SPECIAL FOCUS INSIDE

10TH NATIONAL AWARDS FOR EXCELLENCE IN COST MANAGEMENT 2012

the MANAGEMENT ACCOUNTANT

THE JOURNAL FOR CMAs

SEPTEMBER 2013 VOL 48 NO. 9 ₹60

HEALTH SECTOR
Imperatives for CMAs

- CLEAN SHEET COSTING – A WEAPON IMPERATIVE
- CEA OF HEALTH CARE INTERVENTION: THE EMERGING ROLE OF CMAs
- HEALTH CARE INDUSTRY CHALLENGES FOR CMAs
- THE STATE OF MEDICAL TOURISM IN INDIA

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

THE INSTITUTE OF
COST ACCOUNTANTS
OF INDIA

MSME
सूक्ष्म, लघु एवं मध्यम उद्यम
MICRO, SMALL & MEDIUM ENTERPRISES *

ASSOCHAM
INDIA
THE ASSOCIATED
CHAMBERS OF COMMERCE
AND INDUSTRY OF INDIA

SMEs Excellence Award-2013

Promoting Perfection

SMEs Excellence Award 2013 is a tribute to the efforts and success achieved by the micro, small and medium enterprises. The Associated Chambers of Commerce and Industry of India and ICAI-CMA are committed to promote and encourage the SMEs. Indian SMEs have been devising innovative business models which have transformed the daily life of common citizens in many ways.

Category

- Innovation
- Green Business
- CSR Activities
- Fair Business Practices
- SME of the Year
- Most Promising Brand
- Women Entrepreneur

Eligibility Criteria

- Any unit which comes under the category of MSME as defined by Government of India
- Organization registered in India 'for profit' or 'not for profit' under any relevant Act

Participation

Duly filled in Application Form (available on www.assocham.org/events) along with all supporting documents in printed format and its soft copy in a CD should be submitted by 15th September, 2013

Evaluation Methodology

First Round — All entries would be scrutinized and shortlisted on the basis of questionnaire based response by independent observers.

Second Round — Shortlisted entries would be verified for authenticity followed by comprehensive report to the Jury

Final Round — Final Jury meeting to discuss and decide the awards

Eminent Jury for 2013

The Jury consists of prominent representatives from industry and academia headed by **Shri R. Bandyopadhyay, IAS** (Retd.), Former Secretary, Government of India

Sponsorship opportunities are also available

For nomination & partnership opportunities, please contact :

Sumitra Nandan Srivastava : (M) 08800123463
E-mail : sumitra.srivastava@assocham.com

Mohd. Zumair : (M) 09871238900
E-mail : mohd.zumair@assocham.com

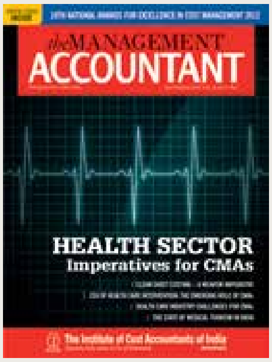
U. K. Joshi, Nodal Officer
National Council for SMEs, ASSOCHAM
Phone : 011-46550583, Fax : 011-46550567
E-mail : u.k.joshi@assocham.com

Application for participation and sponsorship opportunities are available at	Helpline	Duly filled in Applications should reach on or before
www.assocham.org/events	011-46550555	15th September, 2013

*The Ministry of Micro, Small and Medium Enterprises, Government of India has associated with ASSOCHAM for MSME Helpline.

National Council for SMEs
ASSOCHAM House, 5, Sardar Patel Marg, Chanakyapuri, New Delhi - 110021 • Tel : +91-11-46550583(Direct), 46550555 (Hunting Line) • Fax : +91-11-46550567
E-mail : assocham@nic.in • Website : www.assocham.org

The Institute of Cost Accountants of India
CMA Bhawan, 12 Sudder Street, Kolkata 700 016
Tel : 033 - 22521031/34/35 • Fax : 033-22527993/22521026
E-mail : research@icmai.in • Website : www.icmai.in



SEPTEMBER 2013 VOL 48 NO. 9 ₹60

The Management Accountant, official organ of The Institute of Cost Accountants of India, established in 1944 (founder member of IFAC, SAFA and CAPA)

EDITOR
CMA Dr. Debaprosanna Nandy
editor@icmai.in

PRINTER & PUBLISHER
CMA S C Mohanty
President, The Institute of Cost Accountants of India
12 Sudder Street
Kolkata 700 016
and printed at
Hooghly Printing Co Ltd
(a Government of India Enterprise)

EDITORIAL OFFICE
CMA Bhawan, 4th Floor, 84, Harish Mukherjee Road, Kolkata-700 025
Tel: +91 33 2454-0086/0087/0184
Fax: +91 33 2454-0063

CONTENTS

Cover Story Health sector: Imperatives for CMAs

The Management Accountant technical data

Periodicity: Monthly
Language: English

Overall Size: - 26.5cm x 19.5cm
Screens: up to 130

Subscription
Inland: ₹600 p.a. or ₹60 for a single copy

Overseas: US$150 for airmail or US$100 for surface mail

Concessional subscription rates for registered students of the Institute: ₹300 p.a. or ₹30 for a single copy

Advertisement rates

	Rs.	US $
Back Cover	50,000	2,500
Inside Cover	35,000	2,000
Ordy. Full Page	20,000	1,500
Ordy. Half Page	12,000	1,250
Ordy. Qrtr. Page	7,500	750

The Institute reserves the right to refuse any matter of advertisement detrimental to the interests of the Institute. The decision of the Editor in this regard will be final.

Editorial Office
CMA Bhawan, 4th Floor, 84, Harish Mukherjee Road, Kolkata-700 025
Tel: +91 33 2454-0086/0087/0184
Fax: +91 33 2454-0063

Headquarters
CMA Bhawan, 12, Sudder Street
Kolkata 700 016
Tel: +91 33 2252-1031/34/35
Fax: +91 33 2252-1602/149

Delhi Office
CMA Bhawan, 3, Institutional Area
Lodi Road, New Delhi-110003
Tel: +91 11 24622156, 24618645
Fax: +91 11 24622156, 24631532, 24618645

WEBSITE
www.icmai.in

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

LETTERS TO THE EDITOR

I am writing this letter with reference to your journal *Management Accountant*, August 2013 edition.

The journal is superb both in design and content. The improvement is evident on a monthly basis. Somewhere I felt proud of the standards that the institute maintains these days. I have worked in the automobile industry and was involved previously with the cost audit process in that industry, so I was even more exited.

Thank you for doing such good work, because you're good work has really transformed the magazine. With its international looks and standards, expectations are growing.

With my little knowledge in cost audit, this edition would have been more interesting with practical examples, for example, explaining the mechanism of cost audit and linking it with the books in the ERP environment.

Or, how material cost is calculated from a BOM? How mapping costs are derived through GL?

Or, how the cost centre-wise rate is calculated and how overhead cost is apportioned?

How and what data is being feed into the system?

The problems that are being faced by cost auditors (while calculating cost) and how they solve it (with case studies). This will make readers much more excited and they will love to read it.

Lovely work, keep it up in the next editions.

CMA Santanu Chakraborty

At the outset, I must state that our journal *The Management Accountant* has been contributing immensely to the knowledge of members. Quality has witnessed a complete turnaround. The recent issue of August 2013 was a treat to the eyes. The entire editorial team deserves sincere appreciation for its efforts.

CMA Satish Nautiyal
BHEL, New Delhi

I would like to congratulate you and Editorial Board for reshaping the entire Journal. I hope that in the future, it will become one of the best designed journals in world.

CA Anandaraj Saha

Please accept my congratulations for this new look of our *Management Accountant* journal.

I have been a regular reader since 1987. What a JOURNEY from 1987 to 2013? AMAZING!

The issues on cost audit that were raised in the case study on the power industry was really informative as it has tried to address real-life practical issues of the power sector.

I would like to go one step further: a special issue of our *Management Accountant* on the power sector should address real-life situations and problems of the sector. A detailed Guidance Note from our Institute covering various aspects of Cost Audit for the power industry will be of great value for all the members, whether in employment or practice. It will also enhance the brand image of our great Institute.

Again, congratulations to you and your entire team for this new look of the journal.

CMA Rajesh Kapadia

I take this opportunity to congratulate the editorial team who have brought in a marvelous document *The Management Accountant* – August 2013 issue with focus on 'Cost Audit and Compliance'.

I request you to kindly make arrangements to circulate the *The Management Accountant* – August 2013 issue to all the Commissioners of Central Excise and Service Tax.

CMA T.K. Jaganathan
Bangalore

The new *Management Accountant* has very good features and gives a feel of a 'good' magazine comparable to other professional bodies.

I congratulate you for all the effort and pain taken in achieving this.

CMA Lavanya K.V.N,
Hyderabad

I am thankful to all the office bearers of Institute for continuous improvement in the monthly journal *The Management Accountant.*

There is a very good improvement in journal in terms of article and quality of printing.

Hope in same line new initiative for the improvement for CMA profession will continue and it will be helpful to members in large.

CMA Kalpesh J Patel

Cover stories invited for the October, November and December 2013 issues of *The Management Accountant*

The cover story for the October 2013 issue of The Management Accountant will be on 'Enterprise Risk Management'.

The cover story for the November 2013 issue will be on the 'New Companies Act 2013'.

The cover story for the December 2013 issue will be on the 'Financial stability of Panchayati Raj Institutions (PRIs)'.

Articles on the topic are invited from readers and authors along with their passport-size photos.

Please send your articles by e-mail to editor@icmai.in followed by a hard copy to CMA Bhawan, Fourth floor, 84 Harish Mukherjee Road, Kolkata 700 025. Hard copies for any month must reach us by the 8th of the previous month.

ATTENTION MEMBERS: ANNUAL MEMBERSHIP FEE

The annual membership fee of Rs1000 for Associateship and Rs1500 for Fellowship for FY 2013-14 became due for payment w.e.f. 1 April 2013. The last date for payment is 30 September 2013. Please rush in your payments to continue to enjoy the benefits of membership.

Members are also requested to view their profile by logging into the Institute's website www.icmai.in and check the details for themselves. If there is any discrepancy, please bring it to our notice and mail the correct information relating to the member concerned at: membership.rb@icmai.in.

Attention

We are in the process of launching "Membership Drive" for eligible final qualified candidates. They are encouraged to rush in their applications and obtain Associate membership of this prestigious Institute after satisfying themselves as to their eligibility criteria, details of which are mentioned under the "Members' Menu" on the Institute website www.icmai.in

Quality articles invited

We invite quality articles and case studies from members in the industry with relevance to Cost and Management Accountancy, Finance, Management, and Taxation for publication in the journal. Articles accompanied by colour photographs of the author can be sent to: editor@icmai.in

FROM THE EDITOR'S DESK

Greetings!

The Indian healthcare system includes public and private hospitals. Health care service is gradually emerging as one of the largest service sectors in India. It is continuously developing its areas of functions. Most of the healthcare services are provided by the private sector. The increased spending power of the middle class is providing growth opportunities to healthcare providers.

Publicly-funded government hospitals provide basic care only and often lack adequate infrastructure. They can also be crowded and waiting times can be long. Government hospitals are often understaffed, though the cost of care is significantly less at these government hospitals. Private hospitals offer a high standard of care that is at the same level as North American and European countries. Private hospitals are modern and well equipped, and the doctors are highly qualified and often trained abroad, though the cost of care is significantly more at these private hospitals.

India provides low-cost medical facilities that attract a lot of foreign customers. Recently, it has made important contributions to India's GDP. A research study reported that 2011 saw 850,000 medical tourists in India and projected that by 2015 this number would rise to 3,200,000.

Most healthcare organizations continue to struggle with identifying the costs of products and services provided by them, capturing the full cost of products and services, including inter-entity and department costs as part of full costs. Hence they need a sound costing methodology.

Cost Management can be a useful tool for managers to:

- measure performance
- reduce costs
- determine the fees or prices for goods and services
- make decisions
- authorize, modify or discontinue a programme or activity
- manage inventory, etc.

Most medical practitioners are only concerned with overall profit and cannot identify how much profit was made from office visits, ancillary services, hospital work, etc. To run the medical practice business in a business-like manner, a close look at the costs and profits associated with each service is required. Cost Accounting serves this facility with the help of ABC analysis for computing the costs of providing services by considering the time and resources actually consumed.

Cost control and cost reduction are the most challenging issues faced by the healthcare industry. Rising costs coupled with decreased funding from government and other funding agencies, force health programmes to find ways and means to reduce costs. ABC analysis helps to identify the non-profitable areas so that the organization takes decisions to control costs. The project control system also helps organizations get a fair indication of the existence and the extent of such problems. Hospitals often make the painful mistake of buying an application without really knowing what's in store. Once bought, the installation takes months, keeps the key people busy and leads to frustration. Cost accounting solves this problem with the help of inventory management system.

The pricing strategy in healthcare is the most critical component of managing hospitals irrespective of whether they are for-profit or not-for-profit. While a variety of factors influence pricing strategies, it is important to keep the process simple and uncomplicated. Pricing is dependent on a variety of factors like competition, demand for the product in the community, affordability by the community and the need to generate reserve funds. Therefore, the beginning of any pricing process is to understand the cost of the product, including the components. Often, mistakes occurs at the time of allocation of indirect costs to a product/service and this has a major impact on profitability. Cost accounting helps to classify costs and provides guidelines on allocation/apportionment of cost to various products and services.

CMAs with the help of their expertise can help healthcare organizations in the following ways:

- Designing and development of appropriate organizational structure
- Managing cash activities
- Designing proper inventory control system
- Admitting and registration of patients
- Designing and developing appropriate internal audit and internal control system
- Departmental Costing
- Product Costing
- Laboratory inspection
- Revenue Management, etc.

We are really overwhelmed by the huge response of our readers on the new look of the journal and its enriched contents. This issue has a few relevant articles on 'Health Sector – Imperatives for CMAs'. We have introduced a new section, 'Letters to the Editor'. We look forward to feedback from our readers on the articles. Please send your mails at editor@icmai.in. We are grateful to all the contributors for this important issue. We hope our readers enjoy this issue.

CMAs can dream big and have the courage to stand by their convictions

CMA Suresh Chandra Mohanty
President
The Institute of Cost Accountants of India

Your right is to work only and never to the fruit thereof. Do not consider yourself to be the cause of the fruit of action; nor let your attachment be to inaction. – Bhagwad Gita

As I stand before you, my mind marvels at the vision of our eminent predecessors, in creating 'an institution where any person can find instruction in any study'. I salute the sustained efforts of successive presidents, predecessor colleagues in the Council, the present team and all of you in strengthening that vision.

However, we have to travel a long way to make significant progress in enhancing social capital in the world – trust, concern for the less fortunate, honesty and fairness. I am reminded of the words of economist-thinker John Maynard Keynes who said, 'when the capital development of a country becomes the by-product of the activities of a casino, the job is likely to be ill-done". It is not much of a consolation that such behaviour is not limited to one country but is a discernible pattern in almost every country today.

I sincerely trust that our CMA professionals are competent to transform into an extraordinary work force for the country and their organizations. I believe that we can contribute significantly to solving the myriad problems we are faced with. CMAs can dream big and have the courage to stand by their convictions. The contribution of our members is highly recognized in enhancing the integrity, effectiveness and outcomes in the value system. It is facilitating the stakeholders to progress on a sustainable basis. Compliance to a value system requires people who have high aspirations, self-esteem, confidence in the future and enthusiasm to take up apparently difficult tasks. We need people who will walk the talk and demonstrate their commitment to a value system. In Mahatma Gandhi's words, "We must become the change we want to see the world." I urge all stakeholders, specially the members of the Institute, to come forward and contribute their best towards the growth of the profession and the Indian economy. I also invite all those qualified finalists who are yet to seek membership of the Institute to join hands for a better future.

A National Advisory Board under the Chairmanship of Shri M. Damodaran, I.A.S (Retd), Former Chairman, SEBI and Chief Secretary, Govt. of Tripura with Shri Jitesh Khosala, I.A.S., Additional Chief Secretary, Assam, CMA D. Sundaram, Vice Chairman and Managing Director, TVS Capital Funds Limited, CMA M.V. Tanksale, Former Chairman Cum Managing Director, Central Bank of India, CMA G. Srinivasan, Chairman Cum Managing Director, New India Assurance Company Ltd, CMA A.K. Awashti, Former Deputy CAG and CMA Dr Asish Bhattacharyya, Professor and Head , School of Corporate Governance and Public Policy, Indian Institute of Corporate Affairs has been formed to provide inputs for preparing a Vision 2030 document for the Cost and Management accounting profession.

I had the opportunity to meet Shri Narsing Rao, Chairman, Coal India limited on 30th July 2013 with the Vice President, Council colleagues and senior executives and discussed various issues relating to the coal sector and the areas of work and study by the Institute that will give an edge to optimization of operation and cost by the industry.

I had also the opportunity to meet Shri Arun Kaul, Chairman and Managing Director, UCO Bank on 8th August, 2013 and Shri B.P. Kanungo, RD, RBI with the Vice President, Council colleagues and senior executives and discussed various issues relating to the banking sector and the areas of work and the role of CMA's in Risk based internal audit and other areas for performance improvements and sustainability of the banking industry.

10th National Award for Excellence in Cost Management

The landscape of businesses is changing rapidly and becoming complex and highly volatile. The policy framework based on cost management was not prevalent 50 years ago. Certainly professionals involved need skills to handle such complex situation. The recognition for a robust internal cost accounting mechanism as mandated by the New Companies Bill both for manufacturing and services sector, is a path-breaking initiative which underlines the importance the Government is giving to the efficient and effective utilization of scarce resources. The role of Cost and Management Accountants gets stratified into value creating, value enabling, value preserving and value reporting. The entire organization becomes an integral cog in the wheel for value creation and the subsequent processes.

To recognize these efforts, the Institute presents National Awards to felicitate and recognize corporates/organizations in their journey towards excellence in cost management. **Mr. Sachin Pilot**, Hon'ble Union Minister of State for Corporate Affairs (I/C) presented **10th National Award for Excellence in Cost Management** in a function organized by the Institute on 22nd August 2013 at New Delhi. **Mr. Naved Masood**, IAS, Secretary, Ministry of Corporate Affairs and **Mr. M.J. Joseph**, Additional Secretary, Ministry of Corporate Affairs, were also present and addressed the participants and award winners.

The Hon'ble Minister said at the event that the performance of participating companies has tremendously improved over the years and it was a gigantic task for the Screening Committee and the Jury to select the best company from among them. The minister stressed that the Institute should work out norms for cost of health care procedures and should play a much bigger role in public interest.

Sixteen Indian companies in manufacturing (private and public) and divided into large, medium and small organizations were awarded for best cost management practices in **11 different categories**. The winners for the award were selected by a distinguished **Jury** headed by **Justice V. N. Khare, Former Chief Justice of India** and consisting of eminent persons from Industry, Academics and Administration. The criteria for selection were better practices for resource management, efficient utilization of capacity and working capital, quality augmentation, expenditure on CSR and precise information on performance.

Referring to the Companies Bill 2013, Shri Sachin Pilot said that the CSR provisions were aimed at welfare and environment measures. Companies spending on brand building and CSR activities will create goodwill and compassion in society. He further said that the company has full freedom to choose how it wants to invest (not to consider it as expended/spending) the funds. This is an investment for the corporates who are spending on CSR activities.

On behalf of the Institute, I congratulate the Hon'ble Union Minister of Corporate Affairs, Shri Sachin Pilot and his esteemed team members for their unstinted efforts in reforming corporate legislation in tune with global reality and the Indian economy. The new Companies Bill will ensure impetus for growth as the Bill will enhance transparency, compliance, self-reporting, regulatory and disclosure with fewer regulations.

We have formed a Task Force with four Council colleagues for suggestions in framing of the Rules for both Cost Audit and Cost Accounting Record Rules and other areas to be discussed with the Government.

Meeting with the industry

To understand and cater the expectations of the Industry and also to appraise them about the initiatives taken by the Institute, better interaction with the industry is of prime importance. We are indeed privileged by the overwhelming response of the industries and trade associations, and their suggestions to meet the greater interest of the stakeholders while serving the national requirement.

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

Professional Development Directorate

The new Companies Act 2013 vide Section 138 (1) empowers Cost Accountants for internal audit work. The section reads: "such class or classes of Companies as may be prescribed shall be required to appoint an internal auditor, who shall either be a chartered accountant or a cost accountant, or such other professional as may be decided by the Board to conduct internal audit of the functions and activities of the Company".

I am happy to inform that as an endeavour towards knowledge-sharing with our esteemed members, the Institute is working on Sector Specific Internal Audit Guidance Notes. The Institute has already pronounced two Internal Audit Guidance Notes on Pharmaceutical Industry and Depository Participants for comments/suggestions from the public and others are under the process of finalization.

Research Directorate

I am happy to inform the members that the Research Directorate of the Institute has released two research publications at Kolkata viz. a book on the topic "Capital Markets in India" and "Research Bulletin - Vol. No. 37" in the presence of Shri B. Madhab Reddy, MD and CEO, Calcutta Stock Exchange, Shri Rakesh Shah, VP, Bharat Chamber of Commerce, Shri Suresh Pal, Government Nominee of the Institute and Shri K. Govindaraj, Government Nominee of the Institute. Past Presidents, Council Members, Officials of the Institute and other eminent dignitaries from Industry, academics and professions were present at the event.

Examination Directorate

It is a matter of happiness for all of us that the Intermediate and Final examination results for June 2013 were declared as per schedule, i.e., on 23rd August 2013.

I congratulate all the students who qualified and wish them a bright and prosperous career. This day marks a milestone from where you continue your quest for more knowledge. Your dreams and your enthusiasm are of utmost importance. As you step into the real world, remain young at heart and be open to new ideas. Never accept the status quo. Endeavour to be the best in the world in whatever you choose to be. Build your reputation with your achievements. The nation needs you.

The process for campus placement programme for the June 2013 final passed out is being organized at eight locations in October and November 2013 has been initiated by the placement directorate. I am sure this time also will get maximum benefit from the initiative.

Hyderabad Centre for Excellence (HCE)

The HCE has organized a program on "Stock Audit-Process and Analysis" on July 27th by Shri. Dhaveji with Twenty Two participants and Professor Prasanna Chandra, delivered a lecture to the Participants of BVCR Programme on "Reflections on Valuation" on 4th August, 2013.

ICWAI-MARF Programmes

To continue with its fast pace, ICWAI-MARF organized a programme for Naval and Civilian Officers on 'Cost and Contracts Management' from 29th July to 2nd August 2013 at CMA Bhawan, New Delhi. A programme for Indian Air Force on 'Contracts Management' was also organized at CMA Bhawan, New Delhi. Two self-run programmes were organized on 'Advance Tax, TDS and Tax Planning' and 'Recent Trends in Financial Management' at Tirupati.

The IRAS Training Programme for the fourth batch for Ministry of Railways will be organized during September 2013. Proposals have also been submitted to Ministry of Railways for organizing Exclusive International Training Programmes at New Delhi, London and Paris for Senior HR officers of Ministry of Railways.

Reviewing of multi-year tariff proposals of different airports is under progress. The Ministry of Health and Family Welfare, Government of India has assigned the development of Costing system for cardiovascular disease.

CPD Programmes

The Institute organized a session on 'Role of CMAs in Internal Audit' at Kolkata. The Institute in association with Sri Aurobindo Foundation for Integral Management (SAFIM) organized a National seminar on 'Governance by Inner Consciousness' at New Delhi. It was my privilege to be present at the seminar which was inaugurated by Hon'ble Justice Ramesh Chandra Lahoti, Former Chief Justice of India and SAFIM Advisory Board and Shri R Bandyopadhyay, Member, Central Administrative Tribunal, Former Secretary, MCA and Member SAFIM Advisory Board followed by deliberations by eminent experts in the Technical sessions and concluded by Shri Jitesh Khosla, IAS, Additional Chief Secretary, Government of Assam.

CAT Directorates

The admission to Certificate course on Accounting Technicians is in full swing in Kerala and Rajasthan. Orientation programme has been conducted for the faculty members in Kerala at three locations to ensure quality delivery. Similar initiatives have been moved with other states to start the employment oriented short term CAT Course.

International affairs

The Institute has been requested to nominate its experts to the workshop on Cost Audit for various sectors like sugar, textile, fertilizer, pharmaceuticals, etc., to be organized by Institute of Cost and Management Accountants of Bangladesh (ICMAB) at Dhaka on 12th and 13th September 2013. I am happy to inform that my colleagues CMA M Gopalakrishnan, Past President and CMA Rakesh Singh, Immediate Past President will represent the Institute in this august forum.

The institute has constituted a Board of Studies to provide improved inputs to the students to improve their skills. A Tax Research Department has been created to support the initiatives of taxation committees and to meet the requirements of the stakeholders and the nation.

The Institute partnered with ASSOCHAM for the Seminar on Companies Bill 2012 held at New Delhi. During the month our Regional Councils and Chapters conducted many programmes on contemporary topics to update the knowledge of our members.

The Institute is associated as the "Knowledge Partner" with CII for organizing the 12th Cost Congress in the month of November at New Delhi. CMA Dr Durgaprasad, Vice President attended the 1st Steering Committee of the Cost Congress held at New Delhi.

The Institute has joined hands with the Institute of Directors as associate partner for the 13th international Conference scheduled during 1st week of October 2013 at London.

A word of gratitude to my Teachers and all Faculty Members on the occasion of Teacher's Day. I sincerely believe that my esteemed and dedicated Faculty Members would continue sharing their knowledge and experience to train the minds of Indian youth to become efficient CMAs to meet the needs of the nation.

I wish all the members and their family on the occasion of Vinayaka Chaturthi, Vishwakarma Puja and Onam.

With warm regards,

CMA Suresh Chandra Mohanty
1 September 2013

Our Research, Innovation & Journal cell is dedicated to the goal of connectivity

CMA Manas Kumar Thakur
Chairman
Research, Innovation and Journal Committee
The Institute of Cost Accountants of India

FIRST of all, I would like to express my heartfelt thanks to the President and the august Council of the Institute for giving me this great opportunity to serve the Institute as Chairman of the Research, Innovation and Journal Committee. I firmly believe that the Committee will be able to deliver its responsibility and task bestowed upon towards fulfilling the mission and vision of the Institute in particular and the society at large.

The research wing of an organization should be dedicated to promoting a greater understanding of how society and economy works. The Research and Innovation department of our Institute is committed to assist government, civil society and the private and industrial sector to make informed policy choices.

Our Research and Innovation cell is dedicated to the goal of connectivity and seeks to establish inter-linkages with research institutions interested in the areas of industry and infrastructure development, macroeconomic analysis and overall economic development with special emphasis on Cost Management.

Our mission is to establish this department as a premier applied research wing in the country to raise public awareness of policy issues in business, trade and economy and to facilitate solutions that will contribute to national development.

THE RESEARCH WING OF AN ORGANIZATION SHOULD BE DEDICATED TO PROMOTING A GREATER UNDERSTANDING OF HOW SOCIETY AND ECONOMY WORKS

The Research and Innovation wing is now working in various areas as mentioned below:

- Research Study
- Research Projects
- Research Publications
- Research Bulletin
- Research Collaborations
- Research based Workshops and Seminars

We have already identified a few pertinent areas in line with government policies and the emerging social and economic needs, where we can contribute a lot for the benefit of society. Research activities have already been initiated in these areas and hopefully we will be able to come out with effective outcomes and solutions as well. Although the application of 'Cost Management' is the biggest concern in our research domain, we would also like to address and contribute significantly in various relevant spheres of the economy of the nation as well as global economic issues.

In our continuous endeavour to improve the quality of the journal, we have been introducing structured and modern layout and innovative features in the journal. The basic focus is to make *The Management Accountant* a global brand on its own. The quality of articles has also improved immensely over the past few months. We have already progressed towards design improvement, and the present professional design has received accolades from all quarters and members of the Institute. The articles are very informative and catchy enough to grab the attention of our readers. Various government officials, ministry people and the corporate world have been asking for the journal. The journal is not only the official organ of the Institute, it is also a window to various activities of the Institute.

We are incorporating new features and relevant cover stories of national and global importance in our journal and giving our best efforts to reach the unreachable through persistent value addition. We also request our members in the industry to contribute quality and relevant articles and case studies for the journal.

We solicit your feedback, suggestions and concerns for the overall development of the Research and Journal Directorate. Please send mails at research@icmai.in for 'Research and Innovation' activities and at journal@icmai.in for journal-related issues.

It is obvious that the President and all my Council colleagues support me enormously in the quest for value creation for the Institute through this department; but I must also congratulate the office bearers of this department who always quietly given their best efforts for this paradigm shift.

With warm regards,

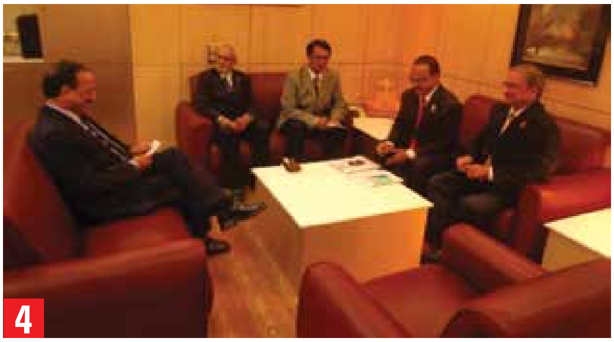
CMA Manas Kumar Thakur
1 September 2013

ICAI-CMA SNAPSHOTS


1


2


3


4


5

1. CMA S C Mohanty, President felicitating Shri B J Panda, Hon'ble Member of Parliament in Bhubaneswar on 4th August, 2013 to discuss various professional development issues.

2. CMA S C Mohanty, President, CMA Dr. A S Durga Prasad, Vice President felicitating Shri Arun Kaul, CMD of UCO Bank, Kolkata.

3. CMA S C Mohanty, President, CMA Dr. A S Durga Prasad, Vice President felicitating Shri B P Kanungo, Regional Director of Reserve Bank of India, Kolkata office.

4. CMA S C Mohanty, President, CMA Dr. A S Durga Prasad, Vice President, CMA TCA Srinivasa Prasad, Chairman Training & Educational Facilities Committee and CMA Manas Kumar Thakur, Chairman Research, Innovation & Journal Committee of the Institute in a meeting with Shri Arun Kaul, CMD of UCO Bank, Kolkata.

5. CMA S C Mohanty, President of the Institute hoisting the Indian flag on 67th Independence Day of India at the Head Office of the Institute, Kolkata

ICAI-CMA SNAPSHOTS

6. CII-ICAI workshop on Emerging Dimensions of Costing held on 27th August 2013 in Haldia. On the dais present are CMA Dr. Sanjiban Bandyopadhyaya, Chairman Direct Taxation Committee, CMA TCA Srinivasa Prasad, Chairman Training & Educational Facilities Committee, Shri P Ghosh and Shri Sukumar Mitra.

7. One day Seminar on Cost Audit Compliance Report & Service Tax held on 7th August, 2013, in Chennai. Chief Guest Shri R Periasami IRS, Commissioner of Service Tax, Chennai, SIRC Chairman CMA P Raju Iyer, and CMA M. Gopalakrishnan, past president of the Institute at the seminar.

8. Release of DVDs containing PPTs for classroom teaching by the Chief Guest Prof. E Balagurusamy, Tamil Nadu State Planning Commission Member for Education on 67th Independence day in SIRC, Chennai.

9. CMA Dr. A S Durga Prasad, newly elected Vice President of the Institute being congratulated by Managing Committee Members of Hyderabad Chapter and other past Chairmen

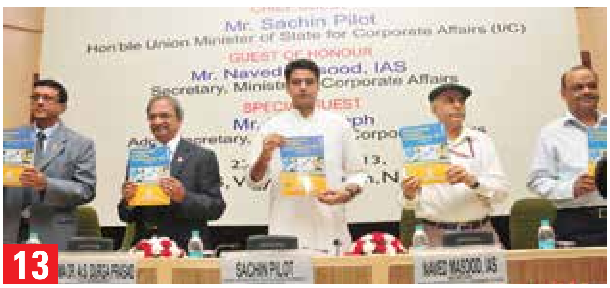
10. Inauguration at the Symposium on New Mechanism of Cost Records and Cost Audit. From left to right CMA D.V. Joshi, Past President, CMA Vijay P. Joshi Regional council member, Dr. R. K. Verma, Additional Commissioner - Central Excise, Custom & Service Tax, CMA Shrenik S. Shah, Chairman WIRC, CMA Sanjay Bhargave, CCM and CMA Ashish Thatte, Vice Chairman WIRC

ICAI-CMA SNAPSHOTS

Glimpses of the 10th National Awards for Excellence in Cost Management 2012 on 22nd August 2013 at Vigyan Bhawan, New Delhi

11

12



13

14

15

ICAI-CMA SNAPSHOTS

Glimpses of the 10th National Awards for Excellence in Cost Management 2012 on 22nd August 2013 at Vigyan Bhawan, New Delhi

16

17

18

19

20

21

ICAI-CMA SNAPSHOTS

Glimpses of the 10th National Awards for Excellence in Cost Management 2012 on 22nd August 2013 at Vigyan Bhawan, New Delhi

22

23

24

25

26

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA

Standing Comittee & other Committees of the Council of the Institute for 2013-14 (22 July 2013 to 21 July 2014)

The President and Vice-President are permanent invitees to all the committees

STANDING COMMITTEES					
1.	**Executive Committee**	**Quorum (4)**	**2.**	**Examination Committee**	Quorum (4)
1.	CMA Mohanty, S.C., President	Chairman	1.	CMA Mohanty, S.C., President	Chairman
2.	CMA (Dr) Durga Prasad, A.S, Vice-President	Member	2.	CMA (Dr) Durga Prasad, A.S, Vice-President	Member
3.	CMA Singh, Rakesh	Member	3.	CMA Gopalakrishnan, M.	Member
4.	CMA (Dr.) Bandyopadhyaya, Sanjiban	Member	4.	CMA (Ms.) Soman, Aruna V.	Member
5.	CMA Goel, H. K.	Member	5.	CMA Apte, Amit	Member
6.	CMA (Dr.) Jagan Mohan Rao, P.V.S.	Member	6.	CMA Thakur, Manas Kumar	Member
7.	CMA Bhattad, P.V.	Member			
CMA Kaushik Banerjee - Secretary (Acting)		Secretary	CMA Amitava Das – Director (Examination)		Secretary
			OTHER COMMITTEES		
3.	**Finance Committee**	**Quorum (4)**	**4.**	**Disciplinary Committee U/s 21B of The CWA Act, 1959 as amended**	**Quorum (3)**
1.	CMA Mohanty, S.C., President	Chairman	1.	CMA Mohanty, S.C., President	Presiding Officer
2.	CMA (Dr) Durga Prasad, A.S, Vice-President	Member	2.	CMA Singh, Rakesh	Member
3.	CMA Singh, Rakesh	Member	3.	CMA Bhattad, P.V.	Member
4.	CMA Bhargave, S.R.	Member	4.	Mr Bandopadhyay, Debashish, Govt. Nominee	Member
5.	CMA Gupta, Sanjay	Member	5.	Mr Kumar, Alok, Govt. Nominee	Member
6.	CMA Srinivasa Prasad, T.C.A.	Member			
7.	CMA Sreshti, D.L.S.	Member			
CMA S.R. Saha – Director (Finance)		Secretary	CMA Rajendra Bose – Director (Discipline)		Secretary
5.	**Training & Educational Facilities Committee**	**Quorum (4)**	**6.**	**Professional Development Committee**	**Quorum (4)**
1.	CMA Srinivasa Prasad, T.C.A.	Chairman	1.	CMA Bhargave, S.R.	Chairman
2.	CMA Sreshti, D.L.S.	Member	2.	CMA Gopalakrishnan, M.	Member
3.	CMA (Ms.) Soman, Aruna V.	Member	3.	CMA Goel, H.K.	Member
4.	CMA Apte, Amit	Member	4.	CMA Gupta, Sanjay	Member
5.	CMA Gupta, Sanjay	Member	5.	CMA (Dr.) Bandyopadhyaya, Sanjiban	Member
6.	CMA Thakur, Manas Kumar	Member	6.	Mr Sreekumar, G. (Govt. Nominee)	Member
			7.	Advisor (Cost), MCA (Co-opted)	Member
CMA R.N. Pal - Sr. Director (Studies)		Secretary		CMA J.K. Budhiraja - Director (PD)	Secretary
7.	**Research, Innovation & Journal Committee**	**Quorum (3)**	**8.**	**Continuing Professional Development Committee**	**Quorum (3)**
1.	CMA Thakur, Manas Kumar	Chairman	1.	CMA (Dr.) Bandyopadhyaya, Sanjiban	Chairman
2.	CMA Sreshti, D.L.S.	Member	2.	CMA Sreshti, D.L.S.	Member
3.	CMA (Dr.) Jagan Mohan Rao, P.V.S.	Member	3.	CMA Goel, H.K.	Member
4.	CMA Bhattad, P.V.	Member	4.	CMA Bhattad, P.V.	Member
5.	CMA Gupta, Sanjay	Member	5.	CMA Apte, Amit	Member
CMA (Dr.) D.P. Nandy – Director (R & J)		Secretary	CMA Nisha Dewan - Joint Secretary		Secretary
9.	**Members' Facilities & Services Committee**	**Quorum (3)**	**10.**	**Regional Councils & Chapters Co-ordination Committee**	**Quorum (3)**
1.	CMA Goel, H.K.	Chairman	1.	CMA Bhattad, P.V.	Chairman
2.	CMA (Ms.) Soman, Aruna V.	Member	2.	CMA Goel, H.K.	Member

3.	CMA Sreshti, D.L.S.	Member	3.	CMA (Dr.) Jagan Mohan Rao, P.V.S.	Member
4.	CMA Apte, Amit	Member	4.	CMA Sreshti, D.L.S.	Member
5.	CMA Thakur, Manas Kumar	Member	5.	CMA (Ms.) Soman, Aruna V.	Member
			6.	CMA Thakur, Manas Kumar	Member
CMA Rajendra Bose - Joint Director (Membership)		Secretary	CMA Arnab Chakraborty – Director (Secretariat)		Secretary
11.	**International Affairs Committee**	**Quorum (4)**	**12.**	**Committee on Information Technology**	**Quorum (5)**
1.	CMA Gupta, Sanjay	Chairman	1.	CMA Srinivasa Prasad, T.C.A.	Chairman
2.	CMA (Dr.) Jagan Mohan Rao, P.V.S.	Member	2.	CMA Gopalakrishnan, M.	Member
3.	CMA Sreshti, D.L.S.	Member	3.	CMA Sreshti, D.L.S.	Member
4.	CMA Bhattad, P.V.	Member	4.	CMA Apte, Amit	Member
5.	CMA Srinivasa Prasad, T.C.A.	Member	5.	CMA (Dr.) Bandyopadhyaya, Sanjiban	Member
6.	CMA Thakur, Manas Kumar	Member	6.	CMA Gupta, Sanjay	Member
7.	Ms. Munshi, Nandana (Govt. Nominee)	Member	7.	Mr Muraliprasad, S. A.	Member
CMA Tarun Kumar - Joint Director (Intl. Affairs)		Secretary	Ms. Anita Singh - Joint Director (IT)		Secretary
13.	**Cost Audit & Assurance Standard Board**	**Quorum (5)**	**14.**	**Direct Taxation Committee**	**Quorum (4)**
1.	CMA Gopalakrishnan, M.	Chairman	1.	CMA (Dr.) Bandyopadhyaya, Sanjiban	Chairman
2.	CMA Bhargave, S.R.	Member	2.	CMA Gopalakrishnan, M.	Member
3.	CMA Apte, Amit	Member	3.	CMA Bhargave, S.R.	Member
4.	CMA Goel, H.K.	Member	4.	CMA (Ms.) Soman, Aruna V.	Member
5.	CMA Gupta, Sanjay	Member	5.	CMA Gupta, Sanjay	Member
6.	CMA (Dr.) Bandyopadhyaya, Sanjiban	Member	6.	CMA Thakur, Manas Kumar	Member
7.	Nominee of CAB, MCA	Member	7.	CMA Sreshti, D.L.S.	Member
8.	Nominee of CAG	Member	8.	Mr Kumar, Ashish (Govt. Nominee)	
9.	Nominee of CERC	Member	9.	Mr Rajaratnam, S. (Co-opted)	
10.	Nominee of RBI	Member			
11.	Mr Narasimha Murthy, K.	Member			
12.	Mr Muraliprasad, S.A.	Member			
13.	Two representatives of Industry Associations / Professional Institutes	Member			
CMA (Dr.) S.K.Gupta – Director (Technical)		Secretary	CMA Arnab Chakraborty – Director (Secretariat)		Secretary
15.	**ICAI(CMA)-ICAI-ICSI Co-ordination Committee**	**Quorum (3)**	**16.**	**Committee for Accounting Technicians**	**Quorum (3)**
1.	CMA Mohanty, S.C., President	Chairman	1.	CMA Apte, Amit	Chairman
2.	CMA (Dr) Durga Prasad, A.S, Vice-President	Member	2.	CMA Singh, Rakesh	Member
3.	CMA Singh, Rakesh	Member	3.	CMA (Dr.) Bandyopadhyaya, Sanjiban	Member
4.	CMA Bhargave, S.R.	Member	4.	CMA Goel, H.K.	Member
5.	CMA Srinivasa Prasad, T.C.A.	Member	5.	CMA (Dr.) Jagan Mohan Rao, P.V.S.	Member
6.	Mr Suresh Pal, JS, MCA	Member	6.	CMA (Ms.) Soman, Aruna V.	Member
CMA S.C. Gupta – Director (Admin. & PR)		Secretary	CMA L. Gurumurthy – Director (CAT)		Secretary
17.	**Indirect Taxation Committee**	**Quorum (5)**	**18.**	**Corporate and Allied Laws Committee**	**Quorum (3)**
1.	CMA Thakur, Manas Kumar	Chairman	1.	CMA (Dr.) Jagan Mohan Rao, P.V.S.	Chairman
2.	CMA Gopalakrishnan, M.	Member	2.	CMA Gopalakrishnan, M.	Member

Contd.					
17.	**Indirect Taxation Committee**	**Quorum (5)**	**18.**	**Corporate and Allied Laws Committee**	**Quorum (3)**
3.	CMA Singh, Rakesh	Member	3.	CMA Singh, Rakesh	Member
4.	CMA Goel, H.K.	Member	4.	CMA (Dr.) Bandyopadhyaya, Sanjiban	Member
5.	CMA Bhargave, S.R.	Member	5.	CMA (Ms.) Soman, Aruna V.	Member
6.	CMA (Dr.) Bandyopadhyaya, Sanjiban	Member	6.	CMA Srinivasa Prasad, T.C.A.	Member
7.	Mr Kumar, Ashish (Govt. Nominee)	Member			
8.	Mr Raveendran, P. (Co-opted)	Member			
CMA Chiranjib Das - Joint Director (Studies)		Secretary	CMA M.P.S. Arun Kumar - Dy. Director (Adv. Studies)		Secretary
19.	**Cost & Management Accounting Committee**	**Quorum (3)**	**20.**	**Committee on Banking, Insurance & Capital Market**	**Quorum (3)**
1.	CMA Gopalakrishnan, M.	Chairman	1.	CMA (Ms.) Soman, Aruna V.	Chairman
2.	CMA Singh, Rakesh	Member	2.	CMA (Dr.) Jagan Mohan Rao, P.V.S.	Member
3.	CMA Bhargave, S.R.	Member	3.	CMA Apte, Amit	Member
4.	CMA Apte, Amit	Member	4.	CMA Goel, H.K.	Member
5.	CMA Thakur, Manas Kumar	Member	5.	CMA Thakur, Manas Kumar	Member
6.	Dr. Bhattacharyya, Asish K. (Co-opted)	Member			
CMA Nisha Dewan - Joint Secretary		Secretary	CMA Arup Sankar Bagchi – Director (Technical)		Secretary
21.	**Members in Industry and Placement Committee**	**Quorum (3)**	**22.**	**Board of Studies**	**Quorum (3)**
1.	CMA Bhattad, P.V.	Chairman	1.	CMA Sreshti, D.L.S.	Chairman
2.	CMA Gopalakrishnan, M.	Member	2.	CMA Singh, Rakesh	Member
3.	CMA (Dr.) Jagan Mohan Rao, P.V.S.	Member	3.	CMA Bhargave, S.R.	Member
4.	CMA Gupta, Sanjay	Member	4.	CMA (Ms.) Soman, Aruna V.	Member
5.	CMA Srinivasa Prasad, T.C.A.	Member	5.	CMA Apte, Amit	Member
			6.	CMA Srinivasa Prasad, T.C.A.	Member
CMA Rajat Kr. Basu - Joint Director (Examination) in Members in Industry Committee CMA L Gurumurthy - Director (CAT) in Placement Committee		Secretary Secretary	CMA Chiranjib Das - Joint Director (Studies)		Secretary
23.	**Governance, Sustainability and PSR Committee**	**Quorum (3)**	**24.**	**Election Reforms Committee**	**Quorum (3)**
1.	CMA Singh, Rakesh	Chairman	1.	CMA Bhargave, S.R.	Chairman
2.	CMA Bhattad, P.V.	Member	2.	CMA (Dr.) Jagan Mohan Rao, P.V.S.	Member
3.	CMA (Dr.) Jagan Mohan Rao, P.V.S.	Member	3.	CMA Bhattad, P.V.	Member
4.	CMA Srinivasa Prasad, T.C.A.	Member	4.	CMA Gupta, Sanjay	Member
			5.	CMA Srinivasa Prasad, T.C.A.	Member
CMA (Dr.) S.K. Gupta - Director (Technical)		Secretary	CMA Kaushik Banerjee - Secretary (Acting)		Secretary

25.	**Centre of Excellence & Infrastructure Committee**	**Quorum (3)**
1.	CMA Mohanty, S.C., President	Chairman
2.	CMA (Dr) Durga Prasad, A.S, Vice-President	Member
3.	CMA Bhattad, P.V.	Member
4.	CMA Goel, H.K.	Member
5.	CMA (Ms.) Soman, Aruna V.	Member
CMA Kushal Sengupta - Joint Director (Finance)		Secretary

26.	Cost Accounting Standards Board	Quorum (8)
1.	CMA Singh, Rakesh	Chairman
2.	CMA Gopalakrishnan, M.	Member
3.	CMA Bhargave, S.R.	Member
4.	CMA (Dr.) Bandyopadhyaya, Sanjiban	Member
5.	Shri Pal, Suresh, (Govt. Nominee)	Member
6.	Advisor (Cost), MCA	Member
7.	Nominee of DGFT	Member
8.	Dr. Bhattacharyya, Asish K.	Member
9.	Dr. Gandhi, Sailesh	Member
10.	Dr. Sen, Purushottam	Member
11.	Shri Muraliprasad, S. A.	Member
12.	Shri Vasudeva, S.C.	Member
13.	Shri Mukhopadhyay, A.K.	Member
14.	Shri Ganesan, Murali	Member
15.	Nominee of the ICAI	Member
16.	Nominee of the ICSI	Member
17.	Nominee of ASSOCHAM	Member
18.	Nominee of CII	Member
19.	Nominee of CCI	Member
20.	Nominee of TRAI	Member
21.	Nominee of SEBI	Member
22.	Nominee of PNGRB	Member
23.	Nominee of CBEC	Member
24.	Nominee of CBDT	Member
25.	Nominee of FICCI	Member
CMA (Dr.) S.K. Gupta - Director (Technical)		Secretary

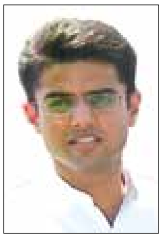
Office bearers of the Regional Councils for the year 2013–2014

Eastern India Regional Council	
Chairman	CMA Chitra Agarwal
Vice Chairman	CMA Pallab Bhattacharya
Secretary	CMA Bibekananda Mukhopadhyay
Treasurer	CMA Shiba P Padhi
Northern India Regional Council	
Chairman	CMA Rakesh Bhalla
Vice Chairman	CMA Saurabh Srivastava
Secretary	CMA Arvind Kumar
Treasurer	CMA S K Bhatt

Southern India Regional Council	
Chairman	CMA P Raju Iyer
Vice Chairman	CMA Padmanabhan H
Secretary	CMA Ch. Venkateswarlu
Treasurer	CMA S Ramachandran
Western India Regional Council	
Chairman	CMA Ashish P Thatte
Vice Chairman	CMA Neeraj D Joshi
Secretary	CMA Vijay P Joshi
Treasurer	CMA Ashok B Nawal

10th National Awards for Excellence in Cost Management 2012

Address by the Chief Guest, Mr Sachin Pilot, Hon'ble Union Minister of State for Corporate Affairs (I/C) on the occasion of presentation ceremony of 10th National Awards for Excellence in Cost Management 2012 on 22 August 2013, at Vigyan Bhawan, New Delhi



Mr Sachin Pilot
Hon'ble Union Minister of State for Corporate Affairs (I/C)

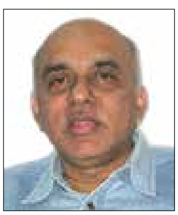
Mr Masood, Secretary, Ministry of Corporate Affairs, Mr Joseph, Additional Secretary, Ministry of corporate affairs, Dr. Durga Prasad, Mr Rakesh Singh, Mr Banerjee, past presidents, office bearers of the institute, ladies and gentlemen, very good evening. Let me first begin by congratulating all the awardees who are recognized today and I wish to thank the institute for having put together this event and thank you for having invited me here this afternoon.

