8

Services

8.1 CONSTRUCTION

BACKGROUND

8.1.1 The development of physical infrastructure in the country and, consequently, the construction sector has been in focus during the last decade. The increasing significance of construction activities in the growth of the economy was also evident during the course of implementation of the Tenth Plan with areas such as transportation, irrigation, housing, urban development, and civil aviation having received greater importance. It is well established that the influence of the construction industry spans across several sub-sectors of the economy as well as the infrastructure development, such as industrial and mining infrastructure, highways, roads, ports, railways, airports, power systems, irrigation and agriculture systems, telecommunication systems, hospitals, schools, townships, offices, houses and other buildings; urban infrastructure, including water supply, sewerage, and drainage, and rural infrastructure. Thus, it becomes the basic input for socio-economic development.

CRITICALITY TO ECONOMY

8.1.2 The contribution of construction to the GDP at factor cost in 2006–07 was Rs 196555 crore, registering an increase of 10.7% from the previous year. The share of construction in GDP has increased from 6.1% in 2002–03 to 6.9% in 2006–07. The increase in the share of construction sector in GDP has primarily been on the account of increased government spending on physical infrastructure in the last few years, with programmes such as National Highway Development Programme (NHDP) and PMGSY/Bharat Nirman Programme receiving a major fillip of late. The construction industry is experiencing a great upsurge in the quantum of the work load, and has grown at the rate of over 10% annually during the last five years. Although various steps have been taken to strengthen the construction industry, it is crucial to take necessary measures in order to prepare the industry to meet the challenges of growth.

8.1.3 The importance of construction activity in infrastructure, housing, and other asset-building activities can be seen from the fact that the component of construction comprises nearly 60%–80% of the project cost of certain infrastructure projects such as roads, housing, etc. In projects such as power plants, industrial plants, etc., though the share is lower but it still remains critical. In terms of magnitude, construction activity is second only to agriculture. The construction industry also has major linkages with the building material manufacturing industry including cement and steel, bricks and tiles, sand and aggregates, fixtures and fittings, paints and chemicals, construction equipment, petrol and other petro-products, timber, mineral products, aluminum, glass, and plastics. Construction materials account for nearly two-third of the average construction costs. On the basis of an analysis of the forward and backward linkages of construction, the multiplier effect for construction on the economy is estimated to be significant.

Employment in the Construction Industry

8.1.4 With around 27770 enterprises involved directly in the activity of construction in 2005, the industry is one of the largest employers in the country and is characterized by a mix of both organized and unorganized entities. The employment figures have shown a steady rise from 14.6 million in 1995 to more than double in 2005, that is 31.46 million personnel comprising engineers, technicians, foremen, clerical staff, and skilled and unskilled workers. Larger investments in infrastructure have resulted in an increased demand for construction and, consequently, for construction engineers and technicians. However, due to the limited availability of engineers and technicians in general and the greater demand in sectors such as IT, there is a substantial drop in the percentage of qualified engineers employed at the work sites from 4.71% in 1995 to 2.65% in 2005, and similarly at sub-engineering levels from 2.46% in 1995 to 1.85% in 2005. The strength of skilled workforce has also been consistently and substantially going down from 15.34% in 1995 to 10.57% in 2005, whereas relative proportions of unskilled workers have gone up from 73.08% in 1995 to 82.45% in 2005. The workers community accounted for 93% of the total employment in the construction sector in 2005, with a predominance of migrant labour workforce. It is important to create a reliable information system for labour migration both at the destination as well as at the point of origin of migration to reduce vulnerability. As macro level data is often inadequate to capture the flow and pattern of migration, state-centric surveys are required to fill in this gap. With several ambitious projects on anvil during the Eleventh Plan, the demand for construction manpower is going to grow at a consistent pace of at least 8%–9%, thereby resulting in an annual accretion of around 25 lakh persons to the existing stock.

Developments during the Tenth Plan

8.1.5 During 2002–07, many milestones were achieved by the Indian construction industry in the areas of institutional finance, human resource development, dispute resolution, procurement procedures, safety and quality in the construction industry, and disaster mitigation initiatives. The construction industry was accorded Industrial Concern Status under the Industrial Development Bank of India (Amendment) Act, thereby providing the much-needed impetus in terms of availability of finance to the construction industry. Many national initiatives in human resource management were implemented for the non-formal construction sector, addressing workers as well as engineers and management professionals in the industry. Other major initiatives included, inter alia, the establishment of arbitral institutions for dispute resolution, development of institutions for safety and quality aspects, setting up of disaster mitigation and Retrofitting Clinics along with the training of professionals in disaster mitigation, improvement in procurement practices in public sector, development of regulatory manuals for procurement procedures, as well as dissemination of information regarding good practices and development of action framework for quality and safety audits, certification, and training of manpower.

Strategies for the Eleventh Plan

8.1.6 The major challenge that the construction industry faces during the Eleventh Plan is to raise its delivery capabilities commensurate with the Plan targets for sectors such as transportation, housing, and urban development. The planned development of infrastructure would face constraints, unless the construction industry improves the delivery potentials by addressing crucial issues and impediments by bringing in systemic changes. The major issues in the construction industry have been detailed in the following sections.

Productivity in the Construction Industry

8.1.7 Since capacity building for the construction industry to achieve expected delivery capabilities is the key focus area, introduction of efficient technologies and modern management techniques to raise the productivity of the industry are vital. R&D in the construction industry should be seen as a continuing activity, because the scientific and technological advancements are needed to strengthen and raise the technological base of the construction industry. Recognizing this, support to the national institutions engaged in scientific research and incentives for private sector players to undertake in-house R&D need to be provided.

8.1.8 The low technological level of Indian construction leads to low value addition, productivity, quality, and high time and cost overruns. A national strategy and policy framework, focusing particularly on productivity enhancement and cost reduction, is required to be developed to match the envisaged work load and delivery targets. Introduction of new technologies, construction systems, and energy-efficient materials (preferably based on waste recycling) needs to be adequately emphasized in the national strategy. For RR sector, there is a need for developing and introducing use of 'marginal materials' to enhance the cost effectiveness of works. Adequate funds should be earmarked in the field of R&D for identification of appropriate and alternate materials to reduce the cost of construction.

8.1.9 Management of information in contemporary construction projects is one of the biggest challenges that project teams face in the upgradation of productivity levels. Information technology can be leveraged to address issues related to tendering, bidding, bid evaluation, grading of construction entities, project execution logistics, project management, as well as financial accounting and reporting for the construction industry. An appropriate MIS should be developed and implemented at the national, district, and local levels. Further, an institution needs to be nominated as the repository of National Database for construction industry.

Human Resource and Entrepreneurial Development Framework

8.1.10 The major impediments faced by the construction industry in raising the levels of productivity are the acute shortage of skilled manpower, both at worker and supervisory levels, as well as the lack of experienced construction engineers. The construction industry, particularly the highway and road construction sectors, is facing acute shortages of contracting agencies. The present situation is marked by lack of a harmonized skill upgradation and certification programme for construction workers and lack of incentives and regulatory framework to prescribe a certain percentage of trained and certified manpower by the contractors. There is also a need to encourage adequate intake of civil engineers in engineering institutions to mitigate the existing shortage.

8.1.11 One of the initiatives undertaken by Construction Industry Development Council (CIDC) is the training, testing, and certification programme of the construction workers. This initiative has resulted in successfully upgrading the skills of construction workers in 47 designated trades through training, testing, and certification of the construction workers (see Box 8.1.1).

8.1.12 A National Plan for training and certification of construction personnel at all levels needs to be developed and implemented. The Plan should include

Box 8.1.1
Holistic Human Resource Development (HRD)—Construction Industry Development Council (CIDC)

- CIDC, in association with several universities and industry constituents, has offered an HRD Programme for the workers from construction industry for last three years. The programme, based on an open learning and distant mode of education, offers 38 trades through 19 centres situated in various parts of the country. A number of PSUs, SPVs, and State Governments have also been actively participating.
- CIDC conducts programmes in 29 ITIs across four States—Madhya Pradesh, Rajasthan, Haryana, and Bihar. As of date, more than 100000 workers have been tested and certified under this programme and have found gainful employment with construction companies.
- Initiative has been taken by NHAI and the State Government of Madhya Pradesh for the inclusion of a prequalification condition in NHAI's tender document that a minimum of 5% of trained and certified workers should be employed, to become eligible for any of the bid from NHAI. Such practices need to be replicated by other States.
- CIDC is also actively designing, developing, and disseminating Management Development Programmes for supervisors, managers, and senior officers in Construction Management, Project Management, Emerging Technologies, and other related issues. CIDC's Diploma Programme in Civil, Mechanical, and Electrical Engineering for Army personnel is field tested and finds increased favour with the armed forces.

initiating a system of 'Graded Certification' depending upon the levels of proficiency achieved. In order to meet the shortage of trained manpower, short-term courses in certain important trades may be introduced. The role of advisory and consultancy services in strengthening the stature of construction industry is vital. However, presently these services are only a small part of the overall construction services and need to be suitably upgraded.

NEED TO REDUCE CONSTRUCTION COST

8.1.13 It is estimated that the total cost of procuring, monitoring, and supervising and other indirect costs of construction projects consists of about 22% of the cost of the asset that is created. The reduction of these and other transaction-related costs would be decisive in improving the profitability of the Indian construction industry. Apart from the measures to improve productivity, as discussed in the earlier sections, efforts are also required to streamline procedures and mechanisms within the industry as well as enhance the levels of quality for the sector as a whole.

CONTRACT PROCEDURES

8.1.14 The present contract conditions, procedures of procurement of projects, and services being used by various project authorities in the country, both in the public and private sector, need to be reviewed and harmonized. According to some estimates, the cost of procuring comprises 16% of the total construction cost for certain projects. Development of standard contract procedure, documents, and the evaluation criteria would lead to significant reduction in the transaction cost and time. In order to enable fair competition as well as maintain the quality of the output, the system of pre-qualification should be adopted for large PPP projects, whereby only those companies that meet the stringent qualification criteria would be shortlisted and invited to make a bid. For smaller projects, especially those involving repair and maintenance, pre-qualification should be done periodically and bidding should be made on the basis of limited circulation. The guidelines issued by the Ministry of Statistics and Programme Implementation in the form of a set of Uniform Contract Conditions may be taken as a basis for further consultation with experts and stakeholders with a view to formulating standard contract and bidding documents. A shift from the current practices towards electronic tendering process, online publishing of tender notices, online contract bidding documents, and reverse bidding would eliminate unfair competition and make the bidding process transparent.

DISPUTE RESOLUTION

8.1.15 In the absence of institutionalized procedures and practices, arbitration continues to be costly and time consuming. As per a survey conducted in 2001 by the CIDC, the amount of capital blocked in the construction sector disputes was over Rs 54000 crore. To minimize disputes leading to time and cost overruns, proper project planning process should be encouraged and DPRs may be completed before technical sanction. After the Arbitration and Conciliation Act 1996 came into force, there has been an improvement in the number of disputes resolved. However, certain shortcomings remain to be addressed in the ad hoc arbitration process in terms of defined selection procedures and working ethics of arbitrators, absence of specific rules for agreement, and provision of a neutral body to administer and supervise arbitration. In view of these deficiencies, there is a need to introduce new measures to resolve disputes in a fair, speedy, transparent, and cost-effective manner.

8.1.16 A procedure involving the amicable resolution by conciliation should be followed, failing which reference to arbitration by a Board of Arbitrators in accordance with the Rules of Arbitration of the International Center for Alternate Dispute Resolution, New Delhi should be made. Moreover, institutional arbitration rules, a panel of accredited arbitrators based on selection criteria to maintain the quality, standards, and code of ethics/conduct, norms for negotiable terms of appointment, management of arbitrator's fees, monitoring and supervision of progress of case, etc., should be developed and institutionalized in line with Indian Arbitration and Conciliation Act 1996, after consultation with experts and stakeholders.

QUALITY AND STANDARDS

8.1.17 To make the Indian construction industry more competitive, aspects related to enhanced quality in construction products should be accorded attention at all levels. The inadequate quality in construction works emanates from lack of incentives for inducting new technology, lack of pre-qualification requirements for trained and certified workmen, lack of appreciation for lifecycle costing approach, and lack of adequate R&D. In order to enhance the technological capabilities of the industry, all stakeholders would be required to actively support training and certification levels for skilled workers, supervisors, and managers, and promote construction techniques (such as ready-mixed concrete, pre-fab techniques) that use information technology.

8.1.18 The Performance Appraisal Certificate Scheme is being implemented for the development and promotion of materials, products, and systems under the joint initiatives of Building Materials and Technology Promotion Council (BMPTC), CIDC, BIS, and other agencies. Further, in view of the widespread infrastructural development programmes, covering both urban and rural areas, particularly for roads, highways, and rural connectivity schemes, district-level testing laboratories should be established for testing and quality evaluation of materials.

8.1.19 The importance and benefit of adhering to performance standards, both in inviting tenders and in implementation, are being increasingly realized by construction entities and procurement agencies. BIS is formulating a performance standard for special jobs requiring high-quality levels. Another development, aimed at enhancing quality in construction works, is that a large number of construction companies are working to obtain ISO 9000 series certification.

Construction Finance

8.1.20 The Indian construction industry is faced with high operation, maintenance, and financial costs. This aspect is further exacerbated by inadequate access to institutional finance, especially for small contractors who execute over 90% of the total construction works. Moreover, subsequent to the conferring of Industrial Concern Status on the construction industry, existing financial institutions, and banks should adopt construction industry-specific lending norms and eligibility criteria for the borrowers from the construction sector as well as introduce special incentives or schemes for financing import of hi-tech construction equipment for infrastructure projects.

Other Important Issues

Safety and Related Issues of Construction Workers

8.1.21 Workers employed in construction activity are highly vulnerable segments of the labour force particularly because of its unorganized nature. The workers in construction industry are vulnerable to the inherent risk to their life and limbs. Construction activities are also characterized by poor training, temporary relationships between the employer and the employee, uncertain working hours, lack of basic amenities, inadequacy of welfare facilities, and casual approach of employers towards the problems of employees. In the absence of adequate statutory provisions, the requisite information regarding the nature and number of accidents is also not generally available.

