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B3M : The Voice of India

Black Money

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ABSTRACT

It is like a story. A few centuries ago India was the world's wealthiest nation. There was no poverty, plenty to eat, trade was booming riches abounded. Fittingly, it was called the "golden bird" by the rest of the world. And then the rest of the world came falling: first the Mughals and then the Europeans, including the British. Between them, they plucked bare the bird of gold. By the time India became independent, it was a hollow shell riddled with poverty, illiteracy and crippling debt, this was a fairy tale minus the happy ending. Certain time periods have been termed as Golden periods in the Indian history, based on the achievements Indians made in the fields of mathematics, astronomy, science, architecture, religion and philosophy during those periods. World's Oldest Civilization present in this world today. World's First known literate country with their very first written and spoken language on this world "Sanskrit." India was the world's richest country until 1600 A.D, when the British imperialized and destroyed their Wealth, Unity, or say the "Entire Country." Today India has religious hatred and political problems, which are the result of the Britain's 200 years of rule over India, and their "divide and rule" policy. And it is facing the BLACK era of "Poverty, Over Population, and Politicians." Running beside the Future, escaping the BLACK era, and lighting the Dark Places, India is trying to improve its condition day by day. It is fast becoming the Back Office of World, Big companies like Dell, Verizon, and many others are moving to India. Each and Every youngster is building an Entrepreneur Community. But the Rural Area which has been neglected by the so called leaders at large since independence.

1. INTRODUCTION

Mahatma Gandhi, revered as the father of modern India, believed that the country's future lay in her villages, which is heart of India. So, just as the proper functioning of heart is essential for the smooth functioning of entire nervous system, similarly, the whole economy would grow by leaps and bounds only when the health of its heart is also taken care of. The majority of Indian population lives in rural area. It is the most neglected area though it is also true that it is the most profitable & fruitful area, having tremendous amount of growth potential but unfortunately it has been neglected and not fully explored so far. Well planned approach, towards development and marketing in rural area of various products and services will definitely not only change the living patterns of people residing there but also make the long desired path into the rural areas for a better business.

It is well known that many wealthy Indians have deposited their illicit monies in secret Swiss bank accounts and tax havens elsewhere around the world. As per credible estimates, these amounts range between \$500 billion (Rs. 25,00,000 crore) and \$1400 billion (Rs. 70,00,000 crore).

So long as the West-dominated world economy was doing well for the western countries, their governments winked at the secretive functioning of Swiss banks and tax havens. However, the current global economic crisis, which put several of their important financial institutions on the verge of collapse, has forced them to take many unconventional steps to revive their ailing economies. The leaders of France, Germany, UK and other countries have joined forces with the US President Barack Obama in the battle against tax havens. They are mounting pressure on Switzerland and offshore tax havens to put an end to banking secrecy to bring back their tax-evading citizens' hidden wealth. In February, UBS, the largest Swiss bank, was forced by the US tax authorities to reveal the names of some 300 presumed tax evaders. The US threatened to sue the UBS. Fearing that this could lead to the demise of the bank, the Swiss authorities invoked an emergency clause in their banking law and gave the data to the US. Soon thereafter the Obama administration announced a law to uncover illicit American money in all secretive tax havens, including the Switzerland.

2. INDIA IN THE WORLD POPULATION – AN OVERVIEW(3)

India is the world's second highest populated country having only 2.4 percent of the globe's land area. While globe population has increased threefold (from 2 billion to 6 billion) during the last century (i.e. *during 1901-2001*), the population of India has increased nearly five times from 238 million to 1 billion in the same period, having 72.2% of its population living in rural areas. Besides that, the rural population in India has also increased from 212 million to 742 million, registering an increase of 3.50 times during the said period. If this current trend continues, then it is expected to supersede China by 2015 to become the most populous country in the world with an in built warning that this annual trend of increase in population will be large enough to neutralize efforts to conserve the resource endowment and environment.

