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EDITORIAL NOTES

We are feeling great satisfaction that the Journal of Economic & Commerce ***(JEC)*** has successfully entered in the fourth year of publication. We are also proud of our Editorial Board for the *Journal of Economics* & Commerce **(*JEC*), *Which*** includes academicians in the fields of Economics and Commerce, who have marks of records of accomplishment in their respective disciplines. Ever since its inaugural publication in 2010, ***JEC*** has emerged as one of the most respected publications, encompassing both Economics and Commerce. We intend to build on this tradition with our present issue.

Over the years, ***JEC*** has endowed with a platform for the progression of knowledge and the quest of academic excellence. Many prominent scholars from different part of India have published inspiring high quality articles analogous to those in leading journals in the field. Even as maintaining its focus on contemporary developments in the broad areas of Economics and Commerce, the journal is now also pledged to the spreading out of research frontiers further.

Within this orientation the present issue of the journal is special issue on poverty and provides a set of fifteen articles, which includes some articles and case studies on burning issues of economics. In addition to this we have also kept our commitment towards promotion of new contributors and young researchers in the present issue.

As the last words, we would like to tell our respected readers that our forthcoming issues intend to focus for theoretical, applied, and methodological work, with emphasis on development of critical issues with the use of empirical evidences, and the edifice policy measures. The Editors welcome submissions in this spirit on vital issues concerning our economy and commerce, **with a token of note that these will strictly be referred before acceptance.**

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CALENDAR EFFECT IN STOCK MARKET RETURNS: A STUDY OF THE INDIAN STOCK MARKET

Ash Narayan Sah*, Krishan K. Pandey**

ABSTARCT

This paper investigated the month of the year effect in the Indian stock market. The monthly data on BSE Sensex from April 1990 to December 2007 was used for testing calendar effect. The study used dummy variable technique and found the existence of pattern in stock returns of BSE Sensex. There are significant differences in stock returns across months. This study established existence of September and February effect in the Indian stock market. However, there was no weekend effect in BSE returns.

Key Words : *Calendar Anomalies, January Effect, ANOVA Model*

1.0 INTRODUCTION

The efficiency of the capital market has been an area of active empirical enquiry in finance since Fama who introduced the concept of efficient market hypothesis in 1970. According to this hypothesis, security prices reflect fully all the information that is available in the market. Since all the information is already incorporated in prices, a trader is not able to make any excess returns. Thus, EMH proposes that it is not possible to outperform the market through market timing or stock selection. However, in the context of financial markets and particularly in the case of equity market seasonal component have been recorded. They are called calendar anomalies (effects) in literature. Calendar anomalies refer to the tendency of stock returns to exhibit systematic patterns at certain times of the day, week or month. The most common of these anomalies are the month of the year and day of the week effects. The existence of such effects violates the weak form of market efficiency because equity prices are no longer random and can be predicted based on past pattern. This facilitates market participants to devise trading strategy which could fetch abnormal profits on the basis of past pattern. For instance, if there are evidences of 'day of the week effect', investors may devise a trading strategy of selling securities on Fridays and buying on Mondays in order to make excess profits. Aggarwal and Tandon (1994) and Mills and Coutts (1995) pointed out that mean stock returns were unusually high on Fridays and low on Mondays.

The most common calendar anomalies are the January effect and day of the week effect. Various studies have documented January effect and day of the week effect on stock market. Rozeff and Kinney (1976) reported that stock returns of the US markets are significantly higher in the January month than the other months of the year. Similar results were also recorded for the capital markets of the other developed countries. The hypothesis proposed to explain this phenomenon is called tax-loss hypothesis. According to this, investors in general sell in December and buy back in January. In many countries this hypothesis is supported by data. Besides this, a number of studies reported day of the week effect. Cross (1973) studied the returns of the S&P 500 for the period 1953 and 1970 and found that mean return on Friday was higher than mean return on Monday.

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The existence of patterns in stock returns contradict efficient market hypothesis and cast doubt on asset pricing models. These patterns in returns can provide useful clues to the investors concerning their investment decisions. The rest of the paper is organized as follows; section two briefly describe theoretical idea behind market efficiency. Section three briefly examines the literature on the calendar effect in devolved and emerging countries. Section four provides objectives of the study. Section five list out the hypotheses. Section six looks at the data and its sources. Section seven describes the methodology used in this paper. Section eight presents the empirical results. Finally, section nine concludes this empirical work.

2.0 THEORETICAL BACKGROUND

The term 'efficient market' refers to a market that adjusts rapidly to new information. Fama (1970) stated , ' A market in which prices always fully reflect available information in called efficient.' If capital markets are efficient, investors cannot expect to achieve superior profits by adopting a certain trading strategy. This is popularly called as the efficient market hypothesis. The origins of the EMH can be traced back to Bachelier's doctoral thesis 'Theory of Speculation' in 1900 and seminal paper titled 'Proof That Properly Anticipated Prices Fluctuate Randomly' by Nobel Laureate Paul Samuelson in 1965. But it was Eugane Fama's work 'Efficient Capital Markets' who coined the term EMH and advocated that in efficient market securities prices fully reflect all the information.

It is important to note that efficiency here does not refer to the organisational or operational efficiency but informational efficiency of the market. Informational efficiency of the market takes three forms depending upon the information reflected by securities prices. First, EMH in its weak form states that all information impounded in the past price of a stock is fully reflected in current price of the stock. Therefore, information about recent or past trend in stock prices is of no use in forecasting future price. Clearly, it rules out the use of technical analysis in predicting future prices of securities. The semi-strong form of the EMH states that current market prices reflect all publically available information. So, analysing annual reports or other published data with a view to make profit in excess is not possible because market prices had already adjusted to any good or bad news contained in such reports as soon as they were revealed. The EMH in its strong form states that current market price reflect all both public and private information and even insiders would find it impossible to earn abnormal returns in the stock market.

3.0 REVIEW OF LITERATURE

Calendar anomalies such as month of the year and day of the week effects has been remained topic of interest for research since long time in developed as well as developing countries. Rozeff and Kinney (1976) first documented the January effect in New York Exchange stocks for the period 1904 to 1974. They found that average return for the month of January was higher than other months implying pattern in stock returns. Mill and Coutts (1995) studied calendar effect in FTSE 100, Mid 250 and 350 indices for the period 1986 and 1992. They found calendar effect in FTSE 100. Gultekin and Gultekin (1983) studied 17 countries stock exchanges and found higher returns in January than non-January months. They discovered April effect in U.K. stock market. Choudhary (2001) reported January effect on the UK and US returns but not in German returns.

Fountas and Segredakis (2002) studied 18 markets and reported seasonal patterns in returns.

The reasons for the January effect in stock returns in most of the developed countries such as US, and UK attributed to the tax loss selling hypothesis, settlement procedures, insider trading information. Another effect is window dressing which is related to institutional trading. To avoid reporting to many losers in their portfolios at the end of year, institutional investors tend to sell losers in Decembers. They buy these stocks after the reporting date in January to hold their desired portfolio structure again.

There are also evidences of day of the week effect in stock market returns. The Monday effect was identified as early as the 1920s. Kelly (1930) based on three years data of the US market found Monday to be the worse day to buy stocks. Hirsch (1968) reported negative returns in his study. (Cross (1973) found the returns of the S&P 500 for the period 1953 and 1970 and found that mean return on Friday was higher than mean return on Monday. Gibbons and Hess (1981) also studied the day of the week effect in US stock returns of S&P 500 and CRSP indices using a sample from 1962 to 1978. Gibbons and Hess reported negative returns on Monday and higher returns on Friday.

Smirlock and Starks (1986) reported similar results. Jaffe and Westerfield studied day of the week effect on four international stock markets viz. U.K., Japan, Canada and Australia. They found that lowest returns occurred on Monday in the UK and Canada. However, in Japanese and Australian market, they found lowest return occurred on Tuesday.

Brooks and Persand (2001) studied the five southeast Asian stock markets namely Taiwan, South Korea, The Philippines, Malaysia and Thailand. The sample period was from 1989 to 1996. They found that neither South Korea nor the Philippines has significant calendar effects. However, Malaysia and Thailand showed significant positive return on Monday and significant negative return on Tuesday. Ajayi& al. (2004) examined eleven major stock market indices on Eastern Europe using data from 1990 to 2002. They found negative return on Monday in six stock markets and positive return on Monday in rest of them. Kumari and Mahendra (2006) studied the day of the week effect using data from 1979 to 1998 on BSE and NSE. They reported negative returns on Tuesday in the Indian stock market. Moreover, they found returns on Monday were higher compared to the returns of other days in BSE and NSE. Fortune (1991) opined that companies and governments generally announce good news on weekdays when markets are open. However, bad news are generally announced after the closing of market on Friday.

4.0 OBJECTIVE

The objectives of the study are as follows:

a) To examine days of the week effect in the returns of BSE Sensex
b) To examine weekend effect in BSE Sensex returns.
c) To examine the seasonality in monthly returns of the BSE Sensex.

5.0 HYPOTHESES

a) Our first hypothesis is that returns on all the days of weeks are equal. Symbolically,

$H_0 : \beta_1 = \beta_2 = \beta_3 = \beta_4$

H_1 : *at least one* β_i *is different*

b) Our second hypothesis is as follows:

$H_0 : \beta_1 = 0$

$H_1 : \beta_1 \neq 0$

c) Our third hypothesis is:

$H_0 : \beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5 = \beta_6 = \beta_7 = \beta_8 = \beta_9 = \beta_{10} = \beta_{11}$

H_1 : *at least one* β *is different*

6.0 DATA AND ITS SOURCES

The monthly data on BSE Sensex for the period April 1990 to December 2007 obtained from the Handbook of Statistics on Indian Economy published by the Reserve Bank of India. We also collected daily data on BSE Sensex 1st January 2008 to 31st October, 2008 from www. yahoo.com for studying the above objectives.

7.0 RESEARCH METHODOLOGY

To study the above objectives, we have used one technique called dummy variable regression model. This technique is used to quantity qualitative aspects such as race, gender, religion and after that one can include as an another explanatory variable in the regression model. The variable which takes only two values is called dummy variable. They are also called categorical, indicator or binary variables in literature. While 1 indicates the presence of an attribute and 0 indicates absence of an attribute. There are mainly two types of model namely ANOVA and ANCOVA.

This study uses ANOVA model. Analysis of variance (ANOVA) model is that model where the dependent variable is quantitative in nature and all the independent variables are categorical in nature. To examine the weekend effect and days of the week effect, the following dummy variable regression model is specified as follows:

$$BSE\ returns = \alpha + \beta_1\ Monday + \beta_2\ Tuesday + \beta_3\ Wednesday + \beta_4\ Thursday + \mu \quad (1)$$

The variables Monday, Tuesday, Wednesday and Thursday are defined as:

Monday = 1 if trading day is Monday; 0 otherwise

Tuesday = 1 if trading day is Tuesday; 0 otherwise,

Wednesday = 1 if the trading day is Wednesday; 0 otherwise

Thursday = 1 if the trading day is Thursday; 0 otherwise

α represents the return of the benchmark category which is Friday in our study.

Similarly, to find whether there are monthly effects in BSE Sensex returns, we used ANOVA model specified below as:

$$Y = \alpha + \beta_1 D_1 + \beta_2 D_2 + \ldots + \beta_{11} D_{11} + \mu \quad (2)$$

where Y = Monthly returns of BSE Sensex

D1= 1 if the month is June; 0 otherwise

D2 = 1 if the month is July; 0 otherwise

D3 = 1 if the month is August; 0 otherwise

D4 = 1 if the month is September; 0 otherwise

D5 = 1 if the month is October; 0 otherwise

D6 = 1 if the month is November; 0 otherwise

D7 = 1 if the month is December; 0 otherwise

D8 = 1if the month is January; 0 otherwise

D9 = 1 if the month is February; 0 otherwise

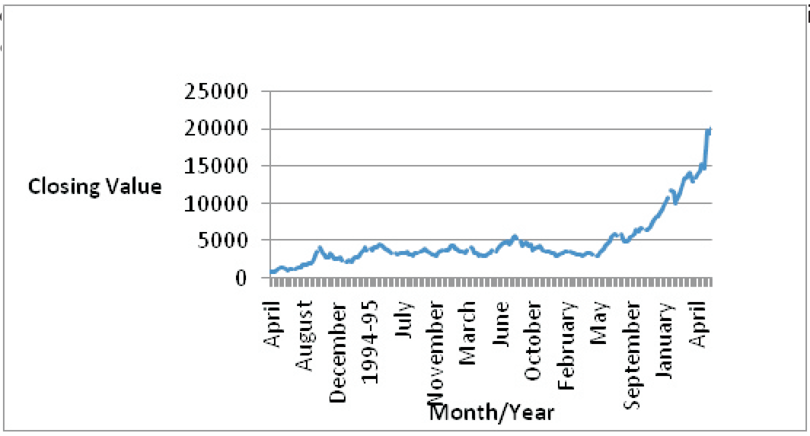
D10 = 1 if the month is March; 0 otherwise

D11 = 1 if the month is April; 0 otherwise

α represents the mean return on the May month where as β1 to β11 indicate the shift in mean returns across months. Statistically significant values of β's imply significant shifts in mean monthly returns, thus confirming the existence of the month of the year effect.

8.0 EMPIRICAL RESULTS

Monthly closing values of BSE Sensex for the period April 1990 to December 2007 is plotted in figure 1. We can cl ied to pierce 5000 level s



After crossing this 5000 mark, Sensex never looked back and created history by achieving newer heights year after year and finally BSE Sensex crossed crucial 20,000 mark December, 2007.

8.1 DAYS OF WEEK EFFECT

We started with computing descriptive statistics of the daily returns of the BSE Sensex. The results is provided in table 1 which shows the mean return over the sample period is negative. The high volatility of the Indian stock market is evident from its high standard devaition. The minimum retrun provided by the Sensex in a single day over the sample period is -11.6 perecnt and the maximum retrun is 7.9 percent. The value of kurtosis is different from three which shows the distribution is not normal.

Table 1: Descriptive statistics of daily BSE Sensex returns

Mean	-0.36
Standard Deviation	2.81
Minimum	-11.6
Maximum	7.90
Kurtosis	1.27
Skewness	-0.14

To examine the days of the week effect in BSE returns, we estimated model (1). The results of the model is given as follows:

BSE returns = - 0.4809 -0.3007 Mon + 0.4467 Tues + 0.6005 wednes - 0.2176 thurs

t = (1.10) (0.48) (0.73) (0.97) (-0.34)

R2= 0.01 df= 199

The results shows that none of the independent variable is significant at 5 percent level of significance. Since the t-statistic of the independent variable Monday is not significant at 5 perecnt level, we can say that there is no weekend effect in BSE returns. Moreover, none of the independent variables are significant at 5 percent implying absensce of the days of the week effect. Thus, the first two hypotheses cannot be rejected.

8.2 MONTH OF THE YEAR EFFECT

Table 1 shows descriptive statistics of BSE Sensex return. The mean return of BSE sensex over the sample period is 1.84 percent while the standard deviation which shows the variability of returns is 7.85 percent.

Table 2: Descriptive statistics of monthly BSE Sensex returns

Mean	1.84
Standard Deviation	7.85
Minimum	-18.5
Maximum	41.48
Kurtosis	2.48
Skewness	0.58

The minimum return provided by BSE Sensex over the sample period is -18.5 percent and maximum return is 41.48 percent. The values of kurtosis and skewness are 2.48 and 0.58 respectively which indicate that data is more or less normal.

The results of estimated model (2) are as follows:

$$Y = -1.38 + 2.10D_1 + 4.13D_2 + 4.88D_3 + 5.68D_4 + 1.48D_5 + 0.98D_6 + 3.54D_7 + 4.88D_8 + 5.69D_9 + 3.48D_{10} + 2.09D_{11}$$

t = (-0.75) (0.80) (1.58) (1.86) (2.17) (0.56) (0.37) (1.35) (1.84) (2.14) (1.31) (0.78)

R^2 = 0.05 df = 200

The mean return of May month is given by the coefficient of intercept that is -1.38% over the sample period. Thus, in general, month of May provided negative return over the sample period implying May as vulnerable month for investors. Mean return of BSE sensex for all other months of are computed as follows:

Mean return for the Month June	: $+_1$ = -1.38+2.10 = 0.72
Mean return for the month July	: $+_2$ = -1.38+4.13 = 2.75
Mean return for the month August	: $+_3$ = -1.38+4.88 = 3.5
Mean return for the month September	: $+_4$ = -1.38+5.68 = 4.3
Mean return for the month October	: $+_5$ = -1.38+1.48 = 0.1
Mean return for the month November	: $+_6$ = -1.38+0.98 = -0.4
Mean return for the month December	: $+_7$ = -1.38+3.58 = 2.2
Mean return for the month January	: $+_8$ = -1.38+4.88 = 3.5
Mean return for the month February	: $+_9$ = -1.38+5.69 = 4.31
Mean return for the month March	: $+_{10}$ = -1.38+3.48 = 2.1
Mean return for the month April	: $+_{11}$ = -1.38+2.09 = 0.71

From the above, it is clear that few months really provide more returns compare to other months. For instance months such as July, August, September, January, and February provided 2.75%, 3.5%, 4.3%, 3.5% and 4.31% returns respectively. However, months such as May and November were provided negative returns of -1.38% and -0.4% and seem to be vulnerable months for investors. Months such as June, October and April provided very low return over the sample period. Thus, the null of third hypothesis is rejected implying that some months provide better returns than other months. In our study, we found August, September and February month provided better returns than other months. It is important to notice that May month provided negative return over the sample period and thus we can say that there exist 'May Effect' in the Indian stock market.

9.0 CONCLUSION

The objective of the study was to examine the weekend, days of the week and month of the year effect in the Indian stock market. Using the daily and monthly data on BSE Sensex from April 1990 to December 2007, the issue was examined by regressing stock returns on dummies for months. The analysis found significant differences in stock returns across various months. We established existence of September and February effect in the Indian stock market. However, there is no weekend and days of the week effect exist in the Indian stock market.

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ECONOMIC FACETS OF CORRUPTION: THE INDIAN PERSPECTIVE

Anil Kumar Jain*

ABSTRACT

There is no society anywhere in the world and at any time in history which has been free from corruption. Causes like human greed, social inequalities, etc, will always tempt people to resort to corrupt means. Every society has some percentage of people who are pathologically and incorrigibly dishonest while there is also a small percentage of a person who will not stray from right path and are incorruptible. But the majority population consists of average people who behave according to the prevailing environment. If the environment is controlled by the corrupt people, such average majority also tends to become corrupt, and vice versa. While corruption is a world-wide phenomenon, the malady is deeper in developing countries like India. The varied and numerous dimensions of corruption are apparent from the fall that today everybody in India is talking about hawala, scams and corruption among the politicians. But these debates have highlighted the issue of corruption in high places and have opened up avenues for the discussion of different facets of corruption which has become a low risk and high profit business activity.

Our object in this paper is to concentrate on the economic facets of corruption and suggest a few measures to control this menace.

Key Words : *Corruption, Tax Evasion, Black Money*

INTRODUCTION

The term 'corruption' has been derived from the Latin verb *rumpere* which means 'to break', something. According to Vito Tanzi, this something might be a moral for social code of conduct or, more often, an administrative rule. The word 'corruption' is a complex phenomenon and has numerous facets. It covers a broad range of human actions and encompasses four distinguishing features:

(i) Misuse of a position of power,
(ii) Gaining of an advantage for those who are, actively or passively, parties to the misuse,
(iii) Undesirable effects on third parties, and
(iv) Secrecy surrounding the transactions

Corruption is a term which has many meanings. At the broadest level, corruption is misuse of office for unofficial ends. The corrupt acts include different items such as bribery, extortion, influence-peddling, nepotism, fraud, speed money, embezzlement, etc. Corruption is commonly defined as misuse of public office for private gain. While private gain is typically interpreted in terms of monetary benefits, it can also assume the form of non-monetary benefits in social and political spheres. Corruption, in general, can be need- based or it can be greed based. Need-based corruption is one where a person indulges in corruption if there is no honest option left to him to meet his essential / minimum needs. Alternatively, a person may indulge in corruption if he is unable to control his greed.

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While need-based corruption is amenable to control through systematic action, greed-based corruption , generally practised by higher echelons of power, is more diffused and , therefore, more difficult to control.

Further, all variation of corruption are not equally harmful. Corruption that undercuts the rules of the game like justice system, property rights, banking and credit, etc. devastates economic and political development. However, corruption that lets polluter's foul rivers or hospitals which extort patients can be environmentally and socially corrosive. In comparison, some speed money for public services and mild corruption are less damaging. Robert Klitgaard has rightly observed that corruption follows a formula: C=M+D-A viz corruption equals monopoly *plus* discretion *minus* accountability .Irrespective of the activity, the fact remains that where someone has monopoly power over a good or service, has the discretion to decide whether or not one would receive it and how much one would get and is not accountable, corruption is bound to increase.

Because corruption is pervasive and undermines a free and fair system based on trust , it becomes a principal threat to democracy. As corrupt money (which gets transformed into black money) has wings and not wheels, it is smuggled abroad to safe heavens and is not always ploughed back into the domestic economy. The South Asian Human Development Report produced by Mahbubul-Haq compared high level corruption to cancer which, over a period of time, spreads to every of the body and finally causes death Further , corruption takes several forms. It is found in politics , bureaucracy, police, judiciary, electoral process, projects, contracts, banks, taxes, construction, transport, civic facilities, and transfers and in the private sector.

There is no society anywhere in the world and at any time in history which has been free from corruption. Causes like human greed, social inequalities, etc, will always tempt people to resort to corrupt means. Every society has some percentage of people who are pathologically and incorrigibly dishonest while there is also a small percentage of a person who will not stray from right path and are incorruptible. But the majority population consists of average people who behave according to the prevailing environment. If the environment is controlled by the corrupt people, such average majority also tends to become corrupt, and vice versa. While corruption is a world-wide phenomenon, the malady is deeper in developing countries like India. The varied and numerous dimensions of corruption are apparent from the fall that today everybody in India is talking about hawala, scams and corruption among the politicians. But these debates have highlighted the issue of corruption in high places and have opened up avenues for the discussion of different facets of corruption which has become a low risk and high profit business activity.

Our object in this paper is to concentrate on the economic facets of corruption and suggest a few measures to control this menace.

LINKAGES BETWEEN TAX EVASION AND CORRUPTION

There is a close relationship between tax evasion, black money and corruption and all three feed on each other. With the passage of time, tax evasion, bribery and corruption have become rampant in India so much so that corruption in India has become cancerous and political corruption has lately come to be virtually legitimised. According to Transparency International's rankings, in 2001. India came at a pathologically low 71st among 91 countries in terms of Corruption Perception Index(CPI). Since then, the situation has not improved. In 2010 also, India ranked 87th among 178 countries in terms of CPI and in the year 2012, India's rank has deteriorated to 94th out of 174 countries in terms of CPI. What is disturbing is that India's score in CPI has deteriorated over the past decade. On the other hand, neighbouring countries like Bhutan ranks 33rd and Sri Lanka has 79th rank-better than India.

The unsanctioned or black market economy has been created from the evasion of both direct and indirect taxes, undervaluation of property, anti-social activities, under-invoicing and over invoicing, remittances from abroad through illegal channels, etc. The prevalence of bribery and corruption has helped to increase on-payments. In respect of all taxes, including income tax at Central level, sales tax/turnover tax at State level, property taxes and other municipal taxes at local levels, there are invariably reports of large scale evasion which is facilitated through manipulation with concerned efforts.

HISTORICAL PERSPECTIVE

With the passage of time, tax evasion and corruption have undergone a significant change in India, both quantitatively and qualitatively. The tragedy of India is that within a span of sixty years it has changed from a country in which the corrupt people could be counted on fingertips to a country where honest people are difficult to find. The obvious conclusion is that there is something in the system of governance chosen by us after Independence which attracts unscrupulous characters to the public life and facilitates their rise to the positions of power.

During the 1930s, a large number of wealthy and clever tax payers started adopting ingenious methods of understating their incomes. World War II proved a golden era for tax dodgers and poured fortunes in the laps of skilful tax evaders. Mahatma Gandhi wrote in *Harijan* on February 1, 1948 that," the subject of corruption ...is not new. Only it has become worse than before." The situation did not improve after independence; on the contrary, it has become worse. To overcome the problem of shortages, different types of controls were imposed, but in practice, such controls generated black markets. The government's licensing policy offered fresh avenues for tax evasion, black markets and corruption. Even the integrated system of taxation introduced on the suggestion of N.Kaldor did not prove effective.

A constant tug of war continued between tax dodgers and the government in which the former had the upper hand. This was partly due to the fact that until1973-74, the general trend was to increase tax rates, which made gains from evasion very high. A number of complex provisions were added to tax laws in an attempt to plug the loopholes and tax evasion but these changes made the already complex legislation more difficult to administer. This encouraged further evasion, generation of black income and wealth and perpetuated corruption. One can also briefly say that with the passage of time , the Indian electoral system has become more expensive and " we have degenerated from a largely honest society to a dishonest polity".

Jawaharlal Nehru and Lal Bahadur Shastri showed serious concern about mounting corruption . The Santhanam Committee was set up and a code for Central and State Ministers was announced by the Shastri Government in October 1964. Both Indira Gandhi and Rajiv Gandhi started off well, arousing great expectation with their eloquent promises of cleaning up the system. But little, in fact, was done. Indira Gandhi's government failed to combat the problem on the ground that graft was a 'world phenomenon' and was not peculiar to India. Recently, Dr. Manmohan Singh has also said that rapid growth provides new opportunities for corruption. A survey conducted by MODE for The *Times of India* in 1995 in which 1554 adults were interviewed across six metropolitan areas, revealed that 92 per cent of the respondents opined politicians to be most corrupt, followed by policemen, government servants and businessmen. They further opined that the problem had increased under the Rao government .The 2008 Bribe Payers' Survey done by Transparency International gives a snapshot of bribery practices among companies in 22 leading economies . India is in the bottom four, along with Russia,China and Mexico. S. Ambirajan has rightly observed that ,"It is the result of a cumulative increase in corrupt behaviour on the part of those in government over a long period coupled with a steady increase in the discretionary power vested in the hand of the bureaucracy and politicians to determine the economic fortunes of individual economic agents" . Speaking at a Harvard Business School Ratan Tata has rightly said that corruption has become worse after liberalisation . Prior to 1991, corruption was in the form of granting licences. Now, it has been replaced by the award of contracts and in changing the terms of contractual obligations. The Indian scenario relating to corruption can be well understood by the following joke:

"Three Heads of State are stated to have gone before God. American Head of State asked God as to when corruption would end in his country. God replied it would take 40 years. This Head of State was a very old man of 65 years. He started crying, saying that corruption will not end in his lifetime. The Japanese Head of State then stood before God and asked the same question. He too was an old person of over 70 years. God replied that it would take at least 35 years. Japanese Head of State also started crying, saying that corruption will not end in his life time. Thereafter, Indian Head of State went before God and asked as to when corruption would end in India. At this God broke down and started crying, saying that corruption will not end in your country in my lifetime".

The fact of the matter is that tax evasion in India has developed into a fine art and is accepted as a common feature of life. Today, things have gone to such an extent that 'No Harassment Tax'(NHT) has to be paid in order to get right things done in the right manner involving no loss to the Exchequer. This NHT can also be termed as *Suvidha Shulka*. S. Ambirajan holds a similar view when he observed that, "From a beggar who wants to beg , undisturbed over a payment , to a large corporation planning to establish a factory, illegal payments seemed to have become part of economic life.

ECONOMIC REFORMS AND CORRUPTION

The government had hoped that with liberalisation and greater simplification of procedures adopted since 1991, tax evasion and corruption would automatically be reduced. However, this has not actually happened. The experience of tax amnesty schemes has been far from satisfactory and many tax payers have used this confidence as a tool for evasion . Since corruption has become low risk high-gain activity, corruption has increased even after economic reforms. The unearthing of various scams is a pointer in this direction." As long as the benefit of tax evasion and corruption far outweigh the risks involved, both maladies are bound to increase. Corruption depends not so much on the extent of controls but more on the ability to influence decisions. A reduction in controls has opened up new potential areas of corruption and there are still many key areas where discretion is temptingly left with politicians and bureaucrats". Liberalisation and Privatisation has opened up new and much vaster avenues of corruption. Further, so long as there is negligible social stigma attached to corruption and social status is determined by such factors as ostentatious expenditure at weddings, there will be pressures to accumulate black money and increase in corruption. Global Financial Integrity has estimated that out of the illicit flow of $462 billion from the country since 1948, 68 per cent has occurred during the post reform period of 1991-2008. Further, such illicit outflows have drained hard currency reserves and reduced tax collections, harming India's poor and widening income gaps.

ECONOMIC CONSEQUENCES OF BLACK MONEY AND CORRUPTION

The consequences of increasing black money and corruption are numerous and far reaching. Black money is playing havoc with the Indian economy and has far reaching economic consequences. Bribery has fostered a culture of impunity and repeat corruption has undermined the functioning of public institutions and has fuelled the perception that governments and bureaucrats are up for sale to the highest bidder .The model of Johnson et al. ,on the basis of cross-country data ,has outlined three predictions in this regard. First, countries with more regulation tend to have a higher share of unofficial economy in total GDP. Second, a higher tax burden leads to more unofficial activity. Third, countries with more corruption tend to have a larger unofficial economy.

Since the concealed income goes to enhance the wealth , tax evaders and corrupt officials carry on huge transactions in the black market, pile up stocks of goods and thus bring about artificial scarcity in the open market resulting in higher prices. Inflation affects adversely the standards of living of employees who then clamour for higher wages and resort to go-slow policies, strikes etc, to enforce their demands. This inevitably leads to strained employer-employee relations, loss of man days and ultimately a decrease in national income. Black money comes in the way of government's efforts in bringing down prices. In fact, black money and inflation go hand in hand and have more or less a cause and effect relationship.

On account of black money accumulated either through tax evasion or corrupt practices, open money market is always tight or the money supply has to be increased to meet credit requirements in the busy seasons. Since tax revenue does not grow fast enough to match the developmental and non-developmental expenditure due to increasing tax evasion and corrupt practices, government has to resort to deficit financing/deficit budgeting . Thus fiscal discipline becomes the continuing causality both at the Central and State level and inflationary pressures are further accentuated.

Cross country evidences suggest that corruption, which is the abuse of public power for private gain, unambiguously lowers the rate of growth and reduces expenditure on health and education and thus hurts prospects for long term growth. Corruption acts like an unpredictable and random tax that increases risk and uncertainty. Further, higher corruption is also associated with rising income inequality. Given unchanged per capita income higher income inequality implies greater poverty.

Corruption which leads to greater generation of black income and wealth, diverts resources from productive uses, greatly helps in smuggling and encourages wasteful consumption expenditure. Owing to evasion, the burden is heavier on the salaried class and honest tax payers who feel frustrated as they have to pay more taxes because their fellow men in other professions are evading taxes. Under such a scenario, honesty becomes the first causality and discourages work effort. Corruption also destabilises monetary policy.

AN AGENDA FOR ANTI-CORRUPTION STRATEGY

So far, corruption has mostly inspired analyses, conferences and writings but very little real action has been taken at the national and international levels to eradicate corruption. To be effective, anti-corruption strategies must minimise, if not eliminate, the causes of corruption. The consequences of corruption can be minimised if government has an effective anti-corruption strategy and implements it impartially. We think that if corruption is to be really fought in India,it is imperative that risks and costs of being corrupt are sharply increased. "Corruption must generate such a substantial loss of social status that it makes any monetary gain appear insignificant. Such a loss of social status will only be possible if common people believe that those who break rules of civil society deserve to be ostracized. This will need a society where most people ,if not all, believe that rules that prevail are fair."

Any anti-corruption strategy should focus on four important components .*Firstly*, government should quickly attempt to identify a few big tax evaders, a few big bribe givers and a few high-level government bribe takers and such persons should e punished and convicted because conviction in a court of law is beset with several legal and social disqualifications. *Secondly*, any such strategy should emphasize greater involvement of people because citizens are the most fertile sources of information about where corruption occurs. *Thirdly*, frequent workshops should be organised to give serious thought to the different dimensions of the malady so that a general awareness is created about tackling corruption. *Fourthly*, a government which is serious about stopping corruption must provide a system of disincentives and incentives. Stiff penalties for corrupt officials should be accompanied by rewards for competent and honest officials. In order to attract honest officials it is necessary to pay them lucrative salaries and allowances."When the people pay government functionaries descent salaries, they are buying a layer of insulation against patronage and bribery." Simultaneously the principle of 'accountability' also needs to be introduced, along with Code of Ethics for civil servants in India. Further a free media has a crucial role in preventing , monitoring and control of corruption.

However, the effectiveness of anti-corruption measures is conditioned by two factors:(i) the adequacy of measures in terms of the comprehensiveness of their scope and powers; and (ii) the level of commitment of political leaders to the goal of minimising corruption , because " the most elaborate and well-designed anti-corruption measures will be useless if they are not enforced by political leaderships."

CONCLUSION

To conclude we think that lack of consciousness on the part of tax payers , bureaucrats and political leaders has greatly encouraged corruption. We think that in the ultimate analysis corruption must be fought in the minds and hearts of men. Traditionally, morality is rooted in religion and religious culture. It is high time that moral values are rejuvenated in the masses through education, teaching morality at school and college levels and emphasizing religious values and culture. People should be made to realise their duties towards the State. Gandhiji rightly wrote in *Harijan* on February 1, 1948 that "corruption will go when large number of persons given to the unworthy practice realise that the nation does not exist for them but that they do for the nation." The White Paper on Black Money has also rightly emphasized that "At the ethical level , we have to reinforce value/moral education in the school curriculum and build good character citizen, particularly highlighting the ills of evasion and black money". Mahatma Gandhi has preached people to avoid seven deadly sins: wealth without work, pleasure without conscience, science without humanity, knowledge without character, politics without principles, commerce without morality and worship without sacrifice. It is high time that we embark on the path shown by our forefathers to create a corruption-free, healthy and happy society.

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PERCEPTION, PREFERENCES & INTENTIONS OF HOUSEHOLD INVESTORS IN INDIA-A CASE STUDY OF VARANASI DISTRICT

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ABSTARCT

Development of the financial sector largely depends on the perception, preferences and intentions of the household investors. General and particular perception of investors regarding the economy, government policies and business environment, etc. affects the risk appetite among the investors. Perception of investors largely affects the preferences for investment in a particular asset. Creators of the financial assets, namely, financial institutions, banks and other agencies are very much affected by the preferences shown by the investors. Extent of preference shown by the investors for share ownership can mar or enthuse the development of the capital market and the corporate sectors. The objectives of the proposed study are to know the perception, preferences and intentions of the investors of the Varanasi district. The present study, hence, concentrates on these aspects of household investors.

Keywords : *Asset Preference, Mutual Fund, LIC.*

INTRODUCTION

Development of the financial sector largely depends on the perception, preferences and intentions of the household investors. General and particular perception of investors regarding the economy, government policies and business environment, etc. affects the risk appetite among the investors. Perception of investors largely affects the preferences for investment in a particular asset. Creators and floaters of the financial assets, namely, financial institutions, banks and other agencies are very much affected by the preferences shown by the investors. Extent of preference shown by the investors for share ownership can mar or enthuse the development of the capital market and the corporate sectors. The present study, hence, concentrates on these aspects of household investors.

OBJECTIVE AND SCOPE

(a) Objective & significance of the study

The objectives of the proposed study are:

(i) What are the present structure of household investor's investment choices and their pattern of investment preferences?

(ii) What are the other associated factors that are influencing household investors' decision?

(iii) What are the different levels of confidence of household investors in market products and product providers?

In short, the objectives of the proposed study are to know the perception, preferences and intentions of the investors of the Varanasi district. In the light of the objectives of the study, the present study

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provides a great significance. The proposed study is a micro level study which would deepen our standing of household investors' needs relating to investment in financial market instruments and also of how their investment preferences and portfolio practices are evolving. Furthermore, the study has also a direct bearing on development of the market through appropriate policies.

(b) Methodology

(i) Selection of Area for the Study:

This is a case study of Varanasi district. We have chosen Varanasi district for our study since Varanasi is having highest density of population in U.P. The density of population of India, U.P. and Varanasi district as per 2001 Census was 324, 689, & 1589 respectively.

(ii) **Scope of study:**

Primarily the present study is on household investors and their preferences, perception and intentions. Hence, the observations will encompass the circumference of the proposed study.

(iii) **The sample size:**

We have been able to survey 300 respondents during our data survey period of 12 months.

(iv) **Data Governance:**

For data governance, we have taken a general sample of the relevant population segment based on stratified random sampling method. In the wake of still a wide spread prevalence of poverty in this region, for sampling purposes, we took 'relevant population segment', i.e., households that were capable of making financial investments. For interpretation of data, percentage method is used.

RESULT

1. Risk Perceptions

Table 1 brings out risk perceptions of the investors and through that we can infer their intentions and preferences for investment. The table reveals that investment in government and semi government schemes of investment attracts investors most. On the other hand, investment in equity shares, non convertible debentures, fixed deposits with companies are perceived relatively risky. It is evident from the table that fixed deposit in banks, LIC policies, Public Provident Funds, LIC Fixed Deposits are perceived totally safe investment schemes. As far as mutual fund schemes are concerned, it should be a great concern for the UTI that investors perceive Banks mutual fund schemes safer than UTI mutual fund schemes. When it comes to insurance business, it is well clear that LIC policies have been perceived much safer than 'Policies of Insurance companies other than LIC'. It is clear that Insurance companies other than LIC would have to work hard vigorously to garner investors' confidence. The 'totally safe' and 'totally unsafe' assets in the eyes of investors' respectively are: Fixed deposits with bank, 99.7 & 0.3 per cent; LIC policies, 99.0 & 01 per cent; Public Provident Fund, 98.0 & 2.0 per cent; LIC Fixed Deposits, 94.0 & 6.0 per cent; Mutual Fund Scheme of Banks, 87.0 & 13.0 per cent; Mutual Fund Scheme of UTI, 81.0 per cent & 19.0 per cent. Investment in schemes of Equity share of companies, Convertible Debentures and Non convertible Debentures are perceived the most unsafe investments with their percentage of 59.0 per cent, 66.0 per cent and 87.0 per cent, respectively.

Table 1: Households' Risk Perceptions Regarding Investment in Selected Financial Assets

S.N.	Financial Assets	Per cent of Sample Household who classified the Assets as					Total safe		Total unsafe	
		Absolutely safe	Reasonably safe	Some what unsafe	Very unsafe	Cannot say				
		Per cent	Per cent	Per cent	Per cent	Per cent	No.	Per cent	No.	Per cent
1	Fixed Deposit with Bank	92.7	7.0	0.3	-	0.0	299	99.7	01	0.3
2	Fixed Deposit with company	05.0	32.0	49.0	14.0	0.0	111	37.0	189	63.0
3	Mutual Fund Scheme of UTI	18.0	63.0	15.0	4.0	0.0	243	81.0	57	19.0
4	Mutual Fund Scheme of Banks	45.0	42.0	11.0	2.0	0.0	261	87.0	39	13.0
5	Equity Share of Companies	6.0	35.0	39.0	20.0	0.0	123	41.0	177	59.0
6	Convertible Debentures'	4.0	30.0	45.0	21.0	0.0	102	34.0	198	66.0
7	Non-convertible Debenture	3.0	10.0	37.0	50.0	0.0	39	13.0	261	87.0
8	LIC Policy	90.0	9.0	1.0	00.0	0.0	297	99.0	03	1.0
9	LIC Fixed Deposits	59.0	35.0	5.0	1.0	0.0	282	94.0	18	6.0
10	Policies of Insurance Companies other than LIC	17.0	46.0	27.0	10.0	0.0	189	63.0	111	37.0
11	Public Provident Fund	70.0	28.0	2.0	00.0	0.0	294	98.0	06	2.0

2 : ASSET PREFERENCE PATTERN : AN OVER-ALL PICTURE

The knowledge of investors' risk perception that shows their inclination and apathy towards different kinds of investment schemes, however, is good but it is more prudent to look at the actual investment made in assets by the investors. In this section an overall picture of assets preference pattern is shown by analyzing first the overall ownership incidence of various kinds of financial assets among sample households followed by an assessment of income class composition of the owner of specific financial asset types.

It is evident from the Table 2.1, which analyzes overall ownership incidence of various kinds of financial assets among sample households, that 'LIC policies' and 'Fixed deposits with Banks or Post Office' are the top investment destinations for the investors. These investment schemes were perceived 'totally safe' for investment in our earlier table 1 also. The most startling fact revealed by this table, however, is that 42 per cent of the total sample of household have actually invested in the 'equity/preference share of companies', despite the fact that 59 per cent of the investors have perceived 'totally unsafe' to invest in 'equity share of the companies' (Table 1). This analysis reveals that investors are inclined to 'take risk' even in the risky schemes. 'Policies of Insurance Companies other than LIC' have also got the similar favor. The table further reveals that ' Public Provident Fund' Scheme has not got investment favor from the investors as only 26.7 per cent of the total sample households invested in this scheme, though 98 per cent of investors have regarded it a 'totally safe' scheme (Table 1). Likewise, 'Mutual Fund Schemes other than UTI' that have been perceived less risky over 'Mutual Fund Schemes of UTI' (table 1), have been preferred, in reality, less and 'Mutual Fund of UTI' have attracted more investors (Table 2.1). Among all investment schemes, investors showed their least interest to 'Fixed Deposits with Non- Government Undertakings'.

Table2.1: Ownership Incidence of Various Kinds of Financial Assets among Sample Households (Over all)

S.N.	Financial Assets	No. of Households Owning the Assets	Per cent of Total Sample	Rank
1	LIC Policies	274	91.3	1
2	Fixed Deposits with Banks or Post Office	229	76.3	2
3	Employees Provident Funds	176	58.7	3
4	Equity/Preference Share	126	42.0	4
5	Recurring Deposits with Post Office	112	37.3	5
6	UTI Units/Mutual Funds	107	35.7	6
7	Policies of Insurance Companies other than LIC	103	34.3	7
8	National Saving Certificate	94	31.3	8
9	Public Provident Fund	80	26.7	9
10	Fixed Deposits with Government Undertakings	68	22.7	10
11	Mutual Fund Schemes Other than that of UTI	46	15.3	11
12	Fixed Deposits with Non-Government Undertaking	25	8.3	12
	Total Sample of Households	300		

An analysis of income class composition of the owner of specific financial asset types is shown in the Table 2.2. It is evident from the table that investors of income category of 'Rs 10,001 to Rs. 25,000' are the greatest investors in all categories for different types of investments (namely, fixed deposits with bank; equity shares; UTI units and other mutual funds) ranging from 52.4 per cent to 45.7 per cent. This category of investors is followed by investor classes of 'Above Rs. 50,001' and 'Rs 25,001 to Rs. 50,000'. Investors having income 'Up to Rs. 10,000' stood last as far as investment is concerned.

Table 2.2: Income class composition of the Owner of Specific Financial Asset Types

Income category of Household (Monthly Household Income)	Per cent to column total				
	Sample Households	Investors Bank Fixed Deposits	Investors in Equity Shares	Investors in UTI Units	Investors in Other Mutual Funds
Up to Rs. 10,000	17.0	14.4	16.7	5.6	4.3
Rs. 10,001 to Rs. 25,000	50.0	48.5	52.4	45.8	45.7
Rs. 25,001 to Rs. 50,000	15.0	17.0	11.9	23.4	19.6
Above Rs. 50,001	18.0	20.1	19.0	25.2	30.4
All categories	100.0	100.0	100.0	100.0	100.0

Table 2.3: Owners of Certain Financial Assets among Household Belonging to Various Income Groups in Per cent

Income Group of Household (Monthly Household Income)	Percentage of sample household who owned				
	No. of Sample Household	Bank Fixed Deposits	Equity Shares	UTI Units	Other Mutual Funds
Up to Rs. 10,000	51	64.7	41.2	11.8	3.9
Rs. 10,001 to Rs. 25,000	150	74.0	44.0	32.4	14.0
Rs. 25,001 to Rs. 50,000	45	86.7	33.3	55.6	20.0
Above Rs. 50,001	54	85.2	44.4	50.0	25.9
All categories	300	76.3	42.0	35.7	15.3

Table 2.3, on the other hand, presents the investors income categories and their preferences for certain financial assets. It is apparent from the table that investors of 'All categories' preferred investment in 'Bank Fixed Deposits'(76.3%) most, followed by investment in 'equity share' (42.0%), UTI Units (35.7%) and 'Other Mutual Funds' (15.3%) in that order. However, when it comes to the individual category, then it is obvious from the table that this trend has been followed by the investors of first two income categories, i.e. 'Up to Rs. 10,000' and 'Rs 10,001 to Rs. 25,000'. On the other hand, investors falling into the groups of 'Rs. 25,001 to Rs. 50,000' and 'Above Rs. 50,001' preferred to invest in 'Bank Deposits' most, followed into 'UTI units' and then to 'equity share'. These groups of investors, it appears, are more cautious in their investment approach. Nonetheless, in totality, it is clear that

investors by and large still prefer to traditional investment schemes, however, they are now taking risk by investing into equity share also.

3. ASSET PREFERENCE PATTERN BY INCOME-LEVEL

Table 3: Ownership Incidence of Various Kinds of Financial Assets by Income Class of Households

S.N.	Financial Assets	Income Class (Rs. Per month)							
		Up to Rs. 10,000		Rs. 10,001 to Rs. 25,00		Rs. 25,001 to Rs. 50,000		Rs. 50,001 & above	
		Per cent	Rank	Per cent	Rank	Per cent	Rank	Per cent	Rank
1	LIC Policies	88.2	1	90.0	1	91.1	1	98.1	1
2	Fixed Deposit with Banks or Post Office	64.7	2	74.0	2	86.7	2	85.2	2
3	Employees Provident Fund	39.2	6	71.3	3	51.1	5	48.1	4
4	Equity/ Preference Share	41.2	5	44.0	4	33.3	6	44.4	5
5	Recurring Deposits with Post Office	47.1	4	38.7	5	26.7	7	33.3	7
6	UTI Units/ Mutual Funds	11.8	11	32.7	8	55.6	3	50.0	3
7	Policies of Insurance Companies other than that of LIC	52.9	3	33.3	7	15.6	11	35.2	6
8	National Saving Certificate	35.3	7	34.0	6	22.2	9	27.8	10
9	Public Provident Fund	23.5	8	18.0	10	53.3	4	31.5	8
10	Fixed Deposits with Government Undertakings	17.6	9	21.3	9	24.4	8	29.6	9
11	Mutual Fund Schemes other than that of UTI	3.9	12	14.0	11	20.0	10	25.9	11
12	Fixed Deposits with Non-Government Undertaking	13.7	10	4.0	12	13.3	12	11.1	12
13	Number of Households analyzed	51		150		45		54	

An analysis of ownership incidence of various kinds of financial assets by income class of households has been shown in Table 3. There are some distinct attributes visible in the table and that are as follows:

- Investors of all income groups have invested into LIC policies ranging from 88.2 per cent to 98.1 per cent of their total investment and it is their first choice for making investment;
- Similarly, investors of all income categories preferred as their second option for investment to 'Fixed deposits with bank or post office' and invested as high as 86.7 per cent of their total investment into this type of financial asset. The lowest percentage made into this type of investment is 64.7 by the investors of the lowest income group, i.e., 'Below Rs. 10,000';
- 'Fixed deposits with non-government undertaking', 'Mutual fund schemes other than that of UTI' and 'Fixed deposits with government undertaking' are the least favored types of financial assets in that order by all income classes of investors;
- 'Employees Provident Fund Scheme', investment in 'Equity/ Preference Share ' and 'UTI Units/Mutual Fund Scheme' are also viewed as a superior investment schemes by all income categories of investors, ranging from third to sixth preferred investment types;
- A clear cut demarcation is evident in order of preference for some schemes by investors of low income category to that of investors of higher income categories;
- Investors of higher income classes' i.e. 'Rs. 25,001 to Rs. 50,000' and Rs. 50,001 & above' preferred 'UTI Units/Mutual Funds' as their third investment alternative. Against this, investors of lower income categories ranked it 8th to 11th position as their investment choice;
- Similarly, 'Recurring deposits with post office' is preferred more by the investors of low income categories than to the investors of higher income categories;
- Finally, an astounding fact that is noticeable from the table is that investors of all income

categories have preferred to investment in 'Equity/ Preference Shares' as a good option. It is also conspicuous that investors of comparatively low income categories than the high income categories have ranked it as a better investment option.