8.1.22 In the recent past, several initiatives have been taken for the improvement of working conditions of the construction workers through the mandatory provision for instituting the Provident Fund Scheme among casual workers and the introduction of the Workers Welfare Cess. The Building and other Construction Workers (Regulation of Employment and Conditions of Service) Act 1996 was also enacted recognizing the need for a comprehensive Central legislation for regulating the safety, health, welfare, and other conditions of service for construction workers. However, only a few States have implemented the provisions of the Act, such as setting up welfare boards, and efforts need to be renewed to speed up the implementation of the Act.

8.1.23 Along with the provision of appropriate training facilities for safety aspects related to construction, vigilant Safety Management Teams adequately trained in compliance procedures, hazard and risk assessment, and documentation of inspections of stipulated measures for safety of workers are required to be put in place. As a substantial segment of the construction industry workforce, women workers need to be accorded special focus in terms of vocational training and skill upgradation as well as the provision of stipulated social benefits.

Asset Management and Maintenance

8.1.24 Although the construction of physical infrastructure has been receiving emphasis in the successive Five Year Plans, the maintenance of the assets that are created has not been accorded similar importance due to the absence of necessary framework, planning, and professionals for asset maintenance. The present system of asset management needs to be reviewed and strengthened at the local, State, and Central Government levels. A policy framework for ensuring mandatory provision for maintenance of assets needs to be evolved.

Environmental Issues

8.1.25 Sustainable development concepts applied to the design, construction, and operation of construction projects can enhance both the economic well-being and the environmental health of communities. Environmental Impact Assessment (EIA) is recognized as an important tool for integrating these objectives, wherein EIA should be a necessary pre-condition before construction projects beyond stipulated size are approved. Further, initiatives for ensuring adherence to international standards and regulations, such as the Environment Protection Act 2006 and the Energy Conservation Act of 2001 are also required. Various interdisciplinary organizations such as CIDC and Building Materials and Technology Promotion Council (BMTPC) have been set up to address the issues of environment-friendly technologies and energy efficiency in building materials, along with Central and State Pollution Control Boards to approve, monitor, and regulate projects from all sectors including construction, keeping in view their impact on environment.

Construction Law

8.1.26 As per the prevailing scenario, any organization engaged in construction activity requires registration under five different legislations, apart from obtaining licenses under three enactments and being subject to inspection under 12 laws. Further, there are 27 statutes pertaining only to labour. The multiplicity of laws and authorities, anomalies in the existing legal systems, and the complexities thereof suggest the need for a Unified Construction Law along with the formulation of a single window arrangement. The Unified Construction Law should have chapters pertaining to national construction policy and plan; constitution and functions of Central and State construction authorities; dispute resolution and arbitration; grants, funds, accounts, audit, and report; registration and other provisions.

Taxation

8.1.27 The construction sector experiences a very high incidence of direct and indirect taxes for construction and construction-related activities as compared to other sectors. The taxation and regulatory systems pertaining to construction should be reviewed with a view to rationalize the same and eliminate multi-source taxation. Greater clarity needs to be brought out on the treatment of the sector as 'Industry' or 'Service' for taxation purposes.

Combating Natural Disasters

8.1.28 There is an increasing realization that the problem of natural disasters is grave because their frequency has recorded more than a five-fold increase in the last two decades. Institutional arrangements are required to identify, prevent, and mitigate the effects of natural disasters. New programmes need to be taken as per the guidelines and programmes announced by the NDMA. The development of human resources and training of professionals in disaster mitigation, disaster-resistant construction technologies, and setting up of Retrofitting Clinics and Disaster Identification Centres in all major districts falling in disaster-prone regions is also recommended.

8.1.29 Substantial national resources are being spent on building assets and the pace of investment is going to enhance considerably during the Eleventh Plan, with several new projects related to transportation including RRs, housing, industrial infrastructure, energy, and agriculture slated for time-bound implementation. Necessary modifications, amplifications, and introduction of good practices need to be adopted to achieve the desired growth in the construction sector and to align it with global trends in terms of growth, quality, and competitiveness.

Path Ahead

- Enhance capacity building in the construction sector by improving productivity through introduction of efficient technologies and modern management techniques.
- Reduce transactional costs by reviewing contract procedures and dispute resolution mechanisms.
- Enhance quality standards and provision of adequate institutional finance to the construction sector.
- Develop a National Plan for human resource development through training and certification of construction personnel.
- Accord greater importance to safety in construction activities by establishing trained and certified Safety Management Teams.
- Earmark funds in the field of R&D for identification of appropriate and alternate materials to reduce the cost of construction.

8.2 TOURISM

Overview

8.2.1 Tourism is a multi-sectoral activity characterized by multiple services provided by a range of suppliers. It is the largest service industry in the country. Its importance lies in being an instrument for economic development and employment generation, particularly in remote and backward areas. It is contributing towards overall socio-economic improvement and accelerated growth in the economy. The economic benefits flow into the economy through growth of tourism in the shape of increased national and State revenues, business income, employment, wages, and salary income. Tourism is overwhelmingly an industry of private sector providers and the public sector has a significant role to play in infrastructure areas either directly or through Public Private Partnership mode.

8.2.2 Tourism is one economic sector in India that has the potential to grow at a high rate and can ensure consequential development of the infrastructure of the destinations. It has the potential to stimulate other economic sectors through its backward and forward linkages and cross-sectoral synergies with sectors like agriculture, horticulture, handicrafts, transport, construction, etc. The particular significance of tourism industry in India is its contribution to national integration and preservation of natural as well as cultural environments and enrichment of the social and cultural lives of people like preservation of monuments and heritage properties.This sector is also helping the traditional art forms, crafts, and culture.

Global Status and Trends

8.2.3 Over the past few years, the Travel and Tourism (T&T) industry has had to contend with a series of unprecedented challenges. International events, such as terrorism and SARS, and economic turbulence have led to significant changes in T&T demand. At the same time, international events such as an increase in information and booking facilities made available over the Internet; an ongoing desire by consumers to travel more frequently; stronger branding and globalization by companies; and the expansion of low-cost carriers have acted as a catalyst, accelerating fundamental changes in market behaviour and travel patterns that have been slowly emerging over the past decade. While business plans have become increasingly short term, more and more governments are starting to realize that they cannot leave the growth of T&T to chance. This emerging global consciousness represents a great opportunity for this industry.

8.2.4 As per the estimates of World Travel and Tourism Council (Table 8.2.1), the worldwide travel and

TABLE 8.2.1
Contribution of Travel and Tourism (T&T) in GDP and Employment in 2007

	India (%) 2007	World average % during 2007	World average % Estimated in 2017
Contribution of T&T Economy to GDP	5.4	10.4	10.7
Contribution of T&T Industry to GDP	2.0	3.6	3.4
Contribution of T&T Economy employment	5.5	8.3	8.3
Contribution of T&T Industry Employment	2.3	2.7	2.8

Source: WTTC (World Travel and Tourism Council).

tourism is expected to grow by 4.3% per annum between 2008–17. The industry is expected to post US$ 7060.3 billion of economic activity (total demand) in 2007, which will increase to US$ 13231.6 billion by 2017. The industry is expected to contribute 3.6% to GDP in 2007 (US$ 1851.1 billion), which is expected to rise to US$ 3121.7 billion in absolute terms but percentage wise it will decrease to 3.4% by 2017. The earnings from T&T have made it one of the largest industries in the world and the fastest growing sector of global trade accounting for 10.4% of global GDP, 12.2% of global exports, 8.3% of global employment, and 9.5% of global capital investment.

INDIA'S TOURIST PROFILE

8.2.5 Tourist growth in India has undergone a remarkable change during the Tenth Plan. Table 8.2.2 shows that foreign tourist arrival has increased by about 87% from a level of 2.38 million in 2002 to 4.45 million in 2006. Share of India in world tourist arrivals has increased from 0.34% to 0.52% during this period.

TABLE 8.2.2
Tourists Arrivals in India

(in Million)

Year	World Tourist Arrivals	Foreign Tourist Arrivals (In India)	Domestic Tourist Visits	Share of India in World Arrivals (%)
2002	706.4	2.38	269.6	0.34
2003	693.2	2.73	309.0	0.39
2004	761.0	3.46	366.2	0.46
2005	802.0	3.92	390.5	0.49
2006	842.0	4.45	461.2	0.52

Source: Ministry of Tourism (MoT).

8.2.6 Similarly, it is evident from the Table 8.2.3 that the foreign exchange earnings have grown by about 147% during the same period (US$ 2923 million to US$ 6569 million), 0.9% of the international tourist receipts. The average per tourist earnings in India was about US$ 1476 against the world average of US$ 872 during 2006.

TABLE 8.2.3
Tourism Receipts

(in Billion US$)

Year	World Earnings	Earnings by India	Share of India in World Earnings
2002	487.0	2.9	0.60
2003	533.1	3.5	0.66
2004	633.0	4.8	0.75
2005	678.0	5.7	0.85
2006	735.0	6.6	0.89

Source: MoT.

8.2.7 Domestic tourist visits has also grown rapidly during the Tenth Five Year Plan from 269.6 million in 2002 to 461.2 million in 2006. According to the Tourism Satellite Account for India prepared by the MoT, the contribution of tourism sector, including both direct and indirect to GDP and employment was 5.83% and 8.27% respectively during 2002–03.

8.2.8 It is universally acknowledged that the tourism resources in the country have the potential to generate significantly higher levels of demand from the domestic and international markets, which if exploited intelligently in a sustainable manner, can prove to be the proverbial engine of growth for the economy.

REVIEW OF THE TENTH FIVE YEAR PLAN

8.2.9 Against an outlay of Rs 2900 crore in the Tenth Five Year Plan (Central sector) an expenditure of Rs 2635.67 crore (91%) has been incurred. The scheme-wise financial performance during the Tenth Five Year Plan is given at Annexure 8.2.1. In the Tenth Five Year Plan period an emphasis was laid on positioning and maintaining tourism development as a national priority activity by enhancing and maintaining the competitiveness of India as a tourist destination and improving existing tourism products and expanding these to meet new market requirements by creating world class infrastructure, developing sustained and effective market plans and programmes and giving special thrust to rural and small segment tourism. Through broad fields of development, the MoT focused on infrastructure development in five key destinations like Ajanta-Ellora, Bodhgaya, Rajgiri-Nalanda, Kurukshetra, and Mahabalipuram. Information and technology was also given a major thrust to promote Indian tourism products in the country and abroad. Human resource development and capacity building for service providers were given more importance. As a result more than 40000 persons were given training through 24 Institutes of Hotel Management (IHM) and 12 Food Craft Institutions. In addition to these, large revenue generating products like convention centers at Suraj Kund, Haryana, luxury trains in Karnataka, Night Safari Park at Jorepokhari in Darjeeling, West Bengal were developed through PPP mode.

Objective and Strategy for the Eleventh Five Year Plan

8.2.10 Though the Working Group on Tourism for Eleventh Five Year Plan has recommended a target of 10 million international tourist arrivals by 2011, the Vision Document presently being drafted by MoT envisages achievement of this target by 2010. As per this strategy, target for the year 2011 will be 10.25 million. This target is proposed to be achieved through diversification of principal source markets, improving the infrastructural facilities such as airports, roads, civic amenities at the tourist destinations, increasing the air seat capacity and connectivity, vigorous publicity, etc. For domestic tourism, the target to be achieved in 2010 and 2011 will be 725 million and 812 million respectively assuming an annual growth rate of about 12% over the level of 461 million domestic tourist visits in 2006.

8.2.11 In order to achieve international visitor levels of 10 million by the end of the Eleventh Five Year Plan, the emphasis would be on diversification of principal source markets to include countries such as South Africa, Israel, Spain, China, Japan, South Korea, Australia, Brazil, Argentina, etc., which offer high growth potential and from where present level of inbound tourist is low. There is also a need to concentrate on countries like South Africa, Mauritius, Kenya, Malaysia, Fiji, etc., with a large Indian diaspora for higher tourist arrivals from those countries. Similarly, greater resonance needs to be created in NRIs and persons of Indian origin to visit the country of their origin and discover their roots. The 'Baby-Boomers' group in North America and Europe would be encouraged to visit India by creating in them the desire to discover one of the oldest civilizations of the world to enjoy the plurality of cultural enjoyment, offered by this country.

8.2.12 In order to meet the requirement of growth in traffic, there would be further creation of quality accommodation. It is estimated that 200000 approved quality accommodation rooms would be required in 2011 against the current level of about 100000 rooms. Domestic travel must complement international travel. This would help in optimizing the utilization of infrastructural facilities and also make the future investment viable. The possibility of constructing hotels on surplus land with Airport Authority of India near international airports needs to be considered. The surplus railway land at specified railway stations may also be utilized for constructing budget hotels. New forms of tourism like rural tourism, cultural tourism, adventure tourism, cruise tourism, MICE tourism, and medical tourism need to be taken up with renewed zeal and efforts.

8.2.13 To achieve the above goals, suitable measures would be taken for:

- Positioning and maintaining tourism development as a national priority activity.
- Enhancing and maintaining the competitiveness of India as a tourist destination.
- Improving India's existing tourism products further and expanding these to meet new market requirements.
- Creation of world-class infrastructure.
- Developing strategies for sustained and effective marketing plans and programmes.
- Developing human resources and capacity building of service providers.

Positioning and Maintaining Tourism as a National Priority

8.2.14 Effective linkages and close coordination among various departments and ministries of government will be established to plan and implement a professionally managed and integrated communications strategy to increase awareness about tourism and its social and economic impact on the society. State governments would be encouraged to set up land banks and streamline procedure and practices to facilitate investment in the tourism sector.

Enhancing and Maintaining the Competitiveness of India as a Tourist Destination

8.2.15 Effective steps for easier and faster availability of visas, increasing air connectivity and seat capacity from overseas markets, improving facilities and quality of services at international and major domestic airports, rationalization of taxes, and removing restrictions like Restricted Area Permit/Protected Area Permit/Inner Line Permit would facilitate tourist flow to the country.

