

Some issues on SME finance

DR SALEHUDDIN AHMED

FINANCIAL services for the poor have proved to be a powerful instrument for poverty reduction enabling the poor to build assets, increase incomes and reduce the vulnerability to economic stress. Today, access to credit is recognised as a 'right' of people globally. Over the years, there has been phenomenal growth in activities of microcredit in many countries of the world and a transition in the paradigm and modalities of microcredit. Microcredit Summit Meeting first held in Washington DC, USA in February 1997 has launched a global movement to reach 100 million of the world's poorest families, especially the women of those families, with credit for self-employment and other financial and business services by the year 2005. The UN has declared 2005 as the "International Year of Microcredit"; now is the time to reflect on the experiences of Bangladesh, the birthplace of microfinance and the country with the biggest and most vibrant microfinance sector.

As the microcredit movement matures, we get a clearer idea of what its strengths are and what are its limitations. To move forward, we need to be more effective, and increase outreach, design products to include the poorest, and also provide finance for growth and employment oriented small and medium enterprises (SMEs) which are needed to spread the poverty alleviation net wider, so that significant decline in poverty takes place.

A significant number of people around the world are excluded from full

According to the PRSP the thrust of SME development should be on 'modern' SMEs that have higher growth potentials compared to the traditional SMEs. The policies towards SMEs should be based on a positive developmental attitude seeking to assist them by promoting efficiency, adaptation to new circumstances and technology, rather than protecting the sector through a distorted incentive structure.

participation in the financial sector. Although the unbanked has been an issue for some time, the subject is now receiving greater attention, helped by the fact that 2005 is the United Nations' Year of Micro-credit. Banking the unbanked is about bringing banking and financial services to those people who, up to now, have not had access. Although the unbanked is usually thought of in terms of individuals, it is an important issue for small firms as well.

Small and medium sized enterprises (SMEs) may not always have the same access to banks and financial institutions as big firms. Thus access of SMEs to the range of financial services is a key issue that needs to be considered in terms of banking the unbanked.

It is generally recognised that SMEs have a significant role in employment generation, poverty reduction and over all economic growth, specially for a developing economy like Bangladesh. SMEs are typically labour intensive industries with relatively low capital intensity. As such for a country like Bangladesh which is labour abundant and capital scarce, SMEs have a natural comparative advantage. In recognition of the strategic importance of the development of SMEs in promoting industrial growth, employment

generation and poverty alleviation the SME sector has been declared as a priority sector in the Government's Industrial Policy 2005 and various measures have been initiated to help maximise the SMEs' growth potential.

Availability of finance is thought to be a major constraint to formation and growth of SMEs in Bangladesh. Banks are reluctant to expand their SME credit portfolio because they do not consider SME lending an attractive and profitable undertaking. This is so because SMEs are regarded as high risk borrowers because of their low capitalisation, insufficient assets and their inability to comply with collateral requirements of the banks. Administrative costs are also higher because close monitoring and supervision in the SME operation becomes necessary. Despite all these facts banks and financial institutions have been providing finance to the SME sector and the volume of finance is showing an increasing trend. Most importantly, the share of private sector banks in disbursement of credit to the SME sector has been increasing in recent years comparatively at a higher rate than the NCBs and state owned DFIs.

There is an issue of interest rate

charged by banks and financial institutions for SME finance. Very often it is argued that the interest rate on SME loan is too high and needs to be lowered. In this regard it may be mentioned that following the interest rate liberalisation policy as a part of financial sector reforms, the responsibility to determine interest on loans and advances has been left to the lending banks and financial institutions. Under the liberalised interest rate regime central bank's intervention to reduce interest rate for a particular sector will not be in order and involve the risk of being construed as a retrograde policy. For entrepreneurs, though the supply of and access to finance is very important, the cost of fund is also a factor for their sustainability and expansion. The banks and financial institutions should consider the fact that if the rate of interest is too high, then the profitability of entrepreneurs, especially for those of the innovative projects will be adversely affected. Bangladesh Bank (BB) has also undertaken programmes to provide relatively cheaper funds to the banks and financial institutions which might encourage them for SME financing.

SME has been identified in the PRSP (Unlocking the Potential) as one

of the seven critical sectors for pro-poor economic growth and special emphasis has been give on rapid growth and development of this sector. According to the PRSP the thrust of SME development should be on 'modern' SMEs that have higher growth potentials compared to the traditional SMEs. The policies towards SMEs should be based on a positive developmental attitude seeking to assist them by promoting efficiency, adaptation to new circumstances and technology, rather than protecting the sector through a distorted incentive structure.