3. ILLICIT FINANCIAL FLOWS[1]

In 2006, the most recent *Global Financial Integrity study*, developing countries lost an estimated $858.6 billion (about Rs. 43 lakh crore) to $1.06 trillion (about Rs. 51 lakh crore) in *illicit financial outflows*. Even at the lower end of the range of estimates, the volume of illicit financial flows coming out of developing countries increased at a compound rate of 18.2 percent over the five-year period analyzed for the study. On average, for the five-year period of this study, *Asia accounts for approximately 50 percent of overall illicit financial flows from all developing countries*.

This report shows that the *average amount* stashed away from India *annually* during 2002-06 is $27.3 billion (about Rs.136,466 crore). It means that during the five-year period the amount stashed away is 27.3 x 5 =$136.5 billion (about Rs.692,328 crore). It is not that all these amounts went to Swiss banks. It has gone to different tax and secret shelters. The share of Swiss banks in *dirty money* being a *third of the global aggregate*, some $45 billion out of the 136.5 billion stashed away from India would have been hoarded in these years in Swiss banks.

The important point is that this is only for five years. More amounts were stashed away during the Nehruvian regime. So the loot for 55 years will be several times higher. In fact, in those days the rupee commanded a better value per dollar. So fewer rupee could get more dollars. So the estimation that the Indian money stashed away may be of the order of $1.4 trillion (about Rs.71 lakh crore).

4. THE 'K' FACTOR : KUMBHAKARNA's SLEEP & KUBER's TREASURE (2)

It is baffling that, in the face of this growing governmental activism in the West, the Indian Government has adopted a policy of deafening silence and inaction. It has taken no steps whatsoever to get information about illicit money kept abroad by Indian nationals and to strive to get it back.

Considering the size of the Indian wealth hoarded abroad, the government is duty-bound to take proactive steps to bring it back. The amount involved constitutes 3-10 times India's overseas debt, and 50-120% of India's GDP. Even if we take the lower limit of the estimated amount of Rs. 25 lakh crore, *the money is sufficient to*:

- Relieve the debts of *all farmers and*

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landless

- Build world-class roads all over the country
- Completely eliminate the acute power shortage
- Provide safe and adequate drinking water in *all villages* and towns in India
- Construct good-quality houses, each worth Rs. 2.5 lakh, for 10 crore families;

5. CHARACTERISTICS OF INDIAN RURAL MARKET: (4)

It is true that rural area in India, which consists of over *74 crore consumers* spread through out the country in *638,365 villages*, has not been fully explored, because of three Ds – *"Distance, Diversity and Dispersion"*, according to Mr. D.K.Bose, Vice President, O&M Rural. The other factors which also contributed to the above can be listed as under –

i) Indian rural market is not only large and scattered but it is heterogeneous too.

ii) It is *three times bigger* than the urban market.

iii) Further, more than *20,000 ethnic groups, 33 languages, 1652 dialects and the changes in the dialects at every 100 km. or so*, which create extreme difficulty for them to develop a uniform strategy.

iv) Not only has that but the rural population in India also noticed an increase of 350 percent during the last century (1901-2001).

NUMBER OF LITERATES AND LITERACY RATE (5)

	PERSONS	MALES	FEMALES
Total			
No. of literates	560,687,797	336,533,716	224,154,081
Literacy rate	(64.8%)	(75.3%)	(53.7%)
Rural			
No. of literates	361,870,817	223,551,641	138,319,176
Literacy rate	(58.7%)	(70.7%)	(46.1%)
Urban			
No. of literates	198,816,980	112,982,075	85,834,905
Literacy rate	(79.9%)	(86.3%)	(72.9%)

v) Small populations in villages

vi) The low standard of living because of low per capita income which in turn leads to low level of savings.

vii) Greater dependency on agriculture i.e. more than 60% of the rural income comes from the agriculture sector hence rural prosperity is tied with agricultural prosperity to a great extent.

viii) Inadequate infrastructure facilities like roads, water, electricity, communication system, warehouses, financial facilities etc.

ix) Underdeveloped (*and also Undeveloped in many cases*) markets and people.

x) Seasonal demand of goods & services which becomes worse due to existence ofFake brands.

