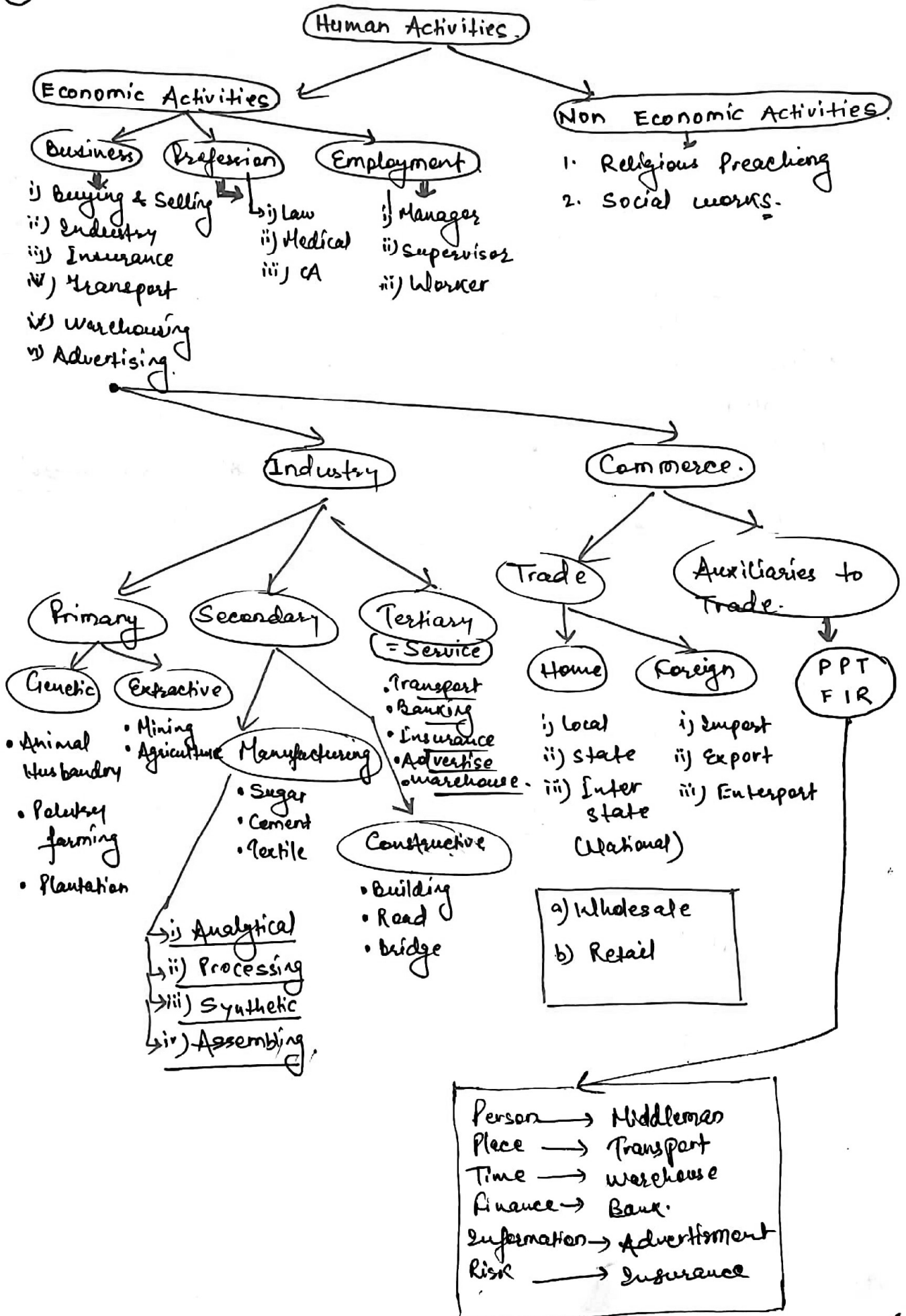
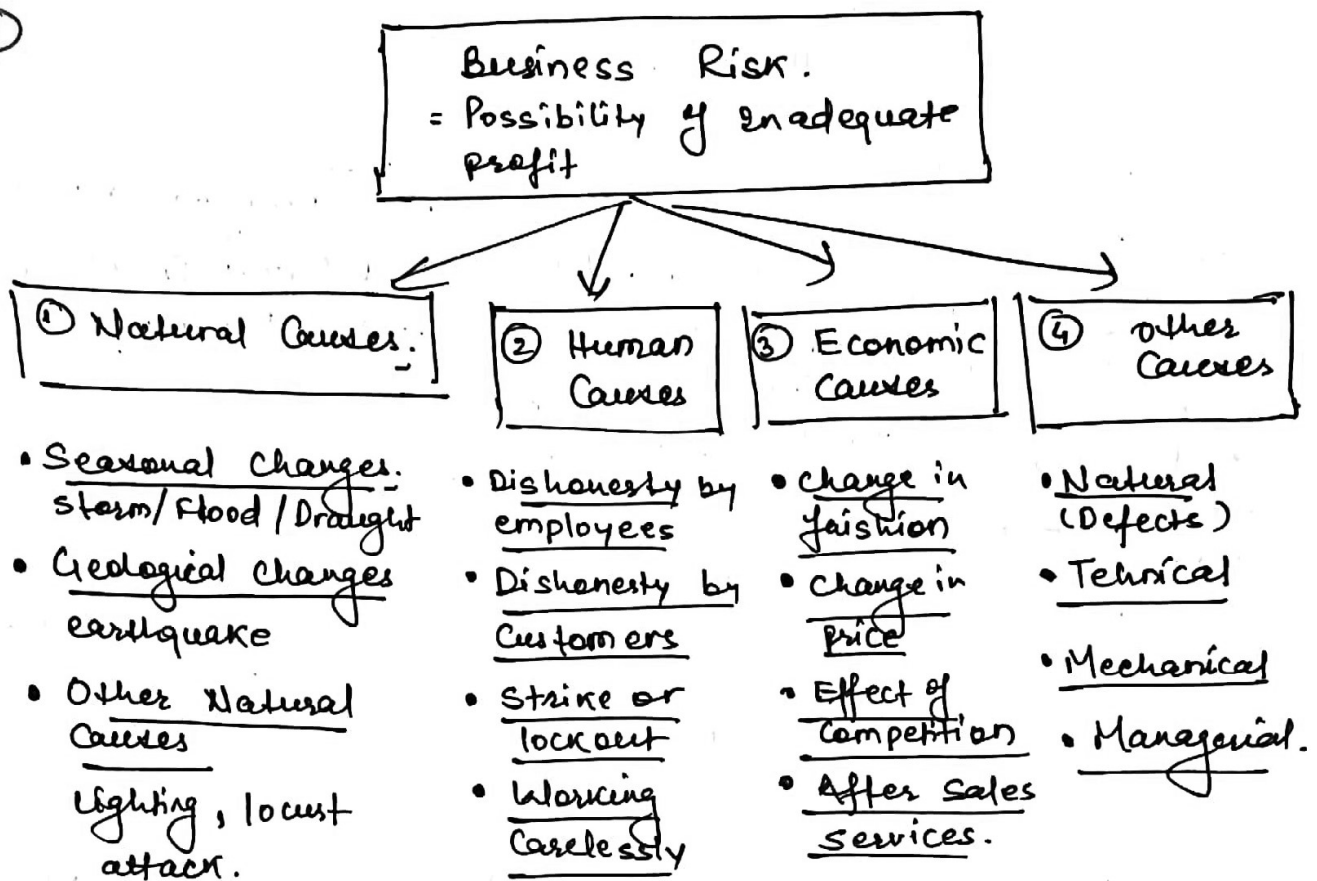