In the PRSP the actions suggested for the development of SMEs in Bangladesh include (i) Adoption of an unambiguous definition of SME; (ii) Strengthening of BSCIC's capacity to provide market information; (iii) Simplification of regulatory procedures; (iv) Setting up an appropriate credit guarantee scheme for lending without real estate based collateral; (v) Enlarging the base of conduit lending institutions; (vi) Making BSCIC's industrial estate programme demand driven; (vii) Priority development of the road network and supply of gas and electricity; (viii) Extension of BOI's One-Stop Service to cover SMEs; (ix) Greater public-private cooperation for the design and implementation of effective business support service; (x) A differentiated and hassle-free indirect tax system for SME; (xi) Calibration of trade policy reform to support SME development.

Dr Salehuddin Ahmed is Governor, Bangladesh Bank.

Reflections of vibrant culture

MUHAMMAD ZAMIR

DECEMBER in the Bangalee psyche not only heralds the winter but also festivity. It is the time when Bangladesh both in Bangladesh and the adjoining region, celebrate the bringing in of the harvest. It is the season for marriages, feasts and culinary delights like 'pithas.'

The months from December through to March are also known for the many occasions, which are the basis for national festivals.

This year for example, we have had the holy Eid-ul-Fitr in November after the month of Ramadan. We have commemorated 'Bijoy Dibosh' on 16 December and are looking forward towards Eid-ul-Adha in the beginning of January 2006. Very soon afterwards, the nation will be remembering the martyrs of the language movement and will observe the International Mother Language Day and Shaheed Dibash on 21 February 2006. After that will come the National and Independence Day on 26 March 2006.

Bangladesh is a land where festivals are linked to its multi-ethnicity, different religious beliefs, its history and traditions. It has a rich cultural tapestry that spans over three millennia. Its festivals reflect its diversity.

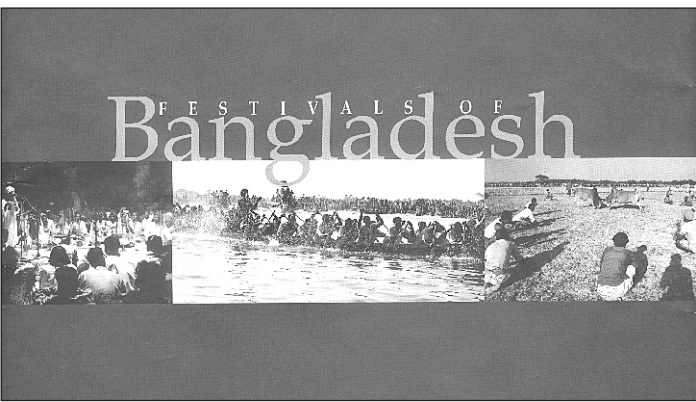
Consequently, it was indeed a pleasant surprise to be invited to the publication ceremony of 'Festivals of Bangladesh' and to meet the members of its erudite editorial board -- Professor Anisuzzaman, Shamsuzzaman Khan and Syed Manzoorul Islam. It was a pleasure to discuss with them as to why they had given such focus and attention 'to capture in words and pictures the magnificence of the festivals of Bangladesh -- both sacred and secular'. They explained that their effort had been made possible through articles written by academicians as well as cultural and social anthropologists. I must admit that the text does provide in simple language the origin and development of the festivals while the coloured photographs reveal their splendour and setting. The juxtaposition of these elements help to explain the background that makes each festival so special.

As is accepted by all of us, festivals in Bangladesh reflect not only religious persuasions but also hopes

BOOK REVIEW

Festivals of Bangladesh

Published by Nymphaea Publication, Dhaka
118 pages, Taka 2000



and aspirations. This is particularly true of religious occasions, which sometime transcend 'the confines of the community' in which they usually occur.

In Bangladesh festivals are a part of our vibrant culture. As a result, people from all communities not only enjoy such festivities but also use them as bridges to re-connect with their neighbours. Muharram, for example, is a Shi'ite festival, but has gained immense popularity in Sunni-dominated Bangladesh. In this context, Professor Anisuzzaman has wisely observed that Ras or Doljatra of the Hindu faith is also no longer restricted to Gaudiya Vaishnavites anymore.