4. MOBILIZATION OF SAVINGS OF NON-SHARE OWNERS

Table 4: Percentage of Non-Equity Owners among Owners of Specific Financial Assets

S.N.	Specific Financial Assets	Per centage of Non –equity Owners among Various Assets holders
1	Fixed Deposits with Non-Govt. Undertaking	5.2
2	Mutual Funds Scheme other than that of UTI	6.9
3	Fixed Deposits with Government Undertaking	19.0
4	Public Provident Fund	20.7
5	UTI Units/ Mutual Fund	22.4
6	Policies of Insurance Companies other than LIC	24.0
7	National Saving Certificates	29.3
8	Recurring Deposits with Post Office	41.4
9	Employees Provident Funds	58.6
10	Fixed deposits with Bank and Post Office	77.6
11	LIC Policies	98.3
12	Total number of Households	174

The Table 4 brings out the percentage of non-equity owners among owners of specific financial assets. According to this table, the most favored investment schemes are 'LIC Policies' and 'Fixed Deposits with Bank and Post Office' among the households. 'Employees Provident Fund' and 'Recurring Deposits with Post Office' are another preferred investment assets. On the other hand 'Fixed Deposits with Non-Government Undertaking' and 'Mutual Funds Scheme other than that of UTI' are the least favored assets among the investors.

5. INVESTMENT INTENTIONS

Another way of ascertaining investor's perception and preference for financial assets could be to know the investors inclination for their investment in the up coming year. Table 5 brings out the same. Total percentage of 'yes' answers for investment intentions of households with regard to selected financial assets shows that 97.0 per cent would like to invest in the LIC policies. Similarly, 92.4 per cent of the investors want to invest in 'Fixed Deposits with Bank or Post-Office'. Likewise, 83.7 per cent of the household would like to invest in 'LIC Fixed Deposit Schemes'. The positive response for investment in 'National Saving Certificate' and investment in 'UTI Units/Mutual Funds' was 73.3 per cent and 64.0 per cent, respectively. In between these two financial assets, 69.0 per cent of the investors wish positively for to invest in the “Public Provident Fund” also. This shows that investors though late, are realizing the importance of PPF. On the other hand, though the previous table showed reasonably high percentage of investment in recurring deposits, but this table shows that inclination of investors is dwindling very fast and only 24.6 per cent of investors crave to invest in this asset. Likewise, only 15.3 per cent of households would prefer to invest in the 'Fixed deposits with Non-Govt Undertakings', the lowest preferred among all financial assets.

Table 5: Investment Intentions of Households for one Ensuing Year with regard to Selected Financial Assets.

S.N.	Financial Assets	Percentage of Households saying 'Certainly Yes'		Percentage of Households saying 'Probably Yes,		Total per cent age of 'Yes' Answers
		No. of household	Per cent	No. of households	Per cent	
1	UTI units/ Mutual Funds	106	35.3	86	28.7	64.0
2	Mutual Funds Schemes other than UTI	29	9.7	90	30.0	39.7
3	Equity/ Preference share	37	12.3	91	30.3	42.3
4	Fixed Deposits with Govt. Undertaking	52	17.3	74	24.7	42.0
5	Fixed Deposits with Non-Govt. Undertakings	19	6.3	27	9.0	15.3
6	Fixed Deposits with Bank or Post Office	224	74.7	53	17.7	92.4
7	Recurring Deposits with Post Office	184	6.3	55	18.3	24.6
8	National Saving Certificate	174	58.0	46	15.3	73.3
9	LIC Policy	236	78.7	55	18.3	97.0
10	LIC Fixed Deposits Schemes	99	33.0	152	50.7	83.7
11	Policies of Insurance Companies other than LIC	22	7.3	84	28.0	35.3
12	Public Provident Fund (PPF) Scheme	145	48.3	63	21.0	69.3

6. INVESTORS PREFERENCE AMONG MUTUAL FUND SCHEMES

Table 6: Investors' Response for Investment in a Mutual Fund without Guarantee of Minimum Rate of Dividend

Investors Response	Investors' response for investment in a mutual fund without guarantee	
	Yes	No
	Per cent	Per cent
Investors	12.0	88.0

The Table 6 reveals investors' response for investment in a mutual fund without guarantee of minimum rate of dividend. It is clear from the table that still more than four-fifth (88.0%) of the investors like guaranteed fund than the non-guaranteed fund.

Table 7: Types of Mutual Funds and Investors Preference

S.N.	Types of Mutual Funds	Preferences or Rank (%)				
		I	II	III	IV	V
1	High Growth Fund	15.0	44.0	20.0	7.0	14.0
2	Regular Income Fund	58.0	28.0	8.0	3.0	3.0
3	Tax Saving Fund	22.0	15.0	23.0	18.0	22.0
4	Infrastructure Fund	2.0	5.0	30.0	32.0	31.0
5	Unit Linked Insurance Plan	3.0	8.0	19.0	40.0	30.0

Financial institutions and companies are regularly launching various types of mutual funds in an expectation that they would do a good business out of launched funds. The study regarding the preferences of investors for various mutual funds is, thus, very important in respect of their financial viability and profitability. It is clear from the Table 7 that investors prefer most the 'Regular Income Fund', followed by 'High Growth Funds' and 'Tax Saving Funds'. 58.0 per cent of the investors ranked first in order of their preferences for investment in 'Regular Income Fund'. On the other hand, only 3.0 per cent of the investors liked 'Unit linked insurance plan' and 2.0 per cent 'Infrastructure Fund' as their first choice for investment. Thus, 'Unit Linked Insurance Plan' and 'Infrastructure Fund' are the least shot after investment plans.

CONCLUSION

The above analysis of the investor's preferences and perceptions regarding their financial assets provides the following results:

- that investment in government and semi government schemes of investment attracts investors' most. On the other hand, investment in equity shares, non convertible debentures, fixed deposits with companies are perceived relatively risky and unattractive;
- that fixed deposit in banks, LIC policies, Public Provident Funds, LIC Fixed Deposits are perceived totally safe investment schemes.
- that investors perceive Banks mutual fund schemes safer than UTI mutual fund schemes. When it comes to insurance business, it is well clear that LIC policies have been perceived much safer than 'Policies of Insurance companies other than LIC';
- that 42 per cent of the total sample of household have actually invested in the 'equity/preference share of companies'. Thus, the study reveals that investors are inclined to 'take risk' even in the risky schemes;
- that ' Public Provident Fund' Scheme has not got investment favor from the investors;
- that investors of income category of 'Rs 10,001 to Rs. 25,000' are the greatest investor in all categories for different types of investments followed by investor classes of 'Above Rs. 50,001' and 'Rs 25,001 to Rs. 50,000'. The investment category of investors 'Up to Rs. 10,000' stood last;
- that investors of 'all categories' (76.3%) preferred investment in 'Bank Fixed Deposits', followed by investment in 'equity shares (42.0%), UTI Units (35.7%) and 'Other Mutual Funds' (15.3%) in that order;
- that investors, though, by and large are still preferring traditional investment schemes, however, they are now taking risk by investing into equity shares also;

  that investors of all the income groups have invested ranging from 88.2 per cent to 98.1 per cent of their total investment into LIC policies and it is their first choice for making investment;
- Similarly, investors of all income categories preferred as their second option for investment to 'Fixed deposits with bank or post office'
- 'Fixed deposits with non-government undertaking', 'Mutual fund schemes other than that of UTI' and 'Fixed deposits with government undertaking' are the least favored types of financial assets in that order by all income classes of investors;
- 'Employees Provident Scheme', investment in 'Equity/ Preference Share ' and 'UTI Units/Mutual Fund Scheme' are also viewed as a superior investment schemes by all the income categories of investors ranging from their third to sixth preferred investment types;
- The most striking fact that is evident from the table is that a clear demarcation is visible into preference of some schemes by investors of low income categories than the investors of higher income categories;
- an astounding fact that is noticeable from the study is that investors of all the income categories have preferred for investment in 'Equity/ Preference Shares' as a good option;
- that 97.0 per cent would like to invest in the LIC policies and 92.4 per cent of the investors want to invest in 'Fixed deposits with bank or post-office'. Likewise, 83.7 per cent of the household would like to invest in 'LIC fixed deposit schemes';
- that the most favored investment schemes among non-equity owners are 'LIC Policies 'and 'Fixed Deposits with Bank and Post Office' among the households. 'Employees Provident

Fund' and 'Recurring Deposits with Post Office' are another preferred investment assets. On the other hand 'Fixed Deposits with Non-Government Undertaking' and 'Mutual Fund Schemes other than that of UTI' are the least favored assets among the investors;

that still more than four-fifth (88.0%) of the investors like guaranteed fund than the non-guaranteed fund;

- that investors prefer most to the 'Regular Income Fund', followed by 'High Growth Fund' and 'Tax Saving Funds' among various mutual fund schemes.

Note: This article is based on the project conducted and submitted to UGC by the same authors on "Preferences, Perceptions and Worries of Household Investors in India: A Case Study of Varanasi District (U.P.)"

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INCOME EMPLOYMENT GENERATION POTENTIAL AND REALITIES OF UTTAR PRADESH

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ABSTARCT

The economic development is successfully transplanted through the productive mobilization of available resource of the economy. But, the evidences reveal that resources in UP are either unutilized or under-utilized, which has clearly restricted the pace of economic development of the state. The approach of the paradox of thrift, as the numerical fact suggests, causes sluggish movement in development indicators in the state.

Keywords : *Resource Moblisation, GDP, Industrial Development.*

1. A CRYSTAL VISIONARY APPROACH

India is one of the leading developing countries and the third largest economy of the world. The symptom of fast growing economy and attractive GDP growth rate year after year has created the convincing growth potentials in the Indian soil. The approach of sustainable development is needed to be connected to alleviate and eradicate the human misery of absolute poverty and unemployment on the one hand and transplant the economic prosperity on the other in the global economy. The thrust of economic development is being highlighted in almost every dimensions and sphere of social and managerial sciences and especially in Economics. Among the leading federal states of India, Uttar Pradesh is one of the emerging states, which has created both hope and anxiety in the different dimensions of the economic development.

The visual trace of Uttar Pradesh was developed with the emergence of united province developed by the British Administration in 1953 AD and the united province was converted and renamed as Uttar Pradesh cups in January, 1950. The history witnesses that 17 percent area of Uttar Pradesh was separated on November 9, 2000 and the separated segment of the state gave birth to Uttaranchal, which causes an alarming loss to the economy of U.P.

The fact reveals that total area of Uttar Pradesh was recorded as 29440054 KM. prior to November 9, 2000 and the state accommodated 1/6 of total population and 1/10 of total area of the country. The state produces 18.6% of the national cereals and 20% of the national cultivated area is covered by the Uttar Pradesh. Due to such dominant shares of UP in primary sector of the country, the situation demands to encourage the meaningful and productive researches to ensure that the production process in agriculture field is provided with perfect natural and climatic support which is essentially required for the appropriate and healthy growth of Agricultural Sector. The contribution or shares of primary, secondary and tertiary sectors are 38 percent, 22.6 percent and 39.4 percent respectively in the economy of UP. Although tertiary sector has occupied the leading place in the table of contribution yet agriculture and agro based industries are still recognized as the main pillar and the backbone of the economy of Uttar Pradesh. However, the major point of anxiety is that UP does not belong to five major states of India in terms of per capita flows of plan outlays, public and private investment, credit utilization and additional central assistance for externally added projects (Dec, 2005).

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2. REALITIES OF UTTAR PRADESH

The geography of Uttar Pradesh, which is well known for its spiritual glory, is connected with Uttaranchal, Haryana, Delhi, Rajasthan, Madhya Pradesh, Chhatisgarh and Bihar. In fact, Uttar Pradesh is still recognized as agricultural predominant state of India. The culture of soil of Uttar Pradesh is known as agriculture. This sector contributes 38 percent of GDP of the state and has been the major source of providing employment opportunities to the people. Uttar Pradesh has emerged as second largest economy of India and despite various complexities the state has maintained 9 percent share in GDP. But an alarming point to note is that despite fifty years journey of planned economic development of the country, poverty and unemployment are common examples in Uttar Pradesh. Despite the huge potentials, the comparative picture of this state is not healthy and encouraging. Among 20 major states of the country, UP occupies 17th place. In agricultural development, it has maintained sixth place, in consumption, law and order, revenue and education, development of basic infrastructure and urbanization, this state claims 15th, 17th, 18th, 17th and 15th places respectively.

The second and tertiary sectors contribute 26.6 percent and 39.4 percent of the GSDP respectively. In fact, the cottage industries for Banarasisarees and handlooms are contributing the sizeable total in UP. The software development is an emerging sector of the state. However, the state is lagging behind in literacy scenario and only 57.36 percent literacy is recorded in the state. 71 percent children are enrolled in primary education and 49.85 percent children do not continue the education due to domestic liabilities and unconsciousness of the parents.

3. RESOURCE MOBILIZATION IN UTTAR PRADESH

The economic development is successfully transplanted through the productive mobilization of available resource of the economy. But, the evidences reveal that resources in UP are either unutilized or under-utilized, which has clearly restricted the pace of economic development of the state. The approach of the paradox of thrift, as the numerical fact suggests, causes sluggish movement in development indicators in the state. In order to gear up strategies to promote the economic development and alleviate the poverty, the available fund by centre and internal source must be utilized for the development of socio-economic infrastructure, primary, secondary and tertiary sectors development practically. In fact, the resource mobilization should be directed towards the income employment generation programme in relieving misery, grief and economic pain of those backward communities, who are still forced to survive below poverty line even the competitive era of twenty first century. An important point to highlight is that the development plans for the resource mobilization becomes helpless if the politics is not based on the scale of transparency and honesty. The government of the state irrespective of parties and thanking must ensure the political will and commitment to implement the plans of resource mobilization through the labour intensive channel in such a way that the maximum people can be accommodated in the employment schemes of the state in the days to come.

4. INCOME EMPLOYMENT GENERATION IN UTTAR PRADESH

4.1 Agricultural Development and Agricultural Research Activities

The culture of soil of Uttar Pradesh is known as agriculture. In fact, agriculture is the major contributor to GDP and majorities of the people are still dependent on this sector. Despite the life breathing importance, this sector is still considered as unproductive sector in the society. The lack of scientific vision and outlook, this sector has not been able to create productive employment opportunities in the state. The soil of UP can be utilized for both intensive and extensive farming. Moreover, the connectivity of agricultural marketing is lacking in U.P., which deprives the medium, small and marginal farmers to bring their products in the market. The lack of connectivity reduces the economic exercises in the agricultural sector. Such a situation is proved as the bottlenecks in the path of poverty alleviation programme. The low productivity is the outcome of the unscientific techniques of production of agricultural crops in this state. The high extent of poverty is mainly found in the small and marginal farmer's community of the state as long as agricultural sector is not improved till then the dream of poverty alleviation cannot be translated into reality. Poverty remains as a chronic disease as long as agricultural sector remains neglected in U.P. The situation, therefore, demands that the government of U.P. should introduce short-term and long-term plan and research activities with the high level of commitments so that the low cost and investment can provide attractive agricultural yields in the days to come. Moreover, the micro credit should also be given by the government to the small and marginal farmers on easy terms and conditions so that these farmers can adopt the system of rotation of crops which can lead to pull-out the status of these farmers from below poverty line to above poverty line in the state. Thus, the full marks and priorities should be given by the government to the development of agricultural sector in the days to come.

4.2 Industrial Development: Uttar Pradesh as Udyog Pradesh

In the aftermath of globalization it is now, perhaps, industry alone especially small scale industry that holds the pass key to employment and economic progress.

The U.P. Government is resolved to change Uttar Pradesh into 'Udyog Pradesh' and its policies in regard to export and minerals deserve a little more than casual notice. To attract the maximum capital investment in the state, non-resident Indians have been signed out for certain special concessions. Likewise to ensure private sector participation in major industrial projects the development of Industrial corridors, marketing of products of small scale industries through private agencies, creation of the single-table system and technology mission are being employed as instruments of growth of important industrial groups in the state.

Development of Heavy and Medium Industries in the state has maintained a progressively upward trend. Today there are as many as 2616 heavy and medium industries functioning in U.P. The investment has gone uptoRs. 41,266.20 crores and opportunities of employment have been created for 7,38,582 people.

The positive and friendly stand of the U.P. government reflected in speedy decisions, doing away with red-tape simplified official procedures and transparency in administration has encouraged entrepreneurs to come forward in ever increasing numbers and establish their industries in U.P. As against 3066 UEM (Industrial Entrepreneurial Memorandum) issued by 31 December 2000, already 2056 industrial units have been set up in the state and another 162 proposals/projects are in the pipeline. Similarly, of the 360 LOI (Letters of Indent) received during the same period, involving a capital investment of Rs. 9919crores and employment potential for 1,03,100 persons as many as 123 proposals had materialized, while 37 of the projects were in different stages of implementation.

5. CONCLUDING OBSERVATION

The observation signifies that both poverty and prosperity have increased in the global economy. Poverty and prosperity have also been transplanted in Indian economy in the recent years. The emerging creamy layer of Indian economy matches with the leading economies of the developed world. The economic and defence status of Indian has attracted the developed world to accommodate in the emerging trade blocs and other development platform. In fact, India has already joined ASEAN, EU and G8 summit as the observer member. Moreover, Indo-US nuclear deal has further increased status, strength and strategic response of India in the global economy. The reputation and qualitative economic development maintained in recent years can be expressed as the outstanding achievement of Indian economy. Thus, India is on the way to achieve the dashing and bright image in the community of developed world.

Apart from the glorious and dashing achievement, India suffers from some of the major weaknesses, which have caused to restrict the pace of economic development of Indian economy. Despite fifty eight years journey of planned economic development poverty and unemployment are common examples in India. The huge number of population still survives below poverty line in Indian economy. The basic needs requirements are yet to be fulfilled by the majority of the people in the Indian soil. The inequalities in the distribution of wealth and income have further widened the gap between haves (rich) and have not (poor) in the Indian society. The maladjustment between demand and supply has created the business and economic problems of Indian economy. The unmanageable population growth is really a point of anxiety for the smooth and healthy economic development of India. The Indian thinkers and planners will have to work honestly to overcome the basic socioeconomic problems of India because the country has already developed the productive image in the community of the developed world.

To sum up, India has adopted the route of productive economic development through its domestic and International economic exercises. The double digit economic growth achieved and maintained by India is given as an example in the western world. In fact, India has been able to build up the productive image in the community of the developed world. The situation, therefore, demands that India should accelerate and maintain the pace of economic development in such a way that it can match its economic status with other leading developed countries of the world in the days to come. In the era of Liberalization, Privatization and Globalization, development activities of Uttar Pradesh should match with the pace of economic development of 21st century so that the status of U.P. can be converted into knowledge based economy in the years to come.

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EMPLOYMENT SCENARIO OF AGRICULTURAL LABOUR IN SOUTH BIHAR

(A Micro Study in *Sasaram* Block of *Rohtas* District)

Rajendra Prasad Singh*, Anand kishor Singh**

ABSTARCT

This paper presents some contrast between conditions relating to employment of rural labourer in two small regions, lying at different levels of agriculture development, in south Bihar. The results are based on field survey carried out by the authors. Labour relations was only one part of the study which aimed at comparing different economic aspects of the two rural area like cultivation, animal husbandry, debt, tenancy, marketing channels etc. The areas were chosen as to provide a contrast between relatively developed rural areas (irrigated by canal) and a relatively backward rural area (rain fed area).

Keywords : *Hyvseeds, Paddy Bowl, Parchyat, Casual Labour.*

The problem of poverty and unemployment encompass various socio-economic groups and strata in India. But it was well recognized since the very beginning of planned economic development of the country that agricultural labour are the poorest among the poor. The plight of agricultural labours was highlighted in a thorough manner by the research studies conducted by towering intellectuals like V.K.R.V Rao and eminent economists like S.J. Patel. It was specifically stated in the First Five Year Plan that one of the objectives of the plan was not only to bridge up the divide of rural and urban India but also to remove inequality in rural India so as the agricultural labour could be brought up to the level of highest income strata in the country side. The objective was reiterated in Third Five Year Plan in no uncertain terms“ It is one of the primary objects of the Five Year Plans to ensure fuller opportunities for work and better living to all section of rural community and in particular, to assist agricultural labourers and backward classes to come up to the levels of the rest”. The objective of raising the level of livings of agricultural labourers was assumed to be fulfilled by the advancement of modernization of agriculture in particular. With the start of green revolution it was hoped that intensive and extensive farming along with rising productivity would take care of employment and wages, and thus of the level of living of agricultural labour.

With the rising debate over such expectations and perceiving the emerging ground reality in the way otherwise, the plan of spreading the green revolution was supported by launching the program of direct attack on poverty to improve the level of living of weaker section in general and agricultural labour in particular. Various schemes were launched under the program of direct attack on poverty. These were added and improved from time to time. But it was realized that spread of green revolution is not advancing with same pace in all the regions of the country. Agricultural labourers from backward agricultural regions like Bihar, Orissa, Eastern Uttar Pradesh and others migrating to the developed agricultural regions of the country for wage work in agricultural operations. In the wake of

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this phenomenon the problems of backward agricultural regions and of agricultural labour households therein were getting compounded. But with the passage of time the spread of green revolution began to be realized even in these agriculturally backward regions up to a considerable extent and was well reflected by development of infrastructure, diffusion of technology and in turn the rise in agricultural productivity. The target-oriented programs of removal of poverty and unemployment began to be more organized and effective in 1980s and 1990s. It was thoroughly upgraded by the introduction of MNREGA in the mid of the last decade. These changes raised intellectual curiosity to inquire into the changes occurred related to agricultural labour in various aspects of their life and work.

Face to face examination of the changes that had been taking place in the living conditions of agricultural labourers by way of agricultural development and target-oriented poverty removal schemes. The main focus of this paper is employment condition of the agricultural labourer in the study area that lies in poverty stricken region of South Bihar.

This paper presents some contrast between conditions relating to employment of rural labourer in two small regions, lying at different levels of agriculture development, in south Bihar. The results are based on field survey carried out by the authors. Labour relations was only one part of the study which aimed at comparing different economic aspects of the two rural area like cultivation, animal husbandry, debt, tenancy, marketing channels etc. The areas were chosen as to provide a contrast between relatively developed rural areas (irrigated by canal) and a relatively backward rural area (rain fed area). First of all district and development block were chosen purposively in view of cost saving. Then taking the level of growth of irrigation facilities as the main instrument to determine the technological level of agricultural development, the nineteen village *panchayats* of the *Sasaram* development block were divided into two parts - high and low level of agricultural development. ***Sikaria*** and ***Aka*****si** village ***panchyats*** were selected from each category by the lottery method. Sikaria is a low irrigated area whereas *Akasi* is highly irrigated area. Sikaria from Sikaria village *panchyat* and Garuna from *Akasi* village *panchyat* were selected by lottery method for this study. Household is taken as the unit of study. From the each village, 120 household were selected on the basis of random sampling for detail data collection. Thus, the total number of sample from both the villages adds-up to 240. Interview schedule was used to collect primary data of the sample households. The field survey was conducted in agricultural year 2009-10.

Let us now discuss briefly the study area. The district Rohtas is called 'Paddy Bowl' universally, by a layman as well as specialist; means developed area. But a few area of this district also economically backward. The villages were selected for certain generally recognized signs of development above the district average. Apart from such indicators as cropping pattern, multiple cropping, irrigation facilities and HYV seeds, use of combine harvester and other agricultural equipment etc. a large presence of tractors clamours for recognition of the two selected villages, as beings paragons of development.

Table 1 : Land and Demography of the village

Facilities	Sikaria	Garuna
Total Geographical Area (ha)	1172	207
Cultivating Land	1086	192
(i) Irrigated	1034	192
(ii) Non-irrigated	52	0
Area not available for Cultivation (ha)	86	0
Population (2001)	3589*	1850
Sex Ratio (2001)	919	873
Household Size (2001)	6.0	6.9
Schedule Caste Population (2001)	1309	720
Literacy rate (2001)	41.4	57.8
Male Literacy rate	53.4	70.4
Female Literacy rate	27.2	44.0
Work Participation Rate (2001)	41.2	36.2

Source:- census of India, 2001 * This population is village settlement of Sikaria

It is shown in table 1 that the total geographical area of Sikaria is 1172 hectares, of which 1026 hectares are cultivating of this cultivating area 1034 hectares, i.e. 95.21 percent is irrigated. Village Garuna spreads over 207 hectares and its 192 hectares area is cultivable of which 192 hectares, i.e. 100 percent is irrigated.

Total population of village Sikaria (added of two non-revenue village Shivpur and Mahadeva) was 3599 in 2001 while total population of Garuna was 1850. Moreover, the sex ratio of Sikaria and Garuna in 2001 was 919 and 873 respectively. The household size of Sikaria was 6.0 while 6.9 in Garuna village. The literacy rate of Garuna was higher than the Sikaria village. It was 41.4 percent in Sikaria and 57.8 percent in Garuna. Literacy rate of both the villages was lower from the district level. The work participation rate of Sikaria and Garuna was 41.2 and 36.2 percent respectively.

Table 2 : Percentage Distribution of Main Workers by Different Work Category

Category	Bihar	Rohtas	Sasaram	Sikaria	Garuna
Cultivators	32.2	40.9	21.5	21.3	17.8
Agricultural Labourers	42.8	29.9	20.3	64.0	49.1
Workers in household industries	3.6	3.5	4.9	1.2	3.2
Other workers	21.4	25.8	53.2	13.4	29.9
Total	100	100	100	100	100

Source: - Census of India, 2001

Table 2 displays about the percentage of main worker by workers category. Percentage of cultivators as a main worker in Bihar is 32.2. It is 40.9 percent in district Rohtas, 21.5 percent in block Sasaram, 21.3 percent in village Sikaria and 17.8 percent in village Garuna. Percentage of cultivators in both the villages is low from the state, district and block level. Percentages of agriculture labourers in both the villages is higher from the state, district and block level while percentage of worker in household industries in both the villages is low from the state, district and block level. Percentage of other workers at the state level is 21.4 percent while it is 53.2 percent at the block level. It is 13.4 percent in Sikaria and 29.9 percent in Garuna.

In view of the social infrastructural development position of both the villages can be regarded as satisfactory. Facility of railway station and bus station is 7 km from Sikaria and 10 km from Garuna. Moreover, bus service is available within the Sikaria and 5 km from the Garuna. Police station is placed 5 km from the both the villages. Block headquarters and Nationalized Bank which far from 7 km from the Sikaria and 10 to 11 km from the Garuna. Primary and middle school are available within the

Table 3 : Social Infrastructure Facilities: Distance from the village

Facilities	Sikaria	Garuna
Railway Station	7	10
Bus Station	7	10
Bus service	0	5
Police Station	5	5
Nationalized Bank	7	10
Rural Regional Bank	7	10
Co-operative Bank	7	10
Post Office	0	2
PHC/Sub-center	0	10
Primary School	0	0
Middle School	0.5	0
High School	5	5
Veterinary Dispensary Center	6	10
Block Headquarter	7	11
Link Road	0	0

both the villages. Post office and PHC are available within the Sikaria while both services are far 2 km and 10km from the Garuna. High schools are 5 km from the both the villages. Veterinary dispensary center and colleges are available in only district headquarter. Link road comes from the both the villages to district headquarter and blocks office.

Sikaria is a village of 383 households of the almost one third to the Schedule Caste such as *Chamar, Paswan* and Bind. More than 90 percent of this group of household is primarily dependent an earning from wage labour agricultural and non-agricultural sector as a casual labour. *Rajput* is the main general caste of this village that constitutes 115 households. These are predominantly land owing household with cultivating as their main source of income. There is considerable variation in the size of owned and operated holding. The total numbers of OBC households are 120 in which *Baniya* is higher than other OBC households.

Garuna is a village of 292 households, of which about half of the 'Schedule' *Paswan* and *Rajwar* castes. More than 90 percent of this group of household is primarily dependent on earning from wage labour agricultural and non-agriculture. *Rajput, Pandit* and *Kayatsh* as 'General Caste' in Bihar constitute the most numerous castes in the village, accounting for 59 households. These are predominantly landowning household with cultivation their main source of income. However, there is variation in the size of owned and operated holding. OBC such as *Yadav, Baniya, Nai* and carpenter households are similarly distributed poor and middle peasant of the village. Those belonging to traditional service caste such as *Prajapati, Nai* and Carpenter accounted for another 19 households relying on combination of jajmani occupations, agricultural and other manual labour and cultivation very small holdings.

Table 4 : Landholding wise Distribution of Village Households

Landholding Size	Sikaria		Garuna	
	No. of household	Per. of total	No. of household	Per. of total
Landless	152	39.69	83	28.42
Marginal	182	47.52	128	43.84
Small	25	6.01	43	14.73
Small-medium	12	3.13	26	8.90
Medium	9	2.35	9	3.08
Large	5	1.31	3	1.03
Total	383	100.00	292	100.00

No.Number, Per. -- Percent

The table 4 and 5 show the agrarian structure of the both the villages. Out of 383 household of village Sikaria 39.69 percent are landless; 47.52 percent have marginal holdings, of an average size of 0.49 hectare and own 31.09 percent of land of the village. Smallholders constitute 6.01 percent of households with an average size of holding 1.66 hectares and own 13.14 percent of total land. Share of household having semi-medium, medium and large household constitute 3.13, 2.35 and 1.31 percent of total households.

Table 5 : Distribution of Land among different holding Sizes

Landholding Size	Sikaria			Garuna		
	Per. of household	Per. of total area	Average holding (ha)	Per. of household	Per. of total area	Average holding (ha)
Marginal	78.89	31.09	0.49	61.24	11.51	0.27
Small	9.96	13.14	1.66	20.57	22.27	1.53
Small-medium	5.19	13.28	3.23	12.44	26.15	2.98
Medium	3.90	20.05	6.50	4.31	18.98	6.25
Large	2.16	22.45	13.10	1.44	21.09	20.83
Total	100.0	100.0	0.76	100.0	100.00	1.02

Per. -- Percent

There fall 13.28, 20.05 and 22.45 percent of the total land under these three categories. The average land of these three categories is 3.23 hectares, 6.00 hectares and 13.10 hectares respectively. In the village Garuna, out of 292 households 28.92 percent are landless, 43.84 percent have marginal holding who own 11.57 percent of total land holding with an average size 0.27 hectares. Households have small holding are 14.73 percent and possess 26.15 percent of land with an average size of 1.53 hectares. There are 8.90 percent households with semi-medium holding. They account for 26.15 percent of the land with an average size of 2.98 hectares. The percentage of medium and large holdings size is 3.08 and 1.03 percent who posse 18.98 and 21.09 percent of total land with an average size of 6.25 and 20.83 hectares.

Table 6 : Caste-wise Distribution of Households according to landholding Sizes

Landholding Size	Sikaria			Garuna		
	General	OBC	SC	General	OBC	SC
Landless	--	33.3 (40)	75.6 (112)	--	16.1 (14)	47.3 (69)
Marginal	64.3 (74)	63.3 (76)	21.6 (32)	1.6 (1)	62.06 (54)	50.0 (73)
Small	13.0 (15)	3.3 (4)	2.7 (4)	38.9 (23)	19.5 (17)	2.1 (3)
Small-medium	10.4 (12)	--	--	38.9 (23)	2.30 (2)	0.9 (1)
Medium	7.8 (9)	--	--	15.2 (9)	--	--
Large	4.3 (5)	--	--	5.1 (3)	--	--
Total	10 (115)	100 (120)	100 (148)	100 (59)	100 (87)	100 (146)

Note: Figure in parenthesis is numbers, Per. -- Percent

Table 6 reveals that distribution of household according to landholding and caste-wise. None of the household of General caste is landless in the both the villages. The percentage of landless of OBC is 33.33 percent in Sikaria and 16.09 percent in Garuna while percentage of landless of SC is 75.68 percent in Sikaria and 47.26 percent in Garuna. Figure of landless of SC in Sikaria is about 1.5 times higher than Garuna. Percentage of marginal holding is higher in General Caste in Sikaria. It is 64.34 percent for General caste, 63.34 percent for OBC and 21.62 for SC in Sikaria. In the village Garuna, 1.69 percent household of General caste has marginal holding while 62.06 percent of OBC and 50.00 percent of SC. Percentage of small holding in Sikaria is 13.04 of General, 3.33 of OBC and 2.70 of SC. The percentage of household which have small holding in Garuna is 38.92 percent of General, 19.54 percent of OBC and only 2.05 percent of SC. None household of OBC and SC have more than small holding in village Sikaria. In the village Garuna, 38.98 percent household of General Caste have small-medium holding. It is 2.30 percent for OBC and 0.68 percent for SC in Garuna. Only General castes have medium and large holding size in both the villages.

Table 7 : Caste-wise Distribution of Land

Caste Category	Sikaria			Garuna		
	Per. of household	Ave. Holding (ha)	Std.	Per. of household	Ave. Holding (ha)	Std.
General	30.1 (115)	2.04	2.96	20.2 (59)	3.72	4.48
OBC	31.3 (120)	0.29	0.35	29.8 (87)	0.60	0.69
SC	38.6 (148)	0.15	0.33	50.0 (146)	0.13	0.38
Total	100 (383)	0.76	1.80	100 (292)	1.01	2.49

Note: Figure in parenthesis is numbers, Per. Percent, AveAverage, Std.- Standard deviation

Table 7 presents the average landholding among different caste. Average landholding of per household is 0.76 hectares in Sikaria and 1.01 hectares in Garuna with the standard deviation of 1.80 and 2.49 respectively. Standard deviation is higher than the average of both the villages that means average is not significant. Average holding of general caste is much higher than the OBC and SC in both the villages. Average landholding of General caste is 2.04 hectares in Sikaria and 3.72 hectares in Garuna with the standard deviation of 2.96 and 4.48 respectively. Average landholding of OBC household is 0.29 hectares in Sikaria and 0.60 hectares in Garuna. This figure for SC is 0.15 hectares in

Sikaria and 0.13 hectares in Garuna. The figure of SC in both the villages is lower than OBC and General.

Table 8 : Percentage of sample household which member works as a casual wage labour

Category	Sikaria	Garuna	Total
Non-labour household	30.0 (36)	56.7 (68)	43.3 (104)
Labour household	70.0 (84)	43.3 (52)	57.7 (136)
Total	100 (120)	100 (120)	100 (240)

Note: Figure in parenthesis is numbers

Table 8 presents the percentage of labourer household in total sample household. Percentage of sample household in total sample household is 57.7. It is 70.0 percent in Sikaria and 43.3 percent in Garuna. In the village Garuna, percentage of labourer household in sample is less than Sikaria. A few household of Garuna work as a pure tenant farmer that is not included in the labourer household. Mostly labourers of both the villages are casual labourers. They perform both agricultural and non-agricultural work that depends on the season of work. In the agricultural season, they work in agricultural work after that work in non-agricultural sector.

EMPLOYMENT

Table 9 presents the total employment of casual labour in the both the villages. Casual labourer of Sikaria gets 216.90 mandays employment in a year while labourers of Garuna get only 137.09 mandays. Casual labourer of Sikaria village works 64.2 mandays in agriculture sector and 152.7 mandays in non-agriculture sector while these figures for Garuna are 34.8 and 107.5 labour mandays respectively. A casual labourer of Sikaria gets more employment than casual labourer of the Garuna. Percentage of non-agriculture employment in

Table 9 : Distribution of total Employment [Per labour man days]

Village		Agriculture Sector	Non- agriculture Sector	Total
Sikaria	Ave.	64.2	152.7	216.9
	Std. Dev	27.1	87.9	94.0
	Skew.	-0.2	-0.8	-0.8
Garuna	Ave.	34.8	107.5	142.4
	Std. Dev	22.8	78.3	87.5
	Skew.	0.3	0.1	0.1
Total	Ave.	53.0	135.4	188.4
	Std. Dev	29.2	86.9	98.2
	Skew.	0.1	-0.4	-0.4

Ave. - Average, Std. Dev- Std. Deviation, Skew. Skewness

Table 10 : Percentage Distribution of Total Employment

[Per labour man days]

Village	Agriculture Sector		Non- agriculture Sector		Total	
	Average	Percent	Average	Percent	Average	Percent
Sikaria	64.2	29.6	152.7	70.4	216.9	100.0
Garuna	34.8	24.5	107.5	75.5	142.4	100.0
Total	53.0	28.1	135.4	71.9	188.4	100.0

total employment is higher from agriculture sector. Percentage of employment in agriculture sector of both the villages is 28.1 while percentage of non-agriculture sector is 71.9. In the village Sikaria, it is 29.6 percent for agriculture and 70.4 percent for non-agriculture sector. Percentage share of agriculture sector in Garuna in total employment is 24.5 while percentage share for non-agriculture sector is 75.5. Labourer of Sikaria is more beneficial to get employment in agricultural and non-agricultural sector; While Garuna is fully irrigated by canal and highly productivity area. There are following reason may be less employment in Garuna.

(1) Sikaria is situated besides the districts headquarter link road. It is only7 Km far from nearly town and bus facility is also available from the village. A labour can easily go to nearly town to work. The condition of road is also good. It is fully paved. But, the distance of nearly town from Garuna is 10 km. There is no directly paved road from village to nearly town. Present time road is under construction. Direct bus facility is not available from the village. Labour has to come 4 to 5 km on foot for bus service. This problem, labour does not interest to migrant for working in nearly town.

(2) On the one hand labour of Sikaria migrant to other village in agricultural operational season while migrant labour comes in Garuna to perform the agricultural operation.

(3) Harvester is not used in the Sikaria village while Harvester is used in Garuna that directly displace the agricultural labour from agriculture sector.

(4) Labour class or landless labour lease-in land from the big or medium land owner at the fixed money or fixed produce in the Garuna. They perform all the agricultural operation themselves. On the other hand in the Sikaria, land is leased in at share of produce. They lease in land at the half share of produce in which they are not more interested to perform the agricultural operation. They understand that it is extra activity.

Misra (1970), in his study of the agricultural labour market in Gujarat, found that demand for labour is sufficiently responsive to wage rates along with some variables; but supply of labour seems to be determined outside the system of economic variables in the labour market. According to Krishnan (1991), it is perhaps institutional and social factors, which are more important in the determination of wage rates than the condition of supply of and demand for labour per se in any market.

Table 11 :Distribution of Employment in Agriculture Sector

[Per labour man days]

village		Kharif Season	Rabi Season	Total
Sikaria	Ave.	54.4	9.8	64.2
	Std. Dev	23.4	7.2	27.1
	Skew.	-0.1	0.0	-0.2
Garuna	Ave.	31.2	3.7	34.8
	Std. Dev	19.3	6.8	22.8
	Skew.	0.2	1.7	0.3
Total	Ave.	45.5	7.5	53.0
	Std. Dev	24.6	7.6	29.2
	Skew.	0.2	0.5	0.1

Ave.- Average, Std. Dev- Std. Deviation, Skew.- Skewness

There are two types of popular agricultural season of agriculture Kharif and Rabi season. Employment in agricultural sector has been discussed according to agricultural season-wise. Agricultural labourers of both the villages works 45.5 man days in Kharif season and 7.5 man days in Rabi season. There is wider variation between both the villages to get employment in agriculture. Agricultural Labour of Sikaria village works 54.4 man days in Kharif season and 9.8 days in Rabi season with standard deviation 23.4 and 7.2. These figures for Garuna are 31.2 in Kharif and 3.7

mandays in Rabi season with standard deviation 19.3 and 6.8. It may be said that employment in agricultural sector in Sikaria is higher than Garuna. Labourer works 85.9 percent work in Kharif season and 14.1 percent in Rabi of total agricultural employment (table 11).

Table 12 : Percentage Distribution of Employment in Agriculture Sector

[Per labour man days]

Village	Kharif Season		Rabi Season		Total	
	Average	Percent	Average	Percent	Average	Percent
Sikaria	54.4	84.7	9.8	15.3	64.2	100.0
Garuna	31.2	89.4	3.7	10.6	34.8	100.0
Total	45.5	85.9	7.5	14.1	53.0	100.0

Table 12 presents the percentage of employment of agricultural labourer in agriculture sector. Percentage of employment in Kharif season is 85.9 percent of total where it is 84.7 percent in Sikaria and 89.4 percent in Garuna. Percentage of employment in Rabi season of total agricultural employment is very low. It is 15.3 percent in sikaria and 10.6 percent in Garuna.

In paddy cultivation, men and women work together in different agricultural operation such as transplanting, weeding, harvesting and threshing. Moreover, irrigation, tilling and hoeing are done by only men person in this region. Transplanting of paddy crop is done by the help of male and female. This operation is divided into two parts; one part is done by male and second part is performed by female person. Male person uproots seedling of paddy crop and transfer to the paddy field that is called *Biakabaria* and *Bajhdoa* in local language. Female person only sow the seedling of paddy crop that is called *Ropani* in local language.

Table 13 : Agricultural Operation-wise Distribution of Employment in Kharif Season

[Per labour man-days]

village		Tilling	Sowing	Weeding	Reaping	Threshing	Irrigation	Total
Sikaria	Ave.	4.5	12.5	10.8	18.4	7.2	0.9	54.4
	Std. Dev	3.5	9.0	5.6	12.2	7.3	1.9	23.4
	Skew.	2.1	0.3	2.7	-0.2	0.9	3.1	-0.1
Garuna	Ave.	2.8	7.8	8.2	8.6	3.6	0.3	31.2
	Std. Dev	5.0	5.7	6.3	8.8	4.7	1.0	19.3
	Skew.	1.5	0.1	0.9	0.6	1.2	4.1	0.2
Total	Ave.	3.9	10.7	9.8	14.7	5.8	0.7	45.5
	Std. Dev	4.2	8.2	6.0	12.0	6.6	1.7	24.6
	Skew.	1.5	0.6	1.6	0.2	1.2	3.5	0.2

Ave.- Average, Std. Dev- Std. Deviation, Skew.- Skewness

Tilling and hoeing is beginning work of the paddy crop or Kharif season. This agricultural operation is done by only male person. A casual agricultural labour works 3.9 man days in this operation. It is 4.5 in Sikaria and 2.8 in Garuna. In the traditional system, tilling was worked by manual worker by the help of oxen. Agricultural labour got more employment in this operation. Now, tilling is done by help of tractors. A few household of Sikaria village have pair of oxen and they work only themselves. Agricultural labour gets employment in hoeing operation.

Sowing and transplanting is the second stage process of paddy. It is done by the help of male and female together. It provides 21.58 percent or about one-fifth employment of Kharif season. This operation provides 12.5 man days in the Sikaria village and 7.8 man days in Garuna. The labour of Garuna is affected from the migrant labour from other village or district. Present time new trend has been started in this village. Migrant labours come especially for this operation. They are called *Ropana* in local language. This is a male person who does all the operation of transplanting. They sow very quickly seedling of paddy crop. **A *Ropana* displace 2 male and 4 female local labours in a day.** They are very efficient labour and get training from the Punjab Agricultural University in the Punjab when they migrant to Punjab for transplanting. Government of Bihar should take action in this direction and provide training to local agricultural labour.

Weeding is process of agricultural operation. This operation is after sowing of the paddy crop. Weeding provides average 9.8 man days employment in Kharif season. It is 10.8 man days in Sikaria and 8.2 man days in Garuna. Farmer of both village use herbicides to kill the weeds. Birth and growth of weeds depend on the availability of water. In the Sikaria village, tank, rain, Small River and tub well are the main source of irrigation. If water is not available in the field, of which cause weeds grow in the field. Availability of water is necessary to use herbicides in the field for killing the weeds. In the Garuna, canal is the main source of irrigation. Water is available all the time in the field in this village. Farmer use herbicides very easily. Therefore, farmer of Garuna use less agricultural labour in this operation compare to Sikaria.

Harvesting of paddy crop is the main source of employment in the agricultural sector in both the villages. In the traditional system, the entire crop was harvested by manually and after harvesting, the crop was threshed by the help of oxen. Now harvester is available in this region. Farmers of Garuna village hire the harvester from the other village and harvesting the crop by the help of harvester. Harvester is not used in Sikaria village due to this the agricultural labour of this village get 18.40 man days employment in reaping that is double from the Garuna. This operation provides 32.21 percent (about one-third) of the total Kharif season employment. It is 33.87 percent in Sikaria and 27.53 percent in Garuna. This figure displays the use of harvester in Garuna that displace the labour a big scale. A few big and medium farmer of the Garuna call migrant labour from the other district or village that also effects the employment of local agricultural labour.

After harvesting, the paddy crop is threshed (*Pitai*). *Pitai* is a manual process that is used in traditional system at a large scale. In the old process, paddy was threshed by the help of oxen. But, farmer don't keep ox for farming process in both village. A few selected household keep one or two ox for farming small piece of land. Present time, manually harvesting paddy crop is threshed by the help of tractor. Labour gets employment in threshing 7.2 days in Sikaria and 3.6 man days in Garuna that about half of the Sikaria. Percentage of threshing of total employment is 12.76. It is 13.18 percent in Sikaria and 11.60 percent in Garuna. Employment for irrigation purpose is very low. Because, farmer take cares irrigation self. They don't use the hired labour in the irrigation. Only selected big and medium farmer use the hired labour for irrigation.

Wheat is the most important crop of the Rabi season. It is second place crop in the gross cropped area in both the villages. Labour absorption is very low in the Rabi season. Wheat, mustard and other cropped of Rabi season is sown by the help of tractor. Farmers of this region manages themselves mostly agricultural operation. Weeding is not done in the Rabi season in both the villages. Harvesting is the main agricultural operation in Rabi season, but employment in this operation is also low. In the traditional system, all the agricultural operation in Rabi season was done by the help of oxen. This process absorbed more labour. But, present time all the agricultural operation is done by the help of machine. Present time wheat is harvested by the help of combine harvester in the Garuna.