# 1. Nature and purpose of business

01



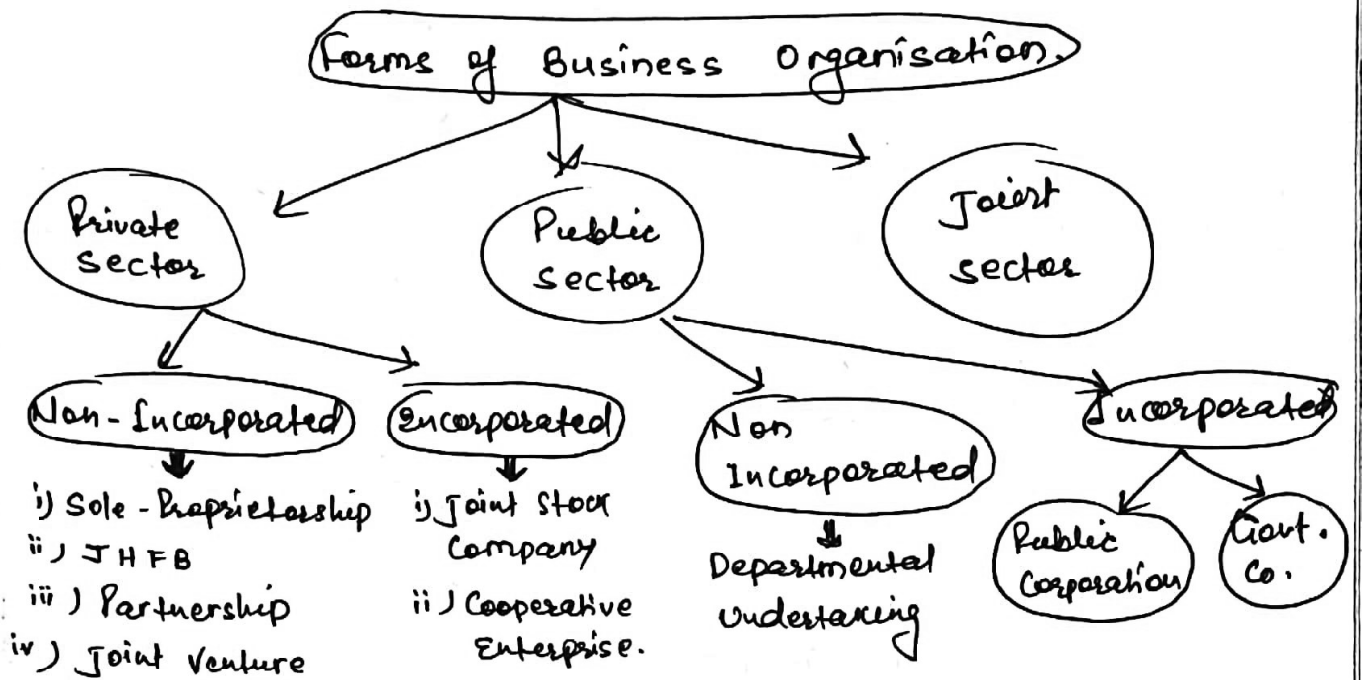
02



Note: Please read all key concepts and Tool Kits before each exam to memories things & points. In case you forget anything, plz. go for Details.

2

## 2. Forms of business Organisation,



### 1. Features

	Sole	Part.	Cooperative	JHFB	Company.
i) Individual ownership	✓	×	X	X	X
ii) Sole management	✓	X	X	Karta	X
iii) Unlimited liability	✓	✓	X	Karta	X
iv) Freedom in selection of business	✓	✓	6 types	✓	X
v) Secrecy	✓	✓	X	✓	X
vi) Separate Legal Entity	X	X	✓ After Registration	X	✓
vii) Division of risk.	X	✓	✓	X	✓
viii) Suitability	Small B.	Medium	Medium	Small	Big
ix) Restriction on Transfer of Interest	X	✓	Not Available	X	X
x) Permanent existence	X	X	X	✓	✓
xi) Registration	X	X ✓	✓	X	✓
xii) Govt. Control.	X	X	✓	X	✓
xiii) Prompt Decision	✓	✓	X	✓	X

## 2. Merits

		Sole	Part.	JHFB	Cooper- ative	Comp any
i)	Quick Decision	✓	✓	✓	X	X
ii)	Secrecy	✓	✓	✓	X	X
iii)	Direct Motivation	✓	✓ Can Sav	✓	X	X
iv)	Personal Control	✓	X	✓	X	X
v)	Easy Formation	✓	✓	✓	X	X
vi)	Balanced Decision	X	✓	X	✓	✓
vii)	More Financial Resources	X	✓X	X	✓X	✓
viii)	Division of Rfsrcs	X	✓	✓	✓	✓
ix)	Easy to start	✓	✓	✓	X	X
x)	Direct Contact (Customers)	✓	✓	✓	✓X	X
xi)	Inheritable Quality	X	X	✓	X	X
xii)	Limited Liability	X	X	✓ Except Karth	✓	✓
xiii)	Stability / <del>Per</del> Continuity	X	X	✓X	✓X	✓
xiv)	Efficient Management	X	X	X	X	✓

Note! These are some common points. These are personal merits also, for that you have to read individually. Plz. go for it once before exam. Give main points and then describe in 1/2 lines in your language. Use special words in description.

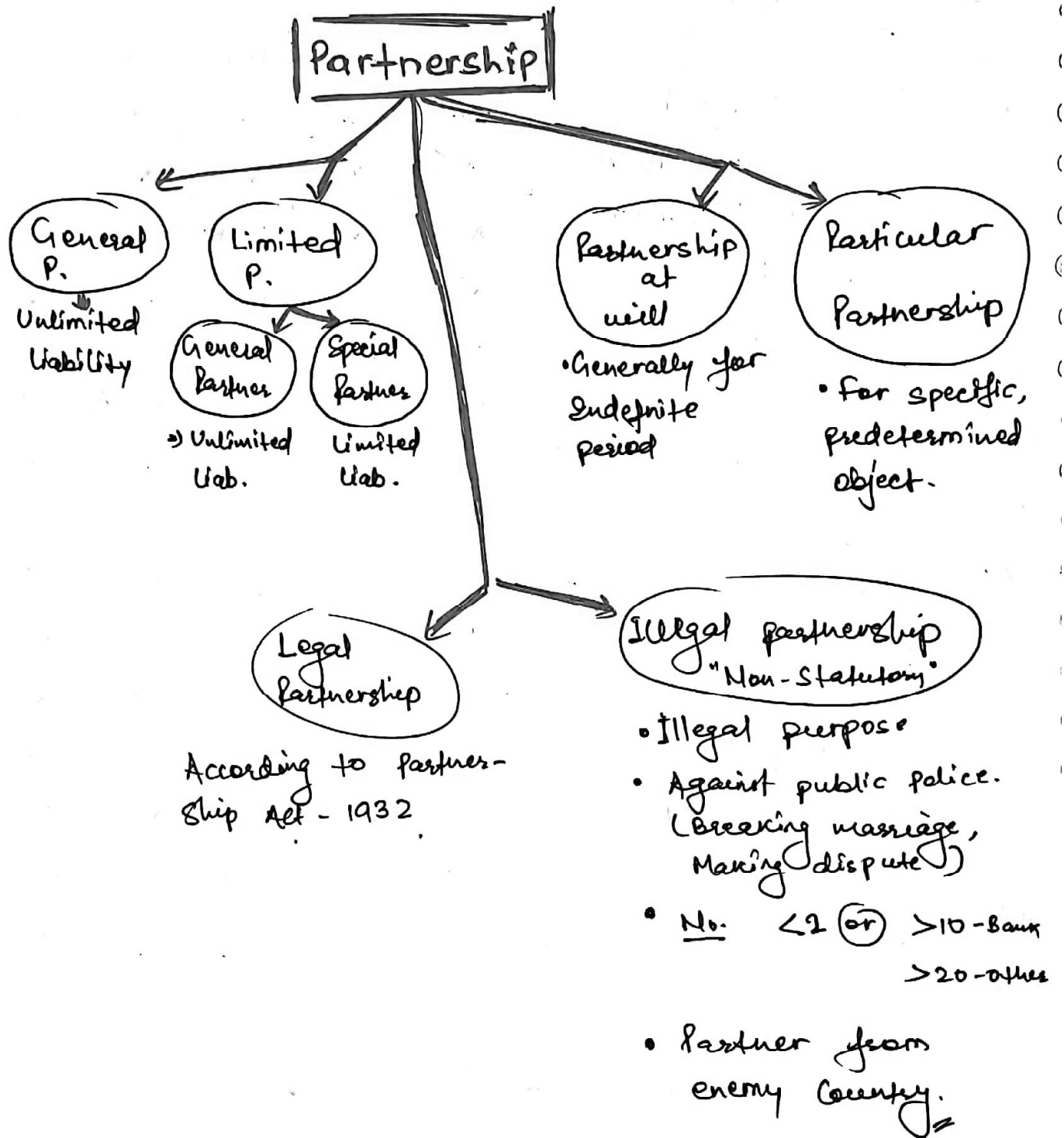
(u)



### 3. Limitations

	Sole	Part	JHFB	Coop.	Comp.
i) Limited Capital	✓✓	✓✓	✓	✓✓	X
ii) Unstable existence	✓✓✓	✓✓	✓✓	✓✓	X
iii) Unlimited Liability	✓✓✓	✓✓✓	None	X	X ⊕
iv) Unbalanced Management	✓✓	✓✓	✓	✓	X
xii) Lack of Harmony	X	✓	✓	✓	X
vi) Lack of Continuity	✓✓	✓✓	✓	✓ May	X
vii) Lack of Public faith	✓✓	✓✓	✓	✓	X
viii) Limited Managerial skill	✓✓	✓✓	✓	✓	X
ix) Lack of Cooperation	X	X	✓	✓ May	X
x) Political Interference	X	X	X	✓	✓
xj) Lack of Motivation	X	✓	X	✓	X
<del>vixii) Lack of public Confidence</del>	-	-	-	-	-
xiii) Lack of Secrecy	X	X	X	✓	✓
xiv) Mutual disputes	X	<del>X</del>	✓ May	✓	✓ Investors
xv) Delay in decision	X	X <sup>Some time</sup>	X	✓	✓
xvi)					

Note: same notes as in merits.



# Types of Partner

## Full Fledged Partner

## Not Full - fledged Partner.

### Active

### Sleeping <sup>or</sup> Dormant

### Secret ~~Partner~~ Unknown to public

- ✓ Active Participation
- ✗ Invest Money
- ✗ Share loss.
- ✓ Unlimited liability.

