

# DRAFT REPORT OF THE COMMITTEE ON FINANCIAL SECTOR REFORMS (CFSR), PLANNING COMMISSION, GOVERNMENT OF INDIA

Recommendations made by meeting of Indian finance and management  
professionals

organised in Doha, Qatar on 26 May 2008

by

Indian Nationals Abroad

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Middle East Indian Management Association – MIMA

(apex body of Indian Management Associations in the Middle East  
affiliated to All-India Management Association)

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# **OVERSEAS INDIANS' ROLE &** **CONTRIBUTION**

- Role of overseas Indians: No attempt so far to use the knowledge of Indian nationals overseas. This gap to be filled. This an attempt in this direction.
- Report ignores the input of the knowledge capital of overseas Indians

# INCLUSIVE STRATEGY OF ECONOMY

- We should ask: does the report contain elements of an inclusive financial strategy?
- The unorganized sector is not benefited by the financial reforms now in place
- In bank loans policies, profit/ loss share basis could be considered for the poor member of society instead of loans?
- Increase the financial flow to unorganized sector and attract investors within and abroad interested in profit rather than fixed interests.
- Penetration of banking service with or without** technology; no-frills accounts can be extended. Current trends to use accessible hand-held devices to deliver banking at door steps (biometric and Smart Card readers) to be lauded. This can include wider connectivity (land line, mobile) and access the services.

# **MISSING AREAS REQUIRING** **(GREATER) ATTENTION**

- Report should give more focus on promoting entrepreneurship
- Educational policy needs to be address, i.e. technical and vocational training to generate entrepreneurship and own earning capabilities. Youth become their own masters.
- But land, labour etc are areas that have not seen reforms at similar scale
- Land holdings have broken down over the generations; fragmentation of land results and land holding becomes unconventional. Laws on land holdings must be brought about.
- Farming pattern should switch to joint mechanisms like joint stock company with more technology; Also, land holding sizes should be increased to make this possible.

## **MISSING AREAS REQUIRING (GREATER) ATTENTION (contd)**

- Manufacturing sector currently only 25% in GDP as opposed to 50 % or service sector: engineers now enter other areas of service jobs and leave core engineering areas. Represents underutilization of skilled manpower.
- Indian Economic Growth: Indian Economy is growing at 8-9%, closely behind China; both compare higher than Europe and U.S.; even Sub-Saharan African growth higher than the U.S.

# **MISSING AREAS REQUIRING (GREATER) ATTENTION (contd)**

- Credit policies: India free from tendencies of over-borrowing; thus, this inherent habit of Indians offer resilience and discipline to live within means. This in contrast with USA where overstretching and debt-trap common and likely.
- But inflation to be contained. When the country moves from savings mode to spending mode, younger people exposed to the pitfall of overspending and debt trap.

# MISSING AREAS REQUIRING (GREATER) ATTENTION (contd)

- The report fails to address issues like:
  - Social health issues: for example, only 19% of land is available and 70 % of Water is contaminated.
  - ‘Environmental Concerns’ not built into the economic frameworks
  - Health care, Pension schemes etc do not exist at present.
  - Social cost of Indian labour working abroad: needs to be calculated by those who work abroad for small salaries.
- India is growing, but not Indians. A large section of the population left out of the prosperity net. The poor yet to benefit substantially from reforms.

# Banking sector

- In banking sector, major transformations have taken place since 1991; sector energized and re-energized , but
- De-regulation: Not fully de-regulated; penetration to masses achieved through reforms so far. But variety of banking products not adequate. Products available even in a small country like Qatar not offered by Indian banking sector.

# Banking sector (Contd....)

- Country can think of Islamic banking / Sharia finance principles to be explored (not linked to religion, but only as adoption of a financial model. The preferred features from the region's experience are as follows:
  - Ethical way of spending money
  - Total transparency
  - Equity-sharing as against interest-based lending.
  - In Islamic banking institutions, even non-Muslims do deposit and invest.
  - Human form of banking
  - Govt lending at 9%. Farmers after subsidy get loans at 7%. But how many can avail this? To be asked: does it reach all those in need? Attempts to reach this required.

# **Energy Conservation & Economy**

***Energy is a major component of economy. At the macro level conservation efforts will make considerable impact on expenditure and facilitate more infrastructure investments.***

- The Warehouse Act 2008 is a case in point: This is aimed at scientific warehousing of goods, improved supply chains, enhancing rewards for grading and quality and encourages price risk management. Eventually, this act has a potential to inject over 30 billion US dollars of agricultural credit.

# Energy Conservation & Economy

- Only 50% of the produced vegetables and fruits reach consumers. If properly implemented, the warehouse act will enable the feeding of at least 50% more people in the country.
- Energy bill can be lightened. For this a term “Energy credit” similar to “Carbon Credit” to be introduced, which is very well known to environmentalists. “Energy Credit” can be a tradable commodity in the market. Individuals and corporate giants to be encouraged in investing in energy saving projects such as efficient transmission and distribution of electricity, infrastructure development for smooth traffic to avoid wastage of oil in traffic jams and unfriendly roads.

# Energy Conservation & Economy

- The estimated energy savings resulted out of these projects are to be converted into barrel equivalent. These barrel equivalent to be purchased by government at international crude price or is to be allowed to be traded in the market as a commodity.
- By rule of thumb, at least 20 to 30% of India's import bill on crude oil procurement is expected to be saved out of this. The financial saving is expected to be 31 billion USD per annum from petroleum products imports alone.