8.2.16 Connectivity has been one of the impediments for the growth of tourism in India. Steps taken during the Tenth Five Year Plan to liberalize civil aviation sector to a large extent eased the position with regard to the availability of seats. While international airlines inducted more capacity, there is a growth in the number of carriers providing domestic air services. The increase in capacity has not only resulted in meeting the demand of the air travel but also in lowering the airfares. The infrastructure facilities at the airports would be developed to meet the rising air traffic requirements. For the promotion of tourism in the country, trained personnel and workforce need to be provided at airports for increasing the quality of service at the airports. The possibility of extending facilities of visa on arrival would be considered for tourist originating from selected countries.

8.2.17 Quality of rail services would be improved to encourage tourists to travel by train. Budget hotels may be provided by railways in all metro cities within the realm of PPP. Well maintained clean waiting rooms, basic amenities like drinking water, toilets, tea/coffee facilities, parking facilities for tourist vehicles may be available at railway stations.

8.2.18 All major tourist destinations/heritage sites should be well connected with the highways. Tourist coaches have to queue up at the border for paying toll tax and transport tax at every barrier, which is a harassment for the tourists. The respective State Governments may introduce a single toll collection point for free movement of tourist transport. Tourist transport vehicles may also be given separate identification under Motor Vehicles Act to allow free movement between States. Oil companies on the highways may be encouraged to provide basic amenities at petrol pumps.

Improving India's Existing Tourism Products Further and Expanding these to Meet New Market Requirements

8.2.19 India has a rich resource of both tangible cultural heritage in its monuments and sites and also an intangible cultural heritage in the form of its architecture, music, dance/drama, local rituals and traditions, and other folk arts. Cultural and heritage tourism will be expanded to tap rich resources of cultural heritage in its monuments and sites. An integrated circuit linking heritage monuments, with culturally rich villages and towns around them are to be formed to enable and strengthen the development of cultural tourism in India. The National Highways Authority may consider facilitating provision of suitable tourism facilities on their routes such as budget tourist accommodation and improvements in wayside amenities on roadsides and highways. Beach and coastal tourism on the beaches of Goa, Kerala, and North Karnataka may be considered for development due to easier accessibility of these places by air. Kerala and the Andaman and Nicobar Islands have already been developed as international cruise destinations. Riverine tourism may be developed along traditional routes, which may have an exotic appeal and also help sustain villages and settlement along the routes. In this way, village tourism would also be promoted. Indian cuisine has caught the fancy of people across the globe. This can be capitalized by developing culinary tour routes into different regions for enthusiasts to taste and learn the authentic way. This will create a highly skilled workforce of culinary professionals not only for India but also to promote Indian cuisine internationally. Wild Life Sanctuaries and National Parks would also be made an integral part of the Indian tourism product. For sustainable tourism, the facilities at the parks may be enhanced and proper site and visitor management plans need to be prepared so as not to disturb the ecological balance and the local habitat.

8.2.20 India offers the best mountain-based adventure tourism in the world in the Himalayas. Already a lot of work has been initiated in this segment but they have to be made comparable to or better than what is being offered in the Alpine countries. India's medical expertise has been gaining popularity in the West where the costs are prohibitive. The development of special interest tourism segment will accrue greater socio-economic benefits.

8.2.21 Indian textiles, handlooms, and handicrafts, its furniture and jewellery are already popular abroad. Now with Indian designers also receiving global recognition, shopping has become an integral part of a tourist's itinerary. Hence the development of dedicated shopping centers and the flow of special interest shopping tourists may be encouraged as it will help revive traditional crafts and craftsmen, textiles and weavers, and give these families a means of livelihood.

8.2.22 Domestic tourism in India is mainly pilgrimage related. Travel facilities as well as facilities at pilgrimage centers need to be strengthened and made more tourist-friendly. Pilgrimage centers may be identified and integrated with new domestic tourist circuits wherein transport, accommodation, catering, and darshan are all synergized to make pilgrimage tourism into a popular and comfortable mode.

Creation of World-class Infrastructure

8.2.23 Quality infrastructure may be created for developing tourist products and for providing better services to both domestic and international tourists. Creation of tourism infrastructure has favorable impact on overall economic growth and employment and on the preservation of art, culture, and heritage. Tourism projects like Destination Development are capital intensive, commercially unviable, and require financial support from the government. At the same time, it is necessary that such infrastructure is created with professional expertise of architects and landscaping experts and is then privately managed through a transparent process. Large revenue projects such as setting up of hotels, convention centers, golf courses, tourist trains, etc., normally have substantial gestation periods. These facilities may be created by private initiative with the government acting as a facilitator and catalyst.

8.2.24 Tourist sites and destinations need to be carefully selected on the basis of their potential to provide all infrastructure facilities required by the tourists within such destinations and circuits. Master planning of destinations and circuits will be done by outstanding architects/consulting agencies with sensitivity towards conservation, preservation, and aesthetic aspects to enable their development in an integrated holistic manner.

8.2.25 During the Eleventh Five Year Plan, the strategy for infrastructure development should be to select only 10 major Destinations and 6 Circuits on an annual basis. Destination Management needs attention and coordination at the 27 World Heritage Sites in the country, which are impacted by increasing number of visitors and are also subject to a number of regulatory authorities. For the development of rural tourism, a panel of professionals may be identified for selecting the rural sites, interacting with the community, and preparing projects based on tourism potential of the site.

8.2.26 One of the major bottlenecks in creation of hotel infrastructure is non-availability of land for the purpose. The steps that may be taken are: (i) Master Plan of major cities should mark commercial sites for construction of hotels, convention and exhibition centers; (ii) the hotel sites should be allotted on long-term lease basis or could be allotted under the PPP mode through joint venture, revenue sharing, etc.; (iii) our endeavor should be that the hotels are allowed higher Floor Area Ratio/Floor Space Index (FAR/FSI) so that more rooms and commercial spaces are created out of the same space and it also helps in generating sustainable revenues; (iv) the land should also be allotted for building of guest houses in all major cities and tourist destinations, if possible; (v) home stay programme under the Government of India Scheme of 'Incredible India Bed & Breakfast' needs to be promoted by all State Governments by allowing such establishments to be treated as non-commercial.

8.2.27 Rural villages, which have immense cultural heritage potential, need to be developed to showcase India's vast heritage. Infrastructure and other tourist facilities should be developed and local community involved in the management so as to percolate tourism and its socio-economic benefits to rural areas. The focus would be on both tangible heritage and intangible heritage. The tangible heritage represents the 'hard' culture of a community, whereas intangible heritage represents the 'soft' culture—the people, traditions, folklore, music, dance, traditional games, mythology, rituals, customs, handicrafts, arts, festivals, events, storytellers, local markets, and also living human treasures.

Developing Strategies for Sustained and Effective Marketing Plans and Programmes

8.2.28 This objective can be achieved by evolving and maintaining a system of market research activities in India's major source markets to continuously receive, analyse, and respond to information on pricing, security issues, health, safety, quality of tourism services and products, etc., and making use of various technological tools, including the Internet, for advertising for greater and wider impact. Besides, it is necessary to encourage e-commerce portals to extend effective marketing support to SMEs and also offer competitive packages.

Developing Human Resources and Capacity Building of Service Providers

8.2.29 Tourism sector in the country is witnessing a boom that may bring an exponential demand for the workforce at managerial, supervisory, skilled and semi-skill levels. This increase in growth will have a direct impact on the demand and supply mismatch that the country is already passing through and trying to correct for providing of satisfactory service to visiting tourists. To bridge the widening gap at skill-level, the existing Food Craft Institutes (FCIs) are required to be strengthened and new ones opened. To enlarge the scope, hospitality education needs to be imparted through the network of ITIs, Polytechnics and at the +2 stage as a vocational stream of the school system. IHMs, which are processing the bulk of manpower at managerial and skill level, need to be strengthened and capacities augmented, with international linkages for quality and quantity output of human resources. New IHMs in the States/regions that have not been covered as yet should be established for proper distribution of government resources. Through integrated efforts with States, IHMs under PPP should be encouraged. For the young untrained staff who continue to join the industry, the government should through short-term training programmes build capacities in order to provide quality service. A scheme is required to be mooted to examine and certify the large number of industry/conventional trained skilled manpower available in the country. The existing scheme of 'Train the Trainer' should be strengthened and implemented countrywide for boosting availability of adequate trainers for training.

8.2.30 Capacity building of the service providers through shorter training courses should be taken up as an integral effort to strengthen/enlarge the manpower required by the hospitality industry. More FCIs need to be opened to meet the demand for skilled personnel in food crafts. The training programmes must cover the skill development in general for fresh candidates, specialized skill development including language courses, for fresh as well as existing service providers, basic skill upgradation in general for existing service providers, training of trainers programme, and creating awareness of tourism benefits/knowledge in rural areas.

Promotion and Publicity

8.2.31 The MoT is carrying out its promotion and publicity in both overseas and domestic market vigorously. The strategy to be adopted for the Eleventh Plan on publicity and marketing is to promote Indian tourism in the European markets like Italy, Spain, France, and Germany in the regional languages and in the Korean and Japanese markets in a focused manner. India should be promoted as a summer retreat in the months of July, August, and September when many European and North American schools and colleges have their holiday breaks. The campaign should convey India as a 'Year Round' Destination. 2009 should be declared as 'Visit India Year' as this will be very close to the Commonwealth Games in 2010, and would enable a boost to inbound tourism. While producing publicity material like brochures, etc., the key areas should be identified and a balance needs to be established between the print collaterals and the digital formats. While producing tourist literature, the availability of infrastructure and connectivity of the areas being marketed through the collaterals also needs to be taken into account.

Taxation, Incentives, and Concessions

8.2.32 Provision of tax holiday to the T&T industry may be considered to encourage investments from non-tourism sectors into the tourism sector. The Ministry of Finance (Budget 2007–08) has accorded Tax holiday for 5 years for 2-star, 3-star, and 4-star, category of hotels in and around the adjoining districts of Delhi for the Commonwealth Games. This needs to be extended if possible, throughout the country and for all categories of hotels. Special incentives may be considered for the hilly areas, rural areas and places of pilgrimage, the NER including Sikkm, J&K, Uttaranchal, and Himachal Pradesh. Each State Government has its own criteria for Luxury Tax varying from 5% to 20%. Rationalization of Luxury Tax and other tourism related taxes and levies may be considered by all the States. The tax structure should not be based on announced tariff; rather it should be on the basis of actual payment made by the clients. There is acute shortage of hotel accommodation and in particular budget accommodation all over the country. The MoT has estimated that there is a shortage of 150000 hotel rooms all over the country. Out of this, 110000 rooms are in the budget category. The subsidy/incentives should be on the room created basis and should be also applicable in metro towns and the procedure of disbursement of subsidy should be simple. In order to create standard budget accommodation, incentives may be given to guest houses and accommodation under the Home Stay programme of the government also.

Outlay for the Eleventh Plan

8.2.33 The total projected GBS for the Eleventh Plan for the MoT is Rs 4558 crore (2006–07 price) and Rs 5156 crore (current price). The scheme-wise details are given in Appendix (Volume III).

8.3 IT AND IT-ENABLED SERVICES

Overview

8.3.1 Information Technology has marked a turning point in the history of global trade and services. With ever increasing availability of international bandwidth and powerful workflow management software, it is now possible to disaggregate any business process, execute the sub-processes in multiple locations around the world, and reassemble it, in near-real time, at another location. This is driving fundamental changes in the global IT services landscape. The vendors and customers are redefining the levels of value creation in the industry. IT also makes significant contribution in increasing productivity in various sectors of the economy. Indeed, the phenomenal growth of the Indian IT Software and Services and IT-enabled Services-Business Process Outsourcing (ITES-BPO) sector has had a perceptible multiplier effect on the Indian economy as a whole. In addition to the direct positive impact on the national income and employment generation, it has triggered a rise in direct-tax collections and propelled an increase in consumer spending, thanks to the significantly higher disposable incomes. Today, India has found its niche in the IT world and is regarded as the premier destination for the global sourcing of IT and IT-enabled Services (ITES). ITES like Medical Transcription, Call Centers, Data Processing, Back-Office Operations, GIS, Revenue Accounting, etc., are considered as niche areas of the country and the IT industry is now getting involved in providing end to end business solutions, system integration, remote management, etc.

Review of the Tenth Plan

8.3.2 The IT and ITES fall into two segments: (i) Exports and (ii) Domestic, as described below.

IT-ITES (Exports Segment)

8.3.3 India's success in the export of IT Software and Related Services over the past decade remains unparalleled. Total export revenues earned by this sector have grown from US$ 7.7 billion in 2001–02 to US$ 31.3 billion in 2006–07, thus showing a near 32% compound growth rate. India now accounts for 65% of the global market in offshore IT and 46% of the ITES market. A majority of the Fortune 500 and Global 2000 corporations are sourcing IT and ITES from India. While the US and the UK remain the dominant markets, contributing to 67% and 15% of total exports respectively, Indian firms are also keenly exploring new geographies for business development, and to strengthen their global delivery footprint.

8.3.4 Since the inception of IT industry in India, companies have been focusing on quality initiatives to align themselves with international standards. Over the years, the industry has built robust processes and procedures to offer world class IT software and technology related services. Today, India-based centers (both Indian firms as well as MNC-owned captives) constitute the largest number of quality certifications achieved by any single country. As of December 2006, over 440 Indian companies had acquired quality certifications with 90 companies certified at Software Engineering Institute–Capacity Maturity Model (SEI–CMM) Level 5—higher than any other country in the world.

8.3.5 The growth of the sector has led to tremendous payoffs in terms of wealth creation and generation of high quality employment. Market capitalization values of leading Indian IT companies now exceed those of global competitors, and the exports segment of the Indian IT-ITES sector directly employed over 920000 people in 2005–06.

8.3.6 With only 10% of the US$ 300 billion market potential accessed so far, there is significant headroom for growth. Further, with the global offshoring market continuing to grow rapidly, as the proven benefits of offshoring (also termed global sourcing or global delivery) induce more companies to adopt these practices and develop the capabilities to offer more sophisticated products and services—the size of the overall pie is also expanding.

8.3.7 Key service lines and vertical markets including newly emerging sectors for the ITES industry are listed below:

SERVICE LINES
- R&D and engineering services
- Consulting services
- System integration
- Application development and maintenance
- Traditional IT outsourcing
- Horizontal services (finance accounting and administration, customer interaction services, human resource administration, research, etc.)

