponential growth rate of urban population in 2001, but weakly and positively correlated for 2011. The correlation of the annual exponential growth rate of urban population with households with flush latrine facilities has shown a significant change from positive to negative values, thus pointing out that while the states with higher rates of growth of urban population had higher access to flush latrine facilities in 2001 states reporting lower growth rates also reported higher access to flush toilets in 2011. Households with no latrine facilities and the annual exponential growth rate of urban population have become significantly and negatively correlated in 2011. The correlation between the annual exponential growth rates of urban population and the per capita income figures for both the time points in analysis are negative, but the value has lessened for the time point 2011; thus pointing out that while the states with higher rates of growth of urban population had lower per capita incomes for both the periods, the degree of correlation has weakened during the last decade.

Conclusion

It is important to realise the strong economic linkages between urbanisation and economic development. The forces of globalisation have reconfirmed that economic development has been more evident in the developed states. In the present era of Smart Governance, economic linkages are sought to be strengthened in urban areas by making cities more competitive and investor friendly. In such a situation, the concerns for equity should also be recognized to ensure balanced development of the country.

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UNIQUENESS AND RECURRENCE IN THE PATTERNS OF URBAN DEVELOPMENT IN INDIA

SWIMMING THROUGH TROUBLED WATERS IN SEGUING FROM RURALISM TO URBANISM

The Focal Points

The broad range of functions of municipalities throughout the country has depended generally on the respective enactments behind their creation, the span of focus of the activities they have been entrusted with and the funds inflow and outflow in the course of discharging the responsibilities as contained in these enactments. In this country, there are municipalities meant for small towns and cities, while for the large cities municipal corporations are in place for rendering about the same or similar functions though in much larger volume, content and complexities, depending on the demands made upon them by the citizenry, the facts of the situation, the expertise available, and the financial and other resources at their command for meeting such demands. Incidentally, all urban areas in the country are looked after by the municipalities, the larger ones by the municipal corporations – all of them coming under the broad term, local self-government, are classified on the basis of different criteria such as population, main activity, etc. Thus, over time there does occur upward mobility among the cities, mainly on the basis of population. There are the administrative cities, industrial cities, cities concentred on finance, art and culture, historical monuments , indigenous systems of medicine and other specialism developed over a long period. The typical features of growth of these cities have called for garnering resources for maintaining the status quo ante, on one hand, and developing and updating of their specialities, on the other, all of them requiring enhanced deployment of funds for better results. These are all challenging tasks calling upon the municipal bodies to develop and operate effectively all the tenets of comprehensive Financial Accounting Systems which apparently, and logically, can effectively contribute to the operational health of the municipal bodies, irrespective of their size and performance challenges within the remit of their responsibilities. It may be underscored in this context that comprehensive financial accounting systems in practical terms do embrace the triumvirate, namely, budgeting and budgetary control, financial accounting and cost and management accounting, implying both recording and control. In practical terms, though budgeting is integral to both financial and cost accounting, albeit from different angles as

Jodhpur city: The age-old assertion that India lives in her villages and the growing emphasis on village uplift and urbanization may give birth to a new expression, RURBANISM

also standpoints, but implying both knowing and judging what is what in the operational context. While budgeting is concerned with accounting for the future period namely, the coming year or the budget period, aptly nicknamed the one year plan for the organization. Financial accounting relates to the transactional details concerning the funds inflow and outflow during the financial year. The third one, cost accounting, relates to determining the cost of the services rendered juxtaposed with those budgeted therefor. Finally, the exercise of control through analysis of variances and corrective action plays a crucial role in keeping the operative forces centripetal. Each of these activities, having a typicality of its own, requires close scrutiny for ensuring that it stays on track. Variance analysis relates to both financial and cost accounting though emphases are discrete in the two cases, main points of the distinction being that in the former case, it relates to aggregates and in the latter, disaggregates; in the former it is centred on period cost i.e., expenditure, while in the latter, it is on product cost – both tangible and intangible. A comprehensive system of accounting for public bodies, that the municipalities are, logically includes all the three, comprehending what has to be done to-day or tomorrow, or thereafter, at what cost and how the total periodic picture looks like - with a view to knowing and judging the usual tenets of continuity and change. In this process, the vogue practice of incremental budgeting must make room for performance budgeting for judging performance in particular, rather than the propriety of expenditure incurred. About five decades back, we recommended introduction of activity accounting and activity budge, ting for all public sector enterprises so that every pie of receipt and expenditure on account of each activity be accounted for. Much later R.S. Kaplan's Activity-Based Costing came into prominence.

Slip-shod Financial Control

Unfortunately, financial control of municipalities with respect to both procurement and deployment has all while been rather perfunctory, underlining that with the same deployment of funds what could have been achieved has remained unrealized. Before dealing with the gamut of functions, it would be appropriate to deal with in short what the municipalities, embracing all the nomenclatures like towns and cities of different classes including the metropolitan cities and municipal corporations, actually perform in response to requirements and also in anticipation of demands of the citizenry. The primary concern, it may be asserted, is with spatio-economic management coupled with socio-technical emphases. The start in this context has been hesitant and non-professional, governed by a sort of laid-back attitude. Indeed, lags have been numerous, challenges have been many and there is the inevitability of gradualness, but the country's reigning mantra all this while has been, 'we shall overcome'! This attitude is stressed in launching successfully the apparently self-contradictory idea of introducing economic planning in a democracy, withstanding a variety of pressures from all around, in lieu of being rudderless in dealing with growth and development in tumultuous externalities. Professionalization of municipal administration is a sine qua non of being equal to all these challenges of growth and development of these bodies on a countrywide scale corresponding to the pressures encountered in the individual cases. A greater dose of professionalization of techno-financial and socio-technical management has been warranted in view of growing complexities of city life in all their manifestations. It is encouraging to note that signs of breaking away from the past trends are already there on the horizon and it is expected that before long these bodies will have justified their role as change agents on a national scale. Change is not, however, for its own sake; it has to be economically meaningful, socially permissible and financially feasible. "The old order changeth" has had several clogs in the process warranting scrutiny from all sides, the focus being on easy adaptability.

The Evolutionary Process

It has been emphasized by historians that Indian civilization since the days of yore has remained anchored to riverside towns, under various pretexts such as religious centres, the centres of learning – mainly religious texts and philosophy based thereon, centres of worship, centres of trade and also centres of industry with the advent of the factory system, apart from the centres of administration by the Kings, Nawabs and Emperors whose capitals were all towns and cities of different imports and sizes. The twentieth and twenty-first centuries have been witness to the development of many new towns, small cities, large cities and, lastly, the metropolitan cities. The features distinguishing them being the size of their population – both permanent and floating, the residential arrangements, schools and colleges, the demands on facilities of connectivity including inter-city roads and railways, central markets, modes of communication, the laying of intra-city roads, street lighting, conservancy systems, drainage, garbage disposal systems, prevention of water-logging, supply of drinking water, provision for healthcare, post offices, telephone exchange, parks, playgrounds, other recreational facilities and a whole host of other facilities that make for the quiddity of urban life and disposition. The gamut of functions widens in both scope and complexity, as the pressure of population, with all its paraphernalia, grows over time. The municipalities are called upon to perform and administer different functions to make their cities livable and lovable, apart from being centres of attraction. For all these, the municipalities are created as statutory bodies with the brand name, local self-government, under the state governments, which have the jurisdiction of holding election though the actual elections are organized by the State Election Commission, making key appointments, chalking out different relevant action-programmes and extend financial assistance to the municipal bodies to supplement their own resources, raised from different activities as detailed later. In our country, the key policy making positions are held by representatives of political parties elected every five years, with different designations charged with implementing the policy decisions taken. All this brings us to the departmentation patterns adopted by most of these bodies which are in general similar though in some cases, there are variations in response to the typicality of particular situations. The processes of evolution faced by these bodies have been reflected not only in enhanced volume of activity under each department, but also in its changing content and character both in structure and functions, apart from erstwhile villages transforming into municipalities having fulfilled the criteria laid down, mainly concentration of population.

Dealing with Change

Effectively dealing with the forces of change has all this while been a major challenge facing the municipal bodies in general as non-profit entities, dedicated to the cause of rendering efficient service to the inhabitants of these cities, though efficiency been the missing element in many a case. The traditional, long-time dual between expansion and consolidation has continued unabated, corresponding to the population explosion that the country has witnessed during the last several decades and the bites created by this pressure as one has been experiencing of late. The relevance of these seemingly unrelated observations would be appreciated if one were to consider the context of providing food security, pressing internal migration, rapidly disappearing agricultural land and growing demands on the country's resources to make both ends meet. Accounting in its total format is desired to be equal to the tasks posed by all these pressures, first by knowing what is what, and then, by stitching all the loose elements together into an acceptable whole, particularly for yielding the maximum value in the world of a variety of services that municipalities have called upon to render, shedding off all backward looking attitudes and march ahead in anticipation of the developments taking place all around, the initial signs of which have already been more than apparent in the progress of the panchayati raj institutions in their three-tier set-ups all of which are statutory entities. Indeed, one may logically anticipate that before long there could be a reverse move towards urban-rural migration in contradistinction with the much-discussed aspects of rural-urban migration. At an extreme, one may even visualise the emergence of a hybrid of the two, each of them shedding some of its discrete flavours, giving way to the emergence of something unthought of before, but entirely acceptable to the citizenry, with the same camaraderie and warmth of a villager admixed with the new aura of sophistication and urbanism of a city dweller. One may even visualize the return of the joint family system, banishing the concept and practice of atomized families that urbanism has foisted on us. Not that cult of urbanism is despicable but that it goes against the age-old assertion that India lives in her villages and the growing emphasis on village uplift and urbanization may give birth to a new expression, RURBANISM, indicating a conscious mixture of the good in both.

Urbanism and Environment

The environmental issues have come into prominence only a few decades ago, as a result of the deliberations of several United Nations Commissions on different environmental issues such as the Ozone Hole reflecting directly on urban lifestyles. The large scale pollutions caused by different modes of city transport releasing carbon monoxide, different chemical industries discharging large quantum of poisonous effluents and gas, release of large scale particulate matters mainly from different textile industries and several other ill-effects of the daily chores of urban life, affecting the health of urban population. Even the food habits of the urban population in general have been prone to obesity, diabetes, depression and the emperor of all maladies, cancer, a la Dr Siddharta Mukherjee, A Pulitzer Prize winner. While increasing emphasis has been given on cure, little or no emphasis has yet been given on prevention by way of alternative use of the gas or taking out the poison part of the poisonous gas, or use of the dust and ash released by the coal-based power plants for manufacturing cognate products. The points of emphasis are, in the said context, that the traditional industries have in the main been the reason for large scale pollution and the corrective steps in this behalf have been no better than casual, as shown by different industry-linked diseases. In a large number of countries, especially in the developing world, many cities came into being as a result of concentration of a large number of industries like Ahmedabad, Mumbai and Coimbatore for cotton textiles, Kolkata for jute and jute-based industries, Jharkhand, Durgapur, Bhilai and Bokaro for steel, Bangaluru and Cyderabad for IT – all suggesting the ramification in practice of what geographers call the cluster concept of industrialization. Left to themselves the attention given to the provision of amenities was minimal, each of them growing in its own momentum over time – one industry begetting another, considering the facilities created already. In several cases, manufacturing industries have attracted a large number of service industries with employees drawn from the country as a whole. Over congestion of people in such cities have seemingly taken away the comforts that one ascribes to urban life – dust, noise, high cost of living have been concomitant phenomena. In some cases, dry climate has been sought to be combated with large scale plantation of trees which has successfully reduced dryness of the climate through large scale planting of trees but increased the humidity, causing one type of discomfort substituted by another. However, greening attempts have not always been calculative of the aftermath. The tube wells in many cities have dried up the underground water sources, due to indiscriminate use of underground water, arsenic poisoning has been rampant in some areas. The existence of water bodies is therefore logically insisted upon by city planners though in many a case, these have been increasingly drying up due to heavy silting and in many a case, having been turned into garbage dumps . The spirit of conservation of the facilities provided by the cities and continuous improvements thereon have been the missing links in the development of urban culture. Urban culture in the form of highly specialized areas of activity, suave behaviour, intra-culture and inter-cultural mix do not necessarily go easy with living in the cities. Rurbanism, rather than either ruralism or urbanism, thus logically recommends itself for consideration of inculcation as a way of living. Perhaps, though not exactly, Kasba is a very near thing. But this a long-drawn process that will not stand procrastination. The cult of living basically as introverts, not caring for the convenience of the vicinage, is not truly an urban characteristic nor is there any superiority-inferiority divider in the modes of living unless deliberately created for vitiating the atmosphere of harmony. It is not for nothing that Kavi Guru Rabindra Nath Tagore cried out to Providence to return the jungle and take back the city. Indeed, the cities have tendentiously destroyed the social fabric and texture. But this is not a fault of cities themselves; it has occurred mainly due to haphazard growth, brushing aside planning.

The Departmentation Patterns

The departmentation patterns followed by different municipalities in general have not had a common nomenclature albeit their functional similarities. The following details are therefore only illustrative:

a)Building and maintaining streets - Not long ago the city of Calcutta had vistiwallahs cleaning the streets with water drawn from the Hooghly river, along with the system of street hydrants drawing water from the same river nearby, for cleaning streets with hosepipes daily; b) Scavenger Operations - A comprehensive network of operations for collection of wastes, garbage and other rejects, for recovery of the reusable wastes organized by both individuals and the municipal bodies particularly for either levelling up of uneven land and/or creating gardens; c) the pumping stations for dealing with water-logging during rainy seasons, flood caused by tides or other causes; c) Maintaining water purification plants for supply of drinking water; d) Permission and licence for building residential and other houses, offices, malls, schools, colleges, hospitals, etc., e) Building and maintaining parks, playgrounds, upkeep of ponds and lakes and other water bodies; e) Establishing and overseeing markets, issue of trade licences under Shops and Establishments Act; f) Looking after the requirements of the elected Councillors, preparation of meeting agenda, recording of policy decisions and other matters; g) Administration, accounts, provident fund, etc.; and h) Revenue by way of taxation, grants from Central Government from the Ministry of Urban Development under different schemes and state governments under various heads and other sundry sources. Being task-specific, accounting therefor would call for discrete approaches.

N.B. The departments are naturally charged with the responsibility of performing a series of specific tasks and each department has its own budget, systems and procedures. Funds to each department are allocated under the annual budget and the departmental budgets are integrated in the over-all budget so that all the departmental heads are in the know of the leeway available to them. For a specific programme outside the budgets, special ad hoc provisions are made for its implementation. The entire format of the budget is according to what has been indicated in the enactment of law behind its establishment and operations. We may call the budgets Performance Budgets or Outcome Budgets, even there may be a mix of different types of budgets especially for different departments but the success of the budgetary system would depend on collection and presentation of the relevant information from different sources to be put into a manageable format and then matching the budget figures with the actual for determining variances, to analyze the causes for deviance for initiating corrective action, a crucial aspect usually undermined.

Historicity behind Indian Cities

Some of the oldest cities in the country have had an entirely religious background that have grown on entirely religious premises where religious minded people - Sanyashins -have spent their lives in meditation choosing to suffer from the enjoyment of nearness to God, having exceptional powers to effectively defy and conquer all natural urges, eschewing the worldly pleasures including food, and spending their lives in meditation amidst hardships. Such exalted men have belonged to all religions. The Indian cities have had many diverse backgrounds from the points of view of their establishment, growth and development over time. India as a sub-continental landmass remained fragmented into fiefdoms or small states, each under a king, with their seats of dispensation in cities, underlining concentration of different grades of employees and other subjects. Nawabs came in later but the city features remained the same though a different form of culture, inter-personal communication and concentration of people emerged. During the middle ages, Muslim rulers not only occupied the existing cities, but also created new ones and consolidated their position by winning over the rulers of the already existing ones. As an aftermath of their campaigns, several new cities came into being in different parts of the country. In many of them, highly innovative methods were developed for fulfilling the requirements of city dwellers, for instance, the system of perennial water supply in Aurangabad in Maharashtra. The idea of shifting capital from Delhi to Daulatabad, 16c km north-west of Aurangabad, by Mohammed Bin Tughlaq was also a highly innovative idea but not appreciated and implemented for various reasons, mainly shortage of drinking water, and the Sultan was branded whimsical! On the other hand, there have been the Nawab of Pataudi, Scindia of Gowalior, Holkar of Indore, Gaekawad of Baroda and Nizam of Hyderabad – all titular heads of rather small expanses of land, all of them also cities and capitals – who retain their distinction from days of yore to the present, not as capitals but as cities. The main industrial cities catching the eye for urbanism are of course the steel cities of Tata Nagar, Bokaro, Bhilai, Rourkela and Durgapur, the railway cities of Chittaranjan Locomotive Works, Diesel Locomotive Plant of Varanashi - all centred on the residential facilities extended to employees and facilities and urban amenities extended to auxiliary service providers like schools, hospitals and markets. The industrial townships on a countrywide basis have had their share of urbanism which the late A.K. Chanda, a former CAG, called imperium in imperio, an observation not entirely unreasonable. A genuine urban culture has the capacity for generating the right ambiance for creative efforts, in the fields of art, culture, education, scientific research in different areas and raise the mundane to high levels of profundity.

The Frills of Urban Infrastructure: Transport

Most cities in India boast of multiple modes of transport such as buses, taxi, private cars and auto rickshaws. Trams these days ply only in Kolkata. New modes are metro rail, overhead cable trains being introduced in Mumbai and proposals for the same being under the scanner in some other cities. The rationale behind all this is that in earlier days when these cities came in being it could not be anticipated what courses the changes would take. Thus, the city planners have been at a loss as to how to combat the growing pressure. The roads at the beginning were not broad enough to accommodate four lanes of traffic, they were also not long enough for connecting the suburbs. The long-range, inter-city traffic underlined the need of bettering the connectivity both for passenger and goods transport as a complement to the rail traffic. One missing link has been the inland water transport which at one time was the main connectivity link. Due to heavy silting, this traditional transport mode has taken a back seat. For updating the transport-mix, it preventing floods due to release of excess water from the dams at different places apart from coordination with the concerned authorities for enhancing preparedness. The side effects of creating new transport facilities would have to have a coordinated approach to the whole issue. Unfortunately, a coordinated approach towards connectivity with the minimum side-effects is yet to be in place. Fractionated jurisdictions have come in the way of a wholesome, integrated plan with little or no unacceptable aftermath. Our experience in this respect is not all that savoury. The issues of better and smoother, integrated and responsive, cheap and well-maintained linkages and continuity of supervision of the whole system for innovation are the calls of the hour. Our proposition in the aforesaid context is that Rurban culture would over time obliterate the age-old distinctions between urban and rural cultures and the transport systems would play a dominant role in ushering in of the new one possible. MA

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AN ASSESSMENT OF FISCAL HEALTH OF THE SMALL AND MEDIUM TOWNS OF WEST BENGAL

In all of the municipalities in this study, the share of establishment expenses in revenue expenditures is within favourable limits. Also, all of these municipalities are making capital expenditures satisfactorily

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REVENUE expenditures for urban basic services are paid out from the own source revenues of municipalities – supplemented by government revenue grants. Capital expenditures are mostly provided by government capital grants though it is falling far short of requirement. Before economic liberalization loans at concessional terms were available from public financial institutions for investment in municipal infrastructures but now at competitive market rates. Alternative infrastructure financing modes other than bank loans are public-private-partnership, municipal bonds etc. The primary condition of accessing all of these is a sound fiscal health of municipalities.

According to Kundu (2001, 2006), the national scenario is that – in small and medium municipalities the provision of urban basic amenities is in poor state and entrepreneurs show less interest to invest in trading and manufacturing units there whereas, as a result of this, these municipalities are not being able to be creditworthy.

Research problem

This paper assesses the fiscal health of the small and medium municipalities of West Bengal. A methodological framework of estimating the required volume of funding in infrastructure over and above the inter-governmental transfers has been chalked out in the suggested further study.

Research methodology

The literature offers a number of ways to measure the municipal fiscal health. The Ten-Point Test of Fiscal Condition (Brown 1993) that yields a snapshot of a local government's fiscal health, the Fiscal Capacity Analysis (Alter et al. n.d.), a budgetary tool for analyzing budget trends that is helpful for projecting budgets and the Financial Trend Monitoring System (FTMS) by The International City/ County Management Association (ICMA) comprising a set of 36 indicators (Groves and Valente 1994) that is useful for answering particular questions of possible interest to decision makers regarding the fiscal health of ULB. The measures evaluate the financial condition of the ULBs on the basis of their revenues, expenditures, operating position, and debt structure (Honadle et al. 2004).

If one is interested for the comparison of financial condition among municipalities Brown's test would suit the purpose, if an analyst is interested in projecting expenditures Fiscal Capacity Analysis tool would be opted for and if a longitudinal perspective is focused FTMS by ICMA would be the most suitable one (Honadle and Llyod-Jones 1998). Hence this study stands upon the FTMS methodology. But considering the limitation of data availability some and not all the financial indicators of FTMS by ICMA has been depended upon with pragmatic modifications in the light of the measures suggested by Mathur and Ray (2003). For empirical analysis a case study approach has been adopted.

Table 1: Indicators used for FTMS in this study

No.	Indicators	Formula
1	Population	Population (exponential growth assumed)
2	Revenue Per Capita (Rs.)	Total Revenue Income (at Constant Price)/Population
3	Intergovernmental Revenue Ratio (%)	(Revenue Income from Govt./ Total Revenue Income)x100
4	Own Tax/Total Revenue Income (%)	(Own Tax/Total Revenue Income) x100
5	Property Tax Revenue Per Capita(Rs.)	Property Tax Revenue (at Constant Price)/ Population
6	Revenue Surplus/Total Revenue (%)	(Revenue Surplus/Total Revenue) x 100
7	Expenditure Per Capita (Rs.)	Total Revenue Expenditure (at Constant Price)/Population
8	Establishment Exp./Total Revenue Exp. (%)	(Establishment Exp./Total Revenue Exp.) x 100

Source: Adapted from Groves and Valente (1994)

Table 2: Applied Gradation of Municipal Financial Performance Indicators

	Favourable	Good	Moderate	Poor
Revenue Surplus/Total Revenue Income (%)	>40%	>25%	>15%	<15%
Capital Expenditure/Total Expenditure (%)	>40%	>20%	>10%	<10%
Capital Grants+ Rev. Surplus/ Capital Expenditure	>0.75	>0.5	>0.25	<0.25
Own Tax/ Revenue Receipts (%)	>70%	>50%	>25%	<25%
Revenue Grants/ Revenue Receipts (%)	<10%	<25%	<50%	>50%
Establishment Exp./Revenue Exp. (%)	<40%	<60%	<75%	>75%
Cost Recovery: Water (%)	>75%	>50%	>25%	<25%
Collection Efficiency: Property Tax (%)	>75%	>50%	>30%	<30%

Source: Adapted from Mathur & Ray (2003)

Database

In order to choose the properly representative municipalities the urban landscape of the state is firstly divided into two zones – viz. Kolkata Metropolitan Area (KMA) and urban area outside Kolkata Metropolitan Area (Non-KMA). KMA municipalities score over the Non-KMA municipalities in greater population density, greater concentration of economic units, better transportation and the greater funding for development under Jawaharlal Nehru National Urban Renewal Mission (JNNURM). One small municipality and one medium municipality have been selected from each of these two areas– KMA and Non-KMA - on the basis of maximum number of years of audit of accounts. From KMA - Pujali Municipality (small) and Bhatpara Municipality (medium) and from non-KMA - Taki Municipality (small) and Chakdah Municipality (medium) have been selected for this study. The evaluation of the fiscal health of the municipalities has been made on the basis of their audited financial statements.

Assessment of fiscal health

Financial Trend Monitoring System (FTMS) tool allows depending on a selected subset of the prescribed indicators, instead of making it obligatory to use all the 36 indicators, depending on the data availability along with the need of the analysis to be executed. We analyze for this study the following FTMS indicators only. Some of them have been modified with minor adjustments for the inadequate data availability. Analysis includes the application of line-graphs on the basis of time-series data against these indicators (which has been omitted in this paper). **Table 1** lists and defines the indicators used in this study.

And, again, due to inadequate

Summary of Findings								
Municipalities	**Population Growth**	**Revenue Surplus Earning Rate**	**Property Tax Revenue**	**Water Cost Recovery**	**% of Rev. Exp. for Establishment Expenses**	**Dependency (Rev. Exp)**	**Dependency (Cap. Exp)**	**Cap. Exp. Share in Total Exp.**
Chakdah (Non-KMA Medium)	Moderate	Poor & moving down further	Reducing per capita tax though collection efficiency moderate	Good	Favourable	High	High	Favourable
Bhatpara (KMA Medium)	Low	Poor though recovering	Poor	Poor	Good	High	High	Good
Taki (Non-KMA Small)	Moderate	Poor	Poor per capita tax though collection efficiency moderate	Poor	Good	High	High	Favourable
Pujali (KMA Small)	High	Poor	Reducing per capita tax though collection efficiency favourable	Poor	Favourable	High	High	Favourable

Source: Calculated by the author with primary data collected from municipalities

availability of appropriately disaggregated required data a convenient subset of the Mathur & Ray (2003) prescribed list of municipal financial performance gradation indicators has been applied for this study (**Table 2**).

Low population growth rate in Bhatpara indicates low attraction to the potential in-migrants - possibly for lack in job opportunity, adequate civic services etc. On this parameter Bhatpara scores the lowest.

Revenue surplus generation, the most important factor contributing for financial solvency, is low in all municipalities. On detailed analysis we find that- in all municipalities per capita property tax is low, water cost recovery is poor in all municipalities except Chakdah. It throws doubt on the tax effort of the municipalities. These municipalities are depending heavily upon the government revenue grants even to their recurring expenditures also. It's alarming since there is not much consistency and guarantee of the quantum of the government grants.

In all of these municipalities the share of establishment expenses in revenue expenditures is within favourable limit. It is healthy as they would not have to drag the unavoidable burden of excessive establishment expenses in near future.

So far as the long term situation is concerned, all of these municipalities are making capital expenditures satisfactorily – building their capacity for the future. In doing this these municipalities are depending almost entirely on government capital grants.

Suggested further study

Hereafter we should estimate the funding requirement of the municipalities beyond their own capacity. From this estimated value, if we subtract the intergovernmental transfer we would get the volume of fund to be procured from sources like bank loans, public-private partnerships, municipal bonds etc. Obviously this funding requirement can be estimated as the excess of expenditure need over the fund from own sources. For estimating the expenditure need it is more correct to consider costs than spending – cost being that part of the spending necessary for providing 'standard' level of services which do not include inefficiencies. The standard level of services have been defined by many authorities so far in the context of India – the latest being that prescribed by GOI (2009). According to Reschovsky (2007), there are three approaches of estimating costs – firstly estimating cost functions, secondly estimating expenditure functions as an approximation of the estimate of cost functions in order to overcome the problem of simultaneity between output and spending and thirdly relying on expert judgment to overcome the problem of data non-availability. Considering the very poor availability of properly disintegrated data in our study area we should choose the last one. In this respect we can rely on the estimates prescribed by GOI (2011). And for estimating the fund available from own sources one is to estimate the revenue-raising capacity of the municipalities. This can be done applying the model used by Australian Government Productivity Commission (2008) – which is as follows

$$r_{ij} = f\,(\,y_{ij}\,, z_{ij}\,, P_{ij} \,|\, h_{ij}\,)$$

where r_{ij}, y_{ij} and z_{ij} represent per person revenue, per person fiscal capacity and local government services per person respectively, P_{ij} represents the size of the local government's population and the control variables used to account for the heterogeneity between local governments using secondary models are denoted by the term $|h_{ij}$ – all being of local government i in year j. The Commission in their project of assessing revenue-raising capacity of Australian local governments has preferred the statistical technique Stochastic Frontier Analysis.

REVENUE SURPLUS GENERATION, THE MOST IMPORTANT FACTOR CONTRIBUTING FOR FINANCIAL SOLVENCY, IS LOW IN ALL MUNICIPALITIES

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EFFECTIVENESS OF URBAN FINANCING FOR GROWTH OF URBAN AREAS

A consolidated single source managed by the ministry of urban development must capture and analyze various aspects of public private partnership projects including value, sector, type and geography

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THE Government of India focused on more development towards rural area than urban areas it was witnessed that 5.5 lakhs were allotted for rural development and only 68080 (2006-07 prices) allocated for urban development through the Ministry of Urban Development and Housing and Urban Poverty Alleviation Programme. Even though 70 percent of GDP contributed by the urban areas, they were neglected. The neglect of the urban sector causes several negative implications for the economy, not all of which can be measurable. Due to this the India has to face huge infrastructure challenges regarding development of urban areas. Hence, it is required to identify the financing opportunities for urban development.

The Objectives of the Urban Financing: The objectives of this urban financing are non-budgetary resource mobilization attract private capital, and monetization of land for financing urbanization along with the review of regulatory frame work relating to real estate development and land use appropriate development of urban sector and meet the challenges, there is a need of focus on the establishment of urban local bodies.

Objectives of the Study: The objectives are determined based on the existing literature and reviews.