xi) The rural consumers normally resist changes due to low literacy, socialm backwardness etc. rather they are sometimes termed as "*Orthodox*". Low literacy rate (58.7%) poses a great amount of hindrance in the overall progress and development of rural areas and this becomes a much serious problem when we compare literacy rates of females in rural areas (46.1%) with that of females in urban areas (72.9%).

xii) Fragmented farms.

xiii) Heavy dependence on monsoon.

xiv) Numerous intermediaries in the distribution channel which leads to large scale exploitation by private traders and middlemen.

xv) Lack of information dissemination to farmers on important issues.

xvi) The low per capita income leads to low level of savings which ultimately results into low standard of living.

xvii) Lack of infrastructural support and absence of a structured network for Information flow. In other words, infrastructure facilities like communication system, health, transport facilities like roads, water, electricity, warehouses, financial facilities etc. are inadequate.

6. LITERACY STATUS OF INDIAN WOMEN: *NOT TO BE OVERLOOKED*

Low literacy rate poses a great amount of hindrance in the all-round progress and development of rural areas and this becomes a much serious problem when we look into the literacy rates of "*Matri-Shakti*" i.e. females in rural areas (46.1%)

- *Women's literacy* is one of the critical factors that determines and enables them to achieve their reproductive goals
- Literacy improves awareness and enables women to access services; this improves their own well-being, survival of their offspring, and access to contraception.
- There are wide differences between states in the proportion of persons living below the poverty line.
- This is partly due to differences in the per capita State Domestic Product and partly due to differences in distribution of income between different groups
- Over the years there has been a decline in the proportion of population living below poverty line but in terms of actual numbers there has been an increase.
- States with largest percentage of BPL families have high CBR, this in turn will further reduce per capita income and result in increased number of BPL families.

7. FINANCIAL EXCLUSION & ITS MEASURES

No universally accepted definition of financial inclusion is available. Financial inclusion has generally been defined in terms of exclusion from the financial system. Broadly, *financial exclusion is construed as the inability to access necessary financial services in an appropriate form due to problems associated with access, conditions, prices, marketing or self-exclusion*. The working or operational definitions of financial exclusion generally focus on ownership or access to particular financial products and services. There is *no single comprehensive measure* that can be used to indicate the extent of financial inclusion across economies. Specific indicators such as *number of bank accounts, number of bank branches*, that are generally used as measures of financial inclusion, can provide only partial information on the level of financial inclusion in an economy.

Whatever measure one may use for India, it is apparent that the financially excluded constitute a significant share of the population especially amongst the low income groups. Based on the *AIDIS 2002 survey*, RC showed that 111.5 million households had no access to formal credit. It also showed that 17 million households were indebted to moneylenders. The recent *Arjun Sengupta Report* on financing enterprises in the unorganized sector has pointed out that only 2.4 million out of 58 million units in this sector (with investment of less than Rs. 25000) have got credit from commercial banks. The AIDIS 2002 also showed that lower the asset class or income, higher the degree of exclusion. These findings are corroborated by *Invest India Incomes and Savings Survey* (2007). The survey showed that 32.8% of households had borrowed from institutional sources and 67.2 % had borrowed from non institutional sources. The survey also found that 70 per cent of earners in the annual income bracket of more than Rs.400, 000 borrowed from institutional sources as compared with only 27.5 per cent in the case of earners in the income bracket of less than Rs.50,000 .

8. MAJOR REASONS OF INCREASED INDEBTEDNESS FROM NON INSTITUTIONAL SOURCES

A very interesting analysis by the

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RCF shows that the major cause for increase in the overall household debt and the increase in the share of households indebted to non-institutional sources between 1991 and 2002 was a significant increase in current farm expenditure and household expenditure, especially in rural areas.

The 'household expenditure' includes expenditure incurred on purchase of residential plot; purchase, construction, addition/alteration of building for residential purposes; purchase of durable households assets, clothes, among others and expenditure on medical treatment, education, marriages, and ceremonies. Thus, the 'household expenditure' includes many items for which households may find it difficult to obtain loans from institutional sources.