VERTICALS (INCLUDING NEWLY EMERGING SECTORS)
- Agriculture
- Banking
- Insurance
- Manufacturing
- Health Care and pharmaceuticals
- Travel and hospitality
- Animation, media, and entertainment
- Biotechnology and life sciences
- Nanotechnology
- Judiciary
- Power and energy
- Very Large Scale Integration (VLSI) and CAD
- Automobile and transportation
- Smart governance

8.3.8 This represents a 'make or break' opportunity, capable of catapulting India into a high growth orbit and on a fast track to becoming a developed nation. Given that we are closely chased by other aspiring countries to grab a share of this pie, there has to be a concerted effort by the government and industry to maintain the lead position thus created and expand it further. The benefits of global leadership in these knowledge industries go far beyond the economic dimensions. As major global companies offshore more mission-critical work to India, their dependence on India increases, thus providing significant strategic advantage.

Domestic IT/ITES-BPO Segment

8.3.9 The Banking and Financial Services, Communications and Media, Manufacturing (Consumer Durables/Automobile), Aviation, Hospitality, and Retail are some of the key verticals that primarily benefit from the ITES-BPO services in the domestic market in India. While cost savings have been the primary driver of offshore outsourcing, vendors do not have comparable differences in labour costs to leverage while serving the domestic market. As a result, the primary motivation for the domestic market, in its early years of evolution are not cost savings but access to specialist skills and freeing client resources to focus on the core business. Scalability and process efficiency are expected to result in some degree of cost savings in the domestic market as well. Notwithstanding its relatively smaller contribution to the industry revenues, this segment is witnessing a noticeable increase in interest and activity on the part of customer organizations as well as service providers. However, the total size of the domestic market is expected to cross US$ 8.335 billion in financial year 2006–07, a growth of 28% over financial year 2005–06. Although this segment has been led by MNCs in the past few years, Indian firms are gradually gaining ground. Over time, this segment would provide significant space for larger SMEs, as the mid-sized firms increase their levels of IT adoption. Table 8.3.1 depicts the growth of IT-ITES professionals in India during the Tenth Five Year Plan period.

Vision and Strategy for the Eleventh Plan

Vision

8.3.10 Our vision is to make India the most preferred destination for providing IT and IT-enabled services and creating the required eco-system to demonstrate the full potential of Indian skills and enterprise in this vital sector. The objective during the Eleventh Plan would be to make an effective and maximal utilization of ICT to improve the quality of life of the common man and promote inclusive growth, increase productivity and competitiveness and generate wealth and strength so that India emerges as a knowledge superpower in the comity of developed nations.

Strategy

8.3.11 India's performance in IT-enabled and other high end services is clearly a source of strength that we must build upon. Our strategy is to identify gaps, if any, in existing skill sets in different ITES-BPO/Knowledge Process Outsourcing (KPO) verticals and suggest programmes for bridging them through formal and non-formal sectors so that India becomes a leading software developer in the world. Besides, the thrust areas need to be identified where the country has potential to become internationally competitive for achieving significant exports in the field of electronics hardware manufacturing.

Policy Issues, Programme Reforms, and New Initiatives in the Eleventh Plan

8.3.12 Some of the policy issues which need to be addressed in a focused manner in the IT and ITES sector in the country are elaborated hereunder.

Improving the Supply of Suitable Talent

8.3.13 Table 8.3.2 shows the manpower requirements for IT-ITES in India, which is self-explanatory. Our biggest challenge is, of course, in relation to human resources. While we produce a large number of graduates and technologists, the demand of the IT industry is growing and is becoming more discerning. There are problems of quantity and quality in this regard. These problems have to be tackled in different time frames: the short-term, medium-term, and long-term.

8.3.14 In the short term, we need programmes to top up the skill level of graduating students through 'finishing schools' and 'finishing programmes' which will help resolve the quality problem. As the quality of talent pool is not industry ready, implementation of finishing school concept ensures that the right talent is available for immediate deployment. To enhance the

TABLE 8.3.1
Growth of IT-ITES Professionals in India—Indian IT Sector: Knowledge Professionals Employed*

(Nos)

	1999–2000	2000–01	2001–02	2002–03	2003–04E	2004–05E	2005–06E
IT, Engineering and R&D, Software Products Exports	110000	162000	170000	205000	296000	390000	513000
ITES Exports	42000	70000	106000	180000	216000	316000	409000
Domestic Sector	132000	198114	246250	285000	318000	352000	365000
Total	284000	430114	522250	670000	830000	1058000	1287000

Note: *Does not include employee numbers in the hardware sector; E = Estimated.
Source: National Association of Software and Service Companies (NASSCOM).

TABLE 8.3.2
Manpower Requirements for IT-ITES in India

(Million)

	2002	2003	2006	2009	2012
IT export services					
Consulting, Integration, Installation	0.01	0.02	0.03	0.09	0.27
IT Development	0.07	0.08	0.08	0.08	0.11
Outsourced IT Support	0.09	0.11	0.17	0.28	0.53
Training and Education	0.00	0.00	0.00	0.02	0.06
Total	0.17	0.21	0.29	0.48	0.97
IT-enabled services					
Customer Care	0.03	0.05	0.15	0.42	1.03
Finance	0.02	0.03	0.05	0.09	0.21
Human Resource	0.00	0.00	0.02	0.15	0.69
Payment Services	0.00	0.1	0.05	0.14	0.45
Administration	0.2	0.3	0.5	0.15	0.15
Content Development	0.03	0.04	0.07	0.09	0.20
Total	0.11	0.16	0.38	1.0	2.72

Source: ITD, NASSCOM-Mckinsey Manpower Profile of India, KPMG, 2003.

pool of experienced, mid-level managers, that is willing and suitable to work in the IT-ITES sectors, a 'bridge course' could be introduced to equip professionals who may not have read for a course in IT. In the medium term, this kind of training needs to be back-ended into the formal system itself by improving the quality of our technical and general education programmes at the graduate level. This will make graduates far more employable. In the long term, we need to address the quantity problem. The education system needs to be expanded rapidly at all levels. This would also require a huge expansion in our Masters and Doctoral programmes. Easing the supply constraint requires more investment as well as a radical reform of our education system. There is also a need for starting academic programmes for developing manpower in some of the niche areas like IT in health care, transportation, manufacturing, nanotechnology, animation and entertainment, etc. Faculty development is another major issue which needs focus. For this purpose, a national programme on faculty development in niche areas would be required. During the Eleventh Plan period, the above important issues need to be tackled and the government needs to provide the necessary resources and policy framework for achieving the desired objectives. In this national endeavour, industry and government need to work together in close unison. Some of the other measures that need to be introduced in order to maintain and improve the quality of manpower are:

- Introduction of standardized national level tests similar to Scholastic Aptitude Test (SAT), Graduate Record Examination (GRE), Management Aptitude Test (MAT) etc., for benchmarking of students seeking admissions in undergraduate and postgraduate institutes in India.
- Rating and accreditation of all educational institutions by an independent agency.
- Introduction of a common nation-wide benchmark for assessing graduating students and inclusion of industry needs in this assessment process.
- Making the teaching/academic profession more attractive and respectable.
- Encouraging students and working professionals to pursue further education for skill enhancement.
- Periodic review and updation of curriculum to make it more industry oriented and encouraging faculty to constantly upgrade skills.

Building Adequate Basic, Business, and Social Infrastructure

8.3.15 The growth of IT and ITES industry requires building and strengthening of basic, business, and social infrastructure. The incremental infrastructure required to support the projected growth is unlikely to be absorbed into the existing city centres (Tier I/II), which are already witnessing signs of strain. With Tier III/IV cities lacking important elements of business and social infrastructure, decentralized growth of the IT and ITES sector will require a coordinated, large scale (distributed) urban planning exercise. Some of the important initiatives required to be taken include:

- Strengthening of the intra-city road network and public transport infrastructure to decongest existing hubs.
- Decentralization of the industry beyond existing hubs by developing new townships.
- Introduction of faster public transport (high speed trains similar to Train à Grande Vitesse of France and Bullet of Japan) between important cities.

Ensuring a Favourable Business Policy and Regulatory Environment with Special Focus on Encouraging Small and Medium Enterprieses (SMEs) and New Ventures

8.3.16 A favourable business policy and a regulatory environment are critical for the success of any sector. The example set by the Software Technology Parks of India (STPI) scheme stands testament to this fact. In order to strengthen India's proposition for sustained leadership in the IT and ITES space, it is essential to actively support the SME sector. In addition, the issue of intellectual property protection, data and information security is a key risk to the sector. Hence, it is essential for India to proactively formulate a robust policy framework to address this challenge. This calls for: (i) Continuation of the benefits provided by the STPI scheme, (ii) strengthening the IP protection, data privacy, and information security environment in the country, (iii) providing support for SME segment growth to ensure that SMEs can continue to leverage the benefits offered under the STP/SEZ scheme without constraints on where they may be located, and (iv) ensuring adequate access to venture capital and angel funding for start-ups.

Global Trade Development and Promotion of Global Free Trade in Services

8.3.17 Expansion of the global IT-BPO market opportunity is directly influenced by the policy and regulatory frameworks governing cross-border trade in services. Growth of cross-border trade in services is constrained not only by tariff barriers—but more so by non-tariff barriers (e.g., national treatment in cross-border supply and movement of people). India must continue to work proactively with its trading partners (through the WTO and other trade promotion agencies) to streamline trade in professional services. India must push for the free movement of professionals engaged in delivering services on the basis of formal contracts, through a global General Agreement on Trade in Services or professional services visa. At the same time, it must engage in bilateral or multilateral negotiations on these issues with countries of specific interest to us. Negotiations are also needed to conclude agreements relating to exemption or refund of social security taxes paid by Indian professionals working abroad.

Fostering a Sustainable Ecosystem for Innovation and Research and Development (R&D)

8.3.18 In order to structurally strengthen India's proposition and ensure its long-term leadership, it is essential to nurture a sustainable ecosystem for innovation and R&D in the country. This will require a multifaceted approach comprising (i) developing core capabilities at the academic level in identified focus areas, (ii) encouraging industry–academia participation in R&D, and (iii) facilitating the incubation/commercialization of innovations. IPR awareness should be increased in institutes and industries. With a view to encourage and reward innovation, there is a need to ensure availability and access to adequate funding for technology entrepreneurs and commercialization of innovation. Research and training should go hand in hand. This is the practice worldwide. The CSIR laboratories should pair with universities and targeted R&D should be undertaken.

The Transformation of the Industry from BPO to KPO and Related Human Resource (HR) Issues

8.3.19 The society is shifting from an era of industrial society into 'knowledge society'. Knowledge creation and its applications are primary features of this change in today's networked society. In any industrial society, the growth rate in the services sector is higher than that of the manufacturing sector. Services themselves are also becoming an increasingly integral part of all production businesses and there are relatively more people working in this sector now. This trend is ultimately leading to an increased emphasis on intangible products, which is also called service concepts. Providing services is a much more challenging task than just delivering goods, and, therefore, there will be an increasing focus on making optimal use of resources for maximizing their competitiveness.

8.3.20 The IT and ITES-BPO sector should continuously identify the emerging verticals, which have the potential to grow and generate revenues keeping the dynamic nature of this sector in view. Generating the right kind of manpower with skill-sets requirement for each of the potential vertical is so diverse that it becomes a challenge for the HR function of a company to continuously evolve vertical specific training methodologies and design suitable training modules. Further, the HR companies will have to continuously scan the horizon for the emergence of newer technologies and knowledge areas. The situation will become more complex as the transition from BPO to KPO takes place. Intuitively, one can say that the transition is likely to be very crucial for sustenance of the industry's growth and subsequent establishment in the market place.

8.3.21 It will be essential for each company to build internal capabilities to manage knowledge effectively and also the collective competence building for the IT sector. Managing knowledge is a process which involves multi-period decision framework, starting from investment in R&D to diffusion of knowledge to creation of innovation and ultimately realizing the value through commercialization of innovation and inventions.

Software Technology Parks (STPI) Scheme

8.3.22 A favourable business policy and a regulatory environment are critical for the success of any sector and the STPI scheme stands testament to this fact. STPs were set up in various parts of the country as per the Resolution issued by the government in 1993. Over the last few years, it has played a seminal role in placing India on the global map as an IT superpower. In fact, significant credit for the record growth in exports, foreign exchange earnings, employment generation, and the development of the Indian IT-ITES sector is attributed to this scheme. Under the STP scheme, units engaged in the export of IT-ITES are entitled to tax benefits under section 10A and 10B of Income Tax Act 1961. However, these benefits under the scheme are scheduled to lapse post assessment year 2009–10.

IT in School Education

8.3.23 Technology could be effectively used for digital delivery of high quality lectures and course material to other institutions and embellish the same with class room teaching for enhancing the learning. ICT tools can make it easier to monitor not only the attendance and performance of the students but also that of the teachers as well. The MIS also needs to be developed to monitor national projects such as SSA, MDM, ICDS, etc.

Gender Empowerment through ICT

8.3.24 The Indian IT-ITES industry with revenues of US$ 39.6 billion has emerged as the largest private sector employer in the country with direct employment of 1.6 million professionals, and indirect employment for over 6 million people in different sectors. This fast expanding IT and ITES sector in India has opened new doors of opportunity for women. The participation of women in the IT-BPO workforce is seen as a critical enabling factor for continued growth of the industry. While the percentage of women in the IT-BPO workforce at an entry level is commensurate with their proportion amongst graduating students, anecdotal evidence suggests that this is not so at the middle and senior management positions. However, companies are recognizing that having women on board at all levels in the organization makes good business sense. IT-BPO companies are, therefore, considering ways to involve and develop women for higher roles and functions. Their increased professional participation will result in changing the socio-economic status of women within the employing organization and will also contribute towards the breakdown of gender disparity. In a study conducted by NASSCOM in 2006, 76% of software professionals in IT companies are men, whereas

24% are women. However, NASSCOM says this ratio is likely to be 65:35 (men:women) by the year 2007. Interestingly, this ratio is reversed in the ITES-BPO sector where the ratio of men to women is 31:69. In line with the basic principles of governance to which the government is committed under the NCMP, which includes empowerment of women, the government has introduced gender budgeting. In accordance with this, gender empowerment through ICT should be a regular feature during the Eleventh Plan and efforts should be made to support schemes of gender empowerment through ICT for reducing digital divide.

