

India's rural economy hit hard as informal lending breaks down



An Indian woman holds 2,000 rupee notes as she has her finger marked with indelible ink after exchanging 500 and 1,000 rupee banknotes at a bank in Chennai.

REUTERS, Mumbai

Life was good for Mitharam Patil, a wealthy money lender from a small village in the Indian state of Maharashtra.

Small-time financiers like Patil would typically lend cash to farmers and traders every day, providing a vital source of funding for a rural economy largely shut out of the banking sector, albeit at interest rates of about 24 percent.

All that came crashing down on Nov. 8, when Prime Minister Narendra Modi banned 500 and 1,000 rupee (\$7.30-\$14.60) banknotes, which accounted for 86 percent of currency in circulation.

The action was intended to target wealthy tax evaders and end

India's "shadow economy", but it has also exposed the dependency of poor farmers and small businesses on informal credit systems in a country where half the population has no access to formal banking.

Patil was stuck with 700,000 rupees (\$10,144) of worthless cash. He can also only withdraw up to 24,000 rupees from his account every week, barely enough for his own personal needs given he also works as a farmer.

That is bad news for farmers and traders who had come to depend on Patil, despite his high interest rates, given that bank branches are located far from the village, while the process to obtain loans is long and cumbersome.

It may also hurt India's econ-

omy, as the informal sector accounts for 20 percent of gross domestic product and 80 percent of employment. The country is due to report July-September GDP on Wednesday.

"Sowing of winter crops has been started and farmers badly need money. But I couldn't lend (to) them due to restrictions on withdrawal," Patil said.

Some farmers and small businesses say India's informal credit system has ground to a virtual halt, despite government measures to steer more funds to them, including 230 billion rupees in crop loans.

Not only are money lenders struggling to lend, they are also struggling to get paid.

Saumya Roy, CEO of Vandana Foundation, a micro finance firm, said it has encountered difficulties in collecting payments from borrowers, which will have a knock-on effect on how much they can lend to others.

"We can't go on lending and suffer losses," she said.

"How can we force people to pay back when they don't have money to buy food. How will they pay us?"

The paralysis exposes the slow progress India has made in extending banking to wider segments of the population, a key initiative under Modi.

The government has taken steps, including announcing zero balance accounts for poor people, but growth of bank branches has been low as margins are slender for most lenders.

In 2001, India had 5.3 bank branches per 100,000 people in rural areas. Today that stands at only 7.8 branches, according to Reserve Bank of India data.

Even if farmers or small businesses are willing to go through the process of obtaining a bank loan, which includes filling out forms and several visits to the branch, bank officials say they are too focused now on getting cash out to devote time to small loans.

"We can't allocate manpower to scrutinize farm loan documents," said a manager in a rural branch of State Bank of India.

For some analysts, the breakdown in the informal credit sector points to a government that has failed to grasp how the cash economy impacts ordinary Indians.

"It is this lack of understanding and not appreciating the importance of the cash economy in India on the part of the government that has landed the country in such an unwarranted situation today," said Sunil Kumar Sinha, an economist and director of public finance at India Ratings.

RBI takes surprise action to soak up liquidity

REUTERS

The Reserve Bank of India (RBI) on Saturday unexpectedly ordered banks to deposit their extra cash with it, in a bid to absorb excess liquidity generated by a government ban on larger banknotes.

Many Indians deposited their old notes with their banks after the ban on 500 and 1,000 rupee notes (\$7.30-\$14.60) on Nov 8, which is aimed at tax evaders and counterfeiting.

Banks had put some of this cash into government bonds, sparking a rally that saw the benchmark 10-year bond yield fall more than 50 basis points to its lowest in more than 7-1/2 years.

The central bank said banks would need to transfer 100 percent of their cash under the RBI's cash reserve ratio from deposits generated between Sept 16 and Nov 11, saying it was a temporary measure that would be reviewed on or before Dec 9.