The **IIMS Survey** also suggests that a large portion of loan is taken by the households for meeting ***financial emergency, medical emergency and social obligations***. These ***three*** purposes accounted for about 3 % of the loans availed of by indebted earners. Furthermore, more than 60% earners, indebted to non-institutional sources took loans for the aforesaid three purposes. *In the case of emergencies, people may find it convenient to approach non-institutional sources for their credit needs.* Financial emergencies, for instance, include unplanned expenditure on business, consumption and marriage, among others, which may not be financed by banks and other institutional agencies.

Some of the other causes for greater recourse to non institutional sources as identified by the RCF are deceleration in bank credit to households in the context of change in banks' behaviour in the 1990s due to their ***impaired balance sheets*** and ***tightening of prudential norms*** and the ***slowdown in formal credit*** to households in the context of the slowdown in agriculture and allied activities that may have induced such households to approach non-institutional sources to meet their credit requirements. The RCF has however noted that the last round of ***NSSO survey*** related to the year 2002. Subsequently, several policy initiatives have been taken by the Government/Reserve Bank to improve the credit flow to agriculture and the needy sectors. These measures had a significant positive impact on financial inclusion as revealed by the data for subsequent period.

9. NO FRILL ACCOUNTS

The Reserve Bank advised the scheduled commercial banks and RRBs in November 2005 to make available a basic banking 'no-frills' account with nil or low minimum balances as well as charges, that would make such accounts accessible to vast sections of the population. Significant progress has been made by banks in this regard and the number of no-frills accounts opened by banks and, particularly, by public sector banks increased sharply during the last few years. As announced in the Annual Policy Statement for the year 2008-09, and in order to give further impetus to financial inclusion, banks were advised in May 2008 to classify overdrafts up to Rs.25,000 (per account) granted against 'no-frills' accounts in rural and semi-urban areas as indirect finance to the agriculture sector under priority sector with immediate effect.

10. BASEL II IMPLEMENTATION

The *Basel Committee on Banking Supervision* (BCBS) introduced the new capital framework (Basel II) in June 2004, which provides a more risk-sensitive approach to determining capital requirement for banks not only for credit and market risks but also for operational risk as well as for all other material risks. *Overall, 41 banks migrated to Basel II norms by end-March 2008, of which 40 banks had CRAR of more than 10 per cent and one bank had close to 10 per cent.*

The full implementation of the Basel

II accord, even under the basic/standardized approaches, would *remain a major challenge for some time to come*, for both the banks and the Reserve Bank as the banking supervisor. At the banks' level, the implementation would require, *inter alia*, upgradation of the bankwide information system through better branch-connectivity, which would entail cost and may also raise some IT-security issues. The implementation of Basel II also raises several issues relating to development of human resource skills and database management. *The banks which require higher amount of capital under the Basel II framework would also need to explore various capital raising options*. The Basel II framework also offers multiple options of increasing sophistication, for computing capital requirements for the three major categories of risks. While for the present, banks are required to adopt the relatively simpler approaches available under the framework, they are likely to be permitted by the Reserve Bank to migrate to the advanced approaches envisaged under the Basel II framework, though a definite timeframe for the purpose is yet to be firmed up. Given the greater complexity of the advanced approaches, a progressive improvement in the quality of human resources in the banks, particularly for equipping them with the necessary quantitative skills, would be a pre-requisite for the migration. As under the advanced approaches, the Reserve Bank would also be required to approve the internal models of the banks, developing the required expertise within the Reserve Bank would also be a significant challenge. Under Pillar 2 of the framework, the Reserve Bank would be required to review the internal capital adequacy assessment process of the banks to ensure that the internal capital held by the banks under Pillar 2 adequately reflects all their material risk exposures. This would be a challenge for the Reserve Bank too and may require a review of its supervisory processes.

Rural and semi-urban centers account for around 66% of total bank branches. The all-India data clearly show that still lot of work is to be done in making the banking facilities available to maximum possible persons and that too at their door step but still the progress is quite satisfactory as compared to the position in the last century.