Faculty Development in IT

8.3.25 The prevailing system of education in India is constrained by several factors. The government needs to strengthen the education system structurally with a number of strategies. There is a dire need for continuously updating the course content, curriculum, and pedagogic methods to make them more relevant to the needs of the industry. Additionally there is a need to take up specific programmes for the development of faculty and provide adequate incentives for making teaching an attractive career option. Some of the policy issues in this regard which need immediate attention are the following:

- Make teaching/academics as attractive a career option as working in the industry. The academic institutes need to provide suitable faculty remuneration as there is a large gap between the salary structures in the industry and in academics. The industry needs to come forward and supplement government efforts through establishment of Chairs for professors, incentives, sponsored research, and the like.
- Need to increase the number of faculty positions in the Indian universities and technical institutions as well as creation of adjunct faculty from the industry to address the twin issue of quantity and quality and R&D activities.
- Need to tie up with institutions abroad for professors to come here on sabbatical.
- Need to train the ICT faculty of both the formal and the non-formal sector of education to keep pace with the demands of the industry as well as the technological changes.
- Develop a mechanism to encourage migration of students between formal and non-formal streams to address the issue of quantity. Also introduce a credit system whereby the students can accumulate and carry forward their credits and complete their education at their own pace. This would particularly help the in-service personnel.
- Evolve National Mission for faculty development in general and faculty development in niche ITES areas such as IT in tourism, health, medical, and legal services and finance in particular.

IT in Health Sector

8.3.26 The importance of Health in the process of economic and social development and improving the quality of life of our citizens has been well recognized. The government has identified Health as one of the seven Thrust Areas and has given focused attention to it. Since independence, a vast public health infrastructure has been created comprising Public Health Centres and Community Health Centres (CHCs) and District/State and Super Specialty hospitals. In rural areas especially, there are pockets of under-served populations where the vicious circle of poverty, malnutrition, and poor health reinforce each other. There is an urgent need to reach out to the un-reached especially in the remote areas. This can effectively be done with the infusion of technology into the Health sector.

8.3.27 Integrated disease surveillance projects, creation of district and State Health Data Centres for the surveillance units, networking and operating of district health centres through video based distance communications, early warning system for disease incidence and collection of call centre based information, web-based health MIS, and telemedicine are some of the important areas that need to be operationalized. Electronic health—or e-health is one of the next frontiers of ICT innovations. Some of the well known hospitals in the country have developed MIS for health which is also known as Medical Information System, which would go a long way in creation and adoption of nationwide electronic medical records for all patients treated at various hospitals in the country. The issues like data privacy, security, and interoperability of systems are to be dealt with properly from an e-health perspective.

IT in Agriculture Sector

8.3.28 Agriculture continues to be one of the mainstays of Indian economy. Increased agricultural production and incomes would put more money in the hands of the people living in the rural areas. Keeping in view the important role that IT can play in boosting productivity and incomes of farmers and reducing the cost of operations, agriculture has been identified as one of the Mission Mode Projects (MMPs) under the National e-Governance Plan (NeGP), a nationwide initiative for promoting e-governance in the country.

8.3.29 By means of IT, the agriculture sector would achieve higher efficiencies to redefine the way in dealing with the production and post harvest losses. The Agricultural Resources Information System is envisaged to create a comprehensive database on various parameters related to land use, water use, and a system for strengthening advisory services to farmers in adopting the latest agricultural production practices. The portal AGMARKNET which provides daily market information on commodity prices in respect of about 300 commodities and 2000 varieties from over 2700 markets is a Sunshine Portal for farmers to bargain better prices for their produce. Similarly, the 'Gyandoot' portal of the State of Madhya Pradesh provides information regarding rates of grains and vegetables, dispenses land records and issues income, domicile, and caste certificates. Further attempts need to be made in providing the latest information on real time basis to the farmers and other rural population in the remotest parts of the country. Market is now the driver for agricultural growth and efficiency of the market depends on effective dissemination of information. IT has the potential to help the agriculture sector to overcome some of the traditional barriers to development by improving access to information, expanding the market base, enhancing employment opportunities, and making government services work better. Decision Support System on agricultural production and marketing, water allocation in an irrigation system, and cattle farming system in livestock are required to be developed aggressively.

8.3.30 In the private sector also several initiatives have been taken to optimize the supply chain. 'e-Choupal' has been conceived as a more efficient supply chain aimed at delivering value to its customers around the world on a sustainable basis. The e-Choupal model has been specifically designed to tackle the challenges posed by the unique problems of Indian agriculture, characterized by fragmented farms, weak infrastructure, and the involvement of numerous intermediaries, among others.

IT in Rural Sector

8.3.31 Rural Content Providers: The creation of local/rural content is of utmost importance in order to make the PCs and Internet an attractive proposition to a much larger number of people. Involving the private sector in this regard would also be essential. Therefore, it is felt that a new entrepreneurial category of Rural Content Providers would give a further boost to and drive the demand, both for PCs and Internet access as well as for rural connectivity. It will also help in better utilization of the cable/wireless network already laid, or being planned in the rural areas by the bandwidth providers. The Rural Content Providers would provide content and other facilities, including entertainment, which will be of interest to the rural population.

8.3.32 Content creation would be a specialized area requiring thorough understanding of the local requirements and language which can only be done through local entrepreneurs. The business model of such a Rural Content Provider would vary from region to region and would be driven by the market. The Department of IT and the Department of Telecommunications (DoT) need to evolve a suitable strategy to encourage such Rural Content Providers. The IT revolution would remain incomplete unless the benefit of this revolution reaches rural masses.

Targets of IT-ITES Sector for the Eleventh Five Year Plan

8.3.33 Given the backdrop of large untapped demand potential and strong fundamentals, India is uniquely positioned to secure global leadership. Table 8.3.3 shows the exports forecast for the Eleventh Plan period as estimated by NASSCOM-McKinsey Report 2005.

TABLE 8.3.3
Indian IT-ITES Exports Forecast 2007–12

Year	IT-ITES Exports (US$ billion)
2007–08	37.6
2008–09	47.5
2009–10	60.0
2010–11	72.1
2011–12	86.6

Source: NASSCOM-McKinsey Report 2005.

8.3.34 Additionally, Indian IT-ITES export growth can be further accelerated through deep and enduring innovation by industry participants. Such extensive innovation could generate an additional US$ 15–20 billion in export revenue over the next five to ten years.

8.3.35 Further, establishing India's leadership in the global IT-ITES sector will mean more than achieving a targeted growth in exports. Attaining these ambitious outcomes will require breakthrough collaboration amongst industry players, Central and State Governments, and NASSCOM—to ensure that appropriate actions required to maximize the global sourcing market potential and sustain India's superiority as the preferred sourcing destination are executed in a timely manner.

8.3.36 Achieving these growth targets will entail a significant demand for incremental human and financial capital in the country. US$ 86 billion in IT-ITES exports by 2012 translates to incremental direct employment of about 2.5 million people and capital investment of approximately US$ 20 billion.

The Path Ahead

8.3.37 The outlook for Indian IT/ITES-BPO remains bright and the sector is poised to achieve its target of US$ 86.6 billion in export revenues by financial year 2011–12. In order to achieve these targets, both the GoI as well as the industry need to work in unison. While the basic policy framework and fiscal incentives as enumerated above need to be put in place by the government, the industry associations and industries need to actively support the initiatives.

8.4 FINANCIAL SERVICES

Introduction

8.4.1 The financial services sector in the country has been displaying a varying growth rate in the recent past. The annual growth rates since 2000–01 are given in Table 8.4.1.

TABLE 8.4.1
Growth Rate (Real) of Financial Services (Banking and Insurance)

S No.	Year	Rate of Growth	Percentage Share in the GDP
1.	2000–01	–2.0	5.5
2.	2001–02	9.1	5.7
3.	2002–03	11.3	6.1
4.	2003–04	2.2	5.8
5.	2004–05	8.8	5.9
6.	2005–06	14.0	6.1
7.	2006–07	13.0	6.3
8.	2000–01 to 2006–07 (Average)	8.1	5.9

Source: CSO.

8.4.2 The financial sector as a whole is estimated to employ between 3.5 million to 4.0 million people, including direct employees and agency forces. To support the GDP growth aspiration of 9%–10%, the financial sector would need to grow by 25%–30% annually over the next five years. The penetration of the financial sector in India remains low relative to many markets, with bank credit/GDP at under 50.0%, overall insurance premium/GDP at under 5.0%, and general insurance premium/GDP at under 1.0%. The underlying GDP growth and higher penetration potential offer strong growth opportunities for the financial sector. The financial sector also has substantial potential for employment creation.

8.4.3 This sector performs the vital functions of enabling productivity and income growth in the economy as a whole, and has an equally important part to play in making this growth more inclusive. The sector has to be enabled to attain an increasing level of sophistication so as to meet the requirements of globalizing trade and industry and the increasing engagement of the Indian economy with the rest of the world, both on the current as well as on the capital accounts. The government has recently received the report of the EC on making Mumbai an International Financial Centre. This report has made very far reaching recommendations on the fiscal and monetary policies, financial sector regulation and supervision, as well as on the development of various financial markets. While these recommendations would be relevant to the needs of medium- and large-scale industry and commerce, it would be necessary to look at certain further policy measures in order to ensure that small and marginal farmers, micro enterprises in the unorganized sector, the weaker and disadvantaged sections of society, and the relatively backward regions and States are enabled to participate more fully in the growth process.

8.4.4 This chapter outlines some of the major issues that the financial services sector needs to address in this task of facilitating inclusive growth and suggest some necessary steps in the way forward.

Financial Inclusion

8.4.5 Financial inclusion can be described as the delivery of banking and other financial services at affordable costs to the vast sections of the disadvantaged and low-income groups. To bring the 'financially excluded' population within the formal financial system, many policy initiatives have been taken, such as making available a basic banking 'no frills' account either with 'nil' or very low minimum balances, issuing of General Credit Cards to eligible beneficiaries without insistence on security, purpose, or end use of credit; introduction of KCCs, allowing banks to utilize the services of NGOs, SHGs, MFIs, and other civil society organizations as intermediaries in providing financial services; credit linking of SHGs, support to MFIs; introduction of Financial Sector (Regulation and Development) Bill 2007 to develop and regulate the MFIs; and constitution of Financial Inclusion Fund and Financial Inclusion Technology Fund of Rs 500 crore each to strengthen the institutional and technological infrastructure for greater financial inclusion. We have to introduce suitable policy interventions and technological innovations to maximize the financial inclusion during the Eleventh Plan period.

Extent and Causes of Financial Exclusion

8.4.6 Lack of access to financial services such as credit, savings, and insurance at an affordable cost not only results in exclusion but also acts as a constraint to growth impetus in the rural and unorganized sectors. Despite years of policies aimed at the financial inclusion, a large number of households do not have access to formal financial services even today.

8.4.7 The financial exclusion covers exclusion from any or all of the financial services necessary for participating in a modern market economy. Nevertheless, exclusion from credit provision has been looked at as being more significant than that from other services. There is a rural–urban divide and a regional skew to the financial exclusion. Table 8.4.2 presents the prevailing situation:

TABLE 8.4.2
Savings and Loan Accounts

S. No.	Regions	No. of Savings Accounts to Adult Population (2005) (%)	No. of Loan Accounts to Adult Population (2005) (%)
1.	North	80	12
2.	North East	37	7
3.	East	34	8
4.	Central	52	9
5.	West	60	13
6.	South	66	25
7.	All-India	59	14
7a	Rural	39	9.5
7b	Urban	60	14

Source: Speech of Usha Thorat, Dy Governor, RBI (19 June 2007).

8.4.8 The NSSO Situation Assessment Survey on 'Indebtedness of Farmer Households' (2003) reveals that 51.4% of farmer households do not access credit either from formal or non-formal sources. The region-wise position of the level of indebtedness is indicated in Table 8.4.3.

8.4.9 There are several reasons for financial exclusion: lack of awareness, low income/assets, social exclusion, and illiteracy are the demand side factors. On the supply side, distance from branches, branch timings, cumbersome documentation and procedures, unsuit-

TABLE 8.4.3
Credit Access of Farmer Households

Region	Farmer Households (HHs) Borrowing from both Formal and Non-formal Sources		Farmer Households (HHs) not Accessing Credit from either Formal or Non-formal Sources	
	No. (Lakh)	Percentage of total HHs	No. (Lakh)	Percentage of total HHs
Northern	56.26	51.40	53.20	48.60
North Eastern	7.04	19.90	28.36	80.10
Eastern	84.22	40.00	126.39	60.00
Central	113.04	41.66	158.29	58.34
Western	55.74	53.77	47.92	46.23
Southern	117.45	72.70	44.11	27.30
Group of UTs	0.49	33.10	0.99	66.90
All-India	434.24	48.6	459.26	51.4

able products, language, and staff attitudes are the reasons for exclusion.

8.4.10 While steps need to be taken to improve the access to and the supply of credit and other financial services, there can be no overemphasis of the importance of building up the capacity of the weaker sections to use the financial services. To some extent, a financial service such as insurance would be necessary to use another financial service such as credit; financial literacy would help in using savings, credit, and insurance services, etc., but there remain several other very important factors outside of the financial sector that are complementary to financial services and need to considered as an integrated package.

8.4.11 On the supply side, the post-1991 period has also seen significant changes in the credit provision for the weaker sections. Despite emphasis on increasing the credit penetration and outreach of institutional sources of credit, the number of rural bank branches has declined from 35134 in March 1991 to 30572 in March 2006. Even the number of small borrowers' accounts (less than Rs 25000) has declined from 625.48 lakh to 387.33 lakh. The result has been that the share of money lenders in the total dues of rural households has increased from 17.5% in 1991 to 29.6% in 2002. (All-India Debt and Investment Survey as on 30 June 2002, NSS 59th Round Released in December 2005.)

8.4.12 A continuing policy measure is the stipulation of priority sector lending. However, this has got diluted in the last 10 years by a shift in the focus to better creditworthy activities such as housing, transport, professional activities, etc.

8.4.13 The priority sector now comprises agriculture (both direct and indirect), SSIs, small road and water transport operators, small business, retail trade, professional and self-employed persons, State-sponsored organizations for SC/ST, education, housing loans, micro credit, loans to software, and food, and agro-processing sectors.