Table 14 : Agricultural Operation-wise Distribution of Employment in Rabi Season

[Per labour man days]

village		Tilling	Sowing	Weeding	Reaping	Threshing	Irrigation	Total
Sikaria	Ave.	0.1	--	--	8.5	1.0	0.2	9.8
	Std. Dev	0.1	--	--	6.1	1.3	1.0	7.2
	Skew.	9.2	--	--	0.1	1.3	4.3	0.0
Garuna	Ave.	--	--	--	2.3	0.0	1.3	3.7
	Std. Dev	--	--	--	4.0	0.0	3.3	6.8
	Skew.	--	--	--	1.3	.	2.2	1.7
Total	Ave.	0.1	--	--	6.2	0.6	0.7	7.6
	Std. Dev	0.1	--	--	6.2	1.2	2.2	7.6
	Skew.	11.7	--	--	0.5	2.0	3.6	0.5

Ave.- Average, Std. Dev- Std. Deviation, Skew.- Skewness

Table 14 presents the employment in Rabi season in agriculture. Wheat is sown only in 15.25 percent of total gross cropped area where pluses and oil seed in 10.22 and 12.31 percent respectively in Sikaria. Some land is left as the fallow land due to lack of irrigation facilities. Pluses and oilseed is sown by the scattered method before harvesting the paddy crop. Harvesting of oil and pluses is done by manually in both the villages. But, a labour gets only 8.5 mandays employment. After the harvesting, cropped is threshed by the help of thresher that is run by the tractor or diesel machine or electric motor. Present time, a thresher machine comes in the in the village that is run by the help of tractor is called in local language *Habba- Dabba* machine. Labour gets 1.0 day employment in threshing operation. On the other hand, wheat is sown in 39.45 percent of total gross cropped area in the Garuna. But agricultural labour gets 2.3 man days employments that are very low. It presents a very high degree of employment displacement from agricultural sector. In recent years, harvesting and threshing of wheat in this village is done with combine harvester. As our data pertain only to landless households, we do not have estimates of the use of machine and hiring of workers by owner cultivators. About 70-80 percent of area of wheat is being harvested by combine harvester in this village.

A factor that limited at least to some extent, the use of combine harvester is fact that the combine harvesters harvest and thresh only ears of the wheat plants. The stalk of the plant was not uprooted and chopped for use, as fodder. The straw would typically have to be burnt on the field itself. As wheat straw was greatly value as fodder, many cultivators preferred to get at least part of the land harvested manually. However, a new machine (attached to a tractor) called a straw reaper had became available in Garuna which harvested the straw after wheat had been harvested by combine harvester. The availability of straw reaper, the rent of which is only about Rs. 1000 per trolley of straw it harvested, overcame the only barrow in the spread of combine harvester.

Labour gets more employment in non-agricultural occupation than agricultural sector. Casual labour gets average 135.4 man days employments in non-agricultural sector. A few labours also work on the monthly basis. Casual labours of Sikaria get more employment in non-agricultural compare of casual labour of Garuna. There may be following reason which has been discussed earlier.

Table 15 displays the average employment in non-agriculture sector. Average employment for both the villages is 135.4 man days in non-agriculture sector. It is 152.7 man days for Sikaria and 107.5 man days for Garuna. Labourers of both the villages get more employment in construction sector. Labourer gets employment in construction sector 108.9 man days for both the villages while it is 141.6 man days for Sikaria and 56.0 man days for Garuna. Labourers of Sikaria get more employment than Garuna. The percentage of construction sector in total non-agriculture sector is 80.4 for both the villages. It is 92.7 percent for Sikaria and

Table 15 : Distribution of Employment in Non-agriculture Sector

[Per labour man days]

village		Construction	Gov. sector	Other	Total
Sikaria	Ave.	141.6	3.2	7.9	152.7
	Std. Dev	80.6	7.2	27.7	87.9
	Skew.	-1.0	2.5	3.4	-0.8
Garuna	Ave.	56.0	30.1	21.0	107.5
	Std. Dev	60.5	29.5	57.0	78.3
	Skew.	0.7	0.2	2.9	0.1
Total	Ave.	108.9	13.5	12.9	135.4
	Std. Dev	84.4	23.1	41.7	86.9
	Skew.	-0.2	1.6	3.7	-0.4

Ave.- Average, Std. Dev- Std. Deviation, Skew.- Skewness

52.1 percent for Garuna. The reasons for relatively more mandays worked in this sector by labourer in village Sikaria are being basically in their nearness to the district towns and being situated on the road. The percentage of government scheme in total non-agricultural employment is very low. It is 10.0 for both the villages while it is 2.1 for Sikaria and 21.0 for Garuna. MNREGs is only on scheme that provides directly employment to labourer. There is wider variation between the both the villages for employment in government scheme. The labourer of Sikaria gets only 3.2 mandays employment whereas labourer of Garuna gets 21.0 mandays employment. Employment in other non-agriculture sector is also low. It is 12.9 mandays for total while it is 7.9 mandays for Sikaria and 21.0 mandays for Garuna. Other sector may be rickshaw pulling, brick kiln, loading, at the rice mill etc. The percentage of other in total non-agriculture employment is 9.5 for both the villages while it is 5.2 for Sikaria and 19.5 percent for Garuna.

Table 16 : Percentage Distribution of Employment in non-agriculture Sector

[Per labour man days]

Village	Construction		Government scheme		Other		Total	
	Ave.	Per.	Ave.	Per.	Ave.	Per.	Ave.	Per.
Sikaria	141.6	92.7	3.2	2.1	7.9	5.2	152.7	100
Garuna	56.0	52.1	30.1	28.0	21.0	19.5	107.5	100
Total	108.9	80.4	13.5	10.0	12.9	9.5	135.4	100

Ave. - Average, Per- Percent

The level and distribution of the employment among the worker in the sample labourer who have got employment in MNREGs are presented in table 17. The table reveals that average number of employment in village Garuna was 46.06 man days with standard deviation 24.24. The average is statistically significant.

Table 17 : Employment Position in NREGA

village	Employment level	No.	Per. of total	Ave.	Std. Dev.	Skew.
Sikaria	Up to 25	18	85.71	9.89	5.81	-0.62
	26 to 50	3	14.29	31.00	1.73	1.73
	51 to 75	--	--	--	--	--
	76 and above	--	--	--	--	--
	Total	21	100.00	12.90	9.29	0.73
Garuna	Up to 25	8	23.53	8.25	7.30	1.38
	26 to 50	8	23.53	42.50	8.86	-0.62
	51 to 75	16	47.06	62.50	4.47	1.28
	76 and above	2	5.88	80.00	0.00	.
	Total	34	100.00	46.06	24.24	-0.71
Total	Up to 25	26	47.27	9.38	6.20	0.10
	26 to 50	11	20.00	39.36	9.19	0.20
	51 to 75	16	29.09	62.50	4.47	1.28
	76 and above	2	3.64	80.00	0.00	.
	Total	55	100.00	33.40	25.60	0.25

Ave.- Average, Std. Dev- Std. Deviation, Skew.- Skewness

47.06 percent worker of the total get on an average 62.50 man days of employment, 23.53 percent was with an average of 42.50 man days, 5.88 percent with an average of 80.00 man days and 23.53 with an average 8.25 man days. In comparison of Sikaria the position of level and distribution of employment was quite satisfactory. However, the average level of employment is far below than stipulated level 100 days of employment. The position in village Sikaria is quite disquieting, as is obvious from the table. The average level of employment for all the workers is only 12.90 man days with on standard deviation of 9.29. The average is statistically significant.

WAGE RATE IN AGRICULTURAL OPERATIONS

The wage rates in agriculture have been rising with the expansion of new technology. Though these increases have been and the level achieved so far has always been much below the minimum wages prescribed from time to time. The ruling wages, which are mostly in cash, has increased after coming of NREGA. Apart from this crop, operation and sex wise difference in wage rates are found in existence and varying proportions in both the villages. Wage differentials are also noticed to present among agricultural labourers depending upon the nature of hiring. However, similarity was found in mode of payment of wages in agricultural operations in both the villages, which was in kind for foodgrains crops and generally in cash for other agricultural operation.

It was also notices that wages slightly increased at a peak agricultural seasons. Sometimes labourer manages to change higher wages than the market rate from small peasant households particularly from other villages. It was also reported that some large farmers of them own village paid lower wages than the market rates because of their capacity to offer more work even after the peak seasons. It indicates that, given the other factors, the labourers are interested in enhancing their total earning instead of the limited demanded for labour in rural areas.

It was also observed that take-home wages were almost similar in corresponding agricultural operation between the both the villages and sex. Agricultural labour offered some food in most of operations in both the villages. Male labour offered square meal as well as breakfast while female labour offered only breakfast.

Present times, mostly wages to agricultural labour are paid in cash along with meal and breakfast that depends on agricultural operation. Hoeing is one of the agricultural operations that are performed by only male agricultural labour in both the villages; wages of this operation is paid in cash at the rate of Rs. 80 per man day along with square meal and breakfast. The same wage rate is paid in transplanting agricultural operation to the male labour whereas female labour gets only Rs. 50 per man day for transplanting. Mostly threshing and winnowing the crop is performed by male agricultural labour in both the villages. Wages of this operation is paid in cash at rate of Rs. 80 along with meal and breakfast. Harvesting the crop is one of the main agricultural operations that are performed male and female together in the both the villages. Wages of this operation is paid in kind without any meal and breakfast which is one bundle in twelve bundles of harvested crops that was one bundle in sixteen bundles before 1995. Wages in agricultural operation weeding is low from the all agricultural operation. The wage rate in this operation is Rs. 30 for male person and Rs. 20 for female person. The working time of weeding is only four hours.

There is also difference in wages rates, its periodicity and mode of payment and composition among various types of agricultural labourers who are union to farm heterogeneous categories. The above discussion on details of wage rate is mainly related to casual labour who, as said earlier, farm, now, main and the largest category. It was observed that wages of free labour are paid in cash and kind in both the villages. If, wages is paid in kind to male agricultural labour, all these converted in money terms and added together the average daily wage rate in this also reach at the level of Rs. 80 per day in both the villages.

As it is mentioned that agricultural wages in both village and almost in all operation expect harvesting the crop, is paid in cash. Agricultural wages in both the villages is affected by the wages of MNREGs wages. Before enacted the NREGA, agricultural wages is paid in kind in both the villages. Development of other sector also affects the agricultural wages.

WAGE RATES IN NON-AGRICULTURAL OCCUPATIONS

Wages in non-agricultural occupations were found usually higher than that of agriculture. There were no noticeable variations in wages in the same type of work in the region. But there were variations within the region depending upon the type of work, place of work- like rural or urban, level of skills-un skilled, semi skilled and skilled work. Similarly, wage differentials 'also exist on the basis of sex, nature of work organisation like legal or illegal, nature of labour contract i.e., directly hired or through middle man. Along with this, types of work available in the region is not the same because of the difference in natural endowments, location of the village and employment generating government programmes running in vicinity. Hence, as labourers of this region performed different types of works in different proportion. Mostly non-agricultural work is performed by the male person. If labour works in non-agricultural occupation, gets wages in money along with one time meal. Sometimes, it also depends on the contract of employer and labour. But labour also get prevailed wage of this occupation.

Construction is the most important sector that is providing more employment to the casual labour. If a casual labour worked in village, got Rs. 100 per man day in cash while in the nearby town, got Rs. 120 per man day. Skilled casual labour of construction sector got Rs. 180 per man day. A few male persons of both the villages work on the shop at the monthly basis in the nearby town. The payment of this type of labour is Rs. 2000 to 3000 in the one month.

CONCLUSION

Over the years the land utilization and crop patterns, as well as the farming system in the villages have undergone significant changes. The labour requirement for agriculture has increased to some extent, but not much. Employment opportunities in agriculture sector also are also affected the use of machine and herbicides in this sector. The non-agricultural sector in the village provides only limited opportunities. The labour demand is not adequate to provide sufficient work to the existing rural labour force in the villages. There is thus shortage of employment opportunities and uncertainty of work. This situation has prompted some workers to shift occupations and some to shift places. It is mostly the younger males who go out of the village for work.

Casual labour of both the villages gets more employment in Kharif season than Rabi season in agriculture. Casual labour of Sikaria gets more man days in agricultural and non-agricultural sector in comparison. Casual labourers of Sikaria take benefits of transportation and expanding sector of construction work at distant towns and district head quarters. Paddy and wheat crop is harvested by the combine harvester in Garuna that directly affect the employment of casual labour in agricultural operations. The performance of MNREGs is better in Garuna than Sikaria. Numbers of MNREGs labourers are more in Garuna than Sikaria that also get more employment in this scheme. After launching the MNREGs, wage rate in agricultural and non-agricultural sectors has increased.

Women of this region are unemployment or under employment in the lean season of agriculture. Government should create a special plan for women employment on region basis. SGSY may be helpful to provide employment to women. I did not find any self help group of SGSY in the any village under the study. SGSY may be more effective in this region.

MNREGs is the only government scheme in the rural region that provides direct employment to weaker section. It is necessary to increase the awareness towards detail understanding of the rule and regulation of this scheme to find its said objectives. Sentient and socially effective persons, NGOs and even the educational institution may be helpful to spread out the awareness about this scheme.

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ECONOMIC BEHAVIOR:- A PROBLEM WITH UTILITARIAN'S

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ABSTRACT

The title of this paper indicates that there is some inherent problem with utilitarian thinking. To develop this paper, it is necessary to explore the nature of human behavior and to examine the necessary implications of utility analysis when it is extended to utilitarianism. As it is understood here, economic behavior is a fundamental component of human nature. In particular, it is rooted in the observation that all human beings have a natural interest in behaving economically. That is, all human beings have a vested interest in capturing the greatest return on their scarce resources. Toward this end, any individual will have a natural tendency to avoid wasting his resources and will, instead, attempt to be frugal, thrifty, and prudent in managing them. This should be readily affirmed considering the prospect of what would happen if it were not true. As Clarence Carson has written, "If this were not the case, it is easy to believe the human race would have long since have perished from the face of the earth."

Keywords : *Utilitarians, Theology, Postmodern*

INTRODUCTION

The French economist, Frederic Bastiat echoed the centrality of the fundamental component of human nature in an essay he wrote entitled, "Effort and Result." In this essay he compared two views of how wealth is created and concluded that real wealth, "increases proportionately to the increase in the *ratio of the result to effort*." He argued:

It is well to note that the *universal practice* of mankind is always guided by this principle...No one has ever seen, and no one ever will see, any person who works, whether he be a farmer, manufacturer, merchant, artisan, soldier, writer, or scholar, who does not devote all the powers of his mind to working better, more quickly, and more economicallyin short, *to doing more with less*.

This principle of human behavior is, of course, nothing new among economists. In fact, the primary tenet of modern economics is the notion that individuals are rationally self-interested. On this foundation, economists have made significant headway in explaining not only much of what takes place in trading relationships, but also in developing the model of supply and demand as an extremely useful tool for predicting the outcomes of various changes in important variables. Given that all this is so, most economists would probably wonder what could be wrong with utility analysis?

Economists all know that utility theory was originally promoted by Jeremy Bentham and John Stuart Mill in the nineteenth century. These men were very much influenced by the Enlightenment which was pressing forward the implications of the many scientific advancements being made in physics, astronomy, and the other hard sciences at the time. Indeed, the discoveries of natural laws or principles of action and reaction in the natural world had led to an increasingly mechanical understanding of the universe. As the mechanical view of nature progressed, thinkers and writers more and more assumed

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that all phenomena must belong to a vast mechanized system called Nature. As this conception developed, it was perhaps inevitable that thinkers would eventually attempt to explain the whole universe including human life in the context of the well-oiled machine called Nature. When this occurred, a full-blown naturalism became prominent and deterministic theories of human behavior were promoted. Bentham and Mill both stand in this line of reasoning. Richard Weaver has captured this progression well in his book, *Ideas Have Consequences.* In noting the progression of Enlightenment thought, he writes:

Then came psychological behaviorism, which denied not only freedom of the will but even such elementary means of direction as instinct. Because the scandalous nature of this theory is quickly apparent, it failed to win converts in such numbers as the others (materialism, evolution, etc.); yet it is only a logical extension of them and should in fairness be embraced by the upholders of material causation. Essentially, it is a reduction to absurdity of the line of reasoning which began when man bade a cheerful goodbye to the concept of transcendence. In his book titled, *Miracles*, C. S. Lewis accurately explains the inherent absurdity associated with naturalism which Weaver has so bluntly stated. The problem is that naturalism refutes itself on its own terms. In his book Lewis argues the case effectively:

What the Naturalist believes is that the ultimate Fact, the thing you can't go behind, is a vast process in space and time which is *going on of its own accord*. Inside that total system every particular event...happens because some other event has happened; in the long run, because the Total Event is happening...[Therefore,] by Naturalism we mean the doctrine that only Naturethe whole interlocked systemexists. And if that were true, every thing and event would, if we knew enough, be explicable without remainder...as a necessary product of the system...[But] all possible knowledge...depends on the validity of reasoning. If the feeling of certainty which we express by words like *must be* and *therefore* and *since* is a real perception of how things outside our own minds really 'must' be, well and good. But if this certainty is merely a feeling *in* our own minds and not a genuine insight into realities beyond themif it merely represents the way our minds happen to workthen we can have no knowledge. Unless human reasoning is valid no science can be true. It follows that no account of the universe can be true unless that account leaves it possible for our thinking to be real insight. A theory which explained everything else in the whole universe but which made it impossible to believe that our thinking was valid, would be utterly out of court. For that theory would itself have been reached by thinking, and if thinking is not valid that theory would, of course, be itself demolished. It would have destroyed its own credentials...Naturalism, as commonly held, is precisely a theory of this sort.

Therefore, any theory of human behavior which is based upon a closed naturalistic view of the world is itself self-referentially absurd when it is pressed to its logical conclusion. Since utility analysis is necessarily attached to such a view, it is doomed because it is essentially dehumanizing and abandons logical and rational thought. As such, this view cannot provide us with the necessary anchor upon which to base our study. For this reason, much of human behavior cannot be explained within the context of the theory. This follows because the very essence of what it means to be human mitigates against such a naturalistic perspective of the universe. This is the case because economic modeling begins by assuming that individuals are utility maximizers. As a result, mathematical analysis requires that individual utility functions be held fixed. The upshot of this assumption is the implicit notion that behavior is determined within the confines of a mathematical model. If that were true, all human action is purely mechanical rather than the result of thought and reflection. While most economists recognize this limitation, as a practical matter, it is very easy to ignore it in the pursuit of one's research. As a result, it is necessary for economists to take great care in extending our discussions of human behavior to account for the evolution of individual values. In examining this issue, Jennifer Roback Morse notes that human preferences are not fixed and are readily changed. In a lecture she gave on the subject, she argued her case in the following fashion:

A deterministic view of the human person cannot reckon with the reality of human freedom, the possibility of genuine choice, nor the reality of the personal will. The claim that we can change an economic outcome by altering the constraints depends on the preferences of the person being static. With given preferences, we economists can predict how changes in constraints will change outcomes. In effect, we treat the person as a stimulus-response machine. When ordinary people think of "choice" they usually mean more than responding to incentives. They usually mean that a person has made some decision about what to value, about what to consider a cost or benefit, about what really gives them satisfaction. And choice of this kind, is exactly what is absent from the economists' model using static preferences.

She goes on to point out that by trying to subsume *all* human behavior into the context of utility analysis, economists are actually undermining the very concept of human freedom and choice and are leaving the study worse for wear. She notes that nothing need be sacrificed of price theory as long as the clear limitations of its usefulness in describing human action are recognized. Rather, such an acknowledgment would open the door for the consideration of the whole process by which individual preferences are initially formed and how they are reshaped over time. If human beings are free to choose in a legitimate sense of the phrase, then it is clear that individuals really do use their powers of reason and observation to devise and enact plans which aim at reaping the benefits of perceived economic opportunities. It is also clear that this behavior is more than a deterministic response to some outside stimulus. This kind of behavior is missing from utility theory.

Not all economists approach the issue of human behavior in terms of strict utility analysis. Among those who have sought another direction in describing human behavior are the Austrians. For this reason, they have developed some excellent insights into the nature of human action. For example, Israel Kirzner has done a good job of expanding economic understanding by focusing on an understanding of human beings who actually do think and perceive. In his work he used an alternative understanding of human action to describe the market process. His position is that, "What happens in markets is not haphazard, but the consequence of inescapable economic regularities, expressing themselves in obviously relevant tendencies." Therefore, he sees underlying forces which systematically move the economy along. Yet, these forces do not eliminate human choice. In fact, human choice is so important that the market itself cannot be rightly understood apart from human action. He sees people who bring their individual thoughts and understandings of the nature of things to the market place in an effort to take advantage of trading opportunities that they individually perceive. The whole process results in the expansion of knowledge itself. Nonetheless, the direction of change will always be somewhat unpredictable. As Kirzner himself puts the matter:

For Austrians...mutual knowledge is...full of gaps at any given time, yet the market process is understood to provide a systematic set of forces, set in motion by entrepreneurial alertness, which tend to reduce the extent of mutual ignorance. Knowledge is not perfect; but neither is ignorance necessarily invincible. Equilibrium is indeed never attained, yet the market does exhibit powerful tendencies towards it. Market co-ordination is not to be smuggled into economics by assumption; but neither is it to be peremptorily ruled out simply by referring to the uncertainty of the future.

Thus, Kirzner focuses the reader's attention on the process. As the market process continues, he notes that ignorance gives way to expanding but incomplete knowledge as long as participants in the economy remain free. That is, as long as property is protected from theft and fraud and people are free to engage in voluntary trade, the actions of each person will give rise to an expansion in the knowledge base and to a greater coordination of individual plans. Yet, because of the very nature of this kind of interaction, whereby individuals reflect upon how they might better their own circumstances from implementing some new approach, the exact direction of market change cannot be perfectly predicted beforehand since it would be impossible to formulate a mathematical model within which individual thoughts and efforts would proceed. In other words, it is impossible to know what pockets of mutual ignorance will be taken advantage of before such ignorance is driven out of existence by human action. The most that can be said is that human thought and effort will give rise to an expanding economy as long as the fundamental property rights of people in the economy are protected.

This is not to say that no prediction can be made of human behavior whatsoever. Only that the predictions which can be made, must be made within certain limitations. To argue that no prediction can be made would be to give up the study altogether and to accept the position of the “radical subjectivist” who sees all human choice as a matter of whim. In this view, human beings are either so creative and imaginative, or so capable of arbitrary choice, that no prediction of human action is possible. Kirzner rejects this line of thought and opts for a middle ground position rather than embracing either radical skepticism; which is becoming so fashionable in our “postmodern” age; or positivism; which cannot be sustained on logical grounds. Since, naturalism fails the test of rationality, and “radical subjectivism” rules out the value of any study whatsoever, it might be wise for economists to consider more deliberately the work of the Austrians, as well as that of any others who provide some reasonable foundation for our efforts.

THEOLOGY AS A NEW DIRECTION IN ECONOMIC ANALYSIS

In developing a better understanding of actual human choice, much was lost when the study of theology was abandoned. The study of theology has a long history. In the course of time, theologians have examined not only the nature of human behavior, but also issues of the market place as well. Over the years, one of the issues that has been particularly important to theologians is that of free will. As has already been discussed, the issue of human free agency is also of economic interest. As discussed above, naturalism fails logically to provide a sufficient basis for a positive study of human behavior. Hence, in any social science the abandonment of theology was premature. For this reason, the work of theologians will help economists clarify some finer points of human action so that issues of morality and virtue can be dealt with without undermining the nature of our own study.

A good example of how this might progress can be found by looking at the work of the nineteenth century Princeton theologian, Charles Hodge. Hodge dealt with the subject of free agency in his *Systematic Theology*. In much the same way that Kirzner argues for a rational understanding of human behavior between positions of the neoclassicist and the radical subjectivist, Hodge developed a theory of human behavior that rested between the positions of what he called necessity and contingency. The interesting feature of this is that Hodge's work is so complete on the subject that it subsumes that of Kirzner. In dealing with the topic of free agency, Hodge describes three theories of human behavior. He called the theories necessity, contingency, and certainty. Hodge's goal was to argue in favor of the theory of certainty as the only one that was thinkable among the three.

Hodge began his examination by considering the theory of necessity. Under this theoretical category he included all theories which assert that human action is the necessary response to a given situation. He pointed out that if human behavior follows necessarily from a given set of conditions, then the individual loses his identity as a thinking, planning, and acting creature. The result is a view of the world, and of individual human action, which is fatalistic. In this case, decisions are made in a mechanical fashion. As such, we are left with a view of human life in which decisions are made without reference to human reason. In fact, nothing is left of reason or love or morality. They are assumed to be just certain effects following naturally from some specific causes which necessarily preceded them. The result of such an understanding of human behavior is that the individual cannot be held responsible for the consequences of his actions because they were merely the necessary response to the situation. In the context of this terminology, utility theory would be classified as a theory of necessity and is, therefore,fatalistic. But this understanding of life goes against the fundamental consciousness that each person possesses of himself. For this reason, any theory of human behavior under this category is just not persuasive. Therefore, if real free agency is to be salvaged, it must be understood on the basis of an alternative approach.

Having rejected the necessity of human behavior, Hodge then considered the opposite alternative. He refers to this theory of human behavior as the contingency theory. He argues that if human behavior is contingent, then the individual must be thought of as not only possessing the power of self-determination of his actions, but also of possessing the power of the self-determination of his will. If this were an accurate description of human beings, then human decisions could not be predicted at all. That is, if in deciding upon any particular course of action the person might decide upon any act regardless of the antecedents which make him the person that he is, then there could be no confidence that he might behave in a certain way. This is exactly the position taken by the “radical subjectivist” that we considered earlier. But this position begs the question of whether or not a person can decide upon a course of action against his own will? The contingency theory assumes that the will is not determined by the internal and external antecedents and is, therefore, self-determined. Thus, it is assumed that the individual can potentially choose against his own will. The problem with this conception of choice is that everything is uncertain and no prediction whatsoever can be made of human behavior. Rather, all human choice is capricious and arbitrary. But while it is certainly conceivable that someone might have chosen differently in a given situation had certain principles and affections been more heavily weighed at the moment of choice, it seems utterly absurd to assume that liberty of choice requires that people be capable of choosing something other than their own choice. In the final analysis this is the assumption being made in this theory of human behavior. For this reason, it is not at all persuasive either.

Against these two extremes, Hodge offers a middle ground. He calls the middle ground the theory of the certainty of behavior. In the context of this theory, the individual's volitions and actions are assumed to be determined by the person's own reason, feelings, affections, and character. In this case the choice the individual makes in a particular situation is based upon the antecedent state of mind of that individual. While, there may well be conflicting desires at the moment of the decision to act, it is understood that the action actually taken is not capricious or arbitrary. Rather, the individual's choice is rooted in who he is. In addition, the more that an individual's character is developed according to the principles of virtuous behavior, the greater the confidence that others can have that he will behave in certain ways in given situations. For example, a man who embraces the principle of honesty will actually tell others the truth on a regular basis. As he continues to do so, people who know him will observe that he is honest and they will come to expect him to continue this kind of behavior. Alternatively, someone who lies when it is convenient to lie will destroy the confidence that people have in him. They will come to expect him to lie in such situations and will not trust him even if he is telling the truth. In this case the failure to embrace the principle of honesty will result in ambiguity.

Therefore, the greater the extent to which the principle of honesty becomes part of a person's makeup, the more people will develop trust in that person. Within this view, the individual is neither a machine nor is his behavior so arbitrary and capricious that those who deal with him cannot be somewhat certain of what his next choice might be. What matters in human action is the heart of the individual. But no other human being will ever fully know all that is in the heart of someone else (i.e., all the principles, affections, feelings, and reasons which give rise to the individual's will). Therefore, his behavior can never be fully predicted. In addition, as the individual learns new things by authority and experience, his character is molded and changed in new directions. For these two reasons, there will always be a degree to which the predictability of human behavior will remain beyond our capacity of mathematical precision. Yet much prediction can still be made. In addition, within this kind of understanding of human behavior, economists can readily discuss the morality and virtue of certain courses of action which, in the final analysis, are important to people as they weigh between certain alternatives.

GOVERNMENT POLICY AND THE PRACTICAL DIFFERENCE OF INCLUDING MORALITY INTO THE DISCUSSION OF ECONOMICS

Does it make any difference in practice that the main theory underlying modern economics eliminates real choice? Furthermore, does the inclusion of moral issues really matter on a practical level? In the main, most economists have gone about their business as if it did not. Instead, most have been content to conduct the bulk of their work within the context of deterministic equilibrium models which assume static, utilitarian human preferences. In doing so, economists have had to embrace positivism at least implicitly and this point of view eliminates normative values from the discussion. But, if moral principles are important to the understanding of human behavior, then such a limitation in perspective is more than a little unfortunate.

In the course of developing her work on human action, Jennifer Roback Morse wrote an excellent article about the issues of state policy and moral behavior titled, “The Modern State as an Occasion of Sin: A Public Choice Analysis of the Welfare State.” In this article, Morse presents the case that state-run welfare programs tempt people to behave immorally and that this temptation arises even if one assumes that the program is offered in the very best of circumstances. In her paper she assumes the very highest motives on the part of the administrators of the program. Yet, in spite of this assumption, she is still led to conclude that moral behavior will decline because of some well-known economic problems including rent seeking, moral hazard, and the prisoner's dilemma.

Using these economic principles, Morse develops her argument by considering the necessary structure of state welfare programs. She points out that these programs must be set up to operate along the lines of some rather specific rules which limit the discretion of administrators of the program. The purpose of such rules stems from the need to protect “the public from abuse by either unscrupulous or politicized bureaucrats.” Thus, the guidelines serve as a means of holding the government agency accountable. Therefore, once a welfare program is enacted by the state, money or in-kind transfers are arranged by the agency as long as the potential recipient qualifies for the assistance under the terms of the legislation. It is for this reason that issues of moral hazard and the prisoner's dilemma come into play. First, some people who do not qualify for the programs will be tempted to work less or undertake some other imprudent behavior in order to sink to the level whereby they might qualify for the benefits of the program. While the person is not engaging in outright fraud, he is nevertheless engaging in behavior that is both deceitful and slothful in order to secure a portion of the program's benefits.

In addition to this problem, after these programs are established and operated for some time, the problem of the prisoner's dilemma arises. As some people maneuver their circumstances so that they qualify for the largess that can be had from the public treasury, others are caught in a dilemma. If they remain marginally disqualified for the program they begin to believe that they are being taken advantage of. Alternatively, to qualify for the program will require them to engage in the same kind of behavior as others. In this case, there will be a tendency to rationalize away the immoral nature of the behavior necessary to qualify and an "entitlement mentality" will emerge. The end result of such programs is the erosion of virtuous behavior of the populous over time.

This same problem exists when rent-seeking behavior on the part of businesses is undertaken. The theory of rent-seeking has been well developed by Gordon Tullock, James Buchanan, and other writers. Tullock defines rent seeking as the use of resources to attain benefits for a minority while reducing the total product of the economy. Buchanan uses the term "to describe behavior in institutional settings where individual efforts to maximize value generate social waste rather than social surplus." As applied, the term is generally used to describe the process by which private citizens vie for government privilege in order to erect, displace, or maintain some competitive advantage.

The social loss from rent-seeking behavior arises from two sources. First, it comes from the resource expenditures made by citizens in an effort to gain economic rents since these create no capital assets. Secondly, it comes from the subsequent reduction in output that would follow from successfully capturing monopoly privilege by way of government restraint. As Tullock concludes, "Competition is not always a good thing. In a well-organized market, the individuals aiming solely at benefitting themselves end up benefitting other people. In a sufficiently badly organized market...they simply generate waste."

The inclusion of a discussion of morality, therefore, serves the positive purpose of describing the necessary consequences which follow from certain actions in certain situations. While it does carry with it a value judgment, such judgments are a fundamental part of the human experience. Thievery, whether it is carried out solely by individuals or through the political manipulation of government, invariably results in the same outcomenamely the destruction of property and a reduction in output. Alternatively, respect for property and its use in voluntary trade consistently promotes productive activity, capital accumulation, economy of resource use, and growing economic output. The latter form of behavior is properly called moral, while the former, in all its forms, is immoral.

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A CAUSAL RELATIONSHIP BETWEEN ECONOMIC GROWTH AND PUBLIC EXPENDITURE IN INDIA

Sweety Pandey*

ABSTRACT

The objective of this study is to test for the direction of causality between Public expenditure and National Income in India using annual data for the period 1970-2010. The econometric methodology employed was the Cointegration and Granger Causality test. First, the stationarity properties of the data and the order of integration of the data were tested using both the Augmented Dickey-Fuller (ADF) test and the corolegram test. It is found that the variables were non-stationary in levels, but stationary in second differences. The engle-granger approach of cointegration has been used to test the long-run relationship among the variables. Then Granger Causality test has been used to explain the causal relation between the variables.

Keywords: *Public expenditure, National Income, Cointegration, Granger Causality.*

INTRODUCTION

The major objective of this study is to examine the direction of causality between public expenditure and national income in India. The answer to the question of whether increasing government expenditure are the cause of economic growth or economic growth is the cause of increasing government expenditures are especially important for India where the public sector absorbs a relatively large share of country's economic resources.

The relationship between public expenditure and national income has been the subject of two different propositions. The first and the most popular is Wagner's law. Wagner's law proposes that there is a long-run tendency for public expenditure to grow relative to national income (GDP). In other words, the causality between public expenditure and national income runs from national income to public expenditure. The second proposition is of Keynes. According to Keynes, public expenditure is an exogenous factor and is used as policy instrument for increasing national income and thus, the causal relation between public expenditure and national income runs from public expenditure to income.

The causal relation between government expenditure and national income has been the subject of many empirical studies in both the developed and developing countries. A few studies also examined the relation between government expenditure and national income in case of Indian economy. Amongst these while some supported the existence of Wagner's law in case of Indian economy e.g., Singh and Sahni (1984), Lalvani (1995) and some refuted its existence e.g., Bhat (1991) and Mohsin (1995).

Therefore, the present study attempts to examine the causal relationship between Government expenditure and national income in case of India using time series data spanning over the period 1970-2010. The reason behind the present analysis is the increasing Central government expenditure since the inception of planning.

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LITERATURE REVIEW

This section discusses relevant literature on the linkage between public expenditure and economic growth. The work of Barro R, Sala-i-Martin X, (1992), pointed out that government activity influences economic growth. Similarly, Dar Atul A, AmirKhalkhali S, (2002) emphasized that in the endogenous growth models, fiscal policy is very crucial in predicting future economic growth.

Many researchers have attempted to examine the effect of government expenditure on economic growth. Laudau D, (1983) examined the effect of government expenditure on economic growth for a sample of 96 countries, and discovered a negative effect of government expenditure on economic growth. Similarly, Komain J, Brahmasrene T, (2007) employed the Granger causality test to examine the relationship between government expenditures and economic growth in Thailand. In this study it was found that government expenditures and economic growth are not co-integrated and it also indicated an unidirectional relationship, as causality runs from government expenditures to growth. However, the results also revealed a significant positive effect of government spending on economic growth. Another important work is of Olugbenga AO, Owoye O, (2007) who investigated the relationships between government expenditure and economic growth for a group of 30 OECD countries during the period 1970-2005. The regression results revealed the existence of a long-run relationship between government expenditure and economic growth. Moreover, the showed unidirectional causality from government expenditure to growth for 16 countries, and supported the Keynesian hypothesis. However, 10 of the countries, confirmed the Wagner's law as causality runs from economic growth to government expenditure in these countries. Finally, for the remaining four countries the test indicated the existence of feedback relationship between government expenditure and economic growth.

Al-Yousif Y, (2000) in his study found that government spending has a positive relationship with economic growth in Saudi Arabia. Liu Chih-HL, Hsu C, Younis MZ, (2008) investigated the causal relationship between GDP and public expenditure for the US data during the period 1947- 2002. The results revealed that growth of GDP does not cause expansion of government expenditure but total government expenditure causes growth of GDP. Moreover, the estimation results indicated that public expenditure raises the US economic growth which means that according to this result Keynesian hypothesis exerts more influence than the Wagner's law in US.

Peter S, (2003) examined the effects of government expenditure on economic growth in Sweden during 1960-2001 period and found that government spends too much and it might slowdown economic growth. Ansari et al (1997) attempt to examine the direction of causality between government expenditure and national income for three African countries Ghana, Kenya, and South Africa, using standard Granger testing procedures and the Holmes- Hutton (1990) causality test.The study uses annual data for the period from 1957 to 1990 and both variables were deflated by using the GDP deflator for each country. The study finds that in Ghana, Kenya and South Africa there is no long run equilibrium relationship between government expenditure and national income over the sample period. For these countries, there is no evidence of Wagner's hypothesis or the reverse being supported in the short run, except for Ghana where Wagner's law is supported.

Tang, Tuck Cheong (2001) examined the relationship between national income and Government expenditure in Malaysia for the period 1960 to 1998 were used. The result of revealed a unidirectional causality between variables, that is, from national income growth to Government expenditure growth. Thus, they concluded that Wagner's law is supported by the data, in the short run.

Dogan, Tang (2006) aimed to determine the direction of causality between national income and government expenditures for Indonesia, Malaysia, Philippines, Singapore, and Thailand by using times series data covering last four decades. Granger causality tests are used to investigate the causal links between the two variables and the results supported that causality runs from government expenditures to national income only in the case of Philippines but there is no evidence for this hypothesis and its reverse for the other countries.

Islam (2001) in his study used annual data for the period 1929-1996 to examine the Wagner's hypothesis for the USA. The study found that the relative size of government expenditures and real Gross National Product per capita are cointegrated by using Johansen-Juselius cointegration approach. Moreover, Wagner's hypothesis is strongly supported by the result of Engle-Granger error correction approach.

Ranjan and Sharma,(2008) examined the effect of government development expenditure on economic growth during the period 1950-2007 in India. It was discovered that there exist a significant positive impact of government expenditure on economic growth and it also revealed the existence of cointegration among the variables.

Singh and Sahni (1984) use the Granger causality test to determine the causality direction between national income and public expenditures in India. Total as well as disaggregate expenditure data for the period of 1950-1981 were used and the study finds no causal relation confirming the Wagnerian or the opposite view.

The existing literature studying the impacts of public expenditure on economic growth is vast. This study is an attempt to study the economic growth-government expenditure relationship in India for the period 1970-2010.

OBJECTIVES OF THE STUDY

The study broadly examines the impact of government expenditure on GDP in view of changing India's financial markets. Especially the objectives are:-

To examine the impact of government expenditure on Economic Growth in the short run as well as long run.

To analyze the trend and composition of government expenditure.

To measure the causality relationship between the variables.

THEORETICAL ASPECT OF PUBLIC EXPENDITURE IN INDIA

Public expenditure is mandatory for the welfare states. Since independence, public expenditure has been used as an important tool in our country to pull the economy out of its adverse circumstances. Public expenditure helps to attain the long-run and short-run objectives of economic development. This is the reason that there is continuous increase in public expenditure of the Indian Government. Actually, the government has been widening its activities in social and economics spheres in order to bring economic growth as early as possible.

CLASSIFICATION OF PUBLIC EXPENDITURE

Broadly, public expenditure can be classified into two parts :

A. Expenditure on Revenue Account.

B. Expenditure on Capital Account.

A. Expenditure of Revenue Account of Central Government

Generally, major heads of revenue expenditure are shown in the budget of the Central Government as defence services, civil services, grants-in-aid, interest payment, tax collection and economic services. Revenue expenditure are met out of the revenue receipts of the government like tax revenues and other revenues. The revenue expenditures are incurred for the normal running of the government departments and services interest charges on debt etc. Morever, such expenditure does not result in the creation of assets. A brief description of revenue expenditure has been detailed out as below:

(a) Defence Expenditure- In order to save national wealth external aggression and internal disorder, defence expenditure is must. It has been constantly increasing as the modern warfare instruments are becoming more costlier. The charge on revenue account is as a result of maintenance of defence forces on salaries, dearness and other allowances, pensions and retirement benefits provided to defence personnels.

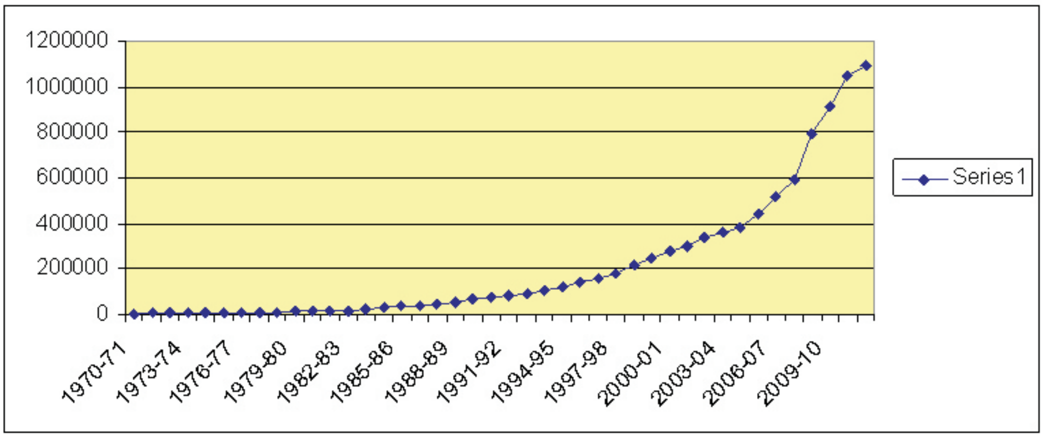
(b) **Civil Servies.** Before independence, the aim of the government was the maintenance of law and order whereas after independence, it was sought to change from "law and order state" to " welfare state". Thus, investment in this sector has been rising continuously. It includes expenditure on Parliament administration, justice, election and on the Office of Comptroller of Ministries of Education and Social Welfare, Health and Family Welfare, Information and Broadcasting, Labour and Employment and Department of Atomic Energy, Culture, Science and technology and Space etc.

(c) **Grants-in-Aid to States.** State government cannot work properly without the help of central government as the expenditures of state government have gone up because of increase in salaries and allowances of government employees and functional relations with other state. Therefore, this expenditure of the government is also increasing.

(d) **Interest Payments.** This includes expenditure on the payment of interest on the outstanding debt. In the recent years, these payments have shown rising trend on account of expenditure incurred on the implementation of various plans.

(e) **Collection of Taxation.** Taxes also play prominent role in the revenue of any government. Government has to spend huge amount for collection of these taxes.

(f) **Economic Services.** In includes the expenditure on Department of Commerce, Shipping and Transport, Irrigation, Energy, Chemicals and Fertilizer, Company Affairs and Electronics, Industry and Agriculture sectors etc.



A. Expenditure on Capital Account

Expenditure on capital account consists of expenditure for the acquisition of assets such as land, buildings, machinery, equipments etc. These are also like advances granted to state governments, companies and other such organizations which tend for development activities. The expenditure on capital account is financed out of the capital receipts like market loans and borrowing by the government from domestic as well as foreign resources. Therefore, capital account expenditure consists of all those expenditures used for the acquisition of assets like buildings, machinery equipment as investment in share etc. and loans and advances of State Government by the Central Governments. It also includes Government companies, corporations and other such institutions for their development activities.

Capital account expenditure as provided in the budget of the government of India, has been illustrated as under:

1. General Services. This head refers the expenditure on currency, coinage and mint. It also includes expenditure on fiscal services like India's contribution to International Monetary on public works and expenditure on non-residential buildings.

2. Defence Services. This head consist of Central Government expenditure on capital as on army, navy and air force. It includes capital expenditure on the construction of non-residential buildings, ordiance factories, machine tools and other equipments etc.

3.Social Services. Social Services are helpful to raise the efficiency and productivity of human resources. They are also useful from the point of raising the standard of living of common masses. Therefore, they include the expenditure on the services like education, health, art, culture, family planning, sanitation, water supply, housing, urban development, social security, welfare activities and scientific development etc.

4. Economic Services. Capital expenditure on economic services are the kind of foreign trade and other allied services like irrigation, animal husbandry, dairy, fishery development, industrial and mineral development, atomic energy, mining and metallurgical industries, water and power development, transport and communication etc.

5. Loans and Advances to State and Union Territories. Generally, State Government and Union Territories face acute shortages of fund to meet the requirement of development activities in the region. Therefore, Central Government provides them loans and assistance to undertake such development activities.

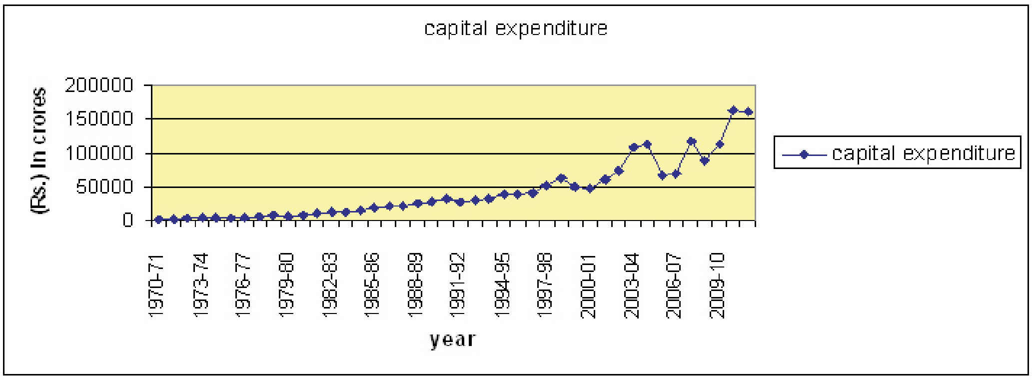


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Table1: Revenue, Capital and Total Expenditure government of India

Year	Revenue Expenditure	Capital Expenditure	Total Expenditure
1950-51	346 (65.41)	183 (34.59)	529
1960-61	916 (47.78)	1001 (52.22)	1917
1970-71	3130 (55.65)	2494 (44.35)	5624
1980-81	14410 (63.29)	8358 (36.71)	22768
1990-91	73516 (69.81)	31782 (30.19)	105298
2000-01	277839 (85.33)	47753 (14.67)	325592
2001-02	301468 (83.20)	60842 (16.8)	362310
2002-03	338713 (81.96)	74535 (18.04)	413248
2003-04	362074 (76.84)	109129 (23.16)	471203
2004-05	384329 (77.13)	113923 (22.87)	498252
2005-06	439376 (86.88)	66362 (13.12)	505738
2006-07	514609 (88.21)	68778 (11.79)	583387
2007-08	594433 (83.41)	118238 (16.59)	712671
2008-09	793798 (89.79)	90158 (10.20)	883956
2009-10	911809 (89.00)	112678 (11.00)	1024487
2010-11	1053677 (86.61)	162899 (13.38)	1216576

Notes: Figures in Parenthesis of type ( ) represent the percentage of Total Central Government Expenditure

Source: Handbook of Statistics on Indian Economy, Reserve Bank of India.