### Nominal

### Estoppel <sup>by</sup> Holding out

### Limited

### Minor

### In profit only.

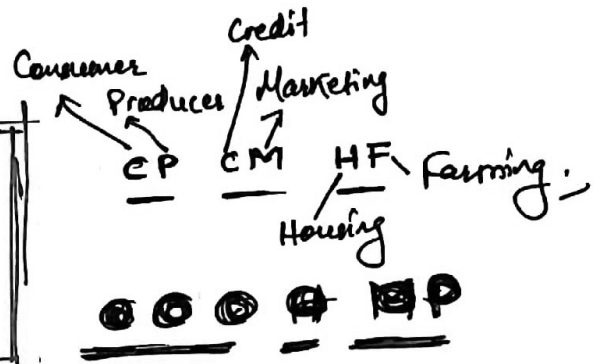
- Active
- Invest
- Loss Share
- Unlimited liability.

Just for personal goodwill. (Father, Mother, Yructa etc)

By words or conducts.

liability is limited to investment.

**Cooperative Society / Organisation**

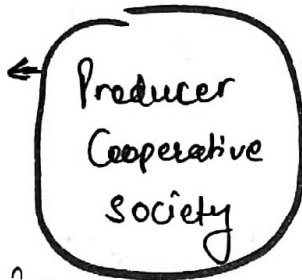


By Small Consumers to get rid of Trades and broker



By General Persons (for Residential Houses)

By Small Producers to eliminate difficulties in attaining material and selling of goods.



By Small Farmers (who are incapable of doing farming economically)



By small producers and Artisans (To get handsome profit, single handly)

By general persons who have limited financial resources.

# Company

## Private

## Public

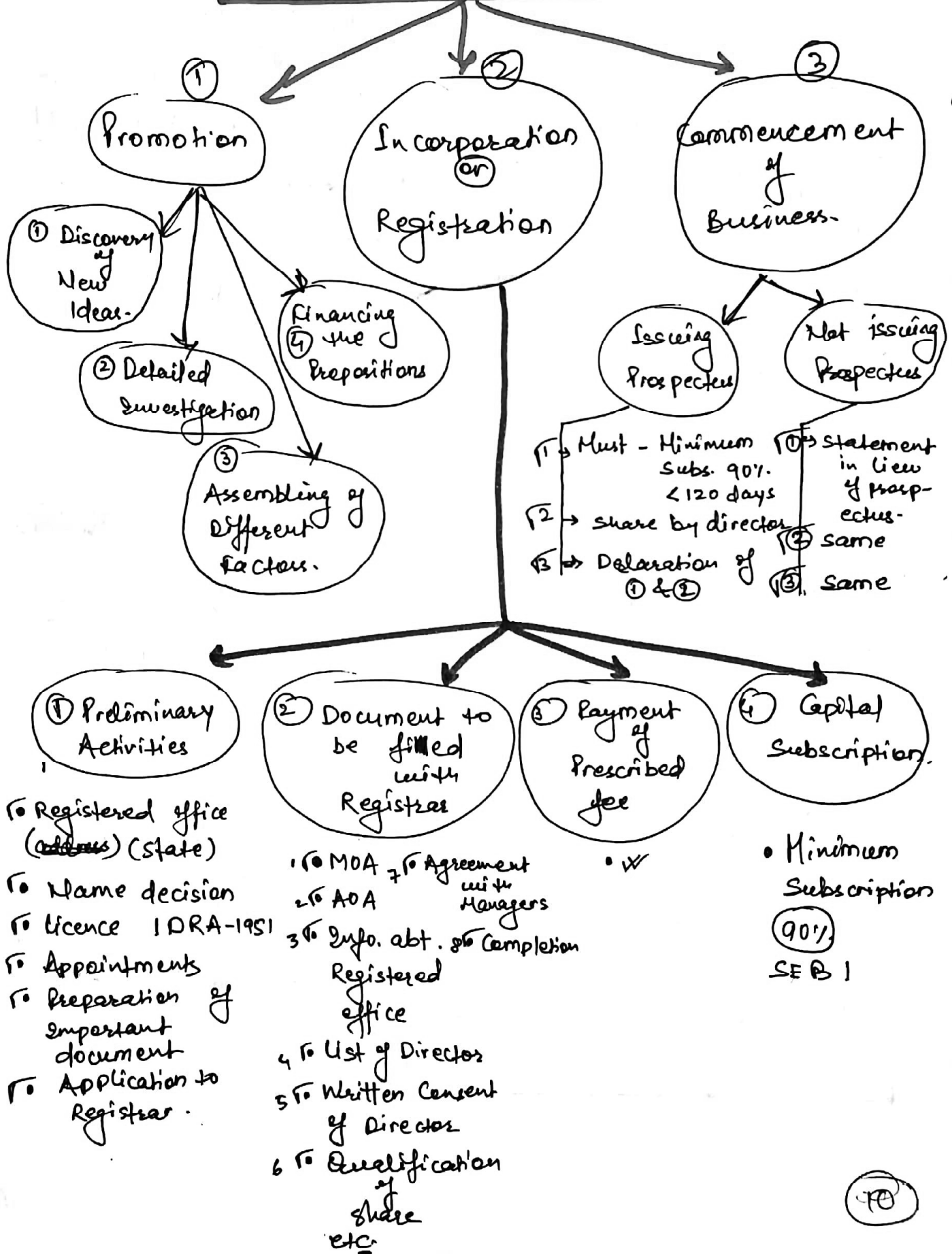
- Company whose share can't be sold to general public
- i) Restriction on transfer of share
- ii) Member  $\geq 2$  or  $\leq 200$
- iii) Can't take finance from public (share/debenture)
- iv) Can't take public deposit
- (v) Minimum paid-up share Capital 1 lakh.

- Company whose share can be freely bought and sold.
- i) No Restriction
- ii) Member  $\geq 7$
- iii) No Restriction
- iv) No Restriction
- (v) Minimum PUSC - 5 Lakh.

### Other Differences.

<u>Name:</u>	Private Limited	Only "Limited"
<u>Director</u>	Minimum 2	3
<u>Issue of Prospecture</u>	NO	Essential
<u>Statutory Meeting</u>	Not Necessary	Necessary
<u>Loan to Director</u>	✓ without permission of CG	✓ But after permission of CG (Central Gov.)
<u>Index of Member</u>	X	✓ if member > 50

# Steps of Formation of Company



- Registered office (address) (state)
- Name decision
- licence IDRA-1951
- Appointments
- Preparation of important document
- Application to Registrar.

- 1 MOA
- 2 AOA
- 3 Info. abt. Registered office
- 4 List of Director
- 5 Written Consent of Director
- 6 Qualification of share etc.

- Minimum Subscription (90%) SE B 1

# Document Used in Company Formation

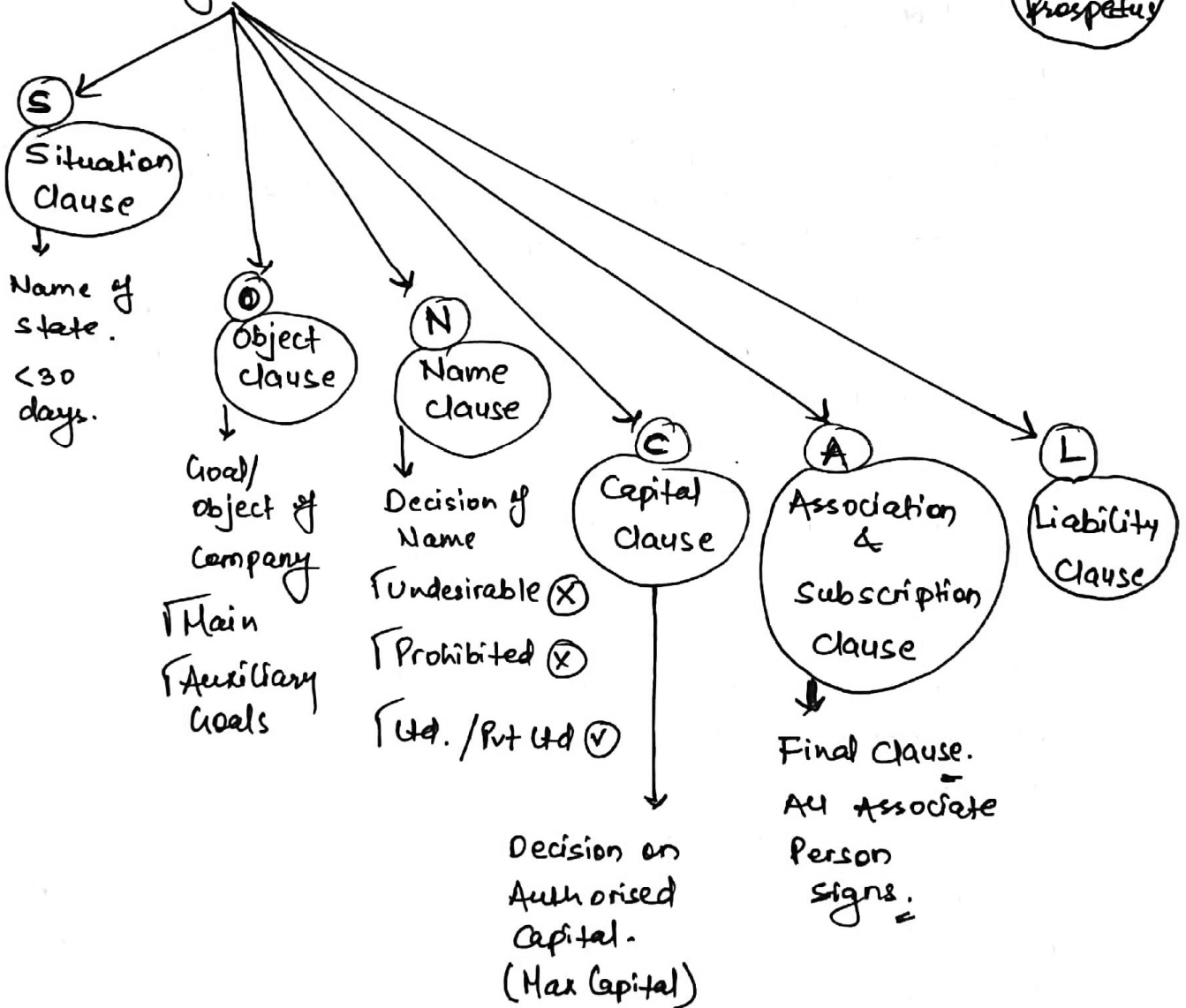
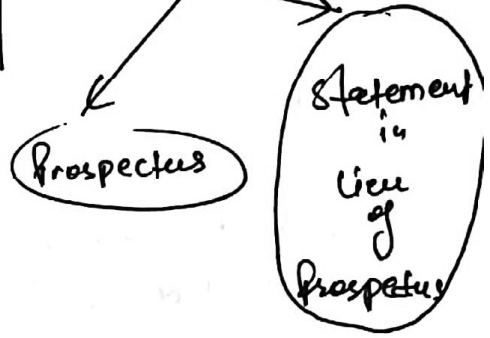
Memorandum of Association