8.4.14 The share of agriculture in total bank credit declined sharply from 15.9% at end-March 1990 to 9.6% by end-March 2001. During this period, however, the share of agriculture in GDP also declined significantly. As a result, the credit intensity of the agriculture sector (credit to agriculture sector as percentage of sectoral GDP) remained broadly at the same level. Credit to agriculture picked up significantly from 2004–05 onwards. The government announced on 18 June 2004 a package for doubling the flow of credit to agriculture and allied activities in a period of three years commencing from 2004–05 over the amount disbursed during the year 2003–04. Table 8.4.4 indicates the target and achievement of the agricultural credit flow during 2004–05, 2005–06, and 2006–07.

8.4.15 The credit intensity of the sector increased sharply from 11.1% in 2001–02 to 27% in 2005–06. The number of borrowal accounts in the agriculture sector also increased from 19.84 million in 2000–01

TABLE 8.4.4
Flow of Credit to Agriculture

(Rs Crore)

Year	Target	Achievement
2004–05	105000	125309
2005–06	141000	180486
2006–07	175000	203296
2007–08	225000	66888#

Note: # Upto July 2007.

to 26.66 million in 2004–05. Within the overall minimum priority sector target of 40% of NBC, the share of agriculture is 18%. The share of agricultural loans as a percentage of NBC for public sector banks was 15.3% at end-March 2005 and 15.2% at end-March 2006. Private sector banks were at 13.5% as at both end-March 2005 and 2006. While commercial banks have taken care of the needs of the small farmers, they have not done so in respect of the marginal/sub-marginal farmers, tenants/share croppers, oral lessees, non-cultivator households, etc.

8.4.16 The distribution of credit upto Rs 2 lakh by SCBs over the last 10 years reveals a disturbing trend (see Table 8.4.5). The number of loan accounts for availing credit upto Rs 25000 has declined from 5.19 crore in 1996 to 3.84 crore in 2006. As a proportion of total loan accounts, it has declined from 91.6% to 45% during the same period. Similarly, the outstanding credit has reduced drastically from about 14.2% of total bank credit in 1996 to 3% in 2006. However, the average outstanding has increased from Rs 6985 to Rs 11769.

8.4.17 For credit disbursed above Rs 25000 and upto Rs 2 lakh, the number of loan accounts has increased nearly 10-fold and credit outstanding has multiplied over seven times. Consequently, the average loan outstanding has declined from about Rs 70000 in 1996 to Rs 52500 in 2006.

8.4.18 Disbursal of credit displays the rural–urban divide (see Table 8.4.6). Rural and semi-urban loan accounts, as a proportion of total loan accounts, have declined from about 79% in 1996 to about 59% in 2006. The fall has been sharper in the rural segment. The credit outstanding in this category has declined by about five percentage points from 29.64% of bank credit to 24.72% during the same period. On the contrary, the urban and metro segments reflect the opposite trend. The number of loan accounts in the urban and metro areas has multiplied about two and

TABLE 8.4.5
Distribution of Outstanding Credit of SCBs according to the Size of the Credit Limit

S. No.	Year	Credit upto Rs 25000: No. of Accounts	Amount Outstanding (Lakh)	Average Outstanding	Credit above Rs 25000 and upto Rs 2 lakh: No. of Accounts	Amount Outstanding (Lakh)	Average Outstanding
1.	1996	51904658 (91.59)	3625319 (14.23)	6985	3991468 (7.04)	2808470 (11.03)	70362
2.	1999	42747346 (81.73)	3828497 (10.01)	8956	8249220 (15.77)	4999659 (13.07)	60608
3.	2001	37252319 (71.14)	3781632 (7.02)	10151	13203909 (25.22)	6847786 (12.72)	51862
4.	2004	36766092 (55.38)	3855543 (4.38)	10487	25133746 (37.86)	12414438 (14.10)	49394
5.	2005	38732564 (50.20)	4299179 (3.73)	11100	32373797 (41.96)	15688824 (13.61)	48461
6.	2006	38419104 (44.97)	4521734 (2.99)	11769	38703221 (45.30)	20328082 (13.43)	52523

Note: Figures in brackets are percentages.

Source: Basic Statistical Returns, RBI.

TABLE 8.4.6
Sector-wise Distribution of Outstanding Credit of SCBs

S. No.	Year	Rural		Semi-urban		Urban		Metro	
		Accounts	Outstanding	Accounts	Outstanding	Accounts	Outstanding	Accounts	Outstanding
1.	1996	28795008 (50.8)	3861351 (15.2)	15907178 (28.1)	3689050 (14.5)	7034553 (12.4)	4439731 (17.4)	4935690 (8.7)	13479079 (52.9)
2.	1999	24473040 (46.8)	5390862 (14.1)	14457568 (27.6)	5482002 (14.3)	6992485 (13.4)	7071668 (18.5)	6382363 (12.2)	20297971 (53.1)
3.	2001	22510707 (43.0)	6888194 (12.8)	14046994 (26.8)	7110588 (13.2)	7933614 (15.2)	9530289 (10.8)	7873080 (15.0)	30314307 (56.3)
4.	2004	25564806 (38.5)	10990745 (12.5)	16108316 (24.3)	11487098 (13.0)	8931305 (13.5)	16997379 (14.7)	15785863 (23.8)	48555981 (55.2)
5.	2005	29357131 (38.1)	16047938 (13.9)	18225926 (23.6)	14283629 (12.4)	10176816 (13.2)	21229977 (18.4)	19390921 (25.1)	63685248 (55.3)
6.	2006	29053685 (34.0)	19942287 (13.2)	21474702 (25.1)	17479436 (11.5)	12918689 (15.1)	27636541 (18.3)	21988305 (25.7)	86325949 (57.0)

Note: Figures in brackets are percentages.
Source: Basic Statistical Returns, RBI.

four times, respectively. As a proportion of the total loan accounts, it increased from about 21% in 1996 to about 41% in 2006. The loan outstanding has increased by about five percentage points from 70% in 1996 to 75% in 2006.

8.4.19 Artisan, village, and tiny (AVT) industries and other SSIs have received insufficient credit. The number of AVT and other SSIs loan accounts, as a percentage of total bank accounts, has declined by 4.6 percentage points from 7.2% in 1996 to 2.6% in 2006 (see Table 8.4.7). In absolute terms, it declined from 40.9 lakh to 21.8 lakh. The loan accounts have declined secularly during the period in rural, semi-urban, and urban areas. However, in the metros it has increased. The outstanding credit has also declined by 6.6 percentage points from 10.7% of bank credit in 1996 to 4.1% in 2006. The decline across the rural and

TABLE 8.4.7
Artisan and Village Industries and Other Small-scale Industries

Year	No. of Accounts					Amount Outstanding (Rs lakh)				
	Rural	Semi-urban	Urban	Metro	Total	Rural	Semi-urban	Urban	Metro	Total
1996	2306666 (8.01)	1022012 (6.42)	537760 (7.64)	227208 (4.60)	4093646 (7.22)	333261 (8.63)	503052 (13.64)	740522 (16.68)	1155699 (8.57)	2732534 (10.73)
1999	1894551 (7.74)	1069453 (7.40)	616374 (8.81)	347256 (5.44)	3927634 (7.51)	414597 (7.69)	592352 (10.81)	985547 (13.94)	1342224 (6.61)	3334720 (8.72)
2001	1340518 (5.96)	715700 (5.10)	588912 (7.42)	442582 (5.62)	3087712 (5.90)	373850 (5.43)	716957 (10.08)	1105629 (11.60)	1701256 (5.61)	3897692 (7.24)
2004	1134176 (4.44)	480711 (2.98)	258361 (2.89)	138583 (0.88)	2011831 (3.03)	489411 (4.45)	809427 (7.05)	1247847 (7.34)	1787782 (3.68)	4334467 (4.92)
2005	1213263 (4.13)	555214 (3.05)	287666 (2.83)	171364 (0.88)	2227507 (2.89)	601963 (3.75)	977442 (6.84)	1558533 (7.34)	2184599 (3.43)	5322537 (4.62)
2006	1000377 (3.44)	550984 (2.57)	352933 (2.73)	279702 (1.27)	2183996 (2.56)	711926 (3.57)	1156510 (6.62)	1834442 (6.64)	2532432 (2.93)	6235310 (4.12)

Note: Figures in brackets are percentages.
Source: Basic Statistical Returns, RBI.

urban areas is, however, more pronounced in the metros. Though the loan accounts during the period have nearly halved, the average outstanding credit has increased more than four-fold from Rs 66750 in 1996 to Rs 285500 in 2006. While AVT industries are concentrated predominantly in the rural areas, other SSIs are dominant in the urban areas and the metros. This reflects that the AVT industries, which are relatively less credit worthy, have been credit starved.

8.4.20 The share of credit to SSIs has declined from 15% of NBC in 1998 to 6.4% of NBC in 2005–06. Including small business, retail trade, etc., the total share is less than 10% of NBC. Housing has gone up from 2.9% to 9.23%.

8.4.21 SHGs and their linking up to the banking system has been a very notable feature of the provision of the financial services to the weaker sections in the recent years. However, apart from the fact that this has been largely in the south, the overall quantum of credit extended is still quite small. As at end-March 2006, 22.39 lakh SHGs were linked to banks. Cumulative lending amounted to Rs 11398 crore. The current outstanding credit is around Rs 4000 crore which is a very small fraction of the NBC. About 24 million families have been assisted. The average bank loan per SHG has increased from Rs 18227 in 2001 to Rs 32012 in 2005.

POLICY ISSUES

8.4.22 A number of committees have provided guidance on improving the financial inclusion. The Sub-Group on Financial Services headed by K.V. Kamath (2007) is the most recent one. The C. Rangarajan Committee on Financial Inclusion (2007) has, in its Interim Report, made detailed recommendations on the supply side solutions to improve the delivery of financial services through traditional and non-conventional channels. It has also laid emphasis on the complementary demand side measures that are necessary. The Vaidyanathan Committee on Restructuring of Co-operatives (2004) and the Committee on Moneylender Legislation (2006) have recommended policy measures to improve the financial inclusion.

8.4.23 Some of the key policy issues emerging out of these and the other reports for extending the outreach and depth of the financial inclusion are discussed in the succeeding paragraphs.

Interest Rate Caps

8.4.24 Interest rates on loans made by the banks have been deregulated from 1994, with the exception of export credit and loans upto Rs 2 lakh. In the latter case, the interest rate cannot exceed the bank's notified benchmark PLR. Recently, the government has announced a subsidy of 2% to the banks for extending the production credit upto Rs 3 lakh for agriculture at 7%. However, as the Report on Currency and Finance 2005–06 States, 'although the supply-led approach to rural credit prior to the 1990s ensured availability of credit at a subsidized rate, it turned out to be financially unsustainable as it impacted on the health of credit institutions adversely'.

8.4.25 The entire issue of deregulating/regulating the interest rate is embedded in the question of whether access and timely availability of credit should be an overriding concern rather than the cost of credit per se.

8.4.26 The Working Group on Outreach of Institutional Finance and Co-operative Reforms examined this issue and also conducted studies, through its sub-groups, on the actual costs incurred in financing small borrowers in the rural areas. A sample study of lending by a public sector bank showed that the all-inclusive cost of loans of Rs 25000 and less is 21%. In the case of a private sector bank, it was found that the cost of direct lending was much more than when the lending was through an intermediary MFI. However, the cost difference declines as the size of the loans increases. The all-inclusive cost, as per this study, works out to as much as 33.1% for the direct lending of loan of Rs 10000 while this is 17.5% for a loan of Rs 25000 through an MFI. The overall balance sheet analysis of RRBs and Central Co-operative Banks (CCBs) produced a cost of 7.75% on earning assets for RRBs and 10.16% for CCBs. Commercial banks estimates range from 7.5% to 13.5%. A College of Agricultural Banking study of 22 MFIs showed an average cost of 30.2%.

8.4.27 There is clearly a need for carrying out periodic studies based on scientifically selected samples and factoring in all costs to arrive at the actual cost of lending to small borrowers in the rural areas.

8.4.28 In addition to the interest rates charged, the borrowers have to incur other costs, such as submitting certificates/documents (land documents, search reports by lawyers, 'no dues' certificate from other bank branches, valuation certificates, etc.), and often bribes. Taking all these into account, the total cost of borrowing through the formal institutional channels may not be less than the rates charged by the formal credit channels.

8.4.29 If documentation and other procedures are simplified, thereby reducing the transaction costs of the farmers significantly, the farmers may not mind paying market driven rates of interests, covering the costs of funds, and the transaction costs and risk costs of the banks. Allowing the interest rates to be market driven and taking into account the risk perceptions of the banks would lead to the banks considering agricultural lending as a viable business proposition.

8.4.30 The Report on Currency and Finance itself quotes the Prime Minister to raise significant questions relating to credit to the weaker sections. It raises the fundamental issue of whether farmers need reliable access to credit at reasonable rates or a lower rate of interest, whether we need to create new institutional structures, etc.

8.4.31 There appears to exist an element of inconsistency in the stipulations relating to the interest rates. While the interest rate on direct lending by the banks upto a limit of Rs 2 lakh cannot be at a rate higher than the bank's PLR, there is no such restriction if the lending is to an ultimate borrower through the intermediation of an MFI. The RBI in 2000 deregulated the interest rates on loans made by the commercial banks to the MFIs, and interest rates on loans made by the MFIs to the borrowers. Micro credit extended by the commercial banks either directly or through an intermediary was to be considered as part of the bank's priority sector lending. Again in 2006, the RBI emphasized that the interest rates applicable to loans given by banks to MFIs or by MFIs to SHGs/member beneficiary would be left to their discretion. This leads to an anomalous situation where loans to the same beneficiaries if dispensed through alternate channels of financing are priced differently. In order to remove this anomaly, no interest rate ceilings should be imposed on the banks by the government.

8.4.32 The available data show that around 82% of the lending by the banks is taking place at sub-PLR rates. While better creditworthy corporates are getting credit at sub-PLR rates, the agriculture and SSI sectors and others are charged PLR or even higher rates. This would again point out to the need to carry out proper costing studies for credit provision to different classes of customers. It must be recognized that if the effort for financial inclusion of the underprivileged is to be sustained, the cost of providing such services should invariably be met. However, the model should, at the same time, penalize inefficiencies in providing credit. Therefore, the costs should be appropriately benchmarked in accordance with the best practices. A free interest rate regime and competition should be recognized as the primary means of ensuring reasonable rates; this should be supplemented by the publication of the results of such studies.