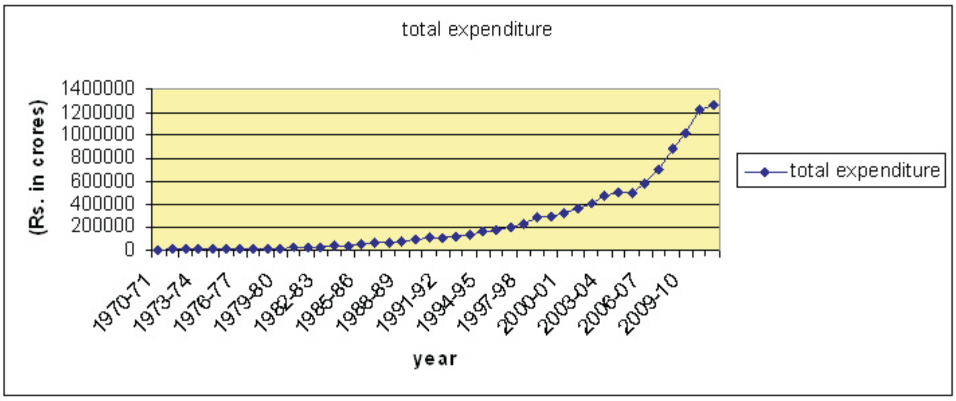

Figure 3: Total expenditure of India from 1970-71 to 2009-10

A striking feature of public expenditure in India is that has been continuously increasing since independence. After independence, as a welfare state the main objective is to promote the economic and social well-being of the people which enforced the government to come forward and spend for enhancing economic and social welfare. Thus, a continuous upward trend has been observed in public expenditure of the Indian government which has been shown in table A. The share of the revenue expenditure to the total expenditure of the Government of India has increased from 65.41 percent in 1950-51 to 83.41 percent in 2007-08 and to 86.61 percent in 2010-11. But the share of the capital expenditure to total expenditure has decreased from 34.59 percent in 1950-51 to 16.59 percent in 2007-08 and to 13.39 in 2010-11. It has also been observed that in the initial two decades (i.e. from 1950-1970) capital expenditure increases at a very fast rate than the revenue expenditure. But from

1970 onward it has been declining continuously and its share in total expenditure has fallen from 44.35 percent to 13.39 percent, which is not a healthy trend for a developing country like India.

TABLE 2: Overall share of public expenditure to GDP

YEAR	TOTAL EXPENDITURE	GDP	TOTAL EXPENDITURE AS A PERCENTAGE OF GDP
1970-71	5624	587987	*0.96*
1980-81	22768	798506	2.85
1990-91	105298	1347889	7.81
2000-01	325592	2319065	14.04
2001-02	362310	2453787	14.77
2002-03	413248	2547928	16.22
2003-04	471203	2764959	17.04
2004-05	498252	2971464	16.77
2005-06	505738	3254216	15.54
2006-07	583387	3566011	16.36
2007-08	712671	3898958	18.28
2008-09	883956	4162509	21.24
2009-10	1024487	4493743	22.80

Source: Handbook of Statistics on Indian Economy, Reserve Bank of India.

The share of overall public expenditure to GDP has increased from 0.96 percent in 1970-71 to 22.80 percent in 2009-10. In sum, the given increase in the share of public expenditure to GDP has been attributable only to increase in the share of revenue expenditure. The major reasons behind an increase in the revenue expenditure of the Central government are defence expenditure, administrative expenditure, subsidies, grants-in-aid to states and expenditure on social and economic services. Thus, such a phenomenal increase in the government expenditure over the years corroborates the expansion of public sector in India with economic growth.

ROLE OF PUBLIC EXPENDITURE IN INDIA

Public expenditure has been increasingly used as a tool in modern times with the aim of influencing the economic life of a nation particularly of that of backward and underdeveloped countries. These countries are the victims of chronic unemployment and market imperfections. One of the causes of economic backwardness is the existence of the vicious circle of poverty in the poor countries because they lack sufficient resources for development. Under these adverse circumstances, public expenditure is of immense use to effectively regulate economic activities. Inevitably, the role of public expenditure becomes necessity in such economies.

The role of public expenditure can be discussed as follows:

A. Long-Term Objectives

The aim of long-term objectives of public expenditure to have more rapid growth rate in the long run period. Therefore, it aims at :

- Development of Basic and key Goods Industries which may impart a momentum to the development and create sufficient saving for future investment.
- Creating social overheads like railways, roads, dams, shipping, telephones, banking facilities, education institutions and health facilities etc which are considered the basic foundations of economic growth.

- Generating self sustained growth after bringing about structural changes in the economy. This is not possible in the absence of public expenditure as it requires a big push in the economy.

B. Short-Term Objectives

Investment expenditure should not neglect the short term needs of the economy and therefore the short term objectives are as follows:

1. Proper allocation of resources.
2. Fixation of priorities.
3. Removal of inequalities in income and wealth.
4. Balanced regional development.
5. To check concentration and monopolistic practices.
6. Generation of employment opportunities.
7. Social Justice.

Public expenditure, thus undoubtedly, plays prominent role in lifting up the economy from the clutches of backwardness and poverty and lift the economy into the process of self-sustained growth through its monetary and fiscal measures.

METHODOLOGY

In the present paper, an attempt has been made to explore the relationship in between public expenditure and economic growth in Indian economy. To examine the impact of public expenditure on economic growth the simple OLS method is employed. Symbolically the model can be written as:

$$GDP_t = \beta 0 + \beta 1\ PE_{(t)} + U_{(t)}$$

To examine the impact of economic growth on public expenditure the simple OLS method is employed. Symbolically the model can be written as:

$$PE_t = \beta 0 + \beta 1\ GDP_{(t)} + U_{(t)}$$

Where GDP is gross domestic product which represents economic growth in India, PE is public expenditure. $U_{(t)}$ is the white noise error term. Before using OLS technique one should test the stationarity property of both variables in case of time series data. The study first of all test stationarity of the variables using different unit root tests, namely the correlogram test, Dickey Fuller (DF) and Augmented Dickey Fuller (ADF). The Granger Causality test will be used to test the causality relationship between gross domestic product and public expenditure. We will also examine the impact of public expenditure on GDP in the short run as well as in the long run with the help of Co integration and Error correction Mechanism.

DATA SOURCES

The data has been collected from the secondary sources. The main sources of data are RBI annual report and Bulletin. The data for the study has been collected from RBI Handbook of Statistics in Indian Economy. The main data for the study are GDP, total expenditure which have been taken from the period 1970-71 to 2009-2010. The data will be annual in nature and we will use the original form of these data. The data of GDP is taken as GDP at factor cost at constant price. The GDP data has been converted at 2004-05 base year. All data is in rs. crores.

VARIOUS TESTS OF STATIONARITY

1. Correlogram test

One simple test of stationarity is based on autocorrelation function(ACF). The ACF at lag k, denoted by r_k, is defined as

$r_k = g_k/g_0$

= covariance at lag k/ variance

If (ACF) r_k is plotted against the lags k we obtain the graph called Correlogram. If the autocorrelation at various lags hovers around zero, then time series is stationary, otherwise series is non stationary.

2. Stationarity Test: The Unit Root (Dickey Fuller) Test

The Dickey Fuller test for unit root may be conducted in the following two steps: First of all, runs OLS regression of following type:

$\Delta Yt = dYt\text{-}1 + ut$

and save the td ratio as mentioned in above equation. And secondly, the existence of unit root in the time series data Yt according to the following hypothesis.

Ho : $d = 0$*, for non stationarity if* $td > t$

Ha : $d < 0$*, for stationarity, if* $td < t$

Where t is the critical value as given by Fuller (1976). On the basis of Monte-Carlo simulations, and under the null hypothesis of the existence of a unit root in the process of generating of time series, Dickey and Fuller have tabulated critical values (Fuller, 1976) for the tδ statistic, which they called them as the τ (tau) statistics. More recently, these critical values have been extended by Mackinnon (1991) through Monte-Carlo Simulations. In other words, for a time series to be stationary the tδ value must be much negative. Otherwise, the time series is non-stationary. Dickey and Fuller have tabulated τ critical values when regression equation contains constant also i.e. when:

$\Delta Yt = a + dYt\text{-}1 + ut$

Further, when the regression equation contains a constant and linear trend, and is written as

$\Delta Yt = a + bt + dYt\text{-}1 + ut$

The Unit Root (Augmented Dickey Fuller) Test

In order to detect unit root in a time series data some modification have been made by Dickey and Fuller (1981). These modifications indicate how many additional terms relating to first difference of the variables should be added in above equations. This is known as Augmented Dickey Fuller Model. The present test involves the estimation of following forms of regression equation with intercept and trend. Before going to use the ADF test we will formulate the hypotheses which are the null or alternative hypothesizes and they are denoted as H_0 and H_a respectively.

Ho : $d = 0$*, for non stationarity if* $td > t$

Hα : $d < 0$*, for stationarity, if* $td < t$

In present study the corresponding equation for Augmented Dickey Fuller test will be

For GDP Time Series

$\Delta GDP_t = \beta 0 + \beta 1T + \beta 2\, GDP_{t-1} + S_{i=1} bi\, \Delta GDP_{(t-1)} + \text{Error}$

For Public expenditure (PE) Time Series

$\Delta PE_t = \beta 0 + \beta 1T + \beta 2\ PE_{(t-1)} + \ S_{i=1}\, bi\, \Delta\ PE_{(t-1)} + \text{Error}$

The ADF test follows the same asymptotic distribution as the DF statistics, so the same critical values can be used.

COINTEGRATION TEST ***: Engle-Granger Test***

The two variables will be cointegrated if they have a long term, or equilibrium relationship between them. As Granger notes "A test for cointegration can be thought of as a pretest to avoid 'spurious regression' situation." In order to examine whether there is long run equilibrium relationship between GDP, and Public Expenditure, the stationarity of the residuals obtained from the cointegration regression of GDP on Public Expenditure, and Public Expenditure on GDP has to be tested by using ADF test with trend and intercept. Since our data is stationary at I(1), then the residuals from these equations must be stationary at I(0), then we can say that the regression is not spurious, even though individually they are nonstaionary. The equation can interpret its parameters as long run parameters. Here, there will be following equations:

(1) **Residuals [from cointegration regression of GDP on Public Expenditure]**

$U_t = GDP_{(t)}\ \ [\beta 0 + \beta 1\ PE_{(t)}]$

Or $\Delta\ Ut = \beta 0 + \beta 1t + \beta 2\ U_{(t-1)} + \quad U_{(t-1)}$

(2) Residuals [from cointegration regression of Public Expenditure on GDP]

$U_t = PE_{(t)}\ \ [\beta 0 + \beta 1\ GDP_{(t)}]$

Or $\Delta\ U_t = \beta 0 + \beta 1t + \beta 2\ U_{(t-1)} + \quad U_{(t-1)}$

If the MacKinnon critical values are less than the value of t-Statistic of Residuals, so the **Residuals is stationary at level, they are I (0).**

Short Run Dynamic Adjustments towards Long Run Equilibrium: ERROR CORRECTION MECHANISM [ECM]

The error correction mechanism (ECM) first used by Sargan and later popularized by Engle and Granger corrects for disequilibrium. Though GDP, Public expenditure have a tendency to converge towards an equilibrium path in the long run. The disequilibrium between short run and long run values in lagged year would be corrected\adjusted quickly or slowly in current year by the changes in GDP, public expenditure. The ECM, which combines both long run corrections\adjustments of cointegrated variables towards the long run equilibrium, is also attempted to first differenced variables and error correction variable, which are stationary. There TWO error correction mechanism equations which can be can be expressed as;

$\Delta\ GDP_{(t)} = \beta 0 + \beta 1 \Delta\ PE_{(t)} + \beta 2\ U_{(t-1)} + €t$

$\Delta\ PE_{(t)} = \beta 0 + \beta 1 \Delta\ GDP_{(t)} + \beta 2\ U_{(t-1)} + €t$

Where Δ as usual denotes the first difference operator, €t is a random error term, and $U_{(t-1)} = [\ GDP_{t-1}\ \beta 1 - \beta 2PE_{(t-1)}]$ in equation 1 and this system is similarly applied in all rest equation. ECM in equation 1 states that Δ GDP (t) depends on Δ PE (t) and also on the equilibrium error term. If the latter is nonzero, then the model is out of equilibrium. Suppose Δ PE(t) is zero and U (t-1) is positive. This means Δ GDP (t-1) is too high to be in equilibrium, that is, Δ GDP (t-1) is above its equilibrium

FIGURE 4: Correlogram of public expenditure term (PE)

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                                          -1       0       1 -1       0       1
LAG       AC       PAC       Q     Prob>Q  [Autocorrelation]  [Partial Autocor]
-------------------------------------------------------------------------------
1       0.8372   1.1697   30.895  0.0000          |------            |--------
2       0.7007  -0.5498   53.093  0.0000          |-----         ----|
3       0.5813   0.3551   68.768  0.0000          |----              |--
4       0.4941   0.0808     80.4  0.0000          |---               |
5       0.4314  -1.0986   89.514  0.0000          |---       --------|
6       0.3810  -0.0451   96.824  0.0000          |---               |
7       0.3222   1.6337   102.21  0.0000          |--                |--------
8       0.2609   2.6281   105.84  0.0000          |--                |--------
9       0.2069  -0.1848    108.2  0.0000          |-                -|
10      0.1593   1.1527   109.65  0.0000          |-                 |--------
11      0.1146  -1.1043   110.42  0.0000          |          --------|
12      0.0711   1.2371   110.72  0.0000          |                  |--------
13      0.0261  -1.3487   110.77  0.0000          |          --------|
14     -0.0109   1.1453   110.78  0.0000          |                  |--------
15     -0.0435  -1.4127    110.9  0.0000          |          --------|
16     -0.0731   2.8313   111.28  0.0000          |                  |--------
17     -0.1007   6.5017   112.02  0.0000          |                  |--------
18     -0.1258   7.4400   113.24  0.0000         -|                  |--------
```

FIGURE 5 :. correlogram D(public expenditure)

```
                                          -1       0       1 -1       0       1
LAG       AC       PAC       Q     Prob>Q  [Autocorrelation]  [Partial Autocor]
-------------------------------------------------------------------------------
1       0.7520   1.0897   24.361  0.0000          |------            |--------
2       0.5807   0.0171   39.268  0.0000          |----              |
3       0.3566   0.5995   45.042  0.0000          |--                |----
4       0.2373   1.0717   47.669  0.0000          |-                 |--------
5       0.1655  -0.0121   48.984  0.0000          |-                 |
6       0.1924  -1.0589   50.813  0.0000          |-         --------|
7       0.1851  -1.5084   52.557  0.0000          |-         --------|
8       0.1437   1.7172   53.641  0.0000          |-                 |--------
9       0.1082   0.1531   54.275  0.0000          |                  |-
10      0.0938   1.9340   54.768  0.0000          |                  |--------
11      0.0629   0.4009   54.997  0.0000          |                  |---
12      0.0718   2.0698   55.306  0.0000          |                  |--------
13      0.0203  -0.8151   55.332  0.0000          |            ------|
14     -0.0101   1.5705   55.338  0.0000          |                  |--------
15     -0.0399  -3.0586   55.445  0.0000          |          --------|
16     -0.0592  -6.4584   55.691  0.0000          |          --------|
17     -0.0756  -7.4922   56.108  0.0000          |          --------|
18     -0.0921   5.7635   56.756  0.0000          |                  |--------
```

FIGURE6: correlogram D2(public expenditure)

```
                                          -1       0       1 -1       0       1
LAG       AC       PAC       Q     Prob>Q  [Autocorrelation]  [Partial Autocor]
-------------------------------------------------------------------------------
1       0.0630   0.0744    .1672  0.6826          |                  |
2      -0.0849  -0.1315   .47835  0.7873          |                 -|
3      -0.1958  -0.2757   2.1817  0.5356         -|                --|
4       0.2483   0.7792    4.998  0.2875          |-                 |------
5       0.1701   1.5418   6.3592  0.2728          |-                 |--------
6      -0.0289   1.6314   6.3997  0.3799          |                  |--------
7      -0.1602  -1.2773    7.682  0.3615         -|          --------|
8       0.0066   0.5338   7.6842  0.4649          |                  |----
9       0.0124  -0.9415   7.6925  0.5654          |           -------|
10      0.1660   0.8474    9.212  0.5121          |-                 |------
11     -0.1495   1.4932   10.489  0.4870         -|                  |--------
12      0.0072   2.5308   10.492  0.5729          |                  |--------
13      0.0306   0.0390   10.549  0.6485          |                  |
14      0.0609   2.8217   10.786  0.7027          |                  |--------
15     -0.0290   4.5467   10.842  0.7637          |                  |--------
16     -0.0696  -0.5188   11.179  0.7983          |              ----|
17     -0.0224  -6.9685   11.216  0.8451          |          --------|
```

value of [β0 + β1Δ PE (t)]. Since β2 is expected to be negative, the term β2 U (t-1) is negative and therefore Δ GDP (t) will be negative to restore the equilibrium. That is, if Δ PE(t) is above its equilibrium value, it will start falling in the next period to correct the equilibrium error; hence the name ECM. By the same token, if U (t-1) is negative, β2 U (t-1) will be positive, which cause Δ GDP(t) to be positive, leading GDP (t) to rise in period t. Thus, the absolute value of β2 decides

FIGURE 7: Correlogram OF (gdp_constant) term

```
                                          -1       0       1 -1       0       1
 LAG       AC       PAC      Q     Prob>Q  [Autocorrelation]  [Partial Autocor]
-------------------------------------------------------------------------------
1        0.8916   1.0915   35.036  0.0000          |-------          |--------
2        0.7911  -0.0705   63.327  0.0000          |------           |
3        0.6966  -0.0922   85.838  0.0000          |-----            |
4        0.6056   0.1206   103.31  0.0000          |----             |
5        0.5231   0.2831   116.72  0.0000          |----             |--
6        0.4502   0.1050   126.92  0.0000          |---              |
7        0.3853   0.0122   134.62  0.0000          |---              |
8        0.3257  -0.0593   140.29  0.0000          |--               |
9        0.2727  -0.0456   144.39  0.0000          |--               |
10       0.2179   0.3777   147.09  0.0000          |-                |---
11       0.1657   0.0247    148.7  0.0000          |-                |
12       0.1138  -0.9010   149.49  0.0000          |          -------|
13       0.0647  -0.3418   149.75  0.0000          |               --|
14       0.0194  -0.3409   149.78  0.0000          |               --|
15      -0.0252   0.8135   149.82  0.0000          |                 |------
16      -0.0656  -0.6841   150.12  0.0000          |            -----|
17      -0.1021   0.7956   150.89  0.0000          |                 |------
18      -0.1358   0.3533    152.3  0.0000         -|                 |--
```

FIGURE 8: correlogram D(gdp_constant)

```
                                          -1       0       1 -1       0       1
 LAG       AC       PAC      Q     Prob>Q  [Autocorrelation]  [Partial Autocor]
-------------------------------------------------------------------------------
1        0.7984   0.9807   27.459  0.0000          |------           |-------
2        0.7096   0.5300   49.721  0.0000          |-----            |----
3        0.6411   0.2294   68.384  0.0000          |-----            |-
4        0.5148   0.0727   80.751  0.0000          |----             |
5        0.4238   0.3068   89.373  0.0000          |---              |--
6        0.3206   0.3789   94.452  0.0000          |--               |---
7        0.2682   0.3502   98.114  0.0000          |--               |--
8        0.1938   0.3513   100.09  0.0000          |-                |--
9        0.1549  -0.0422   101.39  0.0000          |-                |
10       0.1357   0.2802   102.42  0.0000          |-                |--
11       0.1403   0.6842   103.56  0.0000          |-                |-----
12       0.0747  -0.0097   103.89  0.0000          |                 |
13       0.0403  -0.0485   103.99  0.0000          |                 |
14       0.0064  -0.7859   103.99  0.0000          |           ------|
15      -0.0215   0.5293   104.03  0.0000          |                 |----
16      -0.0857  -0.7683   104.54  0.0000          |           ------|
17      -0.1069  -0.2951   105.37  0.0000          |               --|
18      -0.1135   0.2853   106.36  0.0000          |                 |--
```

FIGURE 9: correlogram D2(gdp_constant)