Traders called it a drastic move intended to dent the rally in bond markets, adding that the RBI could have opted for more modest measures such as sucking out some of the liquidity through sales of market stabilisation bonds or telling banks to park funds under reverse repos.

The action could also temper market expectations that the central bank would cut interest rates by 25 basis points at its next

policy review scheduled for Dec 7, after already easing them by the same amount at its last review in October.

"The move is more of a ham-handed one than the finesse expected from the RBI," said Shaktie Shukla, founder of boutique investment advisory firm Kaithora Capital.

"The liquidity sweep will definitely halt the down move in (bond) yields," he added. "It will also temper the euphoria pre-RB policy."

The move is likely to drain over 3.24 trillion rupees (\$47.29 billion) from the banks, according to Reuters estimates.

Traders said bond market yields could rise 8-10 bps on Monday, given that the RBI move would deprive the key source of funding seen in the past two weeks, while banking shares would likely take a hit.

Bond investors had also bet India's demonetisation action would dent economic growth as consumers held back on purchases, raising the prospect of a rate cut by the RBI.

At the same time the bond rally had increased hopes it would lower borrowing costs in the economy and allow banks to reduce some of their lending rates.

On Friday the central bank also relaxed its liquidity auction rules by expanding its basket of securities that it accepts as collateral.



Kazi Masihur Rahman, managing director of Mercantile Bank, addresses an interactive meeting with mid-level officers of the bank in Dhaka recently. A total of 280 officers attended the meeting.



Anisur Rahman, national sales manager of Transcom Beverages, the franchisee of PepsiCo International, and Rizwana Siddiqui, managing director of Thai Nations, a Thai restaurant, sign a memorandum of understanding recently. Transcom Beverages became the exclusive beverages partner of the Thai restaurant.

Russia poised to gain from oil production freeze

AFP, Moscow

With its oil output at record levels and state coffers running low, Russia has little to lose and much to gain from agreeing a deal with the Opec cartel on limiting production.

Ahead of an Opec meeting set for November 30 in Vienna, Moscow -- which is not a member of the Organization of the Petroleum Exporting Countries -- is pushing for an agreement to be finally reached after similar talks in Doha collapsed acrimoniously in the spring.

Russia is one of the biggest oil

producers in the world, along with Saudi Arabia and the United States, and has paid dearly for the collapse in prices over two years of recession, exacerbated by Western sanctions over Ukraine.

While Opec plans to reduce production quotas for its members, President Vladimir Putin said last week that Russia was ready to "freeze production at the level it is at currently".

"For us to freeze production is no effort at all," Putin said.

Energy Minister Alexander Novak said Thursday that Opec had asked oil-producing countries that are not members of the cartel

to cut production by 500,000 barrels a day.

Russian oil production in recent months has not stopped growing and now exceeds 11 million barrel per day, the highest since the collapse of the Soviet Union.

The potential for further growth is "limited", said Emily Stromquist, an analyst at Eurasia Group.

A freeze "requires little to no effort on the part of Russian oil companies" while Russia "would benefit immensely from... any deal, however vague, that can help bump oil prices up a few dollars," Stromquist told AFP.

The relative rebound in oil prices since winter shows the market is

extremely sensitive to any step -- even without a concrete result -- taken in conjunction by the exporter countries that up to now have competed for market shares and produced more and more oil.

Russia's production has grown by around 50 percent since 2000 thanks to the relaunch of Soviet-era oilfields.

In recent years this growth has been sustained by new horizontal drilling methods that prolonged the life of certain oilfields, particularly in western Siberia, as well as by the launch of new projects that were approved when the oil price was higher.



Md Khorshed Anwar, head of direct business at Eastern Bank, and Md Mostafizur Rahman, group general manager of TK Group, mother concern of Chin Hung Fibers, exchange documents after signing a payroll banking agreement in Dhaka recently.