8.4.33 It is necessary to recognize that there are limitations beyond which the institutional credit system will not be able to provide services inspite of the adoption of technology, especially when it pertains to the disadvantaged groups. Experience through case studies shows that the expansion of micro finance has helped in smoothening of the interest rates charged by the informal sector.

8.4.34 While the approach of the RBI has been very open and driven by the larger interest for the development of the micro finance sector, there have been instances of the State Governments regulating the interest rate. The State Governments have taken the plea that MFIs charge usurious rates of interest and this increases the indebtedness of the usually poor borrowers.

8.4.35 Consultative Group to Assist the Poor guiding principles on regulation and supervision of micro finance state that interest rate caps, where they are in force, almost always hurt the poor by limiting the services, far more than they help the poor by lowering the rates. The Report of the Internal Group to Examine Issues relating to Rural Credit and Micro Finance (Khan Committee) of the RBI has also deliberated on this issue. The Report mentions that the empirical data in respect of several micro finance projects being carried out in different parts of the world prove that timely availability and right quantity of credit, and not the interest rate, are crucial to the success of the micro finance programmes. Since the method of costing applied by the MFIs is fundamentally different from that followed by the banks, the methodology for applying interest rates for them would be different from the methodology for the banks. Since providing services at the doorstep of the customer has a cost, no undue intervention is required to set the interest rates charged to the ultimate borrower through the financial intermediation route. This is best left to the commercial judgment of the borrowing MFIs and the lending institutions.

8.4.36 It has been argued that both the Central Government and State Government can play a central role in reducing the interest rates without introducing rate caps. This can be done by creating a database and monitoring system for interest rates being charged by the MFIs. Under the system, it would be mandatory for the MFIs to report the effective interest rate offerings periodically. However, transparency in the fixation of interest rates is the major bottleneck. At present, there is no uniform agreed methodology followed by the MFIs for disclosing effective interest rate charged including loan processing fees, bad debt provisions, and other ancillary charges. This makes it difficult to compare interest rates across all MFIs. One of the options could be self-regulation, that is associations of the MFIs themselves voluntarily adopt and enforce a code of conduct including disclosure norms. As self-regulatory organizations have serious limitations to enforcing their rules, the other option is formal regulation of the sector. This would include formulation and enforcement of uniform financial reporting guidelines including norms for treatment of non-performing assets; unambiguous interest rate disclosure guidelines including norms for disclosing loan processing fees, bad debt provisions, and other hidden charges; clear conduct codes for behaviour of the MFI staff with penalty for breach of conduct rules; and audit provision for the MFIs above a certain level of portfolio.

8.4.37 Ratings of MFIs by external agencies such as SIDBI could also be thought of to promote transparency in the operations of the MFIs.

8.4.38 With the use of IT solutions and transparency in pricing coupled with growing competition amongst MFIs, it is expected that the interest rate charged by the MFIs would come down. Credit dispensation through alternate channels, namely, MFIs, SHGs, Non-banking Financial Companies (NBFCs), HFCs, and post offices would be effective in increasing access, reducing transaction costs, as also in improving recovery.

Modes of Extending Outreach

UP-SCALING SHGs–BANK LINKAGE PROGRAMME (SBLP)

8.4.39 Essentially, two forms of providing micro credit are being followed, namely SBLP and MFIs. Within the SHG–bank linkage model, SHGs are formed by NGOs and SHG Promoting Institutions (SHPIs) and credit is extended by the banks to the SHGs directly. This is the predominant form of disbursement of credit within the SBLP model.

8.4.40 The geographical distribution of both the SHGs–bank linkage and the MFIs is highly skewed. The southern States account for the bulk of SHGs. However, in the recent years, SBLP has been making inroads into the regions with a large percentage of rural poor. About 90% of the SHGs that are linked to the banks are of women.

8.4.41 SBLP has registered an impressive growth during the last five to seven years. At present, 90% of the micro credit is being disbursed through the SHGs–bank linkage model. The SHGs linked to banks have increased from 2.64 lakh in 2000–01 to 22.39 lakh in 2005–06. Despite such an impressive growth, a vast gap between the demand and supply of micro credit exists. As per the estimate by the Task Force headed by V.S. Vyas (2007), the minimum requirement of the micro credit is Rs 70000 crore as against the supply of Rs 11378 crore. This programme is also concentrated in the southern States. However, in 2005, NABARD had identified 13 priority States accounting for the bulk of India's poor for special efforts and location-specific strategies.

8.4.42 Under the SBLP, the average loan per member is less than Rs 4000. This is grossly insufficient for financing income-generating activities. The interest rate charged from members has been reported to be 15%–24% per annum. The cost of forming and nurturing the group up to the stage of credit linkage is borne by NABARD. The norms of the MoRD provide for Rs 10000 per group as the cost of formation of the groups.

8.4.43 The binding constraint in the SBLP is the ability to form groups and to build up their capacities. This, in turn, is strongly dependent on the availability of committed NGOs and SHPIs. The Rangarajan Committee has identified the SBLP as one of the two main instruments for achieving financial inclusion and has suggested that the Department of Women and Child Development should be actively involved in this process. Upon the recommendation of this Committee, a Financial Inclusion Fund has been set up by NABARD for promotional activities. NABARD is already engaged in a variety of capacity-building efforts in this area. NABARD's programme needs to be more closely integrated with those of the State Governments, especially in the 13 priority States. It is to be noted that the NCEUS has also made a similar recommendation for a fund to be used for promotional activities.

8.4.44 At the same time, it has been suggested by some that this model may be allowed to grow organically in response to needs and capabilities and there should be emphasis on quality rather than quantity. SHGs should not be allowed to go the co-operatives way. Co-operatives were burdened with non-credit business that is used as a mechanism to deliver government programmes such as PDS, sale of fertilizer, etc. They subsequently became politicized. SHGs being such a large-scale movement are also susceptible to politicization. It needs to be ensured that SHGs retain their character as a peoples' movement and do not become a tool in power politics.

8.4.45 Interestingly, the Vaidyanathan Committee States that co-operatives, of the mutual thrift and credit type, are the only form of organization by which economically disadvantaged individuals and groups, through voluntary collective action, overcome their disadvantageous position in an unequal market and promote their well being. It further adds that the credit would be put to good use in the organizations in which the members know each other first hand, are closely linked through kinship and social relations, and have a strong mutual stake in the proper use of the common credit pool. One would not be mistaken if this description were understood as being one of SHGs. In fact, there is nothing new in the SHG concept that has not been embedded in that of the co-operatives earlier. That the co-operatives have reached their present state should serve as a serious warning to the SHG movement as well.

THE MFI SECTOR

8.4.46 In the MFI model, the MFIs both form the groups and provide credit to SHGs and individuals. MFIs raise funds from the banks and financial institutions for on-lending to SHGs and individuals.

8.4.47 MFIs are an amorphous collection of legal entities, both for-profit and not-for-profit institutions. Amongst not-for-profit institutions are included NGOs incorporated as trusts/societies, co-operatives set up under the Co-operative Acts, and Section 25 companies under the Companies Act. For-profit MFIs include NBFCs incorporated under the Companies Act and regulated by the RBI.

8.4.48 In the MFI model, the rate of interest charged is higher (at about 20%–24%) than the SBLP model as the MFIs have to charge a rate of interest that recovers cost of funds as well as the cost of formation of groups. Sa-Dhan's voluntary code of conduct lays down that the MFIs will charge reasonable rate of interest, that is 21%– 24% per annum. This is comparable to the rate of interest charged by SHGs from their members. Even the cost of formation and nurturing the groups is borne by the MFIs themselves. The cost of funds to MFIs is higher than the rate at which the banks lend to SHGs under the SBLP. Transaction costs are also higher owing to weekly collections and delivery of services at the doorstep. On the flip side, transparency in fixation of the rate of interest and disclosure norms, consumer protection, and coercive practices of MFIs have emerged as the major concerns.

8.4.49 MFIs require funds for credit expansion and on-lending to the SHGs and individual members. As of now, studies reveal that the Indian MFIs are very highly leveraged compared to those of the rest of the world. With a low equity base, the ability of MFIs to raise debt resources from the banks and other financial institutions is limited. Several measures to enlarge equity capital of MFIs include relaxing the constraint on equity investment by venture capital into MFIs, lowering the minimum capital requirement for foreign equity participation, and enhancing the corpus of equity support from NABARD.

REVITALIZATION OF CO-OPERATIVES

8.4.50 Co-operatives have the largest nominal outreach amongst the rural financial institutions including the commercial banks. Presently, they are at a crossroads owing to resource constraints, poor governance, bad management, and inefficiency. On the basis of the recommendations of the Vaidyanathan Committee, the GoI has formulated a revival package for restructuring and strengthening of the rural co-operative credit institutions. A total of 17 States have accepted 'in-principle' the revised revival package as formulated by the GoI. Of the 17 States, 12 States have executed an MoU with the GoI and NABARD. The conditionalities free the societies from the necessity of being a part of the three-tier structure. Individual societies would also be free to establish business contact with the commercial banks and borrow from any RBI regulated institution. Freedom from compulsory federation would help in reducing unnecessary tiers in financing which add to costs. The co-operatives are also to be free to decide interest rates on deposits and advances subject to RBI regulations. These reforms are salutary and will enable the co-operatives to function on sound commercial lines. The insistence on signing the MoU with its conditionalities and acceptance of guidelines prescribed by RBI for ensuring 'fit and proper' criteria for Directors in the Boards and Chief Executive Officers of rural co-operatives are apparently some of the reasons for the slow pace of implementation of the revival package.

8.4.51 It is imperative that the revival package is implemented in toto, without diluting the contingent legal, financial, regulatory, and institutional reforms. This would have the effect of cleansing the balance sheets and strengthening the capital base of rural co-operatives so that they begin on a clean slate and are at par with other rural financial institutions. However, there are several valid concerns that need to be addressed so that the financial and institutional sustainability of the rural co-operatives is not impaired.

8.4.52 The Vaidyanathan Committee states that, co-operative societies in India, unlike the world over, have not been mutual, but only agencies for credit dispensation. Upper tiers were created to provide refinance for the lower tiers. This resulted in a structure driven by borrowers at all levels. The Committee, therefore, recommended that there should be an aggressive effort to convert pure credit to thrift-cum-credit societies. In this form, it is expected that there would be natural incentives for good governance. This vision has been largely preserved in the reform package that has now been worked out. However, the process of organic growth that this entails is likely to constrain the ability of the co-operatives to quickly scale up their operations.

8.4.53 The Vaidyanathan Committee has recommended liquidation of the non-viable and defunct Primary Agricultural Co-operatives (PACs). The exact modality of liquidation, however, has not been spelt out. As the number of PACs to be liquidated is quite large, transitional arrangements need to be put in place to maintain the ground-level credit flow. Mergers with healthy PACs or take-over by neighbouring PACs may adversely affect the financial performance and burden the functioning of the taking-over PACs. A better solution lies in development of new PACs under the Model Act suggested by the Vaidyanathan Committee. However, this would be a time-taking but a sustainable option in the long run.

8.4.54 Co-operatives offer high rates of interest on deposits. Co-operatives also suffer from high transaction costs owing to over-staffing and salaries unrelated to the magnitude of business. High-risk costs arise on account of low recovery levels, lack of adequate risk mitigation systems and procedures, absence of appropriate credit appraisal and monitoring, and over-exposure to agricultural lending. Actual repayments are influenced by ad hoc government decisions to suspend, delay, or even waive recovery. The revival package, significantly, does not disempower the State Governments from giving directives to the credit co-operatives. These powers have been used often in the past to subject the co-operatives to commercially unsound decisions. The costs of funds are also high as PACs depend on borrowings from the upper tier co-operatives. Lack of information about credit worthiness of the clients further compounds the problem. The lending rates need to cover cost of funds, transaction costs, and risk costs. While the Vaidyanathan Committee has identified these factors that increase the cost of co-operative credit operations, it has not adequately suggested mechanisms to reduce the associated transactions and risk costs.

8.4.55 The apprehension, therefore, is that the implementation of the revival package is unlikely to provide any substantial remedy to the problem of financial exclusion. This would be even truer of the production and investment financing needs of agriculture. There appears to be no alternative to a vigorous increase in the outreach and the scale of rural operations of the commercial banks.

SCHEDULED COMMERCIAL BANKS (SCBs)/ REGIONAL RURAL BANKS (RRBs)

8.4.56 While the rural branch network of commercial banks had steadily grown in the years following nationalization in 1969, there has been a rollback since 1991. The average rural population served by a bank branch has therefore gone up, as shown by the following numbers (see Table 8.4.8).

TABLE 8.4.8
Average Population per Branch Office

	1991	2005
Population per branch	13711	15680
Population per rural branch	13462	16650
Population per urban branch	14484	13619

8.4.57 However, there is an opinion that the existing rural branch infrastructure can be more intensively used so as to service a much larger customer base. A major recommendation of the Rangarajan Committee is that the banks be given targets to add at least 250 farmer accounts per year per branch. This, the Committee feels, will enable covering all the unbanked farmer households in the next five years. Prescribing a target-based approach for the commercial banks to extend their outreach in rural areas may not be a viable option until and unless banks are allowed to charge a rate of interest that covers their cost of funds, transaction costs, and risk costs.

8.4.58 While several policy measures have been initiated to augment the credit flow to small and marginal borrowers, the results speak differently. During 1996 and 2006, the loan outstanding for accounts upto Rs 2 lakh credit has declined from 25.3% to 16.4% of bank credit. These loans are disbursed at or below PLR. Sub-PLR lending has increased from 39% in September 2004 to 82% in March 2007. These loans are essentially disbursed to better creditworthy corporates. However, agriculture and SSI sectors, in particular AVT and other SSIs whose loan outstanding is more than Rs 2 lakh, are charged interest rates above PLR. This has several implications. First, lending at below PLR lacks transparency and affects both lenders and borrowers. Second, to compensate for the sub-PLR lending, other segments are charged higher rates of interest thus leading to cross-subsidization of the economically well-off borrowers by the economically poor borrowers.