Article of Association

Prospectus

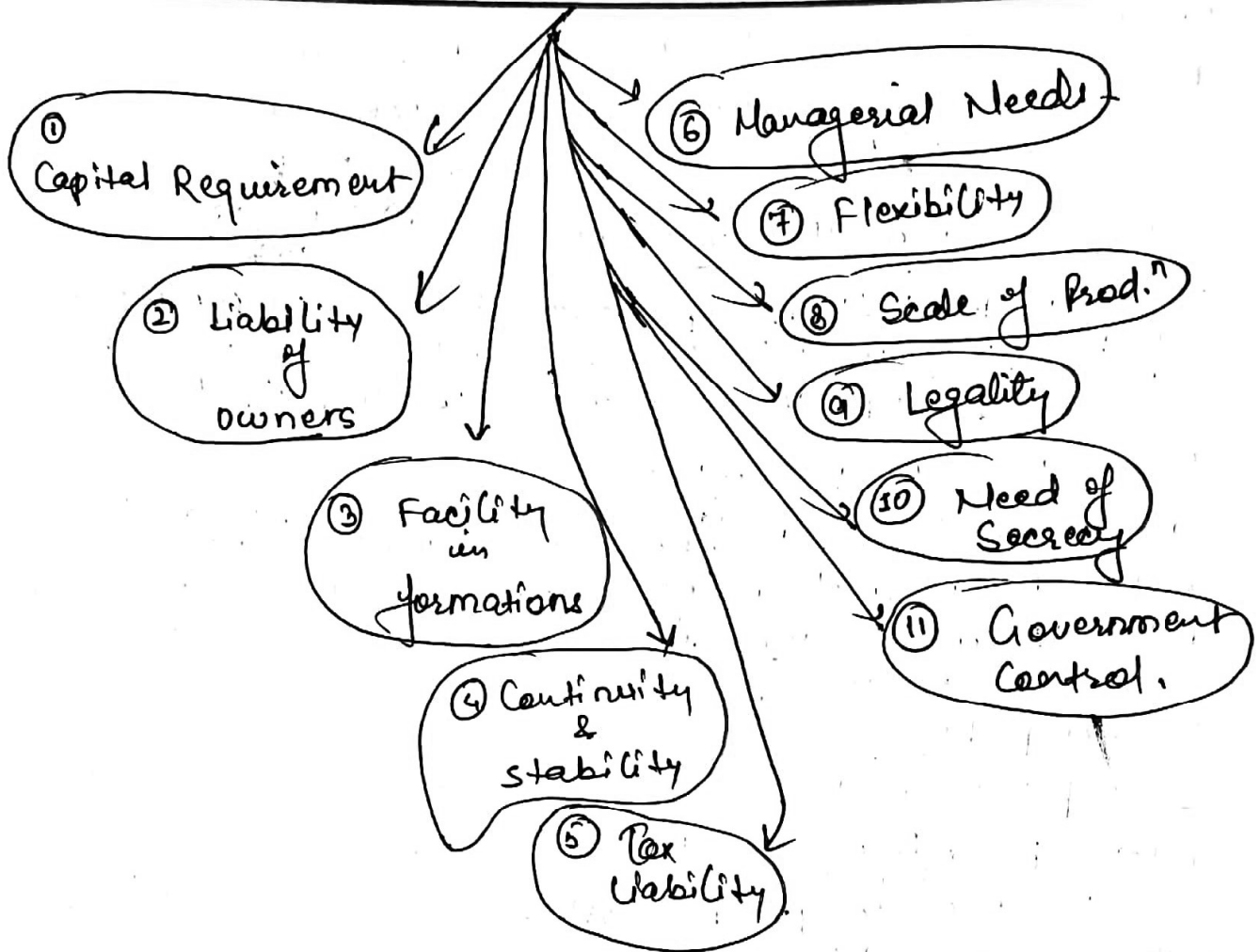
**(S) (O) (N) (C) (A) (L)**

Son of a man is CA and is unemployed so liability

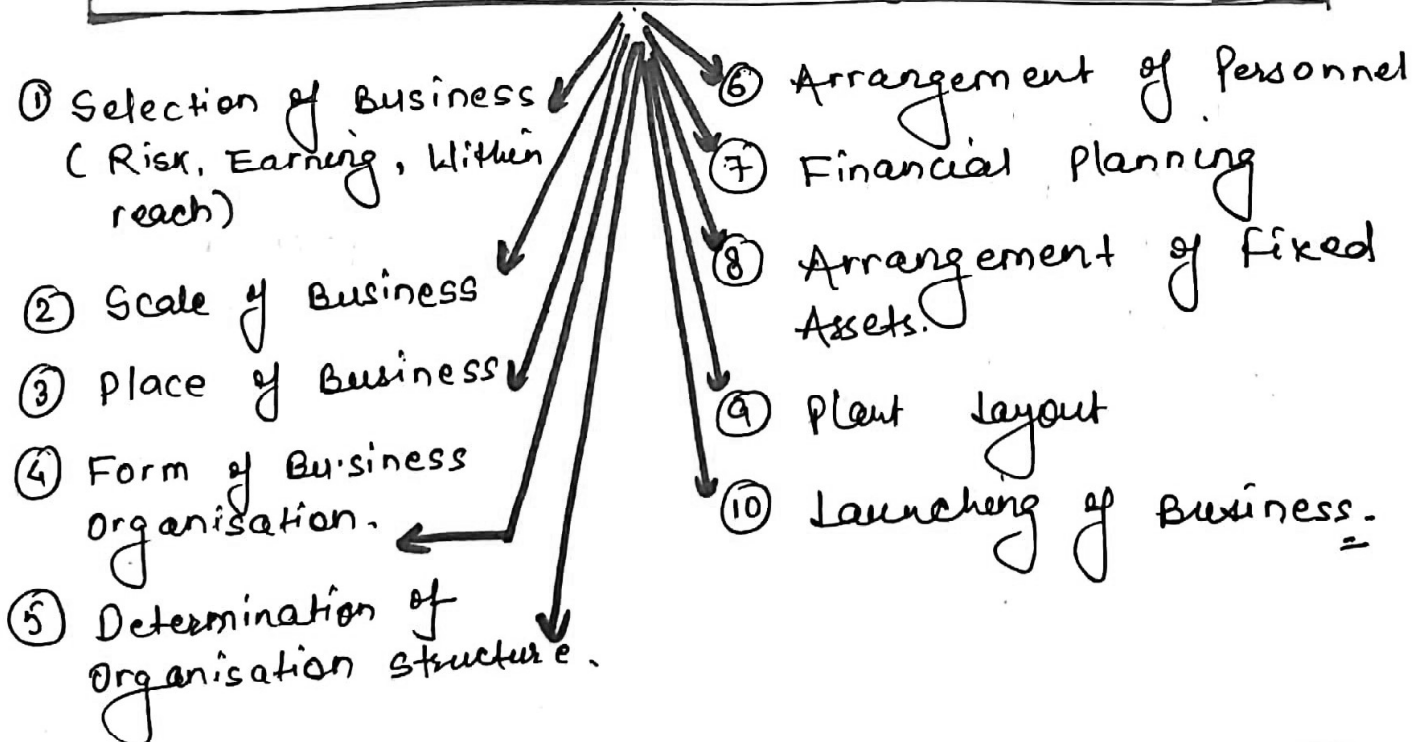




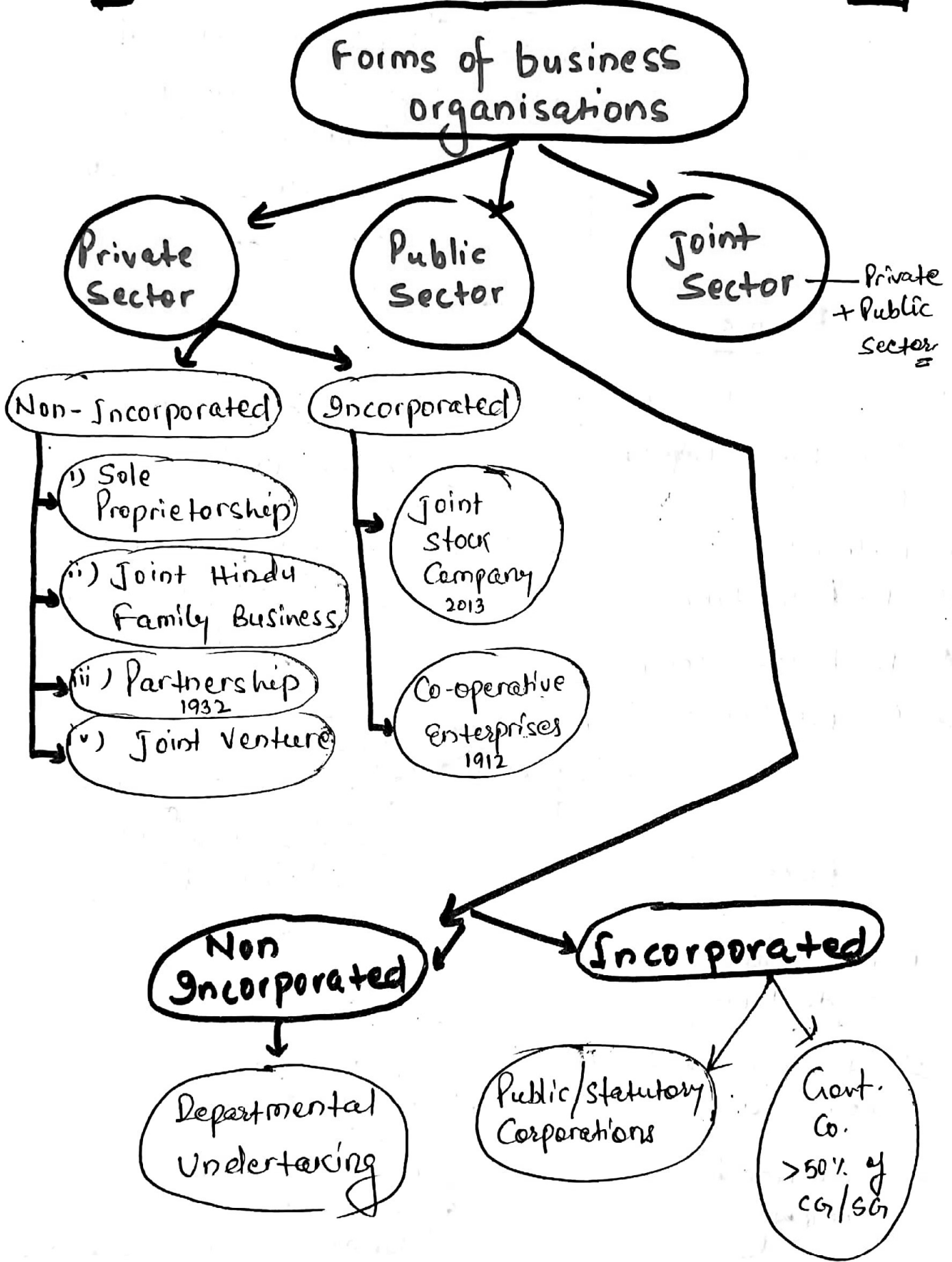
# CHOICES OF FORM OF BUSINESS ORG.



# Basic Factors, Before starting a Business



# Public, Private & Global Enterprises



# Private Sector

It refers to sector of business consisting of businesses owned by private individuals or groups.

## Forms

- ① Sole Proprietorship
- ② Joint Hindu Family Business
- ③ Partnership
- ④ Joint Venture
- ⑤ Joint Stock Company
- ⑥ Co-operative Society

## Features

- ① Profit motive
- ② Private Ownership
- ③ Profit as Evidence of Success
- ④ Private Management
- ⑤ Less political intervention.

# Public Sector

It refers to the sector of business consisting of businesses owned by state.

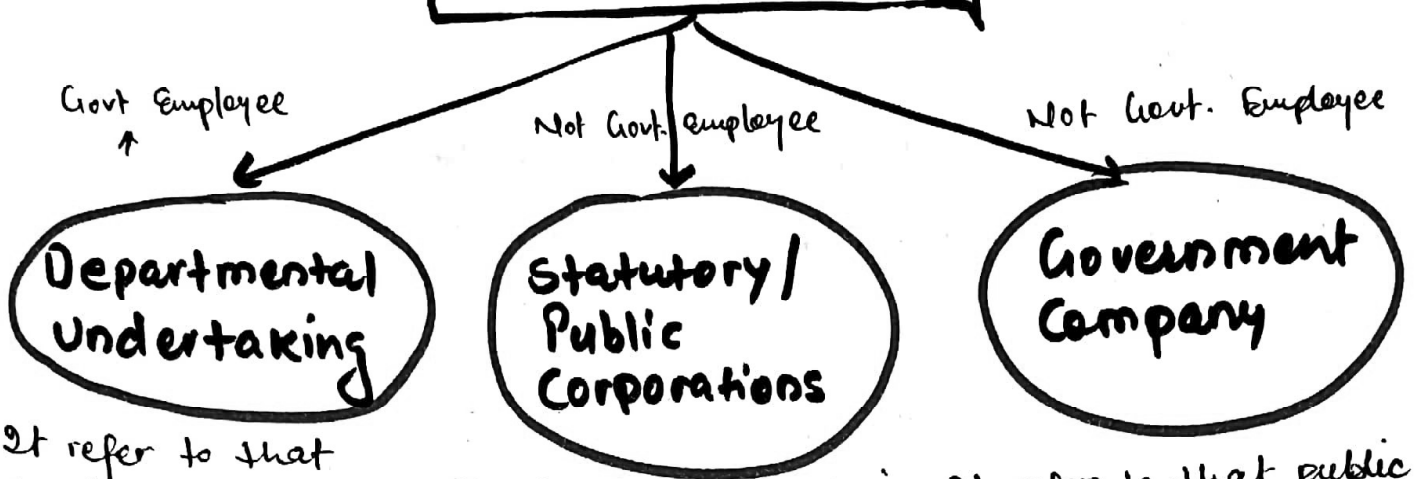
## Forms

- ① Departmental Undertaking
- ② Statutory / Public Corporation.
- ③ Government Company

## Features

- ① State ownership
- ② State Control
- ③ Financial freedom
- ④ Service motive
- ⑤ Public Accountability
- ⑥ Bureaucracy in Management
- ⑦ Harmonious Industrial Relation
- ⑧ Useful for All the Sectors
- ⑨ Monopoly in few Sectors

# Public Enterprises



It refers to that public enterprise which is run as a part of government department under the direction of the minister concerned.

## Features

- i) Formation/special ministry  $\rightarrow$  by special Act
- ii) Ownership of Govt.  $\rightarrow$  Government
- iii) Management/Ministry  $\rightarrow$  Nominated Director of Govt.
- iv) Financing by Govt.  $\rightarrow$  By Govt.