1. To examine the financing requirements to sustainability and strengthen the urban infrastructure and its development.
2. To test whether there is a significant difference between the different components of estimated figures by the High Powered Expert Committee.
3. To offer a suitable suggestions to develop the urban areas through the urban financing.

Methodology of the Study: This paper based on secondary data collected from the various reports of the urban financing. The estimated figures of revenue, expenditure etc extracted from the high power expert committee appointed by the govt of India. The data of 20 years from 2012-13 to 2031-32 of estimated values by the HPEC (High Powered Expert Committee) was considered for this study. The independent sample test applied to test whether there is a significant difference between the variables.

Requirements of Funding: The estimation of funding requirements for urban development is a challenging issue, in this connection, The India Infrastructure Report (1996) submitted by the Rakesh Mohan, the

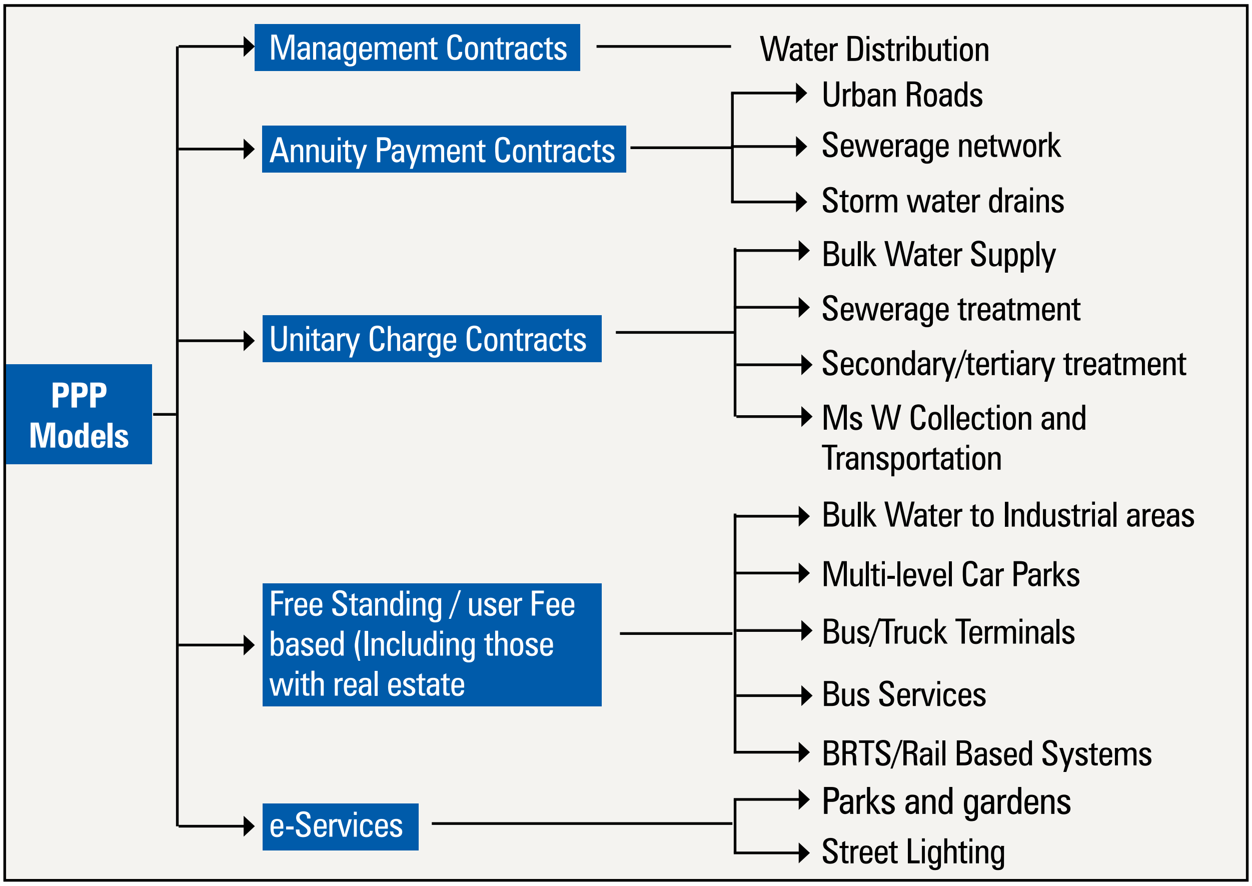

Table 1: Investments over 20 years using HPEC Phasing Plan from the Year 2012-13 to 2031-2032.(In Lakh Crs)

Particulars	2012-13	13-14	14-15	15-16	16-17	17-18	18-19
Total Revenue	1.19	1.23	1.26	1.32	1.34	1.36	1.39
Own Revenue	0.74	0.83	0.89	1.03	1.05	1.07	1.10
Other Revenue	0.46	0.41	0.37	0.29	0.29	0.29	0.29
Total Revenue Expenditure	0.90	0.90	0.90	0.90	0.91	0.91	0.92
Total Capital Expenditure	0.75	0.79	0.85	0.90	0.96	0.99	1.03

Source: HPEC Phasing plan

Particulars	2019-20	20-21	21-22	22-23	23-24	24-25	25-26
Total Revenue	1.41	1.44	1.46	1.49	1.51	1.54	1.57
Own Revenue	1.12	1.15	1.17	1.20	1.22	1.25	1.28
Other Revenue	0.29	0.29	0.29	0.29	0.29	0.29	0.29
Total Revenue Expenditure	0.93	0.95	0.96	0.97	0.98	0.99	1.00
Total Capital Expenditure	1.06	1.10	1.14	1.14	1.14	1.14	1.14

Source: Extracted from HPEC Phasing plan.

Particulars	2026-27	27-28	28-29	29-30	30-31	31-32
Total Revenue	1.60	1.63	1.66	1.69	1.72	1.76
Own Revenue	1.31	1.34	1.37	1.40	1.43	1.47
Other Revenue	0.29	0.29	0.29	0.29	0.29	0.29
Total Revenue Expenditure	1.01	1.01	1.02	1.02	1.02	1.02
Total Capital Expenditure	1.14	1.14	1.14	1.14	1.14	1.14
Source: Extracted from HPEC Phasing plan.						

report on Indian Urban Infrastructure and Services (2011) submitted by the Government of India. The other reports were submitted under the head of India's urban awakening (2010), MC Kinsey report by the global management consultancies. The HPEC committee estimated the funds for urban investment requirement from 2012-13 to 2031-32 for the 20 years period. These were water supply (320908crs), sewerage (242688crs), SWM(48582crs), storm water drains (191031crs), urban roads (1728941crs) mass transit (449426crs), street lighting (18580crs).

Table A

Group Statistics

	Total Capital Expenditure	N	Mean	Std. Deviation	Std. Error Mean
Total Revenue Expenditure	0.50-1.00	6	1.0000	.00000	.00000
	1.00-1.50	14	1.4286	.51355	.13725

Independent Samples Test

		Levene's Test for Equality of Variances				
		F	Sig.	t	df	Sig. (2-tailed)
Total Revenue Expenditure	Equal variances assumed	259.200	.000	-2.012	18	.059
	Equal variances not assumed			-3.122	13.000	.008

Public private partnership (PPP): About 13-23 percent of the total investment possible to acquire through the public private partnerships including annuity models. This would accounts for about 250-300 public private partnership projects in the urban sector each year and also coves a pipe line of about 600-800 public private partnership projects. The Ministry of Urban Development shows that the 49 total projects were implemented from 2005 onwards under the programme of JNNURM (Jawaharlal Nehru National Urban Renewal Mission) with a project cost of 5458 core. The private sector contributed 1066 cr in the form of capital investment, about to 19.5 percent. The Tamil Nadu occupied the first place with an amount of 279 crore in 4 projects followed by Maharastra with 243 crore in 7 projects and Gujarat with 161 crore in 6 projects. Traffic support infrastructure (97985crs), renewal and redevelopment (408955crs) and other sectors (309815crs) and the total amounted to 3918670 (39.2 lakh crore over 20 years)

Sources of Urban Financing: The major sources of urban financing are public private partnerships (PPP), borrowing, land tax etc.

Public Private Partnership (PPP) : The department of Economic Affairs defines the public private partnership as an arrangement between Government or statutory entity or Government owned entity on one side and a private sector entity on the other, for the provision of public assets and / or related services for public benefit, through investments being made by and / or management under taken by the private sector entity for a specified period of time, where there is a substantial sector and the private sector receives performance linked payments that confirm (or bench marked) to specified predetermined and measurable performance standards.

Promotion of Public-Private Partnerships: The following initiatives required promoting the public private partnership; these are tool kit for analysis of urban Infrastructure projects (JNNURM), accessing institutional finance (municipal finance), and credit rating of the proposed cities and establish a pooled finance development scheme. By the year

2016-17, ULBs (Urban Local Bodies) would have to acquire maximum debt from the market and in the same year the ULBs (Urban Local Bodies) seeks to pay maximum re-course (debt repayment) on the borrowing and also they have to mobilize their own resources.

Borrowing: The HPEC working group suggests to borrow the amount form the urban local bodies which are facilities the borrowing from markets for urban infrastructure creation.

Revenue from Land: An institutional frame work to deal with the issues belongs to the land needs to be put in place immediately to be able to unlock land value in a considerable manner. Master plan and its administration determine the outcome of land valuation and followed it as a norm. There is an immense need of prepare a master plan and customized the land patterns as per approved master plans and provides the sequence of land development process and fix the roles and responsibilities of urban development authorities and capture value appreciation on account of infrastructure.

Vacant Land Tax: This is an important source of financing. This is also play an important role in the promotion of housing if the tax rate on build up land is lower than vacant premises.

Land Based Instruments: Land based financing divided into four categories by Peterson in his book unlocking land value, land lease/ sales, density authorization, and land asset management and developer exactions.

From the given information in **table 1**, the total revenue expenditure and total capital expenditure were divided in to two types namely 0.50-1.00 and 1.00-1.50. Based on

Table B

Group Statistics

	Other Revenue	N	Mean	Std. Deviation	Std. Error Mean
Own Revenue	0-0.37	16	1.8125	.40311	.10078
	0.37-0.50	4	2.0000	.00000	.00000

Independent Samples Test

		Levene's Test for Equality of Variances				
		F	Sig.	t	df	Sig. (2-tailed)
Own Revenue	Equal variances assumed	5.616	.029	-.911	18	.374
	Equal variances not assumed			-1.861	15.000	.083

Table 3 : Investment Targets Covered in 20 years with Backlogs Covered in 10 years from the Year 2012-13 to 2031-32.(In lakh Crs)

Particulars	2012-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20
Total Revenue	1.19	1.23	1.26	1.32	1.34	1.36	1.39	1.41
Own Revenue	0.74	0.83	0.89	1.03	1.05	1.07	1.10	1.12
Other Revenue	0.46	0.41	0.37	0.29	0.29	0.29	0.29	0.29
Total Revenue Expenditure	0.91	0.93	0.96	1.01	1.08	1.15	1.29	1.34
Total Capital Expenditure	0.84	1.02	1.22	1.47	1.77	1.97	2.19	2.43

Particulars	2020-21	21-22	22-23	23-24	24-25	25-26	26-27	27-28
Total Revenue	1.44	1.46	1.49	1.51	1.54	1.57	1.60	1.63
Own Revenue	1.15	1.17	1.20	1.22	1.25	1.28	1.31	1.34
Other Revenue	0.29	0.29	0.29	0.29	0.29	0.29	0.29	0.29
Total Revenue Expenditure	1.45	1.57	1.49	1.41	1.34	1.27	1.20	1.16
Total Capital Expenditure	2.70	3.00	0.69	0.65	0.61	0.57	0.53	0.81

Particulars	2028-29	29-30	30-31	31-32
Total Revenue	1.66	1.69	1.72	1.76
Own Revenue	1.37	1.40	1.43	1.47
0.29	0.29	0.29	0.29	0.29
Total Revenue Expenditure	1.11	1.07	1.02	0.98
Total Capital Expenditure	0.75	0.70	0.66	0.62

Source: Extracted from HPEC Phasing plan.

this the independent sample test applied to test whether there is a significant difference between the total revenue expenditure to the total capital expenditure.

Null Hypothesis (Ho): There is no significant difference between the total revenue expenditure to the total capital expenditure of HPEC Phasing Plan of urban financing.

Alternative Hypothesis (Ha): There is a significant difference between the total revenue expenditure to the total capital expenditure of HPEC Phasing Plan of urban financing.

Analysis: The null hypothesis was accepted where (; hence there was no significant difference between the total revenue expenditure to the total capital expenditure.

Table 2: From the extracted information of HPEC total revenue as well as the other revenue was divided in to two groups to apply the independent sample test. These groups were 0-0.37 and 0.37-0.50.

Null Hypothesis (Ho): There is no significant difference between the own revenue to other revenue of HPEC Phasing Plan of urban financing.

Alternative Hypothesis (Ha): There is a significant difference between the own revenue to other revenue of HPEC Phasing Plan of urban financing.

Analysis: The proposed null hypothesis was accepted because of (t = -0.911, DF = 18, p = 0.374), hence it can be concluded that there was no significant difference between the own revenue to other revenue.

Table 4: The above data extracted from the final report of HPEC, investment targets covered in 20 years with backlog covered in 10 years. These were divided in two groups like total revenue 1-1.50, 1.50-2.00

Table C

Group Statistics

Investments over 20 years with backlog Total Revenue Expenditure		N	Mean	Std. Deviation	Std. Error Mean
Investment Targets covered in 20 years in block of io years -Total Revenue	0.50-1.00	7	1.1429	.37796	.14286
	1.00-1.50	13	1.6154	.50637	.14044

Independent Samples Test

		Levene's Test for Equality of Variances				
		F	Sig.	t	df	Sig. (2-tailed)
Investments over 20 years with backlog Toal Revenue	Equal variances assumed	7.111	.016	-2.156	18	.045
	Equal variances not assumed			-2.359	15.816	.032

Table 5: Investments over 20 Years with Backlog Covered in 15 Years from the Year 2012-13 to 2031-32.(In lakh Crs)

Particulars	2012-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20
Total Revenue	1.19	1.23	1.26	1.32	1.34	1.36	1.39	1.41
Own Revenue	0.74	0.83	0.89	1.03	1.05	1.07	1.10	1.12
Other Revenue	0.46	0.41	0.37	0.29	0.29	0.29	0.29	0.29
Total Revenue Expenditure	0.90	0.90	0.91	0.93	0.96	0.98	1.01	1.03
Total Capital Expenditure	0.78	0.87	0.97	1.08	1.21	1.25	1.30	1.35

Particulars	2020-21	21-22	22-23	23-24	24-25	25-26	26-27	27-28
Total Revenue	1.44	1.46	1.49	1.51	1.54	1.57	1.60	1.63
Own Revenue	1.15	1.17	1.20	1.22	1.25	1.28	1.31	1.34
Other Revenue	0.29	0.29	0.29	0.29	0.29	0.29	0.29	0.29
Total Revenue Expenditure	1.06	1.09	1.11	1.13	1.15	1.17	1.18	1.15
Total Capital Expenditure	1.40	1.45	1.48	1.50	1.53	1.56	1.59	0.81

Particulars	2028-29	29-30	30-31	31-32
Total Revenue	1.66	1.69	1.72	1.76
Own Revenue	1.37	1.40	1.43	1.47
Other Revenue	0.29	0.29	0.29	0.29
Total Revenue Expenditure	1.11	1.07	1.03	0.99
Total Capital Expenditure	0.75	0.70	0.66	0.62
Source: Extracted from HPEC investments over 20 years with backlog covered in 15 years				

Table D

Group Statistics

Investment Targets covered in 20 years in block of io years -Total Revenue Expenditure e		N	Mean	Std. Deviation	Std. Error Mean
Investment Targets covered in 20 years in block of io years -Total Revenue	0-1.00	4	1.2500	.50000	.25000
	1.00-2.00	16	1.5000	.51640	.12910

Independent Samples Test

		Levene's Test for Equality of Variances				
		F	Sig.	t	df	Sig. (2-tailed)
Investment Targets covered in 20 years in block of 10 years -Total Revenue	Equal variances assumed	4.800	.042	-.871	18	.395
	Equal variances not assumed			-.889	4.746	.417

and total expenditure as 0-1.00, 1.00-2.00 to apply the independent sample test.

Null Hypothesis (Ho): There is no significant difference between the total revenue to the total revenue expenditure of Investment targets covered in 20 years with backlogs covered in 10 years of HPEC Phasing Plan of urban financing.

Alternative Hypothesis (Ha): There is a significant difference between the total revenue to the total revenue expenditure of investment targets covered in 20 years with backlogs covered in 10 years of HPEC Phasing Plan of urban financing.

Analysis: The proposed null hypothesis was rejected, where (t=-2.156, df=18, p=0.4500 p = 0.50), hence there was a significant difference between the total revenue to the total revenue expenditure.

Table 5: The above table reveals the revenues and expenditures extracted from HPEC plan.These were divided in to two groups, namely 0-1.00 and 1.00-2.00.The comparison was made from the total revenue to the total revenue expenditure.

Null Hypothesis (Ho): There is no significant difference between the total revenue to the total revenue expenditure investments over 20 years with backlog covered in 15 years of HPEC Phasing Plan of urban financing.

Alternative Hypothesis (Ha): There is a significant difference between the total revenue to the total revenue expenditure of investments over 20 years with backlog covered in 15 years of HPEC Phasing Plan of urban financing.

Analysis: The proposed null hypothesis was rejected where, (t=0.871, df =18, p=0.395), hence there was no significant difference between the total revenue to the total revenue expenditure.

Suggestions

1. There should be a consolidated single source must be managed by the ministry of urban development that captures and analyze various aspects of public private partnership projects including value, sector, type and geography.
2. It is suggested to allow the private players for sustainability of urban projects.
3. To strengthen the urban financ-

ing requirements, it is suggested to establish a reforms and performance management cell.

Conclusion

The study finally concluded with the following remarks. There was no significant difference between the total revenue expenditure to total capital expenditure (as per HPEC Phasing plan) and also there was no significant difference between the own revenue to other revenue (HPEC Phasing Plan), but there was a significant difference between the total revenue to the total revenue expenditure (As per 10 years backlog) and there was no significant difference between the total revenue to the total revenue expenditure. The study also concluded that The high powered expert committee estimated 39.2 lakh crore over 20 years for development of urban areas. This amount may be utilized for urban roads, followed by mass transit, renewal and redevelopment, water supply and other sectors. The urban financing may be meet with the non-budgetary resource mobilization, attract private capital and monetization of land for financing urbanization. The effective urban financing contribute the growth of urban areas.

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RURAL URBAN CONTINUUM AND ENVIRONMENTAL DEVELOPMENT IN INDIA

In a situation where there still exist conflicts as well as synergies between rural and urban interests, any relationaship, say between residential area and environmental concerns will be spurious in nature

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Dichotomous classification of societies with distinctive and contradictory aspects is a traditional concept in social science. The strict classification into rural urban societies based on unilinear dependence on qualitative and quantitative factors is one such common instances of dichotomous classification. Over the time social science researchers (Redfield 1953, Oomen 1967) have unfolded the incongruity of the idea of dichotomy as different societies can be ranked in increasing or decreasing order based on multiple structural levels. This gave rise to the notion of continuum hypothesis (early 1960's) that differentiated societies based on structural levels. The aim of this paper is to systematically develop the understanding of continuous gradation from rural to urban along the continuum and understand the environmental development path along this rural urban continuum for Indian society.

Rural urban dichotomy vs. rural-urban continuum

The former classifies communities as rural or urban on the basis of either population size or administrative types. In a dichotomous framework, communities can either be strictly rural or urban. The later places communities along a continuum between two polar types – extremely rural or highly urbanized as continuum is based on the idea of continuous gradation from rural to urban so that all human communities can be empirically placed at some point along the continuum. In the past the rural urban continuum is often misinterpreted as the process of urbanization. However, it is not a theory of urbanization but a conceptual framework within which certain rural-urban differences may be meaningfully interpreted (Eugen Lupri, 1966).

However, there are controversies related to the sociological relevance of the continuum hypothesis. The fundamental assumption of continuum hypothesis to use the criteria of size and density of population for the categorization of communities and the assumption that the size factor is the social differentiation-producing factor in the community have been strongly criticized. That is, continuum hypothesis assumes size and population density of the population in a community creates the same behavioral pattern across its member. Thus a more realistic approach to the construction of rural-urban continuum is one that utilizes both population size and administrative type in the classification of communities. Researchers such as Yuan (1964), Oomen (1967) have suggested that both community size and administrative type are fundamental for classification of societies. On assessment of the official definition of rural and urban areas in 53 countries, it is found that 37 of them have classified rural and urban areas based on population size alone (16 countries) or on the basis of administrative type alone (21 countries) (Handbook of Population Census Methods (Series F No. 5), New York, United Nations, 1954, pp. 108-112).

Unlike rural-urban dichotomy, the rural urban continuum based upon population size and administrative classification of communities is fundamental to ascertain how predictive this continuum is of characteristics such as population density, community dependence on agriculture, ethnic heterogeneity, population mobility, literacy, occupational composition and environmental concern.

Rural urban continuum and Indian society

The Census authorities in India have used population size as the factor in rural-urban grouping of communities till 1961. Since 1971, major occupation of the population is also given priority for this classification. In 2011 Census the definition adopted for an urban area is as follows-

Urban Unit (or Town): All places with a municipality, corporation, cantonment board are notified town area commitee, etc. (known as Statutory Town). All other places which satisfied the folowing criteria is defined as Census Town-

a. A minimum population of 5,000;

b. At least 75 per cent of the male main workers engaged in non-agricultural pursuits; and

c. A density of population of at least 400 per sq. km.

Three types of settlements are distinguished by based on the size and density of population, viz. city, town and village. A settlement with a population of 100,000 or more is called a city. A town should have a population of 5,000 or more, while the villages are settlements with less than 5,000 population. Towns are somewhere in between the two extreme poles of rural urban continuum in India and combines the behavioral characteristics of both rural and modern urban society. A town is likely to have the following characteristics - (i) A population of 5,000 or more; (2) a density of not less than 1,000 persons per sq. mile; (3) the dependence of 75 per cent of the population on non-agricultural activities; and (4) the presence of certain pronounced urban characteristics.

In India the population density increases as we move from rural to the urban end of the continuum.

> **OVER TIME TO SUSTAIN IN THE LONG TERM PEOPLE REALIZE THE IMPORTANCE OF PRESERVING ENVIRONMENT. SUCH REALIZATION GIVES A STRONG IMPETUS TO IMPROVE ENVIRONMENTAL CONCERNS**

Ethnic heterogeneity is also likely to increase as we move from rural to urban continuum as different people migrate to the cities for occupation, education etc. If we compare the rural world with the urban world we will find that rural much more racially homogeneous than the urban (Keye's assertion).

Rural urban statistics

70% of the Indian population resides in rural areas. Of the 121 crore Indians, 83.3 crore live in rural areas while 37.7 crore stay in urban areas. The rural-urban distribution is 68.84 per cent and 31.16 per cent respectively. The level of urbanisation increased from 27.81 per cent in 2001 Census to 31.16 per cent in Census 2011, while the proportion of rural population declined from 72.19 per cent to 68.84 per cent for the first time. Such change in distributional pattern pertains to changing demographics, changing occupational patterns and changing qualities of life for the country. Uttar Pradesh tops the list for percentage of rural population and Mumbai tops the list having the maximum number of people in urban areas.

India's environmental concern along rural urban continuum

Considering the substantial disparities in the socio-economic development of the country, it is futile to assume equal environmental concern across the rural urban continuum. Rather it is imperative to make an attempt to understand the varying environmental concern across this continuum. Again the inherent limitation is such gap may persist across various community groups other than rural-urban differentiation.

In the early 90's there was a concern among researchers to identify whether environmental concern is widely diffused throughout the society. Research and studies have found existence of bias across the environmental concern while studying the relationship between environmental concern and attributes such as age, social class, political ideology and race (Jones and Dunlap 1992; Jones, Fly, and Cordell 1999; Van Liere and Dunlap 1980). Association of place of residence with environmental concern has also received considerable attentions in the papers of Berenguer, Corraliza, and Martin 2005, Manning and Morrissey, 2000. Sharp and Adua in 2009 emphasized the three sets of factors: residential location along the rural-urban continuum; social distance from farming; and rural recreational behaviors in examining the agro-environmental concern for the state of Ohio in USA.

The history of India's social transition often helps understand the behavioral pattern of a community. In the feudal society the farmers were never concerned about the land usage pattern as they struggle to meet their both ends meet after satisfying their oppressive feudal lords. Thus the affinity arising from social nearness or physical proximity to natural resources (Bogardus, 1933) is not sufficient to make rural residents feel concern for environment especially when they are lacking their basic amenities in life. The agro environmental concern became visible with improved land tenure law that gave farmers the ownership right. Similarly during urbanization, people destroyed forests to set up their habitats and never think of environmental degradation. Over time for their own need to sustain in the long term people realizes the importance of preserving environment. Such realization gives a strong impetus to improve environmental concern. This may help raise the concern among rural residents who have direct dependence on natural resources and as well as for urban people who are more vulnerable to pollution due to high population density, vehicular pollution. This pattern of environmental degradation is also changing across the rural urban continuum. In recent times the increase in nonfarm activities are generating substantial amount of pollution. Previous studies related to the rural non-farm employment suggest that construction, trade, and transport have emerged as the engine of rural employment growth; these industries together account for only 11 per cent of the rural workforce (Jha, 2009).

Thus, the demarcation for more and less environmental concern along the rural-urban continuum is not easy to draw especially when the rural urban differentiation seems unrealistic. In literature there are controversies regarding environmental concern of rural- urban residents. A number of research indicates that urban dwellers tend to be more concerned than their rural counterparts about environmental issues (e.g. Tremblay and Dunlap 1978; Van Liere and Dunlap 1980; Lowe and Pinhey 1982). A number of initiatives in recent time may challenge us to support this view in Indian framework-

- Farmers in Punjab used rice straw to generate 10MW of power
- Off-grid biomass plants light up villages in Muzaffarpur, Bihar
- Community develops and maintains micro hydel project for their village electrification in Koraput district, Odisha etc.

As rural areas are showing progress towards environmental performance, urban cities are still facing challenges to deal with already existing problems such as increasing river bed pollution due to lack of sewage treatment by municipalities (The CPCB Ganga action plans found to be ineffective), rising demand for fossil fuels in Urban area - in 2013 India was the fourth-largest consumer and net importer of crude oil and petroleum products in the world after the United States, China, and Japan.

SOME MULTIDIMENSIONAL MORE INCLUSIVE THEORIES MAY BE REQUIRED TO UNDERSTAND THE ENVIRONMENTAL CONCERN ALONG THE RURAL URBAN CONTINUUM

This however does not ensure rural areas are more concerned than their urban counterparts regarding environmental degradation in India. Rather these are instances that make comparison difficult and restrain us to describe one area as superior than the other with respect to environmental performance. There are also instances that are contradictory to this.

Conclusion

Rapid technological and social changes as well as improved communication and transportation systems have greatly altered the pattern of rural life and considerably blurred the striking differences between rural and urban ways of life. The rural-urban differences, though diminishing over time, will remain crucial because there are different dimensions of the rural and urban social life and a continuous change is occurring to the various sectors. A variety of socioeconomic and demographic characteristics is known to vary consistently along the rural-urban continuum that strictly opposes the use of single quantitative or qualitative factors for categorizing communities into rural or urban. Moreover the notion of rural urban division itself feels to be the unrealistic, misleading metaphor. In the earlier days rural population depended on urban centres for access to secondary school, colleges, hospitals etc. Though such dependence is growing small with development, there are still conflicts as well as synergies between rural and urban interests. In this scenario any relationship say, residential area and environmental concern will be spurious in nature. In India, there actually exists population specific environmental concerns. Some multidimensional more inclusive theories may be required to understand the environmental concern along the rural urban continuum.

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COST AND MANAGEMENT ACCOUNTANTS SHOULD OPERATE AS BUSINESS CONSULTANTS

Mr R K Dubey, CMD of Canara Bank talks to *The Management Accountant*

Q&A

MA What have been the major operational initiatives taken during your tenure in this organization?
We introduced series of measures in four key areas of banking operations, viz., Delivery Channels, Technology, HR and Customer Service. From January 2013 to date, we opened 1541 domestic branches, second highest in the country including 118 specialized branches.

Recently, branches each at Johannesburg, South Africa and New York, USA were opened to expand our global presence. ATM expansion has been carried out on a mass scale with the opening of 3485 ATMs during the period. Several value additions were made under internet and mobile banking, credit/debit cards, online trading and products/processes were introduced to suit varied customer needs.

To support the growing business and expansion plan, 12864 persons were recruited across cadres. Customer Service was given added thrust with the appointment of CCSO to act as an internal Ombudsman of the Bank.

In sum, a meticulous planning exercise was drawn and executed to enhance the performance of the Bank.

MA In the recent years nonperforming assets have become a major hurdle to a bank's growth. What suggestions, in this regard, do you have for the banking sector in India? How could professionals like the Cost and Management Accountants support you?
In recent years, asset quality has deteriorated in the banking industry owing mainly to economic slowdown. However, to minimize NPAs, measures including improving recovery, avoiding slippages, continuous follow up of Special Mention Accounts to avert the slippage, initiation of SARFAESI action to recover dues, stringent measures against willful defaulters, one time settlements, etc are generally enforced.