```
                                          -1       0       1 -1       0       1
 LAG       AC        PAC       Q     Prob>Q  [Autocorrelation]  [Partial Autocor]
-------------------------------------------------------------------------------------
1       -0.4616  -0.4724   8.966  0.0028       ---|             ---|
2        0.1291  -0.1506  9.6863  0.0079          |-              -|
3        0.0002   0.0406  9.6864  0.0214          |                |
4       -0.0870  -0.0777  10.032  0.0399          |                |
5        0.0648  -0.0397  10.229  0.0690          |                |
6        0.0214   0.0344  10.251  0.1145          |                |
7        0.0370   0.1608   10.32  0.1712          |                |-
8        0.1045   0.3628  10.883  0.2084          |                |--
9       -0.1442   0.0322  11.991  0.2138         -|                |
10      -0.0236  -0.2037  12.022  0.2836          |               -|
11       0.1882   0.5972  14.044  0.2306          |-               |----
12      -0.1177   0.5057  14.865  0.2489          |                |----
13       0.1081   0.8888  15.583  0.2724          |                |-------
14      -0.2507  -0.2850  19.602  0.1432        --|              --|
15       0.2370   0.7028  23.343  0.0771          |-               |-----
16      -0.1878   0.1262  25.794  0.0570         -|                |-
17       0.0516  -0.3874  25.988  0.0747          |             ---|
```

how quickly the equilibrium is restored.

GRANGER CAUSALITY TEST

The regression analysis deals with the dependence of one variable on the other variables, it does not necessarily imply causation. In other words, the existence of a relationship between variables does not prove causality or the direction of influence. The Granger Causality test is used to test the causality relationship between the variables. That is, if event A happens before event B, then it is possible that A is causing B. However, it is not possible that B is causing A. In other words events in the past can cause events to happen today. Future events cannot. The number of lags depends on Akaike Information criterion. The Granger Causality test can be expressed as:

$GDP_{(t)} = \quad PE_{(t-i)} + \quad GDP_{(t-i)} + U_t$

$PE_{(t)} = \quad PE_{(t-1)} + \quad GDP_{(t-i)} + U_t$

VARIABLES	T calculated statistics	T tabulated	Conclusion
GDP	-5.940 (at 2nd difference)	-4.270	Stationary at I(2)
PE	-4.975 (at 2nd difference)	-4.270	Stationary at I(2)

RESULT ANALYSIS

1. **Stationarity of Time Series Data** {CORRELOGRAM TEST}

After examining the correlogram upto 18 lags of the public expenditure time series given in figure 4, it is clear that PE autocorrelation coefficient starts at very high value at lag 1 (0.837) and decline very slowly. Thus it seems that PE time series is nonstationary. Similarly, the PE correlogram at 1st difference (fig. 5) shows that AC starts at 0.725 and declines very slowly which means that PE at 1st difference is also non stationary. However, figure 6, shows the PE correlogram at 2nd difference and in this the autocorrelations at various lags hovers around zero. Thus, it shows that public expenditure (PE) is integrated of order 2, denoted as I (2).

After examining the correlogram upto 18 lags of the GDP time series given in figure 7, it is clear that GDP autocorrelation coefficient starts at very high value at lag 1 (0.8916) and declines very slowly. Thus it seems that GDP time series is nonstationary. Similarly, the GDP correlogram at 1st difference (fig. 8) shows that AC starts at 0.7984 and declines very slowly which means that GDP at 1st difference is also non stationary. However, figure 9, shows the GDP correlogram at 2nd difference and in this the autocorrelations at various lags hovers around zero. Thus, it shows that GDP is integrated of order 2, denoted as I (2).

In at level form and Constant & Trend

Residuals Value	MacKinnon Critical Values	
ADF Test Statistic -0.244	1%	-3.600
	5%	-2.937
	10%	-2.607

1. **THE AUGMENTED DICKEY FULLER (ADF) TEST**

Table 3 :ADF test for GDP and Public Expenditure

It is clear from table 3 that all the data are non stationary at level but they are stationary at second difference.

Testing for Co integration:

3. ENGLE- GRANGER TEST

Test for stationarity of Residual from cointegration regression taking GDP as dependent variable and public expenditure as independent variable.

Table 4

In at level form and Constant & Trend		
Residuals Value	MacKinnon Critical Values	
ADF Test Statistic 0.425	1%	-3.606
	5%	-2.937
	10%	-2.607

Since the MacKinnon critical values is less than the value of t-Statistic of Residuals in table 4, so the Residuals [from cointegration regression of GDP on PE] is stationary at level, they are I (0). This empirical content [through the Engel- Granger Representation] leads to conclude that there is a long run equilibrium relationship between GDP and Public Expenditure. In other words, GDP and Public Expenditure are not drifting farther from each other in the long run.

Test for stationarity of Residual from cointegration regression taking PE as dependent variable and GDP as independent variable.

Table 5

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	53099.18	9980.091	5.32	0.0000
D(PE)	1.714878	0.1861266	9.21	0.0000
Residuals (t-1)	0.1241841	.043654	2.84	0.007

Since the MacKinnon critical values is less than the value of t-Statistic of Residuals, so the Residuals [from cointegration regression of PE on GDP] is stationary at level, they are I (0). This empirical content [through the Engel- Granger Representation] leads to conclude that there is a long run equilibrium relationship between Public Expenditure and GDP. In other words, Public Expenditure and GDP are not drifting farther from each other in the long run.

4. ERROR CORRECTION MECHANISM

Table 6: Regression Results of Error Correction Mechanism [GDP(t) on Public expenditure (t) and lagged error]

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-11661.22	5836.75	-2.00	0.053
D(GDP)	.3984773	.040564	9.82	0.000
Residuals (t-1)	.1484138	.0899993	1.65	0.108

In table 6, the coefficient on error correction term is positively significant. This provides important information on the short run relationship between GDP and Public expenditure in India. This shows that 0.12 percentage of disequilibrium in t-1 period is corrected in t period. Thus, though there is disequilibrium between short run and long run, about 0.12 percentage of the disequilibrium in t-1 period is corrected\adjusted every year by the change in GDP.

Table 7: Regression Results of Error Correction Mechanism [PE (t) on GDP (t) and lagged error]

Direction of causality	**Number of lags**	**F Value**	**Result**
GDP? PE	2	2.44758	GDP does not cause PE
PE? GDP	2	4.11019	PE does not cause GDP
GDP? PE	3	2.57752	GDP does not cause PE
PE? GDP	3	3.23752	PE does not cause GDP
GDP? PE	4	4.33817	GDP does not cause PE
PE? GDP	4	2.23851	PE does not cause GDP
GDP? PE	5	3.64128	GDP does not cause PE
PE? GDP	5	3.07714	PE does not cause GDP
GDP? PE	6	4.05611	GDP does not cause PE
PE? GDP	6	2.36767	PE does not cause GDP

In table 7, the coefficient on error correction term is positively significant. This provides important information on the short run relationship between Public expenditure and GDP in India. This shows that 0.14 percentage of disequilibrium in t-1 period is corrected in t period. Thus, though there is disequilibrium between short run and long run, about 0.14 percentage of the disequilibrium in t-1 period is corrected\adjusted every year by the change in Public Expenditure.

5. GRANGER CAUSALITY TEST

Thus, it is clear from above table that GDP does not cause public expenditure and public expenditure does not cause GDP.

CONCLUSION

The objective of the study is to investigate the causality relation between government expenditures and national income in India for the period 1970-2010. Time series analysis indicates public expenditure cause GDP growth in the short run as well as in the long run. The cointegration approach suggests that GDP, public expenditure are cointegrated for India, implying a long run relationship amongst these variables. But there is disequilibrium in the short run period, it can be adjusted\corrected through some adjustment in public expenditure by using error correction method. The study finds no causal process confirming the Wagnerian or the opposite view. We find that on the basis of above analysis that there is no causality between these macro economic variables that means GDP does not cause public expenditure or public expenditure does not cause GDP.

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APPENDIX 1

Year	GDP_constant	Revenue expenditure	Capital expenditure	Total expenditure
1970-71	589787	3130	2494	5624
1971-72	595741	3968	2924	6892
1972-73	[illegible]	4538	3319	7857
1973-74	620871	4777	3441	8218
1974-75	628078	5677	4259	9936
1975-76	684634	6978	5401	12379
1976-77	693191	8270	5387	13657
1977-78	744972	9108	6398	15506
1978-79	785964	10682	8084	18766
1979-80	745083	11803	7159	18962
1980-81	798506	14410	8358	22768
1981-82	843427	15408	9857	25265
1982-83	868091	18742	12049	30791
1983-84	936269	22251	13283	35534
1984-85	973357	27691	15941	43632
1985-86	1013865	33924	18742	52666
1986-87	1057612	40860	22056	62916
1987-88	1094992	46174	22087	68261
1988-89	1206243	54106	25005	79111
1989-90	1280227	64210	28698	92908
1990-91	1347889	73516	31782	105298
1991-92	[illegible]	82292	29122	111414
1992-93	1440504	92702	29916	122618
1993-94	1522343	108169	33684	141853
1994-95	[illegible]	[illegible]	38627	160739
1995-96	1737740	139861	38414	178275
1996-97	1876319	158933	42074	201007
1997-98	1957032	180335	51718	232053
1998-99	2087827	216461	62878	279340
1999-00	2222315	249078	48975	298053
2000-01	2319063	277839	47753	325592
2001-02	2453787	301468	60842	362310
2002-03	2547928	338713	74535	413248
2003-04	2764959	362074	109129	471203
2004-05	2971464	384329	113923	498252
2005-06	3254216	439376	66362	505738
2006-07	3566011	514609	68778	583387
2007-08	3898958	594433	118238	712671
2008-09	4162509	793798	90158	883956
2009-10	4493743	911809	112678	1024487

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SMART KITCHEN SOLUTIONS CASE STUDY ON RESOLVING GROWTH AND REVENUE RELATED CHALLENGES

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ABSTRACT

The main purpose of this case study is to evaluate and understand the growth and revenue related challenges faced by startup companies in extremely competitive industries. As startup companies start to explore market opportunities, they need to overcome competitive threats, marketing and branding related challenges and need to develop goodwill, reputation and brand visibility to push their products in the competitive marketplace.

As such firms have limited financial and other resources at their disposal, it is a major challenge for the entrepreneur to utilize limited resources in the most efficient manner for generating maximum possible benefits.

This case study explores the various challenges that need to be overcome by entrepreneurs in order to establish a strong market share, brand visibility and distribution network in the initial years of operation with limited financial resources and capabilities. The case explores the changing dynamics and competition of the highly competitive cookware and kitchenware industry in India and the various opportunities present in the industry along with challenges that needs to be overcome by the entrepreneur.

Keywords : *Smart Kitchen, Entrepreneur, Financial Resource.*

INTRODUCTION

Smart Kitchen Solutions is a recently established kitchenware and cookware manufacturing firm based in New Delhi with principal manufacturing unit in Kundli, Haryana near Delhi. The company manufacturers and imports wide range of cookware, kitchenware and kitchen accessories such as pressure cooker, non-stick cookware, cutlery, silicone moulds and accessories, knives and other related kitchen products. The mission of the company is to provide widest range of high quality cookware to customers at competitive prices. The company aims to position its products as a high quality offering among leading brands in the country. The company was founded by Ashish Jain, a second generation entrepreneur with strong family background in the metals industry.

As the company is a new brand in the extremely competitive and fragmented cookware and kitchenware industry with very low brand reputation and goodwill and limited presence among the retailers, it faces significant challenges in terms of enhancing its market share, brand visibility and occupying shelf space among the retailers throughout the country. The company faces strong competition from established brands such as Hawkins, Prestige, Nirlep, Vinod, and Jaipan in various segments of the kitchenware and cookware market. These players have a very strong market share, visibility and distribution network, which makes it extremely challenging for Smart Kitchen Solutions to break into the dominance of these established firms and create a niche and presence for itself in this industry. The company has limited financial resources, lack of goodwill and brand presence and management expertise which makes its even more challenging for the firm to resolve

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these growth and revenue related challenges. The company's founders have done a hard work in terms of ensuring a high product quality and wide range of product offerings by sourcing from China and tying up with reputed raw material/component suppliers. However, the key challenge is to create a go-to-market strategy that allows the firm to reach its desired target population in the most cost effective and quick manner with the use of limited resources. The company's management is facing issues pertaining to building the distributor and dealer network, arranging for credit and financing from financial institutions, building marketing and sales teams and dealing with labor issues at the manufacturing unit.

In light of these challenges, the company's management faces an uphill task in terms of ensuring strong growth and profitability of the company by evaluating various alternative strategies and tactics in various functional areas of the organization. Mr. Ashish Jain has to single handedly resolve these growth and revenue related challenges to achieve profitability in the near term by selecting the best strategic course of action among various alternatives.

BACKGROUND AND CHALLENGES

Smart Kitchen Solutions started operations in October 2010 to manufacture and distribute polished aluminium cookware, hard-anodized cookware and non-stick cookware throughout India. The company started manufacturing the products in its facility at Kundli near Delhi. In the first few months of operation, the company aimed at establishing distributors in few key states in the Northern part of the country such as Punjab, Haryana, Rajasthan, UP and NCR region. However, after first few months of struggle, the owner Ashish Jain realized that the market is extremely competitive and it is a big challenge for any new brand to convince distributors to sell the brand or occupy shelf space at retail outlets. Ashish also realized that market sentiments were very weak and distributors were not willing to give orders owing to apprehensions about market conditions as well as desired extended credit terms. The company was able to establish few distributors and got initial orders, but the repeat orders were either not happening or were very small in size. After one year of struggle, the entrepreneur was faced with numerous challenges to grow sales and build a strong distribution network for its product.

At this juncture, Ashish realized that in order to convince the distributors to stock up his product line and promote his brand among their retail outlets, he needs to implement a renewed marketing strategy that focuses on strong brand building, promotions and incentives for distributors, dealers and customers, and enhancing brand visibility via advertising. He also realized that needs to enhance its product quality, range and offer more competitive pricing to penetrate in the marketplace. However, at the same time, the rising pressure on the company to manage costs due to huge outflow of cash without any substantial revenues pose a dilemma in front of him to chose the most effective course of action. He was faced with several alternatives for achieving his objectives and his main challenge was to adopt a course of action that suited his budget, objectives as well as provide him competitive advantage and success in this competitive industry.

INDUSTRY OVERVIEW

The kitchenware industry in India is driven by functional requirements of customers and scope for market expansion is huge in the country due to several trends, such as rising disposable income and standard of living, increasing awareness about the popularity and heath benefits of non-stick cookware and use of wider range of cutlery. The non-stock cookware market is especially expected to grow strongly due to very low penetration currently, as well as due to increasing health concerns among consumers and preference for healthy cooking with less consumption of oil.

The size of the non-stick cookware market is estimated around 349 crore, out of which the organized sector accounts for approximately72% (Source: industry estimates) with TTK Prestige being the market leader in this segment.

Apart from the non-stick segment, there is a strong growth in demand expected for convenience products which are mostly imported from other countries such as peelers, pizza cutters, knives, moulds for baking, etc. The storage product market is also expected to grow during changing lifestyle of consumers.

Another major trend in the marketplace is emergence of large-format food retailers and lifestyle stores such as Hometown and Reliance Living. Such large format retailers along with specialty kitchenware and cookware retailers like Prestige Smart Kitchen outlets have emerged as key players in the retail segment, making the retail industry more organized. The demand for non-stick cookware is growing at 20-25 per cent year-on-year. Apart from TTK Prestige, other major players include Hawkins, Nirlep, Jaipan, etc. Apart from the dominance of the organized players, there are hundreds of players in the unorganized or low end segment of the market.

ALTERNATIVE COURSE OF ACTION FOR THE ENTREPRENEUR TO RESOLVE CHALLENGES

Ashish was faced with several alternatives in each of the marketing areas. On the product side, he was faced with a dilemma of choosing between inhouse manufacturing versus importing from China. As market is flooded with Chinese imports and some of the larger players are even outsourcing production to China, Ashish thought that sourcing innovative and high quality kitchenware, cookware and kitchen accessories from China would not only help in cost savings and reducing manufacturing related costs, but will also allow to widen its products range as well as offer new and innovative kitchen products to customers that are not offered by current players. However, this alternative meant huge investments in inventory as Chinese manufacturers require upfront payment as well as large orders.

Further, if the product was not well accepted, he would be left with huge unsold inventory. At the same time, the strategy could prove to be a boon for the company in terms of capturing shelf space via new and innovative products.

On the pricing front, importing from China meant that he could really pursue penetrating pricing strategy for various products. However, the negative perception associated with Chinese products could be detrimental to his brand image as well as create poor brand image for locally manufactured products as well. Ashish realized that he needs to adopt a sourcing strategy wherein he will focus on importing niche, high quality products that are new for the Indian market and will continue to manufacture some of the products locally that cannot be effectively sourced from China, such as pressure cookers. This two pronged strategy will allow him to capture pricing and product range benefits from China, as well as utilize his inhouse expertise to offer high quality products to customers.

One of the reasons for the low acceptance of the product among the distributors was poor brand visibility and recognition. Ashish knew that it is impossible to spend heavily on advertisement at this stage and thus, it is a big challenge to establish a brand like Prestige or Hawkins in the marketplace. Ashish had set aside a small fund to advertise in women magazines, local hindi or regional newspapers in different states. However, this fund was way too short of the actual need to create some sort of visibility. In order to convince the distributors, he needs to display some sort of visibility in the marketplace which requires huge investments in advertising. Ashish has thought about few alternatives, such as using web marketing to boost brand image and visibility among the younger population, office going young executives and working women. He had also thought of diluting his equity stake in the venture to organizations such as Brand Capital from Timesgroup that provide advertising space in their publications in lieu of equity. However, he has to chose among the best course alternative that can provide maximum visibility at lowest possible costs.

Ashish had chalked out several plans for his promotions strategy. He had initially thought of giving cash discounts on large orders. However, this strategy did not yield much benefit as distributors were not willing to give large orders for a new brand. Secondly, he planned on providing free foreign trip to distributors and retailers for achieving certain volume of turnover per year, which was fixed at 3 lacs per annum for retailer and 10 lacs per annum for distributor. He offered a 3 night 4 day all expenses paid trip to Mauritius. This strategy started providing traction in terms of orders as retailers and distributors were attracted to this offer. Apart from these promotions, Ashish thought of providing instore promotions such as banners, hoardings, etc. to retailers as well.

Among all these challenge and alternatives, Smartkitchen solutions is progressing ahead and trying to build its wholesale and retail distribution network and brand image in this extremely competitive industry. Ashish Jain is in a dilemma with a plethora of options and strategies in front of him and is thinking on chosing the right path towards success.

QUESTIONS

1) What are the main marketing and operational issues faced by Smartkitchen Solutions?
2) What is the best strategic course of action for Smartkitchen Solutions for building brand image without high capital investments?
3) Do you think that sourcing from China will dilute brand equity? What steps should the company pursue to make its importing strategy effective?
4) What can the company do in order to convince distributors to carry its product line?
5) What are the key lessons learned from the case for managing growth and revenue challenges for startups?

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Annexure:

Annexure 1: Kitchenware Market Segmentation and Key Players

Business Segment	Market Size (Rs. Crore)	TTKP's Market Share	Competitors
Pressure Cookers	900	`20% 35% (organised	Hawkins,Kanchan United, Bajaj, Havells
Non Stick Cook ware	618	14% 30% (organised)	Hawkins, Nirlep Pigeon, Butterfly, Jaipan
Home Appliances	2,500	~4%	Bajaj, Butterfly, Preethi, Philips, Kenstar, Inalsa
Gas Stoves	1,200	~5% 12% (organised)	Sun flame, Bajaj Butterfly

Source: ICRA Online Research

Annexure 2 : Key Characteristics of Kitchenware Market in India

Table : Market Characteristics

Segment	Market Characteristics
Pressure Cookers	Growing at modest - 8-9% p.a. Low entry barriers High competitive intensity as reflected by presence of large unorganised players (~50%)
Non-Stick Cook	Growing at relatively higher pace Low entry barriers Branded players command premium Highly competitive market
Home Appliance	Fragmented market No single large player Branding players a major role
Gas Stoves	Large number of players No single large player

Source: ICRA Online Research

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A COMPREHENSIVE OVERVIEW OF THE WORKFORCE IN THE LABOUR MARKET : A CASE STUDY OF UTTAR PRADESH

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ABSTRACT

This research paper aims to provide a comprehensive overview of the workforce in the labour market of Uttar Pradesh as compared to all India over the 61st and 66th rounds of NSSO. The comprehensive overview of labour market involves examination of various issues on and around the factors involving and affecting the labour force in the labour market. However we will limit ourselves only to the extent of some selected domains of both unemployment and employment dossier of Uttar Pradesh and India. The unemployment sphere of influence are demarcated through educational attainments and status (ps+ss), whereas, the employment scenario is mapped through factors like status, age, education, category and as per broad industry.

Keywords : *Workforce, Labour Market, NSSO, WPR*

INTRODUCTION

The economic growth process in India demonstrates a dilemma which is increasingly common throughout the developing world: the perceptible inability of even high rates of output growth to proliferate sufficient opportunities for employment to absorb the growing labour force. This is not only authenticated from the data of the 2001 Census, but also further acknowledged from the data of National Sample Survey. The 61st and the 66th rounds of the NSSO exposed the employment trends and conditions in India. The results of these surveys reveal that there had been remarkable changes in the employment patterns both in the rural and urban areas of male and female workforce in the labour market.

Nevertheless, what is definitely worth mentioning is the shift in the type of employment. There has been a substantial deteriorate in the fraction of all types of wage employment. Whereas regular employment had been declining as a share of total usual status employment, even casual employment has fallen in proportion to total employment.

Despite comparatively positive economic performance in the years prior to the global economic and financial crisis, India has been facing crucial employment and labour market challenges. The unemployment rate especially amongst youth is quite high and their labour markets are portrayed by high incidence of underemployment, employment in the informal economy and poor working conditions. The gender gap, predominantly the low female labour force participation, is a major challenge. A limited opportunity for fruitful employment still remains a vital issue.

Against this backdrop, this research paper aims to provide a comprehensive overview of the workforce in the labour market of Uttar Pradesh as compared to all India over the 61st and 66th rounds of NSSO. The comprehensive overview of labour market involves examination of various issues on

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and around the factors involving and affecting the labour force in the labour market. However we will limit ourselves only to the extent of some selected domains of both unemployment and employment dossier of Uttar Pradesh and India. The unemployment sphere of influence are demarcated through educational attainments and status (ps+ss), whereas, the employment scenario is mapped through factors like status, age, education, category and as per broad industry.

Section 1 : Unemployment rate in India as per educational attainments

In Uttar Pradesh (UP) the unemployment rate in the usual principal status in India over the 61st and 66th round decreased both in the rural as well as urban areas. This rate decreased from 2.5 per cent to 2.1 per cent in the rural areas and from 5.3 per cent to 3.7 per cent in the urban areas. Clearly, still the unemployment rate is higher in the urban areas.

With such pattern of unemployment we start by mapping some more details in this direction. The table - 1 presents the unemployment rate in India as the percentage of proportion of workers in the labour force of age 15 years and above under different educational attainment. It is clear that persons who are either 'not literate' or are 'literate up to the primary' level remained unemployed to the extent of 1.6 per cent and below. This means almost 98 per cent of such category of labour force is employed in India.

Second, of the labour force those are educated up to 'middle and secondary' level are unemployed to the extent of 1.8 per cent to 11.8 per cent in the usual status (adjusted). This means almost 88 per cent of proportion of these two categories of labourforce is employed in India.

Third, based on the level of education from 'higher secondary and above' we get the stain of relatively quite higher percentage of female unemployment rate amongst the labourforce than the male labourforce. This is more specific at the 'higher secondary' level, 'diploma / certificate course' and also

Table 1: Unemployment rate (as percentage of proportion of persons in the *labour force*) for the persons of age 15 years and above with different educational attainments during 61st (2004-2005) and 66th (2009-2010) Round of NSSO (***All India***)

General educational level	Area / Sex		2004-2005 Usual status (ps)	2004-2005 Usual (adj.)*	2009-2010 Usual status (ps)	2009-2010 Usual (adj.)*
Not literate	Rural	Male	.4	.3	.5	.3
		Female	.7	.2	.3	.0
	Urban	Male	1.2	1.0	1.0	1.0
		Female	.8	.3	1.0	.9
Literate & up to primary	Rural	Male	1.3	1.0	1.1	1.0
		Female	2.4	1.1	1.0	.5
	Urban	Male	2.3	2.1	1.8	**1.6**
		Female	4.1	2.9	1.1	.5
Middle	Rural	Male	2.4	1.6	2.2	1.8
		Female	5.9	3.4	3.8	2.3
	Urban	Male	4.9	4.2	2.7	2.6
		Female	12.1	8.0	5.1	3.7
Secondary	Rural	Male	4.4	3.2	2.3	2.1
		Female	15.0	9.5	6.7	4.7
	Urban	Male	4.9	4.3	2.4	2.2
		Female	18.1	13.4	13.7	11.8
Higher secondary	Rural	Male	6.2	4.7	4.3	3.5
		Female	25.9	17.1	21.0	15.3
	Urban	Male	5.1	4.3	47	4.5
		Female	18.9	15.0	15.4	11.3
Diploma/certificate course	Rural	Male	9.9	7.6	10.4	9.0
		Female	33.4	23.1	37.6	33.1
	Urban	Male	9.6	7.7	5.5	5.3
		Female	19.5	15.3	10.3	9.4
Graduate & above	Rural	Male	8.0	6.2	7.3	6.3
		Female	34.4	27.5	24.5	20.4
	Urban	Male	6.4	5.8	4.4	4.3
		Female	19.6	17.2	14.2	12.7

Source: NSSO Report, Employment and Unemployment Situation in India,(66th round,2009-10, pp-158)
*Usual (Adj.): means including both principal (ps) and subsidiary status (ss).

at 'gradual and above' level of higher education. Highest unemployment rate (33.8 per cent) in female labourforce in the rural areas is found at the diploma / certificate course level in the 66th round of NSSO. This is followed by 22.4 per cent at gradual and above level in the rural sector. The third highest (15.3 per cent) of female unemployment rate is marked at the higher secondary level, in the rural sector. Clearly thus, it is discouraging to mark that in India higher unemployment rate of female labourforce prevail at the level of education form 'higher secondary' and above. As a note we may say that, from this present data it is not possible to clearly state the grounds behind such higher level of unemployment among the higher educated female labourforce. It is quite tentative that possibly among them still remained as merely housewife.

Section 2 : Unemployment rate in UP and India / as per usual status

The table - 2 presents the unemployment rate according to the 'usual status' (principal status) and 'usual status adjusted' (principal and subsidiary status) for UP and all India. Evidently, the urban sector unemployment rate of 'adjusted usual status' decreased both at 'all' India level as well as at UP level (from 4.5 per cent to 3.4 per cent at 'all India' and from 3.3 per cent to 2.9 per cent at Uttar Pradesh level). However, in the rural areas, changes in the unemployment rates were quite marginal. This means, still the urban areas of both UP and all-India are more responsive to employment than the rural areas.

Table: 2, Unemployment rates according to principal status (ps) and usual status (ps+ss) [or usual status (adjusted)] for UP and All India (in percentage)

Area / Sector		usual status (adjusted)					
		male		female		persons	
		2004-05	2009-10	2004-05	2009-10	2004-05	2009-10
Uttar Pradesh	Rural	0.7	1.2	0.3	0.5	0.6	1.0
	Urban	3.5	2.9	2.5	3.4	3.3	2.9
all-India	Rural	1.6	1.6	1.8	1.6	1.7	1.6
	Urban	3.8	2.8	6.9	5.7	4.5	3.4

Source: NSSO Report, Employment and Unemployment Situation in India, (61st Round, 2004-05, pp-166-67 & 66th round, 2009-10, pp-166-67)

Section 3 : Status of employment in UP and in India

Having evaluating the status of unemployment in UP and in India we from now and onwards intend to evaluate the status of employment in UP and India. Taking this into account, the table -3 presents the percentage of male and female workers under principal status and all status. It is assessed that:

1. At all India rural as well as at urban level, the percentage share of employment of all male workers had been more than the female workers over the two rounds of NSSO data.
2. Likewise, in Uttar Pradesh also both at the rural and urban level, the percentage share of employment of all male workers had been higher than the female workers.
3. However, is most striking fact that the percentage share of employment of both male and female workers, at both rural and urban level marked fall (with the only exception of all India male workers). Clearly thus, the increasing workforce at the labour market of both UP and at all India level is failing to get employment.

Table : 3, Percentage share of persons usually employed in the principal status (ps) and in the principal as well as subsidiary status (all) persons for Uttar Pradesh and All India

Area / sector		Male				Female				Persons			
		ps workers		all workers		ps workers		all workers		ps workers		All workers	
		2004-05	2009-10	2004-05	2009-10	2004-05	2009-10	2004-05	2009-10	2004-05	2009-10	2004-05	2009-10
Uttar Pradesh	Rural	47.7	48.1	49.6	50.4	12.3	9.0	24.0	17.4	30.4	29.2	37.1	34.4
	Urban	51.6	49.6	52.4	50.1	7.2	5.8	11.7	8.0	30.5	28.7	33.1	30.0
all-India	Rural	53.5	53.7	54.6	54.7	24.2	20.2	32.7	26.1	39.1	37.4	43.9	40.8
	Urban	54.1	53.9	54.9	54.3	13.5	11.9	16.6	13.8	34.6	33.9	36.5	35.0

Source: NSSO Report, Employment and Unemployment Situation in India, (61st Round, 2004-05, pp- 96-97 & 66th round, 2009-10, pp- 95-96)

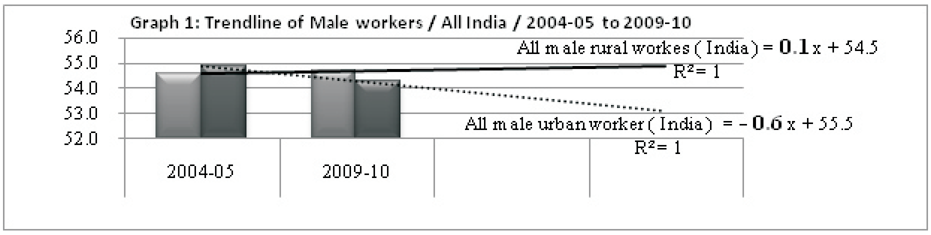
1. To demarked more clearly the fall in the share of employment we incorporated trend lines and monitored the followings actualities:

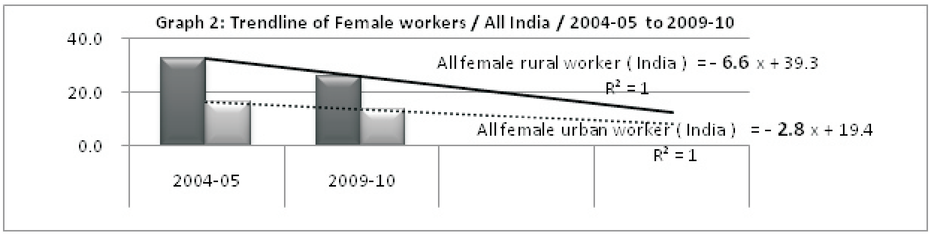
a) In the cases of rural male workers, while the percentage share of absorption increased marginally (b = 0.1) at all-India level, rural male workers are getting more absorbed in the labour market of UP.

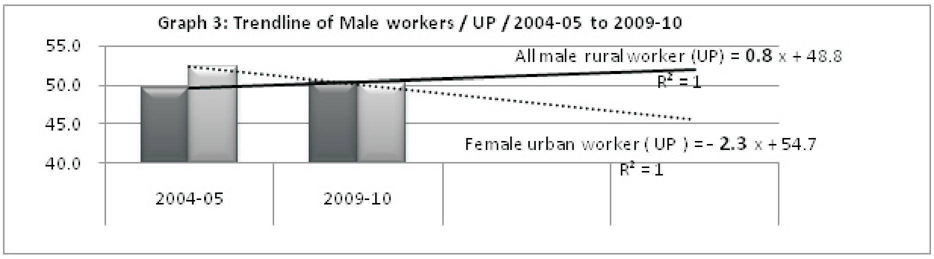
b) Likewise, in the case of employment of female workers at all India level, both the rural India (b = - 6.6) as well as in urban India (b = - 2.8) marked sharp fall in job absorption. This surely a makes a difference and is of much concern.

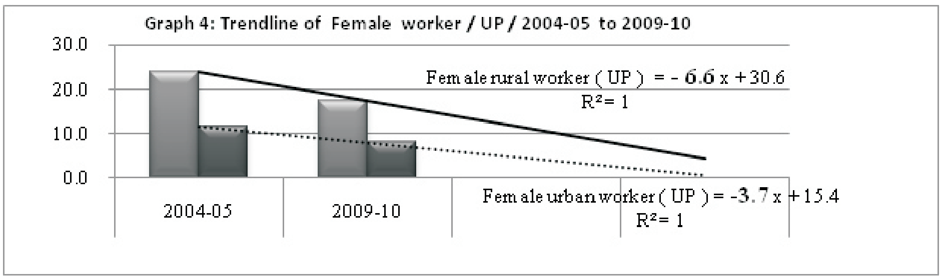
c) Thus, at all India level, as compared to male workers, the sharper downward trends in the employment of female workers (at both rural and urban labour markets) surely matters a great deal.

d) The similar trend is also observed at UP level also. Here too sharper falling trend in the absorption of rural female labourforce (b=-6.6) and urban female labourforce (b=-3.7) are scratched as compared to male labour force.









Section 4 : Age-specific worker population ratio (wpr)

The table - 4 represent age-specific usual principal 'worker population ratio' (wpr) for Uttar Pradesh and all India in the form of percentage share of their proportions as per 61st and 66th round of NSSO. Assessment of this table reveals the following facts:

1. Both at 'all India' and at UP level, age-specific percentage of usual principal wpr are much lower in the age group of '5 to 9'. In the age group of '10 to 14' still more than 5 per cent could be observed. In the age group of '10 to 14' the percentage varies from 0.8 per cent to 5.8 per cent at 'all India' level, whereas it is high as 8.5 per cent for urban male in UP. This means the percentage of child labour not only persist at 'all India' level, but also considerably higher in UP.
2. The percentage of wpr spread higher especially from the age group '15 to 19' and get manifest in the age groups '20 to 24' and '25 to 29' at both UP and all India level.
3. In actuality, the percentages of wpr within the range of age groups from '30-34' to '45-49' are more clustered and have higher density of concentration.
4. However, after that, from the age group of '50-54' to '55-59' are specifically observed to have lesser absorption at both UP and all India level. This clearly indicates that the worker population ratio (wpr) in UP and India are mainly within the age of 25 to 54 years old.
5. In addition, more noticeably, both at UP and all India level (rural and urban), the percentage of male workers are significantly more than female workers.
6. We may also affix here that it is quietly pitying that as high as 71.9 per cent of rural male in UP of the age group '60 and above' are still within working population. This figure at 'all India' level is also significantly high (63.6 per cent). This remains a symptom of the compulsion and necessity of rural India to maintain their daily bread.

Section 5 : <u>Education specific worker population ratio</u>

The table -5 present the percentage share in the proportion of education specify workers in the form of worker population ratio (wpr) persons of age 15 years and above. From this table we could congregate the following major aspects:

1. The percentage share of wpr is very high among the 'not literate', followed by 'literate up to primary' at both UP and all India level, for both male and female and both rural and urban areas. For instance, as high as 90 per cent of rural male and 38.4 per cent of rural female at all India level are literate up to 'primary level'. For U.P., these are 86.5 per cent (rural male) and 21.7 per cent (rural female). This implies still significantly higher share a workers in both UP and in India are not engaged in respectable jobs.

Areas	Gender	Coefficient (b)	R square
UP			
Rural	Male	1.69	0.03
	Female	-1.75	0.36
Urban	Male	2.63	0.17
	Female	2.84	0.4
India			
Rural	Male	2.31	0.15
	Female	3.43	0.37
Urban	Male	2.15	0.12
	Female	7.18	0.6

2. Evaluation of the trend values of wpr with increasing range of education specific workforce

from 'middle' to 'diploma certificate course' aware that except for the rural female workforce in UP that is marked with high negative trend (b= - 1.75), in rest all other cases, increasing trend of wpr with higher levels of education are observed.

3. However, it is noteworthy that in 66th round of NSSO data we find sudden higher jump in the percentage of wpr in the case of only male at both all India and UP's rural and urban areas. It is also important to mark that the 'wpr' of female worker at both all India and UP's rural and urban areas are much less than that of the male.

Section 6: Category specific employment

Our major observations on distribution of proportion of different category of employment (table 6) at UP and all India level are as follows:

1. Irrespective of the nature of work, (whether dignified or not) the highest employment a still marked as the 'self employment' in the rural areas of both UP and all India level. This means that still the rural workers both in UP and all India level are away from the safety-net of

Table 4: Age-specific usual principal worker population ratio (wpr) for Uttar Pradesh and All India **(in percentage)**

Area / Sector		Year	Age group (in years)												
			5-9	10-14	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60 & >	all
UP	Rural male	2004-05	0.1	5.3	42.5	81.5	96.2	98.3	98.8	98.4	98.7	96.8	95.6	72.6	47.7
		2009-10	0.0	3.8	34.0	76.7	94.8	98.3	99.6	99.9	97.8	97.0	93.9	71.9	48.1
	Rural female	2004-05	0.1	2.3	9.6	9.2	13.5	23.4	29.4	30.7	34.6	31.9	33.2	18.4	12.3
		2009-10	0.2	1.4	4.6	4.0	12.3	15.6	20.1	23.1	22.7	31.0	20.6	12.1	9.0
	Urban male	2004-05	0.5	8.5	37.1	68.1	89.2	97.7	97.7	98.1	95.4	97.8	86.5	47.1	51.6
		2009-10	0.0	4.3	27.3	60.1	87.7	95.5	99.4	97.5	96.6	94.4	84.9	43.5	49.6
	Urban female	2004-05	0.3	3.7	7.2	5.4	8.8	9.4	12.2	18.4	10.5	16.8	19.0	10.3	7.2
		2009-10	0.2	1.7	5.4	6.9	5.0	7.9	12.3	15.7	7.7	11.2	10.8	5.2	5.8
All-India	Rural male	2004-05	0.2	5.4	45.3	82.0	95.6	97.7	98.6	97.9	97.7	95.8	92.4	63.0	53.5
		2009-10	0.2	2.7	32.3	74.7	95.2	98.6	99.1	99.2	98.2	96.3	92.9	63.6	53.7
	Rural female	2004-05	0.1	4.9	22.2	28.4	36.7	42.4	48.2	47.5	48.3	43.6	39.4	19.7	24.2
		2009-10	0.1	2.1	13.7	22.5	29.9	31.3	38.9	38.9	40.2	39.9	33.1	19.0	20.2
	Urban male	2004-05	0.2	4.4	31.4	66.2	90.0	96.5	97.5	97.7	96.5	92.5	81.9	35.5	54.1
		2009-10	0.0	2.4	22.3	60.4	90.3	97.2	98.4	98.3	97.6	94.6	84.6	33.5	53.9
	Urban female	2004-05	0.1	2.4	9.2	15.5	18.6	23.6	26.5	26.2	22.7	22.4	19.2	8.6	13.5
		2009-10	0.0	.8	6.1	14.2	17.0	19.2	23.1	22.5	20.7	20.9	17.4	6.1	11.9

Source: NSSO Report, Employment and Unemployment Situation in India, (61st Round, 2004-05, pp- 98-103 & 66th round, 2009-10, pp- 97-102)

Table 5: Education-specific worker population ratio for persons of age 15 years and above according to usual principal and subsidiary status (all workers) for Uttar Pradesh and All India (in percentage)

Area / Sector		Year	general educational level							
			not literate	literate & up to primary	middle	secondary	higher secondary	diploma/ certificate course	graduate & above	all
UP	Rural male	2004-05	90.1	85.8	81.6	73.1	78.5	92.3	88.4	84.8
		2009-10	88.8	86.5	76.4	72.4	72.4	51.9	95.1	81.7
	rural Female	2004-05	45.2	29.0	23.7	17.7	18.1	50.7	23.6	39.0
		2009-10	31.9	21.7	18.0	14.8	11.1	5.7	13.8	26.8
	urban Male	2004-05	84.7	86.4	73.8	65.7	65.9	84.6	78.1	77.7
		2009-10	85.6	79.5	71.6	61.7	53.8	70.2	80.5	72.6
	urban Female	2004-05	24.1	16.4	9.3	6.1	9.3	13.4	17.9	17.0
		2009-10	15.1	11.7	6.3	6.2	4.3	4.8	21.2	11.0
all-India	Rural male	2004-05	89.2	89.5	80.2	73.2	70.9	82.1	85.1	84.6
		2009-10	87.4	90.0	78.4	69.7	63.4	73.0	88.3	81.2
	rural Female	2004-05	55.0	44.9	37.1	30.5	25.2	52.3	34.5	48.5
		2009-10	43.2	38.4	29.4	22.2	18.3	33.9	40.7	37.2
	urban Male	2004-05	83.1	85.5	76.0	67.3	60.8	79.8	79.5	76.3
		2009-10	81.6	84.4	76.0	66.7	57.6	73.0	83.6	74.0
	urban Female	2004-05	30.4	23.4	16.1	12.3	12.9	48.6	29.0	22.7
		2009-10	23.1	20.6	15.4	9.7	9.4	39.3	36.5	18.3

Source: NSSO Report, Employment and Unemployment Situation in India, (61st Round, 2004-05, pp-122-127 & 66th round, 2009-10, pp-121-126)

Table 6: Percentage distribution of usually employed by category of employment for UP and All India

Area / Sector		Year	usually employed					
			principal status			principal & subs. status		
			self-employed	regular employees	casual labour	self-employed	regular employees	casual labour
Uttar Pradesh	Rural male	2004-05	71.6	7.3	21.1	72.4	7.1	20.5
		2009-10	65.7	5.5	28.7	66.8	5.3	27.9
	rural Female	2004-05	77.9	3.1	18.9	85.2	1.7	13.1
		2009-10	71.0	4.9	24.0	78.2	2.6	19.2
	urban Male	2004-05	56.9	31.6	11.5	57.4	31.2	11.4
		2009-10	51.5	31.0	17.5	51.8	30.8	17.4
	urban Female	2004-05	63.2	27.9	08.9	72.3	18.0	9.7
		2009-10	52.0	36.6	11.5	61.3	26.6	12.1
all-India	Rural male	2004-05	57.6	9.1	33.3	58.1	9.0	32.9
		2009-10	53.0	8.7	38.3	53.5	8.5	38.0
	rural Female	2004-05	56.4	4.8	38.9	63.7	3.7	32.6
		2009-10	50.3	5.5	44.2	55.7	4.4	39.9
	urban Male	2004-05	44.6	40.8	14.6	44.8	40.6	14.6
		2009-10	40.9	42.0	17.1	41.1	41.9	17.0
	urban Female	2004-05	40.4	42.2	17.4	47.7	35.6	16.7
		2009-10	35.4	44.4	20.2	41.1	39.3	19.6

Source: NSSO Report, Employment and Unemployment Situation in India, (61st Round, 2004-05, pp-127-133 & 66th round, 2009-10, pp-127-132)

secured employment and are not within the secured-net of the government employment policy. This further raise quarry on their status of 'respectable-life' of our society.

2. In the urban areas of both UP and all India level the least employments in the form of 'casual labors'. Nevertheless, they are comparatively higher in the rural areas. This clearly shows that still a significant that 'casual labors' are earning their daily bread in the rural areas itself.
3. So far as the regular employee are concerned, there significant only in the urban areas of both UP and all India level and are second to 'Self-employed'.

Section 7: Status of employment as per broad industry division

The table -7 presents the percentage distribution of working persons by broad industry division at both UP and all India level. Our observations are as follows:

1. Both in UP and all India level, the highest percentage share of both male and female workers in the rural areas are still in the agriculture sector. However, their percentage share have decreased from 61st round to 66th round of NSSO.
2. But still, as high as 59.8 per cent of rural male workers in UP and 62.5 per cent of rural male workers at all India level are still engaged in agriculture sector.
3. Likewise still 77.6 per cent of rural female workers in Uttar Pradesh and 78.9 per cent of rural female workers at all India level are engaged in agriculture.
4. After agriculture, both in UP and at all India level, next highest concentration of workers (both male and female) are marked to be in the urban areas of manufacturing sector', followed by 'trade and hotels' and in 'public administration', 'education', etc. However, as an added note, we may also mention here that both in UP and in India, the employment of male working population has dropped in the 'manufacturing' sector. This is certainly not a healthy sign as the country's major employment providing industry is failing to generate employment.
5. In as much as percentage distribution of working population 'construction industry' is concerned, the percentage of male workers is much higher than the female workers

Table 7: Percentage distribution of usually working persons in the principal status by broad industry division for UP and all India

Area / Sector		Year	Broad industry division									
			Agriculture, etc.	Mining & quarrying	Manufacturing	Electricity, water, etc.	Construction	Trade, hotel & restaurant	Trans-port, etc.	Services fin. inter, business act. etc.	Pub. admin. educn. comm.. serv. Etc	all
Uttar Pradesh	Rural male	2004-05	65.4	0.2	9.8	0.1	7.7	8.5	3.1	0.6	4.6	100.0
		2009-10	59.8	0.4	7.8	0.0	16.2	8.1	3.4	0.5	3.9	100.0
	rural Female	2004-05	81.0	0.4	9.5	0.0	1.0	2.5	0.1	0.0	5.2	100.0
		2009-10	77.6	0.0	9.5	0.1	3.7	2.9	0.2	0.0	6.1	100.0
	urban Male	2004-05	7.0	0.1	26.1	0.5	8.5	29.8	11.0	3.8	13.2	100.0
		2009-10	8.3	0.2	22.7	0.4	11.4	29.4	7.2	4.5	16.0	100.0
	urban Female	2004-05	21.2	0.0	33.1	0.3	3.2	12.5	0.0	2.9	26.7	100.0
		2009-10	9.2	0.1	33.3	0.3	3.2	11.7	0.5	0.9	40.8	100.0
all-India	Rural male	2004-05	66.2	0.6	8.0	0.2	6.9	8.3	3.9	0.7	5.2	100.0
		2009-10	62.5	0.8	7.1	0.2	11.4	8.2	4.2	0.8	4.8	100.0
	rural Female	2004-05	81.4	0.4	8.7	0.0	1.7	2.8	0.2	0.1	4.5	100.0
		2009-10	78.9	0.3	7.6	0.0	4.2	3.1	0.3	0.2	5.5	100.0
	urban Male	2004-05	6.0	0.9	23.6	0.8	9.3	28.1	10.7	5.9	14.8	100.0
		2009-10	5.9	0.7	21.9	0.7	11.5	27.0	10.5	7.2	14.6	100.0
	urban Female	2004-05	14.7	0.2	25.4	0.2	4.5	13.1	1.6	3.7	36.5	100.0
		2009-10	11.8	0.3	25.8	0.4	5.1	12.4	1.5	5.1	37.6	100.0

Source: NSSO Report, Employment and Unemployment Situation in India, (61st Round, 2004-05, pp-134-139 & 66th round, 2009-10, pp-133-138)

(although their percentage share are comparatively lower than the above mentioned two industry divisions).

CONCLUSIVE RESULTS

- This means almost 98 per cent of labour force who are either 'not literate' or are 'literate up to the primary' level is employed in India.
- With increasing level of education from 'higher secondary and above' we get the stain of relatively quite higher percentage of female unemployment rate amongst the labourforce than the male labourforce.
- Evidently, the urban sector unemployment rate decreased both at 'all' India level as well as at UP level
- In Uttar Pradesh and all- India level, both at the rural and urban level, the percentage share of employment of all male workers had been higher than the female workers.
- Yet, the percentage share of employment of both male and female workers, at both rural and urban level marked fall. Clearly thus, the increasing workforce at the labour market of both UP and at all India level is failing to get employment.
- Most striking fact is that strain of child labour not only persist at 'all India' but also considerably higher in UP.
- Worker Population Ratio (wpr) within the range of age groups from '30-34' to '45-49' are more clustered and have higher density of concentration.
- It is quietly pitying that as high as 71.9 per cent of rural male in UP of the age group '60 and above' are still within working population. This figure at 'all India' level is also significantly high (63.6 per cent). This remains a symptom of the compulsion and necessity of rural India to maintain their daily bread.
- Irrespective of the nature of work, (whether dignified or not) the highest employment a still marked as the 'self employment' in the rural areas of both UP and all India level. This means that still the rural workers both in UP and all India level are away from the safety-net of secured employment and are not within the secured-net of the government employment policy. This surely raise quarry on their status of 'respectable-life' of our society.
- In the urban areas of both UP and all India level the least employments in the form of 'casual labors'. Nevertheless, they are comparatively higher in the rural areas. This clearly shows that still a significant that 'casual labors' are earning their daily bread in the rural areas itself.
- Both in UP and all India level, the highest percentage share of both male and female workers

in the rural areas are still in the agriculture sector. However, their percentage share has decreased from 61st round to 66th round of NSSO.

- But still, as high as 59.8 per cent of rural male workers in UP and 62.5 per cent of rural male workers at all India level are still engaged in agriculture sector.
- Likewise still 77.6 per cent of rural female workers in Uttar Pradesh and 78.9 per cent of rural female workers at all India level are engaged in agriculture.
- After agriculture, both in UP and at all India level, next highest concentration of workers (both male and female) are marked to be in the urban areas of manufacturing sector', followed by 'trade and hotels' and in 'public administration', 'education', etc. However, as an added note, we may also mention here that both in UP and in India, the employment of male working population has dropped in the 'manufacturing' sector. This is certainly not a healthy sign as the country's major employment providing industry is failing to generate employment.
- In as much as percentage distribution of working population 'construction industry' is concerned, the percentage of male workers is much higher than the female workers (although their percentage share are comparatively lower than the above mentioned two industry divisions).

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HOW EFFECTIVE HAS FRBM ACT BEEN IN MEETING DEFICIT TARGETS

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ABSTRACT

Prudent fiscal management demands that revenue receipts should not only meet the revenue expenditure but should also leave a surplus for financing the plan. However, this has not happened in India, especially since the 1980's. Revenue surpluses witnessed up to 1978-79 in the case of Central Government got translated into revenue deficit since 1979-80 and this trend has continued on an increasing scale since then. This resulted in fiscal imbalance and this fiscal imbalance has been characterised by unabated pressure on government expenditure and growing deficits. Despite several measures adopted by the Government for controlling fiscal imbalances since 1990-91, the malady has continued to pervade the Indian economy with several ups and downs in respect of different deficit indicators. Concerned over the deteriorating fiscal situation, the Union Government introduced in the Parliament Fiscal Responsibility and Budget Management Act (FRBM) Bill in December, 2000. After the recommendation of the Standing Committee, a revised bill was introduced in April, 2003. The Bill was passed by Lok Sabha in May 2003 and in Rajya Sabha in August 2003. After receiving the assent of the President it became an act in August, 2003 and came into force from July 5, 2004. However, despite being treated as water shed in fiscal reforms in India, the FRBM Act has remained ineffective and the government has not been able to adhere to the targets stipulated in the Act.

Our object in this paper is to make a review of different deficit scenarios in the case of Union government. The first section outlines the fiscal situation which prevailed at the time of the advent of economic Reforms in 1991. The second section provides a picture of different deficits from 1990-91 to 2002-03 viz, prior to the enactment of FRBM Act in 2003. The third section analyses the fiscal scenario after the FRBM act became operative in 2004. The last section tries to prescribe some policy prescriptions in the backdrop of prevailing fiscal stance.

Keywords : *FRBM Act, Deticit, Fiscal Rrespersibility, Findsel*

Section I

FISCAL SITUATION PRIOR TO ADVENT OF REFORMS

Throughout the eighties all important indicators of fiscal balance were on the rise. The fiscal imbalance not only persisted but it also worsened during the 1980's. The pattern of financing during the Seventh Plan brought to the fore a number of disturbing trends. Actual deficits during the Seventh Plan was Rs.29503 crore against the original estimate of Rs.14000 crore , market borrowings were Rs.26514 crore against the estimate of Rs.20620 crore and non-plan expenditure exceeded the estimate by Rs.16980 crore. As a result, there was worsening of fiscal imbalances in terms of higher

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revenue deficits, fiscal deficits and even primary deficits. Such persistent and large deficits had serious
implications not only for the finances of the government but also for price stability and economic growth. Such deficits had to be met through increased borrowings, resulting in higher interest obligations, and spill into balance of payment problem and create inflationary pressures in the economy.

The Gross Fiscal deficit(GFD) , which is the difference between government expenditure and net lending on the one hand and current revenue and grants on the other or the total resource gap , increased from Rs.1408 crore (including States' share in small savings collection) or 3.08 per cent of GDP in 1970-71 to Rs.3029 crore(3.60 per cent of GDP) in 1975-76 and further to Rs.8299 crore (5.71 per cent of GDP) in 1980-81.The fiscal deficit further increased to Rs.26342 crore in 1986-87(8.37 per cent of GDP) and was Rs.44632 crore in 1990-91(7.84 per cent of GDP).Fiscal deficit can be decomposed into Primary Deficit(PD) and interest payments by the Government and ,hence ,GPD is defined as fiscal deficit minus interest payments. GPD which was Rs.803 crore in 1970-71(1.76 percent of GDP) increased to Rs. 5695 crore in 1980-81(3.92 percent of GDP), to Rs.17096 crore in 1986-87(5.43 percent of GDP) and further to Rs.23134 crore in 1990-91(4.06 percent of GDP). The situation in respect of Revenue Deficit (RD) was even worse. Revenue surpluses up to 1978-79 got translated into revenue deficit w.e.f 1979-80 and continued to increase since then. A higher revenue deficit would imply that borrowing resources are deployed towards covering revenue deficit. Higher borrowings to cover deficits on revenue account build up pressures on revenue expenditure in the form of higher interest payments. Growth in revenue expenditure, in turn, necessitates higher borrowings, thus creating a sort of vicious circle. Further, since revenue deficit reflects dissaving due to budgetary operations, there is a fall in capital accumulation and growth and because internally held public debt involves higher deadweight loss of taxes for its servicing, revenue deficits entail a diminution of future GDP. There was revenue surplus of Rs.292 crore in 1978-79(0.26 percent of GDP) but it turned into RD of Rs.694 crore in 1979-80(0.57 percent of GDP) which increased to Rs.7777 crore in 1986-87(2.47 percent of GDP) and further to Rs.18562 crore in 1990-91(3.26 percent of GDP). The important point to be noted here is that while the figures of GFD and PD, as percentage of GDP were lower in 1990-91 as compared to 1986-87, same figure for RD was higher. The steady growth of government expenditure particularly non-plan expenditure in the form of higher interest payments and poor returns for PSU's were the main reason for the country falling into a fiscal crisis. The decreasing share of capital expenditure further compounded the problem. As a result, the fiscal situation reached a critical situation in India by 1990 and assumed critical proportions by the beginning of the year 1991-92.The Gulf Crisis of 1990 exacerbated the already precarious fiscal situation. Such increases in deficits were unsustainable.

Section II

DEFICIT SCENARIO DURING PRE-FRBM PERIOD

When the Congress Government assumed office on June21, 1991, the main stance of fiscal policy under the New Economic Policy (NEP) was, among other things, to reduce fiscal and other deficits. The regular Budget for 1991-92 took a bold step in the direction of correcting fiscal imbalances by envisaging a reduction in fiscal deficit by nearly two percentage points of GDP, from 8.4 per cent in 1990-91(RE) to 6.5 percent in 1991-92. The Budget laid stress on fiscal adjustment being supported by essential reforms in economic policy and management. While making efforts to raise additional revenue, most of the reduction in fiscal deficit was sought to be achieved through reduction in non-plan expenditure. Although the period 1991-2003, there has been an awareness about the need for controlling deficits and for fiscal correction. Successive governments have sought to deal with the problem of deficits and carried further the process of fiscal consolidation , through tax reforms, expenditure management, curbing government debt and interest payments, reduces subsidies , raising resources through disinvestment and providing for an institutional framework for the responsible fiscal policy. It has been claimed by the Government that adoption of various measures resulted in reducing deficit ratios to GDP in respect of fiscal, revenue and primary deficits. However, data indicate that the fiscal scenario, barring a few years now and then, has in general tended to deteriorate in different respects during the period 1991-92 to 2002-03.*Firstly*, the figures of actual deficit have generally been much higher than the figures promised at the time of presentation of the budgets(Table 1). Except for the year 1991-92, the actual GFD of the Union Government has been higher than the budgeted figures in 12 out of 13 years indicating clearly as to how serious the Government has been in presenting the budgetary figures. The fiscal year 1993-94 and 1997-98 deserves special mention when actual GFD was higher than the budgeted figures by 63 percent and 36 percent respectively. As a proportion of GDP, the GFD, after declining from 7.8 percent in 1990-91 to 4.8 percent in 1996-97 increased again to 6.2 percent in 2001-02 and was 5.9 percent in 2002-03. As a per cent of GDP, the GFD exceeded the budget estimates in eight out of thirteen years. *Secondly*, the GFD of the Central government in absolute terms increased from Rs.44632 crore in 1990-91 to Rs.113349 crore in 1998-99 and further to Rs.145072 crore in 2002-03(excluding States' share in small savings). Since 1999-2000, figures of GFD are shown as net of the States' share in small savings. Hence, the actual figures have been shown as more rosy than what they have really been .A comparison between the GFD figures (including States' share in small savings) as published in Handbook of Statistics of RBI for 2004-05 for the period 1990-91 to 1998-99 and figures of GFD published in Indian Public Finance Statistics (excluding States' share in small savings) reveal, on an average, a difference of about 20 percent. For example, GDF figures (including States' share in small savings) for the year 1990-91 is shown as Rs.44632 crore as against Rs.37606crore (excluding States' share in small savings). Similarly, for the year 1998-99, the difference in two figures is Rs.23788 crore -Rs.11348 crore (including states' share) as against Rs.89560 crore (excluding States' share). This discrepancy in the two figures imply that had the States' share in small savings have been included in GFD figures, it would have made upward difference in GFD by about 20 per cent and around 1.0 to 1.5 per cent difference in GFD/GDP ratios. *Thirdly*, like GFD, actual RD figures have also been much higher than the projected budgetary figures (Table 1). For example, actual RD was Rs.18562 crore in 1990-91 against budgeted figure of rs.13032 crore and in 1993-94 it was Rs.32716 crore as against budgetary figure of Rs.17629 crore-an excess of about 85 per cent. A perusal of Table 1 further reveals that in all the thirteen years between 1990-91 to 2002-03, RD exceeded the budget estimates. Consequently, RD/GFD ratio increased from 49.4 per cent in 1990-91 to 74.4 per cent in 2002-03. As already pointed out, increasing RD/GFD ratio has adverse effects on the economy in terms of higher borrowings, higher dead weight loss of taxes and diminution in future GDP. *Fourthly*, the figures of GPD (Gross Fiscal Deficit minus interest payments) has shown fluctuating trend (Table 1). After touching a record figure of Rs.35466 crore, the GPD declined to Rs.27268 crore in 2002-03. However a close look at table 1 reveals that in all the years' between1990-91 to 2002-03, the actual GPD exceeded the budgetary estimates and in the years 1993-94, 1997-98 and 1999-2000, despite the budgets having shown primary surplus, the actual figures turned out to be huge deficits. Such increases in deficits were not in the interest of the economy.

Such constraint on Central Government's finances in terms of higher deficits came under pressure both from revenue shortfalls and expenditure overruns. Except for the years 1994-95, 1995-96 and 2000-01, actual revenue receipts fall short of the budget projections, while revenue expenditure exceeded the budget projections(except for the years 1996-97 and 1997-98) . Consequently, RD increased from Rs.18562 crore in 1990-91 to Rs.85234 crore in 2000-01 and further to Rs.107879 crore in 2002-03. The pattern of financing GFD also underwent change for the worse during the period 1990-91 to 2002-03. While the share of external finance declined from 7.1 percent in 1990-91 to 4.0 per cent in 2001-02, the share of market borrowings increased from 17.9 per cent to 64.4 per cent during the same period. It is common knowledge that increased dependence on market borrowings results in increased committed liability in the form of interest payments which, in turn, leads to increasing revenue deficits.

Section III

FISCAL RESPONSIBILITY AND BUDGET MANAGEMENT BILL/ ACT

From the aforesaid discussion it is evident that by the year 2000, Government realised that fiscal consolidation had remained an unfinished task, change in the composition of fiscal deficit was worrisome, increased RD/GFD ratio was reflective of the fact that a large portion of fiscal deficit had gone to finance public consumption expenditure on account of rising expenditure on salaries, interest payments and improperly targeted subsidises. In the backdrop of international experience of introduction of medium-term fiscal adjustment plans adopted by several countries to check widening fiscal imbalances, Government of India also recognized the need to adopt Fiscal Rules which would commit to the Government to a deficit or debt reduction path into the future and there by enhance the credibility of the fiscal stance. Hence in January 2000, Government of India set up a committee, headed by E.A.S.Sharma, to recommend draft legislation for fiscal responsibility. Based on recommendations of the Committee, Fiscal Responsibility and Budget Management (FRBM) Bill was introduced in parliament in December, 2000. This Bill incorporated numerical targets for various fiscal indicators. However, the Bill was referred to the Parliamentary Standing Committee on Finance which recommended that the numerical targets proposed in the Bill should be incorporated in the rules to be framed under the Act, rather than the Act itself. Therefore, a revised Bill was introduced in April,2003 which was passed in Lok Sabha in August 2003.After President's assent, it became an Act on August 23, 2003 and came into force from July 5, 2004.The enactment of FRBM Act marks a watershed in fiscal reforms. “The Act embodies the spirit of inter-generational equity and provides for long term macroeconomic stability by achieving sufficient revenue surplus and removing the fiscal constraints on the conduct of monetary policy and debt management. This is sought to be achieved through limits on deficits, borrowings and debt of the Central Government over the medium-term while increasing transparency of fiscal operations.”