The publication discusses and presents twenty-one festivals ranging from Pehela Baishakh to Boat races. In addition, it also covers national occasions like the Victory Day. It also focuses on ethnic festivals like the Buddha Purnima, the Ras festival of the Manipuris, the festivals of the people living in the Chittagong Hill Tracts and also rituals linked to Majibhandari and Lalon festivals.

The editorial board deserves credit for their attention towards detail and graphic layout. As expected, such a compilation of different festivals in Bangladesh required use of many transliterated Bengali words. This called for a special academic exercise that required the Board members to

standardize the transliteration. This has helped to improve the quality of the publication.

Particular thanks are also due to Karunangshu Barua Debu for his imaginative approach with regard to the publication.

This is an attractive coffee table book. It should be popular both within Bangladesh and also among expatriate Bangladeshis who always look for resource materials for their families.

Bangladesh is presently the Chairperson of SAARC and has closely identified itself with the South Asian ethos. Our leadership often speaks of the need for creating a cultural least common denominator in this region. In this context, it might be a good idea if the responsible authorities carefully considered the possibility of assisting the publishers of this volume in printing a series dealing with the cultural festivals of our South Asian family. There could be seven more books reflecting the national festivals of the other seven member states of SAARC. There is great similarity in the ethnic composition as well as in the religious faiths that are practiced in this region. Such a series could eventually help to bring the region together in a meaningful manner.

Muhammad Zamir is a former Secretary and Ambassador who can be reached at mzamir@dhaka.net

Making globalisation work for Bangladesh

HILARY BENN

THE relationship between the UK and Bangladesh has never been closer. It's no longer just about aid and immigration; but now covers all the issues that partners in a global era should be discussing. The UK's main aim in Bangladesh is to support democracy and help Bangladesh to achieve the Millennium Development Goals. That's why I am here in Bangladesh to talk about trade and investment in the context of globalisation.

Why does globalisation matter to any of us?

Every day 2 million workers turn up at their garment factories in Dhaka to do jobs that link them to the UK, Europe, and America. That's where the goods they make are sold. Their jobs have come about because of globalisation; their jobs depend on it. 7 million people in Bangladesh now use mobile phones -- a doubling since last year -- with international connections growing at more than 60 percent. Two million Bangladeshis live and work outside the country and send back \$3.8 billion each year.

These are just three examples of how Bangladesh and the rest of the world are increasingly linked together.

The speed of this change can be frightening -- some want to stop it, I remember seeing a demonstration with the banner: "Worldwide movement against globalisation" -- which shows some of the contradictions.

But it is not about being for or against globalisation. It is after all a human-made process -- the result of thousands of years of human activity, but greatly increasing in pace and scale in the last 100 years as a result of trade, technology, travel, and television. It is about making it work for social justice -- to increase prosperity for everyone.

The most important thing is that globalisation can bring huge benefits if managed well. It can provide the foundation needed for ending poverty. And no country in the past 50 years has lifted itself out of poverty without joining the global economy.

But if we manage it badly, we will see rising inequality and increased insecurity. I want to focus on two aspects of globalisation that are important to Bangladesh -- trade and investment. These are the most powerful forces driving globalisation.

That's why the trade talks in Hong Kong this week are so important, and why I am going to the meetings. They are an opportunity to seek agreement to greatly expand world trade -- to everyone's benefit -- and in particular for developing countries.

It is rising trade that has supported the steady growth of your economy, created more jobs and helped reduce poverty. Women, in particular, have benefited from getting jobs in the garment industry. It has helped equality in Bangladesh by getting women into the workforce, improved their position in society, reduced maternal mortality.

But more could be done to ensure that the international trading system works better for the poorest countries. At Doha in 2001, developed countries agreed to reduce trade protection and end unfair subsidies, which for the first time put the concerns of developing countries at the heart of the WTO. The UK is now working with other developed and developing countries to ensure that the interests of the Least Developed Countries (LDCs), such as Bangladesh, are taken forward in the WTO talks.

I think there are three key areas: First, in agriculture, developed countries should cut tariffs, avoid new protection by ensuring that less than 2 percent of all products are categorised as "sensitive," cut trade-distorting domestic support by three quarters, and end all forms of export subsidy by 2010.