Friends, this is primarily an occasion where the awards are given companies and individuals who have excelled in this field are chosen and are recognized and appreciated. But I think I would like to use this opportunity to share a few thoughts about what you have perhaps heard from the earlier speakers. The fact that we are faced with a challenging situation as far as our economy is concerned is a known fact. But we also have to look at what are the steps that we need to take as a government, as an economy, as a country and more importantly as a society which involves and includes professionals such as yourselves and other such professions who are involved constantly in rebooting, rebuilding and constantly enhancing the scale and scope of the presence of companies and corporates that spot the landscape of our economy. I think this particular profession is gaining momentum not just in terms of number of people involved doing this job but also the kinds of jobs that are being asked of you, the efficiency, the innovativeness, the competition that companies required to have within and outside are increasing at a breakneck speed. The cost management, cost accounting to basically understand the nuances of it and to be able to deliver tangible benefits that accrue from efficient cost management I think that concept was perhaps not so well entrenched 15-20 years ago. But today the world has changed, companies have changed and we have to be able to have policies that are effective, that are going to penetrate markets, that are going to make companies more agile, more dynamic, more flexible certainly more transparent but more importantly more efficient. I think your role in making this happen is second to none. The complexities of business are increasing ever so often with new technologies, new revenue models, new geographies, new markets to be tapped. The internal processes of each company need to be scrutinized. We need to look within as much as we need to look outside. Therefore, the professionals involved in doing this job, their services need to be constantly re-skilled. I was asking just before I came to speak that how many people are involved in this profession and how are we generating the inquisitiveness and curiosity amongst the young people to be involved in this profession. It is after all a niche profession but we need to be able to proliferate this line of work not just within large metro cities but also to the growing tier II, tier III cities where young boys, young men and women have the capabilities and the desire and the spirit to join this field of work but perhaps don't have the information or knowledge or even the resources to be able to qualify and practice in this profession. I think that the institute also most start reaching out. I think we already have about 70 odd centers where exams for this profession are undertaken but there is no harm in thinking about how we can expand and spread this profession as far as possible. We have 1.2 million companies registered in this country today. A far cry from a few thousand when the Companies Act was first made post independence in 1956 and you were just being told about how we have been able to replace that Companies Act of 1956 with the new companies bill awaiting consent from the Rashtrapati. But we tried to rewrite the law keeping in mind the global realities of today, the economic challenges that we are confronted with today and the need of the hour for our country to raise above these small impediments and to forge ahead and create the space that our economy and our country deserve to have amongst the comity of nations across the world. While we do this we will need to fire from all cylinders we will have to have a good regulatory mechanism, a good investment climate, a good set of compliances that are done by companies and professions themselves as opposed to the government standing and mandating what needs to be done. In the process of achieving this target it will require the fullest cooperation of not just the corporate sector but professionals that help run the corporate sector. I think all of you are more knowledgeable than I in understanding the importance that you contribute in making these companies work like a well oiled machinery. The secretary mentioned this evening before I spoke about the importance of undertaking the costing of medical procedures and operations. I think there are N number of things that needed to be scrutinized and understood because nothing more than management of cost is going to help us reduce the cost burden overall. The concept of having CSR in the statute is a new one in this country. There are about 200 countries in the world I don't think that anyone of these countries has a concept of CSR in the statute which actually encourages companies to spend 2% of their profits. When I say spend I actually mean invest because you are not spending money in terms of charity; you are contributing resources and money into communities which will then be able to offer you a better work force, better environment and perhaps the perception that there is some trust deficit between large corporates and the communities amongst which they work I don't think that is the norm in every case but certainly instances have cropped up where we see the perception of the trust deficit. Companies spend a lot of money in brand building and advertising and catching eyeballs and making their name very very famous and prevalent which is a very legitimate business activity for any business development. But what the CSR will enable companies to do is to able to endear themselves to the people amongst which they are working, to be able to earn the good very not with commercial interest but with empathy and compassion that is required make sure that this divide that we are seeing in some parts of our country becomes as less as possible. Even in that process I think your profession has a great role to play to be able to manage those costs to see how we are able to display to the world not just with the shareholders about the good works that the companies are undertaking. Because it is a new concept we in the ministry are trying to make it as flexible, as dynamic and as transparent as possible are while we frame rules and how CSR ought to be conducted the broadly leave it to the CSR committees on the board of each of these companies who are qualified to do CSR to up to their consciousness of how they want to spend the money and how disclosures should be done by the companies themselves as opposed to intrusively being asked by the ministry of the government of India. We want to keep the government away that 2% of CSR is not a tax that the government of India receives or any other government receives. This is the company's profits which is companies hard earned money they must have full authority and choice of how they want to spend that money.

But what you have done this evening is not just honor these companies and recognize them and appreciate the good work has gone behind achieving these targets and I am sure that the jury has deployed all its attention and scrutiny before deciding who the winners should be. Evenings like these and occasions like this where we are able to celebrate the successes of such companies and individuals I think goes a long way in encouraging professionals to keep doing the good work because companies and nations are not made out of brand and buildings. They are made out of people. I dare say that even parliament and politicians we are made of individuals and people. If we are good people doing good work no matter what the institution is, no matter what the profession is people we will all earn a good name and carry on doing things together as equal stakeholders, equal partners in creating a better economy, a better nation for our country not just for today but for long time to come.

Thank you

Address by Guest of Honor Mr Naved Masood, Secretary, Ministry of Corporate Affairs on the occasion of presentation ceremony of 10th National Awards for Excellence in Cost Management 2012 on 22nd August 2013, at Vigyan Bhawan, New Delhi



Mr Naved Masood
Secretary, MCA

Good evening, Hon'ble Minister for Corporate Affairs Shri Sachin Pilot, Dr Durga Prasad, Shri Rakesh Singh, Shri Kaushik Banerjee, the past presidents of this distinguished institute, the distinguished guests, ladies and gentlemen. I would at the very outset share my concern. I came to know and I enquired of the new president Mr Mohanty and I was told that he has had a health setback and unfortunately what was to be his maiden function, I mean it is being held in his absence I am sure all of you will join me in wishing him praying for his speedy and full recovery and wishing him good health in the months and years to come. I am sure that he will be able to soon bounce back to normalcy and render the leadership of the institution which led to his elevation to this place the first place. Having said this, ladies and gentlemen, I will not be proposed to dwell much at length because my predecessor Mr Joseph has dealt with the aspects of the Companies Bill which has now received not only received parliamentary assent but hopefully in a few days will also be receiving presidential assent and the salience it gives to many aspects which are of relevance to the profession of cost and management accountancy. All I can say is that much of the profession of cost and management accountancy proved its relevance and usefulness for the overall system of corporate governance and management. In the years to come we look forward to a more active involvement both working as the cost professionals but also in the kinder disciplines as Mr Joseph pointed out of certified valuers a new species which has entered or insolvency professionals whom I think this country badly needs. This occasion only underscores the need to constantly acknowledge excellence and to reward excellence. I think the distribution of awards and rewards is essentially about process. It is an ongoing process. If not third second occasion I am here and your sister institutions also carry on the same process. I only hope that this engenders healthy competition among the corporates and the individuals, to strive to do better. I am sure that the jury here has exercised much hard work and much greater attention has been paid to it. The chairman and members of the jury need to be appreciated and commended for doing that because looking at the list of awardees it is just turn out to be a fairly well contested, so to say, process.

I would only, towards the end, like to mention that a reference has been made possibly by Mr Rakesh Singh to the current economic scenario and the role that cost plays in what you call either understanding what is happening today and in paving the way forward to sort of see that things are better than what they are or at least as good as they were in not too distant past. I would also sort of here mention that side by side in a crisis kind of a situation we need your profession to work out norms of costing in sectors which are of considerable public importance. What comes to mind both in view of its topicality as also because of this major problem that we are facing in this country about the cost of healthcare and healthcare in particular is a sector wherein, let's say the costing aspect has not received the attention which they deserve. I have had a stint in the health ministry and taking advantage of that stint I did broach the subject with the institute and I am glad that some initial efforts have been made. I would urge the present office bearers and the general body of this institute to pay a much greater attention because like the corporates have a social responsibility I think all professions also have a social responsibility and one of the important facets of the social responsibility of the profession, the noble profession I should say of cost and management accountancy is to work towards some kind of a normative approach to costing of health services. This will not only bring glory to the provision but it will meet a very long felt public interest need. This possibly is not the best of the occasion to underline this aspect but I thought since my interaction with you is not very frequent I must leave that thought with you. Maybe in the years to come in the similar functions etc. there could be the segment for what you call achievement of considerable progress in the field of working out the cost of provision of health services which is of course, a major challenge because I am slightly aware of the impediments and also a little bit of resistance, so your job is definitely cut out.

I would finally congratulate all the award winners and I am sure that as Mr. Joseph mentioned that this will spur them to work for greater excellence and achieve still higher levels of efficiency and performance.

Thank you

Address by Special Guest Mr M J Joseph, Additional Secretary, Ministry of Corporate Affairs on the occasion of presentation ceremony of 10th National Awards for Excellence in Cost Management – 2012 on 22nd August 2013, at Vigyan Bhawan, New Delhi

Mr M J Joseph
Additional Secretary, MCA

Good evening, Shri Sachin Pilot, Hon'ble Minister of Corporate Affairs, Shri Naved Masood, Secretary, ministry of Corporate Affairs Dr. Dugaprasad, vice president, Shri Kaushik Banerjee, Shri Rakesh Singh, past presidents of the institute, council members, ladies and gentlemen.

It is now a decade since the inception of the national awards for excellence in cost management instituted by the institute of cost accountants. Conferring these awards on cost conscious corporates serve to acknowledge and honor their commitment towards inculcating and embedding an effective cost management culture within their respective organizations. The institute needs to be congratulated for recognizing the efforts of the award winning corporates towards strengthening and promoting a vibrant cost management culture within their organizations.

Equally we must thank the members of the jury headed by the respected honorable justice Mr V N Kare, former chief justice of India as well as the chairman and members of the screening committee for their efforts in selecting the winners of the national awards.

As Mr Rakesh Singh just mentioned, in the present global economic scenario cost management professionals have a significant role to play in rendering specialized professional services and advice to the corporate sector on cost management matters. We are all aware that the cost accounting is an integral part of the management process. It serves as an aid or a tool to assist management in strengthening cost control and improved cost analysis. The growing pressures of competition, technological innovation, volatility in exchange rate, input prices and change in business processes have made the subject of cost management even more critical and relevant than ever before.

Over the years the cost management professionals have played a very important role in enabling the corporate sector to achieve cost optimization and deliver better returns to their stakeholders. Recognizing the importance of cost management the Companies Act of 1956 was amended in 1965 when sections 209 (1)(d) and 233(b) relating to cost records and cost audit were inserted in the Act. At that time the economic, industrial and corporate environment, however, was very different from what it is today. During that period economic activities relating to production, manufacturing and processing were key industrial drivers of growth. The contribution of industry to GDP then was very significant. However, that scenario changed significantly in the last two decades especially after the economic reforms were introduced in the early 1990s. At present the services sector contributes about 60% of GDP whereas the share of industry in GDP is about 25%. Recognizing this change the new Companies Bill 2013 contains enabling provisions for maintenance of cost records for prescribed class of companies engaged in the services sector. This change in the legal and regulatory framework presents a major challenge to cost management professionals who hitherto may have had specialized knowledge only in manufacturing, production or processing activities in the industrial sector. Henceforth, their skill sets and knowledge would increasingly be required in providing cost management expertise to the services sector as well. I must also mention that the Companies Bill, 2013 also provides an opportunity for cost accountants in discharging the internal audit function in respect of prescribed classes of companies. In addition, cost accountants would also be able to serve as insolvency administrators and company liquidators besides providing professional certification required on a number of areas mentioned in the Bill including with regard to various e-forms. These provisions in the new Companies Bill 2013 therefore, provide huge opportunities and challenges for cost management professionals, both in employment as well as for those engaged in practice. I am sure, that these opportunities and challenges would be addressed both by the institute and cost management professionals and help cooperates achieve world class cost efficiency standards and competitiveness in respect of goods produced and services rendered by them. We in the ministry of corporate affairs look forward to working with the Institute of Cost Accountants of India in drafting enlightened set of rules under the provisions of the new law that meets the aspirations and expectations of all stakeholders be they governmental interests, requirements of regulatory agencies, professionals as well as of corporates.

I will conclude by once again congratulating those corporates selected for the national awards for excellence in cost management and I am sure that this honor will motivate them as well as all other corporates to achieve greater success in building a strong culture of cost consciousness and competitiveness in the country.

Thank you

NOTIFICATION

It is hereby notified vide Notification Nos. 18-CWR (2786 - 2863)/2013 dated 18th July 2013, 18-CWR (2864 - 2915)/2013 dated 19th July 2013, 18-CWR (2916 - 2933)/2013 dated 24th July 2013, 18-CWR (2934 - 2951) /2013 dated 25th July 2013, 18-CWR (2952 - 2969)/2013 dated 26th July 2013, 18-CWR (2970 - 2984)/2013 dated 30th July 2013, 18-CWR (2985 - 3031)/2013 dated 1st August 2013 and 18-CWR (3032 - 3067) /2013 dated 5th August 2013 in pursuance of Regulation 18 of the Cost and Works Accountants Regulations, 1959 that in exercise of the powers conferred by Regulation 17 of the said Regulations, the Council of the Institute of Cost Accountants of India has restored to the Register of Members, the names of members, details of which are uploaded on the Institute's website www.icmai.in

ARE WE DOING ENOUGH IN THE REALM OF MENTAL ILLNESS? – A BRIEF ACCOUNT ON COSTING IN MENTAL HEALTH

Mental health disorders are among the most expensive of hospital treatments. But are we doing enough to bring down costs?

Dr. Rajarshi Neogi
MD Psychiatry (PGI, Chandigarh)
Medical College and Hospital,
Kolkata

The World Health Organization (WHO) defines health as "a state of complete physical, mental and social well-being and not merely the absence of disease or infirmity". The sad truth in our country is that what we consider healthy means just free from any physical morbidity. The mental and social well-being of every individual is equally important for the person and for the community as well. The mental well-being of every age group is very crucial in day-to-day activities in school, offices, household work and many more activities because it has a direct and indirect impact on the community.

There is a growing burden of non-communicable disease (NCDs) in developing countries; among NCDs, mental disease plays a major role. Depression and anxiety are the most prevalent non-communicable disorders. Depression is predicted to become the leading cause of disability-adjusted life years by the year 2030. It is estimated that Disability Adjusted Life Years Loss (DALY) due to mental disorders is expected to represent 15% of the global burden of diseases by 2020.

Health expenditure and its costing

According to recently published WHO reports on national expenditure of non-communicable diseases from various countries; among the non-communicable diseases (NCDs), Cardiovascular diseases (CVD) have the highest share of total health expenditure except for Australia, Germany, France and The Netherlands where the highest share is for mental disorders. In India, the expenditure on CVD is 16% followed by respiratory diseases (9%). Mental health disorders are among the highest category for hospital expenditure. NCDs health expenditures in India in-

Table 1: Ten projected leading causes of DALYs in 2020 according to baseline projection

Rank	Worldwide			Developed regions			Developing regions		
	Disease or injury	DALYs ($x10^6$)	Cum %	Disease or injury	DALYs ($x10^6$)	Cum %	Disease or injury	DALYs ($x10^6$)	Cum %
	All Causes	1388.8		All Causes	160.5	…	All Causes	1228.3	…
1	Ischaemic heart disease	82.3	5.9	Ischaemic heart disease	18.0	11.2	Unipolar major depression	68.8	5.6
2	Unipolar major depression	78.7	11.6	Cerebrovascular disease	9.9	17.4	Road-traffic accidents	64.4	10.8
3	Road-traffic accidents	71.2	16.7	Unipolar major depression	9.8	23.5	Ischaemic heart disease	64.3	16.1
4	Cerebrovascular disease	61.4	21.1	Trachea, bronchurs, and lung cancers	7.3	28.0	Chronic obstructive pulmonary disease	52.7	20.4
5	Chronic obstructive pulmonary disease	57.6	25.3	Road-traffic accidents	6.9	32.3	Cerebrovascular disease	51.5	24.6
6	Lower respiratory infections	42.7	28.4	Alcohol use	6.1	36.1	Tuberculosis	42.4	28.0
7	Tuberculosis	42.5	31.4	Osteoarthritis	5.6	39.5	Lower respiratory infections	41.1	31.4
8	War injuries	41.3	34.4	Dementia & other degenerative & hereditary CNS disorders	5.5	43.0	War injuries	40.2	34.6
9	Diarrhoeal diseases	37.1	37.1	Chronic obstructive pulmonary disease	4.9	46.0	Diarrhoeal diseases	37.0	37.6
10	HIV	36.3	39.7	Self-inflicted injuries	3.9	48.4	HIV	34.0	40.4

creased from 31.6% to 47.3%, suggesting a growing importance of NCDs in terms of their financial impact on households and a higher financial risk burden on affected individuals and households.

Just like any other disease conditions mental illness not only affect individual but it also have negative impact on family and caregivers. Because of loss of work productivity of affected individual there are chances of financial burden on family.

Direct cost of individual suffering from mental illness includes treatment, services, fees, medication, hospital stay cost etc. Indirect cost includes morbidity cost in terms of loss of productivity of individual, in few instances mortality also consequences of mental illness. Loss of or value of caregiver time also comes under indirect cost of mental illness.

There is link between poverty and mental disorders. As treatment of psychiatric illness required long term treatment and loss of work productivity during this period might lead to financial consequences. The suicides of farmers in India are example of consequences of mental illness and poverty link. The efficacious treatment of mental disorders results in clinical improvement, which ultimately helps to reallocate their income to meeting other needs of daily living.

The cost, which includes direct and indirect cost of mental illness to the individual as well as society, is huge so early identification and intervention of the mental disorder entity is important. Timely and effective response to people with mental illness would certainly help in disease management. In recent times Indian scenario toward mental health is changing approach of mental health bill is example of the change but road towards the achievement of definition of health in India is still far ahead. Mutual work of government, NGOs, psychiatric association, and treating psychiatrist can definitely play a major role in reducing the economic burden of individual having mental illness.

In Kolkata, and for most of the government hospitals in the country, there are some psychotropic medicines, which are distributed, free of cost to the patients. Though ~ 25 psychotropics are available free of cost in the pharmacy of the government hospitals, there is an ever – increasing need for more and more medicines to be supplied to the patients. It is seen that the doctors write at least one medicine in the prescription that needs to be bought from the market in about 20 – 30% of the cases. On the other hand, in case of a typical patient with Schizophrenia, who was relatively stable had to shell out ~ Rs. 1,000 - 1,200/- for medicines which was been given from the governmental hospital pharmacy free.

Schizophrenia is one of the most important of all mental illnesses. Schizophrenia is a chronic debilitating mental illness where one has unnatural experiences like delusions, hallucinations, and thought disorder; there is a long lasting/permanent change in the patient's ability to think, process the environment, social dealings, mood and personality. The patient become redundant and a misfit for the society and is usually unable to maintain relationships, jobs, friends and social life. There is a slide down the socio-economic ladder in the patient's case. The treatment comprises of medications, referred to as antipsychotics, counselling and rehabilitation programs. The antipsychotic medications comprises of mainly 2 groups, the older known as the typical antipsychotics (Chlorpromazine, Haloperidol, Fluphenazine) and the relatively newer and more costlier known as atypical antipsychotics (Olanzapine, Risperidone, Clozapine, Amisulpride). With medicines and other interventions also, there is no definite cure, and ~ one-third of the patients regain some functionality. There is a slow but steady decline of the mental abilities of the patients over time and they tend to become socially withdrawn. The relapses in to acute symptoms are frequent and they further deteriorate the overall gains achieved so far by the treatment. The major cause for relapse is dropping out of the treatment due to side – effects of medications, poor knowledge about the illness and most importantly, the cost of treatment per se. During the acute exacerbations of the disorder, the patients are treated in hospital setting and for the rest of the illness duration they avail community based OPD services in most of the countries. Some countries including India have provision of disbursing free medicines to the patients through the health-care system.

A recent study done by WHO (World Health Organisation) funding known as CHOICE (CHOosing Interventions that are Cost-Effective) also known as WHO-CHOICE tried to look in the cost effectiveness of Interventions in Schizophrenia (available online: http://www.who.int/choice). The study encompassed 2 SEAR (South East Asian regions) regions; SEAR B: Indonesia, Sri Lanka, Thailand and SEAR D: Bangladesh, Democratic Republic of Korea, India, Maldives, Myanmar, Nepal, Timor Leste. They found rather interesting results!

According to the study, the cost of treatment by drugs varies from WHO region to region and country to country. To quote from the recent study by Dan Chicholm et al, (2012) "in the regional analysis, the estimated treatment cost per capita for community-based provision of older antipsychotic drugs was $ 0.74 (WHO African subregion D), $ 2.10 (WHO South-East Asia sub region B) and $ 3.13 (WHO Region of the Americas subregion B), equivalent to $ 306, I$ 617 and $ 980 per treated case, respectively; country contextualisation results produced lower figures of $ 1.52 (Chile), $ 0.39 (Nigeria) and $ 0.57 (Sri Lanka). Interventions making use of newer (atypical) antipsychotic drugs (clozapine in Chile, risperidone in Nigeria and Sri Lanka), which in the regional analysis were estimated to be two to four times more costly than older drugs ($ 3–6 per capita), were found to be lower than regional values in Chile and Sri Lanka (less than $ 3 per capita), but very much higher than predicted in Nigeria (more than $ 10 per capita). These results reflect the important influence of national drug procurement mechanisms and resulting supply

Table 2: Summary of the interventions done and the costs incurred thereof by the above researchers

Interventions: Codes_and_ Descriptions	Coverage	Cost per year ($, millions) per one million_population [i.e. cost per capita]	% Program costs	% Patient costs	DALYs averted per year per one million_population	Average Cost per DALY averted	Incremental Cost per DALY averted
Older 'neuroleptic' anti-psychotic drug	80%	0.79	8%	92%	236	3,358	Dominated
Newer 'atypical' anti-psychotic drug	80%	3.41	2%	98%	253	13,476	Dominated
Older anti-psychotic + psychosocial treatment	80%	0.87	8%	92%	401	2,163	2,163
Newer anti-psychotic + psychosocial treatment	80%	3.50	2%	98%	412	8,505	Dominated

prices. For example, at the time of the study, 2 mg risperidone could be obtained for 4.5 rupees (US$ 0.06) in Sri Lanka, compared to 255 Naira (US $ 2.50) in Nigeria, a 40-fold difference! Concerning adjuvant psychosocial treatment, additional costs including training were generally very modest on account of the relatively low salary levels prevailing in these regions and countries."This study interestingly concluded, "The most cost-effective interventions were those using older antipsychotic drugs combined with psychosocial treatment, delivered via a community-based service model."The relative cost-effectiveness of interventions making use of newer, "atypical" antipsychotic drugs according to this study is much less favourable.

Such study as the above one is very rare in India. In India, there are a few studies, which have looked into the antipsychotic/treatment costs. I will try to collate some of the findings below. One of the earliest studies done from NIMHANS, Bangalore in 1991 on costs found that antipsychotics medicines were affordable and the costs were comparable to other physical illnesses, but the other costs associated with treatment make Schizophrenia more expensive. Sarma et al found out that cost of the medicines prescribed from the OPD is only about 10% of the total cost incurred in the illness. There has been a few studies from my alma-mater, PGI, Chandigarh done around 2002 – 03, found out that the annual cost of care of Schizophrenia patients was ~ Rs. 13,500/- which was similar to that of Diabetes Mellitus and the money spent on the drugs was ~ 18% of the total costs incurred. Another study done by a NGO from Chennai, by Thara and colleagues showed that the costs came down by ~ 25% when an atypical antipsychotic and probably the last line medicine, Clozapine was started in patients with Schizophrenia. This is in contrast to the recent multi-centric WHO study

that I mentioned above. The last study that I would mention in this area was done at New Delhi, by Dr. Smita Deshpande and her colleagues where she found that cost of medication to the patients of Schizophrenia was ~ Rs. 288/- less than to another mental disorder, i.e. Bipolar disorder when the medications were being free of cost provided to the patients from the OPD pharmacy.

Conclusion

Psychiatric illnesses are in themselves devastating in every respect and tend to be chronic and even lifelong. They hamper productivity and may make the patient socio-economically redundant and the family and society burdened. India being a developing country, where infections are the prime killers, has little focus on mental health in general as far as resource allocation is concerned. Data keeping about health expenditure costs, cost-effectiveness, cost-benefit by medical professionals/organizations are rare and non-comprehensive in India and more so in case of the mental health care. It is hence, quite clear that there is much to do with regard to cost analysis in the field of mental health specially in a country like ours where the disease burden of the mental health disorder is huge and the resources limited and resource allocation uneven. NGOs and government organisations hence have a huge stake in analysing and proposing the required modifications and the interventions so that the health sector is guided by valuable suggestions and health care delivery is made streamlined and cost-effective. The health policy also needs to be data and analysis driven rather than impressionistic in which institutes like Institute of Cost Accountants of India have a huge role to play.

PSYCHIATRIC ILLNESSES ARE IN THEMSELVES DEVASTATING IN EVERY RESPECT AND TEND TO BE CHRONIC AND EVEN LIFELONG. THEY HAMPER PRODUCTIVITY AND MAY MAKE THE PATIENT SOCIO-ECONOMICALLY REDUNDANT AND THE FAMILY AND SOCIETY BURDENED

References

1. *Economic evaluation of a task-shifting intervention for common mental disorders in India. Available from URL: http://www.who.int/bulletin/volumes/90/11/12-104133/en/index.html Accessed on 28 August 2013.*
2. *What is the impact of noncommunicable diseases on National Health Expenditures: A synthesis of available data. Discussion paper no 3. Geneva. WHO*
3. *NATIONAL MENTAL HEALTH PROGRAMME. Avilablr from URL: http://www.nihfw.org/NDC/DocumentationServices/NationalHealthProgramme/NATIONALMENTALHEALTHPROGRAMME.html Accessed on 28 August 2013.*
4. *Teh-wei Hu. An International Review of the Economic Costs of Mental Illness. 2004*
5. *Effectiveness of an intervention led by lay health counsellors for depressive and anxiety disorders in primary care in Goa, India (MANAS): a cluster randomised controlled trial. Published Online December 14, 2010*
6. *Chisholm D, Gureje O, Saldivia S et al. Schizophrenia treatment in the developing world: an interregional and multinational cost-effectiveness analysis. Bull World Health Organ. 2008 July; 86(7): 542–551.*
7. *Girish K, Pratima M, Issac MK. Drug treatment in schizophrenia: Issues of comparability and costs. Indian J Psychiatry. 1991;41:100–3.*
8. *Sarma PG. General hospital psychiatry: Cost of one visit. Indian J Psychiatry. 2000;42:258–61.*
9. *Grover S, Avasthi A, Chakrabarti S, Bhansali A, Kulhara P. Cost of care of schizophrenia: A study of Indian out-patient attenders. Acta Psychiatr Scand. 2005;112:54–63.*
10. *Thara R. Cost of illness of schizophrenia-perspective from an NGO. Indian J Psychiatry. 2005;47:205–17.*
11. *Desphande SN. Perspective from a general hospital psychiatric unit. Indian J Psychiatry. 2005;47:210–2.* MA

rajarshi_neogi@yahoo.com

CHALLENGES OF INDIAN PHARMA INDUSTRY: CLEAN SHEET COSTING – A WEAPON IMPERATIVE

Clean sheet costing is considered as one of the weapons to face the challenges of price reduction and decreasing profit margins

CMA Dr. Mahabaleswara Bhatta HS
Director, Global Institute of Management Sciences, Bangalore

Introduction: Indian pharma industry has been showing a great consistency in the performance over these years, in spite of many vagaries. Though R&D is a very vital segment in the industry, albeit its insignificant presence, India is one of the biggest exporters of pharma products. Thanks to Indian Patent Act and the reverse engineering technique. Industry could produce essential drugs at lower costs and meet the needs of the masses. However, efficacy and the quality of the drugs are a major concern which necessitated the issue of warnings by US FDA, for, India has the largest number of USFDA approved manufacturing sites outside US.

Tracing back: In the early 1950s foreign companies were dominating, in the absence of organised Indian market.1970s witnessed the era of government control to support the industry.1980s was a development stage with infrastructure initiatives.1990s saw the growth phase with the expansion of domestic market and development of international market. Later part of the first decade of 21st century observed the slowdown and the need for R&D to survive and grow.2010s is the phase of rejuvenation with modern techniques.

Current Scenario: Indian pharma is currently valued at 1,00,000 cr business. Domestic market size stands at Rs58,000 cr and export at Rs42,000 cr. growing at the rate of 10%. Import is Rs 12,000cr. Export of bio tech products and biopharma is US$1.36bn.India has 800 WHO-GMP certified and 172 US FDA approvals along with 153EDQM certified facilities. India is ranked 3rd in terms of volume and 12th in terms of value with a growth rate of 15%. Drugs from India are exported to more than 200 countries. Vaccines are exported to more than 151 countries. India has about 30,000 entities and organised sector consists of 300 entities manufacturing pharmaceutical products.

Prospects: Pharma is growing at about 1.5-1.6 times the GDP. According to a study by FICCI-Ernst and Young, India will open an estimated US$8bn market for MNCs selling expensive drugs and the domestic market is likely to reach US$20bn by 2015. The ministry of commerce estimates that US$6.31 bn will be invested in domestic market and public spending on health care will be 13% of GDP by 2015. It is going to be US$35bn opportunity by2015.

Snapshot of challenges

Tomorrow's challenge of the Indian pharma industry (IPI) is to develop new medicines at very competitive prices that can prevent or cure currently incurable diseases. Today's challenge is to get to tomorrow.

Pharma industry is facing a dynamic future faced by several strategic pressures and challenges.

1. Constant pressure of new drugs and changes in the pattern of diseases and eruption of

old ones.

2. Increasing competition, not only domestic but also foreign players.
3. Need for constant up gradation of skills as IPI is highly knowledge based industry.
4. Ever changing Technology necessitates the renovation of manufacturing and R&D infrastructure.
5. Need of innovation to address completion.
6. Increase in global market share to play a responsible role, as India's current share is only 1.5%.
7. Increase in regulation by Medical Council and Government.
8. Pricing policy- DPCO's control on bulk drugs, formulations and overall profitability. 354 drugs to come under price control with a drastic price reduction in the range of 16-20%.
9. Shrinking pipeline of new products.
10. Heavy fluctuations in the forex rates.
11. Very insignificant R&D. There is a need to invest in view of generic worth US$40bn going off patent in another few years.

Clean sheet costing: A weapon imperative

In view of the severe challenges faced by IPI, it is felt imperative that there is a need to relook at the cost fundamentals. Clean sheet costing is considered as one of the weapons to face the challenges of price reduction and decreasing profit margin. Increasing input costs coupled with rising global competition has shrunk profit verticals to a great extent. Both price reduction and the rise in cost are approaching the breakeven line at a faster rate. Since the companies have little control over the prices, the only way left out is a better top and bottom line to achieve the reduction and control of costs.

An established company must have already inbuilt systems which contribute to the cost not only due to frequent price increase but also due to incremental. These automatic existences of costs might not have drawn the attention of authorities due to overlooking of the events or lack of warning bells. The main cause is the invisibility of occurrence of certain costs and cost drivers.

In order to optimize the cost on a continuous basis, there is a need to initiate a cost reduction program. One of the most important prerequisites of such a program is to develop a consistent and end to end visibility of all input costs. Visibility of costs can be obtained through a technique called Clean Sheet Costing (CSC). It is the Process of building up and understanding the basic elements which compose the cost of a product or service. It is a review of organization's effectiveness and costing. It is, in essence, a process of collective forgetting or wiping the slate clean and starting with a blank piece of paper. In gist, it is starting again from scratch.

In the context of a pressure on price, the program looks at the cost composition in 'as is' condition and reinvents the ways to meet the requirements of the business, free of constraints. Ideally, it ignores the constraints of policy & law as though there is no 'as is' and tries to create ways and means from scratch to meet the new requirements. It is starting afresh to face the challenges of change.

Though it originated in the II world war when Hitler called clean sheet redesign, formally, it began in 1981, passed through kaizen quality movement, brown paper activities and six sigma methodologies. The basic trigger is the creativity out of glue.

Five Step Approach: Clean Sheet Costing weapon is launched through following five steps(DIAGRAM-1):

1. Data collection drive.
2. Attack six pillars of cost composition.
3. Identify cost drivers and units.
4. Bench mark and improve the value.
5. Management initiative.

1. Data Drive: Data should be driven as if there is a fresh collection with the detailed analysis of each and every element. The purpose is to create the visibility of each source of cost composition. The data are collected from the following sources:

a. Enter pries resource planning (ERP) if adapted, otherwise related source documents

b. Spend analysis-Expenses details in respect of each item purchased or service received

c. Invoices received from each payments

2. Six Pillars: The fundamental composition of costs, referred to as the six pillars in cost construction has to be dissected as Material Cost, Labour Cost, Conversion Cost, Overheads, Logistics and Profits. The relevant costs with reference to the above have to be identified.

a. Material cost: - Bills of Materials, production specification documents etc., Provide necessary information regarding the quantity and rates of materials procured and consumed in the production. The MRP/ERP systems also provide the required inputs. Research of open market sources internal consultants data base, interviews with experts, professional associations will help to estimate the cost.. However, another method is to do reverse engineering, so that, if we could deduct all other costs from cost of goods sold, we are able to arrive at material cost. Analysis of market situation and price trends for products are also the other ways to obtain the relevant data.

b. Labor Cost: To estimate the cost of labor, the information about the number of labor used in the manufacturing process, the hours worked on the process and the average wage rate are needed. To determine the above factors it is important to identify the following labor specific characteristics: Technology employed by the manufacturing process, level of process, Automation, Skill requirement and eligibility for the personnel to produce a product such as education, expertise, training, etc. To obtain accurate estimates of the total, annual labor costs can be multiplied with adjustments factors such as vacation and supervision. All information required to accurately compute the cost of labor can be obtained from following sources: Independent primary research, Professional associations, Experts, Secondary research and Supplier visits.

c. Conversion Costs: These costs include all the activities associated with physical process of conversion of raw materials into finished goods. The costs include manufacturing process and cycle time costs, utilities, depreciation, maintenance and all other ancillary activities related to manufacturing the product. It is important to identify the appropriate drivers and units that form the key components of the conversion process. To effectively analyze conversion costs it is important to develop detailed process maps of all activities involved in manufacturing a product. To form a opinion the experts could be consulted along with the supplier.

d. Overheads: These include all non-operating expenses such as Manufacturing overheads Selling expenses, Executive compensations, Design and Development expenses Administrative expenses, Rent, leases, etc. Generally, estimation is done taking expected expenditure as a percentage of revenues. If the supplier's financial statements are available, it is reasonable to assume that overhead expenditure on the products sold is in the same proportion as that of the overall corporate entity. However, Activity based costing can be used to find the most appropriate overhead allocation.

e. Logistics: Costs of Logistics include Custom clearance, Transportation, Warehousing Distribution etc., Each one of these cost elements is influenced by specific factors. For example, Custom clearance expenses depend on the rules and regulations of the importing country. Transportation and distribution expenses depend on the distance travelled, mode of transportation such as inland water transportation, ocean water transportation, air, train or road. Warehousing cost is dependent on volume of goods stored, type of goods stored and the length of time for which the goods were stored. Further, all of the above are also affected by the nature of goods procured and the frequency of procurement.

f. Supplier Margins: Profit margin of the supplier is the cost. The supplier also should earn reasonable profit based on the market conditions and industry structure. It depends on the negotiations. Pharma companies have not traditionally made purchasing a priority. But new pressure on profits, and structural changes in the industry, are driving many to reassess its importance. It is necessary to develop an "art of buying" to leverage on the innovation. Further, certain adjustments can be made by taking existing relationship into account, willingness to do business and product service differentiation.

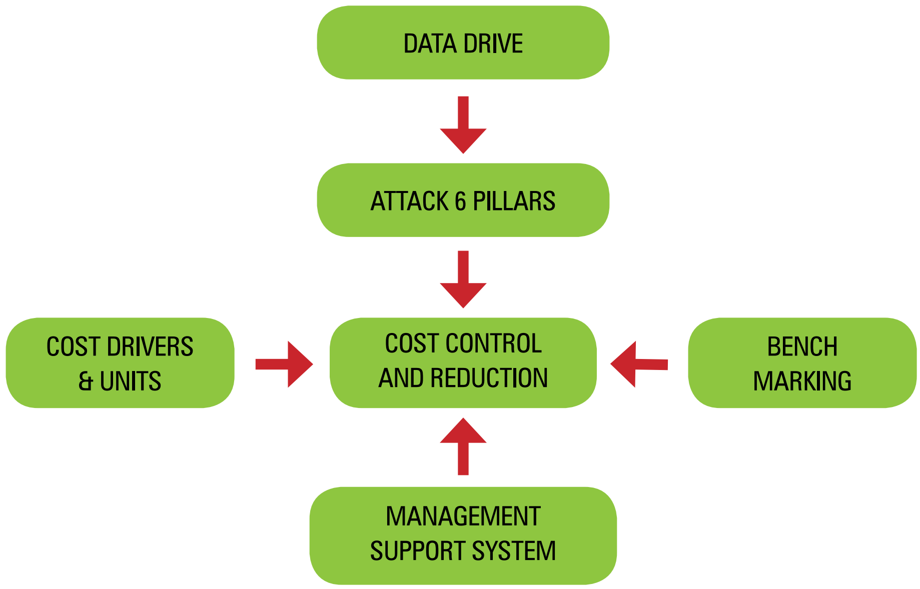
3. Cost Drivers: In a pharmaco, the cost drivers at the unit and batch level have to be identified on the basis of cause and effect relationship. Activity Based Costing approach would help to allocate the expenses based on what drives the cost to incur and hence the unnecessary activities which donot add any value could be eliminated. Therefore, it is necessary for a buyer to get these details and understand the ways to reduce the costs.

4. Bench marking and improving the value: In order to improve the quality of the bought out products, bench marking set to the industry standard would go a long way in reducing the costs of redoing. While lean manufacturing reduces the process time and cost, the adherence to 6Σ and Kaizan help to improve the value of the inputs.

5. Management Support System: Management support is the fulcrum to the clean sheet costing initiative. It drives the approach to question the supplier's prices. It helps to develop the rapport with the supplier and to pass on the benefit to the end customer in the chain and in the process to leverage the profit margins. The management should develop a culture of exploiting every opportunity to reduce their total cost of supply using a well-established category management process, where purchasing is recognized as a value-driver by all business functions. It is found that such a step would almost reduce the cost by 10% in a pharmaco in which about 55% of the total cost is constitutes material cost.

DIAGRAM 1

Clean Sheet Costing Model
Five-throng approach



Comparison: Table1 shows the difference between the vendor price and the clean sheet price for a typical pharmaceutical product:

TABLE1

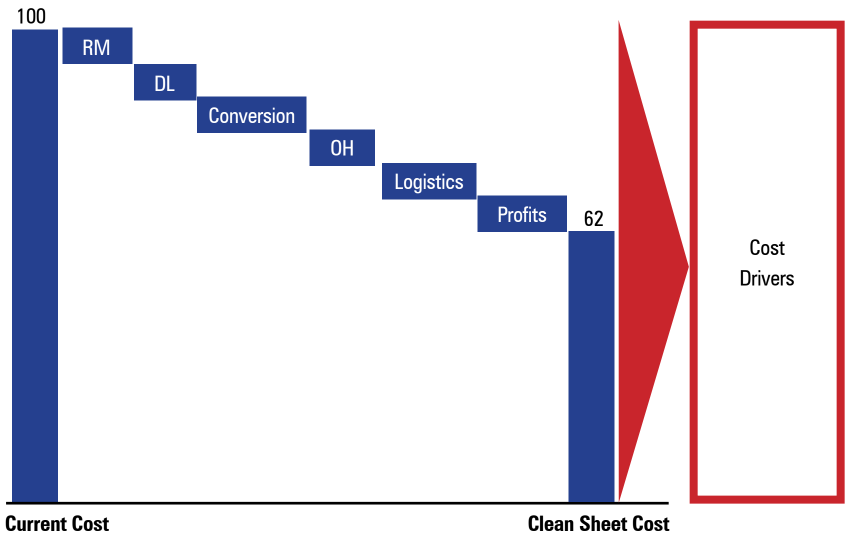
Clean sheet cost comparison of a pharmaceutical product

Cost category	Vendor		Best of Best	Clean sheet		Difference vendor vs Clean sheet	Cost Drivers
	Price	Share		Cost	%		
RM	5276	55%	4733	2615	44%	2118	Based on Scrap rate
DL	1055	11%	947	297	5%	650	LCC Labour cost
Maintenance	575	6%	516	119	2%	397	Best practice
Consumables	480	5%	430	832	14%	-402	Consumables
Machine Burden	384	4%	344	713	12%	-389	15 year useful life
Admn	288	3%	258	535	9%	-277	Standard % age
Rejection	192	2%	172	9	0%	163	Best Practice 0.5%
Margin	1343	14%	1205	832	14%		16% of Costs
Price	9593		8605	5952		2653	

It can be observed that a thorough analysis through clean sheet costing approach would reduce the supplier's price by 31%. In another typical example of a pharma product shown in **Diagram 3** it can be observed that there is a difference of about 38% between traditional cost and the clean sheet cost.

DIAGRAM 2

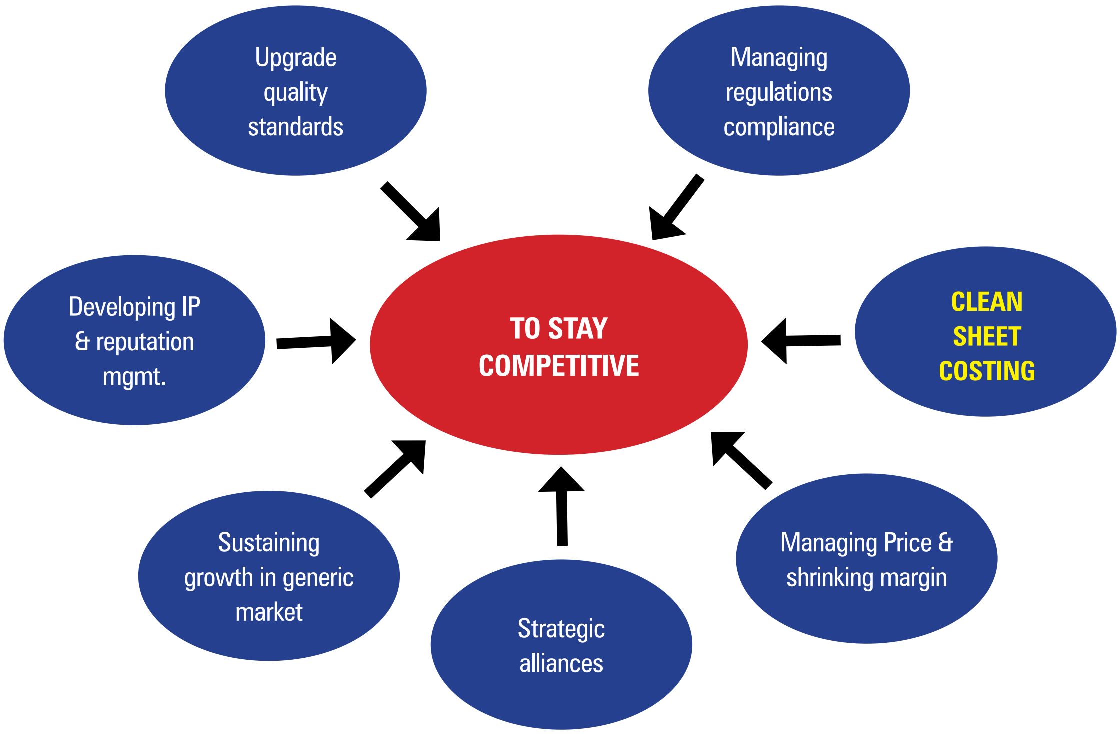
Gap between current cost and clean sheet cost
Product Transformation cost



It can be observed that a thorough analysis through clean sheet costing approach would reduce the supplier's price by 31%. In another typical example of a pharma product shown in DIAGRAM-2, it can be observed that there is a difference of about 38% between traditional cost and the clean sheet cost.