8.4.59 The employment intensive and greater regional spread of AVT and other SSIs make them an engine of inclusive growth. However, they are considered more risky by the banks and collaterals are insisted upon. This has been partly addressed by setting up of a Credit Guarantee Fund Trust for SSIs. This fund guarantees upto 75% of the credit risk subject to loan cap of Rs 50 lakh per borrower. The other option to obviate the need for collateral could be introducing independent rating of the borrowers and generating their credit history.

8.4.60 Today's small entrepreneur is tomorrow's big businessman, if provided appropriate financial support. The banks have to be proactive and gear up their risk assessment and management capacities. They have to finance the first-time entrepreneurs, notwithstanding the risk, if financial inclusion is to become a reality. The inevitability of some degree of failed ventures should not lead to unreasonable attachment of accountability which otherwise leads to risk aversion amongst lenders. Prudential norms need to be laid down by the regulator to provide this comfort.

8.4.61 Along with the above, it may be necessary to modify the priority sector lending guidelines by creating sub-limits for lending to the weaker sections. As suggested by the NCEUS, a sub-target of 10% should be reserved for marginal and small farmers within the 18% reserved for agriculture. The flow of credit against this sub-target should be separately monitored. Similarly, a separate target of 10% for small and micro enterprises, of which again 4% is reserved for micro enterprises with a capital investment of less than Rs 5 lakh, should be imposed and enforced. Along with the freeing of interest rate that has been recommended above, this would help in credit reaching the needy sections.

8.4.62 There have been some suggestions made that the priority sector targets should be enforced in a different fashion than hitherto. A suggestion that merits consideration is that the targets be made tradeable amongst banks. This would have the merit of acting as means of achieving the targets at the lowest possible cost.

8.4.63 A major step taken recently is to permit the banks to extend their outreach through engaging business facilitators and business correspondents (BC). The banks are required to formulate their own schemes in line with the guidelines of the RBI to operationalize these mechanisms. Though these guidelines were brought out more than one and a half years ago, the NCEUS notes that the banks are not inclined to adopt this model because of cost considerations. They, therefore, suggest that some incentives may be provided to the banks, in the form of tax or other benefits, to adopt this model. The Rangarajan Committee says that the banking system has not yet been able to fully appreciate the business gains that could accrue from adopting the model. It adds that discussions with a cross-section of bankers reveals that the muted response is, in part, due to disinclination on the part of the banks to absorb the costs involved on grounds of its impact on the viability of operations.

8.4.64 Prohibition on banks to charge more than the PLR on loans less than Rs 2 lakh has made the BC model unworkable for provision of micro credit. Even if the banks were willing to absorb the difference between their PLR and their cost of funds, margins would not be adequate to compensate the BCs to cover the costs of originating, monitoring, and collecting loans. Second, under the model, the bank is responsible for omissions and commissions of the BC. Third, the lack of IT connectivity (owing to cost considerations) would make it difficult to report and incorporate the BC's transactions in the books of the bank by the end of the next working day. Due to these reasons, the BC model has received a rather lukewarm response from the banks. However, this seems to be the best available option for increasing financial inclusion. Apart from removing interest rate controls, a systematic programme for capacity building for the BCs, establishing robust procedures for monitoring their performance and rating them, and the building up of IT connectivity, perhaps even by sharing it amongst banks so as to reduce costs, are all essential for this model to succeed.

8.4.65 The industry feels that the financial sector participants would find it difficult to expand into underserved areas in the absence of appropriate payment processing infrastructure. More than 80% of India's financial transactions are processed in physical cash. Cash as means of payment has a large cost in terms of handling, transaction processing, holding, and risk of loss. Looking ahead, card-based solutions are likely to emerge as the key mechanism for delivering financial services to the unbanked. There is therefore a need to create a national payments system with participation by all banks, reduce transaction costs, and substantially increase the deployment for Point of Sales terminals and their utilization for both high- and small-value payments.

8.4.66 India has achieved good mobile penetration both geographically and in terms of socio-economic classes. The total number of mobile phone connections has already greatly exceeded the number of bank accounts. South Africa has reportedly pioneered the large-scale use of mobiles for payment. Japan, South Korea, and other countries also are said to be using this method. Enabling mobile payments would facilitate cheaper payment processing, wide geographic coverage, online payments straight through processing, and financial inclusion. The mobile phone can be used as a device to transfer funds and make payments from a bank account using appropriate authentication protocols.

TRADITIONAL MONEYLENDERS

8.4.67 The All-India Debt and Investment Survey (NSS 59th Round) has revealed that the share of institutional agencies in the total cash dues of urban households had increased from 72% in 1991 to 75.1% in 2002 and that of moneylenders had also increased during the period from 10.2% to 14.1%. In the case of rural households on the other hand, the share of institutional agencies had in fact declined from 64% in 1991 to 57.1% in 2002. And more significantly, the share of moneylenders had increased in the same period from 17.5% to 29.6% in the case of rural households.

8.4.68 Despite measures to extend institutional credit especially in the rural areas, the dependence on moneylenders has only increased. Thus there is a case to look at the possibility of using moneylenders for providing credit within a regulated framework. Usurious rates of interest and coercive practices are a reality that needs to be appropriately addressed.

8.4.69 International experience also suggests that moneylenders perform similar activities all over the world both in developed and developing countries. Internationally, the nature of moneylending laws is regulatory. The emphasis of such laws is on protecting the interests of the borrowers by capping the rate of interest and curbing coercive recovery practices.

8.4.70 The technical group of the RBI to review the legislations on moneylending in its report has also recommended that registration of the moneylenders should be made compulsory and a penalty should be imposed on those conducting business without registration. It has also recommended that the State Governments should stipulate the maximum rate of interest that could be charged by the moneylenders. The group has also recommended a model legislation for adoption by the State Government to regulate the moneylenders. The legislation provides incentives for registration and mainstreaming the activity of moneylending. It also provides for penalties for violation of its provisions as well as disincentives to those who circumvent the law in the form of more stringent action against unregistered lenders.

8.4.71 A major issue that needs to be resolved here is the regulatory capacity of State Governments, who are the competent authorities for this purpose. A possible solution could be to outsource the regulatory function to the banking system. The incentive of obtaining credit from banks to enlarge their businesses could be used to overcome the fear of costs associated with registration. The government could consider mainstreaming moneylending by instituting an effective regulatory framework as has been done worldwide.

Building up the Demand Side

8.4.72 Perhaps the greatest benefits of public policy initiatives towards the financial inclusion are in the area of creating systemic infrastructure for provision of credit and other financial services. Specific measures include creating credit registries, national identification numbers, payment systems, electronic commodity and auction markets, and weather measurement systems—all of which are public goods which would help stimulate economic activity. Other measures that would help generate demand for financial services include public investment in rural infrastructure programmes, vocational training programmes, and measures to improve market linkages that help micro entrepreneurs find reliable channels for marketing their products and services.

New Initiatives

8.4.73 There are certain NGOs, societies, trusts, and co-operative societies operating in the micro financial sector that are engaged in providing credit and other financial services to the economically active low-income people especially women, poor households, and their micro enterprises. However, the financial activities undertaken by such organizations lack a formal statutory framework. It was, therefore, considered expedient to provide a formal statutory framework for the promotion, development, and orderly growth of the micro credit sector. Accordingly, the Micro Financial Sector (Development and Regulation) Bill 2007 was introduced in the Lok Sabha on 20 March 2007. Some of the important features of the Bill are given below:

- Entrust the function of development and regulation of the micro financial sector to the NABARD.
- Define various entities engaged in the activity of micro finance such as co-operative societies, mutual benefit societies, or mutually aided societies registered under any State enactments or multi-State co-operative societies registered under the Multi-State Co-operative Societies Act, 2002; societies registered under the Societies Registration Act 1860; or any other State enactments governing such societies and a trust created under the Indian Trust Act, 1882 or public trust registered under any State enactments, that will be governed by the regulatory framework that is proposed to be set up.
- Define various categories of beneficiaries of micro financial services as eligible clients including SHGs or joint liability groups of such eligible clients.
- Provide for extending micro financial services to eligible clients by way of financial assistance subject to ceilings to be prescribed and such other financial services as may be specified by NABARD.
- Provide for constitution of Micro Finance Development Council to advise the NABARD on formulation on policies, schemes, and other measures required in the interest of orderly growth and development of the micro finance sector.
- Provide for constitution of Micro Finance Development and Equity Fund to be utilized for the development of the micro finance sector.

8.4.74 The Bill is currently under examination with the Standing Committee on Finance.

ANNEXURE 8.2.1

Financial and Physical Performance of Tourism during the Tenth Five Year Plan

(Rs in crore)

S. No.	Schemes/ Programmes	Financial Performance Tenth Plan				Physical Performance Tenth Plan	
		Outlay	BE	RE	Actual Exp.	Targets	Achievements
I	Central Sector Schemes						
1	Externally Aided Projects	50.00	40.50	40.50	31.24	To ensure effective plan preparation and supervision on execution of Ajanta-Ellora Conservation and Tourism Development Project Phase-II and Development of Buddhist Circuit projects in UP with the assistance of Japan Bank for International Cooperation (JBIC).	Infrastructure upgradation of Buddhist circuits has been taken in a big way through identification of 22 important Buddhist sites throughout the country. MoT has entered into an agreement for undertaking infrastructure development at Buddhist sites of Sarnath, Kushinagar, Kapilvastu, Shravasti, and Sankisa in UP, with JBIC for a loan assistance of Rs 395.63 crore for total project of Rs 680 crore.
2	Assistance to IHMs/FCIs etc.	110.00	127.50	127.50	135.43	To provide financial assistance for improving and upgrading of existing infrastructure of IHMs/FCIs/Indian Institute of Tourism and Travel Management (IITTMs).	Assistance was extended to 22 IHMs and 7 FCIs following National Council's curriculum.
3	Capacity Building for service providers	24.00	31.50	31.50	12.25	To conduct training programmes for participants thereby qualitatively improving tourism manpower in the country.	Conducted training to the persons who are engaged in the unorganized sectors and come in contact with a major segment of the tourists. More than 40000 persons were given training under this CBSP scheme.
4	Overseas promotion and Publicity including Market Development Assistance (MDA)	500.00	485.00	485.00	509.34	To promote tourism across the globe through global campaigns, fairs and festivals, road shows etc.	Global campaigns and market specific campaigns as a part of the 'Incredible India' campaign in the overseas markets were carried out. Participated in international trade fairs and exhibitions and organized road shows/ India Presentations in important overseas markets to showcase the varied Indian tourism products.

(*Annexure 8.2.1 contd.*)

(*Annexure 8.2.1 contd.*)

S. No.	Schemes/ Programmes	Financial Performance Tenth Plan				Physical Performance Tenth Plan	
		Outlay	BE	RE	Actual Exp.	Targets	Achievements
5	Domestic promotion and publicity including hospitality	230.00	172.00	172.00	173.40	To popularize the culture and natural beauty of different regions, pilgrim sites, and new tourism products like Eco-tourism, Adventure and Rural Tourism, etc.	Theme-based domestic media campaigns, mass social awareness programmes, production of publicity material and collaterals, were carried out and central financial assistance was extended to States/UTs for fairs & festivals.
6	Incentive to accommodation infrastructure	45.00	47.00	47.00	47.50	To create budget accommodation in the country by providing subsidies/incentives.	Provided subsidy on the loan taken by the entrepreneurs for construction of budget category hotels.
7	Construction of building for IISM at Gulmarg, Kashmir.	0.00	16.00	16.50	13.80	To upgrade the Institute with construction of building and providing machinery and other equipments.	The construction of building is near completion.
8	Market research including 20 years perspective plan.	20.00	15.50	15.50	32.22	To conduct Master Plans/DPRs (Detailed Project Report), Survey/Study reports and tourism statistics publications supported on different aspects of tourism to provide inputs to policymakers.	24 Master Plans/DPRs, 14 Survey/Study reports, and 2 tourism statistics publications were published in different aspects of tourism to provide inputs to policymakers.
9	Assistance for Large Revenue Generating Projects	98.00	122.00	92.00	34.96	To promote large revenue generating tourism projects in PPPs and in partnerships with other government/semi-government agencies.	21 Large Revenue Generating Projects were sanctioned.
10	Computerization and IT	100.00	72.00	72.00	52.33	Effective use of IT for exclusive promotion and publicity, and streamlining data collection and updating through appropriate hardware and software.	Emphasis has been given on maximum use of IT to promote 'Incredible India' more aggressively through Online Campaign on World Wide Web to drive traffic to the official website of the MoT.
11	Tourism Infrastructure Development Fund	0.00	30.00	30.00	0.00		The Scheme was dropped
12	Revival of Tourism in J&K	0.00	9.00	16.00	16.00	To create employment, self employment, and revival of economic activities.	Ministry had extended a package for financial assistance and subsidy to the service providers

(*Annexure 8.2.1 contd.*)

(*Annexure 8.2.1 contd.*)

S. No.	Schemes/ Programmes	Financial Performance Tenth Plan				Physical Performance Tenth Plan	
		Outlay	BE	RE	Actual Exp.	Targets	Achievements
							viz., Houseboat Owners, Hotels and Guest Houses, Shikara owners, and Ponywalas. An amount of Rs 7.00 crore was sanctioned and released to the Government of Jammu and Kashmir during the year 2003–04 and Rs 9.00 crore in the year 2004–05.
13	Ongoing Ninth Plan Schemes	71.50	71.50	71.50	78.88		The amount was utilized for the schemes which were continued from Ninth to Tenth Five Year Plan.
II	Centrally Sponsored Schemes						
1	Product/Infrastructure Development for Destinations and Circuits	1361.50	1242.50	1260.00	1498.21	To create tourism infrastructure facilities at circuits and destinations in various States/ UTs in consultation with the concerned State/UT governments.	The MoT sanctioned 1160 projects comprising a major part of infrastructure projects.
III	10% lump sum provision for NE States including Sikkim	290.00	184.00	184.00	0.00	As per specific schemes mentioned above.	As per specific schemes mentioned above
	Total (I+II+III)	2900.00	2666.00	2661.00	2635.67		

Note: BE = Budget Estimate, RE = Revised Estimate, Exp. = Expenditure.