The services of Cost & Management Accountants would help us to conduct viability study in case of restructuring or rehabilitation and also aid in ensuring the correctness of methods/systems adopted by borrowers in pricing their products.

MA As proposed by the former Finance Minister, consolidation in the banking system is inevitable. How do you see the Public Sector Banks getting affected by the same?
Establishing 3 or 4 globally competitive banks by merger of banks was one of the major recommendations of Narasimham Committee on banking sector reforms. In India, there is large scope for M&As

because of heightened competition in the industry and banks can reap the benefits of economies of scale and scope. More importantly, with India being one of the fast developing economy propelled by the three "success factors" of favorable demographics, globalization and productivity-boosting reforms, the need for stronger banks capable of competing in the global financial landscape is becoming more pronounced in recent years. Consolidation moves have already begun in India with the recent mergers being that of SBI with its associate banks.

However, the experience of 2008 financial crisis and consequent downturn in global and domestic economic growth underscored the need to consider all aspects. Otherwise, there could be a case of marrying in haste, repenting at leisure.

MA India needs large banks to be competitive in the world and the RBI is talking about differentiated bank licenses. How do you see this strategy?
RBI's move on differentiated banking licenses primarily addresses financial exclusion of large rural masses, which is over 40% at present. In my opinion, the objectives of establishing big globally competitive banks and issuance of differentiated banking licenses do not reflect significant contradictions. Moreover, under differentiated banking license system, the companies would be authorized to provide limited banking services.

MA What ways do you feel the competition from NBFCs affecting banking business in India?
Banks and NBFCs have co-existed in India for very long. Compared to NBFCs, which offer specific financial service to customers, banks are at a competitive advantage owing to large products and services base catering to varied financial requirements of customers.

In recent years, NBFCs are registering strong growth and the share of NBFCs' assets in GDP has increased to 12.5% as at March 2013. Recently, RBI has permitted to take the services of non-deposit taking NBFCs as Business Correspondents for banks in promoting financial inclusion in the country. Since NBFCs are dependent on banks for their funding requirements, growth prospects for both banks and NBFCs in the emerging market like India is mutual. However, regulatory reforms are required to strengthen NBFCs in India.

MA What according to you would be the cost implications of Basel III norms for Indian banks?
Basel III CRAR norms, as prescribed by the RBI, require higher common equity capital. At present, banks are required to maintain total CRAR of 9%, with 7% Tier I capital. This ratio is mandated to increase progressively to 11.5% by March 2019 when the full implementation of the Basel III norm will take effect. Besides, banks may also be advised to maintain additional capital on account of counter cyclical buffer and for domestically systemic banks. Therefore, banks in India need huge additional capital in the form of equity and non equity to maintain minimum CRAR norms upto March 2019. The cost of mobilizing capital is also high at 9-10% for Tier II bonds and similarly cost of servicing equity issue. The higher cost of capital is also expected to impact the rates for the borrowers.

MA For many, the corporate debt restructuring forum has become a place of recourse and they get away with their malice objective, how could we improve this system? Your view and your valuable suggestions please.
Restructuring is an effective financial tool introduced to cushion the adverse impact of economic downturn for both the borrowers and the banks. However, there has been a rapid rise in CDR cases in the industry owing to economic slowdown for a fairly long period of time and also lack of financial discipline on the part of borrowers.

To overcome the situation, banks' have put in place utmost prudence in assessing the proposals for restructuring and are also contemplating change of managements wherever required. However, strong growth numbers expected in the current financial year would automatically reduce restructuring/ CDR cases in the industry.

MA Recently it is heard that your Bank is looking forward to strengthen its retail loan portfolio. What actions do you propose to augment this policy?
During the current financial year, the following strategies have been vigorously pursued to significantly increase our share of retail credit.

- Minimum growth of 30% under retail loans.
- Focused attention for augmenting housing, vehicle, personal loans & education loan portfolios.
- Tie-ups with Builders, Car dealers and MoU's with reputed educational institutions.
- Increase the number of Retail Asset Hubs in potential areas for garnering more quality proposals and reduce turnaround time.
- Popularize & publicize Online tracking system with facility of web-based applications & ensuring quick disposal thereof.
- New loan originating solutions (Seamless transfer of applications sourced at Branches electronically to Hubs to reduce turnaround time).
- New schemes, viz.,

√ Yuva Awas Rin – to cater to the needs of young generation
√ Vehicle Loan for Agriculturists – To cater to the needs of agriculturists, who find it difficult to arrange for income proof such as ITAO/ITR.

MA Is your bank taking any new steps to enhance the rural banking and in extending financial assistance to the Micro, Small and Medium Enterprises?
During FY14, the Bank opened 1027 branches, of which, 79% of them were in rural and semi urban areas and 261 of them were in FI/ unbanked villages. Further, the Bank is striving towards a more inclusive growth by introducing innovative products and services suitable to the rural masses, e.g., Basic Savings Bank Deposit Accounts, Credit Linkage through In-Built Overdrafts, Kisan Credit Cards, General Credit Cards, DRI Scheme, SHGs, Micro Credit Groups, Micro Insurance and Micro Pension under Canara Nayee Disha Scheme, Direct Benefit Transfer, Biometric ATMs.

We have also promoted several corporate social responsibility initiatives aimed at generating self employment avenues and rural development.

MSME lending is among the prime focus areas of the Bank. The Bank has 44 SME Sulabhs (Specialised SME Processing Centres) and 148 SME Branches (specialized outlets for exclusive lending to MSME sector) functioning across the country. Further, the Bank launched several new schemes during the previous financial including Canara MSE Pragati, Canara MSE Unnati, Canara MSE Satkar and Flavour and 4 new schemes during Q1FY15, viz., Canara MSME CAP – for financing against Property, MSME VAHAN – to finance MSME Entrepreneurs for purchase of Passenger Vehicles, Canara MSE SMART - for financing Professionals for business needs and MSE VIJETA – for financing of Women Entrepreneurs.

The Bank has also entered into several MoUs with several companies to increase MSME lending. The Bank has launched 'Sahayata' - a helping hand in cases of incipient sickness of Units facing stress so that they can overcome the situation through restructuring/rehabilitation and enabled e-Suvidha, to facilitate MSME loan applications and MIS.

As at June 2014, the Bank's credit to Micro, Small and Medium Enterprises (MSMEs) reached 49316 crore, achieving a y-o-y growth of 33%.

MA What is your expectation from the new Government for the development of banking industry?
Economic recovery is underway with the pickup in GDP growth (5.7% - Q1FY15), industrial output, external trade, comfortable CAD, etc. However, volatile inflation is a cause for concern. Control of inflation and consequent relaxation in interest rates would boost credit growth and increase investment. With the implementation of Basel III norms in progress, there is huge capital requirement in the banking industry.

Further, the efficiency in the banking system is saddled with deterioration in asset quality. Suitable measures to revamp the assets portfolio of banks are required to improve profits and margins. SARFAESI Act and laws relating to housing loans need to be strengthened further. Insolvency laws to be brought in the country.

MA In the present scenario what roles could professionals like Cost and Management Accountants play to help the banking sector in enhancing performance? Please suggest in what way our professionals may offer their expertise in other areas of banking.
Cost and Management Accountants have an important role to play in the banking industry. In fact, Cost and Management Accountants should be involved in the planning exercise all along the line and not merely for audit purposes. In my opinion, Cost and Management accountants should operate as business consultants in banks by involving in every activity, process, and function deserving appropriate levels of attention and aid in achieving greater value and efficiency.

The Institute of Cost Accountants of India has been rendering quality training in the field of Cost and Management Accounting. Seen in the backdrop of heightened competition and shrinking margins, innovative cost effective solutions would help improve operational efficiency in the banking industry.

MA Would you please throw some light on the bank's future growth plan and overseas expansion plan?
We have targeted an aggregate business figure of over Rs.8 lakh crore mark by March 2015. In an attempt to bring about qualitative improvement in business mix, the Bank will enhance its retail business portfolio viz., CASA, retail deposits, retail credit, including housing, vehicle and other personal loans. Focus will continue on technology, fee income and MSMEs both to support business and enhance profitability parameters. We have plans to achieve best asset quality standards in the industry by containing Gross NPA at around 2% and Net NPA around 1.5% by March 2015.

We plan to increase the number of branches to 6000+ and number of ATMs to 10000 by March 2015. Under overseas expansion plan, the Bank has approval of RBI to open branches/ subsidiaries/Representative Office at 13 international centres, viz., Dubai International Financial Centre, Frankfurt, Qatar Financial Centre, Jeddah, Birmingham, East Ham & Kingsbury (branches); Sao Paulo, Dar es Salaam (Subsidiaries) and Abuja, Tokyo, Turkey and Indonesia (Representative Offices). Further, the Bank has approached RBI seeking their permission to open branches/offices in 6 more countries, namely, Mexico, Rwanda, Singapore, Canada, Australia and New Zealand. The Bank has a medium term plan of expanding its overseas presence to 15 centres in two years.

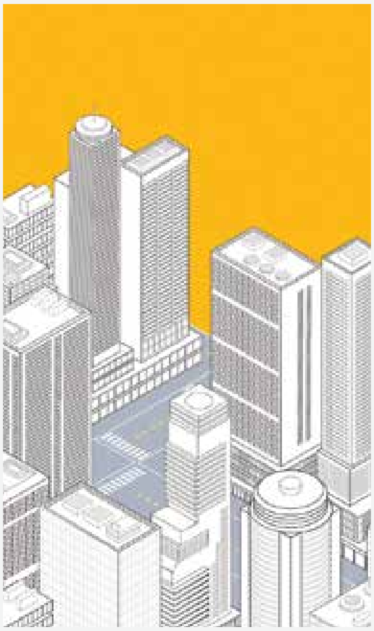
From the Research Desk

Urban Development & Economic Growth

Role of CMAs

- **Sustainable Municipal Infrastructure** – Sustainable urban development refers to attaining social equity in employment, shelter, basic services, education, health, social infrastructure and transportation in the urban areas and environmental protection in urbanization while minimizing the costs of urbanization. The CMAs can suggest suitable strategies by resource mapping to increase efficiency and productivity towards sustainable economic growth of nation.

- **Sustainable Transport** – Transportation sustainability is largely being measured by transportation system effectiveness, connectivity and efficiency. The environmental impact of the system in India is in a state of disgrace. The deterioration is faster in metropolitan cities where there is an excessive concentration of vehicles. Commuters in these cities are faced with acute road congestion, energy wastage, rising air pollution due to carbon emission, a high rate of accident risk and unjustified fares. In this context, the CMAs should facilitate the competent authority in tariff fixation mechanism, so that people can enjoy smooth service and transport service providers can earn sustainable amount of profit in a cost effective manner.



- **Strategic Urban Planning** – Although density and scale are necessary for economic growth they may give rise to externalities like congestion. Urban planning should direct its attention to managing such externalities and not directly controlling densities. Parking fees or congestion charges on vehicles can be an important technique of managing externalities. The CMAs can suggest pricing mechanism in this context.

- **Land Management** – Requirement of adequate land for public purposes like roads, schools, healthcare facilities, parks and playgrounds is the main challenge of urban planning. The CMAs can advise suitable strategies of optimum social use of land in adequate quantity, at right time and for reasonable prices to both public authorities and individuals. The CMAs also by using the techniques of resource mapping and benchmarking analysis can prevent concentration of land ownership in a few private hands, especially to safeguard the interests of the poor and under-privileged sections of the urban society.

- **Smart City** – Smart cities, the flagship project of the present Government, have received a firm financial allocation in the Union budget. The government has provided Rs.7,060 crore to build 100 smart cities as satellite towns on the outskirts of large cities to accommodate the burgeoning urban population. Smart cities are aimed at excellent information and communication technology services, trimming down of carbon footprint, creating sustainable environments and improving living conditions. In this regard, CMAs can keep track of allocation and apportionment of the budget to achieve maximum result.

- **Construction and Housing** – It is necessary to pay equal attention to both demand and supply side of the housing market. The demand relates to income, space – transport trade-offs, and availability of housing finance. The supply relates availability of land and infrastructure, availability of building materials and construction finance. The CMAs can provide innovative ideas to bridge the gap of demand and supply side for sustainable economic growth.

- **Waste Management** – Economic growth, urbanization and population growth are the other major partners of creating more garbage. Efficient disposal is costly, but essential for public safety, health, quality life and environment. The CMAs can frame cost-effective strategies to reduce waste management cost by identifying obvious areas of waste reduction where immediate and substantial savings can be achieved by implementing no-cost and low-cost measures.

- **Control of Pollution** – Pollution has serious implications on economic growth and welfare because of its impact on health, resource depletion, and natural calamities linked to climate change. The costs of a pollution free society would be very high. It is necessary to achieve a balance between the social costs and social benefits of reducing pollution. Here CMAs can work out risk mapping and can put forward cost competitive ideas to maintain the balance. The benefits of pollution control are measured by the reduction in damages caused by pollution to human health, and to material, natural and agricultural resources. Cost Accounting Standard - 14 issued by the Council of The Institute of Cost Accountants of India on "POLLUTION CONTROL COST", can bring uniformity and consistency in the principles and method of determining the Pollution Control Costs with reasonable accuracy.

- **Public-Private Participation** – Public-private partnerships driven by corporate citizenship have the power to improve the services that matter to city residents: education, transportation, economic development, public safety, health care, social services, and more. Rather than simply cut back on these services in the face of budget deficits, local governments can work with corporations to transform the way they are delivered. CMAs can play a major role in this aspect.

- **Green Governance** – Regarding the environmental issues, all the technology and knowhow in the world is useless without strong implementation of policies. In many ways, India should be poised for an effective environmental governance program, where CMAs can facilitate the Government by suggesting appropriate governance mechanisms.

- **Balanced Growth for Sustainable Urban life** – For balanced growth of sustainable urban life, safe, convenient and accessible transport options would enable fast and comfortable movement in the society. Responsible planning facilitates a desirable living environment and meets growth targets to achieve ecological, economic and social sustainability. Financial assistance is essential to accomplish the tasks, which is provided by the Government. CMAs can keep track of allocation and apportionment of the fund provided to extract a maximum outcome and eliminate money laundering.

KEEPING THREE BALLS IN THE AIR: THE CENTRAL EXCISE TARIFF, SERVICE TAX AND THE TAXPAYERS

The central excise tariff suffers from policy inconsistencies and technical shortcomings. The tariff code has remained unreformed over the decades of its existence and the proliferation of excisable processes in the Section and Chapter Notes has added to the confusion

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THE Central Excise and Service Tax are siblings in the Union Indirect Taxation. The taxable events conceptually separating the two taxes cannot be more different than they get. The Central Excise duty is the only tax in the country which is leviable on excisable goods manufactured within India. The Service Tax is the levy on the taxable services provided or agreed to be provided. They are governed by the Central Excise Act, 1944 and the Finance Act, 1994 respectively. The distinctive difference in the taxable events of these two Taxes may give the impression that there will not be any overlap and mismatch between the two Tax Systems. In actual practice, however, several disconcerting overlaps between Central Excise and Service Tax have been observed (please see issue dated March 2011 of the "Management Accountant" for an account of this phenomenon). The proliferation of taxable services after the watershed transformation in the Service Tax Law commencing from 1st of July 2012 has only served to accentuate the trend. The double envelopment of certain industrial activities by the Central Excise and Service Tax laws arises from the marked inconsistencies of coverage of processes in the Central Excise Tariff. The Excise Tariff has been in existence since 1986 and saw an expansion of its numerical code in the year 2005, culminating in a larger array of products becoming visible over the waterline in the tariff. If the Central Excise Tariff stops with describing excisable products under distinctive numeral codes and the applicable tax rate, then there is not much of a problem. The Central Excise Tariff has become an expansionist code by inserting tax-inducing provisions in the section and chapter guidance. The section notes and chapter notes have been used to enlarge the scope of the central excise duty. This has been done by specifying certain processes as amounting to manufacture which by logic and common parlance it would not. Further the definition of 'manufacture' in the Central Excise Tariff in regard to certain activities such as packing, repacking and doing any treatment on the finished product to enhance the marketability of the products have also been brought into the levy of Central Excise Duty by pooling such items under the Third Schedule to the Central Excise Act. Despite the

A LEVY OF TAX ON SALT IS STILL VIEWED BY THE PEOPLE AS UNPATRIOTIC... BUT, AFTER INDEPENDENCE THE GOVERNMENTS IN INDIA HAVE GRADUALLY BROUGHT SALT WITHIN THEIR RESPECTIVE TAX CODES

expansion of the coverage of Central Excise Tariff, there have been shortcomings and inconsistencies in the Tariff in the way the same technical processes have been dealt with, for different commodities. Such deficiencies have caused appreciable tax cost in the hands of the tax payers. The Service Tax law has a Siamese connection with the Central Excise System by means of which any activity of manufacture which does not satisfy the test of excisability given in the Central Excise Tariff and the Central Excise Act would be subject to the levy of Service Tax. In this Article we will look at certain significant areas of inconsistency and divergence in the operation of these two tax systems which have cost consequences to the tax payers. The issues raised underscore the need for urgent reform of the Central Excise Tariff.

Salt vs Coal

Both Salt and Coal occur naturally, but have to be mined from the sea and earth respectively. These products as occurring in the natural state will be practically wasteful and even unusable unless these are subjected to a technical process known as 'washing', which involves an industrial application of removal of impurities, concentration and grading, etc., with the help of machinery and equipment. One would expect that the Central Excise Tariff would treat the process of washing uniformly irrespective of the commodity involved. The washing of coal or salt as the case may be, is a value-enhancing and environmentally more productive activity. It deserves tax mitigation. However, it is not the tax scenario as would be clear from the following discussion:

It may surprise readers to know that Salt is a commodity included in the tax codes of post-independent India. The famed Dandi March of Mahatma Gandhi is etched in the historical memory of Indians. A levy of tax on Salt is still viewed by the people as unpatriotic and a continuation of the colonial mind-set. Nonetheless, after Independence the governments in India have gradually brought salt within their respective tax codes. Many states seek to tax Salt for industrial purposes and exempt edible Salt. In some states, Salt of all types is given tax exemption. There is a Union salt cess on salt pan holdings of over 10 acres. In the Central Excise Tariff, the Salt is covered under Chapter 25 and though NIL rated at present, it is placed in the company of Sulphur, Stone, Lime and Cement. The Note No.1 in Chapter 25 states as follows, inter alia:-

"Except where their context or Note 4 to this Chapter otherwise requires, the headings of this Chapter cover only products which are in the crude state or which have been washed (even with chemical substances eliminating the impurities without changing the structure of the product), crushed, ground, powdered, levigated, sifted, screened, concentrated by floatation, magnetic separation or other mechanical or physical processes (except crystallization), but not products that have been roasted, calcined, obtained by mixing or subjected to processing beyond that mentioned in each heading.

The products of this Chapter may contain an added anti-dusting agent, provided that such addition does not render the product particularly suitable for specific use rather than for general use". (Emphasis supplied).

Thus, the process of 'washing' of salt is treated as an excisable process. The fact that the tariff rate of duty is 'Nil' does not make it non-excisable. In the case of CCE Vs WAZIR SULTAN TOBACCO CO. LTD., - 1996 (83) ELT 3 (S.C.) the Apex Court held that 'nil' rate of duty is also a rate of duty. The fact that the Tariff Rate is 'nil' or that there is a separate exemption for a positive Tariff Rate will not make the product non-excisable goods is also made clear by the Supreme Court in the case of WALLACE FLOUR MILLS COMPANY LIMITED Vs CCE – 1989 (44) ELT 598 (S.C). In this case the Court cited with approval the decisions made in Karnataka Cement Pipe Factory and Tamil Nadu Handloom Weavers' Co-operative Society cases and held that excisable goods do not become non-excisable goods merely by reason of the exemption given under a Notification. Thus, the washing of Salt is an excisable activity, though 'nil' rated at present. It will exclude the levy of service tax.

While the Central Excise Tariff covers washing of salt as a process amounting to manufacture in Chapter 25, the Tariff is silent when the same process of washing is applied to Coal which falls under Chapter 27 of the same Tariff code. The Chapter Notes of Chapter 27 do not have a provision similar to the one discussed above for Salt. Thus washing of Coal which is essential to render the mined Coal valuable and marketable is omitted to be classified as a manufacturing activity. The absence of Coal washing as a specified activity in the chapter notes has the effect of exposing to the levy of service tax as analysed in the following paragraphs.

SERVICE TAX HAS BEEN UNLEASHED UPON PROCESSES OF MANUFACTURE AND PRODUCTION WHICH ARE NOT SUBJECT TO THE LEVY OF CENTRAL EXCISE DUTY

Service Tax on non-excisable processes

Section 66-D (f) of the Finance Act, 1994 provides that any process amounting to manufacture or production of goods is non-taxable under Service Tax. The corollary effect of this concession is that processes which do not amount to manufacture or production of goods will be made liable to the levy of Service Tax, especially given the new generic definition of 'service' in the Finance Act, 1994 as follows:-

> (44) "Service" means any activity carried out by a person for another person for consideration, and includes a declared service, but shall not include..
>
> Clause (40) of the same Act defines the process amounting to manufacture or production of goods as follows:
> "Process amounting to manufacture or production of goods" means a process on which duties of excise are leviable under Section 3 of the Central Excise Act, 1944 (I of 1944) or the Medicinal and Toilet Preparations (Excise Duties) Act, 1955 (16 of 1955) or any process amounting to manufacture of alcoholic liquors for human consumption, Opium, Indian Hemp and other narcotics drugs and narcotics on which duties of excise are leviable under any State Act for the time being in force".

The Service Tax Law thus links manufacturing process with leviability of Central Excise Duty under the Central Excise Act, 1944 or the Medicinal and Toilet Preparations (Excise Duty Act, 1955).

The lacuna in Chapter 27 regarding washing of coal has been seized by the Service Tax Department to demand tax on charges for washing of coal. The Tribunal upheld the stand of the Department in the following cases:-

- ARYAN ENERGY PRIVATE LIMITED VS. CCE – 2009 (13) STR 42 (Tri.)
- SPECTRUM COAL & POWER LIMITED VS.CCE – 2010 (28) STR 510 (Tri.)

The analysis shows how a differential treatment of a technical process in the Central Excise Tariff in certain Chapters can bring about greater tax liability that could have been intended by the policy-makers. As a matter of fact, there are several issues with regard to Central Excise Tariff that distinctly leave the question of excisability of the coverage hanging despite the presence of the products/commodities in the Central Excise Tariff. Some of these are highlighted herein:

Uncertain excisability despite being covered in the central excise tariff

There are several Chapters in the Central Excise Tariff where goods have been included in the respective Chapters, but the duty rates have been left blank. Such 'blank rate' items have an uncertain tax fate. The Courts have consistently held that mere mention in the Central Excise Tariff is not conclusive of excisability and that the products are required to satisfy the test of manufacture in order to become liable to central excise duty. In the case of products covered in the Central Excise Tariff but without any Tariff Duty being assigned to them, the question would be whether they are liable to be treated as excisable goods for the purpose of Central Excise duty even if they happen to be satisfying the test of manufacture.

Tyre vs Retreaded Tyre

A recent example of a controversial product is re-treaded tyre. The retreading of tyres was in the past held by the judicial forums not to amount to manufacture. However, the government chose to place it in the central excise tariff in the year 2005 when it expanded the tariff's numerical digit code from six digits to eight digits, but without determining what its duty rate would be. The Central Excise Tariff under Chapter 40 covers a number of articles of rubber. Barring entry under 4012 all other Entries are fully described with appropriate Tariff Duty Rates. Entry 4012 covers retreaded tyres inter alia. The presence of retreated tyres in the Central Excise Tariff has not guaranteed the excisable status (similar to new tyres) for this item due to no tariff duty rate being assigned to it. As a matter of fact, the Tribunal has upheld the coverage of retreaded tyres under Service Tax law by treating the process of retreading as falling under 'maintenance and repair service'. The uncertainty in the Central Excise Tariff regarding retreaded tyres has been costly for manufacturers of such retreaded tyres. It has generated avoidable controversy and expensive litigation. Now let us look at another problem spot.

Tinting of paints

The mixing of base white paint and the preferred colorants according to customers' choice at the premises of the paint dealers to obtain the desired shades of the paint is another area of uncertainty as regards the excisability. The Central Board of Excise and Customs once stated vide their Circular NO: 247/81/96 CX dated 3.10.96:

"Therefore, it is clarified that the process of tinting of base enamel/emulsion paint with stainers to obtain paint of different shades does not amount of 'manufacture' within the meaning of Section 2(f) of the Central Excise Act, 1944 and if the base emulsion/ enamel paint and the stainers are duty paid then the resultant product obtained after tinting would not attract any fresh duty liability".

The circular has not been withdrawn or re-considered even after the introduction of Third Schedule bringing several processes such as packing/repacking and doing treatment on the finished product to render them marketable etc. In such a scenario the process of tinting may become liable to the levy of Service Tax if the assessable value of the paints for central excise purposes did not include charges for tinting. Since paints for decorative purposes are assessed on MRP minus an abatement basis, it is a moot point whether expenses of tinting are deemed to be included in the excise assessable value even when such a process is accepted to be not a process of manufacture and is distinctly a post-manufacturing and post-clearance activity. It is also not certain whether manufacturers can claim that implied payment of central excise duty would meant that the tinting is not liable to the levy of service tax.

Conclusion

The select analysis reveals that the central excise tariff suffers from policy inconsistencies and technical shortcomings. The tariff code has remained unreformed over the decades of its existence. The proliferation of excisable processes in the Section and Chapter Notes has added to the confusion. Differential treatment of the same process between different commodities has shown up the central excise tariff to be discriminatory wittingly or unwittingly. The Service tax has been unleashed upon processes of manufacture and production which are not subject to the levy of Central Excise duty. The policy-makers have a responsibility to make it clear that a process is included by them in the Central Excise Tariff solely with the intention of treating it as an excisable one. It will be just, fair and reasonable to treat all coverage of products and process in the Central Excise Tariff code as excluding the application of Service Tax. In the run-up to the formulation and implementation of a Goods and Service Tax (GST) it is essential that the existing baggage is examined thoroughly. The spring-cleaning of the Central Excise Tariff is an important reform that should not be delayed or missed. MA

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CLARITY ON INDIRECT TRANSFERS

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TCA Sangeetha
Masters in Law

Transfer of Shares located in India between two non-resident companies can give rise to no liability for capital gains tax of the ground that the overseas transfer of shares amounted to a transfer of the underlying assets in India. This position is well known and was reiterated in such cases like Carrasco investments Limited vs. Special Director, Enforcement Directory 79 company cases 631(Delhi) and Venkatasamy Naidu vs. Enforcement Directorate AAR 1992 (Mad) 235. The Income tax department made a very bold attempt to unsettle this principle of law in the case of the Telecom giant, Vodafone. This resulted in what a leading commentator observed as the most controversial decision in the income tax history. Vodafone International Holdings DV vs. Union of India 341 ITR page 1. Vodafone purchased a share of a Cayman Island Company that was owned by a company belonging to the group Hutchison Essar Limited for $11 billion. The Income Tax department contended that Vodafone ought to have deducted tax at source on the purchase consideration made to the Hutchinson Group,since the underlying assets were in India..The Bombay High Court having decided the matter in favour of Revenue,Vodafone went to the Supreme Court Revenue argued that the sale of one share in Cayman Island company would fall within Section 9 of the Income Tax Act, 1961. Section 9 deems as accruing or arising in India all incomes accruing or arising whether directly or indirectly through or any business connection in India or through a transfer of a capital asset situated in India. The argument was that if the transfer of a capital asset in India was in consequence of a transfer of shares abroad, such indirect income would also be taxable in India. The Supreme Court rejected these contentions in 341 ITR page 1. It held that the legal fiction of Section 9 cannot be expanded by giving a purposive interpretation if the result of such interpretation is to transform the concept of chargeability which is also there in Section 9(1)(i). The legislature has not used the word "Indirect Transfers". On the other hand, Section 64 covered Indirect Transfers. Section 9(1)(i) applied to capital assets and not to "underlying assets". The word 'Directly' or 'Indirectly' in Section 9(1) go with income and not with the transfer of capital assets. Section 9 would not apply to the facts of the case in Vodafone Essar.

Amendment to the Law

Government of India came up with sweeping amendments to the law to get over the effect of the Supreme Court Ruling. Explanations 4 and 5 were inserted in Section 9(1)(i) by the Finance Act, 2012 with retrospective effect from 1st April 1962. The new Explanation5 to Section 9(1)(i) reads as under:

Explanation 5:For the removal of doubts, it is here- by clarified that an asset or a capital asset being any share or interest in a company or Entity registered or incorporated outside India shall be deemed to be and shall always be deemed to have been situated in India, if the share or interest derives, directly or indirectly, its values substantially from the assets located in India.