Second, we can do more to ensure that trade rules work better for developing countries. The right kind of Special and Differential Treatment would give countries such as Bangladesh flexibility to help them deal with change in areas crucial for good security and rural

development.

There should be a simple Special Safeguard Mechanism for protecting countries from fluctuations in the volume and price of imports. And all developed countries, and the larger developing nations, should be providing the Least Developed Countries with duty and quota free access for all products.

Third, the poorest countries will gain very little from the Doha Round of trade talks unless they can build their capacity to trade. And like many other LDCs, Bangladesh will need time and help to adjust to an increasingly liberalised global economy.

So we are working to ensure that assistance is available to countries in need. G7 Finance Ministers recently agreed to increase aid for trade-related capacity building to \$4 billion.

For our part DFID will be trebling our "aid-for-trade" to £100 million by 2010, and we play our part in making a success of the enhanced Integrated Framework.

The government of Bangladesh also considers these to be key priorities, and we both hope that progress can be made on these in Hong Kong.

However, there is much that Bangladesh can do to improve its trade prospects through action here at home.

As a start, a comprehensive trade strategy needs to be developed in consultation with all the major stakeholders -- government, business, civil society. And, in part, to focus on expanding exports beyond the traditional garment sector.

Despite the impressive recent growth, Bangladesh's exports as a

remain, internationally, competitive. This requires a host of things: building up educational and skill levels, becoming technologically innovative, improving productivity, and managing a more open market economy. A tall order for any country!

However not everything can be done at once; nor does it need to be. It's essential to prioritise. The key to increasing Bangladesh's ability to benefit from the opportunities arising from international trade is to get the investment climate right -- to give business the confidence to invest.

Foreign Direct Investment to Bangladesh is low by Asian standards, but is growing -- from \$79 million in 2001 to \$460 million in 2004. The Board of Investment has been very effective in attracting potential investors: there are announced plans of \$7-\$8 billion over the next 6 years, including some major international investors such as Cairn Energy and Asia Energy. The UK has always been a major source of investment into Bangladesh, and we will continue to encourage this.

But the global picture of FDI is highly skewed. In developing countries, FDI is concentrated in just a few of the largest economies, notably China and India. And on average, FDI represents only around 12 percent of total investment in developing countries. So, while attracting more foreign investment remains vital, it is clear that the key to progress is domestic investment.

This means getting the conditions right for Bangladeshis firms to invest more in Bangladesh. This means engaging you, the business leaders of Bangladesh.

Without power, the sewing machines stop sewing and computers and irrigation pumps shut down. There is a desperate need for investment in electricity generation and transmission in Bangladesh. The civil unrest in places like Karimganj, Shaghata, and Kalapara, in response to increased 'load-shedding', is both a worrying development and an indication of the extent of the problem. I am pleased to be able to say that have just signed an agreement to provide £50 million to support increased access to electricity in rural areas.

And without a functioning transport network and efficient sea port -- one that is free of the delays that I mentioned earlier -- exports will be unable to compete in international markets -- particularly as trade preferences are steadily eroded. DFID is supporting the development of transport infrastructure in Bangladesh, focussing on roads.

Increased investment in infrastructure will require strong donor support, and the aid commitments made earlier this year by the EU, and by the G8 at Gleneagles will help -- an additional \$50 billion a year in aid by 2010.

Many of you will be aware that the UK Government has agreed up to £40 million to help Bangladesh achieve a better investment climate. We are working closely with out development partners, the World Bank, Asian Development Bank, Japan, EU and Canada on this. We will assist in the development of special economic zones, in which domestic and foreign firms will be able to secure a better investment climate.

It is encouraging to see the public

Asia is changing rapidly and has demonstrated remarkable performance both on economic growth and poverty reduction in the last few decades. The time is now right for all of us with a stake in Asia's future to consider how best we can increase our efforts over the coming decade to have a real impact on reducing poverty. And here in Bangladesh we stand ready to assist government, civil society and the private sector -- working together -- to achieve this important agenda.

percentage of GDP are around the lowest in Asia. You have a vibrant private sector that, with appropriate support, could quickly grasp new export opportunities. But this requires a number of things to happen.

Why is it that in Bangladesh it takes 6 to 7 days to turn around a ship, compared to 6 to 7 hours in Singapore? Why does it take 38 signatures to import items into Bangladesh but only 2 in Singapore?