The FRBM Act stipulated the following:

1. The Central Government would undertake appropriate measures to reduce the fiscal deficit and eliminate revenue deficit by March 31, 2008 and thereafter build up adequate revenue surplus. These deficits could, however, exceed the targets on ground of national security, natural calamity or other exceptional circumstances.
2. The Act prohibited direct borrowings by the centre from the RBI from the fiscal year 2006-07 except by the way of Ways and Means Advances (WMA) to meet temporary mismatches in receipts and payments or under Exceptional circumstances.
3. Rules were to be made under the Act to specify the annual targets for reduction of fiscal deficit and revenue deficit, contingent liabilities and total liabilities.
4. In order to enhance transparency in the Central Government's fiscal operations, the Act required the Government to place before the Parliament the outcome of a quarterly review of trends in receipts and expenditure in relation to budget estimates.

In exercise of powers conferred by the FRBM Act, 2003, Fiscal Responsibility and Budget Management Rules were framed by the Government in 2004 which became effective from July 5, 2004. These rules prescribed annual targets for the phased reduction in key deficit indicators over the period ending March 31, 2008, impose ceiling on Government guarantees and additional liabilities. Accordingly, the Government presented the Medium-term Fiscal Policy Statement, the Fiscal Policy Strategy Statement and the Macroeconomic Framework statement along with the Annual Financial Statement for the year 2004-05. The Medium-term Fiscal Policy Statement set forth a three year rolling target for certain fiscal indicators which were based on the recommendations of a task Force on Implementation of the Fiscal Responsibility and Budget Management Act 2003 (chairman: Dr.Vijay Kelkar). The Task Force projected that under the reform scenario, a small revenue surplus would be generated by 2008-09 and fiscal deficit would drop below 3 percent of GDP.

As tools for bringing transparency, the Fiscal Policy and Fiscal Strategy Statements brought out by the Government are appreciable, as these provide substantial information to the public at large and media for assessing the fiscal situation of the country on a regular basis. Much information on tax exemptions, internal and external debts and different short-term forecasts on macroeconomic indicators are now available in public domain. The emphasis of fiscal policy under FRBMA has been on revenue-led fiscal consolidation, focus on better expenditure outcomes and rationalisation of tax regime to remove distortions and improve competitiveness of domestic goods and services in a globalised economic environment.

However, as pointed out by D .K. Srivastava, the FRBMA was incomplete in two respects. Firstly, it did not define the debt-GDP ratio that would be required for keeping the economy on it's potentially growth path, and secondly, it did not define suitable limits of departure from the medium term stance to cope with cyclical fluctuations.

Section IV

It is well known that reduction in fiscal deficit can accelerate economic growth through lower interest rates and increase in investments. As already pointed out earlier, the key objective of FRBM Act, 2003 was to ensure intergenerational equity in fiscal management which was sought to be achieved through revenue surpluses. The idea was that borrowings and revenue surpluses could be channelled into capital expenditure leading to creation of assets. In post FRBMA period up to 2007-08 progress in fiscal consolidation was more or less close to the targets envisaged there under. It is evident from Table 1 that actual GFD during years 2003-04 to 2007-08 was below the budgeted amounts. In 2003-04, actual GFD was 80 percent of the budgeted figures and in 2007-08; it was 84 per cent of the budgeted figures. In case of revenue deficit, except for the year 2004-05, actual revenue deficit was lower than budget figures. For the year 2007-08, actual revenue deficit turned out to be only 73 percent of the budget estimates. For GPD, the picture turned out to be more rosy. In three out of four years between 2003-04 to 2006-07, primary deficit turned out to be surplus against budgetary deficit figures. During 2007-08, primary deficit was a huge surplus at Rs.44118 crore against budgetary projected surplus of Rs.8047 crore. As percentage of GDP, while GFD came down from 5.9 percent in 2002-03 to 2.5 percent in 2007-08, the RD/GDP ratio also went down from 4.4 per cent to 1.1 per cent during same period. RD/GFD ratio also went down from 79.7 in 2003-04 to 41.4 in 2007-08 implying a progressively better utilisation of borrowed funds towards asset creation. One can thus say that the five years ending 2007-08 was marked by adherence to fiscal discipline. While the GFD target of 3 per cent by the end of 2007-08 was more than achieved because the actual GFD/GDP ratio was 2.5 per cent against the mandated level of 3.0 per cent, target of elimination of revenue deficit by 2007-08 could not be achieved, with the level of deficit at 1.1 percent of GDP and hence, the elimination of revenue deficit was put off by a year. Robust economic growth of about 8.8 per cent during the period of 2003-04 to 2007-08 and improved performance of manufacturing and service sectors helped to keep tax revenues buoyant and revenue expenditure recorded much lower average annual growth of 10.6 percent leading to a reduction in RD/GDP ratio. Growth of plan expenditure at 13.1 per cent was also higher compared to the growth in non-plan expenditure of 9.7 per cent during the same period. All these developments helped in fiscal consolidation process.

Therefore, the Union Budget 2008-09 aimed at carrying forward the fiscal consolidation process which was to be revenue-led along with containment and reprioritisation of expenditure. With the share of revenue deficit in GFD at 41.4 percent during 2007-08, it was expected that more resources would be utilised for capital outlay. However, this did not happen. There was a significant slowdown in the growth rate in the second half of 2008-09, following the financial crisis that began in the industrialised countries in 2007 and spread to other economies across the world. Indian economy was also seriously impacted by the twin global shocks-unprecedented increase in the global commodity prices in the first half of the year and the ripple effects of the deepening of the global financial crisis in the second half. Consequently, government resorted to tax cuts and expenditure hikes. This resulted in considerable increase in terminal years fiscal deficit figures. The actual GFD of the Central Government was Rs.336992 crore against the budgetary projection of Rs.133287 crore (2.53 times), RD was Rs.253539 crore against budget estimates of Rs.55184 crore (4.59 times) and primary surplus got converted into a deficit of Rs.144778 crore. RD/GFD ratio also jumped from 41.4 in 2007-08 to 75.2 in 2008-09. During 2008-09, GFD/GDP ratio increased to 6.0, RD/GFD ratio to 4.5 from the previous year's figures of 2.5 and 1.1, respectively. As the fiscal expansion undertaken by the Government in 2008-09 was continued in 2009-10 also in the form of tax relief to boost demand and increased expenditure on public projects to create employment and public assets, deterioration in Central Government finances continued in 2009-10 also in GFD,RD and GPD exceeding the Budget estimates by 4.36 per cent, 19.90 percent and 15.24 per cent. GFD in 2009-10 was Rs.418482 crore , RD was Rs.338998 crore and GPD was Rs.205389 crore with GFD/GDP , RD/GDP and GPD/GDP ratios being 6.5 percent ,5.3 percent and 3.2 per cent, respectively. However, RD/GFD ratio was higher at 81.0 percent indicating that nearly eighty percent of borrowed funds were used for consumption purposes.

With improved growth rate of 8.0 per cent experienced during 2009-10, the Budget for 2010-11 began the process of fiscal consolidation with partial withdrawal of the stimulus measures in the form of increase in indirect tax rates. Expenditure growth, however, remained higher than the budget estimates. Nevertheless, the GFD/GDP, RD/GDP and GPD/GDP ratios, though lower than 2009-10 figures, were still much higher than 2007-08 figures. This clearly revealed that fiscal correction was far from over.

In the back drop of growth rate of 8.4 per cent during 2009-10 and 2010-11, the Budget for 2011-12 indicated sustaining the process of fiscal consolidation and announced a plan to introduce an amendment to the FRBM Act in 2011-12, laying down the fiscal road map for the next phase. The Budget for 2011-12 estimated a further reduction in GFD to 4.6 per cent of GDP which was to be achieved through a 16 per cent growth in tax revenue, disinvestment receipts of Rs.40000 crore and moderation in growth in expenditure to 4.9 per cent. However, a host of factors, both domestic and external, affected fiscal scenario of the Central Government adversely. Prices of international crude oil firmed up, there was reduction in indirect taxes on petroleum products, revenues fell short on account of slowdown in economic growth and disinvestment receipts were lower than the Budget estimates. All these contributed to the fiscal slippage in 2011-12. As per the revised estimates during 2011-12, GFD is placed higher at Rs.521980 crore (5.9 per cent of GDP), RD at Rs.394951 crore (4.4

per cent of GDP) and GPD at Rs.246362 crore (2.8 per cent of GDP).

While presenting the Budget for 2012-13 on March 16,2012, the then Finance Minister, Mr. Pranab Mukherjee observed , “I have made a determined attempt to come back to the path of fiscal consolidation in the Budget for 2012-13 by pegging the fiscal deficit at Rs.513590 crore which is 5.1 per cent of GDP”.(para 134 of the speech). As part of the Finance Bill 2012 , the Finance Minister also proposed amendments to the FRBM Act , 2003 by providing that the Central Government shall take appropriate measures to reduce the fiscal deficit, revenue deficit and effective revenue deficit (difference between revenue deficit and grants for creation of capital assets) to eliminate the effective revenue deficit by 31st March ,2015 and thereafter build up adequate effective revenue surplus and also to reach revenue deficit of not more than two per cent of gross domestic product by the 31st March ,2015 and thereafter, as may be prescribed by the rules made by the Central Government. Accordingly, GFD/GDP, RD/GDP and GPD/GDP ratios for the year 2012-13 have been prescribed as 5.1 per cent, 3.4 per cent and 1.9 per cent respectively.

However, a closer look at historical trends of deficits and finer prints in the Budget reveal that the Finance Ministers have been successively presenting a more rosy picture and the actual picture is less rosy. Two important methods of window dressing have been used. *Firstly*, since 1999-2000, figures of GFD are shown as net of States' share in small savings. A comparison of GFD figures (including States' share in small savings collections) and GFD figures (excluding , States' share in small savings collections) as reported by RBI in Handbook of Statistics on Indian economy and Indian Public Finance Statistics reveal a difference of about 20 per cent in the two figures for the period 1990- 1991 to 1998-99. If this trend of divergence in the two figures is accepted, the figures of GFD (including States' share) would be 20 per cent higher than the figures shown in the Budget. This would also increase the GFD/GDP ratio by more than 1 per cent. *Secondly*, off- Budget liabilities are not shown in the Budget and thus quantum of deficit is reduced. Total expenditure on subsidies in ten out of thirteen years during 1999-2000 to 2011-12 has exceeded the Budget estimates. During 2010-11, actual subsidies were Rs.173420 crore against budgeted figures of Rs.116224 crore (49.2 per cent greater) and during 2011-12, as per the revised estimates, subsidies amounted to Rs.216297 crore against budget estimates of Rs.143570 crore- and increase of 50.6 per cent. Such large and growing off-budget liabilities are a matter of concern but such items are kept outside the budget on account of keenness to adhere to the targets of FRBM Act. Hence differences exist in different parameters as per, estimates of Reserve Bank of India (RBI) and Prime Minister's Economic advisory Council (PMEAC) because PMEAC includes substantial recourse to off-budget liabilities where as RBI series omits them.

Progress on the fiscal front so far during the year 2012-13 points to certain disturbing trends. *Firstly*, Finance Minister has revised the GFD target from 5.1 per cent of GDP to 5.3 per cent of the GDP for the year 2012-13. But Kelkar Panel has pointed out that Budget (2012-13) has underestimated subsidies by Rs.70000 crore and overestimated tax receipts by Rs.60000 crore. The panel further points out that if reforms are not under taken, GFD is likely to be 6.1 per cent of GDP. *Secondly*, economic growth could trip to a decadal low in 2012-13.*Thridly*, there is big question mark over Rs.40000 crore estimated originally from the spectrum sale of 2G telecomm services. *Fourthly*, fiscal deficit in the first seven months of 2012-13 has stood at 71.6 per cent of the Budget estimates. *Fifthly*, by the end of September 2012, government's tax receipts amounted to less than 40 per cent of the budget target. *Sixthly*, disinvestment receipts target of Rs.30000 crore is not likely to be achieved. *Seventhly*, the political likelihood of price increases in fertilizer, food and sugar decontrol looks pretty low. *Eighthly*, government borrowings are very likely to exceed the targets. *Ninthly*, subsidies are likely to over shoot the budget target of Rs.1.9 lakh crore by a significant margin. *Tenthly*, Current

Account Deficit (CAD) has already touched a record level of 4.2 per cent of GDP in 2011-12 and is not likely to be better during 2012-13. We think that Shankar Acharya is right when he observes," such an outcome will indicate a total failure of fiscal consolidation in 2012-13. Furthermore, if this happens, it will make the deficit targets for subsequent years, especially the pre-election year of 2013/14, look seriously infeasible".

CONCLUSION

From the aforesaid discussion it is evident that in most of the years, actual quantum of fiscal, revenue and primary deficits have been larger than the budgeted figures and revenue deficit as a percentage of fiscal deficit has tended to increase with the passage of time-reflecting that a considerable part of borrowings are being used for consumption purposes and capital outlay as a percentage of GDP has tended to decline. After an impressive period of fiscal consolidation during 2002-03 to 2007-08, there has been a marked deterioration in the fiscal position. The GFD/GDP ratio, after declining from 5.9 per cent in 2002-03 to 2.5 per cent in 2007-08 is back at almost same level. The improvement in revenue and primary deficits has been more than reversed. India's fiscal deficit has widened both structurally and cyclically. The wide fiscal deficit along with wide current account deficit is also symptomatic of macroeconomic deterioration.

Going forward, priority should be given to bring down deficits so as to support potential growth even if it means a slower pace of recovery in the short run. It is important to give priority to downsizing the subsidies and tax reforms in India so that the fiscal position gets structurally strengthened and it is also possible to better withstand cyclical downturns. As part of tax reform agenda, the Government should envisage introducing Direct Tax Code (DTC), Goods and Services Tax (GST) and General Anti-Avoidance Rules (GAAR) at the earliest so as to favourably impact investors' confidence. There is also need to ensure that required legislations are quickly put in place to support resource raising efforts to create fiscal space for financing of initiatives relating to inclusive growth. There is also need for improving the quality of expenditure through adequacy (adequate provision for providing public services), effectiveness (assessment of performance) and efficiency of expenditure use. Since social protection expenditures are likely to increase due to entitlement-based programmes being introduced, only tax reforms, together with efficient tax administration are a positive sum game to improve fiscal position of the Centre.

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ROLE OF MICROFINANCE IN ERADICATING POVERTY IN INDIA

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ABSTRACT

In assessing the role of microfinance and its various modes of delivery, it is important to be clear about what it is that these loans are intended to accomplish. The loftiest goal, which the proponents of the instrument claim, is rapid eradication of poverty. Some, especially among those representing fast-expanding for-profit microfinance institutions (MFIs), can even leave you with the impression that only a few microloans stand between the poor and non-poor. So far there is no compelling evidence that microfinance has led to sustained poverty reduction anywhere. Two older empirical studies have found little acceptance among the scholars. A more recent one, based on randomized trials, tracks changes over 18 monthsa period too short to judge sustained success or failure. The implication is that any strong claims in favor of microfinance affecting poverty on a sustained basis must be heavily discounted. A lesser and more commonly expressed objective behind microfinance is the funding of projects with high returns that go unfunded because the entrepreneurs in question lack collateral. That the loans substantially fulfill this objective is doubtful as well. Hard evidence to this effect is simply lacking. Those associated with the MFIs would tell that their loans are overwhelmingly used to finance high-return projects. But when pressed for the source of such information, they invariably cite their own loan officers who in turn cite the borrowers. The claim that the loans overwhelmingly finance productive investments with high returns is implausible from another perspective. Interest rates on microloans are rarely less than 20 percent. Admittedly, occasional small and short-duration transactions that yield returns exceeding such high interest rates may exist. But there is almost no evidence suggesting that there is a preponderance of such investments available in the rural areas. Small loans in the rural areas come from informal sources such as friends, relatives, moneylenders and landlords as well as formal ones such as banks, self-help-groups (SHGs) and MFIs.

Keywords : MFIs, SHG, RMK, Rural credit.

MICROFINANCE TERMINOLOGY

1. **Micro credit:** This is a small amount of money loaned to a client by a bank or other institution. Micro credit can be offered, often without collateral, to an individual or through group lending.
2. **Microfinance:** This refers to loans, savings, insurance, transfer services and other financial products targeted at low-income clients
3. **Micro insurance**: This is a system by which people, businesses and other organizations make payments to share risk. Access to insurance enables entrepreneurs to concentrate more

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on growing their businesses while mitigating other risks affecting property, health or the ability to work.

4. **Remittances:** These are transfer of funds from people in one place to people in another, usually across borders to family and friends. Compared with other sources of money that can fluctuate depending on the political or economic climate, remittances are a relatively steady source of funds.
5. **Micro savings:** These are deposit services that allow people to store small amounts of money for future use, often without minimum balance requirements. Savings accounts allow households to save small amounts of money to meet unexpected expenses and plan for future investments such as education and old age.
6. **Inclusive financial sectors:** It allows poor and low-income people to access credit, insurance, remittances and savings products. In many countries, the financial sectors do not provide these services to the lower income people. An inclusive financial sector will support the full participation of the lower income levels of the population.
7. **Micro entrepreneurs**: These are people who own small-scale businesses that are known as micro enterprises. These businesses usually employ less than 5 people and can be based out of the home. They can provide the sole source of family income or supplement other forms of income. Typical micro entrepreneur activities include retail kiosks sewing workshops, carpentry shops and market stalls.
8. **Bankable:** These people are those deemed eligible to obtain financial services that can lead to income generation, repayment of loans, savings, and the building of assets.
9. **Unbanked:** This describes people who have no access to financial services through any type of financial sector organization such as banks, non-bank financial institutions, financial cooperatives and credit unions, finance companies, and NGOs. Implicit in this definition is that financial services are usually available only to those individuals termed "economically active" or bankable.

THE HISTORY OF MICROFINANCE: AN INTRODUCTION

The concept of microfinance is not new. Savings and credit groups that have operated for centuries include, "chit funds" in India, "tandas" in Mexico, "arisan" in Indonesia, "cheetu" in Sri Lanka, "tontines" in West Africa, and "pasanaku" in Bolivia, as well as numerous savings clubs and burial societies found all over the world. Formal credit and savings institutions for the poor have also been around for decades, providing customers who were traditionally neglected by commercial banks a way to obtain financial services through cooperatives and development finance institutions. One of the earlier and longer-lived micro credit organizations providing small loans to rural poor with no collateral was the Irish Loan Fund system, initiated in the early 1700s by the author and nationalist Jonathan Swift. Swift's idea began slowly but by the 1840s had become a widespread institution of about 300 funds all over Ireland. Their principal purpose was making small loans with interest for short periods. At their peak they were making loans to 20% of all Irish households annually. In the 1800s, various types of larger and more formal savings and credit institutions began to emerge in Europe, organized primarily among the rural and urban poor. These institutions were known as People's Banks, Credit Unions, and Savings and Credit Co-operatives. Formal credit and savings institutions for the poor have been around for decades, providing customers who were traditionally neglected by commercial banks a way to obtain financial services through cooperatives and development finance institutions. The concept of the credit union was developed by Friedrich

Wilhelm Raiffeisen and his supporters. Their altruistic action was motivated by concern to assist the rural population to break out of their dependence on moneylenders and to improve their welfare. From 1870, the unions expanded rapidly over a large sector of the Rhine Province and other regions of the German States. The cooperative movement quickly spread to other countries in Europe and North America, and eventually, supported by the cooperative movement in developed countries and donors, also to developing countries. In Indonesia, the Indonesian People's Credit Banks (BPR) or The Bank Perkreditan Rakyat opened in 1895. The BPR became the largest microfinance system in Indonesia with close to 9,000 units. In the early 1900s, various adaptations of these models began to appear in parts of rural Latin America. While the goal of such rural finance interventions was usually defined in terms of modernizing the agricultural sector, they usually had two specific objectives: increased commercialization of the rural sector, by mobilizing "idle" savings and increasing investment through credit, and reducing oppressive feudal relations that were enforced through indebtedness. In most cases, these new banks for the poor were not owned by the poor themselves, as they had been in Europe, but by government agencies or private banks. Over the years, these institutions became inefficient and at times, abusive. Between the 1950s and 1970s, governments and donors focused on providing agricultural credit to small and marginal farmers, in hopes of raising productivity and incomes. These efforts to expand access to agricultural credit emphasized supply-led government interventions in the form of targeted credit through state-owned development finance institutions, or farmers' cooperatives in some cases, that received concessional loans and on-lent to customers at below-market interest rates. These subsidized schemes were rarely successful. Rural development banks suffered massive erosion of their capital base due to subsidized lending rates and poor repayment discipline and the funds did not always reach the poor, often ending up concentrated in the hands of better-off farmers. Meanwhile, starting in the 1970s, experimental programs in Bangladesh, Brazil, and a few other countries extended tiny loans to groups of poor women to invest in micro-businesses. This type of microenterprise credit was based on solidarity group lending in which every member of a group guaranteed the repayment of all members. These "microenterprise lending" programs had an almost exclusive focus on credit for income generating activities (in some cases accompanied by forced savings schemes) targeting very poor (often women) borrowers. The modern use of the expression "micro financing" has roots in the 1970s when organizations, such as Grameen Bank of Bangladesh with the microfinance pioneer Muhammad Yunus, were starting and shaping the modern industry of micro financing. Another pioneer in this sector is Akhtar Hameed Khan.

THE CURRENT STATE OF THE INDUSTRY

It is interesting to note that there is extreme concentration in the Indian microfinance industry approximately one-third of all outstanding microloans and borrowers are from the state of Andhra Pradesh. It is also interesting to note that despite the recent growth of the industry, around 90% of the Indian population remains without access to financial services. Microfinance in India is funded by private and public capital. Private capital comes in the form of private equity investments and funds from the capital markets. Loans from private equity firms and the recent initial public offering of SKS microfinance are examples of private capital. Public capital is known in India as priority sector lending. The Indian government mandates all banks in India to lend to the priority sector. The priority sector includes agriculture, small enterprise, retail trade, education, and housing finance. The intent behind this policy was to make sure that under-served markets are not ignored by commercial banks. Microfinance falls into this definition of the priority sector, and this capital has been the primary driver of the recent growth in microfinance. From 2003 to 2009, the number of microloans extended to the poor in India grew from 1.0 million to 26.7 million.

Need for micro finance: Since the 1950s, various governments in India have experimented with a large number of grant and subsidy based poverty alleviation programmes. Studies show that these mandatory and dedicated subsidized financial programmes, implemented through banking institutions, have not been fully successful in meeting their social and economic objectives. The common features of these programmes were:

- target orientation
- based on grant/subsidy
- Credit linkage through commercial banks

THESE PROGRAMMES

- were often not sustainable
- perpetuated the dependent status of the beneficiaries
- depended ultimately on government employees for delivery
- led to misuse of both credit and subsidy and
- Were treated at best as poverty alleviation interventions

Banks too never really looked on them as a profitable and commercial activity. According to a 1995 World Bank estimate, in most developing countries the formal financial system reaches only the top 25% of the economically active population - the bottom 75% have no access to financial services apart from money lenders. In India to the formal financial institutions have not been able to reach the poor households and particularly women, in the unorganized sector. Structural rigidities and overheads lead to high cost of making small loans. Organizational philosophy has not been oriented towards recognizing the poor as credit worthy. The problem has been compounded by low level of influence of the poor, either about their credit worthiness or their demand for savings services. Micro-finance programmes have often been implemented by large banks at government behest. Low levels of recovery have been further eroded due to loan waiver programmes leading to institutional disenchantment with lending to small borrowers. All this gave rise to the concept of micro-credit for the poorest segment along with a new set of credit delivery techniques. With the support of NGOs an informal sector comprising small Self Help Groups (SHGs) started mobilizing savings of their members and lending these resources among the members on a micro scale. The potential of these SHGs to develop as local financial intermediaries to reach the poor has gained recognition due to their community based participatory approach and sustainability - recovery rates have been significantly higher than those achieved by commercial banks in spite of loans going to poor, unorganized individuals without security or collateral. Success stories in neighboring countries, like Grameen Bank in Bangladesh, Bank Rakiat in Indonesia, Commercial & Industrial Bank in Phillipines, etc., gave further boost to the concept in India in the 1980s.The Global Summit on Micro Finance held in Washington in Feb '97 set a global target of covering 100 million poor families with credit by 2005 - it was expected that 25-30 million of these could be in India alone. The poor in India define the micro-finance market. The Planning Commission estimate of 1993-94 says 36% of the population or 320 million people live below the poverty line - there would be 140-150 million *women* alone living below the poverty line. Assuming that only 30% of the country's poor women are ready to adopt micro-finance as a method of poverty alleviation, it is estimated that 40-45 million poor *women* would need credit. As against this, it is estimated that all agencies in India engaged in the provision of micro-finance services, would have together covered barely 1 million poor people by the close of 1998-99. The most prominent national level micro-finance apex organization providing micro-finance services for women in India is the **National Credit Fund for Women** or the **Rashtriya Mahila Kosh (RMK).**

Concept and features of micro finance: Micro-finance, as is being practiced by the **National Credit Fund for Women** or the **Rashtriya Mahila Kosh (RMK),** could be defined as a set of services comprising the following activities:

a)	Micro-credit:	Small loans; primarily for income generation activities, but also for consumption and contingency needs.
b)	Micro-savings:	Thrift or small savings from borrowers' own resources.

THE MAIN FEATURES OF THE MICRO-FINANCE SERVICES BEING PROVIDED BY RMK ARE

1. It is a tool for empowerment of the poorest; the higher the income and better the asset position of the borrower, the lower the incremental benefit from further equal doses of micro-credit is likely to be.
2. Delivery is normally through Self Help Groups (SHGs).
3. It is essentially for promoting self-employment; the opportunities of wage employment are limited in developing countries - micro finance increases the productivity of self-employment in the informal sector of the economy generally used for:
- Direct income generation
- Rearrangement of assets and liabilities for the household to participate in future opportunities and
- Consumption smoothing.
4. It is not just a financing system, but a tool for social change, specially for women - it does not spring from market forces alone ,it is potentially welfare enhancing, there is a public interest in promoting the growth of micro finance, this is what makes it acceptable as a valid goal for public policy.
5. Because micro credit is aimed at the poorest, micro-finance lending technology needs to mimic the informal lenders rather than the formal sector lending.
6. It has to:
   a) Provide for seasonality
   (b) Allow repayment flexibility
   (c) Eschew bureaucratic and legal formalities
   (d) Fix a ceiling on loan sizes.

Reason for focus for poor women: The National Credit Fund for Women or the **Rashtriya Mahila Kosh (RMK)** is working exclusively for poor women. Its loans are available solely and entirely to this target group. The reasons for this are several:

- Among the poor, the poor *women* are the most disadvantaged they are characterized by lack of education and access to resources, both of which are required to help them work their way out of poverty and for upward economic and social mobility
- The problem is more acute for women in countries like India, despite the fact that women's labor makes a critical contribution to the economy this is due to low social status and lack of access to key resources
- Evidence shows that groups of women are better customers than men they are better managers of resources benefits of loans are spread wider among the household if loans are routed through women mixed groups are often inappropriate in Indian society record of all-male groups is worse than that of all women groups, everywhere

RMK ITS PROFILE OBJECTIVE AND ROLES

It has been felt for some time in India that the credit needs of poor women, particularly in the unorganized sector, have not been adequately addressed by the formal financial institutions in the country. The vast gap between demand for and supply of credit to this sector established the need for a National Credit Fund for Women. **The National Credit Fund for Women** or the **Rashtriya Mahila Kosh (RMK)** was set up in March 1993 as an independent registered society by the Department of Women & Child Development in Government of India's Ministry of Human Resource Development with an initial corpus of Rs. 310,000,000 - not to replace the banking sector but to fill the gap between what the banking sector offers and what the poor need.

ITS MAIN OBJECTIVES ARE

- To provide or promote the provision of micro-credit to poor women for income generation activities or for asset creation.
- To adopt a quasi-informal delivery system, which is client friendly, uses simple and minimal procedures, disburses quickly and repeatedly, has flexibility of approach, links thrift and savings with credit and has low transaction costs both for the borrower and for the lender.
- To demonstrate and replicate participatory approaches in the organization of women's groups for thrift and savings and effective utilization of credit.
- To use the group concept and the provision of credit as an instrument of women's empowerment, socio-economic change and development.
- To cooperate with and secure the cooperation of the Government of India, State Governments, Union Territory administrations, credit institutions, industrial and commercial organizations, NGOs and others in promoting the objectives of the Kosh.
- To disseminate information and experience among all these above agencies in the Government and non-government sectors in the area of microfinance for poor women.

  To receive grants, donations, loans, etc., for the furtherance of the aims and objectives of the Kosh.

THE KOSH HAS THREE MAIN ROLES

1. **Wholesaling Role**
   a. It acts as a wholesaling apex organization for channelizing funds from government and donors to retailing intermediate microfinance organizations (IMOs).
   b. The Kosh has so far received only a one-time grant from government and has not needed to raise funds from any other sources.
2. **Market Development Role** :
   a. It develops the supply side of the micro finance market by offering institution building support to new and existing-but-inexperienced IMOs by structures of incentives, transfers of technology, training of staff and other non-financial services.
   b. The Kosh realizes that it can play a value adding wholesaling role only when a sufficiently large and well established micro finance sector already exists - this depends on the number of IMOs and the sustainability of IMOs - subsidized institution building increases the equity of any IMO as much as grants do - large and premature disbursement of funds to the IMO can reduce the effectiveness of any institution building effort.
3. ***Advocacy Role*** - whereby RMK acts as an advocate or agent for influencing development and micro-finance policy and creating a more enabling policy and legal environment for spread of

micro-finance activities in India. Being a creation and a representative of the government, RMK has a particular advantage in this area.

MICROFINANCE APPROACH IS BASED ON CERTAIN PROVEN TRUTHS WHICH ARE NOT ALWAYS RECOGNIZED. THESE ARE

- That the poor are bankable; successful initiatives in micro finance demonstrate that there need not be a tradeoff between reaching the poor and profitability - micro finance constitutes a statement that the borrowers are not 'weaker sections' in need of charity, but can be treated as responsible people on business terms for mutual profit.
- That almost all poor households ***need*** to save, have the inherent ***capacity*** to save small amounts regularly and are ***willing*** to save provided they are motivated and facilitated to do so.
- That easy access to credit is more important than cheap subsidized credit which involves lengthy bureaucratic procedures - (some institutions in India are already lending to groups or SHGs at higher rates - this may prevent the groups from enjoying a sufficient margin and rapidly accumulating their own funds, but members continue to borrow at these high rates, even those who can borrow individually from banks) -
- 'Peer pressure' in groups helps in improving recoveries.

Dynamics of Microfinance in India: Financial inclusion has been a very acute and pervasive problem among rural Indians. Their financial activities are limited to post office savings and borrowing from moneylenders, but not anymore, we have a new savior, a real one this time, in the form of Microfinance. The success stories are unlimited and it actually is quite astonishing how such a simple concept of social responsibility, joint liability and micro credit had the potential to transform the face of rural finance. At the very outset of this article, let me introduce to you the very basic concept of Microfinance. As the term itself suggests, Micro pertains to small, and finance pertains to money. Therefore financial activities involving small amounts of money, in very basic terms is Microfinance. Microfinance in its concept as we know today was conceived in rural Bangladesh, which has now gone on to become a dynamic force of financial services for the poor in the country, especially women, leading to their financial independence.

THERE ARE TWO MODELS IN WHICH MICRO FINANCIAL SERVICES ARE DISBURSED

- **The SHG-Bank linkage model** Under this, a group of 10 to 25 people (comprising of women or senior citizens, depending on the type of SHG) pool in their small savings to form mobile credit. This, they lend to each other on priority basis with group responsibility in loan repayment. Once the group establishes its discipline in lending and repayment, it can get credit from established banks for a fixed time period, which they repay, responsible as a group.
- **The Microfinance Institution-Bank Linkage model-** In this, the group directly takes loans under the joint liability method (the whole group is responsible for loan repayment) from the MFIs which in turn are funded by banks.

MAJOR INITIATIVES IN RURAL CREDIT

Government's initiative to reduce poverty by improving access to financial services to poor started since independence. India's overwhelming majority of poor is located in rural areas and this motivated the government to give special attention to rural credit. Following the report of All India Rural Credit Survey in mid 1950's, the State took crucial steps in reviewing Cooperative structure including the partnership of State in cooperatives. Also the policy initiative of 'social banking' concept described as “the elevation of the entitlements of previously disadvantaged groups to formal credit even if this may entail a weakening of the conventional banking practices” led to the nationalization of commercial banks in 1969, adoption of direct lending programmes to rural areas and development of credit institutions such as Regional Rural Banks (RRBs). Government initiatives during the Fourth Plan focused on marginal farmers and agricultural laborers bringing individual family as the basic borrowing unit. Integrated sustainable income generating activity was promoted through subsidized lending under Integrated Rural Development Programme (IRDP) and its subsequent variations including the current self-employment programme known as Swaranjayanti Gram Swarozgar Yojana (SGSY).

SHIVARAMAN COMMITTEE (1978)

Looking into all aspects of consumption credit for the poor, the Expert Committee on Consumption Credit (Chairman: Shri B. Shivaraman, Member, Planning Commission) recommended for allowing a line of credit to poor households by the formal banking sector. Examining the consumption need of the poor in 1976, the Committee recommended a line of credit equal to Rs.750 per household. The specific consumption demands identified by the Committee were:

(a) Medical expenses (33%),
(b) Marriage (33%),
(c) Education (13%),
(d) Birth, death & religious purposes (10%) and
(e) General consumption (10%).

The co-operative credit structure was to be the main pillar of this drive. The Committee further recommended for legislative reforms in all states for universal membership in all the Primary Agricultural Cooperative Credit Societies (PACS) across the country. In regard to the rate of interest, the Committee observed that the rate charged by both cooperative banks and commercial banks on consumption loans should be the same as crop loans. It further observed, 'The cost of servicing the consumption loans will perhaps be even higher than the agricultural loans, therefore, to expect the societies to operate on smaller margins than on the agricultural loans will be unrealistic'.

On the premise that the risk to the banking sector in the case of consumption loan is higher than the production loan, the Committee recommended for a higher percentage (10%) of risk cover by the Government than usually done for other (rural) loans extended by the co-operative and commercial banks. On the estimated demand for consumption loan of Rs.170 crore (in 1976), it provided for Rs.17 crore as Risk Fund. This fund, moreover, was required to be shared equally by the Central and the State Governments.

However, despite all its moorings there was not much progress in regard to flow of consumption credit to the poor by the formal banking sector. Legislative reforms vis-à-vis universal membership in PACS was introduced; but the co-operative banks themselves became weaker and weaker in the subsequent years. The introduction of bank-SHG linkage programme in the 1990's has in some ways addressed the need of consumption credit of the poor. Under this system, the banks lend to the SHGs who, in turn, are free to disburse loan to their members in their best judgement, whether for production or for consumption purposes.

POVERTY ALLEVIATION: MAKING MICRO-FINANCE SUSTAINABLE

Incidence of Poverty and Number of People Below Poverty Line in India during 1983-84, 1993-94 and 1999-2000

	Rural		Urban		Combined	
	No. of persons (in million)	% of persons	No. of persons (in million)	% of persons	No. of persons (in million)	% of persons
1983-84	251.957	45.65	70.94	40.79	322.897	44.48
1993-94	244.031	37.27	76.337	32.36	320.368	35.97
1999-2000	193.243	27.09	67.007	23.62	260.25	26.1

Source: Planning Commission, Government of India

SINCE Independence, India has pursued a planned approach as a lever of its social and economic change, thereby actualizing all-round economic development. Various prudent macroeconomic management policies were taken into consideration, which played an active role in key sectors such as banking, basic industries, utilities and infrastructure.

The results of this development strategy were mixed. The economy expanded persistently GDP per capita growth averaged 1.4 per cent through the 1970s; famines were eradicated or averted and incidence of poverty fell from over 50 per cent in the 1960s to less than 30 per cent in the late 1990s.

However, as per the recent estimates of the Planning Commission Expert Group, the poverty menace is still considerable 26.10 per cent in 1999-2000. Till date, there have been nine Five Year Plans, and the Tenth Plan is operative.

According to the latest estimates, based on the National Sample Survey Organization's household consumer expenditure distribution, at the national level, the incidence of poverty in India on the Head Count Ratio declined from 44.48 per cent in 1983 to 26.10 per cent in 1999-2000 (Table).

MICRO-FINANCE BASED POVERTY ALLEVIATION PROGRAMMES

- As part of the poverty alleviation measures, the Government of India (GOI) launched the Swarnjayanti Gram Swarozgar Yojana (SGSY) in 1999 where the major emphasis is on self-help group (SHG) formation, social mobilization and economic activation through micro-credit finance. Up to March 2003, 13.38 lakh groups were constituted in 33 States and Union Territories, of which 33,436 SHGs only could take up economic activities for their economic sustenance.
- Simultaneously, the Government supports the National Bank for Agriculture and Rural Development (Nabard) to take up activities such as group formation, micro-finance and economic activation.
- Besides this, the Rashtriya Mahila Kosh (RMK that is, National Credit Fund for Women) and the Department of Women and Child Development have their own programmes under which micro credit is being provided for economic empowerment of the rural poor.
- The year 2001-02 marked a decade of self-help group-bank linkage programme in India. With the growing importance of the micro-credit through SHG-bank linkage in India, the Reserve Bank of India (RBI) in 1996 included financing to SHGs as a mainstream activity of banks under their priority sector lending.
- The Government bestowed national priority to the programme through its recognition in the 1999 Budget. It has been estimated that India has the world's largest micro-finance

programme in terms of out-reach, with 7.8 million households accessing credit through 17,085 branches of the formal banking system under the micro-credit finance programme.

- Social mobilisation :The micro-credit programmes focus on organization of the rural poor at the grassroots level through a process of social mobilization which enables the poor build their own organizations (SHGs) consisting of 10-20 persons, in which they participate fully and directly and take decisions on all issues concerning poverty eradication.

SHGS GO THROUGH VARIOUS STAGES OF EVOLUTION

- **Group formation**: At this stage, groups are formed, developed and strengthened to evolve into self-managed people's organizations at the grassroots level.
- **Group stabilization** through thrift and credit activity among the members and building their group corpus the group takes up internal loaning to the members from the corpus.
- **Micro credit**: The group corpus is supplemented with Revolving Fund sanctioned as cash credit limit by the banks to take livelihood.
- **Micro enterprise development:** Here, the group takes up economic activity, of its choice for income-generation.

IMPACT OF MICRO-FINANCE

While the GoI tries to widen the micro-credit reach for the million poor in India through the self-employment scheme, namely, SGSY, the NABARD envisages reaching banking services to one-third of the very poor in India, that is, a population of about 100 million rural poor through one million SHGs by 2007-08. With NABARD support, bank loans were provided to 197,653 new SHGs during 2001-02 and repeat finance was provided to 41,413 existing SHGs during the year. Overall, the NABARD SHG-bank linkage programme benefited four million families covering an estimated 20 million poor in 2001-02.

THE POTENTIAL

Micro-finance is an innovative credit delivery mechanism that ensures viable financial services for the needy. It has the potential to address issues like actualizing equitable gains from the development on a sustained basis and can play a vital role in developing nations in fighting poverty.

The micro-finance scene in India is dominated by SHG-bank linkage programme. Though the groups existed even before the linkage programme (under the SGSY and NABARD SHG-bank linkage programme), the banks could not recognize their potential as business clients and both operated independently in most of the cases, without knowing the strength of the other. Intervening to forge a linkage, besides SGSY, the NABARD has helped in the emergence of a very strong micro-finance movement in the country.

The SHG-bank linkage programme was conceived with the objectives of supplementary credit delivery services for the un-reached poor, building mutual trust and confidence between the bankers and the poor and encouraging banking activity both on thrift as well as credit and sustaining a simple and formal mechanism of banking with the poor.

The linkage programme combines the flexibility, sensitivity and responsiveness of the informal credit system with the technical and administrative capabilities and financial resources of the formal financial sector which rely heavily on collective strength of the poor, closeness of effective social mobilisation functions contributing to an overall empowerment process.

India has a strong potential to promote the women as key decision-makers through encouraged local leadership, which can be facilitated by complete involvement and participation of poor women in micro-credit programmes. This will succeed only with the coordination among the government, banks, participating members and microcredit finance institutions. Micro-finance can be a powerful tool in initiating a cyclical process of growth and development. Micro-finance activity can improve the access of rural poor to financial services. The micro-finance interventions help in inculcating necessary habits for economic independence and self-reliance. Appropriate and participatory credit plans by the members of a group can help in social and economic empowerment. Increased access signifies the overcoming of isolation of rural women in terms of their access to financial services and denial of credit due to absence of collateral security. The pool of savings generated out of very small but regular voluntary contributions improves access of the poor women to bank loans. It could also help in strengthening poor families' resistance to external shocks and reducing dependence on moneylenders. The group utilizes its corpus to disburse loans of small amount amongst the needy members. In the beginning, the members meet out their consumption needs out of their own fund and afterwards they obtain loans from the Banks for taking up some economic activities for their sustained living.

The Microfinance Community: Microfinance community works as a powerful instrument of knowledge sharing to develop individual and organizational capacities and strengthen policy environment to reduce poverty through microfinance initiatives and innovations leading to enhance financial inclusion.

TO ACHIEVE THE MISSION, MICROFINANCE COMMUNITY WILL FOCUS ON

- Strategies for building an inclusive and equitable financial sector
- Financial Sustainability versus outreach balancing commercial sustainability with availability of microfinance services to the poor
- Creating an enabling environment for promoting an inclusive financial sector
- Delivery mechanisms- different approaches and models of delivering financial services , and their advantages and limitations
- Product innovations and diversification of financial services
- Microfinance and Sustainable livelihoods
- Microfinance and crisis management to smooth out income fluctuations during crisis
- Measuring impact developing appropriate methodology an indicators
- Solution Exchange India

RESERVE BANK OF INDIA'S ALL INDIA RURAL CREDIT SURVEYS

The All India Rural Credit Surveys conducted by the RBI during the various years, show the following transformation in rural credit, viz.

(i) The share of non-institutional sector in rural credit that was 91 per cent in 1951 went down to 45 per cent in 1991.

(ii) The share of institutional sector that stood at 9 per cent in 1951 went up to 53 per cent in 1991.

(iii) The share of credit cooperatives in rural credit that was 4.6 per cent in 1951 went up to 29 per cent in 1981, but declined subsequently to 19 per cent in 1991.

(iv)The share of commercial banks in rural credit that was 1.1 per cent in 1951 went up to 29 per cent in 1981 and has remained at the same level in 1991.

Microcredit and poverty eradication: Since the World Summit for Social Development the priority given to poverty eradication has grown. As stated in the previous report of the Secretary-General on the eradication of poverty (A/52/573), it is now broadly accepted that robust economic growth that is labor-intensive and equitable, combined with larger outlays of social expenditures, especially directed towards the poor (now estimated at 1,3 billion people), are a winning combination in the fight against poverty. Several factors have led to increased interest in microcredit in promoting growth with greater equity. There has been a growth in the recognition of the importance of empowering all people by increasing their access to all the factors of production, including credit. In addition, the value of the role of non-governmental organizations in development is receiving more attention.

It is in that context that microcredit has recently assumed a certain degree of prominence. It is based on the recognition that the latent capacity of the poor for entrepreneurship would be encouraged with the availability of small-scale loans and would introduce them to the small-enterprise sector. This could allow them to be more self-reliant, create employment opportunities, and, not least, engage women in economically productive activities. Currently, there are estimated to be about 3,000 microfinance institutions in developing countries. These institutions also help create deeper and more widespread financial markets in those countries.

Characteristics and recent successes of microcredit programmes: Informal and small-scale lending arrangements have long existed in many parts of the world, especially in the rural areas, and they still survive. Good examples are schemes in Ghana, Kenya, Malawi and Nigeria ("merry-go-rounds", "esusus" etc.). They provide the rural population with access to savings within the local area and with a certain cushion against economic fluctuations, and they encourage a cooperative and community feeling. The groups formed provide joint collateral and serve as instruments for spreading valuable information that is useful for economic and social progress.

All economies rely upon the financial intermediary function to transfer resources from savers to investors. In market economies, this function is performed by commercial banks and the capital markets. More widespread financial intermediation, as well as increasing depth and variety, is a hallmark of advancing development. But in many developing countries, capital markets are still at a rudimentary stage, and commercial banks are reluctant to lend to the poor largely because of the lack of collateral and high transaction costs.

The poor would borrow relatively small amounts, and the processing and supervision of lending to them would consume administrative costs that would be disproportionate to the amount of lending. A study by the International Fund for Agricultural Development (IFAD) has confirmed that complicated loan procedures and paperwork, combined with a lack of accounting experience, limit poor people's access to formal sources of credit. Other reports cite the fact that commercial lenders in rural areas prefer to deal mainly with large-scale farmers.

The absence of commercial banks has led to non-conventional forms of lending. The recent prominence given to microcredit owes much to the success of a relatively few microcredit programmes and their increasing scale. The Grameen Bank of Bangladesh, the most prominent of the successes, now reaches over 2 million people, with cumulative lending of about $2.1 billion. Similar successful examples are known in Latin America (e.g., Banco Solidario in Bolivia), less so in Africa (the Kenya Rural Enterprise Programme is a good example). Progress has also been recorded in several transition economies, mixed in some cases. Such institutions have not only achieved a degree of success, but they have also managed to attract donor support and press attention.

These schemes are characterized by relatively small loans, a few hundred dollars at most. The repayment period is relatively short, about a year or so. Women are a major beneficiary of their activities, and the destination of the funds primarily includes agriculture, distribution, trading, small craft and processing industries. The administrative structure is generally light and the entire process is participatory in nature. The impact of microcredit lending varies widely between rural areas and urban areas.

CRITICISM OF MICROFINANCE

Microfinance is powerful, but it is clearly no panacea. Our experience in the business world has taught us that solutions marketed as cure-alls to complex societal problems rarely if ever pan out as promised. Microfinance does not directly address some structural problems facing Indian society and the economy, and it is not yet as efficient as it will be when economies of scale are realized and a more supportive policy environment is created.

THE CONSTRAINTS

The mainstream financial institutions are generally seen as flushed with funds and have access to enormous amounts of low-cost savings deposits. It is found that the poorer the region, the lower the credit-deposit ratio. Most of eastern Uttar Pradesh, Bihar, Orissa and the North-East regions have credit deposit ratios of 20-30 per cent.

SOME OF THE MAIN REASONS FOR THE CONSTRAINTS ASSOCIATED WITH MICRO CREDIT ARE

- **Non-productive loans and procedural delays for productive loans**: Since most of the poor and needy are illiterate and prefer loans for consumption rather than productive purposes, majority of the poor find it hard to get loans sanctioned for taking up economic activities, even if they want to. Sometimes, the loanees are asked to furnish some documents and collateral security against the loan sanctioned, contrary to the directives of the Government and the RBI.
- **Inflexibility and delay**: The rigid systems and procedures for sanctioning loans and disbursing them to the beneficiaries result in a lot of delay in time for the borrowers, which de-motivate them.
- **High transaction costs**: Although the interest rate offered to the borrowers is regulated, the transaction costs in terms of the number of trips to be made, the documents to be furnished etc. plus the illegal charges demanded by the lending institutions clandestinely, result in increasing the cost of borrowing, thus, making it less attractive to the borrowers.
- **Social obligation, not a business opportunity**: Micro-finance has been seen as a social obligation rather than a potential business opportunity.
- **High interest rates**: Sometimes, a few financial institutions charge the beneficiaries of a group high interest rate which makes the repayment difficult for the very poor. The poorest of the poor are, therefore, unable to access the micro-finance benefits.
- **Lack of training**: In most of the cases, it has been found that members of a group take up certain economic activities for their sustenance which are not preceded by relevant training. After the pioneering efforts of the last few years by the government, banks, NGOs, and so on, the micro-finance scene is reaching the take-off point.

CONCLUSION

The impact of microfinance on poverty reduction has been measured in terms of several dimensions, such as improved income, employment and household expenditure, and reduced vulnerability to economic and social crises. These measurements have tended to focus on a specific geographic area, an institution or a small client group and are difficult to generalize or draw conclusions that reach across borders, income levels, gender or socio-economic status. Even though many of these anecdotal studies clearly support a role for microfinance in achieving the Millennium Development Goals, a key challenge in measuring the impact of microfinance is obtaining reliable data. Sometimes clients are recipients of more than one product, which are provided by more than one microfinance institution (MFIs). For MFIs, it becomes hard to obtain measures on the exact impact of their services and products on their clients' lives. We also do not have the answer to the question of what proportion of the population even has access to credit and savings. The breadth and scope of microfinance hinders researchers' ability to determine who is providing what type of services, at what cost and with what effects. Even if good data may be obtained that allows for some analysis of the impact of microfinance and can guide improvements in MFI management and customer service, some critics contend that the cost and difficulty in designing and conducting adequate and reliable statistical analysis may outweigh the benefits. Just as determinants of social development are hard to isolate, so are the cross-cutting affects of access to financial services. But the conclusions that may be drawn provide some meaningful insight into the ways microfinance allows poor people to meet their basic needs and guard against unexpected shocks. In general, it appears that clients who participate in microfinance programmes on a continuing basis eventually realize better economic outcomes than non-clients. For instance, in terms of income poverty, there is evidence that access to credit has given many poor people the means to increase, diversify and protect their sources of income. In addition, microfinance institutions in many parts of the world have reported improved food expenditures and employment opportunities among their clients. Access to microfinance has also been found to promote increased expenditures on education and related improvements in health among poor clients and, in this respect, it can enhance human capital in the long term.

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FDI IN MULTI-BRAND RETAILING: OPPORTUNITIES AND THREATS

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ABSTRACT

Foreign Direct Investment (FDI) plays an important role in the development of a country through the transfer of technology, financial resources, organizational and managerial skills etc. Foreign Direct Investment (FDI) as international capital flows in which a firm in one country creates or expands a subsidiary in another. It is a type of international investment that involves the injection of foreign funds into an enterprise that operates in a different country of origin from the investor.

Multi-Brand Retailing: Single brand retail means selling products under one brand, which are also sold internationally. Global retail giants like Wal-Mart, Carrefour, Metro AG and Harrods. Examples are Rebook, Adidas, Nike, Gucci, Lotto, Levis etc. Multi-branding is the process of selling or marketing of two or more widely similar, competing and sometimes substitute products by the same firm under different brands. Multi-brand retail has the different formats like supermarket, hypermarket, and the shopping malls etc.