- v) Appointment/UPSC/SSB  $\rightarrow$  Own rules
- vi) Separate legal Entity  $\rightarrow$  YES
- vii) Administrative Autonomy  $\rightarrow$  Autonomy

## Merits

- i) Easy Formation
- ii) Effective Control
- iii) Increase in Govt. Income
- iv) Decrease in tax burden
- v) Easy financing
- vi) Proper Utilization of funds
- i) Autonomy in operation
- ii) Quick Decisions
- iii) Efficient Management
- iv) Social Service Motive
- v) Protection of Public Interest.

## Limitation

- i) Lack of Prompt Action
- ii) Lack of Flexibility
- iii) Lack of Incentive
- iv) Lack of Competitive feelings
- v) Increase in tax burden
- vi) More political interference
- vii) Red Tapism.
- i) Incomplete operational autonomy
- ii) Lack of Competitive feelings
- iii) Ignoring service motive.

It refers to that public enterprise which is created by a special Act of Parliament or State Legislature.

## Features

- i) Formation/special ministry  $\rightarrow$  by special Act
- ii) Ownership of Govt.  $\rightarrow$  Government
- iii) Management/Ministry  $\rightarrow$  Nominated Director of Govt.
- iv) Financing by Govt.  $\rightarrow$  By Govt.
- v) Appointment/UPSC/SSB  $\rightarrow$  Own rules
- vi) Separate legal Entity  $\rightarrow$  YES
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- iv) Lack of Competitive feelings
- v) Increase in tax burden
- vi) More political interference
- vii) Red Tapism.
- i) Incomplete operational autonomy
- ii) Lack of Competitive feelings
- iii) Ignoring service motive.

It refers to that public enterprise which has a minimum 51% of the paid-up capital in the name of Central Govt./State Govt. or or partially by SH/Co.

