

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

Recommendations made by meeting of Indian finance and management professionals
organized in Doha, Qatar on 26 May 2008

by

Indian Nationals Abroad

(a society formed under the Travancore Cochin Literary Scientific & Charitable Society
Registration Act XII of 1955)

&

Middle East Indian Management Association - MIMA

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

(Summary prepared by:

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Indian Financial Reforms Results to penetrate lower, wider: INA & MIMA debate

A discussion forum organized of Indian finance experts and management professionals deliberated on the Draft Report of the Committee on Financial Sector Reforms (CFSR) of the Planning Commission of India and put forward suggestions for widening the benefits of financial sector reforms to a wider section of the population, and called upon the government to enlist the intellectual contribution of Indian expatriates in the Gulf and elsewhere in the policy-making process.

Indian Ambassador to Qatar Dr George Joseph inaugurated the event and emphasized that reforms work best when they take into account the financial environment in which they operate. He also suggested that overseas Indians' role in policy evolution in the country is maturing and future overseas Indian conferences could think of focusing on specialized areas and holding them separately to contribute more specifically to government decisions. It is for the expatriates to progressively play the role through such thought forums and thus capture a share in the process which will not be granted otherwise.

The discussion held jointly by Indian Nationals Abroad (INA) and Middle-East Indian Management Association (MIMA) at Al Dana Club, Doha, State of Qatar was attended by Indian management professionals in Qatar and by senior executives of Indian banking institutions and Indian industrial organizations operating in Qatar. Mr Kalayanasundarm, General Manager of IT with Bank of India, who spoke as a guest of honour at the meeting, dwelt on the changes taking place in Indian banking sector such use of modern Information technology to reach a wider, more rural population to make banking sector more inclusive, even with hand-held computerized devices that delivers banking service to the door in villages. But agricultural land and per capita land holdings in the country are going down side by side with the rise of the share of service sector in country's Gross Domestic Product (GDP), which he said needs to be addressed for necessary fine-tuning in economic models. Such models can include agricultural land ownership being turned into corporate

or co-operative group holdings and more modern farming in order to protect the farming sector.

In his keynote address, Mr R Seetharaman, CEO of Doha Bank dealt extensively with items of the CFSR including the banking sector. Amidst the economic combination of factors like globalization, deregulation, technology and consumerism, he said, Indian economy needs further reforms to realize benefits of globalization and deregulation, and not fall into the ills such as economic indiscipline and debt-trap that are noticeable in economic crisis like sub-prime mortgage crisis of the US. Amidst increasing consumerism individuals should not be tempted to overstretch themselves and over borrow. When growth rates of India and China are far higher than that of the US and most of Europe, and when free flow of funds can do wonders, there is a strong case for increasing the level of utilization of sovereign funds available in the Gulf and other countries, from the currently insignificant levels and the banking sector to permit more liberal participation of foreign banks. Mr Seetharaman also recommended considering the Sharia-based banking systems and Shariah-compliant products that would greatly protect the interests of entrepreneur and the banks. Equity-based finance in an ethical banking model has proved its advantages over interest-based lending in the region's experience and can be considered for emulation in India also, where however RBI has not approved it thus far. While the Raghuram Rajan Committee report includes several encouraging items, he wished the final package to also address social welfare aspects, environmental issues resulting from development, and of integrating the Indian economy with its immense knowledge capital into the world system of knowledge-based economy.

Mr. M.A.Salim, Technical Operations Coordinator, Refining Operations, Qatar Petroleum Refinery and President of Qatar Indian Management Association proposed introduction of "Energy credit" which is similar to "Carbon Credit" of environmentalists. "Energy Credit" can be a tradable commodity in the market.

Mr Nizar Kochery, President of Middle East Indian Management Association, opened the session and highlighted the significance of the event as a first time participation by expatriate Indians in contributing thoughts to policy making. The programme was sponsored by Indian public sector Banks such as State Bank of India (Trust Exchange), Bank of India (Al Mana Exchange), Syndicate Bank (National Exchange) and followed by a Question & Answer session and panelists answered queries. The programme was compered by Rajeev Thomas from Qatar Foundation and P.V. Saeed Muhammad made a summary of chief recommendations that emerged from the discussions.