Retail industry of India is divided into two sectors viz. organized and unorganized sectors. The Govt. of India was forced to put on hold FDI in multi-brand retail by several political parties. Presently, for single brand retailers, 51 per cent FDI is permitted. The problem arises whether opening up of FDI in multi-brand retail will create problems or provide opportunities for local retailers. People those who oppose to the FDI in multi-brand retail, feel that FDI will pose some threats before the unorganized retail sector and will adversely impact the small retailers, farmers and consumers. Foreign direct investment in multi-brand retail will start a better integration of Indian economy into the global markets. There is no reason to worry by small retailers and shopkeepers may get displaced. This article examines the prospects of FDI in multi-brand retail in India.

Key Words : *Foreign Direct Investment (FDI), Technology, Financial Resources, Govt, Indian retail, Multi-brand retail, organized retail, unorganized retail.*

INTRODUCTION

Retailing in India is one of the pillars of its economy and contributes for 14 to 15 percent of its GDP. The Indian retail market is estimated to be US $ 450 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail markets in the world, with 1.2 billion people.

Indian retail industry is the biggest industry in comparison to other industries. It has two sector viz. organised sector and unorganised sectors. Organised sector refers to that part which is well regulated i.e. registered stores. Unorganised sector consist the traditional stores traditional family business, corner store etc.

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Foreign Direct Investment (FDI) plays an important role in the development of a country through the transfer of technology, financial resources, organizational and managerial skills etc. Foreign Direct Investment (FDI) is a type of international investment in which an investor in one country, generally an enterprise, acquires an ownership interest that confers influence over the management o f an enterprise in another country.

It is one of the main sources of flow foreign capital to our country. The other sources are:

A. Foreign Collaboration

B. Inter Government Loans and Grants

C. Loans from international Institutions and

D. NRI Investments.

Since the 1990s, Foreign Direct Investment (FDI) has been a source of economic growth for India, believes that besides needed capital, so Foreign Direct Investment brings in several benefits. The most important benefit for a developing country, like India is that Foreign Direct Investment could create more employment. In addition, technology transfer is another benefit for the most countries, they will expose to higher technology production and efficiency in management.

Multi-Brand Retailing: Single brand retail means selling products under one brand, which are also sold internationally. Examples are Rebook, Adidas, Nike, Gucci, Lotto, Levis etc. Multi-branding is the process of selling or marketing of two or more widely similar, competing and sometimes substitute products by the same firm under different brands. Multi-brand retail has the different formats like supermarket, hypermarket, and the shopping malls etc.

Retail industry of India is divided into two sectors viz. organized and unorganized sectors. After adoption of liberal policy, organized retail has grown exponentially and is a testament of the Indian middle class's burgeoning buying power. As a consequence, the opening up of the wholesale and single brand retail sector to foreign direct investment ("FDI") was unavoidable. India is ranked as the third most attractive country for retail investment among emerging markets with domestic companies like the Future Group, Tata's Westside, Bharti Retail, Reliance Fresh and Raheja Group competing for market share. Multi-brand retail comes in different formats like supermarket, hypermarket, compact hyper and the malls. The success of the retail sector is best reflected in the fact that, the shares of retail companies are financially strong and well settled. However, the retail sector is constrained by several factors, basically by a highly restrictive licensing policy of government and overall poor infrastructure. These factors have contributed to restrict organized retail as compared to unorganized retail. This article examines the prospects of FDI in multi-brand retail in India, and builds a case as to why the sector needs to be opened.

The Govt. of India may soon notify 100% FDI in single-brand retail, paving way for global chains like Adidas, Nike, Louis Vuitton, Hermes and Gucci to have full ownership of their operations in India. The Department of Industrial Policy and Promotion said that the notification of 100 per cent FDI in single-brand retail will be passed soon. The decision to increase FDI in single brand retail was taken by the Cabinet soon, along with opening the gates for overseas investment in the multi-brand retail. However, the Govt. of India was forced to put on hold FDI in multi-brand retail by several political parties. Presently, for single brand retailers, 51 per cent FDI is permitted. Removal of investment cap would help global fashion brands to strengthen their interest in the growing Indian market. Most of the big names the retail, have already set up their business operations in the country with joint ventures with Indian partners.

RESEARCH OBJECTIVES

Now-a-days, in India everywhere the people are talking about the FDI in retail sector. The Govt. of India is also going to pass the bill allowing FDI in retail. The present study is conducted to know the following things related to FDI in retails:

1. To know benefits from FDI in multi-brand retail.
2. To know threats due to FDI in multi-brand retail.
3. To know what may happen, after starting organized retail stores in India by MNCs.

REVIEW OF LITERATURE

The Indian Council for Research on International Economic Relations (ICRIER) study (M. Joseph and N. Soundararajan, 2009) has shown that hardly 1.7 per cent of small shops have closed down due to competition from organized retail. They have competed successfully against organized retail through adoption of better business practices and technology. FDI has positive spill over effects on the economy as its ownership advantages get disseminated to locally owned enterprises, enhancing their productivity. All these benefits of foreign direct investment have been well proven in India in sectors such as automobiles, telecom and consumer electronics.

A study conducted by Mukherjee and Patel (2005) found that foreign retailers are working with small manufacturers for in-house labels and are providing them technologies like packaging technologies and bar coding. Sourcing from India has increased with the advent of foreign retailers and they also bring in an efficient supply-chain management system. Joint ventures with foreign retailers are helping the Indian industry to get access to finance and global best practices. Besides, retailing being a non-tradable service there is no possibility of improved efficiency through import competition and foreign investment is the way forward.

India stands out as an example for the late coming of modern organized retail in emerging markets and also for the kind of restrictions placed on foreign investments in retail. The arrival of modern retail in developing countries occurred in three successive waves (Reardon and Hopkins, 2006; Reardon and Berdegue, 2007). The first wave took place in the early to mid-1990s in South America, East Asia outside China, North-Central Europe and South Africa. The second wave happened during the mid to late 1990s in Mexico, Central America, Southeast Asian countries, Southern-Central Europe. The third wave began in the late 1990s and early 2000s in parts of Africa, some countries in Central and South America, Southeast Asia, China, India, and Russia.

SIGNIFICANCE OF THE STUDY

The article will help to know the benefits that can be secured from the FDI in retails. The research article also comments on the cry of oppositions also. Present study tells how the small retailers will be affected by the heat of multinational retail giants. It also gives some suggestions how and on which terms the FDI in retails could be permitted? Here, in this research article, the attempt has been made to focus the importance of FDI in retail sector in present scenario. The article also points out the prospects and problems for FDI in multi-brand retail sector. The study presents some suggestions & recommendation for implementing FDI in retails.

RESEARCH METHODOLOGY

The data for the present study is collected from the secondary sources. Various news in the news papers, videos of parliament while discussion on FDI were seen for collection of the data. As well as the reference books, magazines also used for the purpose.

FDI IN MULTI-BRAND RETAILING: MAJOR FACTS

As part a part of agreement with WTO, Indian Govt. has opened Indian economy for globally players in various products and also for encouraging foreign direct investment (FDI) in the country, Indian Government proposed a policy of 100 per cent FDI in single brand retail, and 51 per cent FDI in multi-brand retail. According to the proposed provisions, the minimum foreign direct investment shall be $ 100 million, out of which minimum half shall be for back end infrastructure installation. It is argued that with this single stroke, multi-billion dollar retail business, MNCs may set up their multi-brand retail stores in India, which may change the face of the Indian retail sector.

Present Status of FDI in Multi-Brand Retail: The current regulations on retail allow 100% FDI only in wholesale cash-and-carry trading. In single-brand retailing, 51% FDI is permitted but it is banned in multi-brand retailing. The problem arises whether opening up of FDI in multi-brand retail will create problems or provide opportunities for local retailers. There is no proper answer and clear views have been seen in the favour and against FDI in multi-brand retailing. The benefits explained below, will, in the course of time, properly judge the problems of FDI in multi-brand retailing. Some of the key benefits that can permit FDI in multi-brand retail are:

Plenty Opportunities: It is important not to neglect the local “Mom and Pop” retail stores; there is a huge opportunity for FDI in multi-brand retail. At the present moment, Indian manufacturers are exporting different and various types of products to innumerable retailers worldwide. There are a significant number of people in the population which feels that there is a considerable difference in the quality of the products sold to foreign people and the same products sold in the local market. In view of the availability of disposable incomes for Indians, there is an increased thinking to pay for quality and ease and access to a “one-stop buying” which will have a wide range of different products. If the economy is opened, then the prices can also be changed and the monopoly of specific Indian manufacturers will be challenged. In the eventual analysis, the Indian consumers will get benefit in the form of possible lower prices due to free, enhanced and, possibly, tough competition in the retail sector.

Benefits for the Indian farmers: It can be assumed that, with the establishment of multi-brand retail, the essential commodity industry like food and packaging industry will also get benefits and boost also. India is one of the largest producers of fruits and vegetables; it has not enough integrated cold-chain infrastructure. Non-availability of adequate storage facilities is a cause for heavy losses to the farmers, as well in terms of wastage in quality and quantity of fruits and vegetables in particular. With adoption of liberal, there could be a complete overhaul of the currently fragmented supply chain infrastructure. Extensive backward integration by MNC retailers, coupled with their technical and operational expertise, can hopefully remedy such structural flaws. Also, farmers can get benefit with the “farm-to-fork” the chain of food supply, from the farm where it is produced to the consumer ventures with retailers which helps (i) to reduce number of intermediaries ; (ii) give fair prices to farmers, and (iii) provide stability and economies of scale which will benefit, in the ultimate analysis, both the farmers and consumers.

Advanced technology and transportation: Advanced technology for processing, grading, handling and packaging of goods and further technical improvements in areas like electronic weighing, billing, barcode scanning etc. could be a direct result of MNCs opening retail shops in India,. Further, transportation facilities can get an incentive, in the form of increased number of refrigerated vans and pre-cooling chambers which can help to reduce wastage of goods and financial losses.

Boost to the real-estate business: Organized retail sector is closely dependant on real estate as any retailer will require large spaces for setting up retail stores. Without real estate it is not possible to grow the retail business. Real estate business in India has gone through a revamp due to the demand of high-end retail malls and people's changing perception towards an enjoyable shopping experience. Thus real estate can get a further benefit in India and receive more investment with the starting of FDI in multi-brand retail.

PRESENT REGULATIONS: AN OBSTACLE BEFORE FDI IN MULTI-BRAND RETAIL

In current times, the Govt. rules and regulations for the existing local retailers is quite exhaustive with multiple i.e. 40 licenses and permissions are necessary and to be obtained by the retailer from various authorities, as per the nature of activity. E.g. a multi-brand retailer selling food, vegetables and perishable items has to get a prevention of food adulteration license as per the provisions of the PFA Act, a weights & measures license according to W & M Act for regulating the weights and measures and labels on the food products sold. It also has to get a license under the APMC Act for selling fruits and vegetables. If a multi-retailer decides to launch a store in many states then the number of licenses will increase accordingly. Hence, any MNC going to establish a multi-brand retail store across India will have to face huge licensing obligations in each state of its operation. These rules and regulations are also working as obstacles in the way of FDI in multi-brand retail. If the Govt. of India opens multi-brand retail sector for FDI, in addition to the regular operating licenses, chances are that the MNCs and foreign multi-brand retailers will have to get approvals for investment as well from the central regulatory authority which, at present, is the FIP Board. With the passage of time, we can expect that the manifold licenses across different states of India would be reduced and if rules for licensing will be made same.

OPPORTUNITIES OF FDI IN MULTI BRAND RETAILING

- Heavy FDI in the multi-brand retail sector will result in gainful employment opportunities in agro-processing, sorting, marketing, logistics management and front-end retail management.
- Minimum 10 million jobs will be created in the next three years in the retail sector.
- FDI in retail will help farmers' to get prices over the MSP by omitting exploitative middlemen.
- MNC Retailers and Foreign Retail Giants will ensure supply chain efficiencies for continuous supply of the products.
- Policy to make a compulsion for investing minimum of $100 million and out of which at least half the amount must be invested in back-end infrastructure, including cold chains storages, refrigeration, transportation, packing, sorting and processing. This is expected to considerably reduce post-harvest losses and costs.
- Purchase of a minimum of 30% of total purchase of goods by retail store, shall be purchased from Indian micro and small industry. This will encourage domestic manufacturing, thereby creating a multiple effect for employment, technology up gradation and income generation.
- In, Indonesia even after many years of emergence of multi-brand retailing and supermarkets, 90% of fresh food and 70% of all food is still controlled by traditional retailers.
- An impressive growth has been seen in the retail and wholesale trade after China Govt. Has approved 100% FDI in retail sector. Thailand has also experienced tremendous growth in the agro based processing industry.
- In any case, organized retail through Indian corporate is permissible. Experience of the last decade shows small retailers have flourished in harmony with large outlets.

- A strong legal framework in the form of the Competition Commission is available to deal with any anti-competitive practices, including predatory pricing.

THREATS OF FDI IN MULTI BRAND RETAILING

- Comparison about FDI in retail sector, between India and China is not possible. The giant economy of China is predominantly a manufacturing in nature. It's one of the biggest suppliers to international organized retailers like Wal-Mart. But Indian economy cannot do same things. So, Indians may lose the manufacturing and services sector employment.
- Global retail corporations will lay the impact of their pricing on retails and they will try to create monopoly, oligopoly in the markets. This may results in essentials commodities, including food products, supply and pricing being controlled by MNCs and organized retailers.
- This movement will lead to huge number of job losses. World-wide experience has shown that organized retail stores and supermarkets had displaced small and unorganized retailers.
- Unorganized and small retail sector has been crushed out up to some extents in developed countries like the America and in countries of Europe.
- Jobs opportunities in the Indian manufacturing sector will be lost by Indians, because the multinational and organized retailers will purchase goods across the globe and not from local manufacturers. This is the experience of many countries that have permitted FDI in retail sector.
- Segmented markets will give many options to consumers to purchase the products anywhere. The non-segmented markets may face the conditions like lack consumer. Permitting foreign retail players will result in displacing and disturbing the existing markets.
- Argument that only multinational retailers will create the transportation for India farm products is fake one. International organized retailers will not play any role in constructing the roads or generation of the power. They will only create storage facilities for their benefits and not for local farmers. These all the things are done by various state governments in India.

CONCLUSION

For the developing country like India, foreign direct investment in multi-brand and organized retail sector should be consciously considered by the Govt. of India. Besides considering the interest of small and unorganized retailers, India has to learn from China. In China, organized and unorganized retail sectors have to coexist stance and both growing together with joining hands. In broader way, India's local retail business will definitely get a chance for up gradation of the import of improved technological and transportation management knowledge from the multinational retail players. In view of researcher, the govt. of India has an opportunity to use the policy liberalization for achieving the advantages like:

- To improve its infrastructure for retail sector,
- To access advanced and improved technologies for getting developed,
- To generate employment in retail sector,
- To provide benefits to customers like choice for different products and international brands.

Foreign direct investment in multi-brand retail will start a better integration of Indian economy into the global markets and, as such, it is important for the Govt. of India to develop retail sector for the total economic development of country and welfare of society in the country.

RECOMMENDATIONS

- Important argument given by opposition of FDI in retail sectors is that there will be huge job losses. Big organized retail stores and chains are going to appoint and hire a lot of skilled and unskilled people. So, in the short time span, there may be a loss in jobs. But then there is an opportunity to provide more of jobs.
- There is no reason to worry by small retailers and shopkeepers may get displaced. When Indian large organized retailers will be allowed to invest in multi-brand and (K, 2008) (K B. R.) (Philip) (Dhanabhakyam M) (Sharma K, 2005) (Report on Investments Approval and FDI in India) (FDI in the Financial Sector of emerging market economics) (FDI_ Circular, 2010) (www.rbi.org.in) (www.cci.in) (http://en.wikipedia.org/wiki/Foreign_direct_investment.) (http://www.legalera.in/Front-page/fdi-in-multi-brand-retail-boon-or-bane.html.) (http://theiewspaper.net/fdi-in-retail-in-india.) (www.scribd.com.)organized retail, it may be a cause for displacing. It is not going to happen anything different when foreign investments in retail is allowed. But actually nothing will happen with unorganized retailers, they can carry on their business in a better way with profits.
- Basically, Govt. of India should not prevent any organized retailer, local or foreign, from starting up any organized retail store, if there is no any good reason to prohibiting them. Hence, it can be suggested that FDI in retail sector will not do any harm than good for the Indian economy and unorganized retailers, and then FDI should be permitted.
- The entry of multinational retailers is likely to start competition, to give consumers a better products and better prices. Mega retail stores have to keep price possibly low and attractive.

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FINANCIAL INCLUSION UNDER RRBs

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ABSTRACT

Financial inclusion is one of the top most policy priorities of the Government of India since it is integral to the inclusive growth process and sustainable development of the country. One of the most visible aspects of the governance of the Government of India has been agenda of social inclusion of which financial inclusion Taking cue from the state proclivity towards inclusive growth agenda, the Reserve Bank of India (RBI) has taken a proactive role in ushering the enabling environment for expediting financial inclusion across length and breadth of the country through bank led model so as to ensure access to financial services and timely and adequate credit to weaker sections and low income groups at an affordable cost. Indian economy has been primarily an agricultural based country. Therefore, rural finance is matter of credit concern in a developing economy like India where 70 per cent of the total population depends upon agriculture and allied sectors for its livelihood. Credit is one of the most urgent aspects to make rural development strategy and programmes successful and with this reason, the Regional Rural Banks (RRBs) were established in 1975 with an objective of providing banking services to rural masses and extending financial assistance to the weaker and deprived sections of the society. The main objective of RRBs is to provide basic banking facilities in remote areas and mobilize savings from rural masses that are deprived of banking service. RRBs can extend help directly to the small scale and marginal farmers, small entrepreneur, artisans and individual for betterment of their livelihood. The present paper describes the role of RRBs in contributing towards the efforts for financial inclusion. The paper also gives suggestions for better performance in respect of financial inclusion and inclusive growth under RRBs.

Key words: *Financial Inclusion, Inclusive Growth, RRB.*

INTRODUCTION

Financial inclusion has increasingly attracted attention of the global community in recent years. Financial Inclusion is considered to be an important determinant for social inclusion of poor and vulnerable. In fact, it is one of the essential conditions for reduction of poverty and socio- economic inequalities in the society. In simple words Financial inclusion means the Banks open at least one bank account for every family through an intensive campaign, it means the delivery of banking services at an affordable cost to the vast sections of disadvantages low income groups. Financial inclusion is integral to the inclusive growth process and sustainable development of the country.

According to **C.Rangarajan Committee Report, 2008** "Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."

Financial inclusion or inclusive financing is the delivery of financial services at affordable costs to sections of disadvantaged and low income segments of society. Unrestrained access to public goods

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and services is the sine qua non of an open and efficient society. It is argued that as banking services are in the nature of public good; the availability of banking and payment services to the entire population without discrimination is the prime objective of this public policy. The term "financial inclusion" has gained importance since the early 2000s, and is a result of findings about financial exclusion and its direct correlation to poverty. Financial inclusion is now a common objective for many central banks among the developing nations.

The key focus of Financial Inclusion includes four products:

- A pure savings product with inbuilt overdraft facility
- A Recurring Deposit product
- A Remittance product and
- Entrepreneurship credit in the form of KCC/GCC

The history of financial inclusion dates back to the co Operative credit movement in India. Successive Indian governments have tried to address the issue of financial exclusion by directing the banking sector to provide financial services to poor and vulnerable at subsidized conditions. Rural finance is a matter of great concern in an agrarian economy like India. The institutional credit accounts for 60 percent of the total credit needs and rest of the 40 percent is provided by non institutional sector (informal sector). The informal sector for rural finance is an age old. It consists primarily of rural money lenders, traders, merchants etc. It proved to be avaricious and ruinous for rural India. Realizing the fleeing of rural masses, Government of India took several initiatives to promote the growth of rural and agriculture sector. Amongst these initiatives, major was the establishment of Regional Rural Banks (RRBs). The basic idea of introducing RRBs was to look after the financial needs of rural sector with professional approach as that of commercial banks in India. RRBs also participated enthusiastically in enhancing poverty alleviation schemes especially for the drought-prone and deserts regions. By doing this RRBs became an important and integral part of the rural credit system.

Regional Rural Banks were established under the provisions of an Ordinance promulgated on the 26th September 1975 and the RRB Act, 1976 with an objective to ensure sufficient institutional credit for agriculture and other rural sectors. The RRBs mobilize financial resources from rural / semi-urban areas and grant loans and advances mostly to small and marginal farmers, agricultural labourers and rural artisans. The area of operation of RRBs is limited to the area as notified by GoI covering one or more districts in the State. RRBs started their development process on 2nd October 1975 with the formation of a single bank (Prathama Grameen Bank). As on 31 March 2012, there were 82 RRBs (post-merger) covering 620 districts with a network of 16,001 branches. RRBs were originally conceived as low cost institutions having a rural ethos, local feel and pro poor focus.

The key objectives of Financial Inclusion:

- Extending formal banking system among less privileged in urban & rural India.
- Weaning them away from unorganized money markets and moneylenders.
- Equipping them with the confidence to make informed financial decisions.

REVIEW OF LITERATURE

To understand financial inclusion, knowing the nature and causes of exclusion is imperative.

Kempson and Whyley (1998) discuss the major forms of exclusion that deter certain segments of population from being financially included- access exclusion, i.e. unavailability / remote availability of banking services price exclusion, i.e. high cost of financial products, *condition exclusion* i.e. inappropriate conditions attached to financial product, marketing exclusion i.e. cultural/religious/psychological barriers and mistrust etc. Building an inclusive financial system calls for addressing the above multidimensional forms of exclusion.

According to (H.M. Treasury, 2007) The operational definitions of financial inclusion, have also evolved from the underlying public policy concerns that many people, particularly those living on low income, cannot access mainstream financial products such as bank accounts and low cost loans, which, in turn, imposes real costs on them -often the most vulnerable people.

In the Indian context, Rangarajan Committee (Report of the Committee on Financial Inclusion in India (2008)) defines it as: "Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost."

METHODOLOGY

For the present study, my research work is secondary data base. For this purpose I have used NABARD Annual Report, RBI bulletin, Statistics on RRBs, Articles on financial inclusion.

OBJECTIVES

The specific objectives of this study are to:

- To deepen the understanding of the factors which are crucial in determining the extent of financial inclusion in rural areas.
- To explore/unravel statistically significant interaction effects between explanatory variables.
- To study efforts to expedite financial inclusion from the lens of social banking.
- To suggest measures for banks to tap unexplored markets.

RBI INITIATIVES ON FINANCIAL INCLUSION

It is absolutely beyond any doubt that the financial access to masses has significantly improved in the last three and a half decades. With a view to enhancing the financial inclusion, as a proactive measure, the RBI in its Annual policy Statement for the year 2005-06, while recognising the concerns in regard to the banking practices that tend to exclude rather than attract vast sections of population, urged banks to review their existing practices to align them with the objective of financial inclusion. In the midterm Review of the policy (2005-06), RBI with a view to achieving greater financial inclusion exhorted the banks:-

- Relaxation of Know Your Customer (KYC) guideline for No-Frill accounts.
- Introduction of Business Correspondent (BC) Model for service delivery in remote areas
  Adoption of Information & Communication Technology (ICT) based model for enhancing outreach.
- Integration of Electronic Benefit Transfer (EBT) for disbursement of Govt. Grants.
- Reorganization of Aadhar Number under KYC norms.
- Banking services in unbanked villages with a population of more than 2,000.
- New branches in unbanked rural centres.
- Branch authorization in Tier 3 to Tier 6 centres.

FINANCIAL INCLUSION UNDER RRBS

RRBs in India emerged as a potentially powerful instrument for achieving rural development through providing resources for agriculture, industry, trade, commerce, and other productive agencies operating in rural sectors. RRBs are working in 635 districts of India as on 31 March 2012. After amalgamation, RRBs have become quite large covering most parts of the State in many cases. Assam Gramin Vikas Bank, an amalgamated RRB, covers 25 out of 27 districts of the State through its strong network of 355 branches and 7 Regional Offices. So, this is the highest in the country, while five other amalgamated RRBs cover 10 or more districts each. However, 40 RRBs covered two districts and 16 RRBs covered a single district each in 2005-06. Increased coverage of districts by RRBs makes them an important segment of the Rural Financial Institutions (RFI) for financial inclusion. RRBs in India emerged as a potentially powerful instrument for achieving rural development through providing resources for agriculture, industry, trade, commerce, and other productive agencies operating in rural sectors. Post-merger RRBs represent a powerful instrument for financial inclusion. With merger infusing the much needed financial strength in RRBs coupled with the local feel and familiarity they command, RRBs are in a unique position to play a decisive role in financial inclusion.

Table-1 : Indicators of Performance of RRB (As on 31 March, 2012)

(Rs. in crore)

Particulars	2009	2010	2011	2012 P
No. of RRBs (No.)	86*	82*	82	82
Branch Network (No.)	15181	15480	16001	16914
Share Capital (Rs.)	197.00	197.00	197.00	197.00
Share Capital Deposit (Rs.)	3959.30	3984.90	4076.34	4559.48
Reserves (Rs.)	6753.99	8065.26	9565.58	11135.19
Deposits (Rs.)	120189.90	145034.95	166232.34	187351.37
Borrowings (Rs.)	12734.65	18770.06	26490.80	30271.71
Investments (Rs.)	65909.92	79379.16	86510.44	89145.79
Loans & Advances (Outstanding) (Rs.)	67802.10	82819.10	98917.43	120550.66
Loans Issued (Rs.)	43367.13	56079.24	71724.19	78546.55
RRB Earning Profit (No.)	80	79	75	79
Amount of Profit (A) $	1823.55	2514.83	2420.75	2469.18
RRB incurring Losses (No.)	6	3	7	3
Amount of Loss (B) (Rs.)	35.91	5.65	71.32	25.77
Net Profit (A -B) $ (Rs.)	1787.64	2509.18	2349.43	2443.41
Accumulated Losses (Rs.)	2299.98	1775.06	1532.39	1104.85
RRB with accumulated losses (No.)	31	27	23	22
Recovery (%)	77.85	80.09	81.18	82.63
NPAs to loans outstanding (%)	4.14	3.72	3.75	4.14
Net worth (Rs.)	**8610.31**	**10472.10**	**12306.53**	**14786.77**
* : Number reduced due to amalgamation $: Before Tax P : Provisional				

Source: Data compiled from NABARD, Annual Report 2011-2012. Page no. 86.

Post amalgamation, the number of RRB operating in the country was 82, with a network of 16,914 branches (Table 1) spread over 635 districts in twenty-six States and one UT (Pondicherry). Over a period of three years (200910 to 2011-12), the deposits and investments increased by 29.18 per cent and 12.30 per cent, respectively, the borrowings increased by 61.28 per cent and loans and advances (outstanding) increased by 45.56 per cent Financial results of RRBs for the year 2011-12 indicate that there was improvement in their performance with 79 out of 82 RRBs showing pre-tax profit to the extent of Rs.2469.18 crore as compared to 75 with Rs. 2420.75 crore in 2010-11. The remaining 3 RRBs incurred losses of Rs. 25.77 crore as compared to loss of Rs.71.32 crore posted by 7 RRB in 2010-11. The number of sustainably viable RRBs (i.e. RRBs making net current profit and having no accumulated losses) had increased to 60 as on 31 March 2012 as compared to 58 as on 31 March 2011. The aggregate reserves of RRBs increased to Rs. 11,135.19 crore and net worth increased to Rs.14786.77 crore as on 31 March 2012. (Table1).

No Frills Accounts: The RRB has emerged as a strong intermediary for Financial Inclusion in rural areas by opening large numbers of "No Frills' accounts and financing under General Credit Card (GCC). Total number of business accounts (deposit plus loan accounts) with RRB stood at 1188.83 lakh, as on 31 March 2010. (NABARD 'Review of the Performance of RRBs as on 31 March 2011'Mumbai).

Outreach: In rural areas, RRBs account for a substantial 37% of total offices of all scheduled commercial banks. In semi-urban areas, their share comes to 15%. It goes without saying that exclusion is more severe in rural areas. (NABARD 'Review of the Performance of RRBs as on 31 March 2011'Mumbai).

Manpower Deployment: 91% of the total workforce in RRBs is posted in rural and semi-urban areas as compared to 38% for other scheduled commercial banks (table below). Even in absolute terms, out of a total workforce of 179,423 deployed by all scheduled commercial banks in rural areas, RRBs share is 25% (45,062). This is significant considering that at all India level, manpower of RRBs constitute only 7% of the total manpower of all scheduled commercial banks. (NABARD 'Review of the Performance of RRBs as on 31 March 2011'Mumbai).

Savings Mobilisation: At all India level, RRBs account for 12% of all deposit accounts of scheduled commercial banks and a meagre 3.5% of deposit amount. However, in rural areas, RRBs share in deposit accounts is a significant 31% and that in deposit amount 19%. This shows that the average deposit amount is lower in RRBs than other commercial banks, thereby implying RRBs' better reach to small depositors. If we include semi-urban areas for both RRBs and scheduled commercial banks, RRBs' share in deposit accounts and amount stands at 21% and 11% respectively. (NABARD 'Review of the Performance of RRBs as on 31 March 2011'Mumbai).

Credit Disbursed: At all India level, RRBs account for 18% of loan accounts of all scheduled commercial banks and 3% of loans outstanding. However, in rural areas the share of RRBs in loan accounts is an impressive 38%. More significantly, despite having 38% of all loan accounts, RRBs account for only 21% of total credit outstanding in rural areas, implying thereby their better reach to small borrowers. If semi-urban branches are included, the share of RRBs in credit accounts and amount outstanding is of the order of 29% and 13% respectively. (NABARD 'Review of the Performance of RRBs as on 31 March 2011'Mumbai).

Both deposit and credit data indicate that RRB branches in rural areas have performed better in relation to other scheduled commercial bank branches. However, RRBs' share comes down significantly when data for both rural and semi-urban areas are considered. This could be due to the fact that branches of other scheduled commercial banks located in semi-urban areas disburse considerable loans in rural areas also. This is significant from the point of view of financial inclusion as rural branches are closer and more active in extending outreach to remote and interior villages. Viewed from this angle RRBs are particularly well placed to achieve the goal of financial inclusion.

Outreach across Regions: Of all the scheduled commercial banks, RRBs account for 34% of branches in North- Eastern, 30% in Eastern and 32% in Central Regions whereas their presence is significantly lower (9% to 17%) in other regions. The data points to the fact that as an institutional group, RRBs are best suited to take up the leadership role in financial inclusion across priority areas in States of North Eastern, Eastern and Central Regions featuring high levels of exclusion.

Savings Mobilisation across Regions: Although RRBs account for only 12% of total number of deposit accounts at all India level, their share is significantly higher (18% to 29%) in the North-Eastern, Eastern and Central Regions where major interventions are required for financial inclusion. Further, the share of RRBs in a region in terms of no. of accounts is significantly higher than in terms of amount of deposits in the same region. This point to the fact that they basically cater to small depositors or the small depositors are more inclined towards RRBs.

Credit Disbursed across Regions: RRBs account for about one third of total number of credit accounts in North- Eastern, Eastern and Central Regions as against only 18% at all India level. Further, the average loan amount disbursed by RRBs is significantly less than by other scheduled commercial banks. In North-Eastern Region, RRBs account for 36% of loan accounts but only 13% of the outstanding loan amount. For Eastern Region, the respective shares are 35% and 6% and for Central Region they are 31% and 10%. It is obvious; RRBs command better outreach and level of comfort for small borrowers.

RRBS AS SELF HELP PROMOTION INSTITUTIONS (SHPI)

RRBs have not only provided financial services to the SHG-Bank Linkage Programme, but have also played a significant role as SHPIs. RRBs are also functioning as SHPIs with grant assistance from NABARD. Non-availability of good NGOs is a matter of concern especially in North-Eastern, Central and Eastern Regions. RRBs can play a vital role as SHPIs in such areas. The foregoing paragraphs conclusively indicate that RRBs are well positioned to play a major role in financial inclusion particularly in areas / regions with high rates of financial exclusion. RRBs were originally created to cater to neglected sections / areas as they were expected to have sound financial management combined with local feel and familiarity. With the amalgamation of RRBs, they have acquired the critical mass in terms of financial strength to widen and deepen their outreach. With the requisite strength having been developed, RRBs are the best suited vehicles to widen and deepen the process of financial inclusion. However, utmost care must be taken to ensure that in the process of fulfilling the socio-economic objective of financial inclusion, RRBs' do not again fall into the vicious circle of deteriorating financial performance and deviation from their mandate. RRBs may be provided adequate promotional and developmental assistance to contribute substantially to financial inclusion in a way that the business generated out of inclusion efforts add positively to their performance.

Strategic microfinance plan with NABARD support: RRBs have the potential and capability to emerge as niche operators in microfinance. They are playing a major role in the SHG - Bank Linkage Programme especially also as SHPIs.

Their dual role has special meaning in areas which face severe financial exclusion and which do not have a sufficient presence of well performing NGOs. However, to upscale the programme to a level where it can really make a visible impact, RRBs need handholding particularly in the areas of training, promotion and development. NABARD may provide required assistance. NABARD should prepare a strategic action plan RRB-wise, for promotion and credit linkage of SHGs. A Memorandum of Understanding may be signed by RRBs with NABARD for a period of 5 years - with NABARD providing the promotional and development assistance out of the “Financial Inclusion Promotion and Development Fund” and RRBs forming, nurturing and providing financial services to SHGs. RRBs may accomplish the task with the support of individual rural volunteers, BFs, their staff members, etc. NABARD may closely monitor the programme - with focus on qualitative aspects.

The RRB has emerged as a strong intermediary for Financial Inclusion in rural areas by opening large numbers of "No Frills' accounts and financing under General Credit Card (GCC). Total number of business accounts (deposit plus loan accounts) with RRB stood at 1188.83 lakh, as on 31 March 2010(Table-2).

Table-2 : Status of Financial Inclusion - RRB

(As on 31 March 2010)

(No. in lakh)

Year	No. Of Deposit Accounts	Of which, ‘No-Frills’ Accounts	No. Of Loan Accounts	Of total Loan Accounts, major area of Financial Inclusion				
							SSI, artisans, SCC & retail	
				GCC	SHG	KCC	Tenants	trade
2007-08	758.02	81.17	171.20	2.35	7.20	69.84	1.03	20.78
2008-09	935.54	153.81	170.66	3.22	8.04	67.87	0.95	19.64
2009-2010	1002.16	200.09	186.67	4.12	8.97	83.72	0.83	21.28

Source: Data compiled from NABARD, Annual Report 2010-2011. Page no. 76.

CONCLUSION

The introduction of the RRBs from the year 1975 was a bold attempt to ensure savings and credit opportunities to the rural population. The contribution of the RRBs to financial inclusion in rural areas has been significant. In fact, on matters like financial inclusion, appointment of business facilitators, etc, RRBs have to make a real breakthrough. On the basis of above analysis, RRBs' goal is increasingly being force-fed to the banking system as a whole through the mechanism of “no-frills” accounts and implemented through under-paid business correspondents, it is unlikely that this strategy is sustainable. The purpose of this research programme is to assess the recent operational experience of RRBs to determine their contribution to financial inclusion and to document the constraints such banks face in furthering that process. The reach of RRBs particularly in regions and across population groups facing the brunt of financial exclusion is impressive. In rural areas, RRBs account for a substantial 37% of total offices of all scheduled commercial banks. In semi-urban areas, their share comes to 15%. With the process of merger strengthening, to some extent, the viability of the RRBs and also because of the local feel and familiarity they command, RRBs are in a unique position to play a potential role in financial inclusion. On an average, RRBs covered more than 5749 accounts per branch, comprising 4450 for deposit accounts and 1299 for loan accounts. The per branch coverage varied widely between 1311 and 10384 in terms of aggregate business. From the above statistics vis-à-vis the vast number of unbanked population in the rural areas, it is clear that there is a good scope for financial inclusion initiatives by the RRBs. So, RRBs have a vital role in the National Plan of Financial Inclusion to bring hitherto financially excluded adults within banking fold as well as rural poor households to access micro-finance services. The RRBs have emerged as a strong intermediary for Financial Inclusion in rural areas by opening a large number of “No Frills” accounts and financing under General Credit Card (GCC). Total number of business accounts (deposit plus loan accounts) with RRBs stood at 1,363.09 lakh, as on 31 March 2012.

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LINKING POVERTY AND CHILD MALNUTRITION IN UTTAR PRADESH

Surendra Kumar Gupta*, Dheeraj Khare**

ABSTRACT

This paper is an attempt to discuss the problem of children's malnutrition which is mainly generated through poverty and inequality. Poverty is a state of deprivation; it means lack of food and as well as basic necessaries of life. There is a two-way link between poverty and health in which nutrition plays an important role both as an active and as a mediating factor. The government of Uttar Pradesh state in India has a clear mandate and vision to protect its children. With more than 100 projects commissioned by the state's child development agency and a few million dollars spent each year, one would expect the state's children do be as healthy as well cared-for children elsewhere in the world. At least they must not die from acute malnutrition. Despite the substantial decline in the poverty ratio, the absolute number of poor has remained high in the Uttar Pradesh. Almost 6 million people in U.P. were living below the poverty line in 2004-05 constituting over one-fifth of the total poor in the country on the basis of uniform recall period. In reality, poverty has become the cause of children's death from malnutrition in Uttar Pradesh. The latest was two-year-old Sahabuddin, who died May 31, 2008. He lived with his parents in Dhannipur village in Varanasi district of Uttar Pradesh. His parents were too poor to feed Sahabuddin he weighed only six kilograms when he died. This is Grade III malnutrition, a condition that the world hears of in place like Somalia. We also disclose the governmental approached to remove the malnutrition among poor family's children.

Key words: *OPHI, Child malnutrition, BIMARU states*

INTRODUCTION

Poverty is a relative concept. It is related to the lack of what is necessary for material well-being especially food, health, education, shelter, land and other assets. Poverty is a state of deprivation from the basic necessaries of life. According to World Bank "Poverty is hunger, poverty is lack of shelter. Poverty is being sick and not able to see a doctor. Poverty is not being able to go to school, not knowing how to read, and not being able to speak properly. Poverty is not having a job, it is fear for the future, and it is living from hand to mouth. Poverty is a losing a child to illness brought about by unclean water. Poverty is lack of freedom". But new emerging concept in the respect of poverty is multidimensional concept according to the OPHI (Oxford Poverty and Human Development Initiative). The concept of multidimensional Poverty refers the sense lack of every those thing which is necessary for the human well being such as living Standard, health, water & Sanitation, air quality, assets, education, livelihood, child status and empowerment.

Poverty affects the whole economic system of any country but more affected area is human health and it affects on human health in various ways while health is one of the most dominant ingredient of

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development because health supports development process. Poverty and human health are linked in a vicious cycle form, in which poverty proceed to ill health and ill health further support to poverty, by the prevents people from working or affects their productivity and this will be become the cause of lowering their income. Beside of human health, child health is more sensitive in context to poverty. Poverty affects child health in the various ways, such as firstly Lack of sufficient calories and a balanced diet leads to child malnutrition iron deficiency anaemia, and poor resistance to infection, increasing the chance of a minor infection, such as a cold, becoming a serious one, such as pneumonia. Secondly, when families in poverty need medical care, some are in the anguishing position of having to choose between spending money on food and medical costs. Medical care is relatively more costly now than in the previous decade. When a child is sick, others in their overcrowded homes are more likely to be sick. Sick parents struggling to provide food and shelter find it difficult to take children for immunizations and well child checks. Thirdly, lack of money for food, clothing, housing and medical care leads to stress among family members, stress related symptoms, lack of self esteem and a feeling of alienation from the rest of society. This can lead to family breakdown, risk taking behaviours, antisocial behaviour against family members especially to the children. Fourthly, inequalities in socioeconomic circumstances of the whole population affect the health of people; especially those who are poorest in the society which is further become harmful to their children's health [***Socioeconomic inequalities and health, by Crampton P, Howden-Chapman P (eds)*****].**

CHILD MALNUTRITION AND ITS EFFECTS

Child malnutrition is more dangerous effects of poverty. Child malnutrition among young children is a matter of serious concern. Child malnutrition can simply define as imperfect nutritional status. If the balance diet cannot provide to the children then it tend to child malnutrition. It could be two types; under nutrition and over nutrition. In the context of India there is a vast number of under nutrition than over nutrition, so under nutrition and child malnutrition recognize as synonyms. Child malnutrition is one of the major killers of children in India. We refer to the recently released National Family Health Survey for the year 2005-06 ***(Ministry of Health and Family welfare, 2007)***. According to this pan India survey, 47 per cent of India's under-three kids are underweight, 39 per cent are stunted, 19 per cent are severely malnourished and 79 per cent are anaemic. More than 6,000 Indian children below five years die every day due to malnourishment or lack of basic micronutrients like Vitamin A, iron, iodine, zinc or folic acid.

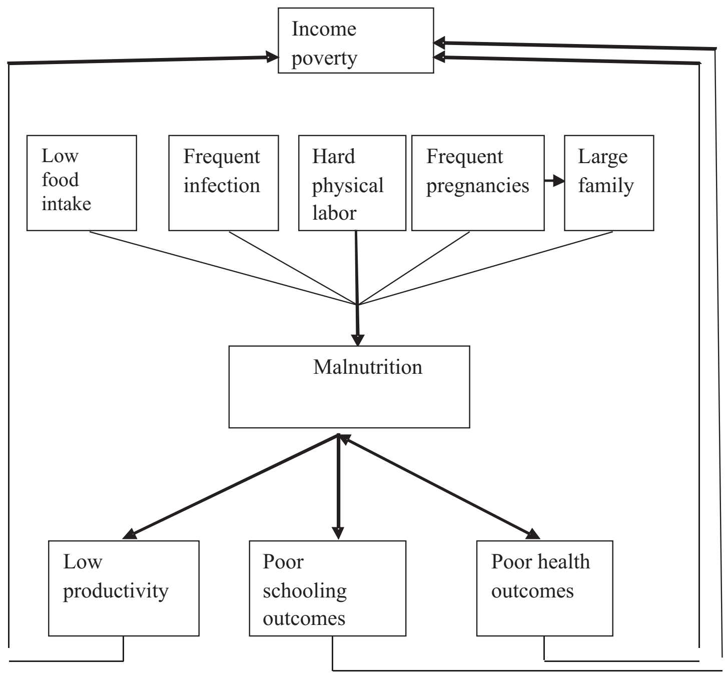
Malnourished child receiving only two third of its calorie requirement in this situation child is too small for his age, has low resistance to infection and is there for prone to illness. Many studies show that a weight, which is less than 60% of the normal, is associated with evidence of functional inability. This child malnutrition affects the children both physical and emotional. Children who do not reach their optimum height or consistently experience bouts of weight loss during childhood are affected in the long term in numerous ways. They do not reach their optimum size as adults (and so may have less physical capacity for work), their brains are affected (resulting in lower IQs) and they are at greater risk of infection (which kills many children during their early years). Child malnutrition impacts on education attainment Studies show that stunted children in the first two years of life have lower cognitive test scores, delayed enrolment, higher absenteeism and more class repetition compared with non stunted children. Child malnutrition impacts on economic productivity. The mental impairment caused by iodine deficiency is permanent and directly linked to productivity loss. The loss from stunting is calculated as 1.38% reduced productivity for every 1% decrease in height while 1% reduced productivity is estimated for every 1% drop in iron status. In the other word child malnutrition not only affects physical development but also hampers the learning and cognitive process which is leading to slow educational, social and economic development.

RELATION BETWEEN POVERTY AND MALNUTRITION

The major cause of under nutrition has always been reported to be poverty along with ignorance. In the words of ***Margaret Khalakdina* (1975)** child malnutrition is the most telling index of poverty. Poverty leads to inadequate food intake and under nutrition further leading to physical growth and development of children, impaired functioning, and low productivity again leading to poverty. The lack of access to basic services, illiteracy, and child malnutrition are all multi-faceted manifestations of poverty. This apart, malnutrition is also strongly related to income-poverty as well. Low incomes constrain the availability of adequate nutrient intake, which in turn causes malnutrition.

On the other hand, income-poverty increases nutritional needs because of the income-poor expend more physical labour, are isolated from markets and services and have a high fertility rate because of lake of facilities of entertainments which further lead to large family. These low food intake, hard physical labour, frequent pregnancies and large family tend to malnutrition and this malnutrition further affects the productivity of labour force, poor schooling outcomes and human health which becomes the main cause of lowering the income of nation and as well as per head income. This relationship runs in a vicious cycle. We can represent this vicious relation by the following diagram box.

Relation between malnutrition and poverty



Source: World Bank 2002

NUTRITIONAL STATUS OF CHILDREN IN RELATION TO RURAL POVERTY IN BIMARU STATES OF INDIA

The great demographist Prof. Ashish Bose formulated the word "BIMARU" for the four states (Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh) of India on the basis of demographic conditions of 1991 which was very poor to national average. But at present there are 8 states in BIMARU states. While here we discuss the nutritional status of children in relation to rural poverty in the context of previous four states on basis of UNICEF data of 1997.

Nutritional status of children in relation to rural poverty in BIMARU states of India

States	Rural poverty (%of the population Living below rural poverty)	Stunting %of children(under Age 3 year)	Underweight % of children(under age 3 year)
Bihar	53	61	70
Madhya Pradesh	42	NA	63
Rajasthan	34	43	49
Uttar Pradesh	41	60	66

Source; *UNICEF (1997)*

Table (1) present the incidence of under nutrition among children between the age of 6to 36 months in BIMARU states of India (1997) as depicted through stunted growth and underweight in relation to percent of total rural poverty. It shows that among all four states, Bihar is a home to highest percentage (70%) of children who where underweight and similarly with stunted growth (61%) followed by Uttar Pradesh (66% are underweight and 60% had stunted growth). By the table it is clear that % of underweight children is higher than children with stunted growth. It means chronic (long-term) malnutrition is more common than acute (severe but short-term) malnutrition.

GOVERNMENTAL EFFORTS FOR CHILD MALNUTRITION

Governmental efforts for improving child health ICDS (integrated child development scheme) a major programme to reduce the problem of malnutrition and the ill health of mothers and children, was initiated in 1975 for the county's children. Despite almost 35 years of its implementation More than 6,000 Indian children below five years die every day due to malnourishment or lack of basic micronutrients in India (NFHSIII 2005-06), and 47.3% children under 3 years of age are underweight in Uttar Pradesh. Another programmme the diarrhoal disease control programme was started in the country in 1978. The main objective of the programme was to prevent death due to dehydration caused by diarrheal disease among children under 5 years of age due to dehydration. The Indian government launched an Universal Immunization Programme against six preventable disease, namely diphtheria, pertusis, childhood tuberculosis, poliomyelitis, measles and neonatal tetanus taken up in 1986 as National Technology Mission. This UIP become a part of the CSSM (Child Survival and Safe Motherhood) programme in 1992 and RCH programme in 1997. Beside of these child health programmes, government of India has initiated many children and mothers related programme so that no any child deaths occur due to malnutrition.

CONCLUSION

Child malnutrition is a serious problem in India and as well as in Uttar Pradesh based on standards developed by WHO 56.8% of children under age 3 are stunted and 42.4% are underweight according to the latest report. And the percentage of wasted children is low than both which represent that chronic (long term) malnutrition is more than acute (short term) malnutrition. In this situation to improve child nutrition might usefully concentrate on Uttar Pradesh where the problem is particularly severe. Infant and child mortality rates in this state are also higher than national average. After analyzing demographic and socio-economic variable it is clear that poverty is most important factor which affects the child nutritional status and another factor women education is also valuable in child nutrition. Many child health programme are running in may village of Uttar Pradesh with working of Aganwadi and ANCs but there is something lack of willingness to fully devotion in improving child health. It is also necessary for improvement of child health, to improve the health facilities in backward areas of Uttar Pradesh so that our future which depends upon children might be nice and productive.

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SOCIAL SECTOR EXPENDITURE AND ECONOMIC GROWTH: DURING POST REFORM PERIOD

RichaMaurya*

ABSTRACT

Economists have been interested in the issues of economic growth for more than two hundred years; there has been an explosion of research on the empirics of economic growth during the last 15 years or so. The patterns of the growth of the group of developed countries and the group of developing countries have been found to be quite different. The growth of most developing countries is found to be characterized by instability and volatility. The first Human Development Report HDR (1990) brought out by United Nations Development Programme (UNDP) introduced a new way of measuring development by combining indicators of life expectancy, educational attainment and income into a composite Human Development Index (HDI) that purports to assess the scenario of average achievement in a country in three basic dimensions of Human Development, viz. (a) a long and healthy life, as measured by life expectancy at birth (b) knowledge, as measured by a synthetic combination of adult literacy rate and the combined gross enrollment ratio for primary, secondary and tertiary schools and (c) a decent standard of living, as measured by GDP per capita in purchasing power parity US dollars. The purpose of this paper is to examine the impact of economic reforms on social sector expenditures of India. It has often been pointed out that social sector expenditures were already the most vulnerable to reduction in the total budget even before India's reforms began.

Key words: *Welfare maximization, UNDP, purchasing power parity.*

INTRODUCTION

Economists have been interested in the issues of economic growth for more than two hundred years; there has been an explosion of research on the empirics of economic growth during the last 15 years or so. The patterns of the growth of the group of developed countries and the group of developing countries have been found to be quite different. The growth of most developing countries is found to be characterized by instability and volatility.

Welfare maximization is the central goal of all government programs. Economic growth and social development is the main instruments that promote the objective of government. The policy makers argued that expenditures in social sector play an essential role in the economic development of a country by maintaining law and order, providing economic infrastructure, harmonizing conflicts between private and social interests, increasing labor productivity througheducation and health and enhancing export industries [Khalifa (2001)]. The economic growth rate of a country would be meaningful only if it is accompanied by an improvement in the quality of human life, no matter what the level of growth (8 or 9%) is. According to J.R.D. Tata "I do not want India to be an economic power. I want India to be a happy country". Enhancing the quality of human life has been the subject

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matter of much academic study and public debate in India, but the focus has largely been on the performance of the economy as a whole and not on the level of enhancement on the quality of human life. Education has been regarded as one of the leading determinants of economic growth since the time of Adam Smith. Over time, many economic growth theories and models (such as Romer, 1990 and Lucas, 1988) have developed relating human development and economic growth. The belief, that human development promotes growth has led governments of manydeveloping countries to invest in the social sector. According to the economic theory, we will expect a positive causal relationship to exist between the two, for example the endogenous growth theory of Lucas explain that human capital is regarded as a factor of production and knowledge takes a central position which accelerates economic growth. It is a two-sector model. The first sector produces output using physical and human capital.

The first Human Development Report HDR (1990) brought out by United Nations Development Programme (UNDP) introduced a new way of measuring development by combining indicators of life expectancy, educational attainment and income into a composite Human Development Index (HDI) that purports to assess the scenario of average achievement in a country in three basic dimensions of Human Development, viz. (a) a long and healthy life, as measured by life expectancy at birth (b) knowledge, as measured by a synthetic combination of adult literacy rate and the combined gross enrollment ratio for primary, secondary and tertiary schools and (c) a decent standard of living, as measured by GDP per capita in purchasing power parity US dollars. The HDI combines normalized measures of life expectancy, literacy, educational attainment and GDP per capita for countries worldwide and a major breakthrough came in terms of creation of a single statistic, which would serve as a frame of reference for both social and economic development.The HDI assumes vast significance in today's world embracing wide range ofdisciplines. One may easily measure and compare spatial and time-series progress inhuman development amongst different countries. The HDI Rank of India is 127 out of 172 countries this shows that India came under the middle categories, which is not significant for the second highest growing economy. It is being said that HDI is the subset of social sector expenditure , as all the indicator of HDI are included in social sector so it can be examined that if we improve social sector HDI will also improve.

Drèze and Sen (1995) showed that primary education and health were already far more widespread at the beginning of economic growth in East Asian countries than they are today in India, which implies that education and health have been very important in East Asia since human resources greatly influence the progress of economic growth. The spread of education and health are not only determined by government expenditures, but also by the implementation of social services along with the provision of private services. However, India's low expenditures on social services are regarded as one of the main causes for its low social indicators. Social sector expenditures can be examined at different levels such as central government, state government, local government, the private sector, NGOs and the household.