## Features

- i) Formation/special ministry  $\rightarrow$  by special Act
- ii) Ownership of Govt.  $\rightarrow$  Government
- iii) Management/Ministry  $\rightarrow$  Nominated Director of Govt.
- iv) Financing by Govt.  $\rightarrow$  By Govt.
- v) Appointment/UPSC/SSB  $\rightarrow$  Own rules
- vi) Separate legal Entity  $\rightarrow$  YES
- vii) Administrative Autonomy  $\rightarrow$  Autonomy

## Merits

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- ii) Effective Control
- iii) Increase in Govt. Income
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- v) Increase in tax burden
- vi) More political interference
- vii) Red Tapism.
- i) Incomplete operational autonomy
- ii) Lack of Competitive feelings
- iii) Ignoring service motive.

# Joint Sector

It refers to the sector of business undertaking under which both the Public Sector and private sector enterprises are the partners.

## Paid-Up Capital

- i) Govt 26%
- ii) Private Enterprises 25%
- iii) Public & financial institutions 49%

# Global Enterprises

## MNC's

Company with operation in more than one country.

### Features

- i) Centralised Management
- ii) world wide spread of business
- iii) Better Quality products
- iv) large size
- v) Access to international market
- vi) Special attention to advertisement.

### Disadvantage

- i) Danger for domestic industries
- ii) Repatriation of profits
- iii) Intervention in local politics
- iv) Exploitation of Natural Resources
- v) No benefit to poor peoples.

## Joint Ventures

Partnership of companies

### Advantage

- i) Increase in foreign investment
- ii) Increase in employment
- iii) Proper use of resources
- iv) Technical Development
- v) End of local monopoly
- vi) Managerial Development
- vii) Increase in exports.

## Public-Private Partnership

Def. Covered, Private Sector involvement in Govt.

# Business Services

Businesses that provide intangible product.

## Nature

- ✓ Intangibility
- ✓ Heterogeneity
- ✓ Non-Stocking
- ✓ Non-Transferability
- ✓ Customer Participation
- ✓ Simultaneity

## Types

## Communication

exchanging message.

## Banking

## Insurance

## Transport

## Warehouse

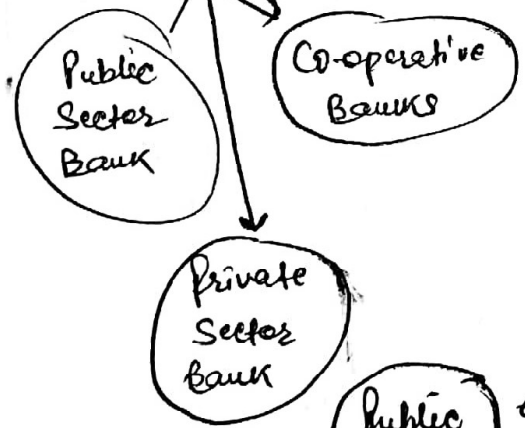
Provides finance to the business in any form.

Transfers the risks of the businessman on itself.

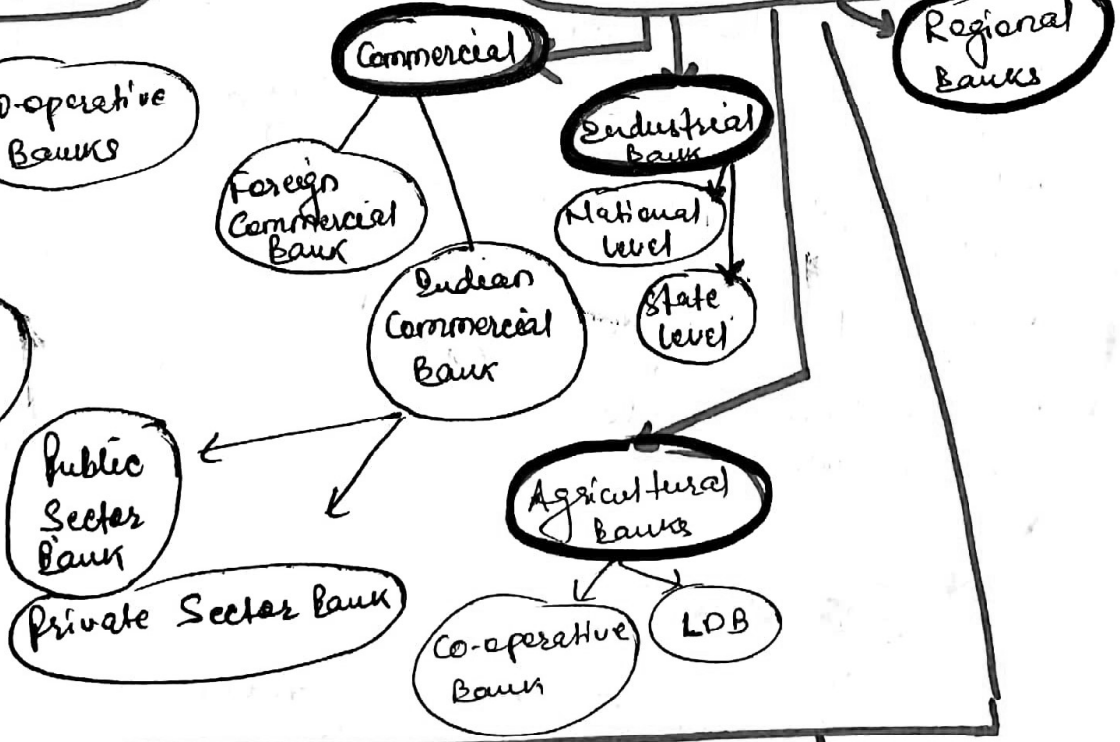
Pass over across / far away / traverse

store the material in regular manner

## Ownership Basis



## Function Basis



## Others

- Central Bank
- EXIM Bank
- National Housing Bank
- Industrial Reconstruction Bank of India
- NABARD



# Insurance

## Characteristics

- i) Two Parties
- ii) Based on Utmost Good Faith
- iii) Based on Co-operative system
- iv) Free from expected loss
- v) Transfer of expected loss
- vi) Payment of Premium
- vii) Various types
- viii) Happening of event
- ix) Security & Investment
- x) Ownership not compulsory.

## Principles

- i) Principle of Utmost Good Faith
- ii) Principle of Insurable Interest
- iii) Principle of Indemnity
- iv) Principle of Warranty Express  
Implied
- v) Principle of Contribution
- vi) Principle of Subrogation
- vii) Principle of Mitigation of Loss
- viii) Principle of Proximate Cause

## Types

### Life Insurance

Against death or for loss of any body part.

whole life insurance policy

Endowment/Specified Period Insurance Policy

### Fire Insurance

Against loss from fire

### General Insurance

#### Theft Insurance

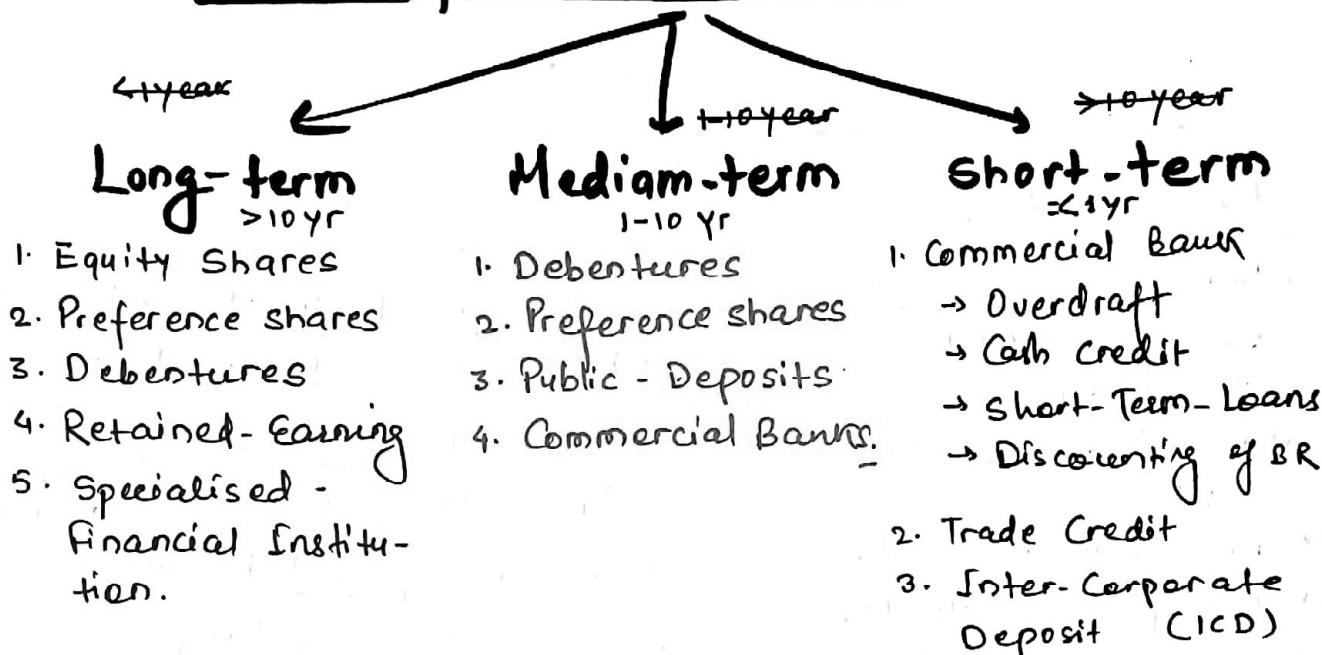
Insurance against theft

#### Marine Insurance

Insurance against sea losses.