DIAGRAM 3

Pharma to stay competitive



Source: PricewaterhouseCoopers, www.price.com

Conclusion: Procurement spending represents up to 50% of total costs of a typical pharma company. The vast majority of this amount goes to indirect spend categories. Although they manage direct spend better, their track record for controlling indirect spending is not that impressive. Clean Sheet Costing provides an increased visibility of various elements in a cost composition which helps not only to control but also to reduce the costs. It generates an extra power to bargain with the suppliers. In this age of integrated supply chain and co located vendors, suppliers and customers are extremely inter-dependent. Clean sheet exercise develops a win-win situation for all the concerned in the chain.

References:

1. *Price water house coopers, www.price.com.;retrieved on 2-8-2013*
2. *www.gep.com 2011; retrieved on 3-8-2013*
3. *Value-creating purchasing; Lorenzo Formiconi,et.al.,2013 retrieved on 5-8-2013*
4. *Clean Sheeting presentation by Aileen Carrol; retrieved on 6-8-2013.*
5. *Not Everything is healthy in the Health sector-Imperatives for CMAs,Nitin Parekh Presentation at National Cost Conference -2013;19-1-2013.*
6. *Larry Davidson and Gennadiy Greblov (2005), The Pharmaceutical industry in the Global Economy,Indiana University Kelley School ofBusiness Bloomington, Indiana*
7. *http://www.bnet.com* MA

maabi_bhat@yahoo.co.in

COST EFFECTIVENESS ANALYSIS (CEA) OF HEALTH CARE INTERVENTION: THE EMERGING ROLE OF CMAs

Since CMAs have sound conceptual clarity and practical exposure, Cost and Management Accountants are very well placed to conduct the CEA of any health care intervention

Rajesh Kumar Sinha
Doctoral Scholar-Finance & Accounts, IIM Indore

IN developing countries, the resources are finite and there is always an opportunity cost of the resources employed for a particular intervention. Hence prioritisation and rationing of limited resources is desirable and inevitable. Economic evaluation of any intervention is a systematic and transparent framework which helps the policy makers to take decision for efficient allocation of resources in different efficient interventions.

"Economic evaluation is the comparative analysis of alternative courses of action in terms of both their costs and their consuquences" (Drummond et al. 1997). In the health sector economic evaluation of health care intervention has become imperative both from the economic efficiency and equity perspective. Economic evaluation of health care interventions helps to achieve both technical efficiency by maximising the benefits of the given objective within the given budget and allocative efficiency by allocating the resources effectively among different objectives to produce greatest gain to society. As resources in the health sector is very limited, channelizing the resources in the cost effective intervention will also help equitable distribution of resources, if the cost effective analysis is done with equity weighting, where more weight is given to such interventions which target resource-poor communities.

The economic evaluation of any health care intervention has now become very common in the high income countries. For example, United Kingdom (UK) has established National Institute of Clinical Excellence (NICE) in 1999 to appraise all the existing and new health care technologies to decide which clinical services should be provided by the National Health System (NHS) of UK. In Australia, since 1993, if a pharmaceutical company applies for public subsidies of their products, then it has been made mandatory to submit cost effective data. Many countries like Bangladesh, Mexico etc. are now using cost effective data to define packages of essential care. The increase in the importance of economic evaluation in health sector is due to constrained availability of resources in the health sector, increasing demands of health care services, equity concerns over cost escalation of health services, advances in preventive, diagnostic and curative health services and development of standardised technique of economic evaluation.

Rationale for economic evaluations of health care interventions

The health sector in any country, particularly the resource poor countries, often deal with the situation of resources scarcity as universal reality. Given the situation and the reality of resource constraint, it is imperative for the policy makers and health care professionals of these countries to have information of not only on whether the health care interventions being provided to the people of the country are effective in terms of enhancing the quality of life, reducing morbidity and mortality, but also on their relative costs compared to different alternatives, so that resources can be best utilised in the most cost effective interventions. Though in many cases, health care professionals feel uncomfortable about the issues of cost in the health care interventions and put up various arguments on the ethics of doing so. However, with the universal reality of resource scarcity in the health care sector of the nation, decision makers need to allocate resources within the health sector judiciously so that interventions give good value for money.

An economic evaluation can be defined as the systematic comparison of costs and consequences of two or more alternative courses of action (Drummond et al. 1997). Consequences mean the outcomes or the impact of a given intervention. Economic evaluation of health care interventions is a branch of economics which is concerned with issues related to scarcity in the allocation of health and health care. It assesses the use of available health care resources efficiently in terms of costs and outcomes. This is an exercise under which we evaluate different alternatives available for achieving some desired results and try to find out the best alternatives either in terms of low cost or in terms of better results. Economic data generated for different interventions can also be valuable for predicting resource requirements (or costs) of replicating the interventions in another settings with the increased coverage.

Various definitions and approaches of economic evaluations of health care interventions

There are various forms of economic evaluation, which are most commonly used in the health sector:

- Cost Minimisation analysis
- Cost-Effectiveness analysis
- Cost Benefit analysis

Cost Minimisation Analysis: Under this, two or more options are analysed, where the outcomes are not significantly different or in other words same degree of outcome could be achieved with the different options. However, it is possible that the costs of different options are different and hence the objective is to search for the least expensive option or alternative.

Cost Effectiveness Analysis (CEA): Here we consider two or more options where both the costs and consequences (outcomes) are different. However, to compare the two or more options the consequences are measured in common terms like life years saved or disability adjusted life year (DALY) averted or quality adjusted life year (QALY) gained for any health care interventions. Hence, for all the health care interventions, the calculations of cost effectiveness of each intervention are calculated in terms of cost per life year saved or DALY averted or QALY gained. Because the cost effectiveness of different interventions are not measured in terms of disease specific outcomes, it offers a broader and a more generic measure of outcome which enables the health economists to compare different interventions for different types of diseases e.g. relative cost-effectiveness of Vitamin A supplementation versus prevention of Malaria etc. This enable the policy makers to first allocate the limited resources in the most cost effective intervention followed by second most cost effective intervention and so on till the resources are completely exhausted.

However, despite its wide advantage and usage, CEA has the disadvantage that it cannot capture the non-health indicators like increase in knowledge or awareness among the people or improvement in other socio-economic conditions or enhancement of social capital due to any health care interventions where outputs are generally measured in other units.

Cost Benefit Analysis (CBA): Here unlike CEA, the outcomes or consequences are also measured in terms of money. In CBA both the cost and consequences are measured in monetary terms. Hence, the outcomes such as life year saved or DALY or QALY gained etc. are converted into monetary terms while doing cost benefit analysis. Hence, CBA can overcome the problem of not capturing the non-health outcome measures under CEA, by measuring all the health and non-health consequences alongside costs in monetary terms. CBA offers a broader comparison of different health care interventions and also offers comparison between interventions in other sectors like agriculture, livelihood etc. The outcomes are measured in monetary terms using willingness-to-pay (WTP) survey where individuals who are affected from the interventions are asked about how much they are willing to pay or value a given intervention or its associated outcomes.

The analysis of CBA is much simpler compared to CEA, however, its applicability in the health sector is questionable due to ethical issues of linking health outcomes to money. Also there are equity concern while monetising health outcomes to money. For example, while calculating the benefit of health gain in terms of money, benefits are valued less in the case of old age people compared to young people due to their lower ability to generate income. Also, the health benefits are valued less in the case of resource poor people compared to affluent class. The implication based on the analysis is that the resources are distributed inequitably and more resources are allocated for the interventions targeted to young or affluent classes from pure economic perspective.

In the health sector, cost effectiveness analysis (CEA) is generally considered as most relevant and internationally acceptable approach for doing economic evaluation of a health intervention. Cost effectiveness analysis evaluates the relationship between net investment and health improvement in health care interventions or treatments competing for similar resources (Haddix et al.). It is one form of full economic evaluation where costs and consequences of health interventions or treatments are examined (Drummond et al. 1997).

Principles of conducting cost effectiveness analysis (CEA) of a health care intervention

The health economic researchers need to consider following guiding principles for conducting CEA of any health care interventions. These are:

- Different alternatives of health care interventions are available and any health care programme should be designed taking the most cost effective alternatives.
- Economics talks about utility or benefit as well as cost. Hence, it doesn't only talks about cost minimisation given the outcomes but also talks about maximising the benefits given the resources.
- The costs of health care programmes and treatments include both the direct costs of programme or treatment like hospital stay, medicine etc. and the indirect costs like transportation cost, additional cost of food etc. It also includes opportunity costs, loss of wages, loss of productivity etc. All such costs should be taken into account for cost calculations while doing CEA.
- Many simple rules of market operations do not apply in the case of health care and there are different kinds of market failures associated with it primarily due to the problem of information asymmetry in the health sector. Supplier induced demand where decisions related to any health intervention is taken by the supplier/provider on behalf of patients due to their knowledge and in some of the cases, it is found that the suppliers/providers prescribe unnecessary and costly medicines or treatment which not only increases patients' out-of-pocket expenditure but also exposes them to unnecessary hazardous conditions. Other problems are adverse selection and moral hazard which are largely associated with health insurance market. Adverse selection is a situation where more high-at-risk people participate in the health insurance policy making it unviable in the long run. Moral hazard is a problem where individuals after participating in the health insurance plan do not take preventive care and also demand more sophisticated services even for minor ailments. Other market failures are externality where the benefit from a person receiving health care may not confine to that person but even help others. E.g. in the case of immunisation of any communicable diseases, whereby more people immunised the more protection is assured to others.
- As resources are limited, cost consideration is not necessarily unethical as clinicians' responsibility is not only to treat the patients but the treatment should also be cost effective. If the limited resources are not used cost effectively then there will be a 'deadweight loss' where unnecessary extra resources will be consumed by the health sector, compromising on the resources for the other sectors like education. Hence health service providers should balance between quality health service and costs.
- In health care, choices should not be made on all-or-nothing basis by considering the extra activity as a part of the whole activity by doing average costing. The relevant data for making such decision should be the marginal costs and benefits which strictly relate to cost and benefit of one more unit of production which is also termed as incremental costs and benefits of the change in the scale of the activity.
- Equity in health care may be desirable because inequitable distribution of health care resources usually comes at a price in terms of the benefits foregone by the certain disadvantaged sections. Resources should be distributed not only to achieve allocative and technical efficiency to maximise the outcomes or benefits but should also take into account the distributional concern of the resources which will be achieved by equitable distribution of resources in the society.

Steps for conducting cost effectiveness analysis (CEA) of a health care intervention

Research question of any CEA of health intervention should be properly defined in answerable form

The research question should clearly identify various health care alternatives being compared and the viewpoints from which the comparison is to be made. Specifying the alternatives for comparison is very important from the efficiency perspective. Viewpoints for the comparison between alternatives are generally taken from the provider's perspective (where all the costs incurred by the providers of programme and treatment would be taken for analysis) or patient's perspective (where all the costs incurred by the patients under the programme and treatment would be taken for the analysis) or societal perspective (where all the costs incurred by the providers and the patients and even the opportunity costs of resources used are taken into consideration for doing the CEA). The viewpoint or perspective of the study will actually determine the scope of the CEA.

Time frame and analytic horizon

The scope of an CEA also depends upon the time frame for estimation of the costs and consequences. Generally in the case of experimental study of any health care intervention, time frame and analytic horizon is often same as the period of intervention. Alternatively, a one year period may be considered taking into account the yearly costs and consequences. However, if a health intervention has a long term perspective in terms of its costs and benefits e.g. a preventive health care programme, immunisation programme etc. or if any health intervention has long term impact, then the costs and benefits for the longer period need to be taken. Analytical horizon of such interventions, over which the costs and the consequences of the intervention accrue, would be long to capture both the costs and consequences of the intervention.

All the competing alternatives should be comprehensively described

The full description of all the alternatives of any health care intervention is essential to enable the reader to judge the applicability or contextualise the programmes to their own settings. This will also enable them to assess whether any costs and consequences of any of the alternative may have been omitted in the analysis. Readers may wish to replicate the programme in their own settings and hence the complete information of all the competing alternatives may allow them to identify both costs and consequences.

Finding out the evidence that the programmes' effectiveness had been established

Since the resources in the health sector are very limited particularly in the resource poor countries, it is worth investing in such health care interventions where they have shown some prior indications of their effectiveness. Extensive literature review needs to be done around the research hypothesis or question to find out the evidences of the effectiveness of the programmes established in the same or different settings.

Relevant costs for each alternative should be identified

Though it is not possible and even necessary to measure and value all the costs of the alternatives being compared, it is important to identify all the relevant ones. However there is an issue in defining the scope of the study by deciding whether to go for calculating incremental cost or full cost. An incremental cost approach considers only the difference in cost and outcomes between two or more alternatives, completely ignoring the common costs of the alternatives. A full costing would require including all the costs of the alternatives of any health care intervention. Although choosing any of these methods of costing would not impact on the cost-effectiveness ratio, however, using the full costing method will enable the readers or the policy makers to predict the costs of replicating the programme and hence make this method more generalized compared to incremental costing.

While calculating the costs of different health care alternatives, it is important to divide the costs into two categories. The first category may contain the costs of organising and operating the programme – both variable costs (such as those of health care professionals' time or supplies etc.) and fixed or overhead costs (such as capital costs, rent, electricity etc.). In economic terms these costs are referred to as 'Direct Costs'. Capital costs may include land and building, vehicles, laboratories, equipment etc. which can be taken by dividing the costs by their respective useful life. Any residual value of these capital items must be deducted from the respective capital cost while calculating their annualised costs for the analysis. There may be two kinds of direct costs for any treatment or programme. One would be those which are easily identifiable to different cost centres which can be directly allocated to the respective cost centres of the programme or treatment. Another would be joint costs or shared costs which are not easily identifiable and the allocation of such costs would require proper cost allocation basis to allocate these to different cost centres. Generally under CEA, two methods of allocation to allocate shared/joint costs are used - direct allocation and step-down allocation. Direct allocation of shared/joint costs ignores interaction of overhead departments and each overhead costs is directly allocated to the final cost centres on the basis of an allocation ratio. Step-down allocation allows partial adjustments for interaction of overhead departments. The overhead costs of different overhead departments are allocated in a stepwise fashion to all the other overhead departments and then to the final cost centres.

The second category may include all costs that are borne by the patients or beneficiaries or recipients of the programme and their families. These include out of pocket expenses as well as opportunity costs of losing mandays of earning while seeking treatment or participating in the health programme. These costs are referred to as 'Indirect Costs'.

There would be cases where some goods or services are subsidised or donated where it would be very difficult to identify the cost of such services or goods. In those cases, shadow prices (or opportunity costs) should be estimated for such subsidised or donated goods or services if their market prices are not easily available.

The role of the health economists is to make the distinction between financial and economic costs. Financial costs include only those costs for which there was a direct financial transaction and the costs can be easily retrieved from the financial data or accounts. However, economic costs must also be considered and presented using shadow prices because even though the health care programme has not incurred anything in monetary terms, it has a real cost which has been borne by society and hence needs to be reflected while conducting CEA, e.g. donated goods or services, volunteers time, opportunity costs of days of employment lost, etc.

Relevant consequences for each alternative should be identified

After measuring and valuing all the

costs of different alternatives of a health care intervention, it is important to measure and value the outcomes or consequences. It is very important for the researchers involved in the CEA to identify and measure the outcomes at different levels which will help them to identify series of different outcome measures. However, all these outcome measures would also be required to unify for the final or generic measures of outcome.

The process level outputs are generally retrieved from the programme or treatment records while intermediate and secondary outcomes like changes in health seeking behaviour etc. are monitored by conducting different epidemiological or observational studies using the surveillance system of the programme or treatment.

Final health outcomes are also measured using different studies, e.g. experimental studies like randomised control trial, or observational studies like cohort study, case-control study etc. These are basically the primary outcomes of any health care intervention or treatment and hence need to be measured properly which will enable the researcher to compare cost effectiveness of different alternatives of the health care intervention.

However, we know that the outcome measures would be different for different alternatives or intervention, it is important for the researchers to measure and value all the outcomes in generic terms which will enable them to compare between different alternatives or health interventions. In health sector the generic outcome measure generally being used are either disability adjusted life year (DALY) or the quality adjusted life year (QALY) which combines impact on both the morbidity and mortality together. Hence the outcome measures are either DALY averted or QALY gained adjusting for reduction in both mortality and morbidity due to the health care intervention.

Disability Adjusted Life Years (DALYs)
DALYs is generally being used in developing countries due to its relative ease of estimation. Unlike QALY, the calculation of DALYs does not involve primary data collection and the calculation can easily be done using formula (Fox-Rushby et al. 2002). The calculation of DALYs is based on the sum of life years lost and life years lived with disability. The calculation of DALYs relies upon two main assumptions: discounting and assigning weights where productive years of young people are weighed more than a child or old age people. Though there is an equity concern over using different age weights for different age-based categories of people however, it helps to compare across different alternatives of health care interventions.

Adjustments of costs and consequences for differential timing

In doing the CEA of any health care intervention, discounting of costs and consequences becomes a necessary step. Discounting is necessary because the comparison of programmes or alternatives needs to be made at the current point of time and hence all the future costs and consequences or benefits need to be discounted for calculating their present value. Discounting is done primarily due to the existence of 'time preference' as individuals and societies prefer to have resources now instead of later. It also reflects the opportunity cost of foregoing the future interest/income or outcome of the current investments in the health care intervention. Normally in CEA, economists usually use national interest rate as a discount factor for discounting both the future costs and consequences.

The discounting of costs is very well justified due to time preference of the individuals and society as explained above. Discounting the health outcomes while doing CEA is a debatable issue, however, it is now generally agreed by researchers that since we are discounting cost for calculating the present value of costs, it is also logical to discount the outcomes to calculate the present value.

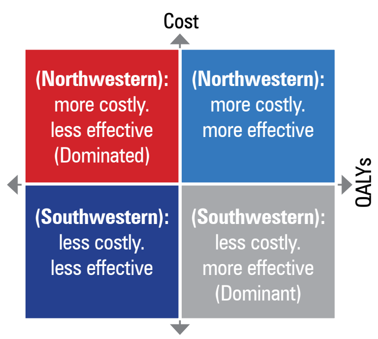
Performing incremental analysis of costs and consequences of the alternatives

Once the cost and outcome data are properly measured and valued for all the alternatives of a health care programme or for different health care programmes, it is necessary to calculate the incremental cost effectiveness ratio of the two alternatives or interventions in the case of doing CEA and net present value in the case of doing CBA. Normally in health sector, CEA is performed and hence for meaningful comparison, examining the additional costs imposed by the use of one alternative or programme over another, and comparing it with the additional consequences or benefits or utilities expressed in DALY or QALY becomes important. The average costs-effectiveness ratio looks at total costs and total results, which is misleading as accommodating one extra unit will not require the same cost and it may be more or less. The incremental ratio compares additional costs and additional results for accommodating one extra unit using the marginal costing technique.

The incremental cost-effectiveness ratio (ICER) is calculated as ratio of difference in cost of two alternatives or two different interventions to the difference in consequences.

The ICER plane has four different quadrants- North-East (NE), North-West (NW), South-West (SW) and South-East (SE). Each quadrant has a different implication for decision making. If the ICER falls in the NW quadrant with positive cost and negative outcome then intervention-1 is more costly than intervention-2 which means intervention-2 dominates intervention-1. If ICER falls in

SE quadrant then intervention-1 is less costly than intervention-2 which means intervention-1 dominates intervention-2. If the ICER falls in the NE quadrant, with positive costs and effects, or the SW quadrant, with negative costs and negative effects represent the situation where intervention-1 may be cost-effective compared to intervention, depending upon the specified monetary threshold- the maximum amount which the decision maker are willing to pay for the health outcomes.



(Source: https://research.tufts-nemc.org/cear4/Portals/0/quadrants.png)

After calculation of the ICER, it is necessary to compare the ICER with the thresholds provided to see whether the health care intervention is cost effective or not. The World Bank, in the World Development Report, 1993, suggested that if the ICER of the interventions are below \$50 per DALY averted then the intervention will be considered extremely cost-effective and those below \$150 per DALY will represent a good value for money (World Bank, 1993). More generally, it has been suggested that a cost per DALY ratio below twice per capita gross national income may be an acceptable threshold value for most governments (Garber & Phelps). World Health Organisation considers those interventions highly cost effective, if the ICER of the intervention is less than per capita gross national income.

Performing sensitivity analysis

CEA is conducted based on available data and number of assumptions, both with regard to measurement and valuation of costs and consequences. Due to this, every CEA contains some degree of uncertainty or methodological differences. Hence, it is important for the economists to quantify the extent of uncertainty by quantifying change in the results with respect to change in the variables or assumptions. Different parameters like exchange rate, discount rate etc. are changed depending on different types of health interventions, local context etc. to see whether there is a large variation in the result. If making variations in different parameters do not change the result significantly then one could be confident of the robustness of the original results. However, if the opposite is true, then the researcher needs to relook at the analysis to reduce such large variations in the result due to change in different parameters.

It is suggested that at least, the researcher should use one way sensitivity analysis to quantify the variation in the result by changing one parameter at a time. More sophisticated model of sensitivity analysis is also desirable depending availability of time and resources for more robust quantification of variation in the result due to change in the parameters (Briggs et al. 2003).

Emerging role of cost and management accountants (CMAs) in the health sector

For a sound CEA, it is very important to have a sound knowledge of cost and management accountancy. Proper and credible measurement and valuation of costs of every activity and process is essential for the analysis. Hence, sound knowledge of cost and management accountancy will help to differentiate between financial cost and economic cost, identification of different cost centres, identification of the cost or resource items, categorisation of cost between direct, indirect and intangible or opportunity costs and also between fixed, semi-fixed and variable costs and analysis and presentation of cost data. Having sound conceptual clarity and practical exposure, Cost and Management Accountants are very well placed to conduct CEA of any health care intervention. Some of the techniques which are generally applied in the CEA are (a) Activity Based Costing for identification and allocation of cost to different activities, (b) Average Costing - calculating average cost of producing an output, (c) Marginal Costing - covering the costs of one additional unit of output, (d) Incremental Cost - extra cost incurred by one programme over another. CMAs have very sound knowledge of these techniques.

Similarly other techniques of allocating the shared costs like direct method of allocation or step-down method of allocating joint or shared cost with suitable apportionment basis, discounting and calculation of present value of future costs and benefits, using different techniques of sensitivity analysis to check the robustness of results by changing the variables are used in CEA of health intervention. CMAs are proficient in these techniques. Having fair understanding of the economic principles, applying sound logics and assumptions, they can do the modelling of costs and benefits using short term and long term analytical horizon depending on the health care intervention.

In India or in other developing countries, CEA of health sector is gradually gaining ground. CMAs are in high demand in the health sector due to their professional training in required techniques. Assessment of health care technologies on economic efficiency perspective, true costing and pricing of different health care services, package rate fixation, expenditure analysis of health expenditure etc. could be other similar and related areas where CMAs can play a pivotal role. MA

cmarajesh@gmail.com

HEALTH CARE INDUSTRY CHALLENGES: IMPERATIVES FOR CMAS

EVIDENCE FROM SELECT HOSPITALS IN SHIMOGA, A TIER-III CITY

CMAs could deliver the most efficient and strategic solutions to reduce (control) and cap (limit) the effects of cost pressure on the profitability of the organization

Dr Manjunath K R
Asst. Professor
Kuvempu University
Karnataka

Cost pressure and price management is one of the important issues in front of the Health Care Industry today; especially due to the dilution of market structure as an impact of privatization initiative of the government to extend health care services to all the sections of the society and diversification of international health centers into the Indian markets as an influence of economic liberalization. Changing industry structure is making the markets more and more customer friendly and exposing the service providers to greater risk of cost pressure and enhanced quality needs is forcing them to reduce price at the same time to ensure greater quality of services in compliance with the legal requirements set by Ministry of Health and Family Welfare.

Market expectations towards the health care service providers to create benign environment always puts them under pressure to ensure quality of services are protected working within the ambit of their organizational policies, government regulatory framework and the expectation of their clients/customers; as failure on their part may create dicey effects on their profitability and customer relationship. Increased cost of labour as a part of the pressure to cope up with the increasing cost of living (Consumer Price Index) by their employees and on the other hand pressure for reduction of cost of services would have a leathery/fibrous impact on their profitability. This is creating a massive impact on the organization efficiency which is enhancing or creating potential imperatives for the cost and management accountants (CMAs) in this sector, who could deliver most effective efficient and strategic solutions for reducing (controlling) and capping (limiting) the effects of such cost pressure on the profitability of the organization. CMAs hence are expected to play a role of catalyst agents for delivering strategic value for each and every functions/operations performed by such organizations.

Research evidence citing the importance of Cost and Management Accounting and its professionals in delivering optimal value to the organizations operations and realizing their objectives

Nick Sciulli (2004)1 in his study explores that; though the perseverance of the every one towards the government operations is to be very efficient and effectiveness it has seen a major turnaround in the recent days. The objective of government is now to provide services at least cost, whilst maintaining or improving upon the quality of services rendered be it energy, telecom, power, tax, etc either by itself or by the private sector through Outsourcing or Competitive Tendering and Contracting out (CTC). The study in this background investigates how accounting information is used by public sector managers to decide whether a service ought to be contracted out, where they consider what is called as avoidable-cost approach with the help of data drawn from State Library and Museum of Victoria and determines the level of estimated savings from contracting (verified by external accountants) which were certainly influenced by dollar value and the quality/image. The study concluded that the accounting system were the key drivers in the decision for realizing the benefits of the possible contracting where the CMAs would certainly act as the key source of information for such decisions. Raul Calle and Marcos Makon[2] in their study observe how the public value chain, and solid conceptual aspects have been developed in connection with public production systems and the results and impacts obtained from it, are used for improvements in meeting the population's needs and development of the budget based on results and the consequent use of the same as the performance indicators. At the same time they also claim that it is not less true that for the entire instrumentation of a management oriented to results, it is also necessary to have suitable methodologies that enable to express the supply-product relation present in institutions and value them in terms of expenditures as well as costs. The study concluded that, implementation of solid economic-financial information systems produced by accounting systems, would supplement those produced by the real resource administration systems (human, material and infrastructure), all within the framework of the operation of a modern and integrated financial administration system centering around Costs of absorption, Costs per work orders, Costs per activity/processes, Complete cost (three cost elements = raw materials, labor and manufacturing direct costs plus the expenditures considered as administration, commercialization and even financing expenditures), Decision making cost elements (ABC Costs, Historical costs and Standard costs fundamentally designed for control purposes and is very useful when working with budgets because it enables the cost projection and its later control against actual performance).

Jose Carlos, Pinho and Isabel, Maria Macedo (2008)[3] in their study analysed the antecedents and consequences of online satisfaction within the context of e-government, which is increasingly play an important role in modern public administrative systems, examining the opinions of certified accountants providing the taxation services through the web-based electronic declaration system and testing with the help of Structural equation modeling suggest that both the degree of satisfaction and online service quality impacts on the intention of using the taxation website. The study concluded that there is an opportunity to rethink how authorities have to offer services ensuring adoption by the market and over see the market pressures toward fulfilling users' needs which is becoming increasingly important requirement. Jorn Flohr Nielsen, Per Nikolaj D Bukh, and Niels Peter Mols (2000)[4] in their study observe how the retail financial sectors competitive pressure is posing challenge to traditional management accounting systems, which often do not allow the identification of profitable customer relationships. Drawing on a stage model and data from management accountants, branch managers and frontline employees in Danish financial service companies, this study investigates barriers to the implementation of customer-oriented management accounting; and shows how financial institutions are increasingly integrating management accounting systems with customer-related activities which is enabling them to perform customer profitability analyses. However, several barriers related to organization structure, resources and attitudes are found hampering further customer-oriented changes, and the data gathered at the branch level strongly support the arguments on the problems of ownership and project sponsoring, and it is argued that new accounting systems may be less important to customer orientation than empowerment and goal-oriented participation of the frontline employees.

Jo-Ann Mulligan et al (2003)[5] in their study evaluate the feasibility of economic evaluation methods for specified interventions and assessment of the intensity of the problem to be addressed by the health authorities. The study explores how assessment of standardized regional unit costs for a range of health care resource inputs and providing such information to the authorities (DCPP (Disease Control Priorities Project)) with the ratios of relative costs for different regions, helped the authorities in developing and introducing unit pricing for regions where-ever they intended to execute their plans. Such planned execution lead to realization of the intended objectives ensuring deployment of right resources and have effective control over the cost. Nitin Parekh (2013)[6] in his view expressing the challenges in front of pharma sector in India opined that for any operations to be successful there is an earnest need for proper allocation of infrastructure over running projects on a acceptable and ongoing base, and design effective control measures over cost of risk (commercializing the activities successfully), determining the basis for allocating the joint cost and infrastructure cost to the projects, determining the sources for funding the project, allocation of infrastructure cost on product and services to take the business decisions, determining and controlling cost of reserved capacity and resources used for constant up-gradation of the manufacturing process and to reduce cost; and then use the historic cost for decisions of future business. CMAs in this sector carry an imperative to go beyond the normal role of cost accountant and consider overall business and organization strategy; facilitate in cost reduction as a way of life going beyond product cost and look for production processes,

NITIN PAREKH... OPINED THAT FOR ANY OPERATION TO BE SUCCESSFUL THERE IS AN EARNEST NEED FOR PROPER ALLOCATION OF INFRASTRUCTURE OVER RUNNING PROJECTS

cycle time, wastage, and yield parameters; work out innovative and dynamic costing methodologies to take care of special situations tender costing, patented product costing, brand product costing and pure generics product costing etc; act as ready reckoner to take specific decisions on make Vs buy, to invest in project or go for job work etc.; explore avenues for revenue maximization; identify 'stop loss trigger point' helping management decide on when to 'pull the plug' of projects going overboard on cost/time/resources; provide constant update on current as well as future efficiency to management for productivity in terms of Man and Machines. Partners for Health Reform plus (October 2004)[7] developed Management Accounting System for Hospitals (MASH) framework that could be used for tracking and analyzing a health facility's services, resources, and costs; which provides the means for both routine management control and the initiation and management of change, acting as a useful tool for examining costs in connection with productive efficiency. MASH designed primarily for hospitals, is easily modifiable to suit any health care organization and its potential users are facility administrators and department heads, purchasers of care, regulators and auditors of performance, and financing and operations analysts and centered around integrating all the cost centers and drawing primary data perform calculations and analysis and facilitates decision making by the service organizations

A very close observation of the above research work reveals the important role played by the Cost and Management Accountants (CMAs) in the organization where they act as the important value drivers for any of the operations performed by the organization.

Impact of Strategic Information/ Financial Data on the Organization goal setting and accomplishment

Input of cost data and functional efficiencies of the activities performed by the organization would help the Decision Making Units (DMUs) in formulating effective Functional and Business Level Strategies that can help them in optimally utilizing their resources and realize the potential opportunities extended by the market as a part of available gaps in the market place. Strategies for an organization is expected to be the base for realizing the competitive market positions which acts as a source for delivering optimal value for the stake holders of the organization and delivering value to the customers for the price that they pay.

SVA ➔ EVA ➔ MVA ➔ Free cash flows (Net Operating Profits after Tax)

SVA = Strategic Value Added

EVA = Economic Value Added

MVA = Market Value Added

Strategic Initiatives stimulates market responses towards the offering made by the organization with an anticipation of realizing positive rewards for such efforts taken up by them

Positive Brand Equity ➔ Increased Sales ➔ Increased Revenue ➔ Increased Profitability NOPAT)

NOPAT ➔ Positive EVA ➔ Increases Market Price (As an influence of Increased EPS due to Increased Profits) ➔ P/E ratio observes a positive and aggressive growth impact

CMAs as one of the important elements of strategic control units in the organization will have to identify those key areas of operations that are considered as key value drivers for their operations. Further, it also become very much essential for the organization to identify their strategic resources that can help the organization to create and deliver optimal value to the customers which in turn could help them in creating long term sustainable competitive assets that could ensure the organization with long term sustained competitive position and market structures ensuring optimal profits for the efforts initiated by them.

In this background some of the health care centers (Government and Private Hospitals) operating in Tier III cities (Shimoga) were studied to identify few of the important issues that are acting as deterring/driving forces for their performance. The summary of the qualitative information obtained out of the study is summarized and presented below followed by few of the suggestive models that highlight the role that could be performed by the CMAs in the organizations policy making, execution and control to facilitate the organization in realizing optimal benefits for the efforts initiated by them.

Few of the important issues faced by the service organizations (hospitals) are as under;

01. Effective planning and management of inventories, determination of the right inventory for a service is very difficult in light of the need for customizing the services to each and every customer. As, the service designed to one cannot be delivered to the other due to the heterogeneous/ diverse character of the service demanded by each and every customer.

02. Assessment of the market demands and incorporating the same into the product to be delivered ensuring that the competitive positions held by them in the market place are kept intact, as the market dynamics always influence the environment leading to their inconsistent and volatile performance. Hence, the organization will have to strategize their operations that can help them to realize optimal rewards even in the most hostile market conditions – where the CMAs will have to act as the catalyst for providing the requisite inputs for effectual decision making.

03. Effective control of cost of input for every designed service, so as to ensure that appreciation in cost would not lead to evaporation of intended profits by the organization.

A summary of the key issues concerning the health care service providers are summarized and presented in **Table1** below,

Functional failure leads to increased cost of operation. Few of the operational failures cost are;

Product Compliance Cost – Failure of external compliance and convergence of product defined quality to the market/competitors offerings

Non-exclusivity – failure to differentiate product or service from the one offered by the organization leading to loss of potential competitive positions

Table1: Key areas of Consideration by Health Care Service (Hospitals) providers	
Key Value Drivers	Key determinants
01. Technical and Operational Infrastructure	Nature and extent of budgeted Development Cost, Maintenance and Operational Cost, Continued assessment and evaluation of Replacement/ Replenishment Cost and its need
02. Information Infrastructure/ Market Infrastructure	Information cost for attracting all the section of the beneficiaries and understanding the most daunting issues in the society at large, so that necessary services could be designed and delivered at the most economic prices
03. Customer Services	Reduce relative burden of out-of-pocket expenditures for vulnerable population groups – hedging the risk through med-claim/health insurance
04. Customer Relationship Management	Factorial cost determinants as associated with use of alternative and complementary health care services provided over and above the primary health care solutions extended
05. Material and Supplies	Varying cost – material variants required for delivering specialty health care services based on the complexity of the problems faced by the inpatients and outpatients
06. Quality Audit	01. Access to Customized Health Care solutions
	02. Response with credible information
	03. Personalized care during visit
	04. Post service appraisal of service received or availed from the organization
	05. Time spent during the service encounter
	06. Post service communication with the stake holders of the clients availing the service
	07. Lower health care costs without compromising on quality of services extended

held in the market
Legal compliance – cost of measurement including the one required to reveal the physical and legal characteristics of the services. Higher transaction cost often cause contractual hazard and market inefficiency[8]
Asymmetric information – lack of transparency of information to the organization and the customer leads to clutter in the market and leads to adverse selection, moral hazard leading to increased psychic (opportunity) cost; as an impact of the same it would lead to loss of brand equity in the market and make the potential opportunities hostile for accomplishment.

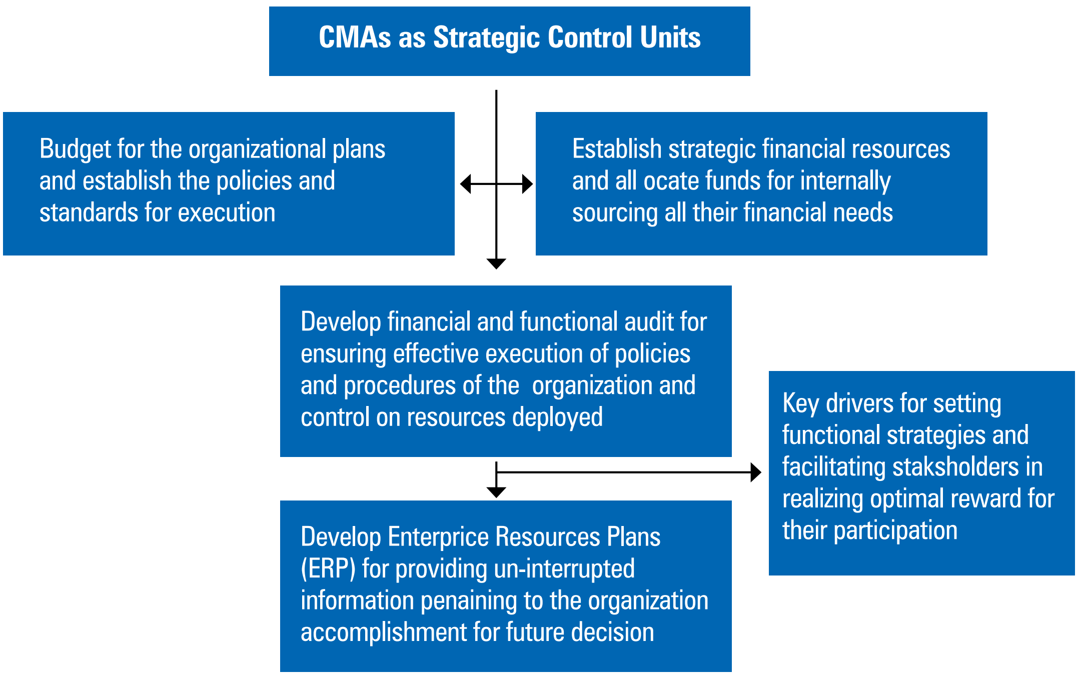
A thorough evaluation of the issues faced by the health care service providers, and in light of the research contributions an attempt is made in the following section to develop some models that highlighting the role that could be played by the CMAs in structuring competitive offers by the health care service providers and help them to sustain their competitive position over a long period of time.

CMAs as Strategic Control Units

It is very essential for each and every organization (Services as well as Production) to develop a strategic framework for their operations that ensure them with optimal utilization of resources. CMAs as a channel of Strategic Information Resource Centers will have to provide such information which can help the organization in assessing the performance of the deployed resources and at the same time structure control system to check the deviation from the intended execution and actual performances. **Figure1** depicts the role of CMAs as Strategic Control Units in a Service Sector (Health Care Service Providers in particular here) followed by a brief analysis.

From the above diagram the following become very much evidential;
01. CMAs will have to Function as strategic control units rather than mere

Figure1: CMAs as Strategic Control Units



strategic resource centers

02. They will have to Design Organization Plans in accordance with the expected value that the organization intends to realize; so as to facilitate the organization in effectively deploying their resources and deliver optimal value to their stakeholders

03. Develop financial and functional audit system that can help in assessing the performance of the resources deployed and channelize the information through effective ERP solutions that would facilitate the organization in their decision making for future course of actions

04. Financial and Functional Audit system and integrated ERP acts as key drivers for accomplishment of functional strategies with effective control system that can help in checking evaporation of potential rewards for the organizations efforts

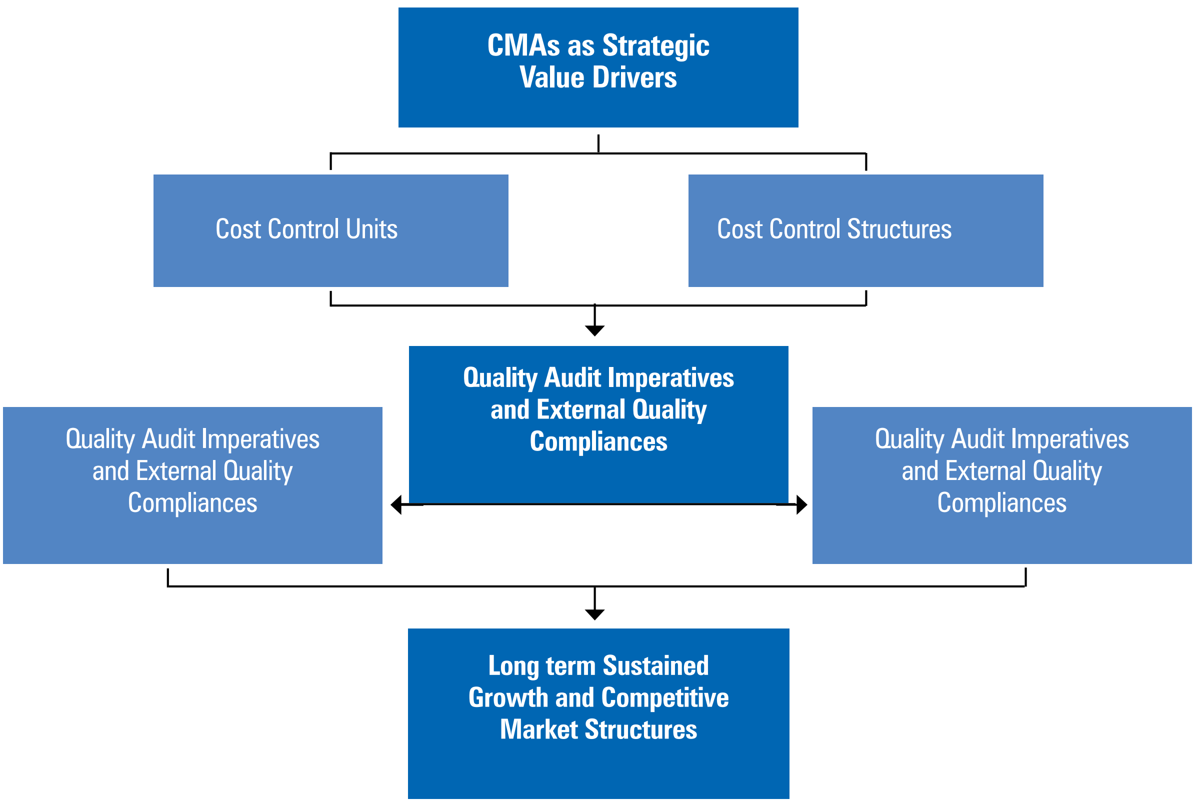
Further, the CMAs for an organization will also have to act as Strategic Value Drivers helping the organization in establishing long terms sustainable competitive positions in the market place even when the markets are found to be highly hostile. The same is depicted in the **Figure2** below followed by a brief analysis From the above exhibit the following becomes evidential;

01. CMAs will have to assume the responsibilities as the catalysts of strategic value drivers for each and every functions performed by the organizations

02. CMAs will have to develop Cost Control Structures by determining all those key cost units where there is an essence of establishing Strategic Control Systems which would ensure the organization with effective control of cost by developing efficient material management practices, utilization of human resource ensuring optimal absorption of expenditure across each and every service unit delivered.

03. Further, it is deemed that CMAs would have to assist the organizations in Development of Quality Assurance – Functional, Operational, and Customer Services in compliance with the

Figure2: CMAs as Strategic Value Drivers



external quality expectations (within the ambit of customers expected quality) which in turn facilitates in creating brand equity in the market place and enhance customer responses towards the organization

04. Efficient implementation of Strategic Control Systems by the organization in the long run helps them to create competitive market structures and help them in realizing sustained long term growth steering optimal rewards for the efforts initiated by the organization

Conclusion

Health care sector in light of the complex nature of the market and the inconsistent behavior of the service seekers; it is becoming most essential for the hospitals to design the services which is effective in terms of cost and the price which is affordable to all groups of service seekers (patients) for which the information input regarding the service design and its performance is very essential, here CMAs play a very important role by acting as ready reckoner of information to the decision makers and facilitate them in redesigning and restructuring the servicers (wherever essential) so as to deliver optimal value to the service seekers and build positive identity or image in the market, for realizing sustainable long term competitive positions even when the markets are highly fragmented or hostile for operations.

References

01. Nick Sciulli (2004), The Use of Management Accounting Information to Support Contracting out Decision Making in the Public Sector, Qualitative Research in Accounting & Management, 1(2), pp. 43-67

02. http://www.asip.org.ar/en/content/cost-estimation-public-sector-entitiesa-methodological-proposal, accessed on 02/08/2013 at 11.00am

03. Jose Carlos, Pinho and Isabel, Maria Macedo (2008), Examining the Antecedents and Consequences of Online Satisfaction within the Public Sector: The Case of Taxation Services, Transforming Government: People, Process and Policy, 2 (3), pp. 177 – 193

04. Nikolaj D Bukh, and Niels Peter Mols (2000), Barriers to customer-oriented management accounting in financial services, Journal of Service Management, 11(3), pp. 269-286

05. Jo-Ann Mulligan et al (2003), Unit Costs of Health Care Inputs in Low and Middle Income Regions, Working paper funded by Disease Control Priorities Project (DCPP), London School of Hygiene and Tropical Medicine and World Health Organisation

06. Nitin Parekh (2013), Not Everything is healthy in the Health sector - Imperatives for CMAs, Presentation at National Cost Conference -2013 Institute of Cost Accountants of India

07. Partners for Health Reform plus. October 2004. Management Accounting System for Hospitals (MASH) Manual. Bethesda, MD: The Partners for Health Reform plus Project, Abt. Associates Inc.