The purpose of this paper is to examine the impact of economic reforms on social sector expenditures of India. It has often been pointed out that social sector expenditures were already the most vulnerable to reduction in the total budget even before India's reforms began. However, it has not been well examined whether the economic reforms were a turning point for the decline in expenditures. Furthermore, some earlier studies showed a reduction in social sector expenditures during the 1990s while some recent studies have shown an increase in social sector expenditures for the central government. Modern economists hold the view that public expenditure has a positive role to play in achieving definite ends. Its goal is to promote maximum social welfare, and its significance lies in the supply of those essential goods and services by the government for the satisfaction of collective wants, which might not otherwise be provided economically and efficiently by the private sector. The article focuses on the 1990s. This decade has been a rather special period, in economic as well as political terms. In 1991 there was an acute balance-of-payments crisis. The rupee was devalued, various international loans were taken to overcome the immediate problems, and a stabilization programme was introduced. This was followed by an adjustment programme. The result has been that the economic development model at the end of the 1990s was distinctly different from the development model pursued before 1991. The level of protection is less; the Indian economy has opened up much more to the world market than before.

Social sector comprising of sub-sectors like Education, Health and Medical Care, Housing and Water Supply is very essential for the economic development. Social development paves the way for economic development. Most of the social sector expenditure are centrally sponsored. This fact has been proof by the 11thfive year plan, which has second vol. on social sector expenditure.. The Government plays a very significant part in the development of the Social Sector. Now we are ready to welcome to 12th five year plan.This paper examines the situation of social sector and expenditure made on social sector in India.

This paper divides into five sections, second section deals with the review of the literature which emphasis on various expenditures made on social sectors. Third section deals with objective of paper. Fourth section deals with heads of social sector expenditure. Last section deals conclusion.

LITERATURE REVIEW

Pradhan (2009) investigates the causality between public education spending and economic growth in India during 1951 to 2001. The empirical investigation has been carried out by Error Correction Modeling. The findings suggest that there is unidirectional causality between education and economic growth in the Indian economy. The direction of causality is from economic growth to education spending and not vice versa.

An empirical study by Prabhu and Sarkar (2001) that examined the real per capita social service expenditures in the 15 states from 1974/75 to 1995/96 found that the declining trend in these expenditures started even before economic reforms began in 1991. By examining a longer time frame, their article found that economic reforms were not the turning point for changes in expenditures, although they examined only up to the mid-1990s. Other studies by Shariff, Gosh and Mondal (2002) and Dev and Mooij (2002) analyzed social service and rural development expenditures during the whole of the 1990s, and these studies pointed to an increasing trend in expenditures by the central government in contrast to the declining trend for state governments. However, it was not the intention of these latter two studies to examine whether the start of economic reforms was a turning point for social service expenditures or what the reasons were for the increases in central government expenditures while those in some states decreased. It has been seen from various studies that social sector expenditure decrease in 1990s, whether this was due to the economic reform or there were any other reason for decline in social sector expenditure.

Following independence the government of India perused an overregulated economic policy and took no initiative towards any radical change in social policies (Drèze and Sen 1995). Basu (1995) pointed out that the low budget for social services including education and health reflected the low priority given to these areas. Government officials generally chose to postpone “primary education for all” rather than hold back the completion of irrigation projects, and consequently when finalizing the annual budgets, funds were often taken from educational expenditures and shifted to other government programmes. Panchamukhi (2000) found low coefficients of correlation between government deficits and expenditures on education and health between the mid-1970s and mid-1980s. This implies that when the central government or state governments increased total expenditures, those for social service expenditures increased only a little. This implication could also be seen after economic reforms in that social service expenditures declined as governments sought to reduce fiscal deficits.

Some recent contributions to growth literature suggest that the focus should be on levels instead of growth rates. Differences in growth rates across countries may be largely transitory. Recent models of idea flows across countries such as Barro and Sala-i-Martin (1995) imply that all countries growth at a common rate in the long-run. In these models, long-run differences in levels are to be explained. Hall and Jones (1999) attempt an explanation of cross-country differences in output per worker in terms of differences in institutions and government policies, which they call social infrastructure.

Sato (1988) analyzed fiscal transfers from the central government to the states between 1972 and 1984, and he was able to explain the structural reasons why state governments had to level off or reduce social service expenditures. Fiscal transfers from the central government favored infrastructure investment especially in states with high per capita state domestic product (SDP). Meanwhile, the use of these transfers to raise state social service expenditures was restricted,therefore state governments generally did not increase social service expenditures at the cost of increased revenue deficits. Under this fiscal transfer system, states with low per capita SDP were less likely to increase social service expenditures, while states which strived to maintain high social service expenditures as a matter of state government policy were likely to experience overdraft problems and revenue deficits.

Nair's (1983) pioneering analysis covered 14 major states. He had put together data on SDP for the years 1950-51, 1955-56, 1960-61 to 1975-76 from different official and unofficial sources. The study showed that inter-state disparities in per capita NSDP, as measured by the coefficient of variation (CV), had declined over the period 1950-51 to 1964-65, but increased between 1964-65 and 1976-77. The CV was about 24 per cent in 1950-51, 18 per cent in 1964-65 and 28 per cent in 1976-77. Punjab (including Haryana), Gujarat and West Bengal were the high income states in 1950-51, 1960-65 and 1971-76. Bihar, Orissa and Uttar Pradesh were at the bottom of the income scale

OBJECTIVE

The objectives of this paper are :

1) To access the performance of social sector expenditure in India from the economic reform
2) Whether the economic reform was the turning point of decline in social sector expenditure. The data were collected from various NSS rounds, Socio- Economic Statistics.

MAJOR HEADS OF SOCIAL SECTOR EXPENDITURE

Social sector comprising of sub-sectors like Education, Health and Medical Care, nutrition and social safety, Housing, Water Supply and women agency and child rights is very essential for the economic development of any State.

1. Education: The role of education in facilitating social and economic progress is well recognized. Education, in its broadest sense of development of youth, is the most crucial input for empowering people with skills and knowledge and giving them access to productive employment in future. Improvements in education are not only expected to enhance efficiency but also augment the overall quality of life. The Eleventh Plan places the

highest priority on education as a central instrument for achieving rapid and inclusive growth. It presents a comprehensive strategy for strengthening the education sector covering all segments of the education pyramid. Elementary education, that is, classes' IVIII consisting of primary (IV) and upper primary (VIVIII) is the foundation of the pyramid in the education system and has received a major push in the Tenth Plan through the SarvaShikshaAbhiyan (SSA).

2. Health and medical care: The health of a nation is an essential component of development, vital to the nation's economic growth and internal stability. Assuring a minimal level of health care to the population is a critical constituent of the development process. Since Independence, India has built up a vast health infrastructure and health personnel at primary, secondary, and tertiary care in public, voluntary, and private sectors. For producing skilled human resources, a number of medical and paramedical institutions have been set up. Considerable achievements have been made over the last six decades in our efforts to improve health standards, such as life expectancy, child mortality, infant mortality, and maternal mortality. The Eleventh Five Year Plan will provide an opportunity to restructure policies to achieve a New Vision based on faster, broad-based, and inclusive growth. One objective of the Eleventh Five Year Plan is to achieve good health for people, especially the poor and the underprivileged.
3. Water supply, sanitation and clean living condition: Provision of clean drinking water, sanitation,and a clean environment are vital to improve the healthof our people and to reduce incidence of diseases anddeaths. Women and girls spend hours fetching waterand that drudgery should be unnecessary. Drudgeryis undesirable in itself and it also takes away other opportunitiesfor self-development. Drinking water is lessthan 1% of the total water demand and should havethe first priority among all uses of water. Water supply in urban areas is also far from satisfactory. As on 31 March 2004, about 91% of the urban population has got access to water supply facilities. However, this access does not ensure adequacy and equitable distribution, and the per capita availability is not as per norms in many areas. Average access to drinking water is highest in class I towns (73%), followed by class II towns (63%), class III towns (61%), and other towns (58%).the Eleventh Plan approach to deal with the problems of rural water supply, urban supply, rural sanitation, and urban sanitation.
4. Women agency and child rights: Women are significant contributors to the growingeconomy and children are assets of the future. Almost50% of our population today comprises womenwhile 42% is under the age of 18. For growth to betruly inclusive, we have to ensure their protection, wellbeingdevelopment, empowerment and participation.the Eleventh Five Year Plan is to end the multifaceted exclusions and discriminations faced by women and children; to ensure that every woman and child in the country is able to develop her full potential and share the benefits of economic growth and prosperity. Success will depend on our ability to adopt a participatory approach that empowers women and children and makes them partners in their own development. The roadmap for this has already been laid in the National Policy on Women 2001 and the National Plan of Action for Children 2005. Several initiatives are being taken to upgrade skills of women through training. There are about 800 Institutes (218 Women Industrial Training Institutes and 582 Women Wings in General Industrial Training Institutes)
5. Nutrition and social safety: At the beginning of the Eleventh Plan periodthere are serious

concerns around food and nutritionalsecurity. Agriculture has performed well below expectationsduring the two recent Plans. Cereal productionhas declined in per capita terms. The number ofthe poor has barely declined by 20 million people overthree decades, 19732005, from 320 million to 300million; and most of this decline has occurred duringthe most recent decade (1993/942004/05). Low and stagnating incomes among the poor have meant thatlow purchasing power remains a serious constraintto household food and nutritional security, even iffood production picks up as a result of interventionsin agriculture and creation of rural infrastructure. Malnutrition reflects an imbalance of both macro and micro-nutrients that may be due to inappropriate intake and/or inefficient biological utilization due to the internal/external environment.

Table 1.1- Situation of poverty in India

year	% of people BPL(rural)	% of people BPL(urban)	% of people BPL(combine)
1987-88	39.09	38.2	38.86
1993-94	37.27	32.26	35.97
1999-2000	27.09	23.62	26.10
2004-05	28.3	25.7	27.50

Poverty is the syndrome for India since independence. It is revealed from the data of various NSS rounds that poverty rate has reduced from 38.86% of BPL in 1987-88 to 27.5% in 2004-05. Yet in the year 1999-2000 it was only 26.1%. Though India has experienced various poverty alleviation schemes it could not be able to eradicate poverty. From various studies relating to evaluation of poverty eradication programmes, it is revealed that there is lack of good monitoring system and the neglect of agricultural sector development. It is suggested that the poverty alleviation programmes should be of agricultural oriented and agricultural-friendly.

DEVELOPMENT OF EDUCATION IN INDIA

Table 1.2-Pupil-teacher ratio in schools in India

Year	Primary (I- V)	Middle (VI-VIII)	Secondary((IX-XI)
1991-92	44	38	32
1992-93	43	38	31
1993-94	41	37	30
1994-95	44	40	30
1995-96	43	37	32
1996-97	43	37	32
1997-98	42	37	32
1998-99	42	37	31
1999-00	43	38	32
2000-01	43	38	32
2001-02	43	34	34
2002-03	42	34	33
2003-04	45	35	33
2004-05	46	35	33
2005-06	46	34	32
2006-07	44	34	31
2007-08	47	35	37

Source: Socio-Economic Statistics of India, 2011, RBI

The ratio is more or less stagnant over the post reform period. But the ratio is high; one of the reasons is that most of the primary schools in the villages are single-teacher school. Though it is consistent the strength per teacher should be further reduced in order to attain the qualitative education not only the quantitative educational development.

Table1.3 Literacy rates as estimated through surveys (percentage)

Year	Literacy rate
1993-94	56
1995-96	59
1997-98	62
1999-2000	62
2004-2005	64
2011*	74.04

Source: Various NSS rounds: Population Census-2011

It was shown that there is improvement in the literacy rate of India after the reforms. But at the same time it needs to be accelerated by facilitating the educational sector with adequate physical and human infrastructures.

Even though there is a right to education, it was revealed from the table 1.3, we failed to achieve cent percent of enrollment in the age group of 11-14 years. There are two reasons for that, in many of the villages schools are only at the primary level and parents were also not allow this age group of people to school and make them as a wage earner of the family. There is a need of policy measure to overcome these two problems.

SOCIAL SECTOR EXPENDITURE IN INDIA

As per the table shown below Public expenditure on the social sector is essential to attain the social as well as economic development of the country. It was portrayed that the share of social sector expenditure to the aggregate expenditure of India was 38.57% and it was only 39.44% in the year 2009-2010. It reveals that the expenditure on social sector in India is stagnant over the post-reform period. And it was noted that it was only 29.65% in the year 2004-05 and 28.42% in the year 2003-04. It was very low in the entire study period. It should be raised in order to attain higher human development.

It were said by many economists that, economic reform was the turning point of decrease in social sector expenditure, it is being clear that social sector expenditure starts decline even before the economic reform began fiscal deficits worsened in the 1980s Economic reforms, therefore, largely did not have a major negative impact on expenditures. In fact there was a positive impact on some states, which often were those that received more foreign aid than other states. By the late 1990s, states expending more on the social sector changed from states with a traditionally strong commitment to the social sector, such as Kerala, to states having higher revenues including aid from outside the country. It is being clear from two reasons:

Firstly, there was an increase in external aid from outside the country for social services. In 1990/91 such external assistance to social sectors was only 4.3% of total aid; however, this increased over the 1990s reaching 25.9% in 1999/2000.

Table 1.4 Social Sector Expenditure in India

Year	Exp On Social Sector	Aggregate exp	% Share Of Social Sector Exp
1990-91	91,088	35,132	38.57
1991-92	107929	39,255	36.37
1992-93	119335	44,468	37.26
1993-94	133849	49,451	36.95
1994-95	159147	55,143	34.65
1995-96	174632	63,975	36.63
1996-97	199254	71,896	36.08
1997-98	223924	81,427	36.36
1998-99	261419	98,127	37.54
1999-00	307977	1,13,690	36.92
2000-01	339835	1,24,919	36.76
2001-02	368680	1,29,253	35.06
2002-03	410249	1,33,648	32.58
2003-04	514302	1,46,164	28.42
2004-05	553428	1,64,077	29.65
2005-06	561682	1,89,430	33.73
2006-07	657280	2,22,988	33.93
2007-08	752324	2,65,466	35.29
2008-09	940423	3,59,849	38.26
2009-2010	1055778	4,16,395	39.44

The World Bank group in particular, composed of the International Bank for Reconstruction, the International Development Association and other bodies, played a large role in increasing aid to social services. From 1971 to 1990 the social sector received only 3.5% of the World Bank's project loans to India because the government was not really interested in aid for this area (Guhan [1995]). In 1991 when the World Bank disbursed structural adjustment loans, its Country Economic Memorandum provided for lending to social services that included primary education, health, nutrition and rural water supply in order to mitigate the cost of structural adjustment (World Bank 1991). This indicated large-scale loans to these areas which continued even after structural adjustment loans were ended in 1992. In fact, between 1990 and 1998, India was the largest recipient of World Bank loans for health (Gupta and Gumber 2002).

The second reason for the increase in social service expenditures was the increase in salaries for civil servants based on the recommendation of the Fifth Central Pay Commission. Expenditures in salaries and pensions for central government civil servants increased 33.9% over the preceding year in 1997/98 compared with 15.2% in 1996/97 (Ministry of Finance [1999]). This had an impact on social service expenditures. For example, the growth of non-plan expenditures (in current prices) including for human resources became more than that of plan expenditures. However, the number of central government employees was less than that of state government employees; therefore the growth of non-plan expenditures was not so significant. Therefore, the main reason for the increase in social service expenditures in the 1990s was also attributable to external aid, which was allocated as additional central planning expenditures to each state government.

CONCLUSION

Social service expenditures started to decline in the 1980s due to their worsening fiscal situation. The trends in expenditures after 1991 were a continuation those from the pre-economic reform period. It is clear that revenue was sluggish from the mid 1980s which was a major determinant of social service expenditures. External aid or allocated more of their ownbudget to social services, which led to a rise in social service expenditures after economic reforms, began.

Many policies and programs have been made to reduce poverty, improving gross enrollment ratio of education and HDI. A special attention was also given in 11th five year plan (vol. 2).

Indians are good planners but not good implementers. Though we had lot of programmes andplans for a social sector development there is no real improvement in the social sector in India.Only an increase in the economic growth is not a development of the whole nation, actually it isthe development only for few people. There is a need for sustainable and inclusive strategy forsocial sector of India in order to achieve real development not mere numbers and targets.

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PERCEPTION OF LIFE INSURANCE POLICIES IN RURAL INDIA

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ABSTRACT

In spite of awareness about insurance in India, rural India still lacks in terms of availability of various financial products especially the risk products like insurance. Rural insurance statistics still indicates a significantly low penetration and poor density even after the privatisation of insurance sector in 1999. Rural India offers a tremendous scope for insurers where the protection of human life and income generating assets is a matter of concern. Regulators have also tried to impose rural insurance obligations for the insurance companies. This paper examines the present state of affairs of rural life insurance in India and attempts to explore the issues and challenges which led to poor penetration of rural life insurance markets. A field survey in Aligarh & Agra Region of the rural customers has been conducted to examine their perception and attitude towards buying life insurance products. This paper also summarize the rural insurance marketing practices by life insurance players in India and offers suggestive remarks for capturing the rural potential and lastly this paper discuss about micro-insurance & its challenges in short details which is an opportunity as well as a responsibility.

Key words: *Rural Insurance, Penetration, Marketing Strategy, Perception, Micro-Insurance.*

INTRODUCTION

Rural India and Socio-Economic Conditions

More than 75% of India's populations live in rural areas. Yet against any human indicators the performance of rural India lags far behind urban India. There are *tremendous inequalities* in terms of educational achievements, employment opportunities, purchasing power, health and its attributes including, infant mortality, maternal mortality, general morbidity, economic security in terms of assured income opportunities and so on. Rural India has hardly 31% hospitals and 27% medical personnel. Barely 25% of the rural population has access to clean drinking water. 97% of them have no sanitation facility. One can well imagine the poor quality of life and its expectancy under these conditions. India today is in the middle of that phase of socioeconomic transition in which population explosion and increasing migration to town are resulting in breakdown of the traditional family as a social support unit. At the same time there is increasing integration of rural and urban economies. Several studies, especially that of the National Center for Applied Economic Research (NCAER) has shown that the need for goods and services in rural India match that of urban India. In fact, contrary to the general belief, there are sufficient resources as well as willingness to spend among the rural population for quality services. The *service sector in the rural areas is expanding* as fast as in the urban areas. Diversified financial services have many takers in rural areas, among the small as well as big earners, for each have their specific needs. The *rural credit dynamics* point out that though the

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formal sector, i.e. banks, etc., has penetrated well into the rural areas, the extent of informal credit mechanisms and its depth is still, more extensive. Their deep-rooted linkages with rural poverty and indebtedness are well researched. Several Empirical studies show that formal credit access is more for the well to do segments and in relatively developed rural areas. Easy accessibility is the most important factor in determining the popularity of the informal credit systems among the rural people. Further, the transaction costs in terms of time are minimal, although costs are destructively high in terms of interest. In such a scenario, "the need now is to set up *a framework and arrangements which encourage people to make provisions for their own financial security*". Everyone deserves protective provision to meet instant or unexpected need for extra money: premature death of the breadwinner, saving for old age, medical and disability needs. Savings and Insurance are two such financial services that can take care of the financial security needs of the population. Social security is an essential requirement of social justice. Some Indian States have shown that it is possible to make a successful attempt to improve accessibility to the rural population to improve their lot through various social schemes. There are lessons to be learnt from the successful stories of the Nutrition program of Tamil Nadu, the employment schemes of Maharashtra and Gujarat, the public distribution system in Andhra Pradesh and land reforms in West Bengal. The results of these schemes do indicate the enormous potential in peoples' participation in development. Insurance becomes the 'critical' input for a more secure present as well as future of individuals and families. Insurance and especially Life Insurance is a unique service that everyone needs. Those who do not have much definitely need to protect the little they have, and those who have the resources, need 'more of the same".

Products from Life Insurance-a way of Ensuring Economic Security

It is an accepted fact that any person values more, the service that comes at a cost than that which comes free. *When people are made partners in programs of* social security they will utilize them much more effectively. Life insurance is a definite social security intervention mechanism that has not been recognized adequately, especially in the context of the needs of rural India.

Illness is one major factor that contributes to human deprivation and economic insecurity. It affects both the patient and his dependents. Further, it makes the community around him that much vulnerable to disease, if the effected is not in a position to prevent or cure him in time. This leads to more insecurity. Hence, it is both in the interest of self, as well as the community to insure oneself. **Insurance can truly be a direct link between macro economic needs of the country for productive resources by capital accumulation and micro need for better and secure life of the individual.**

LIC claims that over 51 % of its new policies are sold in rural areas. "The impetus on rural thrust can be further visualized from the fact that nearly half of LIC's agents are from rural areas and over half of its branches are in no facility areas."But the well known but not admitted fact is that, in LIC the classification of business secured is on the basis of residency of the Agent than the residency of the insured population in rural areas. It is only rural Postal Life Insurance that really covers rural population.

Life Insurance in Rural Channels & It's Perception

At present 8-10% rural households are covered under life insurance schemes and remaining 90% can be targeted for new innovative insurance schemes. About **200 million rural populations out of 700 million have the surplus money to save money** to their available option post offices and a few limited commercial banks rural extension counters. With the majority of the population still residing in rural areas, the development of rural insurance will be critical in driving overall insurance market development over the longer term. There is a need to create a broader awareness about life insurance in all geographic areas in India through specific collective campaigns. This is an important precondition to developing insurance and increasing penetration. Awareness is lacking not only in rural areas, small towns and among the less educated persons. Even in urban areas, vast segments of population seem to have erroneous perception or impression which needs to be corrected. Before proceeding to rural channels we try to give concepts of perception.

Rural Customer Perception of Life Insurance

Customer awareness or perception as a concept is of universal concern for all economies of the world. In the context of a booming Indian economy and unprecedented growth being witnessed by Insurance industry - especially life insurance -, it would be interesting to examine this concept in depth.

Perception is defined as "the process by which an individual receives, selects, organizes, and interprets information to create a meaningful picture of the world". Perception is the process by which an individual selects, organizes and interprets information to create a meaningful picture of the world. Individuals act and react on the basis of their perceptions, not on the basis of objective reality. Hence, for a marketer to know the customers' perception is more important than their knowledge of objective reality. What consumers think about a product, and what it actually is affects their actions. Individuals make decisions and take actions based on what they perceive to be reality is very important to marketers to understand the whole notion of perception and is related concepts, so they can more readily determine what factors influence consumers to buy.

Selective perception process

Stage Description

- Selective exposure consumers select which promotional messages they will expose themselves to.
- Selective attention consumers select which promotional messages they will pay attention to.
- Selective comprehension consumers interpret messages in line with their beliefs, attitudes, motives and experiences.
- Selective retention consumers remember messages that are more meaningful or important to them.

Low penetration of insurance in India, as else where, has varied explanations, economic and sociological. One basic factor that puts a brake on growth is low propensity to consume: low propensity for life insurance, not necessarily because of considerations of affordability nor because of inadequate range of insurance products and services. The major determining factor is lack of awareness of life insurance per se. And this phenomenon is not confined to rural and semi rural segments of society: it pervades urban populace as well. Surprising, isn't it- but true. Customer's awareness is the mainspring of demand creation which runs the wheels of industry any industry for that matter. To this 'demand' curve, suppliers and service providers respond, by making available to consumers what they want, meeting their needs and expectations. This is the way two usages 'customer needs' and 'customer satisfaction' emerged and these later travelled to domains of 'customer delight' and 'customer happiness'. Customer's awareness, thus, becomes the genesis for business entities. For life insurers to initiate, expand, grow and sustain by responding to larger and larger volumes of demand emerging with greater awareness, and setting in place supply chain management. For life insurers to penetrate significantly and forge ahead in the emerging market, enhancing customer awareness becomes the prime focus of all activities.

Improvement for Perception

Life insurers, both in public sector and private sector, should appreciate this 'moment of truth' so to say and electrify their energies and resources intelligently to bring about greater rural customers awareness as a basic facilitator and an important constituent of business strategy. This will create synergy all across the organization. It should be appreciated that Consumer awareness provides a new frame of reference for value creation as also an opportunity for innovation. It is time to think out of 'In box' and adopt novel strategies and measures to foster awareness.

Launch awareness movement through various convenient people-oriented programmes.

Through media, corporate publicity, rural camps and popular communication channels including Radio, TV, and Publicity Vans;

Awareness of products and services though visuals that trigger curiosity and manifest in terms of desire and later sale-purchase transactions;

Beyond these stages, to take up awareness of other aspects such as product, price, quality, service , convenience, status, pride, joy and ease;

Campaigns to educate rural and semi urban masses on the need for security that protects their livelihood, security for produce and belongings and create feel-good feelings;

Engage NGOs with proven credentials and rural intermediaries.

There is excellent opportunity in the insurance industry to employ access-based positioning by targeting the rural insurance sector. For rural marketing, the insurance organizations are looking forward to the advisors with thorough knowledge of products and local language and who have an ability to work very hard. They also must be well versed in the art of public speaking and having excellent public relations with the local/state government and municipality officials. The players in rural markets are now exploring new distribution channels like a tie-up with the Micro Finance Institutions (MFIs). The FOTRTE research found out that there is an extensive network built by the rural development agencies, the banks, the cooperative institutions, the NGOs and even some industrial houses in the rural sector. They have advised the insurance players to work out collaborative arrangements with these institutions for a mutual advantage. Moreover, Self Help Groups, youth clubs and cooperative societies can be utilized for the group insurance policies too. Besides this, to extend its services to rural areas, LIC is looking forward to increase its satellite branches in specifically in rural areas. Presently, it has 24 satellite centers nationwide.

The channels for distribution of insurance products in rural areas are the panchayats, district cooperative banks, agriculture & dairy cooperatives, and of course the Agents. Since no player is using these channels for effective rural reach, it can well be said that **the *rural market is not sleeping any longer; the insurance players are.*** The NGOs based in rural areas and cooperatives are helping the new players get a foothold in the rural market. These channels have the potential to make the difference as they enjoy the trust of the people. ICICI Prudential Insurance and HDFC Standard Life Insurance have partnered with NGOs to sell some low cost insurance in rural areas.

In summary get into such massive efforts to reach out to all and sundry, a new phenomenon will emerge to their delight viz., opening up promising avenues for 'creation of new markets' the basic fundamental and prerequisite for sustainable growth. Market dynamics will rule and unfold a stage through a process of evolution 'new value creation' the sum total of all innovations.

Emerging Rural Life Insurance Market

Presently, India is globally the fifth largest life insurance market in the emerging insurance economies, and its insurance market is growing at 3234 per cent annually.

According to a report, 'Insurance in Next 2 Years', by ASSOCHAM, in May 2008, the insurance sector size was estimated at US$ 12.8 billion, and it is likely to see an unprecedented growth of 200 per cent, touching US$ 51.2 billion by 200910. Rural India may offer a business opportunity worth US$ 23 billion for the insurance companies if the segment can be wooed with innovative saving schemes at affordable premiums.

Out of 78 per cent households having awareness about life insurance in rural India, only 24 per cent were policy owners. India's untapped rural market holds tremendous growth opportunities for life insurance companies with business worth US$ 231.67 million for insurance firms. According to international consultancy firm Clint, the rural life insurance market will grow to a potential of US$ 1.9 billion by 2015 from the current US$ 487 million.

Another opportunity lies in offering low-interest personal loans to the rural population. To tap this market, microfinance institutions (MFIs) are now using mobile phone technologies to augment the reach of micro-financing in rural India. India is fast emerging on the world map as a strong economy and a global power. The country is going through a phase of rapid development and growth. All the vital industries and sectors of the country are registering growth and thus, luring foreign investors and life insurance sector is one of them.

With a huge population and large untapped market, insurance happens to be a big opportunity in India. The insurance business (measured in the context of first year premium) grew by 47.93% in 2005-06, surpassing the growth of 32.49% achieved in 2004-05. However, insurance penetration in the country continues to be low.

Insurance penetration or premium volume as a share of a country's GDP for the year 2005 stood at 2.53% for life insurance and 0.62% for non-life insurance. The level of penetration tends to rise as income increases, particularly in life insurance. India, with its huge middle class households, has exhibited potential for the insurance industry. This has made international players to look at the Indian market. Moreover, saturation of markets in many developed economies has made the Indian market all the more attractive for global insurance majors.

The total life insurance premiums market in India could grow from Rs 16, 8600 Crore (Nearly US$ 42.85 Billion, Rs 1 = US$ 0.0254146) in 2006-07 to Rs 1,230,000 Crore (Nearly US$ 312.6 Billion, Rs 1 = US$ 0.0254146) by 2010-11.

The total non-life insurance premium is expected to increase at a CAGR of nearly 24.7% for the period spanning from 2007-08 to 2010-11.

Rural Health insurance is poised to become the most coveted business for non-life insurers in the next three years after motor insurance. A booming life insurance market has propelled the Indian life insurance agents into the top 10 country list in terms of membership to the Million Dollar Round Table (MDRT) an exclusive club for the highest performing life insurance agents.

Findings, Suggestions & Recommendations

Insurers should innovating new products with unique features having some multipurpose benefits at the same time which could create an appeal to the customers, for example a Insurance policy in which products can give benefits to insured person and nominee also and at the same with safety and security and as per their religion as in case of Muslim's customer where they looks for “halal investment”. In case of premium, premium of products should not be too high. Marketer should follow the strategy of 'Good quality products and services in lower premium category for rural customers'.

It was seen that generally customers like to visits insurer's office in case of private life insurance companies as rural customers generally prefer LIC products because of old mind-set of Government or non-government, so need to update rural customers about Operations and structure of Private life Insurance companies.

Regarding promotion, insurer must build up unique imagery appeal for their insurance products through creative advertisement. More intense research works should be initiated, studying the specific needs and attributes sorted by the rural customer for different kinds of product categories. Focus should be given on improvement of services given by the rural agents.

Insurer should spread more awareness and relax the product complications to make it easier to understand. Charges of the insurance companies should be kept low. More personalized follow up by the companies instead of sending couriers for information because of rural areas about their investment and all updates. More branches should be opened in semi-urban areas or rural areas. Finally, the largely underserved rural sector holds great promise for both life and non-life insurers. To unleash this potential, insurance companies will need to show long-term commitment to the sector, design products that are suitable for the rural population and utilize appropriate distribution mechanisms. Insurers will have to pay special attention to the characteristics of the rural labor force, like the prevalence of irregular income streams and preference for simple products, before they can successfully penetrate this sector. Innovative products, smart marketing, and aggressive distribution have enabled fledgling private insurance companies to sign up Indian customers faster than anyone expected. Indians, who had always seen life insurance as a tax saving device, are now suddenly turning to the private sector and snapping up the new innovative products on offer.

CONCLUSION

There is low level of awareness and understanding of life insurance products, and more generally, of the operation of life insurance companies in rural customers. There is confusion in the minds of customers between life insurance, general insurance, health insurance, and some investment products (such as endowment products).

However, the Indian insurance industry continued to face various problems such as low penetration (only 22% of the insurable population were insured) and low premium to GDP ratio (of 1.3). Growth was also hampered by the existing customer perception that life insurance was a tax saving tool. Another problem was that the entry of many players had cluttered up the market. The trend of insurance companies shifting from a product-focused view to a customer-focused one has been developing recently as insurance products become increasingly hard to differentiate in fiercely competitive markets. Insurance companies in India are consequently directing their strategies towards increasing customer satisfaction and loyalty through improved service quality both for rural or urban markets. It is becoming desirable for insurance companies to develop a customer centric approach for future survival and growth. The awareness has already dawned that prompt, efficient and speedy service alone will tempt the existing customers to continue and induce new customers to try the services of the company and with the increasing demands from different customer insurance sector has become competitive. Customers are becoming increasingly aware of their expectations, and demand higher standards of services, as technology is enabling them to make comparisons quickly and accurately. Their perceptions and expectations are continually evolving, making it difficult for service providers to measure and manage services effectively.

In spite of urbanization in India, rural India still lacks in terms of availability of various financial products, especially the risk products like insurance. Insurance of rural India is still indicating low penetration levels and poor densities. The situation has not changed post privatization in 1999. The Insurance Regulatory and Development Authority (IRDA) have by guidelines, imposed rural insurance obligations on every insurance player. But, the imposition of these guidelines has not improved the rural penetration. The private players lack penetration levels in the rural market. The situation of Life Insurance Corporation of India (LIC) is better because it has been in existence for decades.

With increase in population and income there is a wide scope in insurance sector. Insurance sector provides some security to the customers for any type of mis-happening. In this sector, IRDA plays an important role and time to time gives important guide lines to various companies. Still, LIC plays an important role and has maximum share in this sector. Recently banking sector has also moved towards insurance sector since they would get better dividends than the commission they would get by entering into partnerships with other major insurance market players. Union Bank, Federal Bank, Allahabad Bank, Bank of India, Karnataka Bank, Indian Overseas Bank, Bank of Maharashtra, Bank of Baroda, Punjab National Bank, and Dena Bank are planning to enter in this sector. Among private sectors Max New York insurance company plays a vital role. There are various factors that affect the consumer buying decision and also influence consumer thinking when they are planning to invest in insurance scheme .Most of the customers show their interest in life insurance having higher risk coverage and also for good return with safety. The roles played in perception of life insurance policies in rural market by members of the family varies with knowledge parameters as well as with the typed of products and sometimes with the company name also. While a number of psychological variables are useful in obtaining into consumer's perception towards buying life insurance policies in rural areas. The insurance company name also plays an important role in purchasing. Since no insurer player is using proper channels for effective rural reach, it can well be said that **the *rural market is not sleeping any longer; the insurance players are!***

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CORPORATE SOCIAL RESPONSIBILITY IN OPERATION

Meetu Chawla*

ABSTRACT

"Operating a Business in a Manner that Meets or Exceeds the Ethical, Legal, Commercial And Public Expectations That Society Has From Business." CSR

Corporate Social Responsibility is not about ecological accountability or having a recycling policy, it is about considering the whole representation of company, internal to external stakeholders, in every decision that a business takes during day-to-day operations. It indicates the policies and procedures applied by firms to attain certain sets of objectives, corporate missions and visions with regard to stockholders, employees, customers, suppliers and different regulatory agencies and the community at large. CSR shows long term commitment of corporate towards the societal development. Rising economies such as India have numbers of companies enthusiastically engaged in CSR activities. Various organizations in India have been taking up CSR initiatives and consolidating that in their business processes. Companies are now having separate departments and terms that develop policies and strategies for their CSR programs and also making separate budgets for these programs. By using secondary data this paper analysis the concept of CSR, its importance, relationships between stakeholders and corporate social responsibility (CSR) by showing responsibilities of organizations and stakeholders for each other and also various leading examples of Indian organizations fulfilling its responsibility towards society by using various modes.

Key words: *CSR, Stakeholders, Initiatives, Commitment.*

INTRODUCTION

Corporate social responsibility is not a new concept in India. However, new is the shift in focus from earning profits to meeting societal requirements.

"Dharma is for the stability of society, the maintenance of social order and the general well-being and progress of humankind."

Karna Parava from Mahabharata (Chapter 69-verse 58)

One of the most frequently asked question, mainly by all those individuals and..Organisafions. dealing' with CSR issues is, What does 'Corporate Social Responsibility' mean?

Corporate Social responsibility also known as Corporate Citizenship, Social Performance, Corporate Conscience is a form of Corporate self-regulation integrated into a business model. The concept of CSR emerges by the idea that corporations no longer act as an isolated economic entities it have to work in collaboration so as to earn profitability and survival. CSR policy functions as a built-in, self-regulating mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards. and international norms. CSR is a process for business to encourage a

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positive impact through its activities on the environment, consumers, employees,: communities, stakeholders and all other members of the public as :whole who may also be considered as stakeholders,

"Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well-as of the local community and society at large."

CSR is closely linked with the principle of sustainable, development, which' focuses that enterprises while making decisions not just have to consider financial factors but also social, and' environmental factors.

OBJECTIVES OF PAPER

The following are the main objectives of the study:

· To study of responsibilities shared by Stakeholders &-Organization in respect of ESR. · To have awareness about lndian companies which prioritize the task of CSR.

RESEARCH METHODOLOGY

As per the requirement of the objectives of the study, the research design used for the study is of descriptive type. Keeping in view of the objectives which are set this research design was .adopted for 'greater accuracy :and in depth analysis of the research study. Secondary .data was available extensively used: for the study, Data from various news articles, Books and Web were used which were enumerated.

EVOLUTION OF CORPORATE SOCIAL RESPONSIBILITY

Evolution of the CSR can be classified into various periods, It. starts with earlier period followed by [he development of unique trends in the 1970. The 1970s trends are followed, by the shifts that existed during the 1990s (Matten and Moon. 2005), Following figure shows the historical timeline of CSR as a concept of business theory:

Figure 1: History of Corporate Responsibility.

THE EARLY CLASSICAL PERIOD

CSR was looked just as product of the industrialization process at that time. With the development of big companies in 1870s the tasks of these companies increasingly affected other society domains. From 1900 through 1920, extra rules and laws based on business social responsibilities were passed.

THE IMMEDIATE POST WAR PERIOD

The debate over the social responsibility of business had achieved huge Success during World War II. By this time corporate philanthropy had already become pan of normal social and business life. Two principles, stewardship and charity formed the foundations for contemporary views on CSR.

TRENDS DURING THE 1970s

During 1970s the focus is shifted from corporate responsibility to the corporate responsiveness concept. This new focus on responsiveness altered, the emphasis from what organizations could do to what organizations could do to have better sustainability.

SHIFTS DURING THE 1990s

In the 1990s, the concept Of CSR emerged as the outcome of new forms of stakeholder engagement and social regulation. Critics and Scholars improved their analysis to business ethics, corporate social performance, green marketing, stakeholder theory and citizenship theory.

1. Source : Johnson (2010). "A Critical Examination of Firestone's Operations in Liberia : A Case Study Approach". Author House. USA

IMPORTANCE OF CORPORATE SOCIAL RESPONSIBILITY

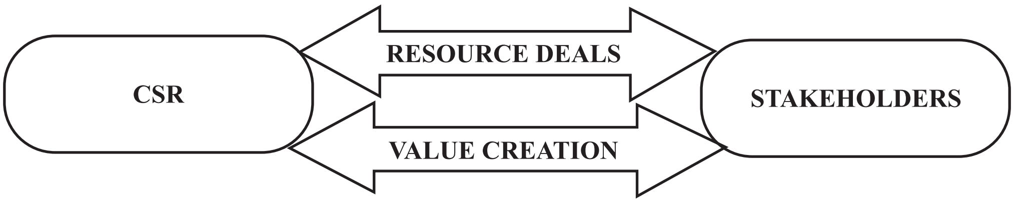
Corporate social responsibility leads to various direct and indirect benefits and advantages to the corporation that adopt it (Bueble. 2009). In synthesis, the benefits and advantages that corporations adopting Corporate social responsibility initiatives may obtain are the following (Campbell. 2007):

1. Increased employee loyalty and retention:
2. Gaining legitimacy and access to markets:
3. Less litigation
4. Increased quality of products and services:
5. Bolstering public image and reputation and enhanced brand value:
6. Less volatile stock value:
7. Avoiding state regulation: and
8. Increased customer loyalty.

Corporate social responsibility (CSR) activities contribute to the macroeconomic development of a developing country through sustainable benefit to all. At the same time. optimum national impact, cooperation and comunication would be encouraged and socialized.

CORPORATE RESPONSIBILITY- STAKEHOLDERS

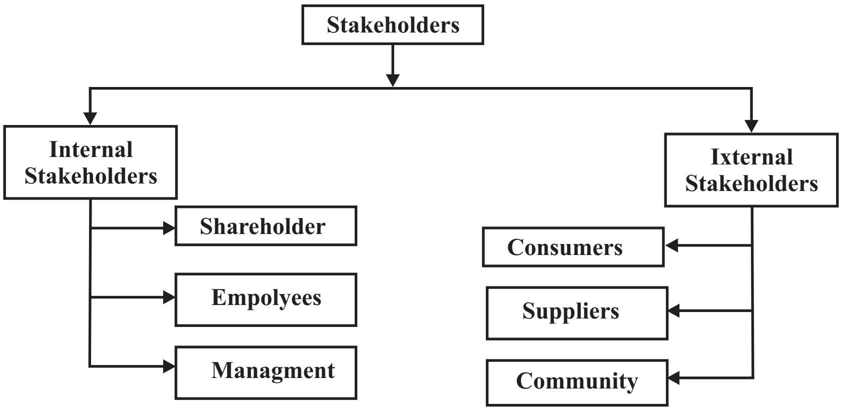
For business to be successful it is necessary to maintain good relationships with all their stakeholders. These relationships can be strengthening, if organizations fulfill their obligations towards their stakeholders like stakeholders are l;,flfilling their responsibilities towards organization.



Relationship between CSR & Stakeholders

STAKEHOLDERS AN OVERVIEW

The stakeholders of an organization are all those who participate in some way, in the activities of the organization. The objective of most businesses was to enhance the shareholder value, but now the focus is on satisfying all stakeholders by allowing them to share in the profits of the corporation. Based on their relationship with organization, stakeholder can be categorized as:



INTERNAL STAKEHOLDERS & CSR:

SHAREHOLDER: Shareholders have a primary stake in the business. They are considered to be the. "owners" and "members" of the corporation as they help to achieve the company's goals by their investment. But sometimes in efforts to fulfill corporate objectives like cost minimization and profit maximization, corporations tend to disregard the interest of their shareholders. Following points specifics the responsibilities shareholders and organization have for each other:

Responsibilities of Shareholders: As owners of the company they have certain responsibilities towards the organizations, which include:

- Maintaining good relationships with top management.
- Exercising their voting rights.

Responsibilities of' Organization: As owners shareholders are investing money for organization growth, in turn organization have to do following:

- Managing the company efficiently in order to secure a fair and competitive return on their Investment.
- Respecting the shareholders requests, suggestions, complaints and Formal resolutions.
- Disclosing relevant information to shareholders, subject only to legal requirements and competitive constraints.
- Protecting & increasing shareholder's assets.

EMPLOYEES: A legal contract or employment governs the relationship between the organization and the employee. This relationship is considered important by the society because employees majority contribute their efforts for the development of the organization which indirectly improves society. The employment contract places certain responsibilities of employer and employees for each other. The scope of these responsibilities is determined by the nature of employment.

Responsibilities of Employees:

- Contribute their efforts and time towards the development of the organization, which in turn improves society.
- Be loyal towards the organization.

Responsibilities of the Organization:

- To provide adequate compensation.
- To provide good working conditions those protect each employee's health.

- To encourage and assist employees in developing skills and knowledge those are required for accomplishing the task.
- To engage in negotiation when conflict arises.

McDonald's- Commitment to employees (Leading Example)

McDonald’s and its independent owner/operators have made five people principal which reflect McDonald’s values, culture and also describe their commitment fulfilment for employees.

1. Respect and recognition

a) Employees are respected and valued.
b) Employees are recognized formally for good work performance, extra effort, teamwork, and customer service.

2. Values and Leadership Behaviors

a) We communicate openly, listening for understanding and valuing diverse opinions.
b) All of us act in the best interest of the company.

3. Competitive Pay and Benefits

a) Pay is at or above market rates.
b) Employees value their pay and benefits.

4, Learning, Development and Personal Growth

a) Employees receive work experience that teaches skills and values that last a lifetime.
b) Employees are provided the tools they need to develop personally and professionally.

5. Resources to Get the Job Done

a) Employees have the resources they need to serve the customer.
b) Restaurants are adequately staffed to allow for a good customer experience as well as to provide schedule flexibility, work-life balance and time for training.
It is the employees who work in the organization and their skills & knowledge really count. Therefore, treating them badly will hurt the companies in the long run.
MANAGEMENT: All the decisions which management takes have direct impact on the work as an employee as well as welfarist for the organization and its stakeholders.

Responsibilities of management:

- Duty of safeguarding the welfare of the corporation.
- To balance multiple claims of different stakeholders like high returns for owners, higher wages for employees, environment friendly equipment for local community, etc.

Responsibilities of Organization:

No doubt, each and hands of management but in certain aspects organization management.

- Have proper implicit and explicit employment contract.
- Not to interfere in every activity and every decision management.

EXTERNAL, STAKEHOLDERS & CSR:

CONSUMERS: Like as, blood is required for survival of human being customers are required for the survival of organization, Consumers exchange resources for the products of the firms and return receive the benefits of the products. So by providing attention management automatically fulfils the needs of suppliers and owners. responsibilities customers and organizations have for each other:

Responsibilities of Consumers:

- To make timely payment for organization goods and services.
- Not make false claims.

Responsibilities of Organization:

- Producing goods as per the needs of consurners.
- Improving their standard of living by producing high quality goods and services.
- Ensuring safety by not producing hazardous product.
- Providing adequate and quick service.

For the success of corporation customer's satisfaction is essential. By positive 'word of mouth' of customers sale of a product increases at high level. So. corporations have to fulfill their responsibilities through five R's- Right Quality, Right Quantity, Right Time, Right Place & Right Price.

SUPPLIERS: Suppliers are not directly considered as firms stakeholders. But. suppliers plays significant role in the success of business, raw materials the.,,' supply will determine the final product's quality & price.

Responsibilities of Suppliers:

- Not to charge excess price.
- Provide good quality of raw material.
- Not to take advantage of firm's position.

Responsibilities of Organization:

- Share information with suppliers & integrate them in the planning processes.
- Ensure that business activities are free from coercion & fraud.
- Pay suppliers on time & in accordance with terms agreed.
- Make long term relationship which leads to stability.

COMMUNITY: Community gives the business right to build or rent facilities, benefit from the tax revenues, infrastructure etc. in return, the firm should act in a responsible way. The firm cannot harm the community by providing hazards in the form of pollution & toxic waste.

Responsibilities of Community:

- To provide all resources which firm required.
- Provide proper infrastructure for their development.

Responsibilities of Organizations:

- Respecting human rights.
- Supporting peace, security & social integration.
- Collaborating efforts that aim at improving the standards of health, education, workplace safety & well-being.
- Promoting sustainable development and playing a leading role in preserving, enhancing the physical environment & conserving tile earth's resources,

Dabur- Social Responsibility

"What is that life worth which cannot bring comfort to others', these words of Dr. S.K. Burman have inspired generation of Dabur. Keeping these golden words in mind, Sundesh or Sustainable Development Society was set up to carry out welfare activities aimed at improving the quality of life

of the rural people in its area of operation. This society is given complete financial and managerial support by Dabur India limited. Sundesh is engaged in providing health services,
non-formal education and training in income generating activities.

CORPORATE SOCIAL RESPONSII31LITY IN INDIA

infosys: Create path for overall development of society

lnfosys is aggressively involved in a variety of community growth programs. In 1996. the company created the lnfosys Foundation as a not-for-profit trust to which it contributes up to 1 percent of profits after tax every year. The education and Research Department at infosys also works with employee volunteers on community development projects. The management team at lnfosys continues to set examples in the area of corporate citizenship. They have taken initiatives to work in the areas of research and education, community service, rural outreach programs, employment, healthcare for the poor, education, arts and culture, and well:are activities undertaken by the Infosys Foundation.

Aptech: Creates way for education development.

Aptech a leading education player with a global presence has played wider role in encouraging and nurturing education throughout the country since its inception. As a global player with complete solutions-providing capabilities. Aptech has a long history of participating in community activities. It has. in association with leading NGOs, provided computers at schools.
deprived education, training and awareness-camps.

Anand Corporate Services Limited: Alignment of corporate goals to large societal goals.

Anand has a long-lasting commitment to fulfilling the needs of the society, it belief that for any economic development to be meaningful, the benefits from the business must trickle down to the society at large. Anand is of the firm view that the corporate goals must be aligned with the larger societal goals. The objective of SNS foundation was overall community development. The Foundation has created programs in the fields of health, education, natural resource management and life skills training, only to make sure that fellow humans could breathe easy. The long term goal of Anand CSR is to implement concepts like 'Zero Tolerance Zone for Child Labour'. 'Zero Waste Zone' using strategies like Reduce. Recycle and Reuse not only at Anand/SNSF locations but extend to Anand residential areas.

Tata Group: Leads to overall community development.

Tata Group in India has a range of CSR projects, most of which are community improvement programs. For example, il is a leading provider of maternal and child health services, family planning, and has provided 98 percent immunization in Jamshedpur. The company also focuses on sports development. It has established a football academy, archery academy, and promotes sports among employees. It offers healthcare services all over the country with programs like rural health development.

Tara Group also has an organized relief program in case of natural disasters, including long-term treatment and rebuilding efforts. it did remarkable work during the Gujarat earthquakes and Orissa floods. It also supports education, with over 500 schools, and also encouraging the arts and culture, It has done abundant work in improving the environment and local populations around its industries.

Hindustan Construction Company (HCC): Trahted & effective participation in various fields.

HCC plays an active role in CSR initiatives in the fields of health. Education, Disaster Management. and Environment. Disaster Resource Network DRN is a worldwide initiative. promoted by the World

Economic Forum (WEF). It was during the WEF annual meet that the massive earthquake struck Gujarat in January 2001. The need for a trained and efective participation from industry was first felt there. The members of Engineering and Logistics segment of WEF came together to establish this network. The idea was further strengthened during the 9/11 incident where again the industry participated in the relief operations. DRN Worldwide was formally launched in New York in January 2002. And shortly thereafter. DRN -India Initiative was launched.

CONCLUSION

The dynamically changing relationships between companies and society have replaced the relationships between stakeholders and CSR. and the characteristics of these relationships have been analyzed. The scale & nature of the benefits of CSR for an organization can vary depending on the nature of the enterprise. But. organizations without stakeholders are nothing. Stakeholders are important to the business, because they have a primary stake in the business. Organizations responsibilities towards the stakeholders are: to provide professional management, fair returns on their investments, disclose relevant information, protect shareholders assets, etc.

By following CSR practices organizations get two main benefits. It helps in:

a) Building Relationships.
b) Maximizing profits.

CSR can be win-win situation for both society & organization. Socially responsible organization can be benefit in the long run profits, develops the public image, and makes the organizations more attractive hub to work with & also helps to eliminate litigation of government.

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