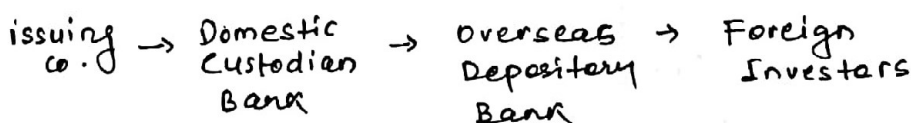


# Sources of Business Finance



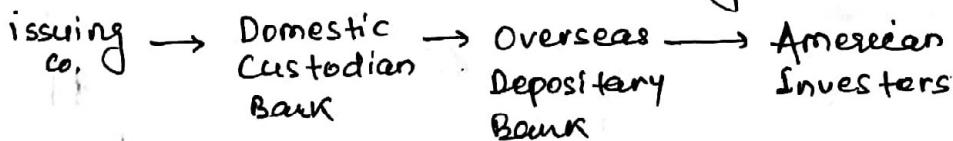
## ✓ GDR Global Depository Receipt:

It is an instrument which the companies of a country issue in US dollar in order to obtain foreign capital. The GDR can be listed on all European & American stock exchange.



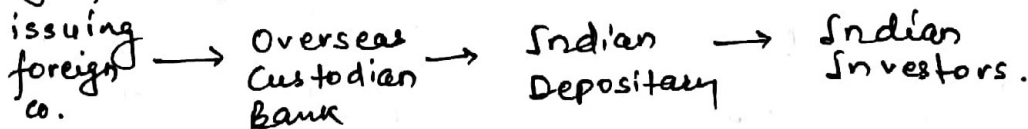
## ✓ ADR : American Depository Receipt:

It is an instrument which non-US companies issue to the Americans in order to obtain foreign capital. The ADR can be listed only on American stock exchange.



## ✓ IDR: Indian Depository Receipt:

IDR like GDR/ADR, except that the issuer is a foreign co. raising fund from the Indian market.



## ✓ Advantage of GDR/ADR/IDR

- (i) Getting Foreign Capital
- (ii) More liquidity
- (iii) Increase in Goodwill of a company
- (iv) Lower floating cost
- (v) Better share price.
- (vi) Scattered Shareholders.

## Equity Shares

It refers to those shares which do not carry any preferential right in the payment of annual dividend and repayment of capital at the time of liquidation.

### ADVANTAGES

#### To Investor

- i) To participate in Management
- ii) To Earn More by way of Dividend
- iii) To Earn Capital Gains

#### To Company

- i) Arrangement of Permanent Capital
- ii) No Fixed Burden
- iii) Increases Creditworthiness
- iv) No Need of Mortgage

### DISADVANTAGES

#### To Investors

- i) Uncertain Income
- ii) Loss due to Recession
- iii) Loss due to Liquidation
- iv) Loss due to Speculation

#### To Company

- i) No Advantages of Trading on Equity
- ii) No Flexibility in Capital Structure
- iii) Loss due to interference in mgmt.
- iv) More Floation Cost
- v) Tax Advantage:-

## Preference Shares

It refers to those shares which carry preferential right in the payment of annual dividend and repayment of capital in the event of liquidation.

### ADVANTAGES

#### To Investor

- i) Regular Income
- ii) Pref. at the time of dividend & liquidation.
- iii) Participation in Extra Profit
- iv) Voting Right on Related Resolution.

#### To Company

- i) No Interference in Management
- ii) Less Burden on company
- iii) No Need of Mortgage
- iv) Receipt of Permanent Capital
- v) Flexible Capital Structure
- vi) Benefit to Eq. Shareholder

### DISADVANTAGES

#### To Investor

- i) No Participation in Extra Profit
- ii) " " in surplus at the time of winding up
- iii) No legal right to get Dividend
- iv) No Participation in Management

#### To Company

- i) Fixed Burden
- ii) No Tax Advantage
- iii) Dissatisfaction of Eq. Shareholders.

## Debentures

It refers to the loan to the company by the debenture holders on which they receive a fixed rate of interest.

### ADVANTAGES

#### To Investors

- i) Permanent & regular Income
- ii) More safe Investment
- iii) More Liquidity
- iv) Right of Conversion

#### To Company

- i) No Interference in Managerial Act.
- ii) Cheap source of Finance.
- iii) Tax Advantage
- iv) Max. Swagme to Equity Shareholders
- v) Depression time friend.
- vi) Flexibility in Capital Structure

### DISADVANTAGES

#### To Investor

- i) Less Income
- ii) No Participation in Management

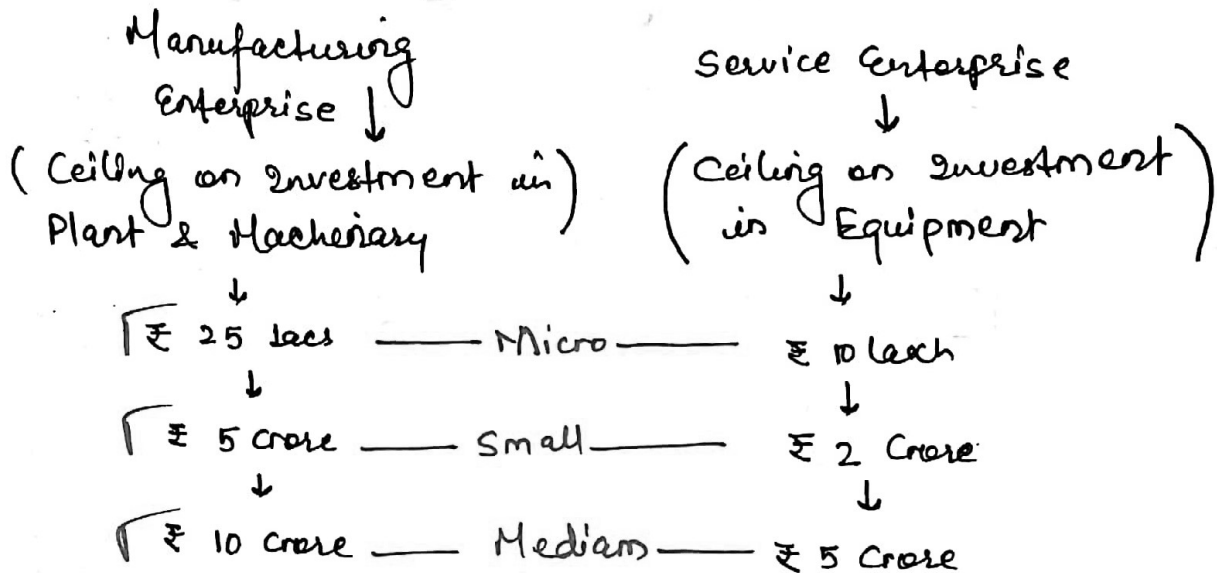
#### To Company

- i) Fixed Burden
- ii) Legal Action Possible
- iii) Loss of Goodwill due to claim on Assets.

# "Small Business"

MSME: Micro Small and Medium Enterprise Act-(2006)

## Classification of Enterprise



### ● Role of small Business in India

- i) More Employment
- ii) Economic strength
- iii) Opportunity for Artisan
- iv) Balanced Regional Development
- v) Promotion of standard of living.
- vi) Better utilisation of Local Resources
- vii) Less pressure of population on Agriculture.
- viii) Equitable Distribution of Income.

### ● Special Assistance Provided to Industries Established in Rural / Backward / Hilly Areas

- ✓ Commercial Bank
- ✓ LDB - Land Development Bank
- ✓ SCARDB → State Co-operative Rural and Rural Development Bank.
- ✓ PCARDB → Primary Co-operative Agri. and Rural Development Bank.
- ✓ RRB - Regional Rural Bank
- ✓ NABARD: National Bank for Agriculture and Rural Dev. Bank
- ✓ Primary Agriculture Co-operative Society.
- ✓ SIDBI - Small Industries Dev. Bank of India
- ✓ NSIC - National Small Industries Corporation Ltd.
- ✓ DIC - District Industries Centre.

# Internal Trade

## Features :

- i) Trade within the boundary of a country
- ii) Free Movement of Goods
- iii) Dealing in local currency
- iv) Special Act (1930) i.e. Sale of Goods Act to settle dispute.