08. Kam Yu (2011), Measuring Efficiency and Cost-Effectiveness in the Health Care Sector, Working paper funded by Health Canada, Department of Economics, Lakehead University, Thunder Bay, Ontario, Canada. MA

manjurajappa@gmail.com

CMAs play a very important role by acting as ready reckoners of information to decision makers and facilitate them in redesigning and restructuring servicers so as to deliver optimal value to service seekers and build a positive identity or image in the market

Obituary

The Institute and its members deeply mourn the demise of CMA P.G. Nandy, a fellow member of the Institute who left for his heavenly abode on 9 August 2013. He was Chairman of EIRC for 2002-03. He worked in various capacities at Bharat Coking Coal Ltd, a subsidiary of Coal India Ltd, and retired as Director Finance in 2011. He is survived by his wife and son. May God give the necessary courage and strength to the bereaved family members in this hour of grief.

May his soul rest in eternal peace.

HEALTHCARE BEYOND BORDER: THE STATE OF MEDICAL TOURISM IN INDIA

India has a sizable market share not only because of its cost advantages, but also because of state-of-the-art treatment facilities, qualified surgeons, doctors and support staff who know English, and, above all, international accreditation of its medical facilities

Dr. Mausumi Bhattacharyya
Asst. Professor,
Serampore College, Hooghly

Traveling for the recovery of health is an ancient practice of mankind. Crossing the boundary of one's own country for recouping health was not, however, a common practice. Thanks to the revolution of communication technology, now people can think of moving to an alien destination beyond the borders of one's own country and getting treated for their ailments. Thus, the concept of medical tourism emerged. A medical tourist is defined as "an individual seeking healthcare for lower cost and/or reduced wait period outside the country of origin, combined with the intention of enjoying a post-operation vacation" (Rutherford, 2009). Rising medical costs, growing complications of diseases, increasing need for surgical intervention, hunt for specialist doctors and facilities and, above all, advantages in exchange rates drive the patients across borders. India has become one of the favorite destinations for the global patients. There are several reasons behind India's becoming a healing destination. A unique feature of this industry is that it combines both tourism and healthcare sector. They two complement each other while promoting several other peripheral industries. The distinctions between hospitals and hospitality establishments are gradually becoming narrower. Medical tourism is equally about tourism as it is about providing medical treatment (George, 2012). The present paper attempts to delve into the current status of medical tourism in India, its prospect, predicaments and policy issues and so on.

Medical tourism drivers

Motivation of medical tourists may be either absolutely need-based or advertisement-driven. There is no denying that people all over the globe are becoming more and more aware of their health needs and wellbeing. A growing number of medical tourists are travelling overseas to the developing countries with the primary objective of obtaining immediate healthcare in terms of diagnostic treatment, invasive or non-invasive surgery combined with vacation. The driving factors behind this trend are rising cost of insurance and surgery, long waiting list in the developed countries, non-availability of certain treatments due to regulations in developed countries and lack of adequate medical facilities in the developing countries.

Cost of treatment is lowest in India as compared to the developed countries. The slogan, therefore, is: 'First world treatment at Third world prices'. The cost differential across the board is huge; only a tenth and sometimes a sixteenth of the cost in the west (George, 2012). Even for a critical intervention, India charges less than 20% of the average costs incurred in the USA. In Thailand, Singapore and South Africa it will be around 30% of the US (Nagraj, 2009). This cost advantage is the primary driver of medical tourism industry in India. Medical tourists from the USA and the UK and other developing countries in the west form a niche market. They prefer India primarily due to two reasons. One, for procedures that are not covered by insurance in their home country and two, cases where they have a long waiting at the hospitals in their home countries (Medhekar, 2011). Costs, in these cases, become a secondary criterion.

India grabs a sizable market share not only because of its cost advantage, but also due to having a state-of-the-art medical treatment facilities, qualified surgeons, English language proficient doctors and support staff, and, above all, international accreditation of the medical facilities by the bodies like Joint Commission International (JCI). Clinical outcomes of India are at par with the world's best centres, besides having internationally qualified and experienced specialists. Qualified medical staff, adoption of advanced technology and improving healthcare infrastructure have made India an attractive destination for the patients all over the world. As an exotic destination, India is one of the most preferred choices of the global tourists. This, combined with her healing effects, makes India a medical tourism hub of the world.

India has one of the largest pharmaceutical industries in the world. It is self-sufficient in drug production and exports drugs to more than 180 countries. Thus, India has a prior acceptability in the medical field which facilitated India's medical tourism business to a certain extent.

RNCOS Report (2013) observed that it is not only the allopathic treatment that draws patients to India, a good number of patients come to experience the alternative treatments that are native to India. Traditional treatments like ayurveda, pranic healing, siddha, aromatherapy, music therapy, meditation and yoga are becoming popular among the medical tourists. India, a land of spiritualism, has an extra advantage over other contenders in the medical tourism industry in respect of the divine peace and healing power provided by these alternative therapies.

Logistic support also plays a vital role in drawing patients to India. Many private information agencies in India offer attractive packages to the medical tourists. By offering customized travel and treatment itineraries including personalized treatment package to suit the individual needs and by providing assistance throughout the stay, medical tourism agents relieve international patients of the hassles of treatment process.

Several airlines advertise medical tourism locations in the in-flight magazines and highlight location-specific procedures and tourist attractions (Connel, 2006). Such advertisements reach the average travelers and business people who may not be traveling for medical purpose but may chose to avail non-invasive or less invasive procedures during their journey (Rutherford, 2009).

Stages involved

Usually, three stages are involved in the medical tourism value chain, namely, Pre-procedure stage, Procedure stage and Post-procedure stage (Kekley and Underwood, 2008). Pre-procedure stage includes the choice of the destination country, choice of the facilitator, hospitals, consideration of cost, estimation of risk etc. This stage may end up in the patients reaching the destination country.

Procedure stage involves the actual treatment. It may begin with consultation with the doctors, medical examinations, counseling for treatment and other preparations. In this stage beside patients and doctors, there are other agents as well, such as para-medical team, operation theatre, medical supplies and etc.

The post-procedure stage involves post-operative care and follow-up care. Post-operative care is very crucial as because patients may go back to their native country after the procedure part is over. Specific doctors in their native countries may be contracted by the medical service providers for the follow-up care of the patients. Normally there is a tie up between the medical service providers and the doctors in the customer's country (India Tourism Statistics, 2010).

Treatments in demand

A majority of the medical tourists come for cardiac treatments, followed by Orthopedics, Nephrology, Neuro-surgery and so on.

Table 1: Commonly sought treatments by medical tourists

Treatment	% of patients
Cardiac	30%
Orthopaedics including replacement	15%
Nephrology	12%
Neuro surgery	11%
Cancer	1%
Other	22%

Source: Indian Tourism Statistics, 2010. Ministry of Tourism, GOI.

The most common surgeries that patients fly in for is open heart surgery or joint replacement surgeries as they are very expensive unless the patient has adequate insurance coverage. Cosmetic surgery is another attractive field for the medical tourists. Cosmetic surgeries are not usually covered by insurance and the costs of operations are also very high (National Healthcare Quality Report, 2012). India is trying hard to tap the cosmetic surgery market.

Medical tourism provides a complete package of wellness, treatment and rehabilitation. Under wellness segment, one can have spas, lifestyle vacation, ecotourism, community tourism, resorts, herbal treatment and so on. The rehabilitation schemes offer dialysis, addiction programme, elderly care and counseling services. The core service segment is, of course, treatment which the hospitals take care of.

Source countries

Based on the survey conducted by Indian Institute of Tourism and Travel Management (IITM) (2011), commissioned by the Govt. of India, the medical tourism source market is divided into 5 regions, namely, US and Europe, Middle-East including UAE, Oman and Iraq, Africa including Nigeria, Tanzania, Kenya, Gambia, Mauritius etc, South Asia including Bangladesh, Pakistan, Sri Lanka, Nepal and Myanmar, Far-East including Japan and China. Africans constitute the majority of the medical tourists accounting for about 51% while Middle Easterners account for 35% of the medical tourists landing in India. 10% of the medical tourists come from South Asia. A two-year study conducted by Deloitte revealed that there has been a continuous flow of patients from the neighbouring west Asia and the same from the US and the UK has risen significantly in the recent times (Nagraj, 2009).

A majority of patients seeking treatments in India come on tourist visa and avail treatment as locals through local connections. This is mainly because of the fact that the cost of treatment for the locals is lower than that for medical tourists. The price-sensitive south Asians, therefore, get grossly excluded from the list of medical tourists. As a result the statistics mentioned above are quite misleading so far at least, South Asians are concerned.

Indian government issues medical visas to the medical tourists subject to certain limits. A tourist is allowed three visits to India at an interval of at least two months. Such restrictions lead to unnecessary delay in treatments. As a result India is losing out many medical tourists to Thailand, Singapore, Philippines, South Korea, Malaysia and Taiwan.

Destinations: states and hospitals

Chennai is the most sought after destination for the medical tourists. Chennai alone attracts more than 40% of the medical tourists every year. More than 6 lakh tourists throng up at the hospitals of Chennai annually. According to the Confederation of Indian Industry (CII), the footfall of medical tourists in Chennai has increased by 23% in 2012-13. The city receives more than 200 foreign-patients everyday. To enhance the scope of medical tourism in Tamil Nadu, Government of Tamil Nadu plans to develop a medicity in Chennai with the public-private partnership under the vision 2023 Programme. Despite its super-speciality hospitals and world class health infrastructure, Bangalore is far behind Chennai in attracting international patients. On an average Bangalore gets 10-15 patients everyday (Kalyanam, 2013). Kolkata holds quite a good potential for flourishing medical tourism industry.

The private sector which had a modest presence in the early stages, now have dominance in the healthcare sector. About 75%-80% of healthcare services and investments in India are provided by the private hospitals. Among the major players are Escorts Heart Institute Research Centre, Apollo Hospitals, Wockhardt Hospitals, Fortis Healthcare, Leelavati Hospital, Manipal Hospital, Hinduja Hospital, B M Birla Heart Research Centre, Tata Memorial Cancer Hospital and so on. Fortis and Apollo have formed partnership with Johns Hopkins Medicine International and the Wokhardt group which is affiliated to Harvard Medical International. The hospitals are tying up with leading tour operators such as Thomas Cook and others for offering complete package to the foreign patients (Sengupta & Nundy, 2005). Apart from the private hospitals, All India Institute of Medical Sciences (AIIMS) has been receiving patients from more than 16 countries.

International scenario

Medical tourism business holds a huge potential across the globe. About 130 countries are eyeing this market and competing for their share in the market. The global medical tourism market is estimated to be of around US$ 40 billion with an annual growth rate of 20 percent. International Trade Commission at Geneva estimates the market to be of around US$ 188 by 2013 (India Tourism Statistics, 2010).

Thailand, which has revolutionized the concept of medical tourism, holds more than 40% share of medical tourist arrival in Asia. Thailand market is expected to double in 2015. It primarily focuses on cosmetic surgery. Singapore is considered to be the best as a medical tourism destination, though it is a bit costlier than its peers. South Korea is a fast growing medical tourism destination while Philippines started off late. Malaysia has shown an astronomical growth of eight times in

Table 2: Global Medical Tourism Revenue

Year	Revenue (US Billion $)
2004	40
2006	60
2008	80
2012	100

Source: www. health-tourism–india.com

Table 3: Comparative costs of major treatments (US $) in 2012				
Procedure	USA	Thailand	Singapore	India
Coronary Artery bypass surgery	70000-133000	22000	16300	7500
Bypass surgery for heart valve replacement	75000-140000	25000	22000	6500
Hip replacement	33000-57000	12700	12700	6200
Knee replacement	30000-53000	11500	9600	6000
Prostrate surgery	10000-16000	4500	5300	3600
Kidney transplant	4000- 4500	20000	25000	12000
Source: http:/www. docstoc.com				

2011 compared to its market in 2003. Taiwan's medical tourism is one of the biggest attractions to the high-income Chinese tourists. It is likely to see a 7% CAGR from 2012 to 2015 (www.pharmabiz.com). India has chosen to specialize and also holds a huge potential in cardiac, neuro and orthopedic fields.

Government initiatives

Government of India announced for the first time in its budget speech in 2003 to support trade in private sector medical tourism and to develop India as a 'world class-high tech healing destination for low cost medical treatment'. India was envisioned as a medical tourism hub by the government. Various medical tourism accreditation bodies like International Society for Quality in Health Care (ISQAH), Joint Commission International (JCI) approved various hospitals to this effect. Indian National Health Policy (2003) was adopted which states that "the treatment of foreign patients/expatriates is legally an "export" and the same is eligible for all fiscal incentives extended to export earnings". The Eleventh Five Year Plan projected India as 'Global Health Destination' and accordingly several policy measures were taken to smoothen the journey towards the destination, such as special medical tourism visa (M-Visa) and Medical Escort visa (MX) for accompanying relatives. Besides, Government sanctioned 100% FDI in medical infrastructure, research and development, provided various fiscal incentives for businesses involved in medical service export sector and organized medical tourism trade expo for promoting medical tourism trade.

Various state governments too initiated measures to promote public-private partnership in medical tourism trade. Medical Tourism Corporation of Maharashtra has formed a partnership with FICCI "to deliver value for money health care with human touch".

Projections

India's medical tourism sector is likely to grow at 30 % annually, making it a $200 billion by 2015 (A Brief Report on Healthcare, Telemedicine & medical tourism in India, 2012). At the current rate, India could be hosting 2.4 million tourists by 2020. By 2025, this figure may reach a whooping 4.9 million. As per the research report titled Booming Medical Tourism in India, Indian medical tourism industry will register a CAGR of more than 20% during 2013-15 (RNCOS, 2013). A study by CII-McKinsey estimate says that India's medical tourism industry is $333 million and it is likely to grow at 13% over the next six years.

Flip sides

Medical tourism industry in India has faced several challenges, particularly, from the Civil Society organizations that have lead the anti-medical tourism advocacy. According to the leaders of civil society groups, promoting medical tourism may invite various diseases including the contagious ones that have no presence here so far. The chances of these diseases getting spread are high, as the patients, also being tourists, will be sharing all the public utilities with the common people. They insist that the diseases must be classified as admissible or otherwise and entry of patients would be permitted accordingly. Visas must be made contingent upon the initial test report findings.

In a country where medical infrastructure falls short of the domestic demands, promoting medical tourism sounds unethical. But economics of medical tourism counter this argument as the surplus generated out of medical tourism may be invested to build up infrastructure to cater to the domestic medical needs. Such efforts are yet to be visible.

Critics argue that booming of medical tourism will lead to the proliferation or mushrooming of clinics and medical centres to perpetuate unhealthy and unethical practices, thanks to the all pervasive corruption and leniency of laws. Moreover, treatments may become costlier for the domestic patients owing to the export-pricing of healthcare.

Traveling patients may put themselves into risk, particularly, those having surgical interventions. Post-operative complications may not be adequately addressed as the patients have to travel back (George, 2012).

Medical tourism industry is sensitive to external factors like terrorism, SARS virus, Swine flue (Medhekar & Haq, 2010). Therefore, the service providers need to build up an adequate cushion against these exogenous shocks.

Concluding remarks

India spends a mere 3.9% of its GDP on health. It has remained constant over the past 4 years with a minor drop of 0.1% in 2010. In 2004 it was 4.5%. The reality is, with the increase in medical tourism trade, contribution to the domestic health care as a percentage of GDP is declining. Quite naturally, the state of India's public healthcare system is in shamble. A large majority of Indians fail to avail even the basic healthcare facilities. The highlights of the National Rural Healthcare Mission (2013) on rural health reveal that the ratio of rural beds vis a vis the population is 15 times lower than in urban areas, 66% of the rural population lacks access to preventive medicines, 31% of the rural population are to travel over 30 km to get needed medical treatment, there is 70.2% shortfall in medical specialists in Community health centres, 50% of the posts for gynecologists, obstetricians and pediatricians are vacant, high incidence of infectious diseases dominate the morbidity pattern of the rural area – 40% in rural and 23.5% in urban area. It is an irony that India makes a good fortune out of its medical facilities offered to the foreign patients while an alarming size of her population go even without basic healthcare. The growing thrust on developing elite treatment facilities is likely to widen the gap between the haves and have-nots. To bridge this chasm, public sector needs to be proactive. Greater budgetary allocation on public health should be a fiscal priority. Government must take care of the mass while providing support to the private players in earning foreign exchanges. Perhaps, time has come when the medical business companies catering to the overseas medical tourists must be made to shoulder some corporate social responsibility in terms of extending medical facilities to the rural poor. They may be asked to contribute to the rural health segment to complement the existing government initiatives. The enormous investment gap in the healthcare sector needs to be bridged by the public-private partnership. Government must make provisions to that effect on priority basis.

Medical tourism opens up a plethora of entrepreneurial possibilities like specialized travel intermediation service, travel desk in hospitals, staff trainers, medical tourism brokers, consultants, rejuvenation centres and so on. But, efforts must be taken to ensure that such developments do not result in surfacing of quacks and unscrupulous brokers.

India is a land of traditional healing practices. With the advent of modern medicine and medical technologies, the practice of ayurveda and other alternative systems have taken the back seat. Even when the west rediscover and rejuvenate our lost traditions, we the Indians reject our indigenous wonders. A large section of medical tourists seek these traditional and ethnic treatments. Thus, medical tourism holds a huge potential for the revival of our traditional healing system which had always been an essential part of our culture. It will really be a great achievement if India can rescue this lost cultural identity via medical tourism route.

References

1. A Brief Report on Healthcare, Telemedicine & medical tourism in India by Corporate Catalyst India, August, 2012.

2. A study of problems and challenges faced by medical tourists visiting India. Indian Institute of Tourism Travel Management, 2011.

3. Connel John (2006). Medical Tourism: Sea, sun, sand, and … surgery. Tourism Management, 27 (6).

4.George Babu P. and Swamy, G.A. (2012). Medical Tourism: an analysis with special reference to India. Journal of Hospitality Applications and Research.

5.India Tourism Statistics (2010). Government of India, Ministry of Tourism, Market Research Division.

6.Kalyanam, S (2013). City scores low in medical tourism. The New Indian Express, May 19.

7.Keckley, P.H.& Underwood H.R. (2008). Medical Tourism: Consumers in Search of Value. Washington . Deloitte Centre for Health Solutions.

8.Medhekar Anita (2011) Public Private partnership for sustainable growth of medical tourism. Web magazine, Tourism, August 1.

9.Madhekar A and Haq F (2010). Marketing Indian medical tourism to Muslim patients in an Islamic way. In the proceedings of the First International Conference on Islamic marketing and branding: Issues and Challenges, November 29-30, University of Malaysia, Kuala Lumpur.

10. Nagraj Nirmala M (2009). India images 2nd in medical tourism race. Times of India, March 27.

11. National Healthcare Quality Report 2012.

12. Report on "Booming Medical Tourism in India" by RNCOS Industry Research Solutions, June, 2013.

13. Rutherford Ann Sommer (2009). India health: Impact of medical tourism facilities on state health and economy. M.A Thesis, Iowa State University.

14. Sengupta and Nundy (2005). The private health sector in India. British Medical Journal, Vol. 33 (1).

15. he Times of India (2013). Chennai remains favourite destination of medical tourists'. April 20.

16. www.pharmabiz.com. Asia medical tourism analysis reports India set to garner 30% growth. Feb13, 2013. MA

mou17sen@gmail.com

GUERRILLA MARKETING: AN EFFECTIVE TOOL FOR HEALTHCARE MARKETING IN BANGALORE

A MARKETING EXECUTIVE PERSPECTIVE ANALYSIS

There is an utmost need to explore the concepts, tools and strategies of Guerrilla Marketing in India so that they could create a specific level of attention with zero or very low budget

Pradeep M
Faculty, Kuvempu University

Vidya R
Professor, Kuvempu University

Dr.R Hiremani Naik
Professor, Kuvempu University
Karnataka

History is full of guerrilla war stories where tiny, disadvantaged armies handily defeat much larger and more heavily armed opponents and win. There are similar stories in business when some starry-eyed start-up shocks the world with a highly creative, surprise-style marketing campaign that runs on a very low budget. It is called guerrilla marketing: a concept that revolutionized the world of marketing by revealing how small business owners can garner as much attention as the big players playing the advertising game in a novel and cheap way, by being "unconventional, non-traditional, not by-the-book, and extremely flexible". Guerrilla marketing focuses efforts on low cost creative strategies to reach target customers. The approach was first coined and defined by Jay Conrad Levinson following his success in changing the image of Marlboro cigarettes from a women's product into the now famous 'Marlboro Man' approach. According to Levinson, guerrilla marketing is designed to obtain instant results with limited resources using tactics that rely on creativity, good relationship, and willingness to try different approaches.

Guerrilla marketing is cheap, unconventional and highly effective. It is unconventional and aggressive and relies on imagination to target customer most where they would not be expecting. Guerrilla marketing is not so much a method of marketing as an approach to marketing. It looks at ways of reaching target customers with a unique message that will cause them to take notice. Most Healthcare organizations usually do not use aggressive money oriented promotions to send a marketing message to millions of potential customers. Therefore, they must look for cheap but effective ways for locating potential customers. Now that the global economy is on the verge of rollback which is considered a correction recovery, Healthcare Sector need to squeeze their marketing expenses without minimizing their advertising efforts, what could be a better solution than going for guerrilla! The Lucrative marketing success of Health Sector organizations in western countries is now largely credited to Guerrilla marketing strategies and its effectiveness. Hence it is of paramount interest to evaluate its concept and benefits as a way to create big attention even when Hospitals doesn't have invest too much for costly marketing activities.

Concept of Guerrilla Marketing

"Guerrilla Marketing" A term coined by author, Jay Conrad Levinson, Guerrilla marketing is an alternative or grassroots form of promotions. Typically, this type of marketing effort requires a minimal investment but yields maximum results. It uses creative, street-savvy techniques to get customers' attention and go toe-to-toe with competitors without having to match budg-

2.1. Most used Guerilla marketing tools in western countries			
SL. NO	Guerilla Marketing Tool	SL. NO	Guerilla Marketing Tool
1.	Free Consultations	1.	Publish a Newsletter
2.	Community involvement	2.	Free T-Shirts
3.	Business Card	3.	Holiday Greetings
4.	Press Releases	4.	Sponsor an local Event
5.	Public Seminars and lectures	5.	Fake Publicity Stunts
6.	Presence in social Networking Sites(Viral marketing)	6.	Print Calendars
7.	Intelligent product placement(Undercover marketing)	7.	Testimonials
8.	Customer Reactivation Letter	8.	30 second marketing message
9.	Demonstrations	9.	Blood Drive and other charity fundraisers
10.	Competing/ winning a Business Award	10.	Movie Theater Ads
11.	Hair Salons and Barber Shops	11.	Blogs
12.	Affiliate Marketing	12.	

ets dollar-for-dollar. The concept of guerrilla marketing was invented as an unconventional system of promotions that relies on time, energy and imagination rather than a big marketing budget. Typically, guerrilla marketing campaigns are unexpected and unconventional, potentially interactive, and consumers are targeted in unexpected places.

Statement of the problem

The Local movement led by Anna Hazaare made every Indian aware of the strength and stretch of voluminous growth in Indian Media. The recent quantitative growth in National and regional commercial TV channels, dotcom bursts, commercialization of games started from India Premiere leagues are much more examples of the enhance advertising opportunities in India. The Media bursts and the abundance of advertising messages have made Guerrilla Marketing more important than ever for brands to catch the public's attention and to differentiate. Advertisers and agencies should be smarter and more creative. That's why alternative media are the key to success. Guerrilla Marketing leads to campaigns which stand out, whereby the advertisement reaches the mind of the consumer with a significant force. Is it reality already in the Healthcare Industry or a mirage, there are questions on whether marketers know what is exactly this Guerrilla marketing concept, do they think it could really promote marketing productivity in sales. Hence the study is titled as "Guerrilla MARKETING: AN EFFECTIVE TOOL FOR HEALTHCARE MARKETING IN BANGALORE" and to do the exact reality check an explorative study is done from Marketing executive perspective.

Review of literature and significance of the study

Mr. S C Zeljka Zavic[1], Prof. sc. Mane Medic[1] Faculty of Economics in Osijek, said in their study "The marketing of small enterprises-Guerrilla marketing"have opined Guerrilla marketing as a must and have described the same by arguing that only Guerrilla marketing can give competitive marketing advantage by Defining small businesses in Undefined world, can create economy in for small business in highly branded world, can create a simple and sustainable way in a complicated world, can create awareness among consumers in Idea-deprived world.

4Imprint[2] organization in its Blue paper on Guerrilla marketing titled "That's Guerrilla not Gorilla: Guerrilla marketing 101"has identified that in western countries Guerrilla marketing was earlier largely observed and confined to public relations campaigns, customer appreciation days, and grocery store taste tests which were largely used by small scale organizations. But in recent period the tactics have become so popular that they have been co-opted by big business. Deep pockets like McDonald's, Saks and HBO have started using expensive agency talent and high-profile stunts to take their products public with Guerrilla marketing tactics.

The marketing expert Philip Kotleralso analyzed the Guerrilla tactics in the 1990s. Kotler suggests that such a competitive strategy should be adopted by market challengers that try to increase their own profitability by gaining more market share from other companies in the same industry. A competitive advantage over the challenged company is the foundation for a good strategy, but also involves high risks, especially when the potential gain is high, Kotler believes that the main purpose of Guerrilla Marketing is to destabilize the opponent – or best to destroy the competitors with the help of attrition tactics.

A good amount of research has been done on the concept and usability of Guerrilla marketing practices in western countries. But the literature and academic knowledge about evidences of Indian Healthcare Company's awareness about guerrilla marketing were not found. Hence it is of paramount need to explore the concepts, tools and strategies of Guerrilla marketing to check and evaluate that they could create a specific level of needed attention with zero or very low budget.

Objectives of the study

- To do the reality checks on healthcare marketing issues and Challenges in the perspective of marketing executives.
- To check the Conceptual awareness of Guerrilla Marketing among Marketing Executives
- To evaluate their considerations towards profitability creations from Guerrilla Marketing
- To study the impact of most used Guerrilla Marketing tools in creating the persuasive effect

Sample design

Bangalore the IT hub of India and the capital city of Karnataka state being one of the 5 most promising cities of India has become an investment heaven for the last 15 years. Constantly growing purchasing power, urban migration, growing importance of the city as an educational and medical hotspot made it even a stronger player in the Healthcare market. These with many more positive factors have attracted all the healthcare majors and the equal number of Bangalore based investors into the business in the last ten Years. The post recessionary economy has shown new dimensions spurred by new product offerings, greater influx of end-user targeted medical offerings and also opened an avenue for innovative, out of box but cost effective marketing practices for healthcare. To study the extent of these practices in detail one has to for an in-depth study at large scale. But it is very difficult and times consuming, Hence the study adopted convenience random sampling method and selected 30 respondents who are all marketing executives working with various hospitals in Bangalore.

Sources of the study

The study based on both primary and secondary data. Primary data collected from the sample respondents by adopting convenience random sampling method through pre-tested questionnaire. The secondary data collected through sources like, Published articles, reports, magazines, papers, books etc.

Tools and techniques

The study uses tools like tabular method, five points scale to interpret the data systematically and draw the meaningful conclusions.

Findings of the study

1. RESPONDENT PROFILE

CRITERIA	CLASSIFICATION	PROFILE BY NUMBERS	PROFILE BY PERCENTAGE(%)
Age	21years to 25years	16	53
	26 years to 30years	7	23
	31 years to 35 years	3	10
	35 Years and Above	4	13
Educational Background	MBA	12	40
	PGDBM	2	7
	Under Graduation (Business)	7	23
	Others	9	30
Experience in Years	BELOW 3	22	73
	4 to 7	5	17
	8 and above	3	10
Nature of Hospital	Government	02	14
	Private	12(some respondents belong to same organization)	86
Scale of operation by No. of Beds	Small(1 to 10 beds)	2	14
	Medium(10to 50 beds)	10	71
	Large(more than 50 beds)	02	14
Source: Field Survey			

2. Most used advertising strategy				
Strategy	Yes	%	No	%
Print Ads	28	93.33	2	6.67
Television Ads	12	40.00	18	60.00
Celebrity Endorsements	15	50.00	15	50.00
Outdoor Fly Posters	25	83.33	5	16.67
Source: Field Survey				

3. Agreeability on level of productivity of Costly Advertising mediums in health sector					
Mediums	Highly productive	Productive	Under productive	Un productive	Highly un productive
Corporate Ads	10.00	13.33	76.67	0.00	0.00
Print Ads	53.33	20.00	23.33	3.33	0.00
Television Ads	13.33	10.00	60.00	10.00	6.67
Celebrity Endorsements	0.00	0.00	26.67	23.33	50.00
Outdoor Fly Posters	0.00	46.67	40.00	10.00	3.33
Source: Field Survey					

4. Level of interest towards low budget advertisement mediums (By Percentage)					
Criteria	High Interested	Somewhat Interested	Yet to decide	Not interested	Never will be interested
1.Creative Marketing	76.67	23.33	0.00	0.00	0.00
2. Low Cost	43.33	40.00	0.00	13.33	3.33
4. Out of Box Strategies	80.00	20.00	0.00	0.00	0.00
Positive Publicity	100.00	0.00	0.00	0.00	0.00
Negative Publicity	0.00	0.00	0.00	66.67	33.33
Zero budget Advertisements	53.33	33.33	0.00	13.33	0.00
7.Counter Advertisement	20.00	36.67	0.00	6.67	0.00
10.Unethical advertisements	0.00	13.33	0.00	73.33	13.33
Source: Field Survey					

5. Conceptual awareness of guerilla marketing among Respondent marketing executives				
Heard	23	76.67	7	23.33
Completely Understand	00	0.00	30	100.00
Can explain and can Suggest to others	00	0.00	30	100.00
Never heard of it	07	23.33	23	76.67
Source: Field Survey				

According to Respondents Guerilla marketing is	Yes	%	No	%
Unethical	20	66.67	10	33.33
Just like Guerilla warfare strategy	26	86.67	4	13.33
Undercover marketing	14	46.67	16	53.33
Creating buzz for the products	06	20.00	24	80.00
Source: Field Survey				

6. Knowing/Unknowing usage of guerilla marketing tools		
TOOLS / WEAPONS	YES (%)	NO (%)
1. Free Consultations	73.33	26.67
2. Business Card	100.00	0.00
3. News Releases / Press Releases	40.00	60.00
4. Sponsoring a local Event	20.00	80.00
5. Public Seminars and lectures	23.33	76.67
6. Presence in social Networking Sites (Viral marketing)	90.00	10.00
7. Testimonials	53.33	46.67
8. Customer Reactivation Letter	40.00	60.00
9. Demonstrations	6.67	93.33
10. Blood Drive and other charity fundraisers	26.67	73.33
11. Showcasing Excellence awards	20.00	80.00
Source: Field Survey		

7. Level of preference towards guerilla marketing tools					
Sl.no Tool	Cost /Investment	Somewhat Interested	Yet to decide	Not interested	Never will be interested
Free consultations	83.33	83.33	50.00	33.33	16.67
News release/press release	50.00	83.33	83.33	73.33	83.33
Sponsor a local event	33.33	90.00	100.00	66.67	66.67
Public seminars and lectures	50.00	66.67	63.33	50.00	50.00
Presence in social networking sites	66.67	50.00	66.67	50.00	33.33
Testimonials	100.00	50.00	50.00	33.33	50.00
Customer reactivation letter	100.00	93.33	66.67	50.00	33.33
Demonstrations	66.67	83.33	96.67	83.33	83.33
Charity events/fundraisers for charity events	50.00	83.33	83.33	66.67	50.00
Showcasing excellence awards	100.00	96.67	93.33	83.33	66.67
Source: Field Survey					

Interpretation of major findings

1. Majority of the respondents are of 21 to 25 years of age, have either MBA or an Business oriented degree with an working experience of below 3 years in private hospitals of medium sizes scale of operation.
2. Print advertisements, Outdoor fly posters are more preferred than TV advertisements and celebrity endorsements by the Marketing executives.
3. Only Print Ads are considered Productive. Corporate Ads, Television Ads, Celebrity endorsements and Outdoor Fly Posters are considered as under productive advertising strategies by marketing executives.
4. The study reveals that, Marketing executives have high interest towards Creative and Out of Box Strategies, Positive Publicity and Zero budget Advertisements, whereas the same group never wants Negative Publicity and doesn't concretely reveals anything on Counter AND Unethical advertisements,
5. Majority of the respondent marketing executives have heard of Guerilla marketing and none of them opine that they neither completely understand nor in a position to explain and suggest others on the strategies of guerilla marketing
6. Majority Think of Guerilla marketing as a applied concept of guerilla warfare strategies but considerably good number respondents consider it as unethical, undercover which doesn't creates any buzz. But the reality is it is an ethical buzz creating guerilla warfare like strategy.
7. As a blessing in disguise, majority of the marketers are already using some tools of guerilla marketing in practice. Among them Free Consultations, Business Card, Presence in social Networking Sites (Viral marketing) are used to good extend. But News Releases / Press Releases, Sponsoring a local Event, Public Seminars and lectures, testimonials, Customer Reactivation Letter, Demonstrations, Blood Drive and other charity fundraisers , Showcasing Excellence awards. Are yet to be considered seriously by the marketers.
8. Free Consultations, Business Card, News Releases / Press Releases, Sponsoring a local Event, Public Seminars and lectures,. Presence in social Networking Sites (Viral marketing), testimonials, Customer Reactivation Letter, Demonstrations, Blood Drive and other charity fundraisers , Showcasing Excellence awards, Pamphlets
9. Five factors such as Cost /Investment, Ease of Usage, Attractiveness, Persuasiveness, Reinforcement ability are considered as the criteria are to evaluate effectiveness of Guerilla marketing tools. All the considered Guerilla marketing tools among the available 100 plus tools have received favorable responses towards adopting them as unconventional, low-cost but Highly attractive, persuasive and reinforcing medium of targeted advertising.

Conclusion

The media bursts and the abundance of advertising messages have made Guerilla Marketing more important than ever for brands to catch the public's attention and to differentiate. Advertisers and agencies should be smarter and more creative today than they ever were. That's why alternative media are the key to success. Guerrilla Marketing leads to campaigns which stand completely out from other mediums in creating interest and provide Reinforcement ability to the marketer, Health care sector requires strong strategies by whom the message reaches the mind of the consumer with a significant force and stays there for considerably long period. It is eveident from the paper that the sector is already using Guerilla marketing but not in the systematic and strategic way. Hence there is good scope to study the issue in detail and to inculcate the appropriate Guerilla marketing tools for everlasting success.

References

1. Canan Ay, Pinar Aytekin and Sinan Nardali(2010). "Guerrilla Marketing Communication Tools and Ethical Problems in Guerilla Advertising". American Journal of Economics and Business Administration 2 (3): 280-286,

2. Belch, G.E., & Belch, M.A. (2004). "Advertising and Promotion: An integrated Marketing Communications Perspective" 6th edition. Boston: Irwin/ McGraw Hill.

3. Bianco, Antony et al. (2004) "The vanishing mass market", Business Week, 12 july, 2004

4. Levinson, J.C., 1994. "Guerilla Advertising: Cost Effective Techniques for Small-Business Success". Houghton Mifflin Company, USA. MA

pradeepa.m.mba@gmail.com

WORLD HEALTH STATISTICS 2013

HEALTH EXPENDITURE RATIOS

Member State	Total Expenditure on Health as % of gross domestic product		General government expenditure on health as % of total expenditure on health		Private expenditure on health as % of total government expenditure		General government expenditure on health as % of total government expenditure		External resources for health as % of total expenditure on health		Social security expenditure on health as % of general govrnment expenditure on health		Out-of-pocket expenditure as % of private expenditure on health		Private prepaid plans as % of private expenditure on health	
	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010
Afghanistan	…	10.4	…	22.5	…	77.5	…	3.9	…	27.3	…	0	…	94.0	…	0
Argentina	9.2	8.3	53.9	64.4	46.1	35.6	14.7	17.7	0	.0.1	59.6	65.9	63.0	60.0	30.7	31.5
Australia	8.1	9.0	66.8	68.5	33.2	31.5	15.1	16.8	…	…	…	…	59.7	59.4	21.8	24.9
Austria	10.0	11.0	75.6	76.2	24.4	23.8	14.6	15.9	…	…	59.0	55.7	62.1	67	19.4	18.8
Bahrain	3.9	4.3	67.5	71.1	32.5	28.9	10.2	9.6	0	0	0.4	1.5	68.7	60.9	25.4	21.1
Bangladesh	2.8	3.7	39.0	36.5	61.0	63.5	7.6	8.9	6.9	7.1	0	0	95.1	96.6	0.1	0.3
Belgium	8.1	10.5	74.6	75.6	25.4	24.4	12.3	15.1	…	38.2	85.4	85.5	83.7	79.5	15.4	19.7
Botswana	4.7	5.1	62.2	64.5	37.8	35.5	7.3	8.7	0.5	8.0	…	…	36.7	12.7	4.1	79.9
Brazil	7.2	9.0	40.3	47.0	59.7	53.0	4.1	10.7	0.5	0.3	0	0	63.6	57.8	34.3	40.4
Canada	8.8	11.4	70.4	71.1	29.6	28.9	15.1	18.3	…	…	2.0	1.9	53.7	49.0	38.8	43.2
Chile	7.7	7.4	43.7	47.2	56.3	52.8	14.1	15.8	0	0	15.0	13.7	64.8	69.1	35.2	30.9
China	4.6	5.0	38.3	54.3	61.7	45.7	10.9	12.1	0.1	0.1	57.2	64.2	95.6	77.2	1.0	7.4
Denmark	8.7	11.1	83.9	85.1	16.1	14.9	13.6	16.4	…	…	…	…	90.9	88.7	8.7	10.8
Egypt	1.7	4.7	99.6	39.2	0.4	60.8	5.6	6.1	3.3	0.6	…	21.0	…	97.7	…	1.7
Ethiopia	4.3	4.8	53.6	52.9	46.4	47.1	8.9	13.7	16.5	36.1	0	0	79.2	80.1	0.5	1.5
Finland	7.2	9.0	71.3	74.5	28.7	25.5	10.6	12.0	0	0	19.5	19.4	77.7	75.5	8.8	8.4
France	10.1	11.7	79.4	76.9	20.6	23.1	15.5	15.9	…	9.9	94.3	95.3	34.4	32.2	61.6	59.3
Germany	10.4	11.5	79.5	76.8	20.5	23.2	18.3	18.5	…	…	87.2	88.6	51.0	51.4	40.2	39.9
Greece	7.9	10.8	60.0	61.5	40.0	38.5	10.1	13.2	…	…	45.9	51.8	94.5	94.5	5.5	5.5
Hungary	7.2	7.8	70.7	64.8	29.3	35.2	10.6	10.2	0	…	83.9	83.5	89.8	74.3	0.6	7.0
India	4.3	3.7	26.0	28.2	74.0	71.8	7.4	6.8	0.5	1.3	18.3	19.0	91.8	86.0	1.1	4.7
Indonesia	2.0	2.8	36.1	36.1	63.9	63.9	4.5	6.2	…	1.2	6.3	17.4	72.9	75.8	6.4	3.7
Iraq	2.8	8.5	1.1	81.2	98.9	18.8	0.1	10.2	12.9	0.8	0	0	100	100	…	…
Italy	8.0	9.5	72.5	77.6	27.5	22.4	12.7	14.7	…	…	0.1	0.2	89.1	87.6	3.2	4.6
Japan	7.6	9.2	80.8	80.3	19.2	19.7	16.2	18.2	…	…	84.9	87.3	80.1	82.0	12.7	12.5
Kuwait	2.5	2.6	76.0	80.4	24.0	19.6	5.5	6.9	0	0	0	0	93.2	90.6	6.8	9.4
Malaysia	3.1	4.4	59.0	55.5	41.0	44.5	8.0	9.2	0.7	0	0.7	0.7	72.2	76.8	12.5	14.7
Mexico	5.1	6.3	46.6	49.0	53.4	51	16.6	12.1	1.0	0	67.6	55.4	95.3	92.2	4.7	7.8
Nepal	5.4	5.1	24.6	37.4	75.4	62.6	8.3	9.5	15.3	12.3	0	4.1	91.2	90.4	0.1	0.2
New Zealand	7.6	10.1	78	83.2	22.0	16.8	15.7	19.8	…	…	…	10.1	69.9	62.6	28.5	29.2
Nigeria	4.6	5.4	33.5	31.5	66.5	68.5	4.2	5.7	16.2	8.7	0	0	92.7	95.6	5.1	3.1
Oman	3.1	2.7	81.8	81.1	18.2	18.9	7.1	6.2	0	0	0	…	64.4	61.4	21.3	23.2

Member State	Total Expenditure on Health as % of gross domestic product		General government expenditure on health as % of total expenditure on health		Private expenditure on health as % of total government expenditure		General government expenditure on health as % of total government expenditure		External resources for health as % of total expenditure on health		Social security expenditure on health as % of general govrnment expenditure on health		Out-of-pocket expenditure as % of private expenditure on health		Private prepaid plans as % of private expenditure on health	
	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010
Pakistan	1.1	1.0	58.7	76.6	41.3	23.4	2.4	3.4	2.0	10.2	5.7	3.4	…	…	1.2	2.3
Philippines	3.2	4.1	47.6	36.1	52.4	63.9	8.4	8.8	3.5	1.7	14.7	25.5	77.2	83.8	11.1	11.3
Poland	5.5	7	70.0	71.7	30.0	27.8	9.4	11.0	…	0.1	82.6	86.2	100	79.4	0.8	2.4
Portugal	9.3	10.7	66.6	65.8	33.4	34.2	14.9	13.8	…	…	1.7	1.9	72.8	76.1	9.8	12.7
Republic of Korea	4.5	7.1	48.6	58.2	51.4	41.8	9.7	13.7	…	…	77.3	77.5	80.9	76.8	9.4	13.3
Romania	4.3	5.9	81.2	80.3	18.8	19.6	9.1	11.9	…	0.1	81.9	79.9	100	98.2	…	0.4
Russian Federation	5.4	6.5	59.9	58.7	40.1	41.3	12.7	9.7	0.2	…	40.3	44.6	74.7	87.8	8.1	7.1
Saudi Arabia	4.3	4.0	71.6	66.0	28.4	34	9.2	6.8	0	0	…	…	66.7	57.3	10.4	23.6
Singapore	2.8	4.5	44.9	31.4	55.1	68.6	6.2	9.0	0	0	4.8	15.5	95.7	87.8	0	10.1
South Africa	8.1	8.7	42.3	46.6	57.7	53.4	10.9	12.4	0.3	2.2	3.3	2.9	23.1	13.9	75.4	80.3
Spain	7.2	9.6	71.6	74.2	28.4	25.8	13.2	15.4	…	…	9.6	6.1	83.1	76.2	13.7	21.4
Sri Lanka	3.7	3.5	48.4	45.6	51.6	54.4	6.8	6.9	0.3	2.2	0.3	0.1	80.8	81.9	2.8	4.5
Switzerland	9.9	10.9	55.4	65.2	44.6	34.8	15.4	21.0	25.1	31.1	72.8	70.9	74.0	72.3	23.8	24.9
Thailand	3.4	3.9	56.1	75.0	43.9	25.0	11.0	14.3	0	0.3	9.4	10.1	76.9	55.8	12.8	31.4
United Arab Emirates	2.2	3.7	76.7	73.0	23.3	27.0	7.6	8.8	0	0	0	0	69.4	63.2	20.2	27.3
Kingdom	7.0	9.6	78.8	83.2	21.2	16.8	15.1	15.9	…	…	…	…	53.9	53.1	19.2	18.8
United States of America	13.4	17.6	43.2	48.2	56.8	51.8	17.1	19.9	…	…	80.3	86.4	25.5	22.7	60.3	64.4
Uruguay	11.2	8.1	54.6	65.3	45.4	34.7	22.8	18.8	…	0.1	27.4	56.4	31.2	39.6	14.9	60.4
Venezuela	5.7	5.3	41.5	38.8	58.5	61.2	8.0	9.0	0.7	0	34.6	31.6	90.9	90.8	3.2	3.4
Zambia	5.7	6.0	51.3	60.8	48.7	39.2	9.4	16.0	17.8	43.7	0	0	80.4	66.7	0.9	3.6
Zimbabwe	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…	…

PER CAPITA HEALTH EXPENDITURES								
Member State	Per capita total expenditure on health at average exchange rate (US$)		Per capita total expenditure on health (PPP int. $)		Per capita government expenditure on health average exchange rate (US$)		Per capita government expenditure on health (PPP int. $)	
	2000	2010	2000	2010	2000	2010	2000	2010
Afghanistan	...	44	...	52	...	10	...	12
Argentina	709	759	840	1321	382	489	453	851
Australia	1713	5174	2253	3685	1145	3545	1505	2525
Austria	2403	4964	2898	4398	1818	3783	2192	3351
Bahrain	497	748	767	937	335	531	518	666
Bangladesh	10	25	24	61	4	9	9	22
Belgium	1844	4548	2247	3975	1376	3438	1676	3005
Botswana	152	382	401	711	94	246	249	459
Brazil	265	990	503	1009	107	466	203	474
Canada	2089	5257	2519	4443	1470	3736	1772	3157
Chile	387	933	735	1191	169	440	321	562
China	43	219	108	373	17	119	41	203
Denmark	2609	6253	2508	4467	2188	5323	2103	3803
Egypt	24	125	61	293	24	49	61	115
Ethiopia	5	15	20	50	3	8	11	26
Finland	1699	3955	1853	3252	1210	2947	1321	2423
France	2203	4618	2546	3997	1749	3553	2021	3075
Germany	2386	4654	2679	4342	1898	3573	2131	3334
Greece	917	2873	1451	3069	550	1768	871	1888
Hungary	326	1002	853	1601	231	649	603	1037
India	20	51	65	126	5	14	17	36
Indonesia	15	84	46	123	5	30	16	44
Iraq	34	247	77	346	<1	200	<1	281
Italy	1554	3247	2064	3046	1127	2520	1497	2365
Japan	2834	3958	1974	3120	2290	3179	1595	2506
Kuwait	488	1225	705	1133	371	984	535	910
Malaysia	125	368	282	645	73	204	166	358
Mexico	328	603	509	962	153	296	237	471

Member State	Per capita total expenditure on health at average exchange rate (US$)		Per capita total expenditure on health (PPP int. $)		Per capita government expenditure on health average exchange rate (US$)		Per capita government expenditure on health (PPP int. $)	
	2000	2010	2000	2010	2000	2010	2000	2010
Nepal	12	28	43	61	3	10	11	23
Netherlands	1925	5683	2341	5112	1214	4820	1477	4335
New Zealand	1051	3267	1603	2992	820	2719	1250	2490
Nigeria	17	67	60	128	6	21	20	40
Oman	264	568	657	591	216	461	537	479
Pakistan	6	10	18	28	3	8	11	21
Philippines	34	89	77	164	16	32	37	59
Poland	247	851	584	1377	173	610	409	987
Portugal	1066	2306	1654	2729	710	1517	1102	1796
Republic of Korea	508	1452	771	2035	247	845	375	1185
Romania	72	457	248	881	59	367	201	708
Russian Federation	96	670	369	1277	57	393	221	749
Saudi Arabia	400	659	768	914	287	435	550	603
Singapore	663	2005	956	2592	298	629	429	813
South Africa	240	631	540	915	102	294	228	426
Spain	1040	2896	1538	3057	745	2148	1101	2268
Sri Lanka	33	82	102	175	16	37	49	80
Switzerland	3519	7699	3210	5297	1951	5021	1780	3454
Thailand	66	179	166	331	37	134	93	248
United Arab Emirates	752	1467	865	1562	577	1071	664	1140
United Kingdom	1765	3495	1835	3433	1391	2908	1446	2857
United States of America	4703	8233	4703	8233	2032	3967	2032	3967
Uruguay	773	948	953	1132	422	619	520	740
Venezuela	274	720	482	642	114	279	200	249
Zambia	18	74	52	92	9	45	27	56
Zimbabwe	…	…	…	…	…	…	…	…

HEALTH EXPENDITURE RATIOS	Total expenditure on health as % of gross domestic product		General government expenditure on health as % of total expenditure on health		Private expenditure on health as % of total expenditure on health		General government expenditure on health as % of total government expenditure		External resources for health as % of total expenditure on health		Social security expenditure on health as % of general government expenditure on health		Out-of-pocket expenditure as % of private expenditure on health		Private prepaid plans as % of private expenditure on health	
	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010
RANGES OF COUNTRY VALUES																
Minimum	1.1	1.0	1.1	12.1	0.1	0.1	0.1	1.3	0.1	0.1	0.1	0.1	1.7	6.5	0.1	0.1
Median	5.6	6.5	58.4	60.8	41.9	39.2	9.9	11.6	5.4	7.3	27.0	25.5	84.7	84.0	8.1	7.2
Maximum	21.9	20.8	100	99.9	98.9	87.9	26.9	29.0	71.5	80.5	99.0	99.9	100	100	100	80.3
WHO REGION																
African Region	5.5	6.2	44.0	47.2	56.0	52.8	8.1	9.6	6.6	12.0	8.1	7.8	55.8	56.6	35.5	31.7
Region of the Americas	11.4	14.3	45.1	49.8	54.9	50.2	14.5	18.1	0.1	0.1	68.0	72.2	32.9	30.6	54.6	58.2
South-East Asia Region	3.6	3.6	32.0	34.7	68.8	65.3	7.3	7.6	0.9	105	13.2	15.4	88.9	84.0	2.4	5.4
European Region	8.0	9.3	73.9	74.4	26.0	25.5	14.0	14.8	0.7	208	52.7	50.6	66.5	68.7	22.2	21.4
Eastern Mediterranean	4.2	4.5	47.4	48.5	52.6	51.5	6.9	7.4	1.0	0.9	18.4	20.9	88.4	89.9	5.4	6.3
Ranges of country values	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010	2000	2010
Western Pacific Region	5.9	6.4	63.8	64.1	36.2	35.9	13.9	14.4	0.2	0.2	68.1	67.6	86.2	77.7	7.2	10.2
INCOME GROUP																
Low income	3.9	5.3	42.0	38.5	62.7	61.5	8.5	9.3	14.4	26.3	2.0	4.5	83.5	77.7	1.4	1.4
Lower middle income	4.1	4.3	33.3	36.1	66.7	63.9	6.6	7.4	2.5	2.5	14.9	16.3	90.0	87.8	2.5	4.1
Upper middle income	5.4	6.0	48.3	55.5	51.7	44.5	9.3	11.6	0.5	0.3	41.4	47.0	79	75.1	15.3	16.8
High income	9.9	12.4	59.5	61.8	40.5	38.2	15.3	17.3	0.2	1.1	63.9	65.8	38.2	36.1	48.9	52.0
Global	8.2	9.2	56.4	58.9	43.6	41.1	13.5	15.1	0.4	1.2	59.2	60.1	50.0	49.9	38.8	39.3

PER CAPITA HEALTH EXPENDITURES								
	Per capita total expenditure on health at average exchange rate (US$)		Per capita total expenditure on health (PPP int. $)		Per capita government expenditure on health at average exchange rate (US$)		Per capita government expenditure on health (PPP int. $)	
	2000	2010	2000	2010	2000	2010	2000	2010
RANGES OF COUNTRY VALUES								
Minimum	3	10	11	17	< 1	2	< 1	3
Median	104	302	248	496	63	173	157	284
Maximum	4703	8233	4703	8233	2955	6910	3413	5660
WHO REGION								
African Region	34	89	87	154	15	43	38	73
Region of the Americas	1851	3373	1985	3454	829	1682	896	1722
South-East Asia Region	19	58	61	125	6	21	20	43
European Region	938	2217	1215	2282	706	1679	899	1697
Eastern Mediterranean Region	91	182	171	326	45	97	81	158
Western Pacific Region	289	579	296	650	210	398	189	417
INCOME GROUP								
Low income	10	28	27	63	4	10	11	24
Lower middle income	24	72	75	152	8	27	25	55
Upper middle income	115	384	240	598	55	211	116	332
High income	2567	4828	2662	4612	1524	3026	1584	2850
Global	482	941	564	1017	278	571	318	599
Source: World Health Statistics 2013, World Health Organization								

Q&A

Interview with

Dr. Pratip Kumar Kundu
Medical Superintendent cum
Vice Principal, Calcutta School of
Tropical Medicine, Kolkata

MA What are the major challenges faced by the public healthcare sector?