11. ATM – AN *IT* FRIEND

Like in other developed countries, a *national electronic clearing service* for bulk payments using the retail electronic payments infrastructure created is being conceived. This would remove the geographical limitations which exist in the present *electronic clearing service* (ECS). The banks are making use of such infrastructure for facilitating customers with more and more on line payment services. Banks need to integrate the various systems as also tap the potential of the cards / ATM network for providing various services to the customers.

The ATM outlets in India increased at a CAGR of 28.09% from March 2006 to March 2007.Bankable households in India are anticipated to grow at a CAGR of 28.10% during 2007-2011. In terms of ownership, debit cards are more in number than credit cards but in terms of transactions, credit cards are used more than debit cards.

12. RURAL & SOCIAL SECTOR OBLIGATIONS

The Authority framed Regulations on the obligations of the insurers towards rural and social sectors. Such obligations need to be fulfilled by the insurers on an annual basis. The regulations require insurers to underwrite business based on the year of commencement of their operations. 'For meeting these obligations the regulations further provide that if an insurance company commences operations in the second half of the financial year and is in operations for less than six months as at March 31, of the relevant financial year, (i) no rural or social sector

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obligations shall be applicable for the said period and (ii) the annual obligations as indicated in the Regulations shall be reckoned from the next financial year which shall be considered as the first year of operations for the purpose of compliance. In cases where an insurance company commences operations in the first half of the financial year, the applicable obligations for the first year shall be 50 per cent of the obligations as specified in these Regulations. The regulations framed by IRDA on the obligations of the insurers towards rural and social sectors clearly stipulate that these obligations have to be fulfilled by insurers on an annual basis. Furthermore, the LIC and public sector general insurance companies are required to ensure that the quantum of insurance business in the rural and social sector underwritten by them shall not be less than what has been recorded in 2001-02 i.e. before the issue of regulations.

a) *Rural Sector Obligations* : All the eighteen life insurers including LIC have fulfilled their obligations towards the rural sector. The number of policies underwritten by them in the rural sector as a per cent of the total policies underwritten in the year 2007-08 was as per the obligations applicable to them. LIC policies in rural sector are more than the prescribed 24 per cent for 2007- 08.

b) Social Sector Obligations: All the eighteen life insurance companies fulfilled their social sector obligations during 2007-08. The number of lives covered by them in the social sector was above the stipulated obligations. The LIC, while complying with its social sector obligations covered a more number of lives than the prescribed 20.00 lakh lives as obligations for 2007-08.

13. CONCLUSION

Rural market is not just a poor extension of the urban market but is an altogether different proposition. It is not only the income of rural people but a host of other *social, infrastructural and cultural factors*, like, caste, perceptions, values, traditions, community etc. which differentiates these two important Indian markets. One cannot stereo-type the rural consumer behaviour due to occupational, demographical, geographical, and behavioural factors which influence not only the life style but also create altogether different sets of needs in different areas. This generates the need to segment the rural market not only to cater to it efficiently, effectively and profitably but also to view and analyze it with a totally different attitude.

Moreover, overall rural development is a demand of today's India. We cannot overhear it. People want to lead a respectable life wherein they can fulfill the basic requirements of their family members and for this they need money, their own hard earned money and that is possible when they get work. Programmes like Jawahar Rozgar Yojna, e-chopal, Project Shakti etc. are trying to create virtuous circle of higher income, higher production and higher consumption because *before making consumers ready to buy products or invest their money, it is quite obvious to put money in their pockets*.

"What we want is work. Work, that will bring income in our hands. When our lives improve, the area will improve. We will improve the soil and water. We will plant trees. But first give us work. We want work that brings income in our family."

– Rambhaben.

But even then there is a *deficit budget* every year. This could be converted into the '*Surplus Budget*' only when we firmly decide not to allow our hard earned money to go into the hands of selfish politicians and capitalists, make stringent laws to plug the loop-holes and listen to these words of a common Indian –

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