A leading commentator ArvindDatar observed:

"The amendment now states if a share derives its value substantially from assets located in India, whether directly or indirectly, it shall be deemed to have been situated in India. Therefore, if a foreign company has subsidiaries in different countries (including India) but its value is derived substantially from assets located in India, then the shares shall be deemed to be situated in India. This can lead to amazing results. Thus, if a Japanese company's shares are listed on the Tokyo Stock Exchange and their value is derived substantially from assets located in India, those shares shall be deemed to be situate in India from 1962 onwards! Consequently, if Japanese citizens transfer shares in Tokyo , any income that accrues or arises from such transfer would automatically be deemed to accrue or arise in India and the Japanese transferor has to deduct tax at source! It may be difficult to find more absurd provision than that contained in Explanation 5. It is contrary to settled principles of private international law". (10th Edition of Palkhivala page 347).

The Delhi Ruling

The amendment made to Section 9 by the insertion of the amended Explanation 5 came to be tested in the most recent Ruling of the Delhi High Court in DIT vs. Copal Research Mauritius Limited, Moody's Analytics, USA and Ors.1 (T^1 W.P.(C) 2033/2013). This was an Appeal filed by the Income Tax Department against the order of (Moody's Analytics and Ors v. AAR, AAR No.1186 of 2011 AAR No.1187 of 2011, AAR No.1188 of 2011 decision dt.June 7, 2012.) Copal Partners Limited of Jersy had various subsidiaries across the globe, including a 100% subsidiary in Mauritius, Copal Research Limited. This company in turn owned shares in several other global subsidiaries. The Moody Group acquired the subsidiaries of copal group by means of transfer of shares of copal India by copal Mauritius to Moody's Cyprus and the transfer of shares of another Indian subsidiary Exevo India to Moody. Individual shareholders of CopelJersy transferred the shares to Moody's Inc.,.Ineffect,the underlying Indian subsidiaries were transferred to the Moody group so as to enable it to complete its global acquisition of Copal subsidiaries.

On these facts, Revenue contended that the transactions were carried out for the purpose of avoidance of capital gains tax arising from the Indirect Transfer of underlying Indian assets. Moody group came to acquire indirect control of Indian entities through these transactions. Explanation 5 prescribes that when one non-resident transfers the shares of another non-resident, in a non-resident company, Indian capital gains taxes may apply if the non-resident company derives 'substantial value' from the assets situated in India.

The Delhi High Court rejected the arguments about tax avoidance pointing out that there was adequate commercial rationale in these transactions. The Moody group wanted to exercise 100% control. The fund flows involved a payment of dividends to Banks and Financial Institutions which were shareholders in CopelJersy. All the various facets of the transactions represented a whole series and had commercial substance. Tax avoidance was not the motive.

The more important aspect of the judgment concerns the view expressed about the Indirect Transfer tax provision in the law. A sum of $93.5 million was allocated as consideration payable for assets situated outside India. Of this sum, only about $28.53 million was allocable to the Indian assets. This being less than 50% of the entire consideration, Copal Jersy did not derive substantial value from Indian assets. The term 'substantially' used in Explanation 5 should be interpreted to mean 'principally', 'mainly' or atleast 'majority'. Explanation 5 contains a legal fiction and this called for a restrictive approach. The Delhi High Court concluded that for Indirect Transfer Tax provision to apply, the overseas company should derive 50% of its value from Indian assets. The Delhi High Court expressed the view that the scope of Section 9(1)(i)should not be extended to tax income that has no nexus with India under the guise of applying Explanation 5. It pointed out that the OECD model Tax convention on Income and capital and the UN Model tax convention provided that for the source country to exercise taxing rights over the disposal of shares of a company, the company should derive 50% or more of its value from immovable property situated in the source country. The High Court ruled that there was no tax liability involved in the acquisition of the Copal group by the Moody group.

Conclusion

This is the first Ruling on the amended provision of the law on Indirect Transfers. An arithmetical interpretation has been given to the term 'substantial', as introduced by the Finance Act, 2012. The judgment also refers to the commercial justification for the transaction and eliminates inferences of tax avoidance.

The reverberations of this judgment will be felt for a long number of years. MA

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Opportunities for CMA for Valuation Practice

Reader CMA Utpal K. Saha would like to know whether a CMA can be a valuation officer for purposes of valuation of any asset under section 142A of the Income-tax Act, 1961?

Apart from answering the query posed, opportunities for a CMA in the field of valuation may be scanned. Section 247 under Chapter XVII of the Companies Act, 2013 recognises valuation by registered valuers of any asset for which a request may be made to him for valuation. The draft rules issued under the Companies Act, 2013 places a Cost Accountant on par with Chartered Accountants and Company Secretaries along with any member of Indian Corporate Law Service or any person holding equivalent Indian or foreign qualification as Ministry of Corporate Affairs may recognize. It is further subject to the person having necessary competence and qualification as may be notified from time to time. The draft rule makes a distinction between financial valuation and technical valuation. Technical valuation can be made by an engineer, architect or any other person having such other qualification as may be notified further. All other assets are open to a CMA is more elaborately described for income tax and wealth tax purposes as explained in the succeeding paragraph. To be recognised as a registered valuer under company law, an application has to be made for registration under Form 17 by individuals and firms along with prescribed fee. The rule prescribes different methods of valuation for purposes of section 247(2)(c).

Section 142A of the Income Tax Act as substituted by the Finance (No.2) Act, 2014 provides for valuation of any asset by a Valuation Officer under the Income-tax Act extending the scope of valuation. Now it is more broad based to cover any asset at the discretion of the Assessing Officer to call for reference to the Valuation Officer for purposes of income-tax and wealth tax having specified qualification under section 2(r) of the Wealth Tax Act, 1957. Section 2(r) of the Wealth Tax Act defines Valuation Officer as a person appointed under section 12A of the Wealth Tax Act, who is a person appointed by the Central Government. These are persons ordinarily on deputation from Central Public Works Department. Their valuation is binding on the Assessing Officer, though it could be subject matter of appeal. A CMA cannot be a Valuation Officer. But he can be a registered valuer.

Registered Valuers are required to be approved by the Chief Commissioner or Director General under section 34AB of the Wealth Tax Act having qualification prescribed under the Rules. He is also recognised for wealth tax purposes. Rule 8A of the Wealth Tax Rules specifies qualification for each category of asset. It is only for purposes of valuation of financial assets both for income tax and wealth tax purposes, clause (vii) of the Rule covers stocks, shares, debentures, securities, partnership shares and business interest, for which there is recognition for CMAs. Chartered Accountants and Company Secretaries in practice with not less than ten years' experience and gross receipts from practice not less than Rs.50,000 per annum in the three of the preceding five years or must have been employed as a Gazetted Officer with salary not less than Rs. 2000 per month.

Inference of AOP - when collective assessment may not be justified

Association of Persons (AOP) is recognised in the definition of person under section 2(31) of the Act. It is not in every case, when two persons come together for business purposes, that there could be justification for an inference of AOP for a collective assessment. The Courts have laid down certain parameters for inference which have been repeated by the High Court in CTCI Overseas Corporation Ltd. v. Director of Income-tax (International Taxation) [2014] 366 ITR 33 (Del) that it:

(i) must be constituted by two or more persons

(ii) the constituent members must have come together for a common purpose

(iii) the association must move by common action and there must be some scheme of common management

(iv) the co-operation and association amongst the constituent members must not be perfunctory and/ or merely in form. The association amongst members must be real and substantial which is sufficient to treat the association as a separate homogeneous taxable entity.

It is in this context, that in a matter raised before the High Court by way of writ petition, the High Court set aside the order for fresh consideration in the light of the above guidelines in Linde AG. Linde Engineering Division v. Dy.DIT [2014] 365 ITR 1 (Del). A similar view was taken in respect of contract for Delhi Metro in Hyundai Rotem Co. In re (2010) 323 ITR 277 (AAR). In such cases, each member of the consortium (AOP) is assessable in respect of its share, where the contract is one, but members share the work without sharing of risk.

Moulds, Tools and Dyes – Whether deductible?

Where an assessee, who was a manufacturer of cast iron ingots from scrap claimed the cost of moulds used for its manufacturing activities, the Assessing Officer disallowed the claim as capital expenditure at best eligible for depreciation for the reason, that the moulds are capable of being reused. But it was found in appeal and affirmed by the Tribunal, that the shelf life of moulds being short, it would be admissible for deduction as revenue expenditure. This view was endorsed by the High Court in CIT v. Aditya Ferro Alloys P. Ltd. [2014] 366 ITR 490 (Mad). Controversies also arise in respect of tools and dyes, which were found eligible for deduction as revenue expenditure in CIT v. Honda Siel Power Products Ltd. (2008) 300 ITR 56 (Del). Similar view should be acceptable for jigs and fixtures as well. In the cases of bottles or reusable containers, they are not allowed as revenue expenditure nor entitled to depreciation not being depreciable assets. In such cases, though original cost is not deductible, replacements will be deductible.

Allocation of common expenses - Relief under section 10B

Where the assessee has both domestic and export business and is eligible for relief under section 10B, allocation has to be made of common expenditure including remuneration of Managing Director. The basis for allocation could be respective turnovers of domestic and export sales for purposes of relief under section 10B as decided by the Tribunal in Millipore (India) P. Ltd. v. Dy. CIT [2014] 33 ITR (Trib) 508 (Bangalore).

Infrastructure facility – To be understood widely but not too widely

Where an asssessee engaged in infrastructure activity relating to a port eligible for relief under section 80IA, had claimed inter alia income from sale of water to cargo ships for cleaning engines, as part of eligible profits, it was concurrently found by the Assessing Officer and in first appeal to be ineligible. The Tribunal, however, found that such supply forms part of activity of operation of the port, so as to be eligible by understanding the infrastructure activity in a wide sense. But the income from storage facility cannot form part of such activity. So is the income from transportation arranged from the port to the customers. It was so decided in Dahej Harbour and Infrastructure Ltd.v. Dy.CIT (OSD) [2014] 33 ITR (Trib) 634 (Mum). MA

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DIRECT TAXES

Case Laws

- **High Court interprets word 'substantially'; lays down 50% threshold limit for indirect transfer of capital assets** - Gains arising from sale of shares of a company incorporated overseas, which derives less than 50 per cent of its value from assets situated in India would not be taxable under section 9(1)(i), read with *Explanation* 5 thereto - *DIT (International Tax)* v. *Copal Research Ltd., Mauritius* [2014] 49 taxmann.com 125 (Delhi)
- **Payments made to non-resident for his translation services shall not be deemed as 'fees for technical services'** - Translation services involving translation of text from one language to another were not technical services and, therefore, payments made by assessee to non-resident translators would not fall within scope of 'fees for technical services' mentioned in *Explanation 2* to section 9(1)(*vii*) - *Cosmic Global Ltd.* v. *Asstt. CIT* [2014] 48 taxmann.com 365 (Chennai - Trib.)
- ***Value* of derivative transactions in commodities at MCX not to be included in turnover for tax audit purposes** - Value of sale transactions of commodity through MCX without delivery cannot be considered as turnover for purpose of section 44AB and, therefore, failure on part of assessee to get its accounts audited in such a case would not lead to levy of penalty under section 271B - *Om Stock & Commodities (P.) Ltd.* v. *Dy. CIT* [2014] 48 taxmann.com 186 (Mumbai - Trib.)
- **Capital gains from sale of G-Securities if not taxable in UAE shall not be taxable in India as well under Indo-UAE DTAA** - Where capital gain accrued to residents of UAE from sale of Government Securities in India carried out through respondent-bank and was not taxable in UAE, income so generated could not be subjected to tax in India and, therefore, respondent-bank was not liable to deduct tax at source while remitting amount in question to non-residents - *DIT (International Taxation)* v. *ICICI Bank Ltd.* [2014] 49 taxmann.com 1 (Bombay)

Statutes

- **CBDT constitutes Committee to approve of any action proposed by AO to tax indirect transfer due to retro-amendment** - The CBDT has constituted the High Level Committee to examine cases of indirect transfer arising consequent to retrospective amendments made by the Finance Act, 2012 - ORDER [F.NO.149/141/2014-TPL], DATED 28-8-2014
- **Due date for e-furnishing of tax audit report under section 44AB for AY 2014-15 extended to 30-11-2014** - The CBDT has extended the due date for furnishing of tax audit report under section 44AB for Assessment Year 2014-15 (in case of assessees who are not required to furnish report under section 92E) from 30th day of September, 2014 to 30th November, 2014.

  It further clarified that the tax audit report filed during the period from 1st April, 2014 to 24th July, 2014 in the pre-revised Forms shall be treated as valid tax audit report furnished under section 44AB - ORDER [F.NO.133/24/2014-TPL], DATED 20-8-2014
- **Selecting cases for scrutiny – Trust availing of relief after cancellation of approval under scanner of I-T department** - The CBDT lays down the procedure and criteria for manual selection of cases for scrutiny for every financial year. Now it has laid down the procedure and criteria for manual selection of scrutiny cases for the financial year 2014-15. Instructions issued for selection of cases for scrutiny in the financial year 2014-15 put emphasis on following three additional criteria (whereas it has removed a few criteria that were used in the last financial year):

  (*i*) **Assessee claiming section 11 relief even after cancellation of section 12AA registration:** Cases where assessee has been claiming tax exemption under section 11 even if registration under section 12AA had not been granted to it or had been cancelled by the CIT/DIT. However, cases, where such orders of the CIT/DIT have been reversed/set-aside in appellate proceedings, will be excluded.

  (*ii*) **Assessee claiming section 10(*23C*) relief even when its approval has been withdrawn/denied:** Cases where order denying/withdrawing approval under section 10(*23C*) has been passed by the competent authority, yet the assessee has been claiming tax-exemption under the aforesaid provision of the Act.

  (*iii*) **Assessment in search and seizure cases in respect of returns filed for the year in which authorization was executed:** Where assessment in search and seizure cases was made for the returns filed for the assessment year relevant to the previous year in which authorization for search and seizure was executed under section 132 or 132A - INSTRUCTION NO. 6/2014 [F. NO. 225/229/2014/ITA.II], DATED 2-9-2014
- **CBDT directs officials to maintain appointment schedule with taxpayers in spirit of Citizen's Charter** - The CBDT has advised all the officers to strictly maintain the appointment schedule with taxpayers in spirit of the Citizen's Charter, 2014, as it has been brought to its notice that some of the officers are issuing notices to the taxpayers/witnesses, etc., indicating same time for appearance - OFFICE MEMORANDUM [F.NO.DIR(HQRS.)/ CH.(DT)/29/2013], DATED 22-8-2014

SERVICE TAX

Case Laws

- **Delhi HC strikes down Rule 5A contemplating general audit as the law only provides for special audit** - Only type of audit contemplated under law is under section 72A, *i.e.* a special audit; Parliament did not intend to provide for a general audit that 'every assessee' may be subjected to 'on demand' under rule 5A(2); hence, rule 5A(2), being *ultra vires* section 94, was struck down along with relevant CBEC instruction - *Travelite (India)* v. *Union of India* [2014] 48 taxmann.com 227 (Delhi)
- **Service recipient who had borne burden of excess ST could also file refund claim** - Where service recipient, whose manufactured product was exempt, had borne burden of excess service tax on services received by him, said service recipient is entitled to refund and principle of unjust enrichment is inapplicable - *CC, CE&ST* v. *Indian Farmers Fertilizers Co-operative Ltd.* [2014] 48 taxmann.com 79 (Allahabad)
- **No suppression of facts if nature of input services couldn't be disclosed in excise return in absence of any column** - In absence of any column in returns requiring nature of input or input services to be disclosed, non-disclosure of same cannot attribute any *mala fide* to assessee and, therefore, extended period of limitation cannot be invoked - *Ultra Tech Cement Ltd.* v. *CCE* [2014] 48 taxmann.com 99 (New Delhi - CESTAT)
- **In leasing of restaurant, lessor could not be charged VAT if lessee was already assessed to VAT** - Where assessee-hotel leased out its restaurant operation to other person, who was assessed separately for cooked food, Assessing Authority was wrong in working out turnover of cooked food in hands of assessee hotel at 15 per cent of turnover of IMFL - *K. Rajendran* v. *Commercial Tax Officer* [2014] 47 taxmann.com 394 (Kerala)
- **No interest on delayed refund of wrongly encashed bank guarantee; SC orders compensation for delay** - There is no provision for interest on delayed refund of wrongly encashed bank guarantee; however, assessee may be granted compensation therefor - *Fargo Marine Co. Ltd.* v. *P. Kathirvel* [2014] 48 taxmann.com 36 (SC)

Statutes

- **Now Govt. can impose restrictions on service providers as well to prevent misuse of Cenvat credit** - NOTIFICATION NO.25/2014-C.E. (N.T.),DATED 25-8-2014
- **Govt. prescribes exchange rate under service taw law on basis of GAAP; applicable from 1-10-2014** - NOTIFICATION NO.19/2014-ST, DATED 25-8-2014
- **Levy of ST on radio taxis/sale of space for advertisement other than in print media to be effective from 1-10-2014** - NOTIFICATION NO.18/2014-ST, DATED 25-8-2014

NAYAK COMMITTEE RECOMMENDATIONS FOR PUBLIC SECTOR BANKS

The author says that the RBI and the government would do well by not destroying the public sector character of the nationalised banks and reject the recommendations of Nayak Committee which seek to serve the unholy interest of the champions of the private sector

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The functioning of Public Sector Banks (PSBs) has been a subject matter of discussion, scrutiny, review, analysis etc., by various committees, more particularly during the last 20 years. It is ironical that the exercise to evaluate the functioning of PSBs is largely done by such committees that are dominated by those who did not have exposure to functioning of PSBs. One such committee under the Chairmanship of P J Nayak, former Chairman & CEO, Axis Bank and former Country Head, Morgan Stanley India is under consideration of RBI and government. It would be appropriate to run through the list of other members of the committee and to understand their current position. The members of the committee included S Raman, who is whole-time member of SEBI, Subhalakshmi Panse, CMD, Allahabad Bank (since retired), Pratip Kar, former ED, SEBI, Joydeep Sengupta, Director and Senior Partner, McKinsey, Harsh Vardhan, Partner, Bain & Company, Mumbai Somasekhar Sundaresan, Partner, J. Sagar Associates and Krishnamurthy Subramanian, Assistant Professor, Indian School of Business, Hyderabad. The constitution of the committee reveals that it is dominated by the champions of private sector having either no inkling or showing oblivion to the objectives of banks' nationalisation. It also evidences that except S Raman and Subhalakshmi Panse, no other member of the committee had any hands on experience of the functioning of PSBs in India. Such a constitution of a committee to review governance of Board of banks in India makes the intensions of RBI governor who constituted this committee suspect. It is beyond comprehension and also remains inexplicable as to why the senior Public Sector bankers were not selected to dominate the committee and make the report more meaningful, relevant and acceptable to all the stake holders in PSBs.

Equally important are the terms of reference of the committee. The committee was expected to review the regulatory compliance requirements of banks' Boards in India to judge what can be rationalised and where requirements need to be enhanced. It is intriguing that Reserve Bank of India (RBI) being the regulator of banks in the country was not considered to be on the committee to deal with such an important issue of regulatory compliance. It is undeniable that RBI would be in the best position to judge as to what could be rationalised and where the requirements of regulatory compliance needed to be enhanced. An omission of a representative from RBI in the committee is intriguing and casts a shadow on the quality of output. The second term of reference was to examine the working of banks' Boards especially whether adequate time was devoted to the issues of strategy, growth, governance and risk management. Such an exercise cannot be considered comprehensive and objective unless the committee interacted with the directors of the Boards of different banks. Moreover, it is not adequate if good amount of time is devoted to such important issues unless there is an objective study on the level and quality of implementation of these important aspects in overall management of the banks. The third term of reference related to review of central bank regulatory guidelines on bank ownership, ownership concentration and representation in the Board. It is a strange term of reference as it seeks to review central bank regulatory guidelines on bank ownership. It is pertinent to note that the bank ownership as far as PSBs are concerned, is a subject matter of legislation and as its origin is in the Acts of Parliament viz., Banks' Nationalisation Acts 1970/1980, SBI Act and SBI (Subsidiary Banks) Act, it is for government of India to take a call about the ownership of PSBs. In this perspective, RBI constituting a committee without involving even a single soul from the government to decide on ownership issue of PSBs amounts to transgressing in government's domain. Is it to be considered a mere coincidence that the governor of RBI also happens to be a champion of private sector as is the committee? The Boards of the PSBs are constituted largely by Government of India in consultation with RBI and it did not call for a fresh analysis of the representation on banks' Boards to examine whether appropriate mix of capabilities and the necessary independence to govern the banking institutions existed. Even within the existing framework, RBI is vested with powers not to concur with the proposal of the government for appointing the director on the board of PSBs if it was of the view that such a proposal will result in an inappropriate mix of capabilities. Similar is the position in respect of conflict of interest among owner representatives and the regulators. The issues like fit and proper criteria of the directors of banks and their tenure can be best decided even in the existing framework and the powers enjoyed by the RBI. The fifth term of reference related to examining board compensation guidelines. It is surprising that the committee has attempted a comparison of the compensation to Board members in PSBs with that of private sector banks. The champions of liberalisation of the functioning of PSBs are looking for the guidelines to enhance compensation for the directors in PSBs. In their own philosophy why could it not be left to the individual bank's Board to decide? It shows the committee in a poor light as the constituency it represents, has vested interest in this issue.

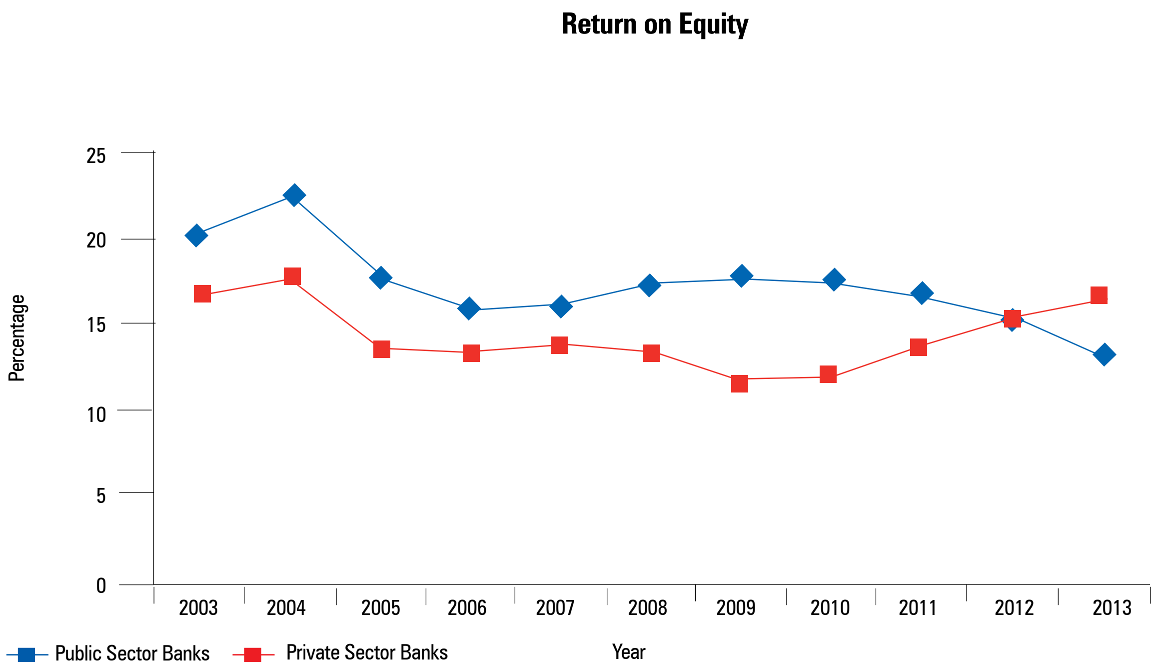
An overview

The committee claims to have been guided by several perspectives which formed the basis for its approach and recommendations. It begins with the biased view that the financial position of PSBs is fragile, partly masked

Table-1

Year	Return on Equity (RoE)	
	Public Sector Banks	Private Sector Banks
2003	20.21	16.86
2004	22.65	17.81
2005	17.65	13.45
2006	15.79	13.34
2007	16.14	13.71
2008	17.15	13.43
2009	17.94	11.38
2010	17.47	11.94
2011	16.90	13.70
2012	15.33	15.26
2013	13.24	16.46

Figure 1



by regulatory forbearance, significant erosion of capital, rapidly rising stressed assets, need for enhanced capital, prudent provisioning to support balance sheet growth etc. It would be desirable to have an objective analysis of important financial parameters of PSBs to understand whether the observations of the committee are really true. The following table presents the Return on Equity from 2003 to 2013 in respect of PSBs and private sector banks.

It can be seen from Table-1 that the Return on Equity (RoE) in respect of PSBs has been higher than that of private sector banks from the year 2003 to 2012 in a consistent manner. It was only in the year 2013 that private sector banks had posted better RoE than that of public sector banks. It is important to note that during the period of US Financial Crisis, the RoE posted by PSBs remained above 17% (2008-2010) whereas the private sector banks posted much lower RoE at 13.43%, 11.38% and 11.94% during the same period. The reasons for decline in RoE of PSBs for the year 2013 are attributable to the higher amount of provisioning for Non Performing Assets (NPAs) which have arisen largely due to global economic meltdown adversely affecting Indian economy and delay in implementation of long gestation infrastructure projects caused by non obtention of clearances from government more particularly, relating to environmental issues. It is on record that Dr K C Chakrabarty, the then Deputy Governor of RBI had publically proclaimed that increase in NPAs of PSBs in the years 2013 – 2014 are on these counts and hence beyond the control of PSBs. It needs no special mention that private sector banks have consciously avoided exposure to infrastructure projects, power sector, road, airports etc. The PSBs have social responsibility to participate in financing of such projects so that the country treads on the path of growth trajectory and upliftment of the common man.

Figure-1 is the graphic depiction of the Return on Equity of PSBs vis-a-vis that of private sector banks from 2003 to 2013. It is clearly seen that the RoE during the years 2008 – 2010 was showing a declining trend for private sector banks while RoE for PSBs was moving north-ward. It shows that the PSBs have strength to withstand the shocks of major global crisis. The committee is biased in its overview to brand the PSBs as fragile merely on the basis that the RoE for the year 2013 is lower than that of private sector banks. It is a deliberate attempt to paint the PSBs with a tainted brush which is completely devoid of objectivity. It is also a reflection of

IT WOULD BE DESIRABLE TO HAVE AN OBJECTIVE ANALYSIS OF IMPORTANT FINANCIAL PARAMETERS OF PSBS TO UNDERSTAND WHETHER THE OBSERVATIONS OF THE COMMITTEE ARE REALLY TRUE

honesty and integrity of the committee in being biased against PSBs.

As regards erosion of capital, it must be understood that PSBs have been extending finance to capital intensive infrastructure projects during the last 10-15 years. Such projects have long moratorium and date of commercial production are repeatedly deferred due to policies of the government leaving the projects in a state of distressed whereby servicing of interest and instalments become a causality. It eventually results in large NPA slippages entailing huge provisioning for stressed assets. It eats away a substantial portion of operating profits of PSBs and thereby leaves little retained profits.

The committee has completely lost sight of the after effects of global financial crisis having serious impact on the loan portfolio of PSBs. The government and RBI had lent substantial support to different sectors of the economy by extending concessions in various forms. Corporate Debt Restructuring (CDR) is one such measure introduced by RBI very liberally. The CDR mechanism has been inappropriately applied by resorting to mechanical restructuring of stressed loans without having regard to the future cash flows. This has been aggravated by avoidable delays in project completion and deferring the dates of commercial production. This created a fait accompli situation where ever-greening of loan account was practiced as a norm and easy option to prevent and postpone slippages of such loans into NPAs. This exactly explains the recent spurt in NPAs in PSBs thereby denting their net profits. This precisely is the reason of RoE in PSBs coming down in the year 2013. But by any stretch of imagination, decline of RoE during the last year cannot be a conclusive proof of financial position of PSBs being characterised by the committee as fragile and masked by regulatory forbearance.

In this back ground, the committee is unfair to assume lower productivity, steep erosion in asset quality and demonstrated uncompetitiveness of PSBs when facts speak differently. The committee would have done well to investigate into and factor the cost of social banking incurred by PSBs and also its repercussions of loss of some large value clients who find it difficult and undesirable to wait in the long queue of those small value customers who constitute an important and integral part of social banking initiatives of the government like Financial Inclusion and Prime Minister's Jan Dhan Yojna. RBI and government having seen the whole-hearted participation of PSBs to ensure success of such socially desirable schemes must reject the assumptions of Nayak Committee in this regard. Its recommendations that if governance of PSBs continues as at present, this will impede fiscal consolidation, affect fiscal stability and impinge on government's solvency is far-fetched expression of negativity and a blatant bias against the very concept of public sector banking. The recommendations of the committee to privatise PSBs and allow their future solvency to be subject to market competition including through merger or to design a radically new governance structure to better ensure their ability to complete successfully is nothing but a veiled expression of its vulturous intentions with a focus on the wealth of PSBs in terms of network, networth, assets, client-base and sound business fundamentals. The observations of the committee about successive recapitalisation of PSBs by the government show its complete oblivion to the fact that PSBs have tremendous capacity and strength to raise capital from the market but do not resort to that route of recapitalisation to ensure that government-ownership does not come down. This cannot be construed as weakness as PSBs are needed not only to provide a sound banking system to the country, a vehicle for implementing the social agenda of the government, extending need-based finance to infrastructure projects but they are also needed to come to the rescue of the honest and small depositors & investors in the country by protecting their wealth in high profile private sector banks like Global Trust Bank Ltd., which got merged into Oriental Bank of Commerce (PSB). The members of the committee seem to have a very short memory as they have forgotten as to how the PSBs foiled an attempted run on ICICI Bank only a decade ago when its ATMs ran dry in Gujarat and other parts of the country and were supported by PSBs at the behest of the then Finance Minister. It is thus reiterated that PSBs are not merely the commercial banks at market place with focus on competition but also have a commercial responsibility of rescuing the competitors which is unseen anywhere in the world. Questioning the competitiveness of the PSBs exposes the committee's lack of exposure and sense of purpose.