Ans: The funds crisis is one of the biggest problems in the public healthcare sector. The other problems are: lack of quality physicians, poor supply of medicine, scarcity of consumable stores and instruments and undue pressure from external sources.

MA Government Hospital provides many free treatment services. How do you arrange sufficient fund to generate free services?

Ans: Government ensures funds to hospitals to provide free facility towards the poor people. Government also allocates funds in its budget for this special purpose.

MA Are you in favour of the subsidy system of the government?

Ans: Yes; government subsidy is very much required for the government hospital otherwise these hospitals will not be able to provide uninterrupted services at a lower price. Services provided by the private hospitals are sometimes out of the reach of middleclass and poor people; but government hospitals provide all those facilities at a lower price than the market price. Sometimes they provide services at free of cost. So without subsidy it is not at all possible.

MA Sir you are aware self sustainability is a major issue for any organization. How the Government hospitals plan to achieve self sustainability?

Ans: Our organization has taken some initiatives to enhance self sustainability; as for an example now we did not provide all medical services without any charge. We have categorized treatments on the basis of needs and priority and charge fees for a particular treatment on that basis. Earlier skin treatment for enhancing beauty was free of cost; now we charge fee for the same.

MA How does your organization manage inventory control system?

Ans: There is no specific Inventory control system in our organization because our organization is not so big. Our various departments prepare a list for medicines, consumable stores and for other items according to their need and forward it to purchase department and accordingly they purchase it from CMS or from fair price medical shop centres. We also maintain store ledger system and proper accounting system for our stores department and it is now totally computerized.

MA How does your organization manage fund?

Ans: We have to face fund crisis. Government allocates fund for our organization and we try to spend money within the budget estimate. From June this year we are following e-payment system which helps us to minimize embezzlement. We always try to find out those areas which attracts additional cost burden and try to minimize those in order to enhance efficiency. Generally supervisor, ward master looks after these aspects. We deposit our profit in RKP and Swastha Samity in the ratio of 60% and 40%. We spend money from RKP for salary, cleaning and maintenance purpose and we get fund from Swastha Samity for some special purpose and this fund is strictly regulated by the government.

MA Tell us something about budgetary control system in the public healthcare sector.

Ans: We prepare the budget on the basis of area, staff, equipment, etc. and forward them to Government but Government approval is required to make the budget effective. Government approves the budget on the basis of past records and audit report.

MA Do you believe internal control system is required for public healthcare organizations?

Ans: Yes it is very much required to identify pilferage, extra cost involvement, inefficiency etc. It has huge impact in public sector health care organizations.

MA Do you believe proper Cost Management has an important role in your organization?

Ans: Yes Cost Management is very much required in view of cost control, quality management, inventory control and identifying inefficiency.

MA Do you think performance evaluation/ appraisal of Government hospital is the need of the hour?

Ans: Yes it is very much required for enhancing efficiency; but in government hospitals the possibility of Performance appraisal is very much remote.

MA Healthcare pricing strategy is one of the most critical components of managing hospitals. How do you fix price packages of health related services?

Ans: The state Government fix price for our medical packages. So we do not follow such kind of standards.

MA Recently Medical tourism in India is becoming very popular because of mainly low cost treatment. What role does your hospital play in this regard?

Ans: Generally patients come here from USA, Canada and Europe for tropical medicines. Indian government sends patients in our organization.

MA Indians reportedly pay about 70% of health costs out-of-pocket, and of this, the majority of expenditures are on drugs. How does your hospital deal with the medical insurance facility? Is the existing system of medical insurance in India sufficient or are there any hindrances?

Ans: There are various insurance companies in India who are providing mediclaim facility. In our organization, we generate bill and the patients get it reimbursed on the basis of our bill. Newly Government has started BPL Insurance scheme for the poor people. Under this policy Government hospitals create fund for the poor people and spent money from that fund for the treatment of the poor people and hospitals itself negotiates with insurance company.

MA How do you compete with private sector?

Ans: Government Hospitals are non profit seeking organization; so they don't think about competition. Government grants, low tax facility help them to offer services at a low cost. We focus on middle-class and poor people who cannot bear huge expenses of private sector hospitals.

MA What is your opinion regarding growth of overall healthcare system in India?

Ans: Standard of Government hospitals in India is not satisfactory. Quality of service and infrastructural facilities are still low. Though in the states like Karnataka, Gujarat, healthcare sector is developing in a satisfactory pace but Government Hospitals in most of the states are in a miserable condition.

MA He suggests that Government should:

- make stronger regulation to enhance the performance of government hospitals.
- restrict the number of pass outs as medical students.
- enhance the quality of doctors and medical professors.

CORPORATE SOCIAL RESPONSIBILITIES

Among all the new provisions in the new Companies Act in, the one relating to corporate social responsibility has invited maximum attention and comment

TCA Ramanujam
Chief Commissioner of Income Tax (retd.), Advocate High Court, Madras

TCA Sangeetha
Masters in Law

AT long last, Parliament found time to enact the new law for companies in India. The old Companies Act, 1956 had become out of date and out of touch with current day realities. The matter has been engaging the attention of the Government of India for more than 10 years. We had report by certain experts who drafted a Bill for this purpose. As with the Income Tax Bill, the company working draft Bill had no takers. A lot of thought has gone into the making of the new Company law. It paves the way for a leaner and more contemporary law. Several radical changes have been made and new concepts introduced. Hereafter, every company must have at least one woman Director on its Board. One third of the Board should comprise independent Directors. There is provision for higher accountability for Auditors and Audit firms. Audits will have to go beyond the concept of 'reasonable assurance'. The concept of class-action suits has been introduced. Companies accepting deposits from public will face a stringent regime. One-man companies will be legalized.

CSR

Among all the new provisions brought in, the one relating to corporate social responsibility has invited maximum attention and comment. This has been the most talked about feature of the new law. The Minister for Corporate affairs, Sachin Pilot, has taken credit for the fact that India is the first country in the world to have a CSR in the statute itself. "The CSR iniative,' says the Minister, 'can be used to win the endearment of people. You are also adding to your potential talent pool by contributing to quality education and healthcare. It is an Avenue for companies to earn that goodwill which sponsorships can't. Corporate houses spend so much money on media to get eye-balls. The kind of impact CSR can create in the hearts and minds of people is phenomenal. To create better investment opportunities we need that harmonization. So CSR has many facets to it. It is not just the quantum of money, but quality of work.'

Section 135

CSR will not apply to all companies. There are limits fixed before invoking the provisions for the CSR initiative. The company must have a net worth of Rs.500 crores or more. In the alternative, it should have a turnover of Rs.1000 crores or more. There is yet again another alternative. The company should have made a net profit of Rs5 crores or more during the financial year. This is laid down in Section 135. There will be a Corporate Social responsibility Committee of the Board consisting of 3 or more directors, out of which at least one Director shall be an independent Director. The Committee should formulate and recommend to the Board a CSR policy which shall indicate

ACCORDING TO ONE ESTIMATE, AROUND 8000 COMPANIES WOULD FALL UNDER THE AMBIT OF THE CSR LAW. WE HAVE MORE THAN 13.29 LAKH COMPANIES IN INDIA. ONLY AROUND 1% OF THE COMPANIES WILL HAVE TO FOLLOW THE CSR NORMS

the activities to be undertaken by the company. These are specified in Schedule VII. The Committee will also recommend the amount of expenditure incurred on such activities and monitor the implementation of the policy from time to time. The company will have to report the contents of such policy on its website.

Section 135 (5) mandates that the company should spend in every financial year, at least 2% of the average net profits made during the 3 immediately preceding financial years in pursuance of the CSR policy. It should give preference to the areas around which it operates for spending the amount earmarked for CSR activities. The law expects companies to undertake activities for eradicating poverty and hunger, promoting gender equality, improving maternal health, environmental sustainability, enhancing vocational skills, social business projects and contribution to the Prime Minister's National Relief Fund etc., These are no doubt laudable objectives. But what about companies like Tata that spend liberally on CSR choosing such activities that suit the companies through trusts established for this purpose? Companies operate to make profits. Is it possible that the CSR policy as envisaged will not fit into existing programs which benefit society anyway?

What about Religious activity? The Minister for Corporate Affairs feels that religious donations cannot be considered as fulfilling CSR. He was however quick to point out that this was his personal view that such religious donation should not be counted as part of CSR. Again, a company like Madras Cements can allot a considerable sum of money to the starting of a new Engineering college and claim that the object was to promote skill development. Will this be alright under the new policy?

Tax deduction

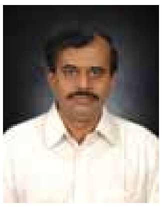
Sooner or later, claims are bound to be made that amounts spent on CSR policy should be allowed as business expenditure under Section 37 of the Income Tax Act, 1961. After all, the expenditure is mandated under the law. It should be interesting to watch the further development of the new CSR law when the Rules are framed. Social welfare spending by companies is nothing new. What is new is the compulsion that companies will face in this regard. Much clarity is required about the concept and its implementation. According to one estimate, around 8000 companies would fall under the ambit of the CSR law. We have more than 13.29 lakh companies in India. Only around 1% of the companies will have to follow the CSR norms.

What happens if companies choose to play safe and contribute to the Prime Minister's National Relief Fund to avoid all controversies? Such contributions will also be tax deductable. Both the IT law and the new company law will be helpful that way. Having taken a path breaking initiative, it is now up to the Government to see that the policy in this regard is implemented successfully and leads to all round promotion of social welfare. The Rules should be framed in consultation with industry bodies after maximum discussion. Every effort should be made to see that there is no litigation in implementing the new policy. Both the corporate houses and the department of company affairs owe it to the public at large to ensure the success of the new initiative. The Rules to be framed will be watched keenly by the corporate world. MA

ramanuja@vsnl.com

TAX CROSSINGS: SERVICE TAX VS INCOME TAX

It does not augur well that several principles and core issues are maintained upside down between contending tax systems



Ravindran Pranatharthy
Advocate,
Indirect taxes
& IPRs

Service tax and Income tax are quintessentially dissimilar tax systems, at least in theory. The taxable events, legal procedures and the administrative apparatus are different for these two taxes. In taxation, it may be thought that there is very little meeting ground between a Direct tax and an Indirect tax. However, when a tax system provides that the assessable value will not include other taxes, the question arises as to what sort of taxes would get excluded. For example, in Central Excise law, the valuation provisions contained in the Section 4 of the Central Excise Act state that the value does not include excise duty, sales tax and other taxes, paid or payable on the goods. Apparently, the range of excluded taxes relates to commodity taxes and will not indicate a connection with income tax paid by manufacturers and sellers of goods, though their income may have been derived from the sale of goods. Nevertheless, a novel type of dispute arose in the case of Commissioner of Central Excise, Madurai Vs DCW Ltd - 2001 (127) E.L.T. 728 (Tribunal - Chennai) where the Appellate authority had earlier upset the Revenue by allowing calculation of profit margin for captive consumption after deducting the income tax. The Tribunal accepted the Revenue's argument that income tax cannot be deducted in central excise law even for computing the profit margin. In service tax law, there is an express provision to exclude only the service tax from the gross consideration subject to certain conditions. No other taxes are mentioned for exclusion. In Income tax law, the issue is wide open.

When a tax system does not state anything on the exclusion of taxes from the value chain of that particular tax, difficulties are experienced by the tax payers and the cases go to Courts and Tribunals. If the taxable event is clear and each tax follows the other, there may be no great difficulty. For example, in the VAT system, the excise duty element will be included in the VAT assessable value if the sale price of

the product is inclusive of excise paid. However, this is rarely the case in other tax systems such as Service tax and the Income tax. Cases of whether to exempt the income-tax from the levy of service tax and vice versa spring up. Hence, people may wonder if these two taxes could get into each other's hug with uncomfortable consequences. But it has happened. In this article, we will look at several intersections where the two taxes were sought to be included in each other's ambit and how it was viewed by the Tribunals and the Court.

Tax implications of book entry

Often transactions involving goods or services or both take place between two parties and are only recorded in the books of account. Money may not be paid up for one reason or the other. In such cases, the question is whether a mere book entry creates tax consequences. Now let us see how this issue is dealt with in Service tax and income tax laws.

Service tax

In service tax law, even a mere book entry will have tax repercussions. The service tax no longer gets paid on receipt basis.

A book entry signifies a completion of a whole or part provision of service. It may also vouch for receipt of money as advance or otherwise from the client, if there is any such receipt which is so recorded. It will have clear tax consequences including the case where the invoice underlying the transaction does not get issued within 30 days of the provision of the service. Non-payment by the service receiver will not absolve the service provider of his liability to pay the tax in accordance with the point of taxation rules. A book entry seals his fate as far as his tax liability is concerned.

This context becomes equally onerous for the hapless assessees with regard to tax liability under the reverse charge mechanism including the import of services. Rule 7 of Point of Taxation Rules 2012 lays down as follows:

"In case of "associated enterprises", where the person providing the service is located outside India, the point of taxation shall be the date of debit in the books of account of the person receiving the service or date of making the payment whichever is earlier".

The definition of "associated enterprises" is of course incorporated from the Income tax Act.

Income tax

As regards International transactions, the Income tax Appellate Tribunal has taken the view in the case of ITO Vs PIPAVAV SHIPYARD LTD - 2013-TII-137-ITAT-MUM-INTL wherein the Tribunal was dealing with a case where the assessee company had booked an amount of Rs. 122.65 lakh towards the consultancy charges payable to Overseas Shipbuilding cooperation Centre but had not remitted the same pending regulatory approval as well as that Treaty provisions in that case gave immunity from taxation by India. The ITO had faulted the company for failing to deduct TDS despite the book entry. The Tribunal even as it weighed multiple arguments against the Revenue pointedly held:

"The assessee had neither made the payment nor had claimed any revenue expenditure. Therefore only on the basis of entry in the books of accounts, the assessee could not be held liable for deduction of tax at source when ultimately the amount was found not payable nor it was paid, income therefore had not accrued to the Overseas Shipbuilding Cooperation Centre".

Service tax in the tax value of TDS

Service tax is a Union levy. Assessees collect it only to remit it to the government, acting as an agent of the government in the process. They derive no gain or profit by remitting the service tax and reimbursing themselves from their clients where possible. Therefore, the issue to consider is whether service tax remitted by the Income tax asessees should be excluded for the purpose of computing the withholding taxes under the Income-tax. There have been conflicting decisions on the issue by the ITAT in the context of section 44BB as observed by the Tribunal in the case of Deep Drilling PTE Ltd Vs Asst Director of Income tax (International Taxation) 2012-TII-140-ITAT-MUM-INTL. However, in this case the ITAT held as follows:

" insofar as the submissions made by both the sides on the inclusion or otherwise of the amount of service tax in the aggregate amount u/s 44BB of the Act is concerned, it is found that the Mumbai Bench on the one hand and Delhi Bench on the other in the cases discussed above have expressed diagonally opposite views. Whereas the Delhi Bench in the case of Technip Offshore Contracting BV has categorically held that the service tax collected by that assessee was directly in connection with the services and facilities provided by it to the ONGC and the same was includible in the receipts for the purpose of determination of profits as per section 44BB of the Act, the Mumbai Bench of the Tribunal in the case of Islamic Republic of Iran Shipping Lines has held that the amount of service tax was not includible in the total receipts for determining the presumptive income u/s 44B of the Act as it did not involve any element of profit. In the backdrop of such conflicting decisions, we would have ordinarily referred the matter to the President for constitution of Special Bench for resolving the conflict in the views;

We are not making any such reference for the reason that the amount in question has not accrued to the assessee at all and as such there can be no question of considering this amount for the purpose of section 44BB of the Act.

It is only when at the first stage there is receipt or accrual of income, that the question of the second stage, being its inclusion or otherwise within the purview of section 44BB, can arise. As we have held above that the assessee had not acquired any right to receive USD 2.27 million on account of service tax, being the first step, we, therefore need not embark upon the second step, being its inclusion or otherwise in the receipts for the purposes of section 44BB. As such we desist from giving any finding on the inclusion or exclusion of the amount of service tax in the income of the assessee for the purpose of section 44BB of the Act. This issue is, therefore, left open to be decided in an appropriate case".(emphasis supplied)

Income tax in the value chain of reverse service tax

Similarly, the abiding issue in service tax payment on reverse basis is whether the income tax TDS needs to be factored out to compute service tax liability. This question came up before the Chennai bench of CESTAT in the case of HINDUSTAN OIL EXPLORATION CO. LTD Vs COMMISSIONER OF SERVICE TAX, CHENNAI - 2012 (25) S.T.R. 454 (Tri. - Chennai). The Tribunal in its interim order helpfully observed as follows:

"**4.** We find that there is no specific exclusion in the Finance Act, 1994 to exclude the income tax paid in respect of the amount paid for the services received from abroad. At the same time, prima facie, it appears that the gross amount charged for the services cannot be said to include income tax deducted at source as per the income tax statute. We also find, where the amount charged includes the service tax amount, the Finance Act, 1994 provides for exclusion of the same. Merely because no such exclusion has been provided in respect of statutorily deducted amount of income tax, it cannot be said that the appellants have not made out a case for waiver of the pre-deposit in this regard".

Characterization of Export of Services:

Service tax

In Service Tax Law, the changed provisions regarding export of services contained in the new Rule 6A of Service Tax Rules, 1994 are, as follows:-

"RULE 6A. Export of services.

(1) The provision of any service provided or agreed to be provided shall be treated as export of service when,-

(a) the provider of service is located in the taxable territory,

(b) the recipient of service is located outside India,

(c) the service is not a service specified in the section 66D of the Act,

(d) the place of provision of the service is outside India,

(e) the payment for such service has been received by the provider of service in convertible foreign exchange, and

(f) the provider of service and recipient of service are not merely establishments of a distinct person in accordance with item (b) of Explanation 2 of clause (44) of section 65B of the Act.

(2) Where any service is exported, the Central Government may, by notification, grant rebate of service tax or duty paid on input services or inputs, as the case may be, used in providing such service and the rebate shall be allowed subject to such safeguards, conditions and limitations, as may be specified, by the Central Government, by notification".

Thus the new Rule requires that the place of provision of service should be outside India which will exclude cases where the activities that would otherwise constitute export of service were rendered in India though the benefit of such services accrued outside India. This was a departure from the previous regime in service tax law which permitted export tag even in cases where all the activities happened in India but the benefit of the services accrued outside India.

Income Tax

In Income-Tax Law the position as regards rendering of Services outside India has been dealt with in a different way as compared to the service tax. For example, in the case of A.S. Mani Vs Union of India (2003) 264 ITR 5, the Karnataka High Court dealt with the question whether a tax payer in India could render Services to foreign parties without physically going outside India. According to the High Court, advances in modern technology has made it unnecessary to actually leave India to render Services and that it was possible to export Services outside India without physically going abroad. In another case, In re: Wallace Pharmaceuticals Private Ltd, (AAR No.658/2005) reported in 2005-TIOL-20-ARA-IT, a US based company had entered into an Agreement with the Indian entity by which the US entity was to target clients for the Indian entity and the work included meeting with potential clients and drawing attention to the capabilities of the Indian Company. A part of the Service was rendered outside India. The issue before the AAR was "whether the consultancy fees is payable in respect of services utilized in business or profession carried on by the applicant outside India or for the purposes of making or earning any income from any source outside India". The AAR held that " from the above discussion it is clear that though PENSER is a tax resident of USA, it had rendered consultancy services in India and as the consultancy fee payable in respect of services utilized is not in connection with a business or profession carried on by the applicant outside India for the purposes of making or earning any income from any source outside India, the consultancy fee would be deemed income of PENSER in India".

> **IDEALLY, TAX SHOULD NOT BE COLLECTED ON TAX IN THE COURSE OF ASSESSMENT. A HARMONIZATION OF TAX FUNDAMENTALS ACROSS TAX VERTICALS IS MUCH NEEDED**

The Services in this case were treated as utilized in India since the beneficiary was the applicant in India.

Echoes from the landmark Fiat India case: selling below the 'market price'

Service tax

Recently, the Hon'ble Supreme Court has in the case of M/s Fiat India Pvt Ltd Vs CCE - 2012-TIOL-110-SC-CX held that central excise assessable value would not be an acceptable transaction value if the goods were sold at a value less than the cost of manufacture and that such selling below cost amounted to deriving additional consideration under the central excise valuation law. The principles laid down by the Apex Court are equally applicable in Service tax arena as well as to just any other Indirect tax. If anyone thought that such a scenario would never be relevant in a direct tax system, they would have to change their view in the light of the following case that came up before the Supreme Court of India.

Income tax

The issue posed in the Fiat India case has echoed in the income tax arena in the case of COMMISSIONER OF INCOME TAX, BOMBAY

Vs KRISHNA SAHAKARI SAKHAR KARKHANA LTD - 2012-TIOL-108-SC-IT where the matter for the determination of the Supreme Court was set in the terms as follows:

"Whether when a cooperative society of sugar sells certain quantity of sugar to sugarcane growers at concessional rate, the difference between the market price and the concessional price is to be included in the total income of the assessee-society?"

The Supreme Court chose to remand the case with directions which are a pointer to where the case could be headed: It is worth quoting the Hon'ble Court in this regard:

" the question, whether the above difference between the fair market price and the concessional price should or should not be added to the total income of the assessee(s) Society, needed to be re-looked by Commissioner of Income Tax (Appeals). Apart from the afore-stated question, CIT (A) would take into account, whether the above-mentioned practice of selling sugar at concessional rate has become the practice or custom in the Co-operative Sugar Industry?; and whether any Resolution has been passed by the State Government supporting the practice? The CIT (A) would also consider on what basis the quantity of the final product, i.e., sugar, was being fixed for sale to farmers/cane growers/Members each year on month-to-month basis, apart from Diwali?;

These are some of the questions which have not been addressed by the Authorities below in the impugned orders. The CIT (A) would be entitled to look into the Accounts and verify the basis for sale of sugar at concessional price on month-to-month basis. We, therefore, keep all questions of law and facts open".

Conclusion

As the examples discussed above reveal, there has been a lot of unwelcome divergences on crucial issues between different tax systems in the country. It does not augur well that several principles and core issues are maintained upside down between contending tax systems. Ideally, tax should not be collected on tax in the course of assessment. A harmonization of tax fundamentals across tax verticals will infuse the much needed clarity and uniformity in the understanding and assessment of different tax systems. The task is not an impossible mission but will require the integration of the CBDT and the CBEC into a central revenue authority as the essential first step. Organizational challenges to tax harmonization may be more insurmountable than technical hitches. MA

ravinpranaa@gmail.com

TAX TITBITS

CMA S Rajaratnam
Advocate and Tax Consultant, Chennai

Is income-tax levy on real income?

"Income-tax, if I may be pardoned for saying so, is a tax on income", is the oft-quoted statement of Lord McNaughton in London County Council v. Attorney General, 4 TC 265 (HL). It is no longer so. Income under Income-tax law can be much different. Income-tax law is replete with provisions which are highly artificial. If they are applied indifferently, they can do more damage than the provisions themselves. There is a long standing superstition, that bank transactions are sacrosanct, while cash transactions are suspect. This is statutorily sanctified by the disallowance of expenditure met by means other than account payee cheques or account payee drafts under section 40A(3). There are similar provision in respect of loans received and repaid under section 269SS and 269T.

Vagaries of section 40A(3)

SECTION 40A(3) COVERS EXPENDITURE, which is understood to include expenditure. The objective of the provision even as pointed out by the High Court in Walford Transport (Eastern India) Ltd. v. CIT (1999) 240 ITR 902 (Gau) is to "check evasion of tax and the flow of unaccounted money", but genuine transactions are as vulnerable as non-genuine ones. The purpose of this provision is often forgotten.

The Supreme Court in Attar Singh Gurmukh Singh v. ITO (1991) 191 ITR 667 (SC) upheld the constitutionality of the provision, when the section provided for disallowance of only 20% of such expenditure over the specified limit in respect of payments other than those by crossed cheques and crossed drafts. Disallowance of 20% was apparently provided as possible inflation in such cases. Disallowance was subject to exceptions, one of which was clause (j) of Rule 6DD, which spared transactions, if they are paid in cash, "due to exceptional or unavoidable circumstances or because payment in the manner aforesaid was not practicable, or would have caused genuine difficulty to the payee, having regard to the nature of the transaction and the necessity for expeditious settlement thereof". Since the section has to be read with this exception in the rules, it was felt that the section was not violative of the fundamental right to freedom of trade.

But the disallowance was raised from 20% to 100%. Sub-rule (j) of Rule 6DD was removed, so that the defence available even for genuine transactions became extremely limited. Transactions carried out in cash due to compelling circumstances often resulted in abnormal disallowances far exceeding the income, especially since purchases are treated as expenditure for this purpose. But the removal of the exception on the basis of which constitutionality was upheld would mean that the case for questioning the constitutional validity has revived.

However, the AP High Court in Smt. Ch. Mangayamma v. Union of India (1999) 239 ITR 687 (AP) after noticing, that genuine transactions may well be questioned and that the reason for dropping the exception was not explained by the authorities, still found that "in the present day banking scenario it cannot be faulted". The Kerala High Court in a single Member judgement in Kamath Marbles v. ITO (2003) 263 ITR 470 (Ker) also did not appreciate the impact of application of this harsh law especially in small cases. Disallowance of entire 100% is extremely harsh.

In a recent decision in CIT v. Sri Shanmuga Ginning Factory (2013) 355 ITR 96 (Mad), where a ginning factory was producing raw cotton through agents and the payments were made in cash exceeding the prescribed limit, the Tribunal decided in assessee's favour, because it was covered by the exceptions under Rule 6DD being purchases by and large from agriculturists [sub-rule (e)] and were made through agents [sub-rule (k)] except in one case where the broker was not identified. Even so, matter was taken up to the High Court by the Income-tax Department against the deletion of purchases made in cash, the High Court came to the aid of the taxpayer on the ground that the decision being one rendered on fact by the Tribunal, it would not interfere. There are any number of decisions at various levels where genuine transactions became targets, because the law does not provide for exception for genuine transactions. It will be interesting to make a study of the number of cases, where the provision has been effective to deal with non-genuine transactions by resort to this provision. It would be alarming to know the extent of transactions, which go underground, because of the inability of doing business through banking channel in case of scarce goods or where a taxpayer is a victim of widespread black marketing, which the State is unable to control. In the result, the provision helps to proliferate black money rather than to curb it.

Cash borrowings

SIMILAR PROVISION is levy of penalty equal to loan or deposit amount accepted or repaid by means other than account payee cheques or account payee drafts under section 269SS and 269T respectively, but mercifully, there is a provision, which spares penalty, if there is a reasonable cause. But in actual practice, explanations are brushed aside even in genuine cases. The Courts have held, that where the transactions are undisputably genuine, there is no justification for penalty for breach of section 269SS as for example pointed out in CIT v. Bhagwati Prasad Bajoria (HUF) (2003) 263 ITR 487 (Gau). But there are number of contrary decisions with even the Courts taking a technical view with reference to the provision as was recently decided in Auto Piston Mfg. Co. P. Ltd. v. CIT (2013) 355 ITR 414 (P&H), where penalty was sustained, though the explanation was prima facie reasonable.

There were two loans in this case of an assessee, one to the extent of Rs.1 lakh received from a financial institution by a bearer cheque, so as to be able to meet bonus payment, which were also disbursed on the same day on which the cheque was encashed. Strangely the argument of the Assessing Officer was, that the bonus could have been paid a day later. There was another borrowing to the extent of Rs.92,000 in cash from the promoters of the company towards a cheque already issued to meet excise duty, so that the cheque may not be dishonoured. The argument of the Assessing Officer was that the assessee should not have issued the cheque, when it did not have sufficient balance or it should have arranged for the loan by way of account payee cheques from the promoters earlier. One would have thought that the explanation of urgency in both the cases should have been accepted as reasonable, so as to be covered by section 273B as was accepted by the Commissioner (Appeals) when he deleted the penalties. But the Tribunal restored the order of the Assessing Officer by merely reproducing the extracts from his order. The High Court dismissed assessee's appeal in the view that, the decision rendered is one on fact, though it was patently perverse.

One cannot avoid the purposive interpretation of a provision, which is meant to make the task of the Assessing Officer easier in case of non-genuine transaction, where they are carried out in cash or bearer cheques. Reasonableness of the explanation has also to be considered in the light of genuineness of the loan. The law should provide for it in respect of section 40A(3) and it should be reasonably administered in respect of section 269SS and 269T.

Some of these provisions were recognised for omission by H.P. Ranina Committee, but the Direct Taxes Code does not spare such liability, while it has added some more artificial provisions. Quo vadis?

Policy derailed

THE LAW IS AS GOOD as it is administered. Good law can be badly administered, while bad law can be humanely enforced. The best intention could be defeated by indifferent administration in carrying out even a sound policy. The recent decision in Russian Technology Centre P. Ltd v. Dy. CIT (2013) 25 ITR (Trib) 521 (Del) illustrates this proposition. Assessee in this case unsuccessfully pleaded for award of cost from the Tribunal under section 254(2B) for harassment caused a demand by non-acceptance of share contributions by non-inclusion of written submissions relating to its explanation and by shutting out legitimate additional evidence. The dispute was amount subscribed by a non-resident towards share capital being part of Rs. 600 crores as investment in India approved by the Foreign Investment and Promotion Board notwithstanding the assurance in Board Circular No. 5 dated 20th February 1968 for approved investments, leading to long-drawn and unnecessary litigation resulting in the company winding up its business in India. Foreign direct investment to the extent of Rs. 600 crores did not, therefore, materialise according to the statement made by the non-resident assessee before the Tribunal. Is the Central Government listening? MA

s.rajaratnam@vsnl.com

CHALLENGES FACING RURAL COOPERATIVE BANKS

The existing situation has created various challenges and opportunities for RCBs. In order to keep up with the banking industry, RCBs need to understand the challenges and opportunities that exist

Dr. Sougata Chakrabarti
Asst. General Manager, The West Bengal State Cooperative Bank Ltd
Kolkata

Rural credit cooperatives in India were born more than 100 years ago and have a chequered history. Banking has been essentially an urban- oriented service but rural credit cooperatives were established basically to meet the crop loan requirements of farmers, and the other supporting farmer level capital investments in agriculture. Traditionally these co-operative banks have been doing business by focusing mainly in the agricultural sector since its inception. Rural cooperative banking is a three-tier structure in most of the states with primary agricultural credit cooperative societies (PACS) with farmers as their members at the base level, central cooperative banks (CCBs) as the intermediate federal structure with PACS as principal affiliated members, and the state cooperative bank (StCB) at the apex state level with CCBs and other cooperatives as its principal members and this credit structure is popularly known as the short-term cooperative credit structure (STCCS).In Independent India, still today, the co-operative movement is dependent on the Government and the bureaucracy and it is controlled and monitored by them. But quantitatively, the co-operative movement flourished in different dimensions. There has been a sea change in the co-operative movement. It is now an admitted fact that the agricultural co-operative sector with its vast and largest network played not only a very important role but a decisive role in the development of agriculture and rural economy of the country. Rural Co-operative Banks (RCBs) are one of the key banking service providers of rural India continued till mid-nineties but started losing business as commercial banks stepping up their rural business aggressively from 2001 onwards.

Background

A good number of poor people in India, especially those in the rural area, desperately need financial services from formal financial institutions. They need credit for improving their living standards and doing business. These needs are for running economic activities, mainly because they are self-employed or working on their own. Nearly 70 per cent of the country's population lives in rural areas according to the latest Census and over 50 per cent of the population has no access to banking. The rural poor need credit, insurance services. Poor rural people forced to borrow at an exorbitant rate from private money lenders during the time need and as a result, the poor are caught in a debt trap. In principle, RCBs was expected to mobilise deposits from rural people, and use the same for providing crop/other loans to the needy members who need it. The predominance of the cooperatives as one of the key banking service provider of rural India continued till mid-nineties. But commercial banks stepping up their rural business aggressively from 2001 onwards and today they provide almost three fourths of the total rural banking service in the country alongwith RRBs. Banks in the private sector banks have been planning to go rural. Recent change in policy, which is introduced,

will augment to a great extent the expansion of rural banking. Latest expert Committee on Short Term Cooperative Credit Structure (ST CCS) noted that the share of ST CCS in providing agricultural credit has fallen to a mere 17% at the aggregate level although there are small pockets where its share is more than 50%. The shift in focus of commercial banks and private banks from urban banking to rural banking is posing threat to rural cooperative banks.

The growth of RCBs, especially when it is on revival trajectory, must strive to extend banking service to remotest part of rural society. Lack of access to finance for small/ marginal farmers has been recognized as a serious threat to cooperative banking growth progress. Moreover, prolonged and persistent poor banking services to the rural population leads to a decline in business and has the potential to fuel social tensions causing social exclusion. Access to banking service by all rural population will facilitate the growth of RCBs. In recent time, RCBs are passing through some intricate circumstances. The latest developments at macro level is posing some serious questions about the survival, growth and maintaining the sustainable development of RCBs. RCBs have to begun to revise their growth approach and re-evaluate the prospects on hand to keep the rural economy rolling. RCBs have to undertake several initiatives for deepening and widening the process of providing financial services to the rural people. The Committee on Financial Sector Assessment (CFSA) had looked into the financial health of cooperative banks and made several recommendations for improving the financial health and systems for attaining and maintaining financial stability and highlighted that the prevalence of the three-tiered structure leads to an increase in transaction cost that diminish profit margins. The poor financial health of the RCBs had been a cause of concern during the past five decades, and several committees had, in the past, been constituted to look into the problems that plague the sector and make recommendations. The Task Force chaired by Prof. A Vaidyanathan (2004-05) and "Expert Committee to examine Three Tier Short Term Cooperative Credit Structure (ST CCS)" chaired by Dr. Prakash Bakshi which suggested wide-ranging reforms in the governance and management of RCBs including crucial amendments to the respective State Cooperative Societies Acts.

An attempt has been made in this paper to review the efforts made by the rural banking sector for achieving greater financial depth along with emerging issues and explore the alternative approaches feasible especially in the gamut of micro finance sector.

Challenges faced by RCBs

In India, a huge number of people do not have access to banking services due to scattered and fragmented locations. But if we talk about those who avail banking services, their expectations are rising as the level of services are increasing due to the emergence of Information Technology and competition. Since, public sector banks (PSBs) are playing in the rural market, the number of services offered has increased and PSBs have laid emphasis on meeting customer expectations. Today, the question often asked is: how competitive are rural cooperative banks and how the practices at work in these banks compare against PSBs practices. Now, the existing situation has created various challenges and opportunity for RCBs. In order to encounter the general scenario of the banking industry, RCBs need to understand the challenges and opportunities lying with cooperative banks of India. While on the surface RCBs and public sector banks in India have similar levels of activity, there are differences in the underlying economics. The effectiveness of the wholesale banking operations of public sector banks is much better compared to RCBs. Here some of the facts and trends that are likely to affect the evolution of the RCBs are highlighted.

Human resource

RCBs historically had access to lesser talent relative to other public sector banks leading to inferior organizational performance on average. It is well known that RCBs suffer from a severe lack of specialist skills and new-age leaders. The extent of the problem is acute and crippling for RCBs. RCBs need to act urgently to attract, hire, develop and retain the better available talent to ensure sustained growth in the long term. RCBs need to devise innovative strategies to continue to attract talent and develop new leaders.

Technology

The Rural cooperative Banks today are in the midst of transformation. The ever changing market dynamics in banking sector forced RCBs to constantly evolve their products and services. RCBs in India were considered as conventional sector few years back also. The combination of competitive pressures, market opportunity, regulatory risks and compliance requirements is pushing the RCBs to rapidly adapt technology. RCBs have to enhance IT skills to establish a competitive advantage. They have to develop strategies to take the advantage of core banking solution (CBS), e.g., leverage this transformation to upgrade their levels of customer service.

Succession management

Succession planning is a process for identifying and developing internal people with the potential to fill key business leadership positions in the company. However, most of the RCBs do not address succession planning ahead and therefore end up facing the burden in the middle of a crisis. RCBs board members need to understand how to manage the development of their high performers so that they are a step ahead of their competitors. The effort required to establish a development program for future leaders is worthwhile because it creates a motivated and capable group of employees that are ready to move forward in the organization when the need arises.

Data quality

Most of the RCBs today suffer from the problem of data quality. RCBs are classic case of both poor data quality and poor business process. In the past, RCBs would not have prioritized the data deficiency. It would have deemed other issues more worthy of attention and budget. To assess risk, the underlying quality of the data is critical to being able to deliver a report with any level of confidence. RCBs have to adopt Basel norms not simply because it is a compliance directive but also for embodiment of best practice which is only possible provided data quality is not compromised.

Customer service

RCBs witnessed substantial fall in terms of business levels. The customer base, branch network, and the alternate delivery channels of commercial banks have grown manifold in the last few years. Earlier, Public Sector Banks (PSBs) and RCBs were capable of offering almost a similar range of products and services to customers. The difference in the product profile and pricing with PSU banks and RCBs was not wide. The interest rates too were fully regulated. It was a similar model of business for banks to provide routine type of customer service. The increasing customer expectations forced RCBs to focus on the quality of customer service, while servicing larger number of customers is indeed a challenging proposition. RCBs need to put in place better customer service architecture to match the expectation of rural customers. A section of rural population for emergency financial requirements forced to borrow at an exorbitant high rate of interest from the local market either due to their ignorance or reluctance from the bankers level. This is partly attributed to absence of appropriate banking policies for giving fast track approval of financial assistance to the customers in need.

IV. Achieving greater financial depth

Retail banking

Retail banking has immense opportunities in a growing rural economy. Retail banking is going to emerge a major driver rural banking. Through retail banking, RCBs can cover financial inclusion, indirect lending, and fast track access to finance, long-term savings and financial crime prevention. The credit portfolio of banking business is fast changing in India. Large credit exposures are linked to bank's capital. Limits have to be fixed for single exposure in relation to the capital funds. RCBs have restriction in non-farm lending.

> **RURAL CUSTOMERS ARE NOW MORE DEMANDING AND DISCERNING AND THEY ARE LESS CREDIT-AVERSE. IN RURAL BANKING GOOD CUSTOMER INTERACTION IS THE KEY TO ITS GROWTH**

RCBs have limited exposure in large credit except some consortium finance due to regulatory constraints. RCBs are facing fierce competition not only from PSBs but also from Micro finance Institutions in farm lending. PACS can open accounts with PSB also. Retention of societies is going to be a major challenge for RCBs. Retail lending is going to be an important segment of RCBs' credit in coming days. RCBs are sometimes with surplus liquidity. RCBs have restriction in lending to big corporate and investment in capital/non SLR Bond market due to regulatory restrictions. It will be a great idea if RCBs can explore the option of giving retail credit (direct lending) to low income group people especially in rural and semi-urban areas.

Technology as enabler

However, most RCBs have completed implementation of core banking solutions (CBS). It has revolutionized and transformed the face of the rural cooperative banking. Customers of RCBs will get the benefit from the core banking system implementations. The change has helped the RCBs to offer variety of new products to their customers and present new avenues for accessing their accounts. Now RCBs have to augment their delivery channels from simple branch concepts to multiple touch points that incorporate self-service ATM / POS, mobile, internet and phone banking. These delivery channels provide multiple options to rural customer to interact with his bank at his / her own convenience. Biometric enabled mobile ATMs with operating instructions in vernacular language facilitate easy access of financial services to rural and illiterate customers thereby bringing them in to the banking system. RCBs can make it a profitable business through economy of scale, by including more and more unbanked villages.

The spectacular growth in financial transaction in electronic mode has necessitated certain radical changes in the payment and settlement systems in the rural Payment system. With the objective of ensuring faster flow of funds among rural economy, providing electronic payment & settlement facility through RTGS/NEFT is crucial for RCBs. Direct remittance of teachers' salary, government cash subsidy to beneficiary account is possible provided RCBs are NEFT/RTGS enabled. This is another way to improve the quality of customer service through technology. Absorption of latest technology has played a key role in RCBs' strategy to lessen the technological advantages that PSBs are enjoying. RCBs have to leap forward in terms of switching over from paper based transactions which include use of currency notes, cheques or challans, to electronic means, which include RTGS, NEFT and other electronic payment modes like ECS, debit cards and credit cards.

Banking through mobile phones has been around for some time now. It enable rural customers to use mobile instruments as a channel for accessing their banks accounts and remit funds and also sub-serve the goal of Reserve Bank of India (RBI) in electronification of retail payments. It makes payment simpler just with the mobile number of the beneficiary. Mobile solutions would help field supervisor customer-contact representatives out in the field. Society managers would be able to manage the field force with greater efficiency.