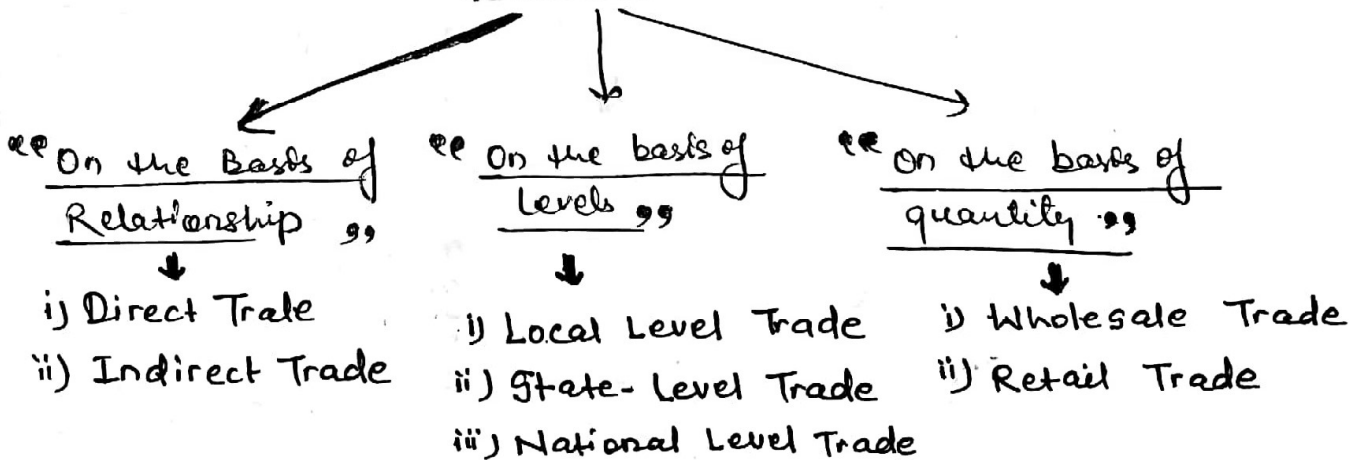
## Terms of Trade

- i) COD - Cash on Delivery
- ii) Free on board/Rail  
(Free upto point of delivery by seller) Fare
- iii) CIF (Cost, Insurance & Freight)  
all charged from buyer.

## Documents Used

- i) Invoice : Bill / Cash Memo (for cash)
- ii) Performa Invoice : statement / forwarding letter (Consigner to Consignee)
- iii) Debit Note - (I am Dr.ing your A/c)
- iv) Credit Note - (I am Cr.ing your A/c)
- v) LR - Lorry Receipt.
- vi) RR - Railway Receipt.

## Types



## WHOLESALE TRADE

Def: It refers to that type of trade under which goods or services are bought in bulk from producer and are sold in small quantities to the retailers.

Features: Buys goods in large quantity / deals only in some special goods / sells goods to the retailers / purchases in cash and sells in credit / link between producer & retailer / Here capital is required / Adopt modern means of advertisement / Store more goods in godown rather than in shop / spends very little on decoration / only samples are kept in shop / Percentage of profit is little etc.

### SERVICES OF WHOLESALER TOWARDS VARIOUS PARTIES

#### MANUFACTURERS

- i) Providing info. about demand
- ii) Acting as Middlemen
- iii) Providing Financial Help
- iv) Providing Assistance in Advertising Goods.
- v) Providing Storage Facilities
- vi) Providing Distribution Facilities
- vii) Stabilising Prices
- viii) Achieving Economy in Production

#### RETAILERS

- i) Easy Supply of goods
- ii) Financial Help
- iii) Consultancy services
- iv) Reasonable Price
- v) Benefit of Advertisement
- vi) Information about new product
- vii) Packing Facilities.

#### SOCIETY

- i) Control on Market Fluctuations
- ii) Easy Availability of Goods
- iii) Selection facilities
- iv) Benefit of Advertisement
- v) Removal of Consumers Complaints
- vi) Possibility of large scale production.

(23)

## RETAILERS & RETAIL TRADE

Def:

It refers to that type of trade under which goods and services are brought in large quantities from a wholesaler and sold to the ultimate consumer in small lots.

Features: Last link among the trade middlemen / Deals in number of things / Competitively less goods than the wholesale trader / Sell goods in small quantities / Needs comparatively less capital / Gives his shop a pleasing get-up / Personal relationship with the customer.

### SERVICES OF RETAILERS TOWARDS VARIOUS PARTIES

#### WHOLESALERS

- i) Provides necessary informations
- ii) Creates Demand of product
- iii) Local Advertisement
- iv) Helps in distribution
- v) No need to meet consumers

#### CONSUMERS

- i) Supply of goods according to demand
- ii) Facilities of purchase on credit
- iii) Home delivery of goods.
- iv) No fear of cheating
- v) Supply of fresh goods
- vi) No fear of cheating Free services
- vii) Stock of goods of every season.
- viii) Close relation with consumers
- ix) Increase in customers knowledge.

25

# INTERNATIONAL BUSINESS

It refers to business activities taking place between countries.

## NATURE

- i) Involvement of >2 countries
- ii) Many Bases
- iii) Language Difference
- iv) Comparatively more risky
- v) Government Intervention
- vi) Payment in foreign currency

## COMPLEXITIES

- i) Language difference
- ii) More Risk
- iii) Government control
- iv) Difference in Laws
- v) Custom Duty
- vi) Lack of information about foreign trade.

## IMPORTANCE

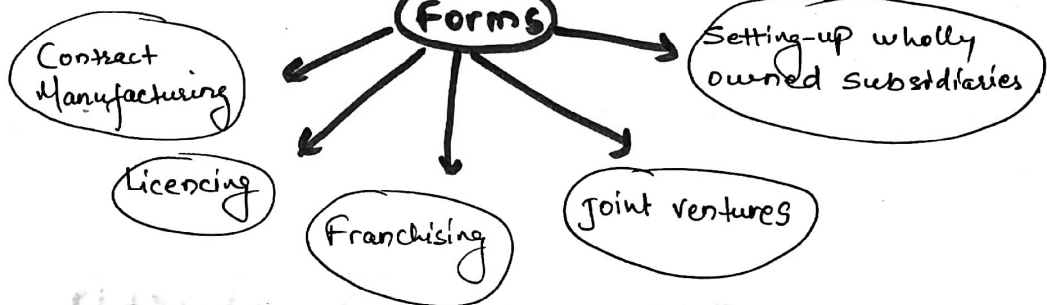
### To NATIONS

- ✓ Earning of foreign exchange
- ✓ More efficient use of resources
- ✓ Improving growth prospects
- ✓ Improving employment potential
- ✓ Increased standard of living

### To firm

- ✓ Prospects of higher profit
- ✓ Increased capacity utilisation
- ✓ Prospects of growth
- ✓ Way out to Intense Competition.
- ✓ Improved business vision

## Forms





# IMPORT TRADE

It refers to purchasing of goods or services from another country and bringing them into one's own country.

## PROCEDURE

- i) Trade Inquiry
- ii) Obtaining Import Licence
  - 3 statements required
  - a) Receipt of deposit of licence fee
  - b) Certificate of Income Tax Department
  - c) Certificate attested by a chartered Accountant giving details of import goods in the previous year.
- iii) Obtaining foreign exchange
- iv) Placing an indent/order (open/close indent)
- v) Sending letter of credit
  - a) Documentary letter of credit
  - b) Clean letter of credit
- vi) Arrangement & shipment of goods by exporter
  - Forwarding Agent • Bill of Lading • Marine Insurance policy • Invoice / Bill of exchange.
- vii) Obtaining document of Title (advice letter) (X to M)
- viii) Appointment of clearing agent
- ix) Clearing the goods

Payment of custom duties / Payment of dock dues / Endorsement for delivery / taking delivery of goods / Sale of goods before taking delivery / Keeping goods in bonded warehouse / Loading of goods.
- x) Taking delivery from Railway (RR) / Transport (LR).
- xi) Payment of Octroi Duty.

# EXPORT TRADE

“ It refer to the selling and shipping  
of goods or services to another country.”

## Procedure :

- i) Trade Enquiry
- ii) Receipt of order
- iii) Credit enquiry (Letter of credit)
- iv) Obtaining export licence
- v) Declaration regarding foreign exchange
- vi) Fixation of exchange rate
- vii) Collection of goods
- viii) Packing and marketing of goods :-
- ix) Appointment of forwarding agent
- x) Forwarding goods to the port.
- xi) Function of forwarding agent at port  
obtaining the shipping order / Preparing shipping bill /  
Payment of dock dues / obtaining mate's receipt / B/L  
of lading / Insurance of goods / Advice to the exporter.
- xii) Preparing Invoice
- xiii) Obtaining Invoice certified by consular
- xiv) Certificate of origin
- xv) Preparing document relating to payment
  - ✓ Document against payment (D/P).
  - ✓ Document against acceptance.
  - ✓ Bill on Bank.
- xvi) Advice to Importer.

# WORLD TRADE ORGANISATION

WTO is a new globally recognised trade organisation with the new name succeeding GATT (General Agreement on Tariff and Trade) having a new vision and more power to promote international trade.

## Features

- i) It is an international organisation to promote multilateral trade.
- ii) It has replaced GATT.
- iii) It promotes free trade by removing tariff and non tariff barriers in international trade.
- iv) Provides equal voting right to each member country.
- v) It includes trade in goods/services, protection of intellectual property rights, foreign investment.

## Objectives :

- i) To implement new world trade agreement
- ii) To promote multilateral trade.
- iii) To promote free trade by removing tariff and non tariff barriers.
- iv) To expand and utilize world resources in most optimum manner.
- v) To take special steps for the development of poorest country.

## Function

- i) Laying down codes <sup>of</sup> ~~and~~ conducts aiming at reducing tariff and non tariff barriers in international trade.
- ii) Implementing WTO agreements and administering the international trade.
- iii) Cooperating with IMF and World Bank and its associates for establishing coordination in GLOBAL TRADE POLICY MAKING.
- iv) Acting as forum for trade liberalisation.

etc.

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