Business strategies and Risk Management

From a state of arbitrariness and oblivion, the committee appears to progressively move towards a sense of lack of clarity as it says that it was unclear that the Boards of most of the PSBs have the required sense of purpose in terms of their focus on business strategy and risk management, in being able to provide oversight to steer the banks through their present difficult position. The committee goes on to state that the Boards are disempowered and the selection process for Directors is increasingly compromised while Board governance is consequently weak. One wonders when committee is unclear about such vital issues, how does it believe that its recommendations based on unclear assessment would fit in and address the deficiencies and gaps? Here again, the committee lacks clarity while presuming the role of RBI and that of the government as overlapping or dual regulation. The committee ought to have distinguished that while RBI plays the role of an effective regulator as demonstrated during the period of US Financial Crisis which was exported liberally to several connected economies and India was least affected, the government plays the role of majority share holder having controlling stake in PSBs is entitled to provide broad directions to the Boards with regard to conduct of business and other administrative matters. It is unimaginable to come across commercial enterprise with none having controlling stake. Under such circumstances, what is wrong if government itself has controlling stake? The committee seems to be turning a blind eye to the huge public sector presence in the country which extends beyond commercial banking. In a developing democracy, it must be understood that government's business is business too as it is necessary to have a balanced growth and development in different sectors including the less attractive and remunerative ones.

It is again unfounded observation of the committee that PSBs do not have sense of purpose in terms of their focus on business strategies and risk management. The committee ought to have known the sustainability of PSBs that have remained in business from 75 to 150 years which would not have been possible without a strong sense of purpose, sound business strategies and adequate risk management techniques. If the committee is not able to see such sound practices followed by PSBs either because of its tainted eyes or because its members predominantly lacked an insider's exposure to PSBs' Boards, it is to the credit of PSBs to keep their competitors at an arm's length.

The observations of the committee about the tenures of Chairman and Executive Directors are illogical. The remedy is not in ensuring longer tenure for CMD or EDs. We were witnesses to the Chief Justice of India having been allowed the tenure of 13 days and Army Chief being allowed a tenure of couple of months. Have such short tenures of Chief Justice of India and Army Chief weakened the judiciary and armed forces respectively? The answer is a big 'NO'. What we need to do for protecting the strength of our public enterprises is to create a strong hierarchy with clearly defined roles and having sound and ethical practices to select the people to head such organisations. From such perspective, the recommendations of the committee to have a 5 years' tenure for CMD and 3 years for EDs is not the best solution. Integrity and competence must be regarded as the core issues and not necessarily the longevity of tenure. It would be desirable to explore other alternatives which include return to basics. State Bank of India is a live example of having a strong hierarchy by following the practice of having internal CEOs and other full time Board members. The committee seeks to rationalise its recommendations on the pretext that 'longer tenure' will provide enough time to the CEOs to evolve their plans and implement the same. It has been noticed in past that the CMDs with 3-4 years' tenure at PSBs did not necessarily do any great planning or implementation. The reality is otherwise as they try to bring in the practices of their parent bank to implement the same in their new bank. It is often regarded not as evolving new strategies but a cultural invasion to destroy the otherwise good existing practices. If for any reason, God forbid, the negativity set in, 5 years' tenure would become unsustainably disastrous for the bank.

The committee's observations about compensation constraints appear to be silly and extraneous. Those who chose to pursue a career in public sector are conscious of the fact that they will be governed by the compensation package applicable to public sector. It is a matter of fact that most of the CMDs of PSBs draw a compensation package which is equivalent to that of the Secretary to government of India and that sounds better. It is paradoxical for the committee to advance an argument to enhance the level of transparency but considering the applicability of Right to Information Act (RTI) as an external constraint. It is true that applicability of RTI Act acts as a constraint on unethical and wrong practices which may sometimes have a temporary adverse impact on the competitiveness of PSBs. But it is also true that it saves PSBs of manipulative practices prevalent in new generation private sector banks. The instances of uploading modified version in the system for audit purposes after the decision is taken are not uncommon in many of the new institutions. PSBs can take pride standing upright on this count.

The committee has recommended the age of full time directors to be increased to 65. It needs to be studied and analysed in the back drop of other guidelines of the government in regard to internal promotions of officers from Junior Management Grade Scale-I (Assistant Manager) to Top Executive Grade Scale-VII (General Manager). These guidelines provide an officer to become a General Manager in a span of 16-18 years which implies that there is a chance for an officer to become General Manager at the age of about 40 years. In that event, he at the time of becoming General Manager will have another 25 years of service. Such a situation is fraught with serious risk of blocking the Board level vacancies for about 20 years leading to frustration at senior levels of hierarchy as they would be constrained to continue at the level of General Manager for another 20 years. Such a situation may also trigger attrition at higher levels of hierarchy.The committee and government, both, need to understand the usefulness of providing a fair distribution of rank hierarchy to ensure that a person hits the top in the hierarchy in his 50's and avoid a situation of monotony, stagnation, demotivation and frustration. It is also strange that when the focus is on youth development and empowerment, committee is recommending the development and empowerment of old whereby creating a truncated succession pipeline.

External vigilance enforcement

The committee considers Vigilance Administration as an external constraint which reduces the competitiveness of PSBs vis-à-vis the private sector banks. The thought of the committee to advise RBI and government to move rapidly to eliminate or significantly reduce this constraint to protect the competitiveness of PSBs is motivated. The Officers' Organisations in PSBs have been demanding that the officers in PSBs should be brought out of the jurisdiction of Central Vigilance Commission (CVC) but it was always rejected as an infeasible proposition. The only concession given was that the jurisdiction of CVC will cover the senior level officers in the rank of Assistant General Manager, Deputy General Managers and General Managers who are governed by Public Sector Banks' Conduct, Discipline & Appeal Regulations. It is pertinent to note that the CMD and EDs being the contract employees of the government, did not come under the purview of such regulations. Hence their conduct or misconduct was subject to government regulations. The alacrity on the part of Nayak Committee to recommend exclusion of officials of PSBs from the purview of CVC/CBI originates from the landmark judgment of Supreme Court just before the committee submitted its report to RBI. As per Supreme Court judgment, Section 6(A) of Special Delhi Police Establishment Act has been held as unconstitutional and illegal. This Section provided that CBI needed permission of competent authority to initiate even a preliminary enquiry against the public servants in the rank of Joint Secretary and above. The EDs and CMDs of PSBs are holding the rank of Joint Secretary and above and hence it is now open to CBI to initiate preliminary enquiry against such high rank contract employees of government without obtaining prior permission of the competent authority. It has resulted in serious cases like that of Syndicate Bank's CMD Mr S K Jain being arrested by CBI on the allegations of bribe for extending loan facility to a big corporate to save it from slipping into NPA. In the wake of such high profile arrest and suspension taking place, the recommendation of committee to keep such senior level functionaries out of the jurisdiction of CVC/CBI is a shame on the poor quality of work done by the committee collectively. If CVC/CBI were a deterrent, keeping the Board level functionaries beyond their ambit would be an anti-thesis.

Hence, their recommendations in this regard is the reflection of fear of many more such cases getting into CVC/CBI net and if such recommendations are accepted, it would amount to helping the corrupt functionaries in getting insulated from the jurisdiction of CVC/CBI. In this background, the recommendations of the committee are nothing but an attempt to camouflage and ring-fence the corrupt. The honest officials must be fearless and that is possible only if the invisible external influence of politicians and bureaucrats in sanction of large value loans is brought to an end. It is unfortunate that the committee has preferred to ignore such a serious malaise rampant in the system. Such convenient omission on the part of the committee must be adequate to put a question mark on the credibility of its recommendations.

The criticism of disempowerment of the Boards of PSBs and the selection process of the directors being increasingly compromised sound superficial. The empowerment of Boards and selection of directors are the combined domain of RBI and the government. If committee is of considered view that there are systemic deficiencies in these areas, the fault lies in objectivity on the part of senior functionaries of RBI and government while discharging their roles in the given assignments. It calls for an effective training programme or cultural transformation at the levels of RBI and government. The corporate intervention albeit facilitation in selection of EDs and CMDs has led to degeneration of values not only on the part of those who select EDs and CMDs but also on the part of EDs and CMDs to reciprocate bountiful favour to such corporate houses. The system has its roots not only in bureaucracy but has deeper roots in the political system of the country. The committee has fallen short of expectations by not strongly recommending a suitable remedy in this regard.

New governance structure

The committee is of the belief that to avoid repeated capital support from the government and ensure ability to compete successfully, the PSBs should be privatised or a radically new governance structure designed. The committee has also recommended upgradation of Board deliberations in PSBs to provide greater strategic focus. It is surprising that a predominantly non public sector banks representation on the committee was found adequate to conclude about the quality of Board deliberations. It would have been better if the constitution of the committee was so done to include sufficient number of public sector bankers. The concept of independent directors needs to be made true to its objectives. The persons having no expertise in the field of banking and related areas are appointed for considerations other than merit and independence of the directors/ Boards or the quality of deliberations. There is nothing wrong with the scheme of having independent directors having expertise in fields like agriculture, legal, economics, trade, industry etc. What is needed to be done is identifying and selecting the competent people after doing a rigorous test on their level of competence, honesty, integrity, righteousness and uprightness. The committee has recommended setting up of the Bank Boards Bureau consisting of senior former bankers to professionalise the process of Board appointments of whole-time directors. It is also suggested that in 2-3 years' time, the functions of Bank Board Bureau should be transferred to Bank Investment Company (BIC) on its operationlisation. It is matter of record that senior former bankers and the serving central bankers are integral part of the committee which selects the whole-time directors of PSBs. Hence making an interim arrangement which is not much different from the existing one does not make good professional sense. The issues relating to BIC will be dealt with in the later part of this article.

The calendar of reviews is sought to be revoked or freshly designed to ensure that Board's time is spent largely on critical themes. RBI as a regulator is considered to be very effective and has its place in the committee of global regulator. The calendar of reviews designed by RBI is by far satisfactory and hence renders the recommendations of the committee redundant.

Ownership issues

The committee has defined three different roles which government might play with implications for empowerment of Boards.These roles are –

(1) Government as investor
(2) Government as owner
(3) Government as a sovereign

It goes to suggest that out of these three roles, the objective for the bank is clearly laid out is the first one, ie., government as investor and in the other two roles, the objective becomes progressively fuzzier. The committee is of the view that it would be reasonable to expect financial performance to also regress and worsen as the role transitions from investor to owner to sovereign. The committee in a prejudiced manner is attempting to ensure that the government's role is reduced to that of an investor in the banking institutions and then look for fair returns on its investments. It is understood that the governments do not invest money in commercial organisations to earn fair returns. The government's priorities must include allocation and investment of funds in sectors like healthcare, education, infrastructure, defence, core sectors where huge investments are needed and private sector is unwilling to venture etc. The banking is considered as the lifeline of the economy of the Nation and it is desirable for the government to be a player so as to ensure that the public savings are channelized into those areas which are vital to the socio-economic development of the country but may not be as lucrative as expected by the private players in the banking space. The socio-economic development in a developing economy like India is the primary responsibility of the government and for this objective, it is always desirable to not only invest and control but also own the banking institutions. In the absence of such an arrangement which exists in India today, the government will find itself in a helpless situation to launch initiatives like Financial Inclusion, Prime Minister's Jan Dhan Yojna etc. It has been seen that despite the call of the government to the private sector banks to participate in Jan Dhan Yojna, there was hardly any response from private sector banks. Opening of more than 2 crores accounts on a single day was a 'dream-come-true' solely because of the whole-hearted involvement by the PSBs.

The shareholding of the government in PSBs ranges from 56.26% in case of Bank of Baroda to 89.47% in case of United Bank of India. From the point of view of Return on Investment, the Government of India has not been a loser by investing in the equity of PSBs as the overall dividend it gets from the PSBs is much more than the normal return of 8.25% to 8.50%. It must be kept in view that any large investor holding majority stake in any organisation would certainly like to have control over its policies and functioning. Does it not happen in private sector where the controlling stakeholder largely decides the course of business? The committee has referred to the stray cases of Singapore, Belgium, Brazil and China without looking into the dissimilarities of the level of economic development, outreach of banking services, the nature of government, the level of poverty and other demographic complexities. The committee must not lose sight of the fact that the PSBs have been able to create stability in banking space. If the entire banking is left in private hands, it will lead to concentration, related party exposure, over pricing of the products and a virtual cartelisation which will be dangerous not only to the banking system in the country but will be perilous for the entire economy. A reference to the special purpose vehicle in case of Axis Bank only characterises that the banking in India must be a mix of public sector, private sector, cooperative sector, rural sector and foreign banks. Such a structure has served the country well and there is no reasonable ground to topple the existing structure which is predominantly led by public sector in favor of private sector and has stood test of time.

It is surprising that the committee has not looked into the aspects relating to radicalising the role of Information Technology at par with many advanced countries of the world and has also not focused on the need for R & D to enhance the level of efficiency of operations which in turn can enhance the level of governance. The focus of the committee should have been on value system, ethical corporate practices, integrity, honest commitments, transparency, attitude to serve, healthy HR climate, enhanced national character etc., to ensure overall improvement in corporate governance and functioning of the Boards. The committee which was expected to study the working of the Boards has an essential element of its terms of reference, miserably failed in getting an insight into the wrong happenings of serious nature where the CMD of Syndicate Bank had to suffer humiliating arrest for graft charges. Government ownership of banks is not a constraint on investment of resources to innovate any aspect of the business. The observation of the committee that the government by imposing a plethora of standardised requirement on PSBs has contributed to their homogenisation and has thereby handed over competitive advantage to the private sector banks is a complete miss of the fact that PSBs have the freedom of innovating and improvising on their products, technology, manpower, trainings, opening branches etc., which are significant for a healthy competition. The varying degree of performance of different PSBs stands a mute testimony to their dealing with the competition differently without following any 'standardised' and 'one-size-fit-all' model. It is thus clear that government ownership has not weakened the competitive strength of PSBs.

Bank Investment Company (BIC)

The committee while suggesting incorporation of BIC seems to be apprehensive about the new entity falling into the hands of characters to render it just another bureaucratic layer. The committee reiterates that much would depend on how BIC Board is constituted and the empowerment & autonomy conferred on it by the government. The same is true in the existing set up of PSBs too, then what way BIC becomes a different entity? It is fraught with peril to hand over a huge business mix aggregating to Rs.109,91,901 crores of PSBs to a single CEO of BIC who is proposed by the committee to be a professional banker or an investment professional. The entire focus of BIC being on investment return as a yard stick of performance is drifting away from the developmental role of PSBs. The BIC playing a role of passive sovereign wealth fund, if fails to ensure fair returns, would have no accountability. Even if it ensures fair investment returns to the government, can it be a substitute for much needed socio-economic developmental role of the government? Another focus of the committee's recommendations is incentivisation to the employees of BIC based on financial returns the banks deliver. The committee in the process wants to create an improvised version of Indian Banks' Association (IBA). The observation of the committee that if such incentivisation requires the government to hold less than 50% of the equity in BIC, the government should do so and attract non-government investors to make the government a prime financial beneficiary of moving in this direction. Such an observation defies all known canons of financial business. It defies logic as more non-government investors will help government become the eventual beneficiary of financial returns.

The committee recommends that government should cease to issue instructions to PSBs in pursuit of development objectives. This recommendation is most irresponsible, to say the least. It is only the rich proponents of privatisation who can afford to undermine and overlook the one-third of the population of the country living below poverty line with eagerness that the government will bring about change to their economic conditions. In our democratic set up, the government is accountable to the people of the country and that acts moral pressure on the rulers to initiate such of the schemes which aim at improving the life of common man. If government divest itself of developmental role and leave it to the wisdom and discretion of banking institutions or independent regulators, we need to not only repeal the legislative pieces suggested by the committee but also need to amend the basic framework of our constitutional provisions. It is also beyond comprehension as to why the government should transfer its huge wealth in the form of equity holding in PSBs to a company like BIC for the sake of getting investment returns and in the bargain lose its power and authority to carry out developmental role. When the government has the powers and capacity to constitute the Boards of PSBs with professionals in the field and empower them, what is the need and justification for creating BIC and constitute a professional board for it to get its advice for reconstitution of banks' Boards? If the government is considered competent and willing to constitute a Board of professionals for BIC, why the same should not be possible in case of PSBs without seeking coordination from BIC? It is thus evident that proposed BIC would not be anything more than another bureaucratic layer as talked about by the committee itself in its report.

Succession planning

Succession Planning at the level of whole-time directors has been a matter of repetitive exercise carried out annu-

Table-2

(Rs. in crores)

Year	Public Sector Banks		New Private Sector Banks	
	Gross NPAs	Net NPAs	Gross NPAs	Net NPAs
2001	54672	27977	1617	929
2002	56473	27958	6822	3663
2003	54090	24867	7232	4142
2004	51538	18860	5963	2117
2005	47325	16904	4582	2353
2006	41358	14566	4052	1796
2007	38968	15145	6287	3137
2008	40595	17836	10426	4907
2009	44039	21033	13815	6253
2010	59926	29375	14017	5234
2011	74614	36077	14541	3448
2012	117800	59300	14500	3000
2013	165000	90000	15800	3900

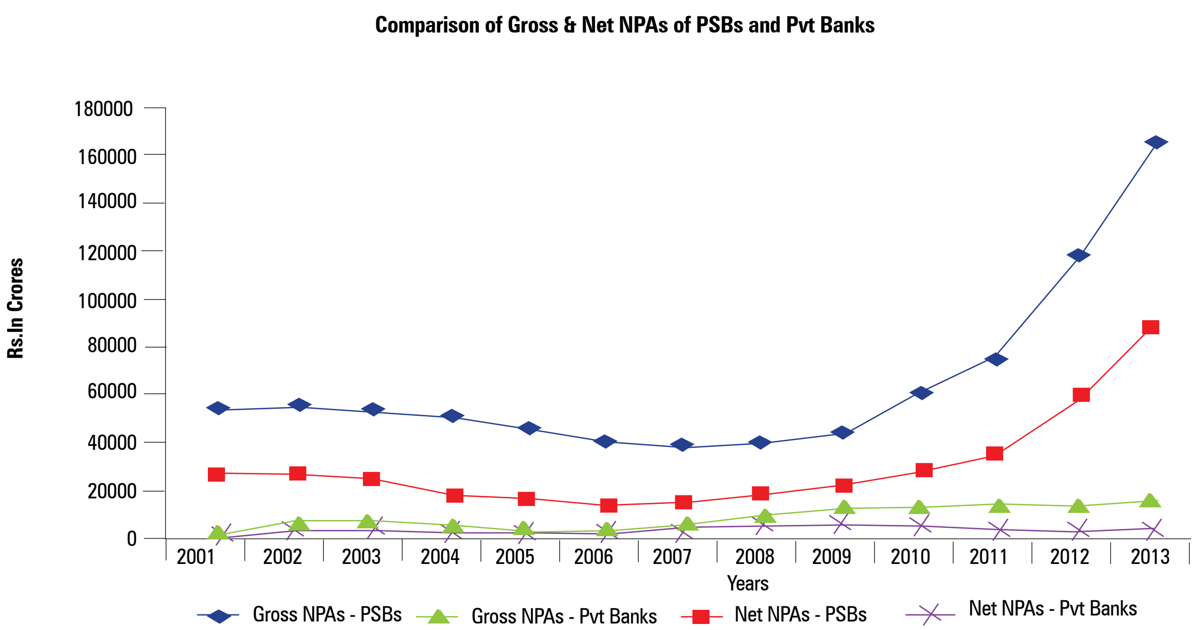
ally since 1970. The experience of 45 years of successfully conducting the selection process for whole-time directors should have helped the government attain expertise. The suggestion to set up Bank Boards' Bureau to fill up top positions in PSBs does not sound a better substitute for the existing selection panel. There is no prohibition for the government to appoint best of the people on the selection panel to ensure right kind of people being appointed as whole-time directors. The expertise and talent being visualised to constitute Bank Boards' Bureau can very well be utilised on existing selection panel itself. The observations of the committee about the vigilance clearance at different stages leading to avoidable delays in appointment of whole-time directors need to be analysed objectively. It is necessary to do a background check in the form of CVC clearance before appointing a person to the Board of a PSB. CVC clearance once obtained is considered valid for a period of 6 months. Since the selection panel shortlists candidates for appointment to fill up the vacancies arising during the whole year, it is natural for the government to seek CVC clearance if the clearance obtained at the time of interview becomes more than 6 months old at the time of actual appointment. This process is followed irrespective of the fact of any anonymous complaint being received or not. If past experience is an indicator, there were hardly any delays in filling up the vacancies in PSBs. If there are exceptions, they do not make the system redundant. It is for the first time in the history of PSBs that the selection process is being subjected to scrutiny to ascertain whether it was completed objectively and in a transparent manner. Such scrutiny is definitely bound to cause delay more so when the government of the day was not in place when such selections were made. It would be more appropriate to wait for the outcome of scrutiny which is underway before speculating with abandoning the well set process of selection.

Non Performing Assets (NPAs)

It would be worthwhile to analyse the level of NPAs of PSBs vis-à-vis new private sector banks. Even though there is no level playing field, the study of the NPA portfolio of these two sectors throws quite interesting results. The Committee has turned a blind eye to such results while painting the PSBs as fragile and suffering from rapidly rising stressed assets. The following table shows the gross NPA and the net NPA figures in respect of PSBs and new private sector banks from 2001 to 2013.(**See Table 2**)

A perusal of Table-2 reveals that the Gross NPAs of PSBs in the year 2001 were Rs.54672 crores which have increased to Rs.165000 crores during the year 2013 registering an aggregate growth of 3.02 times. If we analyse the growth of Gross NPAs in respect of new private banks

Figure-2



during the same period, we find that the Goss NPAs of Rs.1617 crores during the year 2001 have increased to Rs.15800 crores during the year 2013 registering an aggregate growth of 9.77 times. Similarly a comparison of Net NPAs of PSBs and new private sector reveal that the Net NPAs of PSBs of Rs.27977 crores during the year 2001 have increased to Rs.90000 crores registering an aggregate increase of 3.21 times whereas in respect of new private sector banks, an increase from Rs.929 crores to Rs.3900 crores shows an aggregate increase by 4.20 times. It makes it abundantly clear that PSBs have faired outstandingly better than their counterparts in private sector. It is inexplicable as to how the committee comes to a conclusion that the new private sector banks are more competitive and better performing than the PSBs.

It would also be interesting to see the graphical movement of Gross and Net NPAs of PSBs and new private sector banks as shown in **Figure 2**.

It can be seen from Figure-2 that PSBs had shown substantial decline in their Gross NPAs upto 2009 and then the NPAs have gone up due to the conditions of economic downturn resulting into project implementation delays. It can also be seen that in case of new private banks the decline in Gross NPAs is seen only up to 2006 and thereafter there is consistent increase year on year till 2013 implying that the stressed assets in respect of new private banks raised their ugly heads from 2007 onwards as compared to PSBs showing such a trend from 2009 onwards. It can thus be inferred that PSBs are more resilient to adverse market conditions like global financial crisis. It is a test of their financial strength and prudent policies.

Operational efficiency

An important parameter to analyse the operational efficiency of banking institutions is the ratio of operating expenses to average total assets. The following table shows the values of operating ratio in case of PSBs and also private sector banks from the year 2003 to 2013.(**See Table 3**)

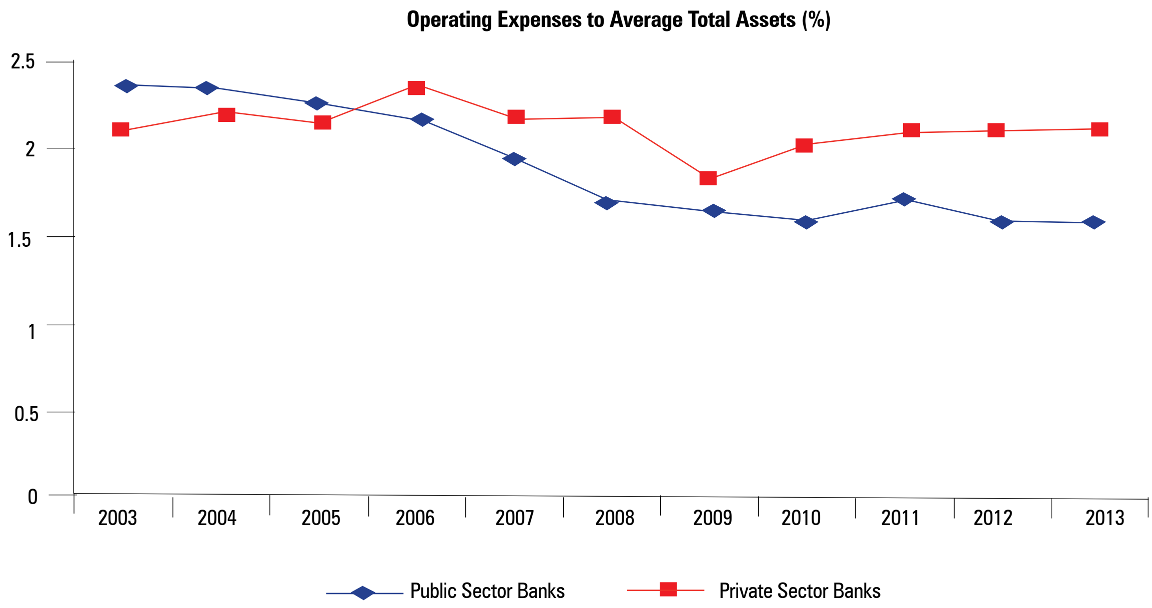
A perusal of values in Table-3 reveals that the operating expenses which constituted 2.30% of total assets in the year 2003 in case of PSBs have progressively been reduced to 1.57% in the year 2013 which shows that the PSBs have become substantially cost-effective. On the other hand, the private sector banks which had an operating expenses to average total assets ratio of 2.10% in the year 2003 have witnessed a higher ratio in the years 2004 to 2008 going as high as 2.34% in the year 2006 and the ratio which came down 1.84% in the year 2009 has progressively worsened to 2.10% in the year 2013. It is thus clear that private sector banks have not been able to reduce their operating expenses as has been done by the PSBs during the same period.

It would also be desirable to see the graphical movement of Operating Expenses in terms of percentage

Table-3

Year	Operating Expenses to Average Total Assets	
	Public Sector Banks	Private Sector Banks
2003	2.37	2.10
2004	2.35	2.22
2005	2.28	2.15
2006	2.18	2.34
2007	1.94	2.18
2008	1.71	2.19
2009	1.64	1.84
2010	1.61	2.02
2011	1.70	2.09
2012	1.59	2.08
2013	1.57	2.10

Figure-3



to Average Total Assets of PSBs and new private sector banks as shown in **Figure 3**.

It is seen from Figure-3 that private sector banks which had a better Operating Expenses to Average Total Assets ratio than that of PSBs upto the year 2005-06, had consistently registered a worsening ratio and reaching the ratio of 2.10% in the year 2013 as compared to 1.57% in respect of PSBs. It is yet another indicator of the operational efficiency of PSBs being far superior to that of private sector banks in the year 2013. The committee has conveniently omitted to analyse such important ratios before arriving at their wrong conclusions about the health of PSBs.

Conclusion

The PSBs have been a subject matter of adverse criticism by various committees constituted by the government, RBI, IBA, Planning Commission etc. However the government at the Centre under different dispensations have shown partial agreement with the recommendations of such committees. But it is to the credit of the human resources of PSBs that they had not been influenced by such biased and tailor-made recommendations. But the enlightened class of bank officers have always been quick to analyse the recommendations of such committees and also expose the intent of their recommendations. It is yet another attempt to rob the public sector character of the banking institutions which have served the rich and the poor strata of the society without discrimination and had thus contributed to the noble objective of nationalisation by bringing about improvement in socio-economic condition of the people at large. PSBs have also stood the test of time by weathering the adverse market conditions at different points of time when international financial crisis had affected many economies adversely. PSBs have their due share of credit in economic growth and prosperity of the country. Such public institutions have an important role at competitive market place in the business of banking too. It is suggested that RBI and government would do well by not destroying the public sector character of the nationalised banks and reject the recommendations of Nayak Committee which seek to serve the unholy interest of the champions of private sector. PSBs need to be preserved, protected and promoted in the face of such attacks of vested interests. MA

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ADOPTION OF BASEL III ACCORD: IMPACT ON THE INDIAN BANKING SYSTEM

Basel III will adversely affect some crucial variables like profitability, growth and the existing business models of Indian banks. But RBI is of the opinion that the negative impact is a short term phenomena

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THE function of financial intermediation is subject to credit and liquidity risk. Banking institutions as financial intermediaries inherently bear these two risks besides various market and non-market risks that arise in the process of diversification of business in several fields. These risks expose banks to events, both expected and unexpected, with the potential to cause losses. So far as expected losses are concerned, banks can managed it through a host of pricing and provisioning strategies, while adequate capital fund is needed to cover up the unexpected losses. That is why the adequacy of capital in banking business is considered to be a vital factor for its safety and soundness. The Basel Committee on Banking Supervision (BCBS) as a wing of Bank for International Settlement (BIS) and a body of senior representatives of the Central Banks of various countries was formed in 1975 to look into the matter. It formulates broad supervisory standards and guidelines and recommends best practices for the adoption by the individual regulators through detailed arrangements – statutory or otherwise – which best suited to their own system. Thus, the committee promotes the convergence towards common approaches across the nations. Since its inception to till date, the committee formulates 3 versions of the capital regulation which are popularly known as 'Basel Accords'. Basel III is the latest capital regulation devised in response to the Global Financial Crisis.