Resolving problems like these requires the right policies and government action. But it is not just a matter of what the government can do. It also requires the private sector to get involved in streamlining regulation and red tape, and pushing for improvements in legislation.

A good example is the development of on-line investment applications at the Board of Investment, reducing processing times and increasing transparency many times over. It's encouraging that many of you are beginning to play this role, for instance through the recently formed Private Sector Development Task Force and Consultative Group. The Task Force has identified six key barriers that require early reform, including the duty drawback system.

One area of particular concern is in providing good and responsible working conditions. Labour standards in Bangladesh are improving but recent industrial accidents, such as at Spectrum in April this year, and the fire affecting six factories in Mirpur, in May last year, illustrate just how dangerous conditions can still be.

Bangladesh -- and its business leaders -- could do more in this area. This requires a concerted effort by all -- the private sector, NGOs, unions, and government. The UK will help in this process.

And progress in this area is not only good for workers, but improved labour standards will also help Bangladesh become more internationally competitive.

Arguably, the key economic challenge for Bangladesh is to become, and

The stakes are high -- if the investment climate in Bangladesh were to match China's then, on average, wages in Bangladesh could be 20 percent higher, return on investment 80 percent higher, productivity would double, and employment could grow by almost 5 percent. These are the sorts of results that are needed if Bangladesh is to achieve its national plans to increase growth, reduce poverty and achieve the Millennium Development Goals.

Business, whether foreign or domestic, want a business environment that is stable and predictable, supported by transparent laws, fair competition, reliable legal systems, predictable and honest public institutions, and reliable transport and communications infrastructure.

But business managers in Bangladesh consistently rank corruption, and the lack of confidence in the courts to uphold property rights, as a greater constraint than do their competitors in countries such as India, China, Pakistan, and Indonesia.

The court system makes contract and property enforcement expensive and unreliable. One prominent minister admitted that even he has been waiting to receive papers confirming his ownership of a tea garden purchased five years ago!

For the average citizen or small business person, false cases and manipulation of the legal process can make ordinary life -- let alone business -- difficult. Surveys indicate that the average Bangladeshi believes that justice -- particularly in the lower courts -- favours those who have money. Whether dealing with the police, courts, or with the land administration, reports of bribery are common.

Why does it take 363 days to register a property in Bangladesh, but only 2 days in Thailand? The chief reason -- outdated laws and overburdened courts. Property disputes account for the most case backlogs in Bangladesh's courts, often taking years to resolve.

But infrastructure is also vital.

and private sectors improving their cooperation, with frank discussions of Government capacity in key areas. It will be important to build on this and create better partnerships between employers and unions, and -- critically -- between the private sector and the public sector.

Another important source of money is migrants' remittances. In Bangladesh, remittances have been historically larger than FDI. In 2004 formal flows were almost \$4 billion, some 6 percent of GDP, and more than 3 times greater than foreign aid. Remittances sent by migrants living in the UK and working in the Middle East are a major source of income for poor families in Bangladesh. The plane I arrived on this morning from Abu Dhabi was full of returning migrant workers, who, as they looked out of the window felt that there is nothing like coming home.

At an individual or household level, remittances directly increase income and reduce poverty. The recipient can use the money to build a house, for children's health or education, or to set up a small business. Evidence shows that in Bangladesh remittances play a really important role in poverty reduction.

For example, there is clear evidence in Bangladesh that "without access to remittances, children's access to education would have been severely limited." A rough calculation puts the amount of formal remittances that is spent on education at twice the value of Primary Education Stipends.

Remittances also play a major role in times of need. Remittances are an "emergency reserve" that provide help to households when needed. They are a form of "social security" for the elderly, and they increase in times of crisis. For instance, in the two weeks following the earthquake in Pakistan transfers to Pakistan jumped by 400 percent.

More can be done to support and expand this powerful source of "development finance." This will involve

measures to reduce the cost of sending remittances, and expanding access to remittance facilities, particularly for the poorest and most disadvantaged migrants and recipients.

I had the pleasure today of signing the UK Government's Remittance Partnership with Bangladesh, which should benefit more than 4 million migrants and families over a period of 3 years, by helping to reduce costs of remitting to Bangladesh. DFID will be working closely with the Bangladesh Bank to implement this initiative.

Bangladesh is making huge progress. Fifteen years of economic growth at around 5 percent, and the reduction in poverty that has accompanied this, is an amazing accomplishment. But the progress that has been achieved faces a number of threats.