Customer satisfaction

At the rural level, customer experience is the biggest driver of value. At rural level tailored offerings will be a big driver of RCBs' survival. Rural customers are not outspoken. They hardly express themselves even when they are asked for a feedback. In majority of cases dissatisfied customer never percolates the level of dissatisfaction to the bank authorities. Either they stop going to the branch or narrate the same to their friends and relatives and advise them not to bank with cooperative bank. Rural customers always expect interaction from branch persons. In the present time rural customers are more demanding and discerning and they are less credit-averse. In rural banking good customer interaction is the key to its growth. As intense competition in rural sector surges, customer service becomes the sole differentiating factor to be leveraged to stay ahead in the market and capture new lines of business. As more rural branches public sector banks coming up the aspiration of rural shifts with the developments in the ambience. As public sector banks (PSBs) raise the standard of customer service the rural customer awareness grows. PSBs have upgraded levels of convenience and provide customers with better service levels. They also have more customers with less dissatisfaction. RCBs have no option but to gear up for providing more efficient and at the same time, cost effective services leveraging the technological capabilities. Customer retention is a challenge for RCBs. RCBs should work on different strategies and showcase the product mix with the help of technology to satisfy the rising rural customer expectations so as to retain the customer faith.

Initiatives towards financial inclusion

Rural populations are hardly aware of the bank's products which are beneficial for them. Due to lack of regular or substantial income lower income people will avoid of going the branch if there is no nearby branch to save transportation cost and loss of daily wages. RCBs can reach to the doorstep of rural population by introducing the concept of Banking Vans. SHG (Self-Help Group) can act as linkage between customer and RCBs. Bank can take the help of SHGs to carry out meeting at the village level for deposit mobilization with a representative from the concerned Bank branch. RCBs can introduced saving cum overdraft account, remittance facility, an access to credit through instruments like a Kishan Credit Card.

PACS as Business Correspondents

Primary Agricultural Cooperative Societies (PACS) are an effective linkage between the RCBs net work and the rural clients. A study shows farmers(27%) who are attached to fisheries and of an age group of 28-50 and of income group of Rs.600 to Rs.6,000 think Co-operative Banks / Primary Agricultural Co-operative Societies (PACS) is safer and secure place to keep / invest money(Chattopadhyay,S ,2009). At present, the services offered through PACs are limited to agricultural and agricultural allied loan disbursement. Future strategies for improving the effectiveness of PACS model will have to address innovations in attracting new customer segments especially low income customers, enhanced product portfolio including providing client oriented transaction accounts, remittance / payment services and suitable credit products. Once RCBs start leveraging PACS as their extended arms, regular banking products can be channeled through PACS. Performance of providing these services depends on the PACS network coverage in the remote areas.

Conclusion

RCBs have long been considered the backbone of Indian economy. Initially it was felt that RCBs shall not be able to withstand the competitive pressure from PSBs and private sector banks. But competition forced RCBs to go for a makeover. How much effort RCBs given on products design , technology absorption or interior design adds meaning only when the customers feel comfortable with the bank. This comfort can only be arrived by constant and relentless customer service. A good number of rural population still prefer RCBs / PACS for keeping money as these are friendlier to them. But customer service should be continuous and consistent. Rural customers have different needs and each need requires different approach. The approach towards rural customers in geographical area requires different level of service. RCBs should look into the social habits of rural customers. RCBs have to retain existing customers and win new customers. It is a challenge for RCBs to maintain higher customer satisfaction level.

References

1. Dr. Bakshi, Prakash, January 2013, "Report of the Expert Committee to examine Three Tier Short Term Cooperative Credit Structure(ST CCS)", www.rbi.org.in

2. Dr. Puhazhendhi, Venugopalan (1968): "Financial Inclusion - Forward step for Micro Finance Sector ", The Journal of Indian Institute of Banking & Finance ,April - June 2012.

3. Dr. Bakshi, Prakash , "Financial Inclusion - BC / BF Model - What's new?", The Journal of Indian Institute of Banking & Finance, April - June 2012

4. Chattopadhyay., S "Financial Awareness", The Journal of Indian Institute of Banking & Finance, October -December 2009

5. Mishra S. B., "The performance of Regional Rural Banks(RRBs) in India: Has Past Anything to Suggest for Future", Reserve Bank of India Occasional Papers , Vol 27, No. 1 and 2, Summer and Moonsoon 2006

6. Sriram M.S., "Recommendation of Task Force on Revival of the Cooperative Credit Structure :Implementation Issues", Vikalpa, A Journal for Decision Makers, IIMA, W.P.No. 2005-12-02, December 2005

7. Vaidyanathan. A , 30th December,2004 "Task Force on Revival of the Cooperative Institutions", www.nabard.org

8. Ramesha. K, "Cooperative Banking and Financial sector reforms in India-agenda for Future Research in the New Millennium" May 28-31,2003, British Columbia Institute for Cooperative Studies, University of Victoria and International Cooperative Alliance

9. Mohan R, 2002, "Deregulation and Performance of Public Sector Banks", Economic and Political Weekly, Vol.37, No.2, pp. 393-97

10. Chaudhutri, S., 2002, "Some issues in Growth and Profitability in Indian Public sector Banks," Economic and Political Weekly, Vol.37.No.6, pp5-22

11. Bhide M.G., Prasad A, Ghosh Saibal(2001) : "Emerging Challenges in Indian Banking" , Stanford University , Working Paper no. 103 MA

chakrabarti.sougata@gmail.com

RELEVANCE OF NSCs IN THE UPLIFTMENT OF SMALL INVESTORS – A PANORAMIC VISION

The study finds out that the best form of savings are the ones that post offices offer with substantially higher rates of interest and a lower risk of suffering losses

Akshatha B.G.
Lecturer, Kuvempu University, Karnataka

National Savings Certificates are the certificates issued by the department of post, government of India. It is a kind of small savings scheme issued by post office and it is highly secured scheme as it is issued by the government of India. The enactment of parliament which governs National savings certificate in India are the post office national savings certificate ordinance 1994, national savings scheme 1992 and NSC (8th)Issue rule,1989.

These certificates are available for purchase in all the head post offices and also in authorised post offices in the country. These certificates can also be purchased through authorised agents. This scheme is specially designed for government employees, businessmen and other salaried classes who are income tax assesses NSC can be purchased by the individual for themselves or it can be purchased jointly by two adults and also an adult can purchase it on behalf of a minor.

There are basically 3 types of NSCs that can be bought by individuals. They are Single holder type certificate where the certificate can be bought by an individual in his name or on behalf of minor, or a trust, Joint 'A' type certificate - this certificate is issued to 2 adults jointly and is payable to both holders jointly or to the survivor and Joint 'B' type certificate- this certificate is issued to 2 adults jointly payables and is payable to either of the holders or to the survivor. These certificates are available in the denomination of Rs. 100, Rs. 500, Rs. 1000, Rs. 5000 and Rs. 10, 000. The minimum limit for investment is Rs100 but there is no maximum limit NSC is a long term safe savings option for the exemption U\S 80 C of the Income tax act. To start NSC there are two important conditions, one is, the holder should be an Indian and another one is holder to be an individual or trust.

There are several ways to hide our money from the tax bracket like ISA (Individual savings account), personal pensions and premium bonds but the simple and safe way is the savings certificate. The interest rate offered by NSC is 8% which is compounded half yearly and the effective interest rate per annum is 8.16% interest earned from investment on NSC is tax-free up to Rs1,00,000.

The maturity period of NSC is 6 years. The interest amount of 6 years is paid to the investor at the end of the 6th year along with the capital invested initially. NSC can be wed to pledge in bank as a security to take loans from banks/Government institutions and these certificates can be transferred from one person to another person before maturity.

Statement of the problem

The major problem of NSC is that the companies, trusts, societies and any other institutions are not eligible to purchase and also non-resident Indian and HUF cannot purchase this instrument. The tenure of NSC is 5 years for NSC VIII issue and 10 years for NSC IX issue. So the amount invested on NSC cannot be encashed or withdrawn before the maturity period except in some cases like death of the holder of NSC and on court order. Another major problem is the purchasing power of money. That is as it is a low yield savings account, the account might grow time but still lose purchasing power, and also NSC is not inflation protected which means whenever inflation is above the current guaranteed interest; the deposit earns no real returns.

Objectives of the study

1. To study the contribution made by the NSC towards the development of the state.
2. To know the terms and conditions regarding the encashment of deposit amount.
3. To study the benefits available for the government employees, businessmen and other salaried classes from the small savings.

Literature review

Anirban Roy (July, 2012) made a study on 'National Savings Certificate (NSC)' in his article he states brief introduction regarding NSC, Type of NSC and its Eligibility, features, security and also the tax benefits of NSC. They have mentioned that NSC is one of the most popular fixed income investment instruments in India. These certificates can be purchased physically form post offices and is also available in demutualised form. Guest (May 14, 2012) made a study on 'National saving certificate(VIII and IX issue) (Amendment) Rules, 2012'in, his article he states that, in exercise of the powers conferred by section 12 of the Government savings certificate Act 1959 (46 of 1959), the central Government hereby makes the following rules further to amend the NSC (VII Issue) rules, 1989 namely-There rules may be called the NSC (VII Issue) (Amendment Rules),2012 and they shall deemed to have come into force on the 1st day of April,2012, and also includes the terms inserted in rule 15 of NSC (VII issue).

Krishna Srinivasan (February, 2010) made a study on' National Savings Certificate (NSC) U/S 80C' in his article the states that it is one of the oldest and traditional investment schemes available for the tax savings. It is more safe compare to any other investment. Popular article about National Savings published in the times of India, 6th August 2012 given few information regarding National Savings Certificate like it is a tax saving instrument that combines adequate returns with high safety and says that combines adequate returns with high safety and says that it facilitate long term savings, and they have mentioned about the conditions of premature encashment that is premature encashment is not permissible except at a discount in the case of death of the holder and also they have given information regarding who can invest and about amount of investment that is the minimum and maximum limit for purchase of certificate also they have mentioned that IT rebate is available on the amount invested and interest accruing every year under section 88 of IT Act.

Scope of the study

The scope of the study is limited to only Sagar unit. This study is only for NSC holders who are taken as respondent. The information collected through questionnaire and also we will take the opinions of the post office and its customers.

Methodology

Sources of data- Primary data- It refers to first-hand information. It is collected directly from the field of investigation. It helps in obtaining accurate result because directly collected from the field of research through the investigation in the form of questionnaire. Secondary data – are those which have already been collected by someone else and which have already been passed through the statistical process. These are collected from published source like journals and relevant data has been collected from direct website.

Sampling size and design - The sample respondents were selected from the post office of Sagar who have invested from the post office of Sagar who have invested in NSC. A sample of 50 respondents was taken for the collection of data required for the study on the basis of random sampling. Tools and Technique – The present study based on tools and techniques and table, charts and graphs.

Profile of the post office

The post office reaches every nook and corner of the country. This is one of the reasons why many of the Government, non-government organizations, when faced with difficulties of reaching the largest possible number of people, have thought of utilizing the agency of the post office for the purpose. The Indian post office was recognized as a separate organisation of national importance and was placed, for the first time, under the unitary control of a director general of the post office in India on October 01, 1854. It thus completes 150 years of its operations this year.

Head post office of Sagar established on 1/10/1963.

Concept of National Savings Certificate

NSCs are certificate issued by Department of post, Government of India and are available at all post office counters in the country. This scheme is specially designed for Government employees, Business mans and other salaried classed who are IT assesses. It is a long term safe savings option for the investor. Trust and HUF cannot invest. The scheme combines growth in money reductions in tax liability as per the provisions of the Income Tax Act, 1961. The duration of a NSC schemes is 5 years.

Features

1) NSCs are issued in denominations of Rs.100, Rs.500,

Rs.1000, Rs.5000 and Rs.10000 for a maturity period of 5 years. There is no prescribed upper limit on investment. Individuals, singly or jointly or on behalf of minors and trust can purchase a NSC by applying to the post office through a representative or an agent.

2) One person can be nominated for certificates of denomination of Rs.100 and more than one person can be nominated for higher denominations. The certificates are easily transferable from one person to another through the post office. There is a nominal fee for registering the transfer. They can also be transferred from one post office to another.

3) One can take a loan against the NSC by pledging it to the RBI or a scheduled bank or a co-operative society, a corporation or a government company, a housing finance company approved by the National Housing Bank etc with the permission of the concerned post master.

4) Though premature encashment is not possible under normal course, under sub-rule (1) of rule 16 it is possible after the expiry of three years from the date of purchase of certificate.

5) Tax benefits are available on amount invested in NSC under section 88, and exemption can be claimed under section 80 L for interest accrued on the NSC. Interest accrued for any year can be treated as fresh investment in NSC for that year and tax benefits can be claimed under section 88. Investment up to Rs.1,00,000 per annum qualifies for IT Rebate under section 80 C of IT Act.

Benefits

Interest accrued on the certificates every year is liable to income tax but deemed to have been reinvested. Income Tax rebate is available on the amount invested and interest accruing under section 88 of Income tax Act, as amended from time to time. Income tax relief is also available on the interest earned as per limits fixed vide section 80 L of Income Tax, as amended from time to time.

Other benefits of National Savings Certificates

(a) Certificates can be kept as collateral security to get loan from banks.

(b) There is a facility of reinvestment on maturity.

(c) There is a facility of encashment of certificates through banks. Certificates are transferable from one Post office to any Post office. Certificates are encashable at any Post office in India before maturity by way of transfer to desired post office.

Rate of interest

Rate of interest is 8.16% p.a compounded half yearly and paid after the maturity period of six years along with principal. Annual accrual rate of interest on investment of Rs.100 is under and is as under and is in proportion for other denomination (**Table1**).

Table1: Rate of Interest

Year	Amount
1st year	Rs.8.16
2nd year	Rs.8.83
3rd year	Rs.9.55
4th year	Rs.10.33
5th year	Rs.11.17
6th year	Rs.12.08

Source:www.tnsmallsavings.com/nsc.htm

Role of the post office in selling NSCs

National Saving Certificates popularly known as NSC is a tax saving investment opportunity available in India. An adult in his own name or in the name of a minor a minor, a trust, two adults jointly or a Hindu undivided family can purchase NSC. The certificates can be purchased from any post office. Mahilapradhan agents and investment advisors sell this certificate. Post and Telegraph department gives incentives for selling these certificates. The certificates are available in the denomination of Rs. 100, Rs.500, Rs.1000, Rs.5000 and Rs.10000. Interest is added to principle yearly. The maturity value changes each year. NSC is issued for 6years maturity and can be pledged to a bank for taking loan. Premature closure is allowed.

However, this certificate can be pledged with a bank for taking loans and also are accepted as collateral securities. The certificates are to be presented at the post office and they will note the lien on the certificates. The maturity value can be calculated by multiplying the maturity factor for the respective years with the face value. On the due date the holder of the certificate has to surrender the certificate to the issuing post office. The Post office releases the payment to the certificate holder, if he has not taken loan or pledged this as security for any credit facilities. If the certificate is pledged to a financial institution, the post office will release the payment only to that institution.

Table2: Amount of interest (rupees) accruing on certificate of Rs. 100 denomination

Table2: Amount of interest (rupees) accruing on certificate of Rs. 100 denomination	
The year for which interest accrues	Amount of interest (rupees) accruing on certificate of Rs. 100 denomination
First Year	9.10
Second Year	9.93
Third Year	10.83
Fourth Year	11.81
Fifth Year	12.89
Sixth Year	14.06
Seventh Year	15.34
Eighth Year	16.74
Ninth Year	18.26
Tenth Year	19.92
Source: www.taxfaq.in	

Types of certificates

The certificates shall be of the following types, namely:

(a) A Single Holder Type certificate may be issued to an adult for himself or on behalf of a minor or to a minor;

(b) (b) A Joint TV Type certificate may be issued jointly to two adults payable to both the holders jointly or to the survivor;

(c) (c) A Joint 'B' Type certificate may be issued jointly to two adults payable to either of the holders or to the survivor;

Analysis and interpretation of data

Table3: Gender of the Respondents		
Particulars	No. of Respondents	(%)
Male	27	77.14
Female	8	22.86
Total	35	100
Source: Field Survey		

Table3 clearly shows that 77.14% of respondents are male and 22.86% of respondents are Female who is invested in National Savings Certificate. Majority of NSC holders are male compare to Female. This is because usually officials and contractors invest in NSC. Majority of contractors are male.

From **Table4** it clearly shows that 17.14% of Respondents are below 30 years. 20% of respondents are below to age group of 31-40 years and 34.29% of respondents are belongs to age group of 41-50 years and 28.57% of respondents belongs to above 51 years of age group. It is interpreted that NSC is not restricted to any age group. Any age group people can invest in NSC. As Government officials and contractors are belongs to 41-50 years age it is little more than other age group.

Table4: Age of the Respondent		
Particulars	No. of Respondents	(%)
Below 30 years	6	17.14
31-40 years	7	20
41-50 years	12	34.29
Above 51 years	10	28.57
Total	35	100
Source: Field Survey		

Table5: Education Qualification of the Respondents		
Particulars	No. of Respondents	(%)
PUC	12	34.29
Graduation	13	37.14
Professional	4	11.43
Others	6	17.14
Total	35	100
Source: Field Survey		

Table5 clearly shows that 34.29% respondents were completed PUC, 37.14% of respondents were Graduates and 11.43% were professionals and 17.14% belongs other than these PUC, Graduation & professionals. It is interpreted that qualification is not considered to invest in NSC. Therefore all kind of people having different educational qualification invest in NSC. But out of 35 respondents which I have made survey number of respondents have completed their graduation.

Table6: Occupation of the Respondents		
Particulars	No. of Respondents	(%)
Private job	7	20
Government job	2	5.71
Business	7	20
Others	19	54.29
Total	35	100
Source: Field Survey		

Table6 clearly shows that 20% of respondents are doing private job, 5.71% are doing Government job, 20% were doing business and 54.29% belongs to other jobs. As majority of contractors invest in NSC majority of respondents belongs to the occupation of business.

Table7: Annual Income of Respondents		
Particulars	No. of Respondents	(%)
Rs. 1,00,000-1,50,000	15	42.86
Rs. 1,50,001-3,00,000	10	28.57
Rs. 3,00,001 & above	10	28.57
Total	35	100
Source: Field Survey		

Table7 clearly shows that 42.86% of respondents were

earning annual income of Rs. 1,00,000-Rs. 1,50,000, 28.57% of respondents were earning annual income of Rs.1,50,000-Rs.3,00,000 & 28.5% were earning annual income of Rs.3,00,000 & 28.57% were earning annual income of Rs.3,00,000 and above. It is interpreted that low income people can also invest in NSC as the minimum deposit amount is low. Therefore majority of respondents belongs to the Rs.1, 00,000-1, 50,000 annual income groups.

Table8: Percentage of Savings out of Annual Income for Investment		
Particulars	No. of Respondents	(%)
0 to 5%	10	28.57
5 to 10%	18	51.43
10 to 20%	7	20
20% above	0	0
Total	35	100
Source: Field Survey		

Table8 clearly shows that 28.57% of respondents save 0 to 5% of their annual income, 51.43% respondents save 5 to 10% of their annual income, 20% of respondents save 10 to 20% of their annual income and out of 35 respondents no one saves above 20% of their annual income. It is interpreted that majority of people like to save 5 to 10% of their annual income for making investment for their future life.

Table9: Motives of Respondents for investing in particular Investment option		
Particulars	No. of Respondents	(%)
Return	16	45.71
Minimum Investment	9	25.71
Locking period	0	0
Risk	10	28.58
Total	35	100
Source: Field Survey		

Table9 clearly shows that 45.71% respondents look for return, 25.71% respondents look for minimum investment amount and none of the respondents out of 35 respondents look for locking period and 28.58% respondents looks risk before investing in particular investment option. It is interpreted that majority of respondents look for return from their investment. They need good return from the amount invested.

Table10 clearly shows that 65.7% of respondents choose NSC scheme for safety and security, 28.5% of respondents choose NSC for minimum deposit amount 5.7% of respondents choose NSC because of high interest rate. It is interpreted that people prefer the investment option which provides more safety and security. As NSC is a Government saving scheme with attractive interest rate and secured scheme people choose NSC scheme.

Table10: Reasons for choosing NSC scheme		
Particulars	No. of Respondents	(%)
Safety and security	23	65.71
Minimum deposit amount	10	28.58
High interest rate	2	5.71
Others	0	0
Total	35	100
Source: Field Survey		

Table11: Type of Certificates Respondents Purchased		
Particulars	No. of Respondents	(%)
Single holder Type	29	82.86
Joint 'N' type	4	11.43
Joint 'B' type	2	5.71
Total	35	100
Source: Field Survey		

Table11 clearly shows that 82.85% of respondents took single holder type of certificate, 11.42% of respondents took joint 'N' type of certificate and 5.7% of respondents look joint 'B' type of certificate. It is interpreted that people prefer all 3 types of NSC certificate that is single holder type, Joint 'N' type & Joint 'B' type. Individuals prefer single holder type, husband & wife jointly in both of their name takes Joint 'N' type & companies prefer joint 'B' type certificates.

Table12: Reasons for Increase in Savings		
Particulars	No. of Respondents	(%)
Increase in household income	4	11.43
Reduction in liability	5	14.29
Attractive saving	16	45.71
Investment options	10	28.57
Total	35	100
Source: Field Survey		

Table12 is clear that 11.43% of respondents increase saving because of increase in household income, 14.29% respondents because of reduction in liability, 45.71% re-

spondents because of attractive savings option and 28.57% respondents because of investment options. It is interpreted that NSC is one of the attractive savings option. Therefore people increase their savings to invest in this type of savings scheme.

Table13: Denomination Invested by Respondents		
Particulars	No. of Respondents	(%)
Rs. 100	2	5.71
Rs. 500	15	42.86
Rs. 1000	6	17.14
Rs. 5000 & above	12	34.29
Total	35	100
Source: Field Survey		

Table13 clearly shows that 5.71% of respondents invested Rs. 100 as denomination amount in NSC & 42.86% respondents invested Rs. 500, 17.14% respondents invested Rs. 1000 and 34.29% of respondents invested more than Rs. 5000. It is interpreted that people can invest very low amount in NSC. Therefore people can invest a small part of this savings in NSC. It may be Rs. 100, Rs. 500, Rs. 1000 & Rs. 5000 & above.

Table14: Made of Payment of Amount		
Particulars	No. of Respondents	(%)
Cash	26	74.29
Local cheque	7	20
Pay order	2	5.71
Total	35	100
Source: Field Survey		

Table14 clearly shows that, 74.29% of respondents use as the mode of payment of amount to NSC, 20% respondents use local cheque as mode of payment and 5.71% of respondents use pay order as made of payment. It is interpreted that majority of people prefer cash as their mode of payment. Only few people local cheque and pay order. This is because only for more than Rs. 20,000 transaction cheques & pay order can be used.

Table15: Opinions Regarding Rate of Interest of NSC		
Particulars	No. of Respondents	(%)
Highly satisfied	0	0
Unsatisfied	6	17.14
Satisfied	29	82.86
Total	35	100
Source: Field Survey		

Table15 clearly shows that out of 35 respondents, no one respondent highly satisfied. 17.14% of respondents are unsatisfied and 82.86% of respondents were satisfied regarding rate of interest of NSC. It is interpreted that none of the respondents are highly satisfied with the rate of interest provided by NSC. But, majority are satisfied with the rate of interest & only few of them are unsatisfied. Because Government regularly modify the rate of interest to satisfy the investors.

Findings of the study

- The male respondents are more when compared to the female respondents.
- While issuing the NSC post office is concentrating on all the age group. More number of NSC holders is graduates.
- The annual income of majority of respondents is between Rs.1,00,000 to 1,50,000. The motive for investing in investment option for the respondents is fair return.
- Large number of respondents choose NSC scheme mainly for the safety and security provided for their investment. It is observed that large number of NSC holders choose single holder type certificate.
- Most of all respondents opine that the rate of interest of NSC is satisfied. Large number of respondents makes savings mainly because of attractive savings option and investment option.
- Many of the respondents purchased investment for individuals themselves. It is observed that among 35 respondents no one is highly satisfied with this savings option but most of all respondents are satisfied.
- Majority of respondents prefer to make postal investments than other financial investment Suggestions of the Study
- It is suggested to make prompt payment of amount on maturity date of the certificate.
- Create more awareness about the scheme. Especially rural women are not much aware of this scheme. Therefore it is necessary to concentrate on rural area and women while creating the awareness about the scheme.
- Make the withdrawal procedure simpler and easier.
- Give more advertisements about post office savings schemes more popular.
- Post office has to maintain long term customer relationship management.
- Provide detailed information about the encashment process and procedures and provide more satisfactory services and maintain good relationship with the investors.
- Increase the rate of interest and provide more return like other investment options. Because it is low when compare to other financial investments.
- Post office can appoint more number of agents to sell the NSC to large number of people.
- Post office has to introduce more and more attractive savings schemes to compete with the other investment options.

> **THE NATIONAL SAVING CERTIFICATE IS ONE OF THE POPULAR POST OFFICE SAVING SCHEMES WHICH IS KNOWN FOR ITS DUAL USE – AS AN INVESTMENT AND TO SAVE ON INCOME TAX**

Limitations of the study

1. Post office is not providing the information regarding the nominee
2. Not getting more numbers of NSC holders in study area.
3. The present study is limited to the Sagar town only.

Conclusions

Today, the safety of the investment is of utmost priority among people. One of the best choices for investment would be the post office. Since post office is owned by the Government of India, the money invested in it is totally safe and secure. They give competitive rates of interest on investment as well. Post office saving is the best form of savings scheme which provide substantially higher rates of interest and pose relatively lesser risk of suffering losses. Therefore, they are widely accepted among the different sections of the Indian society and among different age group.

The Indian postal sector has started numerous post office saving schemes. The National Saving Certificate is one of the popular post office saving schemes which is known for its dual use – as an investment and to save on income tax. This investment product can be used for making lump sum investments for specific goals like accumulating funds for children's education and marriage. NSC is one of the oldest and traditional investment product used by people for tax savings and at the same time earn good return with lowest risk. It is one popular scheme which is common means of tax saving among most middle class families in In India because it is safe investment with good return.

Reference

Books

*1. L.M Bhole (Fourth Edition, 2008), **Financial Institutions and Markets**, Tata McGraw-Hill Publishing Company Limited, New Delhi, Page No. 10.1 -10.21*

*2. Vasant Desai (2006), **Banks Institutional management**, Himalaya Publishing House, Mumbai, Page No.267-282*

*3. Ajay shah, Susan Thomas and Michael Gorham, **India's Financial Markets**, Elsevier, a division of Reed Elsevier India Private Limited, Noida, UP, Page No.81*

*4. S. Kevin (2011), **Portfolio Management**, PHI Learning Private Limited,*
New Delhi, Page No. 15-16

Articles

*1. Anirban Roy (July, 2012), **National Savings Certificate(NSC)***

*2. Guest (14th May, 2012), **National Savings Certificate (8th and 9th issue) (Amendment) rules, 2012***

*3. Gurpreet (25th June, 2012), **National Savings Certificate***

*4. Nidhi (October, 2011), **National Savings Certificate (NSC) details and informations***

*5. Krishna Srinivasan (February 2010), **National Savings Certificate (NSC)***
u/s 80 c

*6. Hrigendra Kumar Srivastav and Mohanish Kumar Singh (15th Augus,t 2012), **Indian Postal Service***

*7. V. Ranganathan (17th September, 2005), **Challenges in Reform of the Indian Postal Service***

Websites

www.indiapost.gov.in
www.indianpostoffice.helpof.com
indiapulse.sulekha.com
www.moneysuperbazaar.com
www.moneycontrol.com
www.taxfaq.in
www.pensionindia.com
financial-dictionary.thefreedictionary.com
www.rupeepower.com
www.avdhootinvestment.com
www.iloveindia.com
www.webindia123.com MA

akshathabg149@gmail.com

ISSUES RELATED TO EXPERIMENTATION WITH ACTIVITY-BASED COSTING

Experimentation with ABC systems as captured in various real life case studies helps one to better understand the reasons of failure of traditional cost systems and the issues involved in the design of ABC systems

Dinesh K. Gupta
Professor & Dean
Punjab University,
Chandigarh

The domain of cost management has become exciting because the impersonal forces of competition have forced enterprises to better handle the cost data in order to survive its onslaught. This has resulted in a quest for tracking true cost as the traditional cost systems miserably failed to provide reliable cost data especially in the context of multi-process, multi-product production settings. Traditional cost systems using single cost pool and volume related cost driver have faltered in providing reliable cost data to facilitate decision making. This resulted in design of better cost management systems. The Activity-based Costing (ABC) philosophy stemmed the criticism against traditional costing systems, in particular, and management accounting, in general, by presenting a superior methodology of handling cost data and claiming superiority of the output in enabling better decision making. The focus of ABC is not the costs rather on the activities underlying the costs. By identifying activities and the associating costs to a cost object, this system does away with the imprecise allocation of indirect costs under the traditional cost systems by establishing the causal relationship of cost drivers with activities. Driven by the thought process of benchmarking and continuous improvement, ABC soon transgressed in Activity-Based Management (ABM) and unleashed the process of transformation of production processes.

The most recent innovations in the design of cost management systems include Resource Consumption Accounting (RCA) and Time-Driven Activity-Based Costing (TDABC). RCA represents an amalgam of the best of ABC and of the German costing system-Grenzplankostenrechnung (GPK) (Tse and Gong 2009). Under RCA, the focus of the costing system shifts from activities to resources, costs are categorized in fixed and proportional groups. Theoretical capacity is used in order to calculate rate to assign fixed part of the resource costs, calculated on the basis of replacement rather than historical cost and an output-based driver is used to assign the proportional resource costs. The output of the system also highlights the cost of unused capacity which does not figure ABC system as the cost driver is linked to practical capacity. TDABC assigns resource costs directly to cost objects using the cost per time unit of supplying the resource, rather than first assigning costs to activities and then from activities to cost objects (Kaplan and Anderson 2007). This system provides a direct measure of unused capacity (Blocher et. al. 2013).

The focus of this article is to present a perspective to better understand the process of assignment of cost to products under ABC highlighting the issues related to relaying of faulty cost data by traditional cost systems. This perspective has been reinforced with a set of case-studies which capture the real-life business situations and help understand the finer nuances of the cost management.

Traditional costing systems which use simplistic and arbitrary volume-based overhead allocation bases have invited criticism on account of product cost cross-subsidization emanating from difference in size and volume of different products being produced resulting in wrong product mix decisions (Johnson and Kaplan 1987), and finally spiraling the products to death (Cooper 1988). ABC uses non-volume-based drivers by forming activity-based cost pools, and generates superior product cost data by appropriately assigning costs to different products and services based on practical capacity.

The basic criticism against the traditional cost systems stems from the fact that they have failed to fall in line with the changes in the production environment. The labour hour-based overhead allocation rate has been in vogue in early 19th century (Johnson 1992). However, radical changes in production environment have resulted in higher incidence of overhead costs in the cost structure as compared to direct labour and direct material cost. And as per the Willie Sutton Rule[1], the focus of cost system should be the areas of large expenses reflected by indirect and support costs (Cooper and Kaplan 1999). The ABC system reestablished the connect of costing with the production environment as harped by Christensen (2010 1830): "One of the important insights to be gained from the activity-based accounting system is that accounting system is improved when the accounting structure reflects the structure of production".

Complexity of the modern manufacturing environment

The issue of variation or change in the production environment and expectations of the management and consequential change in the cost accounting system has been best captured in Instructional Case: Rantoul Tool, Inc. In this case study, Morse (1990) develops a narrative description of the elements and operation of a cost system that will provide superior product cost data. It discusses varied issues involved in the design of cost system in the traditional job-shop production environment as compared to modern flexible manufacturing production environment. Further, the case demonstrates how the design of cost system undergoes a change with the change in the informational requirements of the management, apart from the changes in the manufacturing environment. One can also harp the importance of chart of accounts, cost unit, cost accumulation system, cost accumulation method, and manual of accounting procedures for the design of cost system in the traditional manufacturing environment. Moreover, the case study helps to understand the type of changes modern manufacturing environment brings in the product cost structure and builds a platform to introduce discussion on the issue of required change in the overhead allocation base because of heavy increase in the overhead costs.

Product cost cross-subsidization

The enhanced complexity of the manufacturing environment because of automation and competitive pressures requires production of multiple products varying in size, shape and volume and the use of traditional costing mechanism in this changed environment results in faulty product cost. Cooper (1988) presents a classic example of a company which manufactures four products differing in size (small and large) and volume (low and high). This example is reflective of the status of the product mix of John Deere Company. Data regarding usage of material, direct labour hours, machine hours, number of setups, number of orders, number of times handled, and number of part numbers initiate the discussion of allocating overhead costs on the basis of traditional volume-based driver, i.e., direct labour hours, and then comparing the results of the reported costs of different products when the traditional volume-based driver is used along with non-volume-based cost drivers like number of setups and number of part numbers. The results show that traditional overhead allocation system overcosts the high-volume and large-sized products and undercosts the low-volume and small-sized products. Further, the analysis strongly builds a case for ABC system by explicating through reported cost data of different products when produced in different combinations, e.g., a low-volume product being produced along with a high-volume product or a low-volume product being produced along with a large-sized product. The cost analysis clearly spells out how traditional volume-based costing system engages in 'product cost cross-subsidization' and hence makes a strong case for design and use of ABC system.

Product death spiral

Faulty cost data relayed by the traditional cost systems drove managers to take wrong decisions regarding the product mix based on the profitability of different products. The managers "who followed such strategies turned their attention completely away from internal operations and customer satisfaction and attempted to create value out of thin air by "acquiring stars," "milking cash cows," and "divesting dogs." (Johnson 1992, 29). How 'stars' were signaled as 'dogs' by the product profitability reports firmed up on the basis of wrong costing data, has been beautifully captured by Burns (1989) in Destin Brass Products Co. case study which explicates how products

THE COST DATA GENERATED BY TRADITIONAL COST SYSTEMS HAVE BEEN FOUND TO BE INACCURATE AND HENCE NOT DEPENDABLE FOR DECISION MAKING BECAUSE OF 'PRODUCT COST CROSS-SUBSIDIZATION'

get killed after they get trapped in product death spiral. The case study focuses on design of cost system, based on the philosophy of ABC, by highlighting that the output of the traditional cost system forces managers to take wrong strategic decisions related to product mix. Destin Brass is engaged in the production of Valves, Pumps and Flow Controllers. The management encounters two strange situations: i) its competitors producing Pumps are resorting to price cutting, ii) a recent hike in the price of Flow Controllers by Destin does not result in reduction in demand. An analysis of the output of cost system highlights that under the traditional setting there exists a situation of product cost cross-subsidization. The cost data output of ABC system signals that Pumps have been subsidizing Flow Controllers. The existing high margin on Pumps explains price cutting phenomenon of the competitors. Further, Flow Controllers are underpriced because of the faulty cost data relayed by the existing volume-based cost system. Moreover, the case study builds a ground for discussion on the issue of strategic implications of the use of ABC methodology which facilitates redesign of products and restructuring of activities which go into the making of products. The case study offers several options including reduction in the number of production runs and number of shipments. A competitive enterprise should engage in only value-adding activities which are conducted efficiently. This perspective highlights the importance of research and development to succeed in the competitive environment of 21st century and also sensitizes the indispensability of the tools like Business Process Reengineering (BPR), benchmarking and outsourcing.

The issue of 'product death spiral' gets further explicated in Bridgeton Industries: Automotive Component and Fabrication Plan (Cooper and Bost 1990). The case study narrates competitive competition situation faced by the company and hiring of a strategic consulting firm to classify its products in terms of competitive position and potential so that non-competitive products could be outsourced. The consulting firm uses quality, customer service, technical capability, and competitive cost position as criteria to classify its products as competitive and non-competitive. However, when the recommendations of the consulting firm are implemented by the company, the categorization of the products is carried out on the basis of product cost solely. The products are put in three categories: i) Class I (World-Class) – Products having costs equal to or lower than competitors' manufacturing costs, ii) Class II (Potential World-Class) – Products having costs 5 percent to 15 percent higher than its competitors, iii) Class III (No Hope of Becoming World-Class) – Products having costs more than 15 percent higher than its competitors. Further, it is recommended by the consulting firm that Class I products should be retained. Class II products should be monitored closely and Class III products should be outsourced. After the implementation of the recommendations, the company finds that its products are sliding from Class I to Class II and from Class II to Class III. And more and more products were being signaled by the costing system for outsourcing despite efficient operations and strict cost control. The case study highlights the basic flaw of traditional costing, i.e., with the reduction in production volume (say because of outsourcing of existing products), the predetermined overhead rate shoots up and eventually the existing products are loaded with higher charge of overheads. The costing system reports high cost of the existing products and signals that some of them have lost hope to become Class II products and hence should be outsourced. More and more established, high volume, profitable products fall in the death trap of wrongly reported cost data and finally get dropped from the product line (Gupta 1995).

Number and types of cost drivers

After having built a strong case for the use of ABC based on its superiority over the traditional costing system as it does away with the problems of 'product cost cross-subsidization' and hence 'product death spiral', the next important issue figures out is that of the number and type of cost drivers which should be used in ABC system. Ideally, the number of cost drivers should be equal to the number of activities. However, in order to make ABC system less complex, the system designers bunch homogeneous activities together and create cost pools. The cost pools are far less in number as compared to the number of activities. Each cost pool needs a cost driver in order to assign costs to the cost objects. As a number of cost drivers compete for driving the cost lumped in a cost pool, the choice of appropriate cost drivers becomes an important issue. This issue has been highlighted through Tektronix Portable Instruments Division (A) (Cooper and Turney 1988). The case study starts with discussion on the issue of overhauling of cost management system when the competitive environment of a high-quality/high-price market leader forces it to shift from traditional manufacturing to a Just-in-Time process enabled by Total Quality Control and People Involvement. The traditional cost system fails to provide accurate cost data and proves to be dysfunctional in the new production environment as it is unable to help in taking optimal decisions. Tektronix was handling more than 25000 inventory transactions and 35000 labour transactions every month resulting in serious issues related to quality and efficiency. The case study is unique in addressing the issue of choice of appropriate cost driver by sensitizing that each driver induces different behavior. The case study explicates the type(s) of behavior generated by the use of three cost drivers, viz., material (in value), number of parts, and number of part numbers on the front of adoption of new technology, degree of innovation, sourcing, and functionality and helps the designer better understand the specific circumstances and the desired behavioural expectations which guide the choice and change of cost drivers.

ABC to ABM to SCM

Most of the case studies on cost management have been written in manufacturing environment. However, Allied Office Products (Shank 2006) provides a setting of handling ABC in non-manufacturing environment. Further, the case study highlights the issues involved in transition from ABC to ABM and finally to Strategic Cost Management (SCM). Better understanding of the drivers underlying costs helps one to appreciate how ABM guides in reengineering and restructuring the set of activities in which an organization engages in. The case study positions the issues like identification of non-value adding activities, evaluating the competitiveness of cost structure of each of the value-adding activities, and prioritization of cost drivers for management attention. The case study clearly spells out how the Customer Profitability Analysis, carried on the basis of ABC methodology, highlights faulty analysis used for decision making based on traditional cost analysis. Traditional cost analysis ranks both Customer A and B as equally profitable. However, ABC methodology highlights that Customer B is loss making and the company should focus on profitable Customer A. Most of the case studies on Customer Profitability Analysis force the discussion to end there. However, this case study takes the discussion to a higher platform by harping that the company should focus on loss-making Customer B as Customer A is more vulnerable to competition and does not fit the type of business in which the company is engaged. This builds a case for understanding costs in relation to the strategy resulting in SCM which is based on the concepts of value chain analysis, strategic positioning analysis and cost driver analysis (Shank and Govindarajan 1993).

The usefulness and superiority of ABC is further reinforced in Advanced Micro Devices (Cooper et. al. 1992). The shift in strategy from managing 'growth' to 'profitable growth' coupled with better product mix management, improves product design decision, and increases manufacturing efficiencies, motivates Advanced Micro Devices to experiment with ABC at its assembly facility in Penang, Malaysia. The experimentation with ABC methodology helps the organization to identify distortion in product costs. High-volume, simple products are overcosted by 20-30% and low-volume, complex products, are undercosted by 600-700% by the extant costing system. Better cost data also helps the management to set transfer prices more accurately as the transfer pricing mechanism is based on standard cost.

Cost of unused capacity

Sippican Corporation (A) is a warm-up case study to introduce TDABC (Kaplan 2006). The use of this case study after having discussed Destin Brass Products Co. case, demonstrates how TDABC better costs cost objects by assigning capacity costs on the basis of time. The cost of unused capacity which was earlier not captured by the costing system and charged to valves, pumps and flow controllers under ABC in Destin Brass Products Co., is now set off directly against gross margin. This results in a difference in cost of valves, pumps and flow controllers and hence the profitability of each product undergoes a change resulting in better decision making regarding positioning and pricing and also safeguarding against creation of new capacity required to honor higher demand created because of lowering of prices, a strategy to which most of the companies get invited to in order to fill up the idle capacity.

Concluding remarks

The quest to know the true cost of a cost object has proved to be a trigger for experimentation with the design of better cost systems. The cost data generated by traditional cost systems have been found to be inaccurate and hence not dependable for decision making because of the inbuilt mechanism of 'product cost cross-subsidization'. The philosophy of ABC positioned superiority of the cost data generated on the basis of causality of costs in relation to activities. Experimentation with ABC resulted in restructuring of the operations and activities, on the basis of value addition and efficiency, leading to more lean and mean organizations and hence giving birth to ABM. Experimentation with ABC systems as captured in various real life case studies helps one to better understand the reasons of failure of traditional cost systems and issues involved in the design of ABC systems.

THE USEFULNESS AND SUPERIORITY OF ABC IS FURTHER REINFORCED IN ADVANCED MICRO DEVICES (COOPER ET. AL. 1992). THE SHIFT IN STRATEGY FROM MANAGING 'GROWTH' TO 'PROFITABLE GROWTH' COUPLED WITH BETTER PRODUCT MIX MANAGEMENT, IMPROVES PRODUCT DESIGN DECISION, AND INCREASES MANUFACTURING EFFICIENCIES

[1] Willie Sutton was a successful bank robber in the US during the 1950s. When he was interrogated and asked, "Why do you rob banks?" Willie replied, "That's where the money is!"

REFERENCES

1. *Blocher Edward J., David E. Stout, Paul E. Juras, and Gary Cokins. 2013. Cost Management: A Strategic Emphasis. New York: McGraw-Hill/Irwin. 155.*
2. *Burns, William J. 1989. "Destin Brass Products Co." Case Study 190-089. Boston: Harvard Business School.*
3. *Christensen, John. 2010. "Accounting Errors and Errors of Accounting", The Accounting Review, November, 1827-1838.*
4. *Cooper, Robin. 1988. "The Rise of Activity-Based Costing-Part One: What is an Activity-Based Cost System?", Journal of Cost Management, Summer, 45-54.*
5. *Cooper, Robin, and B. B. Turney. 1988. "Tektronix: Portable Instruments Division (A)". Case Study 188-142. Boston: Harvard Business School.*
6. *Cooper, Robin, and Patricia J. Bost. 1990. "Bridgeton Industries: Automotive Component & Fabrication Plant". Case Study 190-085. Boston: Harvard Business School.*
7. *Cooper, Robin, and Robert S. Kaplan. 1999. The Design of Cost Management Systems. New Jersey: Prentice-Hall, Inc., 216.*
8. *Cooper, Robin, Robert S. Kaplan, Lawrence S. Maisel, Eileen Morrissey, and Ronald M. Oehm.*
9. *1992. Implementing Activity-Based Cost Management: Moving from Analysis to Action. Montvale: Institute of Management Accountants, 41-61.*
10. *Gupta, Dinesh K. 1995. "Activity-Based Costing and Strategic Cost Analysis", The Management Accountant, August, 588.*
11. *Johnson, Thomas H. 1992. Relevance Regained: From Top-Down Control to Bottom-Up Empowerment. New York: The Free Press.*
12. *Johnson, Thomas H. and Robert S. Kaplan. 1987. Relevance Lost: The Rise and Fall of Management Accounting. Boston: Harvard Business School Press.*
13. *Kaplan, Robert S., 2006. "Sippican Corporation (A)". Case Study 106-058. Boston: Harvard Business School.*
14. *Kaplan, Robert S. and Steven R. Anderson. 2007. Time-Driven Activity-Based Costing: A Simpler and More Powerful Path to Higher Profits. Boston: Harvard Business School Press.*
15. *Morse, Wayne J. 1990. "Instructional Case: Rantoul Tool, Inc.", Issues in Accounting Education, Spring, 78-83.*
16. *Shank, John K., 2006. Cases in Cost Management. Ohio: Thomson South-Western, 29-35.*
17. *Shank, John K. and Vijay Govindarajan. 1993. Strategic Cost Management. New York: The Free Press.*
18. *Tse, M. and M. Gong. 2009. "Recognition of Idle Resources in Time-Driven Activity-Based Costing and Resource Consumption Accounting Models", Journal of Applied Management Accounting Research, January, 41-55.* MA

dkgupta@pu.ac.in

PERFORMANCE EVALUATION OF INDIAN EXCHANGE TRADED FUNDS

ETFs represent an exciting product class that has exploded in asset size and interest in recent years and are making their presence felt in India. Factors such as low costs, low tracking error and intra-day trading appear to tilt the balance in favour of ETFs

Priya Mahajan
Research Scholar
Kumaun University,
Nainital

Dr. Gagan Singh
Assistant Professor
Uttarakhand Open
University
Nainital

The progressive liberalization of economic policies has led to a rapid growth of capital market, money market and financial services industry. Consistent with this evolution of the financial sector, the mutual fund industry has also come to occupy an important place in India. It forms an important part of capital market, providing the benefits of a diversified portfolio and expert fund management to a large number of investors, particularly small investors. The industry has witnessed sterling growth in terms of the products and services offered, returns churned, volumes generated and also the contributions of international players in this growth. Today the industry offers different schemes ranging from equity and debt to fixed income and money market. The mutual fund industry offers diverse products such as Gold funds, Exchange Traded Funds (ETF), Index Funds and Capital protection oriented funds and even thematic funds. ETFs have been a favorite among institutional investors for some time now, but they have recently become popular with retail investors (Sunil Rangola 2009). In India presently there are 43 mutual funds companies out of which 15 mutual funds companies are such which are providing the services of 37 ETFs.