In India, RBI has adopted Basel III and issued guidelines for its adoption in phases over the period of 2013 to 2018. Accordingly, the process of adoption has already been started and will eventually be culminated in March 2018. In this backdrop, the present paper aims at capturing the essence of the Basel III accord and the important issues arising from the adoption of Basel III for Indian banking.

Methodology of the study

The present study is both descriptive and analytical in nature. It aims at describing the essence and rationale, areas of improvement in capital regulation under Basel III and the prospects and challenges arising in the process of adoption of Basel III in general and more specifically for Indian banking system in a systematic and coherent manner so as to facilitate better understanding about the most significant reform measure that banking system is currently subjected to. For analysis, study primarily used secondary data.

Essence of earlier Basel Accords

Basel I Accord

The formal framework for capital adequacy regulation was evolved in 1988 when BCBS introduced Basel – I Accord. Under Basel I banks were required to maintain a minimum capital adequacy of 8% relative to Risk Weighted Assets (RWA). It provided a credit risk measurement mechanism by assigning appropriate risk weights against different categories of assets. In India, RBI adopted Basel I from 1992 onwards and mandated a higher CRAR (Capital to Risk Weighted Asset Ratio) of 9%. This simplistic framework was criticised for 'one size fits all' approach and absence of risk sensitivity in estimating capital requirements. It was also criticised for not imposing any capital charge to cover the operational risk.

Basel II Accord

In order to remove the deficiencies of Basel I, BCBS issued Basel II accord in 2004 and suggested for its implementation by the beginning of 2007. Basel II takes a three pillars approach to regulatory capital measurement as shown in **Table 1**.

Pillar I ensures that banks maintain sufficient capital to cover their credit risk, market risk and operational risk. Pillar II ensures that banks follow improved risk management practices so as to contain risks to the minimum. Pillar III seeks to supplement supervisory function through improved disclosure requirement and transparency in bank operations.

In India, RBI issued guidelines for migration to Basel II in 2005 and asked banks to adopt Standardized Approach for credit risk and Basic Indicator Approach for operational risk with effect from March 31, 2007. Although Basel II was a compact capital regulation framework, yet it failed to address certain issues which emerged during the Global Financial Crisis (Fratianni and Marchionne, 2009, Acharya et al. 2011) that facilitates the emergence of Basel III capital regulation.

Adoption of Basel III: Rationale and improvement

Basel III represents an effort to fix the gaps and lacunae in Basel II that surfaced during the financial crisis. Therefore, to understand the rationale behind the adoption of Basel III we need to look at both the criticism labelled against Basel II and the measures to overcome those negatives. The major criticisms against Basel II are as follows:

- Basel II is a pro-cyclical capital regulation which means that in good times it does not impose significant additional capital charges but in the reverse case, it demands more capital;
- Failure of market risk model to capture the risk arising from the complex derivative products and Mortgaged Backed Securities;
- Failure to control excessive leverage of banks;
- Absence of liquidity risk mitigation norm;
- Absence of systemic risk mitigation norm.

To remove these deficiencies, Basel III proposed some improvements so that banking industry may be prepared to withstand any future economic crisis. The major improvements are:

Provision for Higher capital

- Introduction of Capital Conservation Buffer (CCB) of 2.5% of RWA;
- Introduction of countercyclical capital buffer of 0 – 2.5% of RWA which raises the level of Regulatory Capital to13%;
- Provision for higher capital surcharge for Systematically Important Banks (SIB);

Table 1: Three Pillar Approach to Risk Management System under Basel II

Pillar I, Minimum Capital Requirements	Pillar II, Supervisory Oversight	Pillar III, Market Discipline and Disclosures
3 approaches for the determination of capital requirements to cover credit and market risks: • Standard • Foundation Internal Rating • Advanced Internal Rating	Enhance the role of banking supervisor and give them power to: • Keep check on adequacy of capital • Encourage to maintain higher level of CRAR than minimum • Link capital to risk profile of banks • Take remedial measures whenever required	Seeks to bring market discipline through greater transparency. Provides improved disclosure in the arena of: • Asset Quality • Regulatory sanction • Share price movement • Lending &borrowing rates • Capital structure • Capital adequacy • Risk management processes
3 approaches to calculate capital requirement for operational risk: • Basic Indicator • Standard • Internal Measurement		
Specifies methodology for assigning risk weights on the basis of credit risk and market risk		

Table 2: Comparison of Indian Version of Basel III and Basel III Package of BCBS

Sl. No.	Particulars	BCBS version of Basel II	Indian Version of Basel III
Higher Quantity of Capital			
1	Minimum Total Capital to Risk Weighted Asset (CRAR)	8 %	9 %
2	Capital Conservation Buffer (CCB)	2.5	2.5%
3=1+2	Effective Minimum CRAR	10.5 %	11.5 %
4	Countercyclical Buffer to RWAs	0 – 2.5 %	0 – 2.5%
5= 3+4	Total Regulatory Capital	10.5 – 13 %	11.5% to 14%
6	Systematically Important Bank (SIB) Capital Charges	Deliberation is on	Not yet decided
Better Quality of Capital			
	(a) Minimum Tier I capital to RWAs	6%	7 %
	Minimum common equity Tier I capital to RWAs	4.5 %	5.5%
	(a) Maximum Tier II capital within Total Capital	2%	2%
Leverage and Liquidity Standards			
7	Leverage Ratio = Tier I capital to Total Assets	3% or 33 times	4.5 % or 22 times
8	Liquidity Coverage Ratio = Stock of High Quality Liquid Asset ≥ 100% Total Net Cash Outflows over the next 30 calendar days	Yes	To be introduced from January 2015
9	Net Stable Funding Ratio (NSFR) = Available amount of stable funding > 100% Required amount of stable funding	Yes	To be introduced from March 2018
10	Time frame for implementation	01.01.2013 to 31.12.2018	01.01.2013 to 31.03.2018

- Strengthening of counterparty credit risk framework under market risk instruments;
- Provision for Credit Valuation Adjustment (CVA) risk capital charge for OTC derivatives;
- Introduction of 3% leverage ratio (or 33 times exposure of regulator capital) to put a cap on swelling of leverage.

Provision for Better Quality of Capital

- Common equity and retained earnings are made the predominant component of Tier-I capital. Tier-I portion increased from 2% to 4.5%.
- Maximum level for Tier-II capital reduced to 2% (from 4% of Basel II).
- Full deduction for capital components with little loss-absorption capacity.
- Gradual phase-out of Hybrid Tier-I components.

Introduction of Liquidity and Solvency Standards

Basel III addresses both short term liquidity risk management and longer term solvency risk management through Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) respectively. It encourages banks to avail stable source of funding relative to the liquidity profile of assets including off-balance sheet commitments.

Modification in Provisioning Norm with Better Disclosure

Basel III requires banks to adopt 'expected loss approach' as against current 'incurred loss approach' of making provision and to improve disclosure practices by disclosing relevant information regarding risk exposures, composition of regulatory capital and regulatory adjustments thereto so as to facilitate more informed decision making for the market participants.

Indian roadmap for convergence with Basel III

The RBI issued final guidelines on adoption of Basel III in May 2012 to be implemented from January 1, 2013 to March 31, 2018. The RBI guidelines have not adopted the Basel III package in verbatim but introduced several improvements which makes it more onerous on the part of the Indian bank. A cursory glance to **Table 2** helps us to understand the difference between Basel III package of BCBS and Indian version of Basel III.

From the table, it is evident that RBI fixed the end date nine months earlier than the internationally agreed date of December 31, 2018. RBI has also fixed 1% higher level of regulatory capital and 1.5 percentage point higher leverage as compared to original Basel III prescriptions. It is also to be noted that India is not alone to set higher specification but many other countries such as China, South Africa, Singapore and Philippines also set higher CRAR ratio as a prudential measure (BIS, 2013).

The Indian banks, therefore, have to maintain a minimum CRAR of 9% on going concern basis. Within this, the minimum requirement for common equity has been raised to 5.5% of RWA. The overall Tier 1 capital requirement will also increase to 7%. RBI, however, provided a broad transitional arrangement as to how the increased level of Common Equity Capital (CEC) can be achieved within the time frame as shown in Table 3.

Impact of Adoption of Basel III on Indian Banking System

Adoption of Basel III poses both prospect and challenges. While the micro-prudential regulations ensure the viability and risk compliance of individual banks, macro-regulations take care of the stability of the banking system as a whole. The end result is more resilient banking sector with improved ability to absorb shocks arising from financial and economic stress. But it also brings several important issues to the floor with a wide ramification for the banking industry in India. Let us discuss some of these issues briefly.

Additional Capital Requirement

Basel III demands higher and better quality of bank capital even to do the same level of business. In case of structurally transforming economy like India demand of credit will expand faster because of the following reasons:

- India will shift from service sector to manufacture sector whose credit requirement is higher (Jayadev, 2013)
- 12th Plan (2012 – 2017) envisaged increased investment in infrastructure projects and to reduce the credit gap of Small and medium enterprises from 62% to 43% at the end of the plan period (Planning Commission of India, 2012).
- The financial inclusion drive of the Government of India will bring more people in the ambit of formal financial system and hence generate more demands for credit.

If we take these into account, credit requirement will expand further and Indian banks need to maintain the higher capital at a time when credit demand is on higher side. But RBI had recently stated that PSBs presently have CRAR of 13.4% wherein Tier I capital ratio is 9.3%. But this is as per Basel II and did not take into account the dilution of capital arising out of the qualitative improvement of capital under Basel III. Moreover, additional capital will be required to address the counter party default risk and to serve the impending credit growth of various sectors of the economy.

According to RBI estimates (as shown in Table 4), Indian banking system would need equity capital around 930 – 1025 billion rupees over the next five years to comply with Basel III and Govt. has to play a major role in supplying that additional capital. The possible implications for the Indian banking system are:

- If status quo is maintained, then Govt. has to inject around Rs. 900 billion and that would definitely put further pressure to the already burdened exchequer.
- If Government pursue disinvestment strategy, then the burden would be reduced but some operational issues need to be resolved. Given the track record on disinvestment, it is not likely that Government would like to pursue this option vigorously.

Table 3: RBI Transitional Arrangement for implementation of Basel III capital requirement

Minimum capital ratios	01.4.2013	31st March				
		2014	2015	2016	2017	2018
Minimum Common Equity Capital (CEC) - Tier-1	4.5	5.00	5.50	5.50	5.50	5.50
Capital Conservation Buffer (CCB)	---	----	0.625	1.25	1.875	2.5
Minimum CEC+CCB	4.5	5.00	6.125	6.75	7.375	8.00
Additional Tier-1 Capital	1.5	1.50	1.50	1.50	1.50	1.50
Minimum Tier – 1	6.00	6.50	7.00	7.00	7.00	7.00
Minimum Total Capital	9.00	9.00	9.00	9.00	9.00	9.00
Minimum Total Capital + CCB	9.00	9.00	9.625	10.25	10.875	11.50

Source: Sharma (2014)

Table 4: RBI Estimates of Additional Capital Requirements for Indian Banks

Particulars	Public Sector Banks	Private Sector Banks	Total (Rs. in billions)
Additional Equity Capital (Basel III)	1400 – 1500	200 – 250	1600 – 1750
Additional Equity Capital (Basel II)	650 – 700	20 – 25	670 – 725
Net Equity Capital Requirement (Basel III)	750 – 800	180 – 225	930 – 1025
Additional Equity Capital Requirement:			
If Present share of Govt. Is maintained	880 – 910		
If Govt. Holding reduced to 51%	660 – 690		

Source: Report on Trend and Progress of Banking in India, RBI, 2012

- The banks may face challenges in taping capital market because of lower profitability of banks arising out of stricter capital regulation of Basel III in one hand and higher retention of profit on the other.

Profitability of Indian Banking

Profitability of Indian banks will be adversely affected, as has been the case with many developed countries, because raising and maintaining higher and better quality capital raise the cost of equity and non-equity capital. It will push the interest rate up and in turn the cost of capital will increase. The return on equity in this process will come down. Further, the leverage specification limits credit exposure of banks. As Return of Equity (ROE) is a product of Return on Asset and Leverage multiplier as shown below, the profitability of the banks will get affected because of the cap on exposure. In light of the above, higher leverage specification by RBI (4.5% or 22 times as mentioned in section 3) may appear to have worse effect on profitability.

ROE = ROA X Leverage Multiplier =

$$\frac{Profit}{Total\ Assets} \times \frac{Total\ Assets}{Equity\ Capital}$$

In his study, M.Jayadev (2013) showed that various segments of Indian banking system maintained a low to moderate leverage ranging from 6.15 to 17.58 times and even then achieved a steady ROE of around 15%. Thus, the 22 times exposure of regulatory capital in case of Indian banks offers much scope to accommodate further growth in credit for some years. Therefore, as of now, this may not have that much damaging effect on profitability of Indian banks as compared to other nations.

The RBI is of the opinion that the adoption of Basel III will result in a decrease in ROE in the short run (Reddy, 2012). But in the long run benefits arising out of stable and stronger banking system will offset the negative impact of a lower ROE of short term. The belief is tenable on the ground that investors, on an average, prefer less risky and more stable banking system in the longer term and for that they will have to trade off higher return for lower risk.

Basel III and Growth Prospect of Indian Economy

One of the major concerns associated with Basel III is that the additional capital requirement especially during the period of high demand of credit will lead to the increase in cost of credit and hence hurt the growth of the economy. Research shows that the largest banks in the world would raise their lending rates on an average by 4% in order to achieve the Basel III standards which, in turn, cause loan growth to decline by 1.3% in the long run (Cosimano & Haura, 2011). Similar effects can be expected in India as well. Now, the question is how much growth is to be sacrificed for the financial stability? RBI is of the view that even if Basel III imposes some costs in the short-tern, it will secure medium to long term growth prospects.

Challenges in Implementing the Countercyclical Capital Buffer

Conceptually, Countercyclical Capital Buffer is sound but it poses implementation hurdle. The challenge before the regulators is to identify and distinguish between good time and bad time in an economic cycle because the buffer has to be released in appropriate time so as to control the spreading of systemic crisis. It needs quality data series. Therefore, it becomes imperative to develop a quality database and more refined statistical skills in analyzing economic cycles.

Another problem is that Basel III suggested credit to GDP ratio as an indicator to capture the buildup systemic risk, but in case of India, it is historically seen that credit as a percentage of GDP could not fully capture the buildup systemic risk in Indian banking system and hence inappropriate to understand the dynamics of the Indian economic cycles. Therefore, both Indian regulator and BCBS should recognize the need of choosing an appropriate measure to capture the buildup systemic risk based on country specific criteria and hence incorporate flexibility in this respect.

Impending Consolidation of Indian Banking System

Basel III also facilitates the consolidation of banking sector in India because smaller banks will find it difficult to meet the new Basel guidelines which, in turn, result in reduction of the scope of operations of smaller banks. Ultimately the bigger banks acquire the smaller ones and the consolidation of banking sector becomes inevitable. This will bring some prospects and challenges before the system and regulator should prepare appropriate plan to deal with such challenges in the near future.

Concluding observations

The safety and soundness of Indian banking is an important prerequisite for its sustainable growth. The former largely depend upon the maintenance of adequate capital to cover up the inherent risk, proper matching of assets and liabilities and adequate control over excessive leverage. Basel III addresses all these issues with an aim to improve the ability to absorb shocks arising from financial and economic stress. But safety and soundness has always been associated with costs. Naturally, the adoption of Basel III will going to adversely affect some crucial variables like profitability, growth and existing business model of Indian banks. But RBI is of the opinion that the negative impact of adoption of Basel III is a short term phenomena and benefits of a stronger and sustainable banking in the long run will not only offset the negatives but promote growth and development. But RBI should be more proactive in devising appropriate and credible policies for effective mitigation of the challenges emanating from the adoption of Basel III.

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INTERNAL AUDITING: THE CHANGING PERSPECTIVE IN INDIAN COMPANIES

Internal Audit has shifted focus from internal financial controls to compliance audit, from operational audit and to management audit. With the shift in focus, the management accounting profession shall be the linchpin of the internal audit team

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LONG back 'Internal Audit' was introduced in India by some enlightened companies. Recognizing its worth in achieving independent review of financial data and controls within the organizations, internal audit was first made mandatory for a particular set of companies vide the Manufacturing and Other Companies (Auditor Report) Order, (MAOCARO, 1975). MAOCARO, 1975 required the auditor to certify whether the company has an internal audit system commensurate with its size and nature of its business. And also, whether there is an adequate internal control procedure commensurate with the size of the company and the nature of its business, for the purchase of stores, raw materials including components, plant and machinery, equipment and other assets, and for the sale of goods.

MAOCARO, 1988 and CARO 2003 again emphasized the need for internal audit but on the same premise. Section 581ZF of the Companies (Amendment)Act, 2002 also stipulated that 'Every Producer Company shall have internal audit of its accounts carried out, at such interval and in such manner as may be specified in articles, by a chartered accountant'.

All this time, internal audit was thought to be subservient to statutory auditors having prime focus on the audit of finance function, and internal controls. The focus of internal audit was to continuously audit financial records to provide an assurance to the statutory auditors and the management that the financial controls are adequate and operating effectively.

However, post 2003 and with the evolution of the internal audit in other advanced economies of the world, the scope of internal audit in India too evolved. The Institute of Independent Auditors (IIA) defined Internal Audit, (Please refer to the box).

The dynamism in the business environment and the practice in the developed economies necessitated the widening of the scope of internal audit in India as well. The Government initiated steps to take internal audit to a more matured level. The stipulations regarding the constitution of Audit Committee and its role in governing internal audit, for a class of companies, under Clause 49 of the Listing Agreement; and now also the Companies Act 2013 highlights the impetus given by the Government on the role of internal audit. The Government has broadened the scope of internal audit. The scope which was, at one time, restricted to the assessment of adequacy of internal financial controls, now focuses on operations, risk management, fraud detection and management audit.

Therefore, it may not be wrong to conclude that we have witnessed the expansion of in-

INTERNAL AUDIT IS AN INDEPENDENT, OBJECTIVE ASSURANCE AND CONSULTING ACTIVITY DESIGNED TO ADD VALUE AND IMPROVE AN ORGANIZATION'S OPERATIONS. IT HELPS AN ORGANIZATION ACCOMPLISH ITS OBJECTIVES BY BRINGING A SYSTEMATIC, DISCIPLINED APPROACH TO EVALUATE AND IMPROVE THE EFFECTIVENESS OF RISK MANAGEMENT, CONTROL AND GOVERNANCE PROCESSES.

ternal audit from 'a function subservient to the financial audit' to 'a management accounting tool'.

An independent internal auditing function can be instrumental in the objective assessment of the efficiency of systems and architectures within an organization. This makes internal auditing an important management accounting tool.

At present, 'Internal Audit' has been mandated for a select class of companies in India. Also, the scope of an internal audit has not been statutorily defined by any of the laws in India. The companies in India are laying their nascent steps towards a more mature regime of internal audit. This paper shall broadly encapsulate the nature of internal audit practices in India.

For studying the internal auditing practices in India, a structured Questionnaire was used as the survey instrument and the same was sent to the lead 1000 companies of India. We received 81 responses to the Questionnaire and the findings are summarized below:

The composition and qualification of the internal audit team

There is almost an equal divide between the number of companies that have partly/ completely outsourced their Internal Audit functions and the ones that have an internal audit department. Chartered Accountant firms are the most preferred outside agency for those that have outsourced the function. This may be primarily due to the fact that Section 581ZF of the Companies Act, 1956 (introduced in 2002) mentioned that the internal audit should be carried out by the specified companies by Chartered Accountants only.

Although Section 138 (1) of the new Companies Act 2013, now, specifies that an internal auditor may be a chartered accountant, or a cost accountant or such other professional as may be decided by the Board of the company, the survey results findings reveal that the legacy of the 1956 Act has still not been shed by companies.

More so, because the findings show that the Internal Audit teams are significantly dominated by professional accountants and finance professionals. Approximately those professionals constitute 82 percent of an average internal audit team. Ideally an internal audit team should be multi-disciplinary.

Having an internal audit team constituted majorly of professional accountants and non-finance professionals has another limitation, that of its restricted role in operational audit. A majority of companies have mentioned that on an average they spend highest percentage of their total internal auditing hours on operational audit; but conducting operational audit with such team may hinder the audit team to cover important aspects of operational audit.

A good news here is that although Indian companies do not have multi-disciplinary teams, they lay emphasis on building capabilities by rotating team members across other line functions. Companies also provide them adequate training. On average companies spend 31hours (approximately, 5 days) per person during a year for training of audit team members.

The independence of the internal audit function

An Audit Committee has an instrumental role in gearing the internal audit function in the right direction. 84 percent of the respondent companies had Audit Committee in place. Out of the total number of private companies, 50 percent had an Audit Committee, while uptil date private companies were not statutorily required to have an Audit Committee. Forming Audit Committee by companies is a step towards good corporate governance in ensuring audit independence, for both the statutory as well as the internal auditors. The role of Audit Committee in the selection, guidance, evaluation and assessment of internal audit function has been emphasized in the Listing Agreement and the Companies Act 2013.

However, it was noted that in many companies the Audit Committee does not involve itself in the selection of the CIA. In only 49.2 percent of the companies that have an Audit Committee, the selection of the CIA/ Internal Audit firm is actually being done by the Audit Committee independently. The Audit Committee not getting involved in the appointment of the CIA is presumably because it is considered as an executive function.

It was also noted that there are around 43% of the companies that do have Audit Committee but the Committee does not involve itself in the evaluation process of the internal audit function.

This is a grey area which suggests that the role of Audit Committee in internal audit has to be lined further. It is expected that with the implementation of the Companies Act 2013 the scenario might improve.

However, with the facts that:

- In general in most of the companies, the Audit Committee involves itself in the evaluation process, independently or jointly with other authorities.
- The level of Chief Internal Auditor (CIA) in most of the companies is either equivalent to or higher than the level of departmental heads.
- In most companies, the CIA reports (administratively and functionally) either to the Chairman, Audit Committee or to the CEO or to the CFO that protects the independence of auditor from auditees, particularly in the area of operational audit, and that
- In most companies CIA has a reasonable access to the Audit Committee.

There is a reason of contentment towards the enlightened relationship between the internal auditors and the Audit Committee.

The high level of 'Perceived independence' of the CIA is also instrumental in making them motivated to offer creative solutions. While studying the perceived independence of the Internal Auditors, it was noted that around 61% of the CIAs perceived that their internal audit function is 'Highly Independent', around 34% perceived it as 'Moderately Independent', 2.5% perceived it as 'Not Independent' and 2.5% of the respondents marked their responses as 'can't say'.

The scope of the internal audit function

Companies ranked their priorities for different functions within the Internal Audit function in the following order of their preferences:

A: Providing assurance on internal controls
B: Providing assurance on compliance to legal, regulatory, and internal policies and procedures of the organization
C: Achieving excellence in operations by providing assurance as well as value addition to operations of the organization
D: Risk-based internal audit
E: Value-added advisory role for the betterment of the organization
F: Identifying and managing strategic risks
G: Fraud Risk Management
H: Overall risk management

A majority of the companies reported that they include 'operational audit' and 'management audit' in the scope of internal audit. The average percentage allocation of different audits under the total internal audit hours spent by the CIAs are: Operations Audit- 32.05; Financial Audit- 28.86; Compliance Audit- 23.39 and Management Audit: 15.7

Although most companies reported that they practice management audit, it is felt that companies are still not clear about the scope of management audit as many companies don't include the pertinent variables defined under management audit in their internal audit plans. However, they might be doing some higher level audit which they perceive covers management audit.

Internal Audit Plans

While ranking the priority of stakeholders considered while drafting the Internal Audit Plans, the respondents gave the following order:

a) Audit Committee of the Board
b) CEO
c) Board of Directors
d) CFO
e) Auditees

In majority of companies the CIA does not meet with the Audit Committee while drafting the Internal Audit

Programme. Also, a sizeable number of companies reported that they do not modify their internal audit programme even once during a year. This is a matter of concern, since the involvement of the Audit Committee while drafting the internal audit programme is pertinent in ensuring a well defined scope for the functioning of the internal audit team. Also, companies have to appreciate that drafting of the internal audit programme as an ongoing process and the same cannot be treated as static, one time document, in a dynamic and complex business environment.

Internal Audit: Moving ahead

In the global shift towards Risk-based Internal Audit, a majority of the companies mentioned that they have risk management frameworks embedded in their systems. However, a sizeable number of companies mentioned that they don't think that their current frameworks are adequate. The use of data analytical tools and IT tools and softwares for conducting internal audit assignments is increasingly being adopted by the Indian companies. 60 percent of the companies provide training in IT to their internal audit team members.

Internal Audit is also increasingly getting involved with 'Fraud Risk Management' in companies. 88 percent of the companies reported that the internal audit function in their organization is assigned the task of investigating special issues (such as reported fraud, violation of policies, etc.).

Conclusion

Internal Audit has shifted focus from internal financial controls to compliance audit, operational audit and then to management audit. It is expected that it would adapt the risk based internal audit with the increasing role of the board of directors in risk management. With the shift in focus, the management accounting profession shall be the linchpin of the internal audit team. Therefore, the profession should gear up to take up the ensuing challenge. MA

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INDO-SOUTH KOREAN ECONOMIC RELATIONS: ARE THEY ONE WAY?

Data on trade and investment show that this is a one-way economic relation and there is no match between South Korea and India in terms of trade and FDI

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As the growth pole has shifted from the west to the east, the driving force for the world's economy has been the major economic powers of Asia. Hence, Indo-South Korean economic relations are of paramount and strategic importance. But the data on trade and investment shows that this is a one-way economic relation and there is no match between South Korea and India in terms of trade and FDI. This means that the present economic relations between the two Asian economies are at a low ebb and the existing potential and opportunities of expansion of economic relations have not been tapped by both the countries and as a result, both trade and investment relations are at a low level.

Trade scenario

In the year 2001, the total trade between India and South

Korea was very marginal amounting to only US $ 2.52 million and by the end of the year 2012 this figure increased to US $ 16.1 million fluctuating trend and the gradual rise is the missing link Chart 1.

From Chart 1 it is clearly evident that although there has been gradual increase in the total trade between the two countries between 2001 and 2007 i.e. more than 4.4 times. Thereafter there have been fluctuations and the rise between 2007 and 2013 it is just more than 1.4 times. Although South Koreas imports from India have increased, but these are much lesser than exports to India resulted in favourable balance of trade towards South Korea. On March 31, 2013, India's imports from South Korea were amounted to US $ 13 billion whereas India's exports to South Korea were stood at just US $ 4 billion. This means the overall trade remains highly skewed in favour of South Korea. Therefore, there is an urgent need to narrow down the trade deficit. This could be done if India export more especially high-tech and value-added engineering goods which is the missing link.

The Comprehensive Economic Partnership Agreement (CEPA), signed in 2009 and operationalized in 2010, there is an urgent need to negotiate it with the authenticity to help business from two countries to reap out the benefits of CEPA. Since the operalization of CEPA, trade in volume terms between the two countries has increased by a margin of 70 per cent but the agreement leaves much to be desired. The most significant or pertinent point to be mentioned here is that the contents of the same does not match with that of other free trade agreements (FTAs). There is an enormous potential and opportunities to increase the existing level of trade and investment to much higher levels through optimum utilization of the CEPA and liberalization of the visa regime for greater people-to-people interface.