Sher-e-Bangla Agricultural University (SAU)
 Sher-e-Bangla Nagar
 Dhaka-1207

Invitation for Tender (IFT)
 Re-Tender Notice No. 02-2016-2017

Memo No.- SAU/Engg./191/06/101 Date: 24/11/2016

1	Ministry/Division	Ministry of Education.
2	Agency	Sher-e-Bangla Agricultural University, Dhaka.
3	Procuring entity name	Vice Chancellor, Sher-e-Bangla Agricultural University, Sher-e-Bangla Nagar, Dhaka-1207.
4	Procuring entity code	Not applicable.
5	Procuring entity district	Dhaka
6	Invitation for	Goods
7	Invitation Ref No. with date	SAU/Engg./191/06/101, Date: 24/11/2016

KEY INFORMATION

8	a. Procurement method	Open Tendering Method (OTM).
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FUNDING INFORMATION

9	(a) Budget and source of funds	GOB
	(b) Development partner	Not applicable.

PARTICULAR INFORMATION

10	(a) Project/programme name	N/A
	(b) Tender package No.	Package-1
	(c) Tender package name	Package-1-Supplying of Air-cooler, Freezer & Photo-copier at SAU, Dhaka.
	(d) Last date of selling tender document	04/12/2016 upto 4.00pm.
	(e) Last date and time for submission of tender	05/12/2016 upto 12:00 noon.
	(f) Tender opening date and time	05/12/2016 at 02:00pm.
	(g) Name & addresses of the offices for selling tender document	Office of the Chief Engineer, Room No.-109, Ground Floor, Administrative Building, SAU, Dhaka-1207.
	(h) Name & address of the offices for receiving tender document	Office of the Chief Engineer, Room No.-108, Ground Floor, Administrative Building, SAU, Dhaka-1207.
	(i) Name & addresses of the offices for opening tender	Room No. 229, 1st Floor, Administrative Building, SAU, Dhaka-1207.
	(j) Pre-tender meeting (optional)	Not applicable.

INFORMATION FOR THE TENDERER

11	(a) Eligibility of tenderer	Reputed Contractors of Govt/Semi-Govt/Autonomous Organizations with: 1. Up-to-date valid trade license 2. Tax Identification Number (TIN) 3. VAT registration number 4. Recent financial solvency certificate from the bank 5. Additional information enclosed in the tender document. Supplying of Air-cooler, Freezer & Photo-copier.
	(b) Brief description of works	Supplying of Air-cooler, Freezer & Photo-copier.
	(c) Brief description of related services	Not applicable.
	(d) Tender document price (non-refundable for each package)	Package-1-Tk. 1,000.00 (one thousand) only.

12	Brief description of tenders				
	Package No.	Identification of Package	Location	Estimated cost (Tk.)	Tender security amount (Tk.)
	1	Supplying of Air-cooler, Freezer & Photo-copier at SAU, Dhaka	SAU	-----	40,000.00 (forty thousand) only
					30 (thirty) days

13 Special terms & conditions:

(a) The interested tenderer will have to submit tender security in the form of Pay-Order/Demand Draft/Bank Guarantee from any scheduled bank in favour of Vice-Chancellor, Sher-e-Bangla Agricultural University, Sher-e-Bangla Nagar, Dhaka along with the tender. Otherwise the tender will be invalid.

(b) The tender will be governed by the Public Procurement Regulations-2008.

(c) Rate should not be quoted after two decimal point.

(d) The procuring entity reserves the right to accept or reject all tenders.

PROCURING ENTITY DETAILS

14	Name of official inviting tender	Engineer Md. Azizur Rahman.
	Designation of official inviting tender	Chief Engineer (CC).
	Address of official inviting tender	Office of the Chief Engineer, SAU, Dhaka.
	Contact details of official inviting tender	Tel: 8125138 Website: www.sau.ac.com

Engineer Md. Azizur Rahman
 Chief Engineer (CC)
 SAU, Dhaka
 Tel: 8125138, 9143944

GD-2422