Exchange Traded Funds

Exchange Traded Funds (ETFs) are just what their name implies: baskets of securities that track an index, a commodity or a sector like an index fund or a sectoral fund but trades like a stock on exchange. Unlike regular open-end mutual funds, ETFs can be bought and sold throughout the trading day at its Net Asset Value (NAV). ETF's experiences price changes throughout the day as they are bought and sold. ETFs have emerged as a viable alternative for investors seeking to tie their holdings to a major market index (Kostovetsky 2003). The Indian experience with ETFs is a little limited. Benchmark MF (now a day's Goldman Sachs) launched the first ETF in 2002. It was based on the 50-stock S&P CNX Nifty index. To this date, this Benchmark Nifty ETF continues to be the most actively traded ETF on the national stock exchange (NSE). Apart from the specialized Benchmark MF, other fund houses that have ETF products are few in number — UTI, Quantum, Kotak Mahindra, Birla Sunlife, Motilal Oswal, Reliance Capital, SBI, Religare, ICICI Prudential, and IIFL etc. The Indian ETF market experience has not coincided with the global experience, but a matured investor base might very well help the growth curve shoot up in the next few years. As far as the international ETFs are concerned, it has been found out that at the end of June 2011, global ETF industry comprised 3355 ETFs from 146 providers on 49 exchanges around the world with total assets of US$ 1902 Billion (Source; Goldman Sachs). ETFs are very popular abroad with nearly 60% of trading volumes of American Stock Exchange (AMEX) is captured by ETF.

The present research is divided into four sections. The present section deals with introduction and following section describes the research methodology of the study. The third section makes the analysis of the data and interpretation thereof and the last section gives the concluding remarks.

Review of literature

Harper, Madura, Schnesenberg (1999) compared the risk and return performance of exchange traded funds and foreign close end funds. Risk, return and risk adjusted measures had been used to evaluate the performance. The results showed that ETFs exhibited higher mean returns than foreign close-end funds because of the lower expense ratio and closed end funds exhibited lower risk than corresponding ETFs.

Poterba, Shoven (2002) examined the perception of ETFs as tax efficient alternatives by comparing the pre and post tax returns of largest ETF, the SPDR, with the returns of largest equity index fund, the Vanguard Index 500 fund. Both track the S&P 500 Index. The results suggested that the before and after-tax returns on the funds were slightly greater than those on the ETF.

Gallagher and Segara (2004) exhibited the performance and trading characteristics of exchange traded funds (ETFs) in Australia. The objective of the study is to investigate the ability of index oriented (classical) ETFs to track underlying equity benchmarks on the Australian Stock Exchange. The study found out that index-oriented ETFs closely track their respective benchmarks.

Gerasimos Rompotis (2006) provided an introduction of ETFs, focusing on their origin, describing their main types and exchanges where they are (or were) traded, analyzing their characteristics and operating mechanism. He also studied the price relation among ETFs and underlying indices. Statistical techniques like returns, standard deviation and regression analysis has been applied and found out that ETFs performance moved closely to the tracking indices.

Ashok Khurana (2008) compared the Indian Bank ETFs with their respective benchmarks of bank index and results show that on average ETFs have shown lesser negative returns in comparison to the negative returns of CNX PSU Bank Index.

Prashanta Athma and K. Raj Kumar (2011) covered the trends and progress of ETFs and Index Funds in India and evaluate the performance of ETFs vis-à-vis Index Funds in India. The statistical tools like Standard Deviation, Beta, Alpha, R-squared and Sharpe Ratio are used for data analysis. It is concluded that ETFs have given better opportunity for the small investors compared to Index Funds.

Growth of ETFs in India

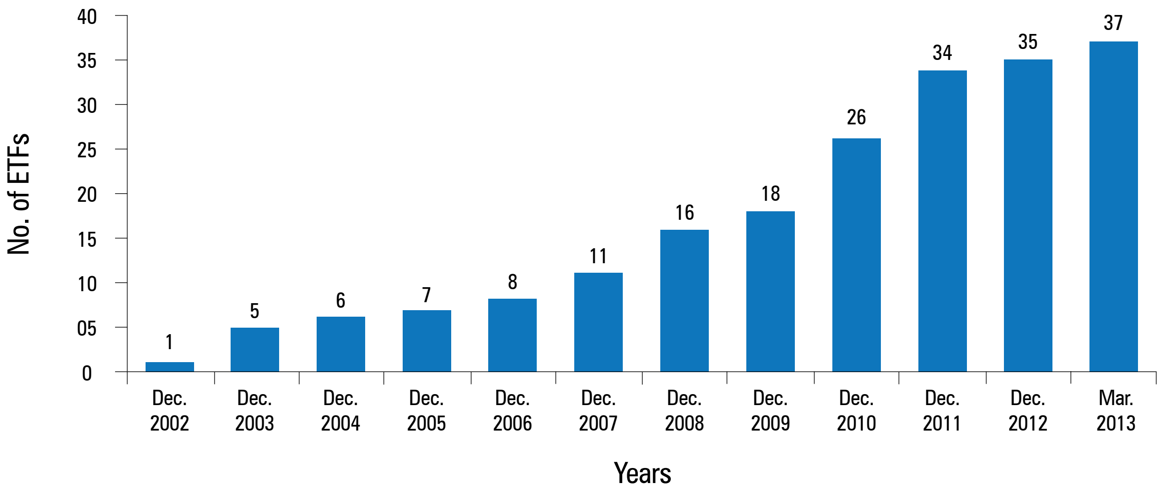
Table1 depicts the growth of Assets under management (AUM) of ETFs till 2007 but the market crash of 2008 put a dent in the growth. Again in 2011 it gained momentum and grow at a rapid pace in the next two years.

Table1: Growth of ETFs in India

Year	No. ETFs	AUM (Rs. Crore)	Increase or Decrease	% Increase or Decrease
Dec. 2002	1	7.23	-	-
Dec. 2003	5	205.95	198.72	2748.55
Dec. 2004	6	498.54	292.59	147.24
Dec. 2005	7	2855.82	2357.28	805.66
Dec. 2006	8	7811.11	4955.29	210.21
Dec. 2007	11	7141.74	-669.37	-13.51
Dec. 2008	16	3119.11	-4022.63	-600.95
Dec. 2009	18	2461.72	-657.39	16.35
Dec. 2010	26	4959.16	2497.44	379.78
Dec. 2011	34	11346.49	6387.33	255.76
Dec. 2012	35	13380.21	2033.72	31.84
Mar. 2013	37	13333.96	-46.25	-2.27

Source: (www.amfiindia.com)

Growth of ETFs in India



ETFS HAVE RECENTLY BECOME POPULAR WITH RETAIL INVESTORS. AT PRESENT, OUT OF 43 MUTUAL FUNDS COMPANIES, 15 PROVIDE SERVICES FOR 37 ETFS

A close look at the figure shows that in the last four years the pace of launching of new ETFs has definitely gained momentum as 11 new ETFs have been launched in this period of time. There are total 37 ETFs are presently running in India including 14 Gold ETFs, 1 Debt, and 22 Index ETFs (2 international ETFs).

Need of the study

The purpose of this study is to comprehensively evaluate the performance of ETFs with respect to risk-return perspective. Laurent (2006) studied history, trading and research of the ETFs stating that they were initially launched in North American markets in the early 1990s. There is spectacular growth in the trading volume of these instruments. Research on ETFs mostly focuses on their efficiency and performance as well as on their impact on the other index markets. In India, it's a new concept as first ETF in India is launched in Dec 2001. Thus, very few studies have been conducted in this regard. The need of the study arises to make investor aware of the ETFs and also make him aware regarding which ETF will be the best option for him to invest in.

Objectives of the study

The following objectives have been visualized for the present study:

- to compute and evaluate the performance of Index ETFs in India.
- to compare and analyze the performance of Index ETFs with their respective underlying benchmark indexes.
- to analyze the risk- return profile of selected ETFs.

Research methodology

The present study has been conducted to comprehensively evaluate the performance of ETFs with respect to risk-return perspective. The study has been based on secondary data. The data used is the daily closing values of NAVs. The secondary data sources include the factsheets of mutual funds, research articles, SEBI Manuals, AMFI Reports and websites. The study period ranges from 1st April' 2008 to 31st March' 2013. However, the trading history of a number of the sample's funds does not cover the whole study period because the inception date of these funds was after 1st April' 2008.

Table -2 The Summarized Details of Various ETFs Operating in India on 31st March 201					
	S. No.	Name of the ETF	Launch date	Underlying Index	AUM (Rs. crore)
	1	GS Nifty ETF	Dec 2001	S&P CNX Nifty Index	482.21
	2	ICICI Pru Exchange Traded Fund	Jan 2003	S&P BSE Sensex	.94
	3	GS Junior Nifty BeES	Feb 2003	CNX Nifty Junior Index	88.12
	4	GS Bank BeES	May2004	CNX Bank Index	51.46
	5	GS PSU Bank BeES	Oct 2007	CNX PSU Bank Index	11.37
	6	Kotak PSU Bank	Oct 2007	CNX PSU Bank Index	11.1
	7	Reliance Banking ETF	June 2008	CNX Bank Index	11.08
	8	Quantum Index Fund	May 2008	S&P CNX Nifty Index	2.25
Index ETFs	9	Kotak Sensex	May2008	S&P BSE Sensex	6.30
	10	GS Shariah Exchange Traded Scheme	Feb 2009	S&P CNX Nifty Shariah Index	.71
	11	Kotak Nifty ETF	Jan 2010	S&P CNX Nifty Index	48.16
	12	Motilal Oswal MOSt shares 50	July 2010	S&P CNX Nifty Index	75.18
	13	Motilal Oswal MOSt shares 100	Feb 2011	CNX Midcap Index	14.26
	14	Birla Sun Life Nifty ETF	Aug 2011	S&P CNX Nifty Index	1.37
	15	GS Infra BeES	Sept.2010	CNX Infra Index	4.52
	16	IIFL ETF	Oct. 2011	S&P CNX Nifty Index	15.71
	17	Religare Nifty ETF	May 2011	S&P CNX Nifty Index	1.93
	18	Reliance Shares	Feb 2013	CNX100	1.17
	19	SBI Sensex ETF	Feb 2013	S&P BSE SENSEX	4.04
	20	ICICI Pru Nifty	Mar 2013	S&P CNX Nifty Index	1.24
Debt ETF	21	Liquid BeES	July 2003	Crisil Liquid	576.66
	22	GS Gold ETF	Mar 2007	Domestic Gold*	3377.04
	23	UTI-Gold Exchange Traded Fund	April 2007	Domestic Gold	724.17
	24	Kotak Gold ETF	July 2007	Domestic Gold	1360.02
	25	Reliance Gold Exchange Traded Fund	Nov 2007	Domestic Gold	2926.04
	26	Quantum Gold Fund	Feb 2008	Domestic Gold	64.80
Gold ETFs	27	SBI Gold Exchange traded fund	Mar 2009	Domestic Gold	1368.24
	28	AXIS Gold ETF	Nov 2010	Domestic Gold	443.50
	29	HDFC Gold ETF	July 2010	Domestic Gold	818.20
	30	ICICI Prudential Gold Exchange Traded Scheme	July 2010	Domestic Gold	203.09
	31	Religare Gold ETS	Feb 2010	Domestic Gold	77.6
	32	Birla sun Life Gold ETF	May 2011	Domestic Gold	133.69
	33	IDBI Gold	Oct 2011	Domestic Gold	170.50
	34	Motilal Oswal MOSt Shares Gold ETF	Mar2012	Domestic Gold	63.10
	35	Canara Robeco	Mar2012	Domestic Gold	121.62
International Index ETFs	36	GS Hang Seng BeES	Feb 2010	Hang Seng Index	10.50
	37	Motilal Oswal MOSt Shares	Mar2011	NASDAQ100	62.24

* The price of all the above GOLD ETFs, is roughly equal to the current price of 1 gram of gold.
Source: compiled from www.nseindia.com, http://money.rediff.com/mutual-funds

Sample size

In the present study universe of the study consists of 37 exchange traded funds. With regards to the performance evaluation of ETFs with their benchmark indices the present study takes the sample of 9 Equity index ETFs. Out of 9, 7 ETFs track the S&P CNX Nifty and 2 tracks BSE Sensex.

Statistical Techniques: In the present study the data drawn from various sources has been analyzed to evaluate the performance of Index ETFs by computation of various performance parameters like systematic risk (Beta), R-Square, Returns, volatility (Standard Deviation) and Tracking error. Apart from these techniques, risk adjusted measures like Sharpe Ratio and Treynor Ratio are also being computed.

Annualized Returns: is a non risk adjusted measure of performance and has been calculated for all the selected ETFs and their respective Benchmarks.

= (NAV on 31st Mar'13/NAV on inception date) ^ (250/N) -1

In a year approx. 250 or 252 days are considered to be the trading days after deducting Saturday, Sundays and other holidays. In our study we have taken 250 trading days for calculating annualized returns and annualized standard deviation.

Compound Annual Growth rate: CAGR is a geometric average of annual growth. It reflects compound, cumulative returns over time. Notice that this geometric average rate of return is lower than the arithmetic average rate of return because it reflects compounding rather than simple averaging.

= (Final Amount/initial amount) ^ (1/no. of years) -1

Standard Deviation The standard deviation of a fund measures the risk by measuring the degree to which the fund fluctuates in relation to its mean return, the average return of a fund over a period of time.

$= (\sum (R_i - Mr)^2 \div (N - 1))$ ½

Annualized Standard Deviation = Daily Standard Deviation ×(250) ½

Tracking Error: Tracking error is defined as the standard deviation of the difference in returns between the fund and its target index. In simple terms, it is the difference between returns from the Index fund to that of the Index

= St Dev (Fund Return-Index Return)

Beta: The systematic risk or beta is a measure of volatility and can be defined as the tendency of a security's returns to respond to swings in the market.

= Covariance (stock vs. market index returns) / Variance (market index returns)

Risk-adjusted performance Measures: It measures the return of the fund, adjusted for the risk of the fund relative to that of some benchmark. In present study Sharpe and Treynor ratio is used for risk-adjusted performance measurement. Both measure excess return above the risk –free rate per unit of risk. The main difference is that the Sharpe ratio used standard deviation as the risk measures, whereas Treynor ratio uses Beta.

Sharpe Ratio: = $(R_t - R_f) / \alpha_i$

Treynor ratio = $(R_t - R_f) / \beta_i$

Risk-free rate (R_f): The risk free rate is the rate of return that investors require for investment with no risk. In the present study Govt. Bonds 10 years are taken as a risk free securities and the rate is taken on an average 8% for the period under study.

Results and discussions

Analysis of performance of selected ETFs: The performance of the ETFs under study is depicted in table 4. It shows the last 5 years returns of the selected ETFs. The table shows that last one month returns of all ETFs are negative. In the last one year ICICI Pru has the highest returns (9.2%) whereas the two ETFs Motilal Oswal and Birla Sun Life both have the lowest return (1.5%). In last two years most of ETFs have negative returns except the ICICI Pru. The reason might be the mild recession in August 2011.

Table-3 Sample Size

S. No.	Name of the ETF	Launch date	Underlying Index	AUM (Rs. crore)
1	GS Nifty ETF	Dec 2001	S&P CNX Nifty Index	482.21
2	ICICI Pru Exchange Traded Fund	Jan 2003	S&P BSE Sensex	0.94
3	Quantum Index Fund	May 2008	S&P CNX Nifty Index	2.25
4	Kotak Sensex	May2008	S&P BSE Sensex	6.30
5	Kotak Nifty ETF	Jan 2010	S&P CNX Nifty Index	48.16
6	Motilal Oswal MOSt shares 50	July 2010	S&P CNX Nifty Index	75.18
7	Birla Sun Life Nifty ETF	Aug 2011	S&P CNX Nifty Index	1.37
8	IIFL ETF	Oct. 2011	S&P CNX Nifty Index	15.71
9	Religare Nifty ETF	May 2011	S&P CNX Nifty Index	1.93

Table4: Returns of selected Exchange Traded Fund as on 31st March 2013								
S. No.	Funds	1 Week	1 Month	1 Year	2 Years*	3 Years*	4 Years*	5 Years*
1	Kotak Nifty ETF	0.8%	-0.1%	8.1%	-0.29%	3.3%	-	-
2	GS Nifty ETF	0.9%	-1.4%	6.8%	-1.69%	2.6%	16.5%	3.5%
3	Quantum Index	0.9%	-1.1%	8.1%	-0.22%	3.5%	17.6%	
4	Motilal Oswal 50	1.0%	-1.9%	1.5%	-4.2%	-	-	-
5	Birla Sun Life	0.9%	-1.1%	1.5%	-4.2%	-	-	-
6	Religare invesco ETF	0.8%	-0.2%	6.7%	-	-	-	-
7	IIFL ETF	0.9%	-1.1%	-	-	-	-	-
	Average of Nifty ETF	0.9%	-1.0%	5.4%	-2.1%	3.13%	17.05%	3.5%
	S&P CNX NIFTY	0.9%	-0.2%	6.8%	-1.2%	2.4%	16.7%	3.7%
8	ICICI Pru	0.8%	-0.0%	9.2%	0.4%	4.1%	18.5%	5.4%
9	Kotak Sensex	0.8%	-0.0%	9%	-0.5%	3.4%	18.5%	-
	Average of Sensex ETF	0.8%	-0.0%	9.1%	-0.1%	3.7%	18.5%	5.4%
	Sensex	0.5%	-0.1%	7.8%	-1.5%	2.1%	17.4%	3.8%

In **Table4** we have calculated the compound annual growth rate (CAGR) for more than one year period. CAGR is an average growth rate over period of several years. It is a geometric average of annual growth. But CAGR does not reflect investment risk. Investments returns are volatile, meaning to say that they can vary significantly from one year to another and CAGR does not reflect that. So for that purpose we also used risk adjusted measures to evaluate the ETFs performance. It is important to note here that the period under consideration is from April 2008 to March 2013. However not all ETFs had their inception on or before 2008 and their data is considered from the day of their inception. From the table-4 given above it is clear that in last 5 years ICICI Pru which is benchmarked against Sensex has succeeded to earn more return than its benchmark. On the other hand GS Nifty has not succeeded in getting more returns than its benchmark CNX Nifty but quite close to it. Overall, on an average ETFs of both the indexes (Nifty and Sensex) have succeeded in outperforming their benchmark index in terms of compounded annualized returns.

Risk-Return analysis of Index ETFs

To analyze and evaluate the performance of Exchange Traded Funds (ETFs) individually and with respect to their benchmarks, we have taken into consideration various performance parameters like Systematic Risk (Beta), R-Square, Returns, Volatility (Standard Deviation), and Tracking Error. Apart from these techniques, risk adjusted measures like Sharpe Ratio; Treynor Ratio has also been computed to get a fair view of returns yielded by these ETFs with respect to risk associated with it.

BETA (β): The systematic risk or beta is a measure of volatility and can be defined as the tendency of a security's returns to respond to swings in the market. It is that risk which cannot be eliminated from the system. If the stock's price experiences movements that are greater - more volatile than the stock market, then the beta value will be greater than 1. If a stock's price movements, or swings, are less than those of the market then the beta value will be less than 1. The first column gives the Beta value of our focused ETFs and the market. The values of the 9 ETFs under consideration can be easily seen to be less than the market benchmarks except Motilal Oswal Most Shares in table-5 whose Beta is more than 1 i.e.1.017. It is clearly an indicator that the stocks or portfolios being represented in this ETF are more volatile or risky than their benchmark. Also if investor would like to beat the market on upside, it is best to invest in a high-beta fund. But one thing that an investor must keep in his mind that such a fund will fall more than a market on the way down. The market portfolio's Beta is always taken to be 1 because of the fact that market portfolio is considered to be representative of all the stocks and is well diversified. Also it appears from the both tables that all the funds have Beta values very near to the benchmark value of 1 indicating that the swings that happen in the market are more or less replicated in these ETFs.

R-Square: Beta and R-square should be used together when examining a fund's risk profile. They are as inseparable as risk and return. The R-squared value shows how reliable the beta number is. It should be varies between 0.8 and 1. Only then it will bear a strong relationship with the benchmark index and hence beta will reflect movement of

Table5: Risks -Return profile of Nifty ETFs

S. No.	Fund	ß	R-Square	Annualized Return	Annualized Std. Dev.	Sharpe Ratio	Treynor Ratio	Tracking Error
1	GS Nifty ETF	0.996	0.997	3.5%	26.9%	-0.165	-0.045	-1.321
2	Quantum Index Fund	0.994	0.999	6.3%	1.7%	-1.002	-0.017	3.629
3	Kotak Nifty ETF	0.997	0.999	6.3%	17.4%	-0.094	-0.016	3.866
4	Motilal Oswal MOSt shares 50	1.017	0.904	-7.3%	19.1%	-0.802	-0.150	-2.054
5	Birla Sun Life Nifty ETF	0.988	0.999	1.4%	17.6%	-0.372	-0.066	3.840
6	IIFL ETF	0.995	0.999	8.1%	16.1%	0.008	0.001	4.585
7	Religare Nifty ETF	0.987	0.990	3.1%	17.6%	-0.277	-0.049	8.514
	S&P CNX Nifty	1		3.7%	26.6%	-0.160	-0.042	

Table -6 Risk-Return profile of Sensex ETFs

S. No.	Fund	ß	R-Square	Annualized Return	Annualized Std. Dev.	Sharpe Ratio	Treynor Ratio	Tracking Error
1	ICICI Pru Exchange Traded Fund	0.949	0.998	5.5%	27.0%	-0.091	-0.026	1.180
2	Kotak Sensex	0.996	0.999	5.1%	27.7%	-0.103	-0.029	6.314
	BSE Sensex	1		3.8%	27.2%	-0.153	-0.041	

scheme accurately. An R-squared value greater than 0.8 is generally accepted to mean that the underlying beta value is reliable. Analysis of the results of both tables given below show that the R-square values of the selected exchange traded funds falls between 0.90 and 0.99. Hence, it indicates that beta values are reliable, and are closely performed in relation to the index.

Annualized Returns: Annualized Returns is considered as one of the important measures of performance. It is a non-risk adjusted measure of performance and has been calculated for all the selected ETFs and their respective Benchmarks from the 1st April 2008 to 31st March 2013. It is quite clear that all the ETFs have managed to outperform the market index in terms of better annualized returns barring Motilal Oswal MOSt share (-7.3%) in table-5 which have the negative annualized returns. IIFL ETF (8.1%) in table-5 has the highest annualized return among all the ETFs under study. Quantum index fund and Kotak Nifty fund of the S&P CNX Nifty have the second highest returns of 6.3% and then comes ICICI Pru and Kotak Sensex of BSE Sensex in third and fourth position with respective returns of 5.5%and 5.1%. However useful annualized returns may seem in view of performance evaluation but this measure of performance suffers from one major flaw in making investing decisions and that is its approach of non-accounting of risk element in fund returns. So it might happen that an ETF earns great returns but the risk exposure to earn that return is pretty high as well. So for a risk averse investor this measure of performance will in itself not suffice so as to make his investing decisions. Thus we need to study risk and return in tandem through following measures of performance to understand which Exchange Traded Funds (ETFs) is to be relied upon to earn great returns at minimum risk.

Annualized Standard Deviation means a fund's volatility, which shows the tendency of the returns to rise or fall drastically in a short-period of time. Security that is volatile has higher risk because its performance may change quickly in either direction at any moment. The standard deviation of a fund measures this risk by measuring the degree to which the fund fluctuates in relation to its mean return, the average return of a fund over a period of time. The priority therefore is to minimize this risk. If we look at the tables for ETFs, GS Nifty ETF (26.9%) of table-5 and Kotak Sensex (27.7%) of table-6 the standard deviation seems to be higher, meaning higher volatility than their benchmark index (26.6% and 27.2%) for their respective periods of observa-

IT CAN SAFELY BE SAID ON THE BASIS OF VARIOUS PERFORMANCE INDICATORS THAT ETFs ON MOST COUNTS HAVE BEEN PERFORMING BETTER THAN THE COMMON BENCHMARK S&P, CNX, NIFTY AND SENSEX

tions which suggests that these funds are facing more risk exposure which can be compensated by the fact that they are delivering better annualized returns than benchmark index as shown in table no.5 and 6 given above. Hence the extra risk taken is justified.

Risk-adjusted measures

If we consider Sharpe measure or reward-to-variability ratio which is a measure of the excess return (or Risk Premium) per unit of risk in an investment asset or a trading strategy, we can see from the table-5 and the table-6 that among all the ETFs under study IIFL ETF is giving out the best Sharpe ratio of 0.008 per unit of volatility or standard deviation. Also IIFL ETF is outperforming its benchmark S&P CNX Nifty (-0.160) quite comfortably for the same period. Thus IIFL ETF giving higher Sharpe ratio than their index suggests that this ETF has lived up to its promise of providing diversification to small investors by giving out good returns at less per unit risk. However all other ETFs of both the tables have negative Sharpe ratios for their respective periods indicating that there has been no risk premium or excess returns earned per unit of risk, rather there has been an erosion of invested value. This has been mainly due to the fact that these ETFs have faced turbulent market situations inclusive of January'08 fall and mild recession in Aug 2011 but on the other hand IIFL ETF has shown positive Sharpe ratio values because this fund came into existence in October 2011 and hence avoided the recession periods. Negative Sharpe also clearly suggests that an investor would have been better off in investing risk free investments like Govt. Bonds etc than in these ETFs. However the only consolidation for them has been the fact that the market benchmark indexes (with values of -0.160 and -0.153 respectively) has higher negative Sharpe ratios for the same period which is indicative of the fact that overall market has taken a heavier pounding. If we consider Treynor ratio, another risk adjusted returns measure of performance which is similar in principle to Sharpe Index as it also measures excess returns to per unit risk, except that here the portfolio's systematic risk or beta is considered as the measure of risk as opposed to the variance of portfolio returns. We can see that among all the ETFs, IIFL (0.001) has the highest Treynor ratio which is indicative of the fact that for every per unit of market risk IIFL ETF gives out the maximum excess returns. Also IIFL ETF has higher Treynor value than benchmark index (-0.042) for the same period. All other ETFs of both the indexes show negative excess returns per unit of systematic risk because of the rough market situations since their inception. In case of Treynor ratio only IIFL ETFs of Nifty seems to be able to beat the index with value as compared to that of index for the same period under review. So it would have been better for an investor to invest in risk free instruments vis-à-vis these ETFs.

Tracking Error: Exchange Traded Funds (ETFs) are expected to mirror the returns of an index minus the expenses, but sometimes they get off track. The percentage amount a fund's assets deviate from its benchmark index is referred to as the Tracking Error. The tracking error is usually expressed as a standard deviation, and a large deviation indicates that there are large inconsistencies between the return of a fund and its benchmark. This large divergence could be an indication of poor fund construction and/or large fund fees and high operating expenses. We just analyzed from both the tables given above that ICICI Pru Spice whose underlying index is Sensex has the lowest tracking error value which suggests that fund's returns are tracking the benchmark returns to the optimum. On the other hand Religare Nifty ETF whose underlying index is S&P CNX Nifty has the highest tracking error. If the tracking error is negative, the fund has yielded lower returns than the benchmark. In table-5 GS Nifty and Motilal Oswal MOSt shares has the negative tracking error and if we had a look on their annualized returns the returns of these both funds are below their benchmark returns.

Conclusion

In India, ETFs are being touted as a new instrument possessing the attributes of both index mutual funds and an individual stock. In the present study we have evaluated the presence and performance of Indian Index ETFs. The trend of ETFs in India started with Index ETFs and hence they seem to be most popular among investors. The ETF market is still moving at such speeds and with new schemes offered continually. They represent an exciting product class that has exploded in asset size and interest in the recent years and are also making their presence felt in India. Small investors who do not have the time and expert advice could turn to ETFs. Factors such as low costs, low tracking error and intra-day trading appear to tilt the balance in favour of ETFs.

As far as the performance of Index ETFs is concerned we can safely say on the basis of various non-risk and risk adjusted performance indicators that the ETFs on most counts have been performing better than the common benchmark S&P, CNX, Nifty and Sensex. They have given out better excess returns not only for per unit systematic risk but also for per unit of volatility or standard deviation. Even in cases where ETFs have faced turbulent times because of huge downturns in the market, ETFs managed to give out lesser negative returns when compared to benchmark for the same period. The average tracking error also seems to be on the lower side which is a reflection of its close movement with regards to the benchmark index. Hence for a small investor looking to make a less risky investment, these instruments offer an ideal way of diversification. In the present study it has been found that these forms of investments have much potential in the years to come and once these kinds of investments gain momentum with all its diverse features and huge advantages over mutual funds then there will be no stopping their growth.

THE STUDY HAS FOUND THAT THESE FORMS OF INVESTMENTS HAVE MUCH POTENTIAL IN THE YEARS TO COME AND THAT THERE WILL BE NO STOPPING THEIR GROWTH ONCE THESE KINDS OF INVESTMENTS GAIN MOMENTUM WITH ALL ITS DIVERSE FEATURES AND HUGE ADVANTAGES OVER MUTUAL FUNDS

References

1.Athma Prashanta, Raj Kumar K. (2011)," ETF vis –a vis-Index Funds: An Evaluation" APJRBM Volume 2, Issue 1 .January.

2.Bhalla, V. K. (2004), " investment Management", S. Chand and Company Ltd. , Ram Nagar, New Delhi-11100055, 13th edition, pp. 565-830.

3.Elton, Gruber (2002), " Modern portfolio theory and investment analysis" , John wiley & sons, 5th edition, pp. 630-670.

4.Gallagher, R. David and Reuben Segara. (2005), "The Performance and Trading Characteristics of Exchange-Traded Funds" working paper, The University of New South Wales.

5.Harper, J. T., J. Madura and O. Schnusenberg. (2006), "Performance comparison between exchange traded funds and closed end country funds", Journal of International Financial Markets, Institutions and Money, 16(2), pp. 104-122

6.Khurana, Ashok. (2008), "Bank ETF's: A Return-Risk Perspective" Available at SSRN: http://ssrn.com/abstract=1718363

7.Kostovetsky, L. (2003), Index Mutual Fund and Exchange -Traded Funds, Journal of Portfolio Management, Vol. 29 (4): pp. 80-92.

8.Laurent. (2006), "Exchange Traded Funds: History, Trading and Research" Available at http://hal.archives-ouvertes.fr/docs/00/16/22/23/PDF/ETF-survey.pdf.

9.Poterba, M. James and John B. Shoven. (2002), "Exchange-Traded Funds: A new investment option for taxable investors," American Economic Review, Vol. 92. pp. 422-427.

10. Rangola Sunil (2009), "Exchange Traded Fund challenging the dominance of Mutual Fund". Available at http://www.deloitte.com/assets/Dcom-Ireland/ Local%20Assets/Documents/ Investment%20management/exchangeTraded-Funds_061009. pdf

11. Rompotis Gerasimos (2006), "An empirical look on Exchange traded Funds" available at SSRN:

12. http://papers.ssrn.com/sol3/cf_dev/AbsByAuth.cfm?per_id=628432.

13. http://www.goldmansachs.com/gsam/in/advisors/ideas/global-economic-outlook/index.html.

14. http://www.tradingeconomics.com/india/government-bond-yield. MA

gagan_singh04@yahoo.co.in


MUTUAL FUN
NAV
NET CHG
YTD %RET
FUND

WEATHERING THE CRISIS IN MUTUAL FUNDS INDUSTRY IN INDIA: AN ANALYSIS

A sustainable strategy of AMCs and the industry as a whole hinges on rethinking the distribution model in a larger wealth management market

Dr R. K. Raul
Professor
Assam University
Silchar

Mutual Funds (MFs) are an investment company combine assets by selling units to individuals as well as institutional investors and invest in the defined asset class: equity, bonds, balanced funds, and money market funds; treasury bills, and other short term debts, Gold ETF (exchange traded fund), ETF other than gold and Fund of Fund (FOF). They are professionally managed domestic financial institutions pave small investors' smooth way to access to wider capital market with legal protection and high level of disclosure at comparatively low cost (Donald E. Fischer, 2011; Dowd, 1992).

The industry during last five decades grew in leaps and bounds. As on March31 2013, there are 43 number of fund houses in the category of foreign (8), Indian Private (18), Institutional Joint Venture Indian (1), i.e. LIC Nomura, joint venture foreign (5), joint venture Indian (9) and others type (2) catering to varied needs of wide range of investors with 7979 number of schemes. ICICI Prudential MF offers a large number of schemes i.e., 742, followed by Reliance MF (522), UTI MF (433), and IDFC MF (413) and so on. The units are redeemed at net asset value (NAV); a price determined by current value of the funds' net assets managed on behalf of investors depending on growth/decline because of capital appreciation/losses and money inflow/outflow. However, MFs play a significant role in counter balancing or reinforcing foreign capital outflows as well as either stabilizing or destabilizing the capital markets in periods of uncertainty (Bose, 2012).

MFs operate in a defined structure with well spread-out information network that ensure fund manager's sufficient ground level information for mitigating systematic risk pertaining to investment. The scope of mutual fund managers for being adventurous in portfolio construction is more or less limited. However, MF industry slipped into trouble because of its under-performance. Most of the schemes across the fund houses have lagged in their respective benchmarks. Inevitably, investors have left in droves.

Against this backdrop the paper attempts to highlight

- Growth trajectory of AUM in the context of economic upheaval over the years.
- Efficacy of fund managers in minimizing the systematic risks for greater interest of unit holders and finally
- The strategies for resurrection of moribund industry

We used data from NAV India database till March 31, 2013 and employed descriptive statistics along with Sharpe, Treneyor measure and Jensen Alfa to assess the level of performance of fund manager's efficacy in managing fund for attaining its stated objectives.

Growth trajectory of fund houses

Till 1987, UTI only fund house in the Mutual Fund industry accounted Rs 6700 crores of asset under management (AUM). The industry witnessed a quantum leap in the volume of AUM to the tune of Rs 47000 crores registering more than 7 fold increase in 1993 with the entry of non UTI public sector financial institutions like Banks (SBI, Canara Bank, Punjab National Bank, Bank of India, Indian Bank and Bank of Baroda) and public sector insurance companies (LIC and GIC). Average AUM (AAUM) of MF industry, during 1993-2003, grew to Rs 121805 crores in the context of joining of private funds in mutual fund bandwagon. The pace of growth of AAUM during 2003-05 gained unprecedented momentum and continued till March 2010. It grew from Rs 149,554 cr in April 2005 to Rs 616, 967 cr in March 2010 registering a CAGR at 38.38pc. However, despite incorporation of five new fund houses in the ambit of mutual fund industry; Axis MF (January 13, 2009), BOI AXA MF (August 13, 2007), Edelweiss MF (August 22, 2007), Daiwa MF (May1, 2007) and Peerless MF (April 2009), overall AUM of the industry failed to keep the pace of earlier growth rate though it grew at only at 30.81%. While it subdued to negative growth rate at 14.66 percent during April 2010 to March 2012 due to redemption pressure in view of financial crisis surfaced in the developed countries particularly in the US and Euro zone.

McKinsey report, 2012, (Report, 2012) highlighted the stagnation of industry in terms growth of AAUM, CAGR at 4 percent during 2010-12. AAUM declined from Rs 614546 cr in April 2010 to Rs 587658.7 cr in March 2012 and jumped to 823195.26 as on March31, 2013 growing over y-o-y 10 percent from its previous year Rs 662169.87 (**Table1**).

However, the industry has picked up its momentum and witnessed positive growth rate at 24.32 % during April 2012 to March 2013.

Swings in the growth trajectory of MF industry

The growth of the Indian MF industry is coterminous to

Chart: Swings

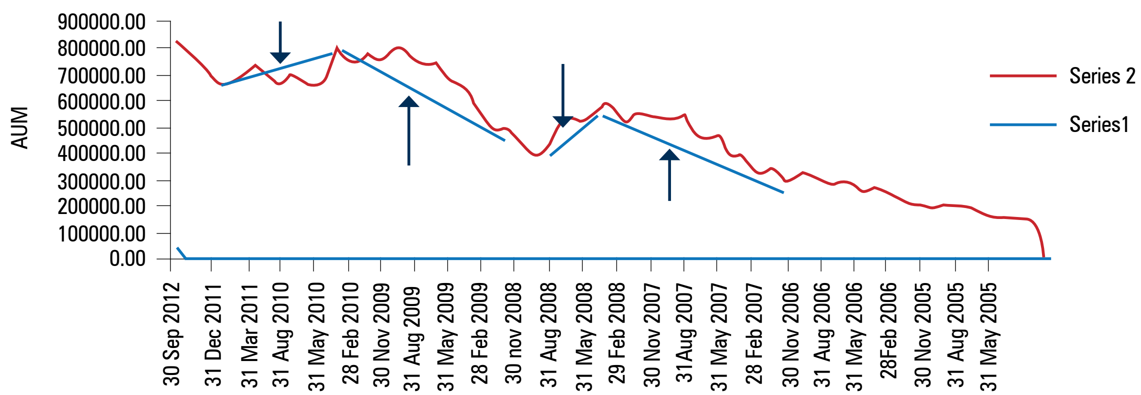


Table1: AUM across the fund houses			
Year ending on	Total		
	Number	AUM in Rs cr	Average AUM in Rs cr
Dec 2003	26	128492.13	4942.005
March 2004	26 (0)	129270.54(.61)	4971.944 (.61)
March 2005	27(3.85)	147927.58 (14.43)	5478.799 (10.19)
March 2006	28(3.70)	227037.32(53.48)	8108.476(48.00)
March 2007	29(3.57)	318964.52(40.49)	10998.78(35.65)
March 2008	32 (10.34)	559717.88 (75.48)	17491.18(59.03)
March 2009	34(6.25)	487686.57(-12.87)	14343.72(-17.00)
March 2010	37(8.82)	741296.17(52.00)	20035.03(39.68)
March 2011	40 (8.11)	694480.86(-6.31)	17362.02(-13.34)
March 2012	43(7.5)	662169.87(-4.65)	15399.3(-11.30)
March 2013	43(0)	823195.26 (24.32)	19144.08(24.32)
Figure in parentheses indicate percentage change over the previous year. Source: NAV India (compiled)			

Table 2: Swings and CAGR			
Swings	Period	From and to	CAGR[1]
1	1 year 2 months	January 2007 to March 2008	0.700821
2	3 months	July 2008 to September 2008	-0.61811
3	1 year 4 months	November2008 to February2010	
	0.552822		
4	2 year 5 months	April 2010 to September2012	-0.09592
Source: self compiled			

economic upheavals. The industry has witnessed impacts of interactive forces – socio-eco-politico – both domestical and international. As a result, there exist four significant oscillations during March 31, 2005 and March 31, 2012 in the average growth of AUM of all fund houses as in the **Chart** below.

We have clubbed irregularities in a swing and ascribed into one time lag to assess the impact of interplaying forces causing swings. A point to point inflexion in the graph either upswing or down swing represents one time lag (see **Table2**).

Swing: 1

The spurt in AAUM appeared during 31/03/2007 to 31/05/2008 registering at a CAGR of more than 70 per cent. The unprecedented growth of Industry is definitely reasoned to international forces including asset bubbles, falling valuation of asset followed by sluggish equity market across the globe and more particularly, suppressed interest rate, nearly zero, in the developed market affecting savers largely in losing purchasing power in the context of inflation, led to inflow of huge fund into the emerging economies like, India.

Swing: 2

The U.S. subprime mortgage crisis followed by collapse of major financial institutions in September 2008, the world plunged in recession. The stock market across the globe witnessed financial mayhem affecting every facet of economy. MF industry was crippled in AUM due to redemption pressure, CAGR at -0.61811. The growth rate in AUM moved to south-west. Equity market swooned and industry felt redemption pressure from both domestic and international players across the fund houses.

Swing: 3

Since 2004-05, overall investment rate in the economy exceeded 30 per cent; the share of public investment in total investment (excluding valuables) has remained fairly stable at around 24 per cent for all the years, except in 2008-09 and 2009-10 when it was 27.6 per cent and 26.5 per cent respectively. The Dubai fiasco rattled world over financial market by announcing on November24, 2009 that they were seeking to delay payments on $59billion in debt, though it did not make much dent on long term growth of the market except investors' confidence. Besides such shocks there was overall increase in the market. The reason of increase in these years could be attributed to the fiscal stimulus provided by the government in order to overcome liquidity crisis in the economy in 2008-09 following the global slowdown. The AUM of the industry recovered from the earlier catastrophe and registered CAGR at 0.552822 forming a third swing.

Swing: 4

Between March 2010 and October 2011, private sector investment declined significantly as RBI repo rate increased by 375 bps. Besides, policy bottlenecks hindering new investment, demand slowdown coupled with export contraction in view of crisis in the advanced countries, low investors confidence, MF industry as a whole witnessed mixed growth in its AUM with CAGR at -0.09592.

The AMFI statistics show that FIIs preferred debt funds to equity oriented MFs in view of global financial uncertainties. Investment in debt segment increased from Rs 1081.8 cr in March 2010 to Rs 1863.76 cr in March 2012 followed by equity disinvestment at a CAGR 12.38 percent. The retail investors also followed the FIIs with negative CAGR of 7.31pc from Rs 133298.4 cr to Rs 123548.5cr during end March 2010-12. Significantly, these disinvestment proceeds routed into balanced funds of MFs, Gold ETF and other ETF which had registered considerable escalation during the period under consideration. This indicates investors' confidence regarding equity schemes of MFs were tanked over the period in the context of global financial turmoil. On the contrary, liquid/money market MFs being considered as better option for corporate investors than that of short term equity investment for cash management purpos-

[1] CAGR $= (V_n - V_0)^{1/\text{swing period in year}} - 1$; Swing period = point to point difference in year, V_n = current year value, V_0 = value of the previous year

Table3: Correlations N=1040 (January1, 2009 –April25,2013)					
	Sensex change over the previous period	FII in Debt net	FII investment MFs equity net	MF investment in equity net	MF investment in debt net
Sensex change over the previous period	1				
FII in Debt net	-.029	1			
FII investment MFs equity net	-.017	.032	1		
MF investment in equity net	.024	-.043	-.073	1	
MF investment in debt net	-.005	.009	-.009	-.073	1
Source: self compiled					

es, grew at CAGR 11.60 pc despite market doldrums. The other financial investors particularly banks have also booked their profit during 2010-12 as financial crisis still looms large resulting in market volatility. The HNI investors opted debt segment too which grew at 68.83pc in 2012 over 2010 from Rs 62530.71 cr to Rs 105572.4 cr in absolute term.

AUM and macroeconomic fundamentals

The growth momentum of AUM is directly associated with the changes in macroeconomic fundamentals. It is revealed that the ratio of AUM to India's GDP gradually increased from 6 percent in 2005 to 11 percent in 2009 corresponding to incremental increase in gross domestic savings (GDS) in the household sector causing an upswing in the industry. On the other hand, growth of GDP remained immune to expansionary policy measures in context of bringing down key interest rate as lowering interest rate strategy for reviving capital market liquidity only paved the way to higher valuations of debt funds. The Indian stock markets experienced a sharp downtrend in the line with global volatility followed by weak domestic prospects till March 2009. The decline of AUM was further accentuated by ban on entry loads on all mutual funds by SEBI effective from August 2009. It has declined about 4pc till March 2011 and industry faced net outflows pressure. The recent increase in capital market was, however, due to, inter-alia, large valuation effect leading to increasing in equity prices. The improvement shift in sentiment was reflected in Indian benchmark index, sensex, which surged past the psychological 19000 marks-rally from the sub-10,000 levels at end-March 2009, and 17,500 at end-March 2010. Most of the equity funds have managed to outperform benchmark indices only after the market rally when indices gained 8pc between September 2011 and September 2012. The value research data as on September 30, 2012 shows that return on Equity-large cap on average beat BSE Sensex return while, 55 out of 83 large cap equity funds outperformed the respective benchmark over a one year period.

It may be worth mentioning that, FIIs are taking fancy investment decision in favour of equity oriented MFs. Their investments in equity funds stood at Rs 1212 cr over 87 folios as on March31, 2012 against Rs 1027cr as on same date of the previous year. The reasons of such increase, despite market turmoil, may be attributed to the FIIs have crossed their investment limit in specific sector and want to derive benefits from second line stocks, besides, government's permission to foreign retail investors to invest in domestic equity mutual funds .

However, the debt market recently has witnessed high volatility because of inherent risk associated by allowing FIIs to invest in the debt market (Value Research, 2013) and contributed much towards rupee volatility and mutual fund doldrums as a whole. These can be seen in the following correlation matrix (**Table3**).

The correlation coefficient matrix exhibits that sensex movement is affected by selling pressure from FIIs in equity segment and investment in debts. Further "r" between FII's investment in debt and changes in the volume of debts of mutual fund is found to be positive, though r is not statistically significant. This indicates that irrespective of swings in the AAUM, the FIIs during the period left in droves which are being followed by other investors.

Mutual funds performances

MFs to across the investors stand for ease and convenience vehicle to access to the capital market without much understanding of its nitty-gritty. The fund houses are expected to adapt to portfolio management for the benefit of the unit holders. Institutional Investor Advisory Services India Limited (IIAS) survey reveals that MFs hold more than 11

Table4: Annualised return (equity funds) number of funds

Return	"-"ve	<7.5 %	>7.5%	Total *
1 year	4(6.67)	11(18.33)	45(75.00)	60
3year	11(20.75)	37(69.81)	5(9.44)	53
5 year	9(23.68)	28(73.68)	1(2.64)	38
Since inception	6(9.83)	20(32.79)	35(57.38)	61

* Discrepancy due to funds were not in operation during the respective period
Figures in parentheses indicate pc to total
Source: self compiled

percent of corpus of top 500 companies as on March31, 2011. Holding in large-cap is preferred due to their competitive edge in attaining sustainable financial performance and maintaining liquidity. This can be validated by the fact that that during January- December 2011, BSE Small-cap index lost 36.6 percent and Mid-cap index 27.1 percent compared to BSE's Sensex loss 19.6 percent (capital market, 2011).

From the aforesaid analyses it may be inferred that perhaps macro-fundamental forces largely determine the swings in the industry across the fund houses. This suggests undertaking deeper analysis for revealing the intriguing facets of such fluctuation.