Investment scene

Investment ranking also shows that there has been low level of investment relations between the two countries as South Korea is the 17th biggest investor in India in terms of actual inflows of FDI. By the end of 2012, South Korea's total investment in India stood at US $ 2.6 billion. In the year 2009 the FDI inflows to India were amounting to US $ 241. million and at the end of September 2012 the amount stood at 212 million while it was US $ 331 million in 2011 This means the FDI inflows to India at the end of 2012 has not touched the figure of 2011 **Table 1.**

Table 1 indicates that there has been high degree of fluctuation in South Korea's FDI inflows to India. The most pertinent to be mentioned here is that FDI inflows from South Korea to India have been concentrating on wholesale and retail trade which means in tertiary sector not manufacturing sector and therefore, manufacturing sector has the lowest possible FDI inflows from South Korea amounting just US $ 2.2 billion **Chart 2.**

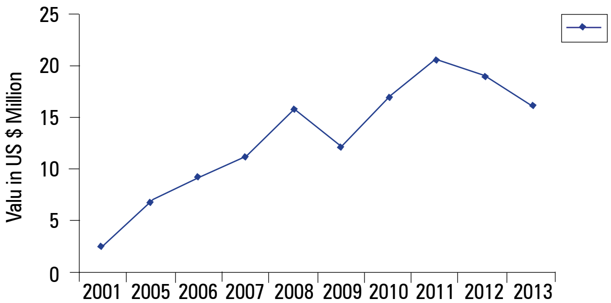
The main Korean companies who have invested in India are Hyundai, Samsung, and LG. The largest investment has been done by Hyundai amounted to US $ 2.7 billion. The amount of investment from Samsung stood at US $ 400 million. The proposed investment in coming year is from POSCO as much as 12.6 billion. These all reveals that Korean companies have not any strong presence in Indian market in terms of number and amount invested.

New initiative

It is true to say that the present visit of South Korean President would impart fresh momentum to the existing economic relations between two countries. The negotiations could lay out a road map for expansion, diversification and enhancement of required strategic partnership between the two countries in coming times.

The most significant out come of the visit is the much long delayed of establishment of POSCO steel Plant involving an investment of US $ 12.6 billion which will be the biggest amount of investment ever made out by any Korean firm in India. The visit has also provided the basis for five more agreements including the agreement relating to defence and space. The plant will be established at Jagatsinghpur in Odisha with an installed capacity of 8 million tines per year.

Chart 1: Trends in Indo-South Korean Total trade between 2001 and 2013



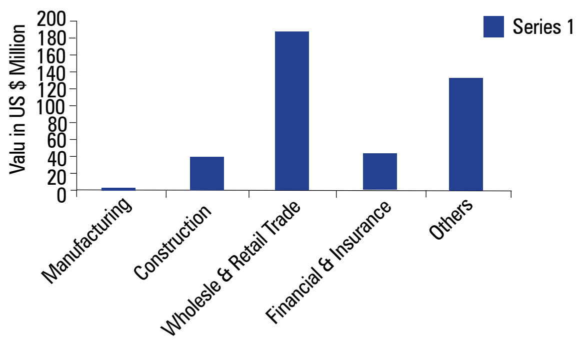
Source: Korean International Trade Association and Exim Bank of Korea, Soul 2013.

Table 1: South Korean FDI Inflows to India from 2009 to 2012 (September)

Year	Amount of FDI in US $ Million	Growth in %
2009	241	-
2010	179	-34.6
2011	330	+84.4
2012	212	-35.75

Source: Same as chart 1

Chart 2: Sectoral Investment From South Korea at the end of 2013



Source: Same as chart 1

India's environment clearance to Rs. 2000 crore POSCO steel plant will inspire other big companies to invest in India. Large conglomerates in Korea to channelise investable funds into India. Liberalizing the visa regime and improving business cooperation among small and medium enterprises to create more jobs in India as well as South Korea.

The other areas on which both the countries have agreed upon are as under:

1. Purchase of mine sweeper from South Korea;

2.Visa on arrival to South Koreans;

3. Double taxation avoidance convention;

4. Possibility of setting up a Korean Industrial Park in India;

India and South Korea have also signed a Memorandum of Understanding (MOU) to increase the existing degree of bilateral trade and investment. The MOU will provide a forum wherein technical know how of both countries in developing and improving infrastructure could be exchanged. I will also explore possibilities in urban transport sector.

Another significant off-shoot of the visit is tripartite MOU signed between Engineering Export Promotion Council (EEPC) India, Confederation of Indian Industries (CII) and the Korean Trade and Investment Promotion Agency (KOTRA). This tripartite MOU could prove more beneficial will also go a long way in enhancing the degree of bilateral economic relations.

It is believed that both the countries have committed themselves to promote mutual trade and investment flows and both Indian and South Korea can shield themselves from the global headwinds which are blowing mainly form the Western economies, US and continental Europe.

The signed MOU may bring desired level improvement in the existing flow of information between Indian and South Korea which is sine-quo-non for business communities of both the countries. It is also believed that the most essential segment of economic relations namely business to business contacts will also improve further which will build up the required amount of confidence and mutual understanding. This could be possible by arranging trade fairs, exhibitions, seminars, conferences, workshops and other types of events on regular basis on alternative year basis.

Another important thing of the visit is that nine more pacts were signed in the important areas of cooperation namely: cyber space, defence, science and technology, out-space, education, cultural exchange of scientists and academicians, information and communication technology and broadcasting. These pacts will go a long way in strengthening the economic relations between India and South Koreas which is the need of the hour.

Sliver lining

Korean South Est Power Company (KOSEP), a subsidiary of Korean state-owned power generator Korea Electric Power Corporation has also signed an agreement with Mumbai-based Jinbhuvish Group for technical support for its RS. 3,450 crore project in Maharasthra. The 600 MW power plant being established in Yavatimal district is likely to be commissioned in 2016. KOSEP holds a 40 per cent equity stake in the coal-based project. Lenders for the venture include Rural Electrification Corporation and Power Finance Corporation and PTC India Financial Services. MA

ba.iqbal.cm@amu.ac.in

Attention please – Members in Practice

Members in practice can now view their validity of Certificate of Practice by following the procedure as laid down below:

1. go to the home page of the Institute website, ie www.icmai.in
2. go to the members' log in on the top of the Home page by using your membership number as 'User ID' and a combination of your DoB (in dd-mm-year format) and Membership number as your 'Password'
3. immediately you will be led to the 'Membership Management System' page
4. go to the 'Certificate of Practice' menu on that page
5. view the validity of 'Certificate of Practice' which is the last item on that menu

INTERNAL AUDIT IN PUBLIC ENTERPRISES

COURSE OBJECTIVE:

The Evolving Role of the Internal Auditor - Value Creation and Preservation

With the implementation of Companies Act, 2013 the Ministry of Corporate Affairs has notified the provisions related to Internal Audit of Companies w.e.f. 01st April, 2014.

Companies Act, 2013 has imparted huge importance to Internal Audit. With increasing responsibilities and accountability of the Board, internal audit acts as eyes and ears of the Board. Consequently the scope of internal audit has widened.

Section 138 of the Act provides that such class or classes of companies as may be prescribed shall be required to appoint an internal auditor. Such internal auditor shall be appointed by the Board and may be either chartered accountant or cost accountant or such other professional as may be decided by the Board.

Eligibility for appointment of Internal Auditors

Internal auditor may or may not be an employee of the company (Explanation to Rule 13 of Companies (Accounts) Rules, 2014). Thus, an employee of company may also be appointed by Board as internal auditor or a company may outsource the internal auditing function.

ICWAI-MARF has designed a programme covering Internal Audit for one day as under:

COURSE COVERAGE:

- Evolving role of Internal Auditing Function
- Risk Based Internal Audit
- Reporting System, Model of reporting and communication skills of Internal Auditor
- Audit Committee and Internal Audit

FOR WHOM:

Internal Auditors Associated with public enterprises, professionals and functional heads employed in public sector enterprises.

METHODOLOGY:

The programme will be developed through lectures, discussions and case studies using audio-visual equipments.

VENUE:

10th November, 2014	:	SCOPE Convention Centre, SCOPE Complex, 7, Lodhi Road, New Delhi-110003 Ph: 011-24362604, 24360101
11th November, 2014	:	Hotel Aditya Park, Satyam Theatre Road, Hyderabad, AP-500038 Ph: 040-66788888
12th November, 2014	:	Hotel Fortune Landmark, Ashram Road, Ahmedabad, Gujarat-380013 Ph: 079-39884444
13th November, 2014	:	Hotel The Peerless Inn, 12, Jawaharlal Nehru Road, Kolkata, West Bengal-700013 Ph: 033-22280301
14th November, 2014	:	The Atria Hotel, 1, Palace Road, Bengaluru, Karnataka - 560001 Ph: 080-22205205

DURATION

One Day, 09:30Hrs - 17:30 Hrs

COURSE FEE:

₹ 2,000/- plus 12.36% service tax per participant. The Fee includes course fee, course kit including specialized course material, working lunch, tea / coffee during the programme.

The Payment of the Fee is to be made by cheque/DD in favour of **`ICWAI Management Accounting Research Foundation'** payable at New Delhi along with the nomination.

DETAILS FOR ECS PAYMENT :

Account Name	ICWAI Management Accounting Research Foundation
Bank Name and Branch	Punjab National Bank, Lodhi Road, New Delhi - 110003
Current A/C No.	0128002100301640
IFS Code	PUNB0012800
PAN	AACCI1864P
Service Tax No.	AACCI1864PSD002

FOR KIND INFORMATION

For outstation programmes the participants are requested to get the confirmation from the ICWAI MARF before proceeding to the venue. The ICWAI MARF will not be held responsible if any participant reaches the venue for postponed/cancelled programme without getting the confirmation from the ICWAI MARF. The cancellation/postponement of the programme, if any, be intimated to only those organizations whose nominations have been received by the ICWAI MARF on time.

REGISTRATION

For Further Details and Registration Please Contact:

CMA Sanjeev Goel
Joint Director
(M) 9810965145
mdp@icmai.in
cep.sanjeev@icmai.in

ICWAI Management Accounting Research Foundation
CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi - 110 003.
Phone: (D) 011-24666131, 24666130, 24666142; Tele-fax: 011-24666131
Website: www.icwaimarf.org

FORTH COMING PROGRAMMES

Dates	Topic	Venue
15-19 December, 2014	Certificate Course on International Financial Reporting Standards (IFRS) & Converged Indian Accounting Standards	New Delhi
16-19 December, 2014	Service Tax-Issues and Problems	Shirdi
	Contracts and their Management	
20-23 January, 2015	Advance Tax, TDS & Tax Planning	Jaipur
	Risk Based Internal Audit for Effective Management Control	
09-13 February, 2015	Certificate Course on International Financial Reporting Standards (IFRS) & Converged Indian Accounting Standards	New Delhi
24-27 February, 2015	Service Tax-Issues and Problems	Port Blair
16-20 March, 2015	Certificate Course on International Financial Reporting Standards (IFRS) & Converged Indian Accounting Standards	New Delhi
23-26 March, 2015	Recent Trends in Financial Management including Companies Act, 2013	Srinagar

THE TRAINING PROGRAMMES

The ICWAI MARF efforts are directed towards quality training and introducing new programmes to meet emerging challenges of the corporate world.

Broadly the programmes are classified as:

- Training programmes for practicing managers of both public and private sectors, Banks, Financial Institutions, Multinationals, Insurance Companies and Government Departments.
- Customised training programmes for the Industry, Government Departments and Public Services. It also offers specific programmes for Defence, Railways, Telecom and Public Utility Services.

An Abstract of the Project Report on

"Business Valuation and Corporate Restructuring"

CMA Komaravolu Krishna*

Objective of the Study:

The objective of the study is to estimate the Fair Value of Hero Ferro Alloys limited(HFAL) as of March 31, 2013 and compare the same with the current Market Price of the Share of HFAL to determine whether the Stock is under-valued or over-valued.

Methodology:

In the study, Fair Value, also known as intrinsic value was used as the standard value in the Valuation. The Analysis considered those facts and circumstances present at the Company at the Valuation Date i.e.31st March, 2013.

The study followed the procedure of collecting the company's relevant historical financial statements for the last three years. The Study also prepared a seven years projection of the financial statements based on the assumption as to the company's future outlook and Value Drivers of both the company and the Industry. The Study collected and analyzed data from comparable companies within the same Industry. The Study selected the most reasonable Total Entity Value from the range of values established in the Valuation Methods and then applied appropriate weights to arrive at the conclusions of the estimated Fair Value of per Equity share of HFAL.

Comments and Conclusions:

- The Fair Value of HFAL is working out to Rs 56 per share whereas the present market value of the share is Rs12 per share. It implies that the share is grossly underpriced or overvalued.
- The Book Value of the share of HFAL is Rs 66.30 whereas the market price is heavily discounted by almost 5 times.
- The fundamentals of the Company are strong and hence the Market Price is expected to move towards the Fair Value in the coming years, as it is grossly underpriced.
- The Company's debt equity ratio is low at present and also the capacity utilization is hovering around 50 per cent. The Company's cash and Bank Balance Position is relatively better.
- Operational efficiencies of the company and the ability of the company to meet its own power requirements through captive consumption of energy give a significant advantage.

In the light of the above factors, the future market price of the company is expected to move towards its Fair Value.

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*The author is Chief Financial Officer (CFO), PLR Project Private Ltd, Hyderabad; And is one of the Member Students of the "Certificate Program in Business Valuation and Corporate Restructuring", submitted to the Directorate of Advanced Studies of the Institute of Cost Accountants of India at Hyderabad in the year 2013.

The Institute of Cost Accountants of India

(Statutory Body under an Act of Parliament)
www.icmai.in

Call for Research Papers/Articles for Research Bulletin Vol. XL (ISSN 2230 9241)

We invite you to contribute research paper/ article for "**Research Bulletin**", a peer-reviewed Bi-Annual Journal of **The Institute of Cost Accountants of India**. The aim of this bulletin is to share innovative achievements and practical experiences from diverse domains of management, from researchers, practitioners, academicians and professionals. This bulletin is dedicated to publish high quality research papers providing meaningful insights into the management content both in Indian as well as global context.

Guidelines to submit full Paper

- Soft Copy of the full paper should be submitted in double space, 12 fonts, Times New Roman, keeping a margin of 1 inch in four sides, MS Word 2003 (.doc) format.
- Each paper should be around 15 typed pages and preferably within 5000 words including all.
- An abstract of not more than 150 words should be attached.
- The cover page should contain the title of the paper, author's name, designation, official address, contact phone numbers, e-mail address.

Papers must be received within 3lst October, 2014 in the following email id: research.bulletin@icmai.in

SPECIAL HONOUR

Congratulations to CMA Manubhai Desai, past Chairman of Surat South Gujarat chapter and past Chairman of WIRC for being awarded with Shree Rajiv Gandhi Gold Medal at Bangalore, from Global Economic Progress and Research Association(GEPRA) for his outstanding achievements in society.

The Institute of Cost Accountants of India

(Statutory Body under an Act of Parliament)

Ref. No.: DOS/09/09/2014-15 September 9, 2014

CIRCULAR

Sub: Payment of student fee through STATE BANK OF INDIA

In order to extend a wide reach to students for payment of fee through banks, Institute has entered into an agreement with State Bank of India to facilitate collection of Course fees from applicants (i.e. new entrants) to the CMA Course as well as from CMA students presently pursuing the Course.

The fees shall be either collected in Cash at all its Branches or may even be made on-line - either through Net Banking or through Debit/Credit Card of any Bank. A Guidance Manual - showing the Process flow is attached herewith for information, guide and ready reference.

All concerned are requested to make appropriate communication to attach wide publicity of the same amongst applicants/new entrants to the CMA course as well the existing students pursuing the CMA Course, who may avail this facility also. This is besides the existing partners - Punjab National Bank (PNB), Industrial Development Bank of India (IDBI) and Central Bank of India (CBI).

The following are the summary of facility /convenience charges to be collected per transaction by SBI, furnished for information: (Annexure in Page 2 provides detailed information of charges)

a) NET BANKING thru SBI	Rs. 10 + ST = **Rs. 11.24**
b) NET BANKING thru OTHER BANK	Rs. 15 + ST = **Rs. 16.85**
c) SBI ATM cum Debit Card	Rs. 10 + ST = **Rs. 11.24**
d) OTHER BANK Debit Card	Rs. 170 + ST = **Rs. 191.01**
e) Credit Card	Rs. 170 + ST = **Rs. 191.01**
f) CASH through SBI Branches	Rs. 50 + ST = **Rs. 56.00**
** ST = Service Tax @12.36%	

(Chiranjib Das)
Joint Director, Head - Academics & Tax Research Department
& In-Charge of Directorate of Studies

The Institute of Cost Accountants of India

(Statutory Body under an Act of Parliament)

Ref. No.: DOS/8/09/2014-15 September 6, 2014

CIRCULAR

***Sub:* December 2014 - last term for Foundation Course Examination under Syllabus 2008**

This has reference to DOS Circular No. DOS/8/07/2014-15 dated 28/7/2014. Attention is drawn to para 2 on the **last term for Foundation Course Examination** under Syllabus-2008, in which it was stated as follows:

"This is further informed that June 2015 is the last term for Examination under Syllabus-2008."

The present circular is now issued superseding the last term examination as above with following change.

As per the direction of the competent authority of the Institute, ***the last term for Foundation Course Examination under Syllabus 2008 shall be December,2014 term instead of June,2015 term.***

Accordingly, all concerned are requested to make an appropriate communication to the students who are pursuing the Foundation Course under Syllabus_2008 to appear for Foundation Course examination in December,2014 term.

Thereafter, all students admitted under Syllabus 2008, for pursuing CMA Foundation Course but failed to qualify/obtain requisite pass marks, shall get converted and would be eligible (subject to admission validity period) to pursue the CMA Foundation Course under Syllabus 2012 only.

(Chiranjib Das)
Joint Director, Head - Academics & Tax Research Department
& In-Charge of Directorate of Studies

Round Table Discussion on "Education in India Today & Tomorrow" 5 September, 2014, Kolkata

A Round Table Discussion was held on September 5, 2014 on the theme 'Education in India, Today & Tomorrow', celebrating the birthday of the revered academician, philosopher and scholar Dr. Sarvapalli Radhakrishnan at EIRC Auditorium of the Institute of Cost Accountants of India, organized by the Directorate of Research & Journal of the Institute. Professor S.K Chakraborty, Mentor Emeritus, Rabindranath Tagore Centre for Human Values, Dr. Ashoke Ranjan Thakur, Vice Chancellor, Techno India University, Shri Jaynarayan Sen, Retd. Civil Engineer, Educationist and Social Activist, were among the dignitaries present in the dais and shared their valuable opinions on the concerned theme. Professor Chakraborty believes on the Sanskrit hymn "acharya devo bhava" and he said that Indian tradition equates the teacher to God. There is no denying the fact that the role of a teacher is very crucial for the students to develop their character, personality and the individual self. He stressed the fact that in the past, people's desire and expectation were less and today it is just the reverse. He asserted that in other countries like China, Japan etc used to stick to their national genius, unlike India. They improve in every sphere by following the dictum, Duties Unite, Rights Divide. Past is the yardstick of the present. At present there are many intellectuals without intelligence and there is a vast need of opening up the thought building process within every individual of the society. According to him, every human being must stress on human values and ethics. Dr. Thakur explained the relevance of the present education scenario and also insisted on its limitations. He grieved that there is an inconsistency between demand and supply in the current economy and there is a need to understand the equity and right in education. Shri Jaynarayan Sen believes on the six vices of a human being and its rectification and has great faith on spirituality. He also uttered some Slokas and Stotras in Sanskrit with meaning and said that one should restore the foundation of the sacred culture in the past. Teaching is indeed a job of great responsibility and our culture and tradition always extol the virtues of a learned guru. A building is as strong or weak as its foundation and the onus of laying this foundation and shaping the future citizens lies in the hands of the teachers. The mindset or the mentality of the whole society depends largely on the kind of educators it has. There was an interactive questionnaire session beautifully resolved by the eminent dignitaries on the dais. CMA Manas Kumar Thakur, Chairman, Research, Innovation and Journal Committee, and CMA Dr. Debaprosanna Nandy, Director, Research and Journal, ICAI also shared their valuable views on the said topic. Shri Pradipta Ganguly, Deputy Director (Journal), ICAI concluded the programme with a vote of thanks.

The Institute of Cost Accountants of India

(Statutory Body under an Act of Parliament)

Ref. No.: DOS/8/07/2014-15 **July 28, 2014**

CIRCULAR

Sub: **Eligibility of Students for appearing at CMA Foundation Course Examinations in September 2014, December 2014 & March, 2015**

It is clarified for general information that the students who got admitted/would be admitted to the CMA Foundation Course of the Institute as per following schedule, shall be eligible to appear at the CMA Foundation Course Examination of the Institute, as follows :

Term of Examination	Date of Examination	Cutoff date as per Regulation proposed by Directorate of Studies, for implementation
September 2014	21/9/2014 (already notified by Exam.Deptt.)	23/4/2014
December 2014	21/12/2014*	21/7/2014
March 2015	21/3/2015*	21/10/2014

***Tentative, final date yet to be notified**

All concerned are requested to please take note of the same and guide the students accordingly. However, these dates for December 2014 & March 2015 stands confirmed until change in the date of Foundation Course Examination.

This circular is in partial modification of the earlier Circular No.: DOS/8/2013-14 dated 13/12/2013 on revised cut off dates for admission to the CMA Foundation Course Examination.

This is further informed that June 2015 is the last term for Examination under Syllabus-2008.

(Chiranjib Das)
Joint Director, Head - Academics & Tax Research Department
& In-Charge of Directorate of Studies

CMA DOSSIER

A directory of some research papers on 'Urban Development & Economic growth' that appeared in various journals/periodicals/magazines across the world is presented below for the reference of readers. The articles are available at the link provided next to them.

Name of the topic	Author	Reference with date	Link
The Future of Urban Development Initiative: Dalian and Zhangjiakou Champion City Strategy	World Economic Forum	WEF 2014	http://www3.weforum.org/docs/WEF_IU_FutureUrbanDevelopment_DalianZhangjiakou_ChampionCityStrategy_2014.pdf
What Makes Working Cities Work? Key Factors in Urban Economic Growth	Barry Bluestone	Community Development Issue Brief 3, 2014	http://www.bostonfed.org/commdev/issue-briefs/2014/cdbrief32014.pdf
Strategies for Sustainable Urban Development and Urban-Rural Linkages	Kjell Nilsson et al	The European Journal of Spatial Development March, 2014	http://www.nordregio.se/Global/EJSD/Research%20briefings/article4.pdf
Metro Growth: The Uk's Economic Opportunity	Citi Growth Commission	CGC February 2014	http://socialwelfare.bl.uk/subject-areas/services-activity/community-development/rsa/165458metrogrowth14.pdf
Population, development, and environment in India	Chinese Journal of Population Resources and Environment	Journal 2013	http://www.isec.ac.in/10042857.2013.874517(1).pdf
Urban Sustainable Development Approaches of Three Different Cities	Umberto Pisano, Katrin Lepuschitz & Gerald Berger	European Sustainable Development Network 2014	http://www.sd-network.eu/pdf/case%20studies/ESDN%20Case%20Study_No%2016_final.pdf
Urban development	Economic Survey of Karnataka	ES 2013-14	http://planning.kar.nic.in/docs/economic%20survey%202013-14/Web%20Eng/14%20URBAN%20DEVELOPMENT.pdf
The traffic Ahead - Ranking Walkable Urbanism in America's Largest Metros	Christopher B. Leinberger & Patrick Lynch	The George Washington University School of Business 2014	http://www.smartgrowthamerica.org/documents/foot-traffic-ahead.pdf
World Urbanization Prospects	United Nations, Department of Economic and Social Affairs, Population Division	The 2014 Revision	http://esa.un.org/unpd/wup/Highlights/WUP2014-Highlights.pdf
Growth of the Urban Shadow, Spatial Distribution of Economic Activities and Commuting by Workers in Rural and Urban India	Ajay Sharma and S Chandrasekhar	Indira Gandhi Institute of Development Research, Mumbai April 2014	http://www.igidr.ac.in/pdf/publication/WP-2014-015.pdf
Smart Growth And Economic Success: Investing In Infill Development	U.S. Environmental Protection Agency	2014	http://www.epa.gov/smartgrowth/pdf/economicsuccess/Developer-Infill-Paper-508b.pdf
Sustainable Urban Development	Carmen Valentina Radulescu Madalina Dociu	Journal of Knowledge Management, Economics and Information Technology April, 2014	http://www.scientificpapers.org/wp-content/files/1436_Radulescu-Sustainable_urban_development.pdf
A Methodology to Measure Indicators of Urban Sustainable Development in India: Case Study Bangalore	Dr. Keya Chakraborty	Centre for Infrastructure, Sustainable, Transportation, and Urban Planning, IISc Bangalore 2014	http://cistup.iisc.ernet.in/pdf/5thFdayEvent/7ffd2014.pdf
Micro Level Planning Approach for Ru-Urban Development – A Case Study of Palsana Town, Gujarat	Er. Ravi Varu, Prof. Sejal Bhagat	IJRSI Volume I, Issue I, June 2014	http://rsisinternational.org/Issue1/26-29.pdf

CMA DOSSIER

Name of the topic	Author	Reference with date	Link
High-Speed Rail, Regional Economics, and Urban Development in China	Andrew Salzberg, Richard Bullock, Ying Jin, and Wanli Fang	China Transport Topics No.08 January 2013	http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2013/01/16/000356161_20130116164534/Rendered/PDF/NonAsciiFileName0.pdf
Urban India 2011: Evidence	IIHS	January 2012	http://iihs.co.in/wp-content/uploads/2013/12/IUC-Book.pdf
From Urban Renewal and Displacement to Economic Inclusion: San Francisco Affordable Housing Policy 1978-2012	Marcia Rosen and Wendy Sullivan	Poverty & Race Research Action Council 2012	http://www.prrac.org/pdf/SanFranAffHsing.pdf
Impacts of Internal Migration on Economic Growth and Urban Development in China	CAI Fang and WANG Dewen	Institute of Population and Labor Economics, China	http://iple.cass.cn/upload/2012/08/d20120802163735504.pdf
Malthus living in a slum: Urban concentration, infrastructures and economic growth	David Castells-Quintana Vicente Royuela	September 2013	http://www.uea.ac.uk/documents/425303/877168/Castells-Quintana,%20David+and+Royuela,%20Vicente.pdf/f6afb963-03e0-4c5b-bf42-5740535aa8d7
Competitive Cities in the 21st Century Cluster-Based Local Economic Development	KyeongAe Choe and Brian Roberts	Asian Development Bank 2011	http://abclusters.org/wp-content/uploads/2013/12/cluster-based-local-economic-development.pdf
Increasing Economic Opportunity In Distressed Urban Communities With EB-5	Kim Zeuli and Brian Hull	ICIC June 2014	http://www.icic.org/ee_uploads/publications/ICIC_EB5Impact_Report.pdf
The Role of Small Firms in Urban Economic Development in a Polycentric City	Steven G. Craig Janet E. Kohlhase Adam Perdue	Department of Economics University of Houston February, 2012	http://www.uh.edu/~awperdue/Theroleofsmall firms inurbaneconomic developmentinapolycentriccity.pdf
Economic Impact of Rural-Urban Migration on Income and Poverty of Migrant Sending Rural Households: With Evidences from Southern Ethiopia	Beneberu Assefa Wondimagegnhu	December, 2012	http://www-brs.ub.ruhr-uni-bochum.de/netahtml/HSS/Diss/WondimagegnhuBeneberuAssefa/diss.pdf
Urban Development Unit, The World Bank Local Economic Development LED Quick Reference	Bertelsmann Foundation	BF 2003	http://www.bertelsmann-stiftung.de/cps/rde/xbcr/SID-23F54611-59CAF49F/bst/QuickReference.pdf
Emerging Trends in Real Estate 2014	PwC and the Urban Land Institute	PwC 2013	http://www.uli.org/wp-content/uploads/ULI-Documents/Emerging-Trends-in-Real-Estate-Americas-2014.pdf
Integrating Urban Datasets: The Path to Effective Socio-Economic Planning in Urban Pakistan	Sohaib Khan, Amal Aslam, Maria Zubair and Ali Rehan	IGC Pakistan Policy Brief February 2012	http://www.theigc.org/sites/default/files/urban_planning_policy_brief_0.pdf
An overview of India's Urbanization, Urban Economic Growth and Urban Equity	Sabyasachi Tripathi	Institute for Social and Economic Change March 2013	http://mpra.ub.uni-muenchen.de/45537/1/

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(STATUTORY BODY UNDER AN ACT OF PARLIAMENT)

EXAMINATION TIME TABLE & PROGRAMME – DECEMBER 2014

	PROGRAMME FOR SYLLABUS 2008		PROGRAMME FOR SYLLABUS 2012	
Day, Date & Time	**Intermediate – 2008** 9.30 A.M. to 12.30 P.M.	**Final – 2008** 2.00 P.M. to 5.00 P.M.	**Intermediate – 2012** 9.30 A.M. to 12.30 P.M.	**Final – 2012** 2.00 P.M. to 5.00 P.M.
Wednesday, 10th December, 2014	-----	Capital Market Analysis & Corporate Laws	Financial Accounting	Corporate Laws and Compliance
Thursday, 11th December, 2014	Financial Accounting	Financial Management & International Finance	Laws, Ethics and Governance	Advanced Financial Management
Friday, 12th December, 2014	Commercial and Industrial Law & Auditing	Management Accounting – Strategic Management	Direct Taxation	Business Strategy & Strategic Cost Management
Saturday, 13th December, 2014	Applied Direct Taxation	Indirect & Direct – Tax Management	Cost Accounting & Financial Management	Tax Management & Practice
Sunday, 14th December, 2014	Cost & Management Accounting	Management Accounting – Enterprise Performance Management	Operation Management and Information Systems	Strategic Performance Management
Monday, 15th December, 2014	—	Advanced Financial Accounting & Reporting	Cost & Management Accountancy	Corporate Financial Reporting
Tuesday, 16th December, 2014	Operation Management and Information Systems	Cost Audit & Operational Audit	Indirect Taxation	Cost & Management Audit
Wednesday, 17th December, 2014	Applied Indirect Taxation	Business Valuation Management	Company Accounts and Audit	Financial Analysis & Business Valuation