Security, in particular, is an issue that concerns all of us, and insecurity undermines confidence -- whether in the UK or here in Bangladesh. Concerns about recent violence and extremism cannot help Bangladesh.

The UK government has condemned the recent bomb attacks in Bangladesh and offers the families of the victims and the people of Bangladesh its deepest sympathy.

Terrorist attacks, wherever they occur, are not religious acts. We all know that Islam is a faith of tolerance and peace. Yet the extremists are harming Islam's image. These attacks are an attack on all of us. An attack in Bangladesh is especially felt in the UK, given our historical links and the Bangladeshi community there.

You will know that the UK has also suffered recent terrorist attacks. On July 7, bombs in London killed and injured people from 19 countries and of many different faiths -- Muslims, Christians, Hindus, Sikhs, and Jews.

The leaders of Britain's diverse faith groups have all stated forcefully that people of every faith should stand together to fight terrorism. It is time the mainstream stood up to the extremists and reasserted the true values of Islam.

Tackling these problems will take political will and courage, but we cannot allow the terrorists to succeed. We must work together to defend democracy and the rule of law in Bangladesh if the country is to develop and prosper. It is essential for the people of Bangladesh that the growing threats of terrorism and extremism are properly addressed. And a secure Bangladesh will increase the confidence of traders and investors.

In order to defeat terrorism, we also need to defeat poverty. An important way to do this is to make the most of the economic opportunities that a globalised world provides.

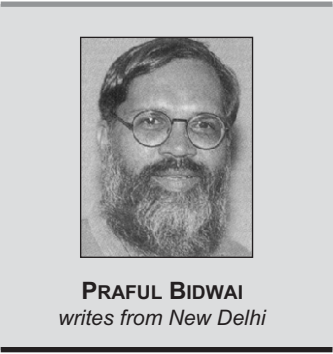
Asia is changing rapidly and has demonstrated remarkable performance both on economic growth and poverty reduction in the last few decades. Asia is also key to global achievement of the Millennium Development Goals by 2015.

The time is now right for all of us with a stake in Asia's future to consider how best we can increase our efforts over the coming decade to have a real impact on reducing poverty.

The UK is committed to this process and we'll be getting together with Asian governments in 2006 to look at how together we can learn lessons from Asian successes and address the risks and remaining challenges to ensure progress continues.

And here in Bangladesh we stand ready to assist government, civil society and the private sector -- working together -- to achieve this important agenda. You have a huge source of talent and experience to call upon. And you have achieved so much already. Globalisation is an opportunity for Bangladesh -- let's work together to grasp it!

Hilary Benn MP, is Secretary of State for International Development, UK. This is an edited version of a speech given by him to Bangladeshi business leaders on Dec 11.



PRAFUL BIDWAI writes from New Delhi

THE world can breathe a sigh of relief that more than 150 countries agreed at the Montreal climate conference to hold further talks to counter global warming.

So the Kyoto Protocol, agreed under the 1992 United Nations Framework Convention on Climate Change (FCCC), is secure -- despite opposition from the United States, which accounts for 24 percent of the world's greenhouse gas (GHG) emissions.

Under Kyoto, 36 industrialised countries must reduce emissions by 5.2 percent (over 1990 levels) by 2008-2012. At Montreal, they agreed to make even deeper cuts after 2012. China and India, with their gargantuan appetite for energy, agreed to play an active role in future talks, but accepted no targets.

Montreal's message, that the future lies in clean and sustainable technologies, was so powerful that even the US blinked and returned to the conference after walking out. Washington now says it'll join exploratory talks for a non-binding agreement.

While significant, FCCC's gains shouldn't be exaggerated. It took the world's climate scientists and environmentalists a quarter-century to highlight the significance of climate change. And 8 years elapsed between Kyoto's signature and entry-into-force.

The Kyoto targets are so meagre that it would take 30 such protocols just to stabilise GHG concentrations at twice their level at the time of the Industrial Revolution! The Protocol also exempted developing countries from emission cuts, including large polluters (China, India, and Brazil). Major Northern emitters like the US and Australia stayed away from Kyoto.

Drastic GHG cuts have become imperative. Humanity has been living off the globe's natural capital and has wrought enormous environmental changes. The most destructive is the rise in ambient temperatures by almost 1 degree centigrade. The resultant melting of polar icecaps has generated more heat and raised sea levels.