Summary of the discussion / recommendations

OVERSEAS INDIANS' ROLE:

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

INCLUSIVE STRATEGY OF ECONOMY

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

MISSING AREAS REQUIRING (GREATER) ATTENTION

- Report should give more focus on promoting entrepreneurship
- Educational policy needs to be address, i.e. technical and vocational training to generate entrepreneurship and own earning capabilities. Youth become their own masters.
- But land, labour etc are areas that have not seen reforms at similar scale
- Land holdings have broken down over the generations; fragmentation of land results and land holding becomes unconventional. Laws on land holdings must be brought about.
- Farming pattern should switch to joint mechanisms like joint stock company with more technology; Also, land holding sizes should be increased to make this possible.
- Manufacturing sector currently only 25% in GDP as opposed to 50 % or service sector: engineers now enter other areas of service jobs and leave core engineering areas. Represents underutilization of skilled manpower.
- Indian Economic Growth: Indian Economy is growing at 8-9%, closely behind China; both compare higher than Europe and U.S.; even Sub-Saharan African growth higher than the U.S.
- Credit policies: India free from tendencies of overborrowing; thus, this inherent habit of Indians offer resilience and discipline to live within means. This in contrast with USA where overstretching and debt-trap common and likely.

- But inflation to be contained. When the country moves from savings mode to spending mode, younger people exposed to the pitfall of overspending and debt trap.
- The report fails to address issues like:
 - Social health issues: for example, only 19% of land is available and 70 % of Water is contaminated.
 - 'Environmental Concerns' not built into the economic frameworks
 - Health care, Pension schemes etc do not exist at present.
 - Social cost of Indian labour working abroad: needs to be calculated by those who work abroad for small salaries.
- India is growing, but not Indians. A large section of the population left out of the prosperity net. The poor yet to benefit substantially from reforms.

Banking sector:

- In banking sector, major transformations have taken place since 1991; sector energized and re-energized , but
- De-regulation: Not fully de-regulated; penetration to masses achieved through reforms so far. But variety of banking products not adequate. Products available even in a small country like Qatar not offered by Indian banking sector.
 - Country can think of Islamic banking / Sharia finance principles to be explored (not linked to religion, but only as adoption of a financial model. This contains the following features:
 - Ethical way of spending your money
 - Total transparency
 - Equity-sharing as against interest-based lending.
 - In Islamic banking institutions, even non-Muslims do deposit and invest.
 - Human form of banking
- Govt lending at 9%. Farmers after subsidy get loans at 7%. But how many can avail this? To be asked: does it reach all those in need? Attempts to reach this required.

Energy sector:

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

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

- Only 50% of the produced vegetables and fruits reach consumers. If properly implemented, the warehouse act will enable the feeding of at least 50% more people in the country.
- Energy bill can be lightened. For this a term “ Energy credit” similar to "Carbon Credit" to be introduced, which is very well known to environmentalists. "Energy Credit" can be a tradable commodity in the market. Individuals and corporate giants to be encouraged in investing in energy saving projects such as efficient transmission and distribution of electricity, infrastructure development for smooth traffic to avoid wastage of oil in traffic jams and unfriendly roads.
- The estimated energy savings resulted out of these projects are to be converted into barrel equivalent. These barrel equivalent to be purchased by government at international crude price or is to be allowed to be traded in the market as a commodity.
- By rule of thumb, at least 20 to 30% of India's import bill on crude oil procurement is expected to be saved out of this. The financial saving is expected to be 31 billion USD per annum from petroleum products imports alone.

The above recommendations are submitted for the consideration of the Committee while finalizing the reforms.

Sincerely yours



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Encl: 1. Power Point Presentation 2. Gulf Times (Qatar based daily) Report

1. HE Ambassador, Embassy of India, Doha, Qatar
2. Mr.Seetharaman, CEO, Doha Bank, Qatar
3. Mr.Kalyanasundaram, General Manager, Bank of India
4. President, Qatar Indian Management Association
5. President, Institute of Chartered Accountants India, Qatar Chapter
6. President, Institution of Engineers India, Qatar Chapter
7. President, Indian Medical Association, Qatar Chapter
8. Manager, Trust Exchange (Managed by State Bank of India), Doha, Qatar
9. Manager, National Exchange (Managed by Syndicate Bank), Doha, Qatar
10. Manager, Al Mana Exchange (Managed by Bank of India), Doha, Qatar
11. Manager, Indian Airlines, Doha, Qatar
12. Manager, Air India, Doha, Qatar
13. Country Manager, ONGC, Doha, Qatar