MFs holdings – some disturbing facts

A survey related to the holdings of mutual funds in companies conducted by the Capital Market (Khedekar, 2011) exhibited that MFs were present in 111 companies but exited from 55 stocks during June30, 2009 and September 30, 2011. Such early exit logically sheds lights myopic visions of fund houses in portfolio construction particularly in the context of adjudging impending market threat and growth prospect of companies. Another survey of Capital Market (Khedekar, 2013) referred below revealed similar facts:

a) JOCIL a thinly traded stock in the NSE, the MFs have exposure while its business profile is neither convincing nor it has proven track records.

b) Andhra Sugar Subsidiary incorporated in 1978 has been manufacturing stearic acid flakes, fatty acids, toilet soaps, refined glycerine for the last three decades and recently the BOD has recommended DPS 6 for face value of each share 10 for the FY 2013 compared 5 per share earlier year. The MFs have no exposure to it.

c) Shalimar Paints, to which MFs have exposure, was put to trade –to- trade segment, compulsory delivery mode in June 2011. Such shift generally results in sharp curtailment of trading volumes as intra-day netting is disallowed and several institutional investors generally stay away from such stocks.

d) Astral Poly with P/BV of 6.5 times, P/E continues to be reasonable at 20, net sales have increased six times and profit 3.5 times over past five years. At present the stock is witnessing moderate trading affecting liquidity.

The fund houses therefore are apparently not very much serious about their portfolio decision. There were number of stocks figured in the MFs' portfolio despite negative net worth (NW) as well as negative market sentiments exhibited by P/BV ratio which became in many cases less than unity. This, inter-alia, might have impacted the performance of the fund houses as a whole over and above the changes in macro fundamentals over the years.

Performance of Funds: Role of fund managers

The fund managers approach to asset allocation ranges from strategic or long term, to tactical to short term. They allocate investment to equities, fixed income instruments, and a host of alternative investment classes such as real estate, commodities, and ETFs according to the investment style or stated objective of their fund. Fund managers' decision mirror investors' inflows to their funds, however they do enjoy a certain degree of flexibility to reduce or increase the risk of the funds under their management by holding less or more liquid assets. The total inflows of funds from MFs depend of total funds mobilized. On the other hand investment in the particular segments of capital market commensurate investors' preference for different classes of funds like debts, equities, and balanced funds.

The efficiency of the AMCs is reflected in respect of financial performance particularly in terms of return. Of 43 AMCs that reported their results for March 2013, we have selected 61 schemes in table -1, out of all their ongoing schemes (1946) with a rider equity segment (322) with open structure (311) and finally linked to nifty. Further, there are 50 funds which were in operation since on or before January 2009 (**Table4**).

It is observed that about 33 per cent of funds failed to achieve annualized return of risk less return at least 7.5 percent since their inception. Interestingly on average 10 percent of selected funds witnessed red in terms of their yields. The list includes; ING Multi Manager Equity Fund - Opt A

Table5: Performance of schemes in the equity MF category (Sample: N=61)				
Range /Ratio	No of Equity MF Schemes			
	Sharpe Ratio	Treynor Ratio	Jensen Alfa	Beta
<0	4	5	23	1
0-1	57	56	38	41
>1	nil	nil	nil	19
Expense ratio:	No of equity Mutual fund schemes			
<2.25 % of AUM	16			
>2.25 %of AUM	35			
5 year CAGR				
Sensex return	10.84%			
Nifty return	9.66 %			
Return from schemes 5 year CAGR	Number of schemes			
<9.66%	6: LIC Nomura MF Nifty (3.85) being least			
>9.66%	55: Kotak 30 (19.40), Sundaram Select Focus (18.28), ICICI Pru Dynamic (17.84) etc			
Source: NAV India. Compiled				

(G), Sahara R.E.A.L Fund (G), Religare AGILE Fund (G), and L&T Infrastructure Fund (G). Further, in short time space, for one year duration ending on 31 March 2013, 75 percent of such funds fared definitely well yielding more than risk less return and even in many cases return exceeded sensex yield. However, in long term perspective, 3 years and 5 years, funds suffered a lot and did not attained their benchmark return. The reasons of dissipation in their return may be attributed to market whims in the context of worldwide financial crisis leading to liquidity crunches, low investors' confidence and so on.

However, balanced funds in table 3, revealed the fact that, funds like; Principal SMART Equity Fund (G) (4.92 per cent), L&T India Prudence Fund (G) (5.7 per cent)and L&T India Equity and Gold Fund (G)(6.35 per cent) yielded less than Nifty return, and even the risk less return (government bond) since their inception. This clearly demonstrates that return of equity mutual funds depends on market fancy.

Till March30, 2012, there are 10 number of schemes achieved 14 percent PE ratio, 23 schemes were within the range of PE ratio 10-14 percent, 14 number within 5-10 percent while 6 schemes witnessed PE ratio below 6 percent. This indicates that maximum funds had witnessed volatility in tune of economic upheavals over the years.

It is further seen that, on the basis of 1year CAGR only two number of schemes posted positive return include Birla Sunlife India Gen Next (4.54) and ICICI Pru R I G T fund (6.69) while others witnessed red in their return, Escorts Infrastructure Fund (-24.76 percent) topped the list. But in the long term perspective the situation had been changed as return of all selected fund houses became green and funds like ICICI Peru Dynamic Plan, Birla Sun Life India Genet Fund, HDFC Long Term Equity Fund, ICICI Peru Dynamic Plan, ICICI Peru Focused Blue-chip Equity Fund, yielded CAGR more than 20 percent.

Further in 5 year term CAGR of all selected schemes except Escort Tax plan (-3.21) and ONG Otimix multi-manager equity fund (-0.46) found to be positive and Birla sunlife India GenNext fund and ICICI Pru Dynamic Fund earned more than 9 percent CAGR.

Further we have used Sharpe' index, Treneyor's Index, and Jenson's Index and beta to reflect the performance in terms of excess return over risk free return (varies from 7.5-8 percent) during 2009-2012. The Sharpe ratio representing excess fund return over the market return for a unit of total risk (SD) i.e. associated volatility. The Sharpe ratio for mutual funds is typically between 0.5 and 3. A rule of a thumb is that if the annualized Sharpe Ratio is over 1.0, the fund had a 'pretty good 'year (Timotej Jagric ,2007). It was observed that none of the equity funds yielded significant excess return over the period (**Table5**).

Treynor model is used as equity growth scheme is expected to be a well diversified portfolio devoid of unsystematic risk. But the result is not different from the former. The Treynor Ratio for the Equity growth schemes of selected fund houses is turned to be negative in 10 out of 61 cases indicating inferior management performance.

Similarly beta coefficient for 13 out of 61 selected equity funds was found to be either 1 more than 1 include Birla Sun Life Index Fund, BOI AXA Equity Fund, BOI AXA Tax Advantage Fund, Franklin India Index Fund - NSE Nifty Plan, IDFC Nifty Fund, L&T Infrastructure Fund, SBI Magnum Index Fund, UTI -Nifty Index Fund etc.

This analysis perhaps is sufficient enough to infer conclusion against the prevailing market belief that the fund managers are able to assess properly the risks and potential returns associated with alternative investment opportunities and able to meet their investment objectives fairly well (Donald E Fischer, 2011). The reason of such non performance may be attributed to market volatility during financial year 2011-12 and low investors' confidence. This raises very pertinent question regarding fund managers' effectiveness regarding portfolio management for the best interest of the investors. To confirm such doubts we have used Jensen's performance measure and calculated Alfa. The Alfa value which measures quality of management performance; positive Alfa represents superior extra return because of management talent or vice versa. It was found that Alfa in 16 schemes `became negative. The list include Birla Sun Life Index Fund, BOI AXA Equity Fund, DWS Alpha Equity Fund, Escorts Infrastructure Fund, IDFC Strategic Sector (50-50) Equity Fund, India bulls Blue-chip Fund, LIC NOMURA MF Index Fund - Nifty Plan, Peerless Equity Fund, Pramerica Equity Fund, Reliance Equity Fund, Religare AGILE Fund which is not exhaustive.

The poor performances of the fund houses may be attributed to fund managers' inability in most of the cases to manage impending threats of the market forces and total expenses ratio (TER) (Basu, 2012). SEBI guidelines clearly spelt out gradual lowering of TER of below 2.25 percent of AAUM despite there are large number of schemes having more than TER.

Conclusion

In a wider level playing field, fund houses are facing severe competition. Despite granular opportunities, inflows of funds have been minimal, and businesses are highly concentrated among a handful of players. Asset managers in the larger wealth management market are competing against a broad spectrum of wealth managers, including private and investment banks, insurance companies and independent financial advisors (IFAs), all of whom offer similar services. In addition, many of these competing players have direct access to customers through proprietary distribution channels, while asset managers primarily rely on business-to-business or business-to-consumer distribution.

It has been seen that there are notable multiplicity in the forms of mutual funds. Duplication distorts simplicity and creates confusion and thus needs to be avoided in the context of constructing efficiently manageable portfolio. Further, there are redundant funds, comparatively small funds with minuscule assets under its management, in all most all AMCs. To avoid such redundancies and to enhance the operational efficiency such funds need to be merged with those funds having similar objectives. Besides, the operations of MFs are basically centered within first two tier cities hardly covering 20 cities leaving aside the vast hinterland comprising of mostly unaware masses. The task for the asset managers is therefore to turn these unexplored markets into opportunities with innovative and very specific customized products. "Out of box" activities, beyond analyzing few select trends; profitability vis-à-vis expenses and investing behind these alternatives could pave the way for growth of this moribund industry. In the competitive milieu some fund houses go naturally into oblivion. Only proactive, game changer AMCs especially adapted to the changing ambience and above all that understand the granularity of growth in asset management will be front runner.

Finally, the paper suggests that fund houses need to put things right considering all aspects of granularity of the growth of AMCs. A sustainable strategy of AMCs and the industry as a whole hinges on rethinking the distribution model in a larger wealth management market, offering innovative customized products/services across investors setting aside the barriers of geographic decoupling, restoring investors' confidence with higher degrees of disclosures and commitment to achieving comparatively higher returns and so on.

Bibliography

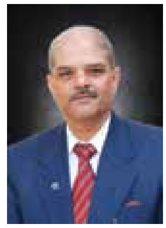
1. *Basu, D. (2012, july 12). Entry Loads, exit investors. The Business Standard.*
2. *Bose, Suchismita. "Some aspects of Indian Mutual Funds' performance during recent financial crisis." ICRA Bulletin Money and Finance, April 2012.*
3. *Capital market. "following the movers and shakers." capital market, 2011: 5-9.*
4. *Central Statistical Organisation. Sectorwise domestic savings. CSO, 2012.*
5. *Donald E Fischer, Ronald J. Jordan. Security Analysis and Portfolio Management. Pearson, 2011.*
6. *Dowd, MerleE. Wall Street Made Siple. New York: A Made Simple Book, 1992.*
7. *Khedekar, S. "Socks; following the movers and shakers." Captial Market, December 12-25, 2011: 5-9.*
8. *Khedekar, S. (2013, July 8-21). The markets fed up. Capital Market.*
9. *Report, McKinsey. 2012. http://www.mckinsey.com (accessed October 23, 2012).*
10. *Timotej Jagric, Boris Podobnik, Sebastan Strasek, Vita Jagric. "Risk Adjusted performanceof mutual funds: some tests." South Eastern Europe Journal of Economics 2 (2007): 233-244.*
11. *Value Research. "Half Century." Mutual Fund Insight, Nov-Dec 2012: 22.*
12. *Value Research. (2013, July- August 15-14). FIIs Shocks in debt funds. Mutual FundInsight.* MA

rkraul@yahoo.com

HOTEL INN-DIA

Tourism is capable of providing employment to a wide spectrum of job seekers from the unskilled to the specialized

Mr. U. K. Joshi
Director, ASSOCHAM
New Delhi



P Chidambaram ended his budget speech with Saint Tiruvalluvar's quote "What clearly eye discerns as right, with steadfast will and mind unslumbering, that should man fulfill". The mantra stated in the budget "Higher growth leading to inclusive and sustainable development". This year's budget is more focused on reducing government deficits, subsidies and expenditure.

While India's recent slowdown is partly rooted in external causes, domestic causes are also important. Following the slowdown induced by global financial crisis in 2008-09, the Indian economy responded strongly to fiscal and monetary stimulus and achieved a growth rate of 8.6 percent and 9.3 percent respectively in

However, with economy exhibiting inflationary tendencies, the Reserve Bank of India started raising policy rates in March, 2010. High rates as well as policy constraints adversely impacted investment and in the subsequent two year viz. 2011-12 and 2012-13, the growth rate slowed to 6.2 percent and 5.0 percent respectively. Nevertheless, despite this slowdown the Compounded Annual Growth Rate (CAGR) for Gross Domestic Product at factor cost, over the decade ending 2012-13 is 7.9 percent.

After achieving double digit growth continuously for five years and narrowly missing double digit in the sixth (between 2005-06 and 2010-11), the growth rate of the service sector also declined to 8.2 percent in 2011-12 and 6.6 percent in 2012-13 the sector was Trade, Hotels and Restaurants, Transport and Communication, and its growth further declined in 2012-13.

Along with construction, tourism is one of the largest sectors of the service industry in India. It is capable of providing employment to a wide spectrum of job seekers from the unskilled to the specialized, even in the remote parts of the country. Compared to other modern sectors, a higher proportion of tourism benefits (jobs, petty trade opportunities) accrue to women. Hence, growth of the tourism sector is more inclusive than other sectors.

Tourism and hospitality

International tourist arrivals grew by 4% in 2012 to reach 1.035 billion, according to the latest UNWTO World Tourism Barometer. International tourist arrivals surpassed 1 billion for the first time in history in 2012. Emerging economics regained the lead with 4.1% over advanced economics 3.6%, with Asia and Pacific showing the strongest results with increase of over 7%. Growth is expected to continue in 2013 but slightly below the 2012 level (3% to 4%) and in line with UNWTO long-term forecasts. Receipts confirm positive trend in arrivals in India with receipts from international tourism increasing by over 22% up to nine months ending 2012.

The number of foreign tourist arrivals in India during January-July, 2012 registered a growth of 6.6% over corresponding period of 2011. The number of FTAs in India during 2010, 2011 and January-July, 2012 were 5.78 million, 6.29 million and 3.76 million respectively. Some of the factors responsible for International Tourist Arrivals in any county are economic conditions of the source markets, connectivity, availability of reasonably priced hotel accommodation, good tourism infrastructure.

12th Five-Year Plan

The 12th Five Year Plan is focused on infrastructure development by developing integrated tourism destination and circuits, identify and development of clusters, new tourism products, tourism park and rural tourism.

Accommodation units

The existing accommodation units may not be sufficient for the targeted number of FTAS and DTVs in 2016. The availability of number of rooms in 2010 and requirement of additional rooms in 2016 during the 12th Five Year Plan are given in the table on the next page.

Foreign tourist arrivals

The Working Group on Tourism for the 12th five-year plan, has recommended a target growth in domestic tourism of about 12% p.a. during 12th Five Year Plan period. The Group also recommended to increase India's share of International Tourist arrivals to at least 1% by end of 12th plan required annual growth of about 12%.

Availability of Hotel Rooms 2010	Classified	1,28,771
	Unclassified	25,83,519
	Total	27,12,290
Requirement of Hotel Rooms 2016	Classified	3,10,523
	Unclassified	46,61,807
	Total	49,72,330
Additional Requirement in 2016	Classified	1,81,752
	Unclassified	20,78,288
	Total	22,60,040

Visa on Arrival Scheme

Government introduced "Tourist Visa-on-Arrival" Scheme for tourists from Eleven Countries. Countries include New Zealand, Japan, Indonesia, Phillippines, Singapore, Finland, Cambodia, Vietnam, Luxemberg, Myanmar and Laos. Apart from this, Union Minister Shri K Chiranjeevi, 1st March, 2013, has submitted a proposal to extend Visa on Arrivals to 16 more countries.

Hotel classification

In July, 2012, Ministry of Tourism has revised the Hotel Classification Guidelines. Hotel Project must apply for Classification within 3 Months of commencing operations. The Hotel and Restaurant Approval and Classification Committee (HRACC) under Ministry of Tourism (MoT) inspects and assesses the hotels based on the facilities and services offered. Classification approvals will be valid for 5 years.

Local approvals require:

- Municipal Authority
- Concerned Police Authority
- Any other local authority as maybe applicable / required (viz. Pollution Control Board / Ministry of Environment and Forests etc.)
- Approval / NOC from Airport Authority of India for projects located near the Airport

Finance

Inclusion in priority sector lending

For the purpose of Harmonising the definition of "Infrastructure Lending", RBI on 20th November, 2012 include three star or higher category classified hotels located outside cities with population of more than 1 million in the Definition of Infrastructure Lending. This would enable the hotel industry to avail financial assistance more easily and at relatively lower interest rates.

Delinked from Commercial Real Estate (CRE)

The Reserve Bank of India (RBI) has de-linked credit for hotel projects from Commercial Real Estate (CRE), thereby enabling hotel projects to avail credit at relaxed norms and reduced interest rates.

Foreign Direct Investment

Foreign Investment is freely permitted in almost all sectors. Under Foreign Direct Investment scheme investment can be made by non-resident in India under two routes; 1. Automatic Route 2. Approval Route

100% FDI is allowed for Hospitality sector under Automatic route

For Foreign technology agreements, automatic approval is granted if-

- Up to 3% of the capital cost of the project is proposed to be paid for technical and consultancy
- Up to 3% of the net turnover is payable for franchising and marketing/publicity support fee, and
- Up to 10% of gross operating profit is payable for management fee, including incentive fee.

External Commercial Borrowing (ECB)

Hospitality Sector is eligible borrower. They can avail External Commercial Borrowing (ECB) facility up to US $ 200 million during the financial year for setting up new hotel projects or for meeting foreign currency and/or rupee capital expenditure. The proceeds should not be used for acquisition of land.

Indian companies in the hotel sector (with total project cost of INR 250 crore or more), irrespective of geographical location, avail ECB's for repayment of Rupee Loans availed of from the domestic banking system and/or fresh rupee capital expenditure under automatic route subject to 75 percent of average annual export earnings realized during the past three financial year or 50 percent of the highest foreign exchange earnings realized in any of the immediate past three financial years, whichever is higher.

Hospitality Development and Promotion Board

Construction of hotels is primarily a private sector activity which is capital intensive and has a long gestation period. The constraints being faced by the hotel industry in addition to the high cost and limited availability of land is the procurement of multiple clearances / approvals which are required from the Central and State Government agencies for hotel projects. In some cases as many as 65 or more clearances/approvals are required by hotel projects which vary from State to State. The often cumbersome process involved in obtaining multiple clearances for the hotel projects results in:

- Delay in implementation of the project.
- Cost escalation making the project less profitable and often unviable.
- Discourage Promoters for investing in such projects.
- In some instance, the project is stopped midway and re-

structured for some other use such as apartments etc.

To address the constraints being faced by the hotel industry in obtaining multiple clearances, and to streamline the system for speedy clearances of hotel projects, the Government has approved the setting up of a 'Hospitality Development and Promotion Board (HDPB)' for hotel projects.

The HDPB will not supersede any statutory clearances required by other ministries/agencies. However, the regular monitoring and reviewing would increase their accountability. The review and monitoring would put pressure on the concerned agencies / departments to adhere to stipulated time schedule. The board can at any time take up any matters of concern to the highest level of the Central/State Governments. The clearances to be given by the concerned agencies would be based on their statutory provisions.

Taxation

Income Tax

Income tax is chargeable based on Residential Status and Place of accrual or receipt of income. It also depends on which form of business you are operating. Income Tax provisions are different for Sole proprietor, Partnership firm, LLP or Company.

As far as hotels are concern, Income Tax further depend on following consideration

1. Ownership and Management
2. Hotel Management Agreement

2.1. Lease Out Hotel

2.2. Operating and Management of Hotel

2.3. Franchise Agreement

Tax implications to be considered based on business arrangement made between parties.

The following are incentives available in Income Tax especially for Hospitality Sector.

1. Profit Linked Incentive under section 80ID of the Income Tax

A deduction of an amount equal to 100% of Profit and Gain from for the first 5 consecutive years for 2, 3 and 4 star category hotels, located in all UNESCO declared World Heritage sites (Except Mumbai and Delhi) for hotels constructed and starts functioning from 1st April, 2008 to 31st March, 2013.

2. Incentive under section 80IE of Income Tax for undertakings in North-Eastern States

A deduction of an amount equal to 100% of Profit and Gain for 10 consecutive years for those who undertakes substantial expansion during the period of April 1, 2007 and March 31, 2017 in any of the North-Eastern States. Eligible business for this purpose are Hotels (2 Star or above), adventure and Leisure Sports. Substantial Expansion means increase in investment by 25 per cent of the book value.

3. Investment Linked Incentive under Section 35 AD of the Income Tax

An investment linked deduction Under Section 35 AD of the Income Tax Act has also been announced in the Union Budget 2010-2011 for establishing new hotels of 2 star categories and above as classified by the Central Government, all over India thus allowing 100% deduction in respect of the whole or any expenditure of capital nature excluding (land, goodwill and financial instruments) incurred during the year for establishing new hotel.

Luxury Tax

Luxury Tax on Hotel Accommodation in State Matter and they have the power to levy luxury tax on hotel tariff. Taxes range from 4% to 20% and on printed tariff to actual tariff. There is exemption limit for each state for tariff below that limit is exempt from the purview of Luxury Tax. The States/ UT like Arunachal Pradesh, Andaman and Nicobar Islands, Sikkim, Orissa, J&K, Puducherry, Daman and Diu and Dadra Nagar Haveli are exempt from Luxury Tax. In certain states, these exemption limits were fixed long time back and have not revised according to inflationary trends.

Illustrative rates of Luxury Tax

Service Tax

Hotel Accommodation

Maharashtra		Gujarat	
On Actual Tariff		On Printed Tariff	
Up to 750	Exempt	Up to 500	Exempt
750-1200	4.4%	500-2000	4%
1200 and above	10%	2000 and above	6%

From July, 2012, Accommodation Service in hotels for declared tariff of more than Rs.1000 per day attracted service tax. Therefore if declared tariff is less than Rs.1000/- then no service tax is levied. There is an exemption/abatement of 40% of the gross value provided. Input Cenvat Credit is not availed or service provider has not availed exemption regarding goods and material sold during the course of providing taxable service (No.12/2003-Service Tax).

Restaurants

From July, 2012, Service provided in relation to food and beverages by air conditioning restaurants with a licence to serve alcoholic beverages are taxable in service tax. Therefore restaurants without licence to server alcoholic beverages and does have air-conditioning facility are exempt from the purview of service tax. There is an exemption/abatement of 60% of the gross value provided Input Cenvat Credit is not availed or service provider has not availed exemption regarding goods and material sold during the course of providing taxable service (No.12/2003-Service Tax).

Banquets
Service of Banquet Hall provided by Hotel for any occasion along with catering services or any other service then Hotels can avail exemption/abatement of 30% of the gross value.

Sale of Space/Time for Advertisement other than by radio/television is exempt from Service Tax levy as included in Negative List of Services.

Bundled service
In case of an event, which is a mix of various overlapping services, the services which give the most pre-dominant colour would be the category under which the same should be taxed as per the new section 66F of Finance, 1994 as applicable from July, 2012. For e.f.

• In case of 2N/3D package for accommodation with meals; the predominant category would be accommodation even if the customer has food in the same restaurant like other walk-in customers. Hence, the hotel needs to charge service tax on 60% value of the total consideration.

Value Added Tax
Just like Luxury Tax, Value Added Tax is also State Matter and they have the power to levy VAT on Commodities. Different states have different approach and rate for e.g. VAT on Food Item ranges from 5% to 16.84% in various states. Similarly VAT on Liquor varies from 13% to 58%.

Budget amendments
Earlier, Service Tax did not apply to AC restaurants that did not serve liquor. That distinction has been removed and Government proposes to levy service tax on all AC restaurants. This change will mostly cover all restaurants specifically in Gujarat. Only terrace restaurants will be exempted.

Foreign trade policy

Served From India Scheme (SFIS)
This scheme is a great boost to the hospitality industry that caters to foreign guests. Under this scheme, Service Providers are entitled to Duty Credit Scrip equivalent to 10% of free foreign exchange earned during the current financial year. Foreign Exchange earned through International Credit Cards and other instruments permitted by RBI shall also be taken into account for computation of Duty Credit Scrip.

Duty Credit Scrip may be used for import of any capital goods including spares, office equipment and professional equipment, office furniture and consumables, which are otherwise freely importable and/or restricted under ITC (HS).

Hotels, clubs having residential facility of minimum 30 rooms, golf resort and stand-alone restaurant having catering facilities, Duty Credit Scrip may also be used for import of consumables including food items and alcoholic beverages. These entitlement shall be non-transferable (except within the group company and managed hotels).

Duty Credit Scrip shall be valid for 18 months and permitted for payment of excise duty for procurement from domestic sources.

Export Promotion Capital Goods (EPCG)
This scheme allows import of capital goods for pre-production, production and post-production at 3% concessional Customs Duty, subject to an export obligation equivalent to 8 times of duty saved of capital goods under EPCG Scheme, to be fulfilled in 8 years.

Import of motor cars, SUV's/all purpose vehicles shall be allowed only to hotels, travel agents, tour operator operators and companies owning/operating golf resorts subject to

• Total foreign exchange earnings from hotel, travel and tourism in the current and preceding three licensing years is Rs. 1.5 crore
• Duty saved on all EPCG Scheme must not exceed 50% of average foreign exchange earnings from hotel, travel and tourism in the preceding three licensing years.
• Imported vehicles will be registered only for tourist purposes.

Export Obligation
• Export obligation shall be, over and above, the average level of exports achieved by applicant in preceding three licensing years for the same and similar products within the overall export obligation period. Such average would be the arithmetic mean of export performance in 3 years.
• Up to 50% Export obligation may also be fulfilled by exports of other good(s) manufactured or service(s) provided by the same firm/company, or group company/managed hotel which has EPCG Authorisation.
• Shipment under Advance Authorization, DFRC, DFIA, DEPB or Drawback scheme, or incentive schemes under Chapter 3 of FTP, would also count for fulfillment of EPCG export obligation.
• It can also fulfilled by supply ITA-I items to DTA, provided realization is in free foreign exchange.
• Export shall be physical exports. However, deemed export as specified in FTP shall also count towards export obligations.

References

– *India Tourism Statistics 2012, Ministry of Tourism, Govt of India*
– *Annual Report of Ministry of Tourism 2012, Govt of India*
– *Annual Report of The Federation of Hotel & Restaurant Associations of India – 2012*
– *ASSOCHAM Research Bureau* MA

u.k.joshi@assocham.com

Region & Chapters News

Eastern India Regional Council

Cuttack-Bhubaneswar Chapter of Cost Accountants

This Chapter had organized an Evening Talk on 'Intellectual Capital Accounting and Management 'on 5th July, 2013 at its premises. Dr. D.V. Ramana, professor of Accounting, Xavier Institute of Management, Bhubaneswar and Dr. Rayaguru Kumar, Shri Mangesh Dash, Advisor TWARAN, were Guest Speakers on the occasion. CMA S.B. Samal, Chairman of Professional Development Committee and CMA Basanta Kumar Pattnaik, Chairman of the Chapter deliberated the welcome address and Key Note Address respectively. Vice Chairman of the Chapter CMA Manas Ranjan Lenka extended the formal vote of thanks. The programme was attended by more 150 members and 30 final students of the Chapter. The session was quite interactive and lively.

To make ready the students for the corporate world and to impart all managerial qualities in them, the Chapter conducted the 2nd soft skill development program (2013-14) on 27th July, 2013. Dr. Rayguru Kumar, Shri Mangesh Dash, Advisor, TWARAN, Ex-Professor in IMIS and an expert in soft skill training guided the students on development of Soft Skill and Communication Skill in order to excel in their professional life. More than 100 numbers pursuing Inter and Final students of the Chapter actively participated in the programme.

This Chapter had also organized an investor awareness programme on 28th July, 2013. Many dignitaries such as Sri Benudhar Mishra, Registrar of Companies, Odisha came as Chief Guest and addressed participants about the Role of Stock Exchanges, SEBI, Ministry of Corporate Affairs and Other Bodies, Saroj Kumar Sahoo, Practicing Company Secretary an expert resource person and Guest of Honour. Surendra Nath Mallick, Practicing Company Secretary, Bhubaneswar was another Resource Person on the occasion and advised the participants to invest their surplus where the money is safe and the return is also safe. During his deliberation he also highlighted the various issues happened recently where the investors have lost their money. The program was attended by 130 General Investors, Teaching and non Teaching Staffs of the College. The session was quite interactive and lively.

Northern India Regional Council

Chandigarh-Panchkula Chapter of Cost Accountants

The Chandigarh-Panchkula Chapter of Cost Accountants inaugurated the students' oral classes on 1st of July 2013 at Hotel G K International. Almost 110 students were present on the said event along with 15 Faculty members. Chairman, CMA Vishal Walia and Secretary CMA Rahul Garg addressed the students. Some eminent professors of various nearby colleges also graced the occasion. CMA Vimal Aggarwal was the chief guest on the occasion and he also shared his fruitful experiences with the students. Students actively participated in the event and cleared their queries related to the profession.

Southern India Regional Council

Bangalore Chapter of Cost Accountants

The chapter had made elaborate arrangements for participation in the Udyoga Mela 2013 and also had set up a stall at the venue on 3rd and 4th August, 2013. It had given wide publicity about the profession and an opportunity to counsel large number of students to take up the CMA course. The chapter also participated in the inaugural and valedictory function of Udyoga Mela.

The Hon'ble Union Minister for Petroleum and Natural Gas, Dr. M.Veerappa Moily, visited the stall and expressed great appreciation for our participation in the Mela. The Managing Committee members of Bangalore Chapter, CMA B.R. Prabhakar, Past Chairman, CMA G.N.Venkataraman, Past President of the institute and CMA Raju P. Iyer, Chairman of SIRC, met the Hon'ble Union Minister and had a cordial discussions with him, wherein it was indicated that our Institute will always be in the forefront for participation on such occasions.The chapter had also organized a Professional Development meet on 'Service Tax – Discussion on Negative List' which was presided over by Advocate Shri. Ramesh Ananthan, on 6th July 2013. There was live interaction with the speaker from the members at the end of the lecture. Another meet called Practitioners' meet on 'Karnataka Tax on Entry of Goods (KTEG)' by CMA Girish K, Cost Accountant, organized on 12th July, 2013, and one on 'Transfer Pricing on Specified Domestic Transactions (SDT) and its implications' by Shri. K.Chandrashekar, Dy. General Manager and Company Secretary of M/s. ACE Designers Ltd., was also organized on 20th July 2013.

Trivandrum Chapter of Cost Accountants

The chapter conducted a professional development programme on 21st July 2013 on 'project management, appraisal and evaluation'. Speaker was CMA B Ajay Kumar, practicing cost accountant. CMA Joseph Louis chairman of the chapter presided over the function. The speaker elaborately discussed the stages of preparation of projects and their factors.

CMA H. Padmanabhan, Vice Chairman, SIRC hoisting the Indian flag on 67th Independence Day of India at Trivandrum chapter of Cost Accountants. Other members, students and staff members look on

Hyderabad Chapter of Cost Accountants

A programme on 'Filing of Annual Account in XBRL' was organized by the Chapter on 24th July, 2013 CMA P. Chandra Sekhara Reddy, Practising Cost Accountant gave briefing on the subject. The programme was attended by around 55 members and 10 students. The chapter also Train the Trainer session was held for the benefit of its Faculty on 28th July, 2013. About 16 Coaching Faculties participated in the session with Dr. K.V. Achalapathi, Director, Placement Services, Osmania University, Prof. D. Obul Reddy, Principal, Apollo Institute of Hospital Administration and Director, Apollo Institute of Health Care Management. The Faculties improved their teaching knowledge by exchanging their ideas/best practices.

The Chapter also organized a Members' Meet with CMA Dr. A.S. Durga Prasad, Vice President, CMA Dr. P.V.S. Jagan Mohan Rao and CMA D.L.S. Sreshti, Central Council Members of the Institute on 2nd August, 2013. The Hyderabad Chapter Managing Committee Members, Secretary of SIRC CMA Ch. Venkateswarlu, CMA G.V.S. Subrahmanyam, Past Chairman of SIRC, Past President of the Institute CMA B.V. Ramana Murty and other 75 Members participated in the meet.

Western India Regional Council

Pimpri-Chinchwad-Akurdi Chapter of Cost Accountants

The chapter organized a seminar on "Transfer Pricing" on August 17th 2013. CMA Laxman Pawar, Chairman of the Chapter presided over the function. The guest speaker was CMA Chandrashekhar Adawadkar, Practicing Cost Accountant. In the technical session, CMA Adawadklar elaborated in detail on the importance and methods of Transfer Pricing. The application of regulations, compliance requirements and penalties were discussed in detail. The session was very interactive. It was well attended by members in practice and from industry.

Western India Regional Council

Indore-Dewas Chapter of Cost Accountants

A seminar on Career Orientation for CMA Profession was organized the chapter on 21st July 2013. CMA P. D. Modh, Chairman Oral Coaching of Ahemdabad Chapter was Guest speaker for the event. He gave "Tips on Sure Shot Success in First Attempt".

CMA Sunil Singh, Chairman of the chapter delivered inaugural address and give presentation on Product Costing System. CMA Pankaj Raizada, Vice Chairman of the chapter answered student queries relating to industry orientation. Seminar was well attended by Intermediate Stage and Final Stage Students and it was covered by local media and almost all leading newspapers gave good coverage to the event.

The chapter also volunteered the organization of a symposium by Western India Regional Council on 'The New Mechanism of Cost Records and Cost Audit' on 29th June, 2013 at Hotel Fortune Landmark, Indore. CMA D.V. Joshi (Past President) was the key note speaker for the event. He elucidated the entire history of the institute and cost and management accounting by way of a power point presentation. Dr. R. K. Verma, Additional Commissioner - Central Excise, Custom and Service Tax, was the chief guest for the program. CMA Sanjay Bhargave, CCM highlighted theme of the seminar. He emphasized that cost accountants play vital role in bringing transparency in the affairs of any industry. CMA Shrenik S. Shah, Chairman of WIRC delivered the inaugural address. Seminar was well attended by CFO, Directors and Unit Head of Industries and academicians from management institute located in and around Indore. Panel discussion was chaired by CMA Ashok Nawal, treasurer and ex-chairman of WIRC. CMA Amit Apte, CCM concluded the panel discussion. The seminar was covered by local media and almost all leading newspapers gave good coverage to the event.

Navi Mumbai Chapter of Cost Accountants

The chapter organized a program on the topic Capital Markets – Terminologies on 21st July, 2013. The speaker was CMA B. Renganathan, Senior Vice President Corporate Affairs and Group Company Secretary of Edelweiss Capital Ltd.

After highlighting the context and importance of Capital Market, Mr Renganathan explained various terminologies used in the Capital Market. He also explained some of the models followed at the time of issuance of Shares in the Primary Market. Roles and responsibilities of Merchant Bankers in today's scenario were explained too. Importance and roles of SEBI in the context of Capital Market was explained in a very lucid manner by the speaker. Program was attended by professionals and students of various Management School.

Nagpur Chapter of Cost Accountants

The Chapter organized a workshop on 'Corporate Fund Raising' on 20th July, 2013. Eminent speaker, CMA Chandrashekhar Chincholkar, a qualified Cost Accountant and Company Secretary narrated the various modes and methods of Corporate Fund Raising Including Equity and Debt Instruments. He also narrated the case wise fund raised by him for his Indian and multi-national clients through Indian and foreign institutions. His deliberation helped the members in practice and in industry to update their knowledge.

The workshop was chaired by chapter chairman CMA N.P. Viswanathan, who highlighted the importance of role played by CMAs in optimal utilization of scarce resources. He stated that in these days of volatile market conditions, it was imperative for a Cost Accountant to control the cost of raising Corporate Funds. Also present on the occasion were WIRC Member CMA G.R. Paliwal, Vice Chairman, CMA S.N. Mahankaliwar, Secretary, CMA Vivek Chavan, Treasurer CMA Anan Sahasrebuddhe along with all the Managing Committee Members. The work shop was well attended by Chapter Members and members in Industry.

GOVERNMENT OF WEST BENGAL
DIRECTORATE OF COMMERCIAL TAXES
PROFESSION TAX
Jalasampad Bhaban (North Block), 9th Floor
Sector-I, Block- DF ; SALT LAKE CITY, KOLKATA-700091
Phone; (033) 2334-0279 / 0280

Memo No- **576** / PTHQ Date: 8-8-2013

To
The President
The Institute of Costs Accountants of India
12, Sudder Street
Kolkata- 700016

Subject: Liability to pay Profession Tax for every branch, office or place of work of a firm, company etc, with effect from 1-4-2013, as per the amended Rule 4(2) of The West Bengal State Tax on Professions, Trades, Callings and Employments Rules'1979

Sir,

I may draw your kind attention to the fact that the definition of 'Person' under section 2(f) of the West Bengal State Tax on Professions, Trades, Callings and Employments Act'1979 has been amended .w.e.f. 1-4-2013. Rule 4(2) of the West Bengal State Tax on Professions, Trades, Callings and Employments Rules'1979 has also been amended following the amendment in the Act. By virtue of these amendments, separate enrolment number is required to be obtained by each branch or office or place of work in West Bengal of any firm, company, corporation or other corporate body, any society, club or association engaged in any profession, trade, calling or employment. Profession Tax shall be payable against each enrolment number thus obtainable / obtained. In accordance with the provision of amended Rule 4(2), the authority of the principal place of work of such firm, company, corporation or other corporate body, any society, club or association may apply (in a single Form-II), on behalf of all its branches / offices / place of work in West Bengal, along with an annexure (appended to Form-II) containing the particulars of the branches or offices or place of work, and submit the same to the prescribed authority in whose jurisdiction the principal place of work is situated. If the principal place of work is already enrolled, the same procedure will be followed for enrolment of all other branches / offices / place of work. The prescribed authority will grant separate enrolment number for each of the offices or branches or place of work.

In this context, I solicit your help in causing wide awareness of the changes, within your peripheral ambit, and to arrange for bringing out the relevant portions of the changes in your monthly / periodical publication(s),so that the legal obligation is properly complied with by all concerned. You may please contact the under-signed at (033) 2334-0280 or the Public Information Officer, Profession Tax at (033) 2334-0279 or send email at query.ptax.wb@gmail.com for any additional information in this regard.

Thanking you

Office of the Commissioner Profession Tax ★West Bengal★

08.08.13
(S.B.Mandal)
Additional Commissioner of Commercial Taxes
Profession Tax, West Bengal

Note: Salient features of all the changes in Profession Tax effective from 1-4-2013 along with the copies of related notifications etc are attached here-with for your kind information

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(STATUTORY BODY UNDER AN ACT OF PARLIAMENT)

EXAMINATION TIME TABLE & PROGRAMME – DECEMBER 2013

FOUNDATION COURSE EXAMINATION
(Multiple Choice Questions – Online Mode)

Day & Date	Time & Session	Foundation Course Examination	
To be announced shortly.	To be announced shortly.	SYLLABUS 2008 Paper – 1 & 2 (100 Marks) **Paper 1** : Organisation and Management Fundamentals (50 Marks) **Paper 2** : Accounting (50 Marks)	SYLLABUS 2012 Paper – 1 & 2 (100 Marks) **Paper 1** : Fundamentals of Economics and Management (50 Marks) **Paper 2** : Fundamentals of Accounting (50 Marks)
To be announced shortly.	To be announced shortly.	Paper – 3 & 4 (100 Marks) **Paper 3** : Economics and Business Fundamentals (50 Marks) **Paper 4** : Business Mathematics and Statistics Fundamentals (50 Marks)	Paper – 3 & 4 (100 Marks) **Paper 3** : Fundamentals of Laws & Ethics (50 Marks) **Paper 4** : Fundamentals of Business Mathematics and Statistics (50 Marks)

Examination Fees

Foundation Course Examination	**Inland Centres**	**₹ 1000/-**
	Overseas Centres	**US $ 60**

1. **The Foundation Examination will be conducted in M. C. Q. Mode through Online only.**
2. Total Questions : 100 (Multiple Choice Questions), Maximum Marks : 100 (Each Question will carry 1 Mark). There will be no negative marking for wrong answers.
3. **(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 Foundation Examination is 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 from ICAI Website at www.icmai.in.
4. **Last date for receipt of Examination Application Forms without late fees is 30th September, 2013 and with late fees of ₹300/- is 10th October, 2013. 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, 2013.**
5. 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.
6. Students may submit their Examination Application Forms 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 to Examination Directorate at 12, Sudder Street, Kolkata – 700016.
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, Faridabad, Ghaziabad, Guwahati, Hardwar, 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. **(If no examination centre is available at a particular location, examinees will be accommodated at the nearest Centre available)**
8. **A candidate who is completing all conditions will only be allowed to appear for examination.**
9. **Probable date of publication of result : Foundation – To be informed in due course of time.**

A. Das
Director (Examination)

MANAGEMENT ACCOUNTANCY EXAMINATION TIME TABLE & PROGRAMME – DECEMBER 2013

Tuesday	Tuesday	Wednesday	Wednesday	Thursday
10th December, 2013 09.30 A.M to 12.30 P.M	10th December, 2013 02.00 P.M to 05.00 P.M	11th December, 2013 09.30 A.M to 12.30 P.M	11th December, 2013 02.00 P.M to 05.00 P.M	12th December, 2013 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, 2013 and with late fees of Rs 300/- is 20th October,2013.

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, Faridabad, Ghaziabad, Guwahati, Hardwar, 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.

Dr. P. S. S. Murthy
Director (Advanced Studies)

EXAMINATION TIME TABLE & PROGRAMME – DECEMBER 2013

PROGRAMME FOR SYLLABUS 2008			PROGRAMME FOR SYLLABUS 2012 (REVISED)	
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.**
Tuesday 10 Dec 2013	-----	Capital Market Analysis & Corporate Laws	Financial Accounting	Corporate Laws and Compliance
Wednesday 11 Dec 2013	Financial Accounting	Financial Management & International Finance	Laws, Ethics and Governance	Advanced Financial Management
Thursday 12 Dec 2013	Commercial & Industrial Law & Auditing	Management Accounting – Strategic Management	Direct Taxation	Business Strategy & Strategic Cost Management
Friday 13 Dec 2013	Applied Direct Taxation	Indirect & Direct – Tax Management	Cost Accounting & Financial Management	Tax Management & Practice
Saturday 14 Dec 2013	Cost & Management Accounting	Management Accounting – Enterprise Performance Management	Operation Management and Information Systems	Strategic Performance Management
Sunday 15 Dec 2013	___	Advanced Financial Accounting & Reporting	Cost & Management Accountancy	Corporate Financial Reporting
Monday 16 Dec 2013	Operation Management & Information Systems	Cost Audit & Operational Audit	Indirect Taxation	Cost & Management Audit
Tuesday 17 Dec 2013	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) (Overseas Centres)	₹1250/- US $ 100	₹1000/- US $ 90
Two Groups (Inland Centres) (Overseas Centres)	₹2250/- US $ 100	₹1600/- US $ 90

(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 Rs. 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 from ICAI Website at www.icmai.in.
2. Last date for receipt of Examination Application Forms without late fees is 30th September, 2013 and with late fees of Rs. 300/- is 10th October, 2013. In case of online Examination Application with payment gateway by using Credit/Debit Card, the late fees of Rs. 00/- will be waived if applied within 10th October, 2013.
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 Forms 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 to Examination Directorate at 12, Sudder Street, Kolkata – 700016.
5. Finance Act 2012, involving Assessment Year 2013-2014 will be applicable for the Subjects Applied Direct Taxation, Applied Indirect Taxation and Indirect & Direct Tax Management for Syllabus 2008 and Direct Taxation, Indirect Taxation and Tax Management & Practice for Revised Syllabus 2012 for the purpose of December 2013 term of Examination.
6. 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, Faridabad, Ghaziabad, Guwahati, Hardwar, 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.
7. A candidate who is completing all conditions will only be allowed to appear for examination.
8. Probable date of publication of result : Inter & Final – 21st February 2014.
A. Das
Director (Examination)

IOD Institute of Directors
Building® Tomorrow's Boards
In Partnership with
The Institute of Cost Accountants of India
LONDON GLOBAL CONVENTION-2013
01-04 October, 2013
incorporating
GLOBAL BUSINESS MEET at House of Lords on 1st October 2013
13th International Conference on CORPORATE GOVERNANCE & SUSTAINABILITY
Presentation of GOLDEN PEACOCK AWARDS
Theme: Boardroom Effectiveness for Principled Corporate Governance and Sustainability
Hotel The Tower - A Guoman Hotel, St Katharine's Way, London, E1W 1LD
GALAXY OF INVITED SPEAKERS
Dr. M. Veerappa Moily
Ajit Singh
Hon. Dr. Farooq Abdullah
Rt. Hon. Baroness Verma
Rt. Hon. Lord Swraj Paul
Sir Leigh Lewis KCB
Vindi Banga
Helen Brand OBE
Rakesh Singh
Jon Sibson
Yvo de Boer
RK Dubey
Avail 15% Discount for The Institute of Cost Accountants of India Members
CONFERENCE HIGHLIGHTS
Global Business Meet at the House of Lords • Business Case Study presentations by the Top Companies • Top Technical Speakers loaded with Professional Experience • Network with Leaders and Experts from Business, Government and Civil Society • Golden Peacock Gala Awards Nite
For Delegate Registration, Sponsorship & Promotions
Sushil Kumar: Tel: +91 9999605706, 91 11 41636717 • Email: sushil@iodonline.com
Sponsored by
Muthoot Group
comviva
MAX INDIA FOUNDATION Making a difference... to life
Lycamobile
manipalglobal education services
Canara Bank
In Partnership with
USINDIA Business Council
The Institute of Company Secretaries of India
BRITISH SWISS CHAMBER OF COMMERCE
University of Greenwich
forum for the future
In Association With
BasildonCouncil
Magazine Partner
BUREAUCRACY Today
iema
BOARD INTELLIGENCE
PICG
LALCAP
G&A
Peterborough
INSTITUTE OF DIRECTORS : M-52 (Market) Greater Kailash Part-II, New Delhi - 110048, India, Tel. +91-11-41636294, 41636717, Fax: +91-11-41008705, Email: info@iodonline.com
www.iodonline.com

ISSN 0972-3528

Registered KOL RMS/139/2013-2015
Publication date: 10 September 2013 RNI 12032/66