This has altered the world's complex climate, including different streams, currents, circulations and rainfall. The effects are already visible -- through the 2003 heat wave, which killed 35,000 in Europe, last winter's snowfall in Dubai, and a doubling of the ferocity of hurri-

Tackling climate change after Montreal

India must show leadership

India seized the initiative at the world's first major conference on the environment, at Stockholm in 1972. It must now show leadership in rolling back climate change. It must try to bring the US and other "environmental rogues" into the FCCC process. And it must set a positive example by proposing emission-reduction standards for the South with due regard to an equitable sharing of global environmental resources.

canes over 30 years.

South Asia too has been affected -- witness Mumbai's extraordinary 944 mm rainfall on July 18 -- and more frequent cyclones in the Bay of Bengal.

The United Nations Environment Programme estimates that in 2005 global warming caused damage equivalent to \$200 billion. Indian scientists say that climate change wrought a drop in India's agricultural output in 2002-03 and 2003-04. Wheat yields fell 20-40 percent, and mustard yields by 50-70 percent, in 2002-03.

The World Health Organisation says climate change annually causes five million cases of illness and more than 150,000 deaths. Some of the world's poorest countries will suffer a doubling of deaths from malaria, diarrhoeal diseases and malnutrition by 2030.

Low-lying countries face the grimmest prospect. The Intergovernmental Panel on Climate Change estimates that global temperatures will rise by 1.4 to 5.8 degrees centigrade by 2100. This will raise sea levels by 88 cm.

Entire countries like Maldives will disappear. Tragically, the worst-affected will be the world's least polluting countries: island-nations on the Pacific and Indian Ocean coastlines and in sub-Saharan Africa.

Alarming forecasts for India come from a recent Indo-British scientific study. This predicts a temperature rise of 3 to 4 degrees centigrade in India, causing droughts in the North and Northeast, and floods in the Ganga, Godavari, and Krishna basins.

The worst threat to the subcontinent comes from the rapid melting of icecaps on the Tibetan plateau and the receding of Himalayan glaciers. That's where seven of Asia's greatest rivers, including the Indus, Ganga, and Brahmaputra originate. The likely effects -- floods followed by long-term droughts -- will be devastating.

All this calls for urgent measures which go far beyond Kyoto. Kyoto must be defended against ecologically irresponsible governments, like Washington. But Kyoto is flawed. Besides mandating paltry GHG reductions, it encourages carbon trading -- through a system of "credits" which polluting Northern corporations can buy cheap through "clean development mechanism" projects in the South.

Most such projects are unworthy. A

Dutch study indicates that they will at best cut GHG emissions by 0.1 percent -- well below even the Kyoto target!

The world must reduce emissions by 80 percent over 30 years. To achieve this, it must shift to non-fossil fuel, renewable and environmentally sound energy; move away from energy-intensive agriculture; and conserve water. This means huge cuts in consumption in the North, but also in fast-growing Southern economies.

It's simply dishonest for major Southern emitters like India and China to argue that the North accounts for three-fourths of GHG emissions; their own per capita emissions are below the global average (4.1 tonnes of CO2); and so they needn't undertake reductions.

The global average is unacceptably high. China and India are fast approaching it -- although they are below the US's criminal level of 20 tonnes.

There are huge consumption disparities between rich and poor in the South. The Indian elite is increasingly adopting Northern consumption-intensive lifestyles. It's unethical for it to hide behind the poverty of the people -- only to feed its monstrous appetite for SUVs (fuel-guzzling sport-utility vehicles with their truck-level emissions) and air conditioners, shop in glittering malls, and generate US-level per-capita wastes.

India must change its unsustainable growth-model. Each time its economy grows by 6 percent, GHG emissions rise by 8 percent. This must stop.

India seized the initiative at the world's first major conference on the environment, at Stockholm in 1972. It must now show leadership in rolling back climate change. It must try to bring the US and other "environmental rogues" into the FCCC process. And it must set a positive example by proposing emission-reduction standards for the South with due regard to an equitable sharing of global environmental resources.

The Indian governments' domestic task is clearly cut out: ban SUVs, steeply raise taxes on air conditioners and other high-energy gadgets, discourage private transport, and promote renewables. That's the way to make a worthy contribution to the world.

Prof. Bidwai is an eminent Indian columnist.