EXAMINATION FEES

Group (s)		Final Examination	Intermediate Examination
One Group	(Inland Centres)	₹1400/-	₹1200/-
	(Overseas Centres)	US $ 100	US $ 90
Two Groups	(Inland Centres)	₹2800/-	₹2400/-
	(Overseas Centres)	US $ 100	US $ 90

1. (a) **Students can login to the website www.icmai.in and apply online through payment gateway by using Credit/Debit card.**
   (b) Application Forms for Intermediate and Final Examinations are available from Institute's Headquarters at 12, Sudder Street, Kolkata, Regional Councils and Chapters of the Institute on payment of ₹50/- per form. In case of overseas candidates, forms are available at Institute's Headquarters only on payment of US **$** 10 per form.
   (c) Students can also download the Examination Form free of cost from ICAI Website at www.icmai.in.
   (d) **Students can also pay their requisite fee through payfee module of IDBI.**
   (e) Examination fees can also be paid through **Bank Demand Draft** drawn in favour of **"The Institute of Cost Accountants of India"** and payable at Kolkata.
2. **Last date for receipt of Examination Application Forms without late fees is 30th September, 2014 and with late fees of ₹300/- is 10th October,2014. In case of online Examination Application with payment gateway by using Credit/Debit Card, the late fees of ₹300/- will be waived if applied within 10th October, 2014.**
3. Students may submit their Examination Application Forms (Hard copy) along with the fees at ICAI, CMA Bhawan, 12, Sudder Street, Kolkata 700016 or Regional Offices or Chapter Offices. Any query in this regard may be addressed the Examination Directorate at 12, Sudder Street, Kolkata – 700016.
4. **Finance Act 2013, involving Assessment Year 2014-2015 will be applicable for the Subjects Applied Direct Taxation, Applied Indirect Taxation and Indirect & Direct Tax Management under Syllabus 2008 and Direct Taxation, Indirect Taxation and Tax Management & Practice under Syllabus 2012 for the purpose of December 2014 term of Examination.**
5. **The provisions of the Companies Act 2013 – on Notified Sections are applicable in December 2014 Examinations. Supplementary Study Materials for both Intermediate & Final under Syllabus 2008 and Syllabus 2012 is uploaded in the website of the Institute. Students are requested to take a note of this and visit the students portal.**
6. **If a student obtains at least 60 per cent marks in any paper, the benefit of carry forward/exemption is allowed for the immediately successive three terms of Examination only.**
7. **Examination Centres**: Adipur-Kachchh(Gujarat), Agartala, Ahmedabad, Akurdi, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Berhampur(Ganjam), Bhilai, Bhilwara, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam,Erode, Faridabad, Ghaziabad, Guwahati, Hardwar,Hazaribagh, Howrah, Hyderabad, Indore, Jaipur, Jabbalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Nellore, Neyveli, Noida, Panaji (Goa), Patiala, Patna, Pondicherry,Port Blair, Pune, Rajahmundry, Ranchi, Rourkela, Salem, Sambalpur, Shillong, Siliguri, Solapur, Srinagar, Surat, Thrissur, Tiruchirapalli,Tirunelveli, Trivandrum, Udaipur, Vapi, Vashi, Vellore, Vijayawada, Vindhyanagar, Waltair and Overseas Centres at Bahrain, Dubai and Muscat.
8. **A candidate who is fulfilling all conditions specified for appearing in examination will only be allowed to appear for examination.**
9. **Probable date of publication of result : Inter & Final – 21st February 2015.**

A. Das
Director (Examination)

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory Body under an Act of Parliament)
IMPORTANT ANNOUNCEMENT

Ref. No: BOS/01-05/14-15

Dated: Kolkata, 27th May, 2014

Applicability of The Companies Act, 2013 for December 2014 CMA Examinations (Intermediate Course and Final Course)

It is hereby notified for general information that the ***Sections*** of ***The Companies Act,2013 as specified in Annexure I for Intermediate Course and Annexure II for Final Course, along with its Rules framed thereunder shall be applicable for the CMA Intermediate Course and CMA Final Course Examinations respectively for December,2014 Examination. Supplementary Study Material containing detailed on relevant sections would also be hosted in the website by 10th June,2014.***

Accordingly, there will arise corresponding change in the following papers in the Chapter/s specified hereunder :

Syllabus 2012		
Course	***Paper/Subject***	***Chapter/s***
Intermediate	*Paper 5 – Financial Accounting (FAC)*	*5,8*
	Paper 6 - Laws, Ethics & Governance (LEG)	*5, 7*
	Paper 12- Company Accounts & Audit (CAA)	*3, 4, 7, 8,10, 15,16,17,18*
Final	*Paper 13 - Corporate Laws & Compliance (CLC)*	*1, 2,9*
	Paper 18 - Corporate Financial Reporting (CFR)	*1, 2, 3*
	Paper 19 - Cost Audit & Management Audit (CMAD)	*6,10*
Syllabus 2008		
Course	***Paper/Subject***	***Chapter/s***
Intermediate	*Paper 5 - Financial Accounting (FAC)*	*7, 8, 10*
	Paper 6 – Commercial & Industrial Law & Auditing (CIA)	*6, 7*
Final	*Paper 16 - Advanced Financial Accounting & Reporting (AFAR)*	*1, 2, 3*
	Paper 17 - Cost Audit & Operational Audit (COA)	*5*

Note:

(i) The provisions of the Companies Act, 1956 which are still in force would form part of the syllabus till the time their corresponding or new provisions of the Companies Act,2013 are enforced.

(ii) If new legislations are enacted in place of the existing legislations, the syllabus would include the corresponding provisions of such new legislations with effect from a date notified by the Institute.

(iii) For reference and benefit of CMA students, the Department would release relevant material.

(iv) For applicability of Companies Act,2013 for June 2015 examinations would also be notified in due course and appropriate reading material would also be made available to students well in advance before examinations.

(v) The sections notified for December 2014 Examination were notified by MCA,GOI w.e.f.12.9.2013.

Institute reserves the right to modify applicability of sections of the Companies Act,2013. All concerned are hereby requested to note this announcement/clarification and facilitate to make a proper and wide publicity to meet the concern of stakeholders on the stated subjects.

This issues with an approval of the competent authority.

CMA Chiranjib Das
Joint Director, Head - Academics Department (Board of Studies)
Secretary to the Board of Studies Committee

Guidelines for submitting articles for 'The Management Accountant'

1) Contributors are requested to send soft copies (in MS Word format) through emails to The Editor, The Management Accountant, The Institute of Cost Accountants of India, CMA Bhawan, 4th Floor, 84 Harish Mukherjee Road, Kolkata - 700 025. The soft copy of the article should be mailed to **editor@icmai.in.**

2) In case of theme article, the soft copy to be mailed to the above stated mail ID latest by 1st of the preceding month in which the article is sought to be published. That is, for an article to be published in February, the same may be forwarded by 1st of January, at least.

3) The articles must be relevant to the economy, society and the nation.

4) The articles should be around 1500 to 2000 words and must be an exclusive contribution for the Journal.

5) The cover page should contain the title of the paper, author's name, designation, official address, contact phone numbers, e-mail address and an abstract of not more than 150 words.

6) References should be given at the end of the manuscript and should contain only those cited in the text of the manuscript.

7) The contribution must be original in nature and is neither published nor under consideration for publication anywhere else. A scanned copy of signed Declaration by the author is to be attached with the article. The format of the declaration is given below.

8) A scanned passport size photograph (at least, 600 dpi) of the author and in case of joint authorship of all the authors should also be mailed along with the soft copy of the article.

9) Figures and tables should be numbered consecutively and should appear near the text where they are first cited. The figures must be in editable format.Captions of the figures and tables are to be given at the bottom and at the top respectively. Headlines of the sections and sub-sections should start from the left-hand margin.

10) The final decision on the acceptances or otherwise of the paper rests with the competent authority / editorial board and it depends entirely on its standard and relevance. The final draft may be subjected to editorial amendment to suit the Journal's requirements.

11) The copyright of the contributions published in the Journal lie with the publishers of the Journal.

Declaration

I/We affirm that the article titled '_____________' is my/our original contribution and no portion of it has been copied from any other source, and it would not be sent elsewhere for publication. The views expressed in this article are not necessarily those of the Institute or the Editor of the Journal.

Date:
Place:

(Signature)
Name:
Designation:
Organization:
E-mail ID:
Contact No:

All authors are requested to keep to the word limit of 1500–2000 words for articles. Those who have already sent their articles are also requested to revise their articles and send them to us within the word limit.

The Institute of Cost Accountants of India
(Statutory body under an Act of Parliament)
www.icmai.in

Eastern India Regional Council

Howrah Chapter of Cost Accountants

The Chapter organized CEP program on 'Union Budget 2014-15' on August 2, 2014. CA Sanjoy Bhattacharya, an eminent tax practitioner explained on the relevant changes of Direct Taxes. CMA Mrityunjay Acharjee, Associate Vice President, Balmer Lawrie & Company Ltd emphasizing on Service Tax and Excise Duty, discussed the recent amendments of various Indirect Taxes. CMA Bibekananda Mukhopadhyay, secretary of EIRC, made his valuable presence and shared his views on the relevant topic and CMA Pranab Chakrabarty, secretary of the chapter concluded the programme with the vote of thanks.

Bhubaneswar Chapter of Cost Accountants

The Chapter celebrated the 68th independence day at its premises. CMA Manas Ranjan Lenka, Chairman of the chapter, unfurled the Flag and advised students about their role and responsibilities to build a vibrant India. Members of the Managing Committee, past chairmen, faculties, senior members, staffs and students of the chapter were gathered on the occasion. On August 23, 2014 the chapter inaugurated its modern fully air conditioned e-library for students & members. Mr. Pradip Kumar Amat, Hon'ble Minister of Finance & Public Enterprises, Govt. of Odisha inaugurated the ceremony. CMA Dr. A.S. Durga Prasad, President, CMA Dr. S.C. Mohanty, immediate past president, CMA S.K. Sahoo, Chairman of EIRC, CMA S.P. Padhi, Vice Chairman, EIRC & all the Managing Committee members of the chapter were present in the programme. The chapter organized an evening talk on 'The Companies Act, 2013 & Rule, 2014' on September 3, 2014 for its practicing members, faculties and students. CMA Dr. P.V.S. Jagan Mohan Rao, council member, being the guest speaker deliberated his speech and CMA S.P. Kar, Chairman Professional Development Committee of the chapter, CMA Manas Ranjan Lenka, Chairman of the chapter were among the members attending the seminar. On September 7, 2014 the chapter organised a seminar on 'Sustainable growth of MSMEs – supporting role by banks and CMAs' at its conference hall. Mr. Prakash B. Divekar, Deputy General Manager, SMEs State Bank of India, Bhubaneswar & CMA C.R. Chattopadhyay, past chairman of EIRC & Sr. Manager, United Bank of India were the chief guest and guest of honor respectively. The chapter also organized two Career Awareness Programmes 2014-15 and a seminar on 'Contemporary Issues on Service Tax Laws'. The chapter also celebrated the Corporate Cost Management Week at its premises. CMA N. Swain, past chairman of EIRC & G.M (Finance), OPGC Ltd., Bhubaneswar moderated the technical Session and was the guest speaker on the occasion. Mr. Avinash Thete, IRS, Addl. Commissioner of Central Excise, Custom & Service Tax, Bhubaneswar was the chief guest of the seminar. CMA Damodar Mishra, secretary of the chapter extended formal vote of thanks.

Guwahati Chapter of Cost Accountants

The Chapter organized an Investor Awareness Program in association with Ministry of Corporate Affairs, Government of India and UTI Mutual Fund, as knowledge partner on August 23, 2014. Mr. Muktar Singh, ICLS, Registrar of Companies, North Eastern Region, Shillong, being the chief guest addressed the message of Ministry to the audience and also suggested the investors to do proper research and analysis before making any investment in stock market. Sri Pradipta Barua, Senior VP of UTI AMC Ltd was the chief speaker for the program and made a deliberation on benefits of investment in mutual fund. Mr. Manajit Ray, Chief Manager of UTI MF presented some short film on mutual funds. CMA S K Saha, chairman of the chapter suggested some measures for promotion of mutual fund industry. The programme was well attended by salaried employees from govt. departments, employees of banks and financial institutes, small businessman, self employed persons and representatives from bazaar committee and retired employees. The chapter organized a seminar on Companies Act, 2013 on September 6, 2014. The seminar was inaugurated by Mr. Anurag Goel, IAS, Commissioner & Secretary, IT and Power, Govt. of Assam. CMA Dr. A. S. Durga Prasad, President, along with Council Members, CMA TCA Srinivasa Prasad and CMA Dr. PVS Jagan Mohan Rao graced the occasion. Other dignitaries present in the Seminar were CMA S. K. Barua, Director (Finance), Numligarh Refinery Ltd, Mr. C. Kharkrong, Director, Meghalaya Energy Corporation Ltd and Mr. Atish Banerjee, Director, National Power Training Institute. Mr. Anurag Goel, being the chief guest of the seminar, emphasized upon the role that such seminar could play for dissemination of knowledge. The designated speakers for the seminar were CS Mamta Binani and CMA Mrityunjay Acharjee, who enthralled the audience with their informative presentation. The seminar was attended by delegates from various corporate houses, banks, members and students of the chapter.

Asansol Chapter of Cost Accountants

The Chapter organised a workshop on the theme 'Scope of CMAs in Banking and Financial Institutions' on August 10, 2014. CMA Arundhuti Basu and CMA C.R. Chattopadhyay, past chairman EIRC, were among the dignitaries who graced the seminar. The programme was attended by good number of members.

Northern India Regional Council

Lucknow Chapter of Cost Accountants

The Chapter organized flag hosting ceremony on the occasion of Independence Day in where the chief guest CMA S K Mohan, CMA Seema Singh, Chairperson, CMA Anjana Chadha, Secretary, CMA Vikas Srivastava, Vice-Chairman, CMA Honey Singh, Treasurer, were present together with other members and students. On the same day the chapter also conducted blood donation camp at its premises. Many members donated blood and contributed in achieving the objective of the program 'Celebrate Freedom by being a Blood Donor'. The chapter organized a press conference on record breaking results of students of the chapter on August 23, 2014 where the members and students took part and made it a memorable event.

Jaipur Chapter of Cost Accountants

The Chapter celebrated the 68th Independence Day. It was attended by large number of members, faculties and students. On the same day a blood donation camp was also organised at its premises. CMA Sanjay Kumar Jain, Chairman of the chapter visited all the chapters in Rajasthan and attended the 'Chapters' Meeting' of members arranged by respective chapters from August 16, 2014 till August 18, 2014 , where suggestions were received for upliftment of the CMA profession.

Southern India Regional Council

A career counselling programme was conducted by the Region on July 16, 2014 in which around 400 girls participated along with their parents. Three batches of communication and soft skills seminars for students were organised by SIRC on 24, 27 and 31 July 2014 at its premises. On July 24, 2014 the region organized the 'Members Meet' and presented the Action Plan 2014-15. The year has been declared as 'Year for Students'. CMA A N Raman, former President of SAFA, CMA H Padmanabhan, Chairman of SIRC, CMA Jyothi Satish, Patron womens' wing of SIRC, CMA S Ramachandran, and CMA K Sanyasi Rao, Secretary and Treasurer were the dignitaries present in the meet. On the same day, CMA H Padmanabhan, Chairman SIRC along with Regional Council Members met Mr. B.K. Bansal, Regional Director of MCA at his office in Chennai. Again on July 24, 2014 the region held the inauguration of the Oral Coaching programme. CMA V Kalyanaraman, former President of the Institute inaugurated the programme with the lighting of the lamp. CMA H Padmanabhan, Chairman SIRC, Mr. J D Sharma, Director - IOB, President IOBOA & JGS, AIBOC, Dr. Jayanthi Balakrishnan, Principal VOP and CMA K Sanyasi Rao and other Regional Council Members were among the members present in the occasion. Dr. Lalitha Balakrishnan, Principal of MOP Vaishnav College for women rendered her address as Guest of Honor and emphasised the need for undergoing professional courses apart from a degree course for bright future of the students. MoU with Postal Department, Wipro, SRM University, SDNB Vaishnav college, Dr. MGR University, Coimbatore Bharathiar University, Coimbatore Avinashilinagm University, Manonmaniam Sundaranar University, Madras University had been initiated by the Region on different dates of July and August 2014.

The Region also organised a workshop on 'Union Budget – 2014' at CMA Bhavan on 25 July, 2014. Smt. R. Bhagyadevi, IRS, Commissioner, Central Excise & Service Tax, Chennai was the Chief Guest. Dr. Ravindran Pranatharthy, Advocate and Expert in Indirect Taxation, Chennai was the main speaker and he highlighted the various provisions in the Union Budget relating to Indirect Taxation. On the same day CMA H Padmanabhan, Chairman, SIRC inaugurated the Oral Coaching center, along with other Regional Council Members at Meenakshi College for Women, Chennai in presence of Dr. Lakshmi, secretary & college faculty members. A Seminar on 'Role of CMAs in MSME Sector' was organised on July 26, 2014. Mr. S. Sivagnanam, additional Industrial Advisor, MSME Development Institute, Ministry of Micro, Small & Medium Enterprises, Govt. of India was the Chief Guest and CMA Sunil Chacko, former Chairman, SIRC and CFO of Cochin International Airport Ltd., was the Guest of Honour. CMA R. Vasudevan, practicing cost accountant, Chennai was the main speaker who spoke on the opportunities and the role to be played by CMAs in MSME Sector. On July 27, 2014 CMA Dr. A.S. Durga Prasad made his first visit to ICAI-SIRC after being elected as President and he addressed the student fraternity, as well as he encouraged, motivated and explained them the need for focus in studies and achieve success in the examination. Various Professional Development programmes on the themes viz. Strategic Management, VAT Audit, Negative List of Services, Mergers & Acquisitions, The importance of soft skills for Internal Auditors, issues in capital gains, Enterprise Risk Management, Limited Liability Partnership, Energy Conservation, Information Security Management System Opportunities for CMAs, PPP – Concession Agreement – An Analysis etc had been organized by the Region on different dates of July and August 2014. On July 31, 2014 the ICAI-SIRC team participated in the meeting called by Regional Director Mr.. B.K. Bansal, Joint Director, Mr. Thjirumalai, Asst Director, Chartered Accountants & Company Secretary representatives.

An ICMAT & Industry Oriented Training Programme for qualified CMA candidates had been organized by Mr. Baiju Ramachandran, Chairman ICSI-SIRC in the presence of CMA H Padmanabhan Chairman, SIRC on August 15, 2014. The ICMAT training was held from 15 August to 18 August, 2014 and the Industry Oriented Training Programme was held between 15 August and 21 August, 2014, both at the Institute's premises. Eminent personalities and faculty members handled the sessions. On August 16, 2014 the Region as per the Action Plan provided Women's Wing Work Station (WWW) at CMA Bhavan. CMA Jyothi Satish, Patron Womens' Wing spoke on the occasion and briefed upon the proposed activities of the Womens' Wing ICAI-SIRC and on the same day as per the ICAI-SIRC Action Plan 2014-15 the first Tamil Nadu Practicing Cost Accountants Conclave – 2014 was arranged in the state of Tamil Nadu. Both was inaugurated by CMA V. Kalyanaraman, former President of the Institute & SAFA. On August 21, 2014, CMA H Padmanabhan, Chairman, SIRC addressed in the valedictory function of IOT training program, along with faculty members and staff members. The Region organised various student development programmes from August 9, 2014 till August 23, 2014 for the benefit of students at large. On August 30, 2014, SIRC organised a one day seminar on 'Total Energy management & Total Safety Management'. Mr. I Ramachandran (Retd) Chief Engineer, Energy & HSE Division, Chennai Global Services was the chief resource person and he discussed eloquently about the nuances of managing energy and safety effectively.

Coimbatore Chapter of Cost Accountants

On June 15, 2014 the Chapter conducted weekend special classes for the students pursuing the intermediate course. The chapter organized a meeting on 'Scope for CMA in General Insurance Sector' on June 25, 2014. CMA Dr. G Jawahar Babu handled the session and shared his valuable opinions. Certain orientation programmes had been conducted by the chapter on different dates of June, 2014 at various colleges in the presence of CMA A.R. Ramasubramania Raja, CMA Meena Ramji and CMA A. Harihara Subramanian, Chairman ,Vice Chairperson and Secretary respectively of the chapter, and also present was the Chairman of Erode chapter, CMA R. Gopal.

Trivandrum Chapter of Cost Accountants

On August 24, 2014 the Chapter conducted a Professional Development programme on the theme 'Cost Effectiveness of Government spending - Role of CMAs and the CAG'. The guest speaker Mr. N Shanmugham Pillai, former Senior Audit Officer, office of Principal Accountant General (Audit), Kerala, mentioned that CAG plays prominent role in ensuring cost effectiveness in Government spendings through Efficiency Audit, Performance Audit, Propriety Audit etc and the CMAs have a huge role in guiding cost consciousness techniques in government expenditure. CMA H Padmanabhan, Chairman, SIRC delivered the keynote address and CMA Joseph Louis, Chairman of the chapter presided over the meeting. CMA Veerapudran S, Secretary of the chapter concluded the meeting with a vote of thanks.

Cochin Chapter of Cost Accountants

On September 13, 2014 the managing committee members of the Chapter celebrated the Corporate Cost Management Week by conducting a discussion on Costing. CMA Selvam A.,Vice Chairman of the chapter led the discussion and many members and students attended the programme.

Tiruchirappalli Chapter of Cost Accountants

The Chapter celebrated the Corporate Cost Management Week at its premises on September 10, 2014. CMA H. Padmanabhan, Chairman, SIRC inaugurated the programme highlighting the features of the Cost Accounting profession and opportunities available to the professionals. CMA S. Ramachandran, Secretary, SIRC, CMA Dr. A. Mayil Murugan, CMA J. Murugesan, members of SIRC also addressed the participants.

A PD programme on 'Cost Audit, Statutory Audit and Secretarial Audit' under Companies Act 2013 was also conducted by the chapter on the same day at its premises. Speaker CS N. Jayanthi, Company Secretary explained in detail the responsibility and accountability of auditors under the Companies Act. CMA C Subramanian, chairman of the chapter rendered welcome address.

Mettur-Salem Chapter of Cost Accountants

The Chapter celebrated the Corporate Cost Management Week on September 8, 2014 and conducted a programme titled 'Profitability and Cost Management'. CMA Dr Dhanapal shared his views on managing cost and maximizing profitability and said that improvement in profitability is possible only if cost and revenues are managed properly. The role of CMA is significant in using the cost audit as a tool to bring improvement in profitability by linking with cost management strategy. CMA H Padmanabhan, Chairman, SIRC, CMA S Ramachandran, Secretary, SIRC, CMA KM Krishnamurthy & CMA R.V. Thiyagarajan, Chairman and Vice Chairman respectively of the chapter were among the members who graced the occasion.

Western India Regional Council

Surat South Gujarat Chapter of Cost Accountants

The Chapter celebrated the 68th Independence Day at its campus. CMA Manubhai Desai, being the chief guest addressed the people. CMA Brijesh Mali, Secretary of the chapter hoisted the flag. There was also a Group Discussion and many members and students took part in the event.

Pune Chapter of Cost Accountants

The Chapter organized a CEP on 'Total Quality Management' in Solapur on August 23, 2014. CMA Murli Iyengar was the key speaker for the program, who spoke about quality, its definition, its evolution, features and nature. The chapter also organized a CEP on 'Business Valuation'. CMA Murli Iyengar was also the key speaker for this program. Both the programmes were very interactive and all the members actively participated.

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

(Statutory body under an Act of Parliament)

MANAGEMENT ACCOUNTANCY
EXAMINATION TIME TABLE & PROGRAMME – DECEMBER 2014

Wednesday 10th December, 2014 09.30 A.M to 12.30 P.M	Wednesday 10th December, 2014 02.00 P.M to 05.00 P.M	Thursday 11th December, 2014 09.30 A.M to 12.30 P.M	Thursday 11th December, 2014 02.00 P.M to 05.00 P.M	Friday 12th December, 2014 09.30 A.M to 12.30 P.M
Management Accountancy	Advanced Management Techniques	Industrial Relations & Personnel Management	Marketing Organisation & Methods	Economic Planning & Development

EXAMINATION FEES
Per Group Rs 2500/-

1.(a) Application Form for Management Accountancy Examination is available from Directorate of Advanced Studies, The Institute of Cost Accountants of India, Hyderabad Centre of Excellence, Plot No. 35, Financial District, Nanakramguda Village, Serilingampally Mandal, Gachibowli, Ranga Reddy District, Hyderabad on payment of Rs 50/- per form.

(b) Students can also download the Examination Form from ICAI Website at www.icmai.in.

2. Last date for receipt of Examination Application Form without late fees is 10th October, 2014 and with late fees of Rs 300/- is 20th October,2014.

3. Examination fees to be paid through Bank Demand Draft of requisite fees drawn in favour of "The Institute of Cost Accountants of India" and payable at Kolkata.

4. Students may submit their Examination Application Form along with the fees at Directorate of Advanced Studies, The Institute of Cost Accountants of India, Hyderabad Centre of Excellence, Plot No. 35, Financial District, Nanakramguda Village, Serilingampally Mandal, Gachibowli, Ranga Reddy District, Hyderabad. Any query in this regard may be addressed to Directorate of Advanced Studies, Plot No. 35, Financial District, Nanakramguda Village, Serilingampally Mandal, Gachibowli, Ranga Reddy District, Hyderabad.

5. Examination Centres: Adipur-Kachchh(Gujarat), Agartala, Ahmedabad, Akurdi, Allahabad, Asansol, Aurangabad, Bangalore, Baroda, Berhampur(Ganjam), Bhilai, Bhilwara, Bhopal, Bhubaneswar, Bilaspur, Bokaro, Calicut, Chandigarh, Chennai, Coimbatore, Cuttack, Dehradun, Delhi, Dhanbad, Durgapur, Ernakulam,Erode, Faridabad, Ghaziabad, Guwahati, Hardwar,Hazaribag, Howrah, Hyderabad, Indore, Jaipur, Jabbalpur, Jalandhar, Jammu, Jamshedpur, Jodhpur, Kalyan, Kannur, Kanpur, Kolhapur, Kolkata, Kota, Kottayam, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Mysore, Nagpur, Naihati, Nasik, Nellore, Neyveli, Noida, Panaji (Goa), Patiala, Patna, Pondicherry, Pune, Rajahmundry, Ranchi, Rourkela, Salem, Sambalpur, Shillong, Siliguri, Solapur, Srinagar, Surat, Thrissur, Tiruchirapalli,Tirunelveli, Trivandrum, Udaipur, Vapi, Vashi, Vellore, Vijayawada, Vindhyanagar, Waltair , and Overseas Centres at Bahrain, Dubai and Muscat.

6. A candidate who is completing all conditions will only be allowed to appear for examination.

The Institute of Cost Accountants of India

(Statutory Body under an Act of Parliament)

CLARIFICATION

Ref. No: BOS/01-04/14-15

Dated: Kolkata, 1st April,2014

Clarification on applicability of Finance Act, 2013 and CAR 2011, CARR 2011 and CASs for CMA Examinations

It is clarified for general information of all concerned that:

(A) Finance Act, 2013 shall be made applicable involving Assessment Year 2014-15 for the following papers in June 2014 and December 2014 terms of Examinations of the Institute:

Syllabus 2008	Syllabus 2012
Paper 7 - Applied Direct Taxation	Paper 7 - Direct Taxation
Paper 10 - Applied Indirect Taxation	Paper 11 - Indirect Taxation
Paper 14 - Indirect and Direct Tax Management	Paper 16 - Tax Management & Practice

This is also clarified in the Examination Notification issued by the Directorate of Examination of the Institute (http://icmai.in/examination/notification)

(B) Cost Accounting Record Rules 2011, Cost Audit Report Rules 2011 and Cost Accounting Standards - 1-17 will also be applicable for the following papers for June 2014 term of Examination:

Syllabus 2008	Syllabus 2012
Paper 17 - Cost Audit and Operational Audit	Paper 19 - Cost and Management Audit

(C) It is further clarified for general information that the provisions of "***The Companies Act,2013*" *shall not be applicable* *for the CMA Intermediate and Final Course Examinations for June,2014 term of Examination. (Clarified vide*** BOS/01-08/13-14, on 26th August,2013 and reiterated vide **BOS/01-12/13-14 on 18th December, 2013). Applicability of provisions of The Companies Act,2013 for Examinations of the Institute would be notified in due course.**

All concerned are hereby requested to note this clarification and facilitate to make a proper and wide publicity to meet the concern of stakeholders on the stated subjects.

CMA Chiranjib Das
Joint Director, Head - Academics Department (Board of Studies)
Secretary to the Board of Studies Committee

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