

## **Policy decision on ineligible items in proposals received for Financial Assistance**

Under APEDA scheme component “Infrastructure Development” assistance is provided to both public sector as well as private sector. In Public sector, assistance is provided to Central/State Government PSUs/Departments/Agencies for setting up common infrastructure facilities for export promotion.

The essence of the assistance is to channelize APEDA funds primarily for generation of capital assets. The proposals that are received with cost break up into following major items:

- Land / site development
- Civil work
- Plant and Machinery
- Preliminary & Pre-operative expenses
- Contingencies/Miscellaneous expenses
- Other Fixed assets e.g Furniture & Fixture, Office equipment
- Margin money on working capital
- Cost escalation

**Land / site development:** Land process involves improvements that have indefinite life, such as draining, dredging, excavating, filling, grading, paving, etc. This is very first activity involved in setting up of a project.

**Civil Work:** Civil work is the essence of any project, which house capital equipment.

**Plant and Machinery:** These are strictly capital equipment, which are housed in a building constructed through civil work. These along with civil work constitute the actual project.

**Preliminary & Pre-operative expenses:** Preliminary Expenses are the expenses incurred before the commencement of the company that are borne by the promoters of the company for its incorporation. Preliminary expenses are the expenses relating to the formation of an enterprise. These expenses are huge in amount, are non-recurring and are not related with the day-today operations. The pre operative expenses imply expenditure incurred on various activities prior to the implementation of the project such as expenses on expenditure on conducting DPR, inviting Expression of Interest, formation of SPV, land development, tendering procedure and other administrative expenditure

**Contingencies/Miscellaneous expenses:** In the case of a company, miscellaneous expenses would normally include Legal cost and professional charges paid for drafting the memorandum and articles of association; Professional charges for consultation in incorporating the company etc.

**Other fixed assets e.g. Furniture & Fixture, Office equipment:** The term fixed assets refers to the assets held with the intention of being used for the purpose of producing or providing goods or services and are not held for sale in the normal course of business. These include major capital assets of the company. These involve non-recurring expenditure i.e. once installed they stay for longer period. However, there may be other fixed assets like furniture and fixture and office equipment which are of consumable in nature and recurring expenditures are involved in replacing/refurbishing them from time to time.

**Margin money on working capital:** Margin money is the promoter's stake and it works as a safety cushion to the bank's or state financial corporations extending working capital assistance. This thus is a cash deposit that a lender has to keep with the Bank.

**Cost escalation:** Each project at the time of inception stipulates an anticipated time of completion of the project consider all pros, cons, and procedural formalities. However, in case the timelines are not followed, the project implementation is delayed and the costs may escalate. This is referred to as cost escalation.

Since the basic objective of our scheme is to promote generation of capital assets, while considering a project, the overall cost components are dissected into eligible costs and ineligible costs. The financial assistance is computed based on total eligible costs only.

**Eligible costs:** While land development happens to be the basic and very preliminary activity for initiating any capital project, civil work is the shelter and cover for the project. Plant and machinery comprises the major component of fixed capital assets creation for any large or small capital intensive project, these components are taken as eligible components for computation of assistance

**Ineligible costs:** The other expenses are either of unknown nature e.g. contingencies/misc expenses, cost escalation or not related directly to creation of assets such as margin money on working capital. The expenses on furniture and fixture and office equipment are of consumable nature and not directly related to the objective of the project. Similarly, pre-operative expenses imply expenditure incurred on various activities prior to the implementation of the project such as expenses on expenditure on conducting DPR, inviting Expression of Interest, formation of SPV, land development, tendering procedure and other administrative expenditure. As for DPR, our scheme provides for assistance separately. In addition, land development cost is assisted by APEDA. In view of the above, the attempt should be to assist capital expenditure in the first place.

For individual exporters, we consider ineligible expenditures according to the sub component related to the product of export. For example, a rice exporter seeking assistance for cold room is considered as ineligible.

To summarize a comparative statement of eligible and ineligible elements is given below:

<b>Eligible costs</b>	<b>Ineligible costs</b>
<b>Common infrastructure:</b>	
➤ Land development such as land filling, leveling etc but excluding landscaping etc	➤ Cost of land which is to be borne by the implementing agency
➤ Civil work cost for the plant building as also boundary wall to protect the unit from external elements.	<b>Other fixed assets</b> of consumable nature with recurring expenditures such as office furniture and office equipment, which are not directly related to the functioning of the unit.
➤ Plant and machinery – capital equipment , utilities etc	<b>Pre-operative and preliminary expenses-</b> these include administrative expenses , legal expenses , travel expenses, stationery & printing expenses statutory licenses related to incorporation of the unit such as obtaining of certificate of incorporation, preparation of drawing of the unit , tendering procedure expenses, conducting of Detailed Project Report, interest on bank borrowings etc

Eligible costs	Ineligible costs
	<p>➤ <b>Working capital and Margin Money on working capital:</b> Working capital is a measure of both a company's efficiency and its short-term <a href="#">financial health</a>. Working capital is the difference between the current assets and current liabilities of the unit</p> <p>➤ Working capital is a recurring activity for day-to-day operations of the unit and margin on working capital is the limit fixed by banks in relation to the financial health of the unit.</p> <p>➤ Thus both these are ineligible since these are not actually capital assets the recurring liabilities of a unit</p>
	<p>➤ <b>Contingencies/miscellaneous expenses:</b> Since these are not clearly spelt out expenses and can relate to any kind of expenses such as food, travel etc. These cannot be assisted</p>
	<p>➤ <b>Cost escalation:</b> APEDA extends assistance based on the DPRs which stipulate a period of implementation of the project which is normally not too long. However, due to procedural delays, lack of supervision on implementation etc. The projects get delayed beyond original schedule by which time the costs of civil work may rise, likewise due to policy measures or vendor requirements, the costs of Plant and machinery may rise causing escalation of the project cost. Such expenditure cannot be considered for assistance by APEDA.</p>

<b>Eligible costs</b>	<b>Ineligible costs</b>
	<ul style="list-style-type: none"> <li>➤ Consultancy /professional Fee: This relates to the fees paid to professional/consultancy agencies hired for doing the DPRS etc.</li> </ul>
<b>Private Exporters:</b>	
<ul style="list-style-type: none"> <li>➤ Cost of Equipment related to the specific activity under the relevant sub component</li> </ul>	<ul style="list-style-type: none"> <li>➤ Costs unrelated to the sub-component under which application filed e.g. under mechanized handling facilities only equipment which handle the product mechanically are considered but those which relate to processing (metamorphological change in product) do not qualify.</li> </ul>
<ul style="list-style-type: none"> <li>➤ Civil work in relevant sub-components such as pack house, ETP, Intermediate Storage sheds etc</li> </ul>	<ul style="list-style-type: none"> <li>➤ Consultancy Fee: As explained under Common Infrastructure</li> </ul>
	<ul style="list-style-type: none"> <li>➤ Cost Escalation: As explained under Common Infrastructure</li> </ul>
	<ul style="list-style-type: none"> <li>➤ Preliminary and pre operating expenses: As explained under Common Infrastructure</li> </ul>
	<ul style="list-style-type: none"> <li>➤ Misc/contingencies: As explained under Common Infrastructure</li> </ul>
	<ul style="list-style-type: none"> <li>➤ Working capital and Margin Money on working capital: As explained under Common Infrastructure</li> </ul>