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FDI TRENDS IN INDIA: A MULTI-DIMENSIONAL ANALYSIS

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ABSTRACT
The saga of FDI trends in India, over the past two decades, signifies the sustained gentrification of foreign investment confidence. Though subject to erratic downfall, it did not impede the enthusiasm of external investors in India. The database shows that FDI has been growing sizably in the fertile soil of the Indian economy, which was reconditioned by the eventful economic restructuring initiatives. This paper analyses the growth trends of inward FDI in India from 1990-91 to 2009-10 on a multi-dimensional perspectives. Along with the annual trend, decadal and five year growth trend has also been analyzed to understand the periodical phenomena. The paper reviews the main policy framework on FDI, suggests further policy guidelines for the future as well to enable the country to be an enduring liberal and seemingly attractive investor-friendly investment climate.

KEY WORDS
FDI, Indian Economy, New Economic Policy, Globalization, FDI policy.

INTRODUCTION
Disillusioned by the setbacks to heavily state-protected economies in general, and the disintegration of the USSR in particular, gave a room for India to have an objective re-look to the stifling regulative regime and the feeble knots of bureaucracy. Coincidently, the fascinating waves of LPG (liberalization, privatization and globalization) started enticing the national economies across the world. India was not hesitant to follow suit. Despite the conditionality for enabling financial accommodation for an economy, which was near the brink of collapse, India was also lured into the euphoria of openness. As a result, the business atmosphere in India was transferred from license permit raj to laissez-faire, which is superseded by single window clearance system for many privileged ventures. The Nehruvian vision of isolationism and bureaucratic control (Cappelli et. al., 2010) helped the country barely to achieve almost consistently a meager Hindu rate of growth, as it was referred in the economic literature, which was not at all sufficient enough even to cover up the constantly rising population. International credibility of the country was abjectly low. It was evidenced from the low level of foreign exchange reserve, which was not enough to meet two weeks export bill in 1991. In this backdrop, India initiated its economic restructuring with a clear road map. After three years of bottleneck, the macro economic reform programme started showing promising signals. The approach towards foreign investments, backed by considerable strides in enabling business friendliness, has been progressively favourable. Throughout the restructuring process the business and economic policy regimes were enviably growth-oriented and stabilizing. It has been corroborated from the high annual GDP growth rate and the perceptible capability of the country to withstand the East Asian crisis in the late 1990s and the recent financial turmoil that shook the world economies, shattering the business confidence across the world.

Inward FDI has a major role to play in shaping the structure of host economies. India is a perennial beneficiary of this bounty. The government initiated a dramatic liberalization of its regulative regime governing inward FDI in 1991 in tandem with the implementation of the new economy policy. The reforms initiated included the abolition of the mandatory industrial licensing system, the opening up of areas in which foreign participation was previously excluded and the establishment of the Foreign Investment Promotion Board. The recent UNCTAD (2009) survey finding puts India as the most preferred destination for foreign investors, second only to china.

PURPOSE OF THE STUDY
The overall objective of the study is to examine the chronological trends in India's FDI inflows from 1990-91 to 2009-10 on a multi-dimensional perspective.

RESEARCH METHODOLOGY
The present study followed an analytical approach to chronological quantitative data. The database on FDI published by the Directorate of Industrial Policy and Promotion (DIPP), India and the Centre for Monitoring of Indian Economy (CIME) for the period between 1990 – '91 and 2009 – '10 was obtained for trend analysis. The DIPP database was procured from the official web page and that of CIME was from its monthly publications. The growth trend was analysed in four levels for the period under consideration. The annual growth trend was estimated as a first step of analysis. These annual trends were averaged on a five year, ten year and eventually on an overall level to unfold and decipher the multi-dimensional trends and implications. As a prelude to trend analysis, the policy implications were reviewed to understand the institutional framework of FDI policy.

GLOBAL TRENDS IN FDI
Global FDI inflow was estimated as $ 193 billion during the year 1990 (UNCTAD, 1991). The share of developed and developing countries was $163 billion and $30 billion respectively. During 1999, the FDI inflow of the world increased to $865 billion. Out of it the share of developing countries was $208 billion, showing an apparent increase in the stake of growing economies in the global inward FDI flows. The current global financial crisis has had a dampening effect on FDI (UNCTAD, 2009). World Investment Report (UNCTAD, 2009) discloses that the global trends in FDI inflows show a declining trend continuously during 2008 and the first quarter of 2009, immediately after an unprecedentedly record peak during 2007. The widespread significance of inward FDI is widely recognized as the off-shoot of rapid technological change, intensified competition and economic liberalization (UNCTAD, 2000). As global FDI flows are expected to jump from $1.2 trillion this year to $1.6 to $2.0 trillion in 2012, changing ecosystem of foreign investment in India could pay rich dividends as it is observed by World Investment Report 2009 (UNCTAD, 2009).

POLICY IMPLICATIONS
The economic crisis during 1990-91 triggered more comprehensive and sustainable reforms in India. These policies have provided ample opportunities to build strong foundations for planned economic development (Reddy, 2009). Dismantling barriers for ensuring free flow of capital was an essential component of the New Economy Policy initiatives 1991, which enabled removing the restriction on inward FDI in the country. As a start up initiative permission was granted to

foreign investment aimed at encouraging foreign trading companies to assist Indian exporters in export activities, by approving FDI equity participation up to 51% in high priority industries (GoI, 1992).

The foreign investment was further liberalized in 1993 by removing the conditionality of dividend balancing for non-consumer goods. Decisive policy decisions appeared during 1996 – 1997. The FDI limit was raised up to 74 per cent, under the automatic route by RBI in nine categories of industries in infrastructure sector. In 1997 the first ever guidelines for FDI for expeditious approval of foreign investment, in areas not covered under automatic approval, was announced. In 1999, in terms of procedures, automatic approval for foreign equity participation up to 100 per cent is permitted for electricity generation, transmission and distribution for foreign equity investment not exceeding Rs.1500 crore (excluding atomic reactor power plants). In 2000-2001 the time frame for consideration of FDI proposals was reduced from 6 weeks to 30 days for communicating Government decisions. In august 2001 the Planning Commission appointed a Steering Committee on FDI with a mandate of streamlining foreign investment. In a major breakthrough FDI up to 100 per cent is allowed under automatic approval for most sectors/activities, where the prior approval is not required. Foreign investment limit in the private sector banking was raised to 74 per cent under automatic approval. As a result of the comprehensive review of the FDI policy, wide-ranging policy changes were notified in 2006, extending automatic routes, increasing equity caps, removing restrictions, simplifying procedures and extending the horizon of FDI to vistas like single brand product retailing and agriculture (GoI, 2008a). In a major policy initiative, during 2008, the sectors, in which FDI was prohibited, were specified. These areas are retail trading (except single brand product retailing), atomic energy, lottery business, gambling and betting, business of *chit fund*, *nidhi* companies, trading in transferable development rights and activities/ sectors not opened to private sector investment (GOI, 2009).

The latest policy document on FDI was released on 31st March 2010, whereby this document now consolidated all existing regulations related to FDI contained in FEMA, the comprehensive policy document came into effect from April 1, 2010 and would be replaced every 6 months after incorporating the changes which have been effected during the period. This step will improve the transparency and boost confidence level of global investors' community. The present policy reveals that 100 per cent FDI is permitted under automatic route in most of the sectors while there are sectoral caps, in the case of banking (74%), Insurance (26%), Telecom (49%), Aviation (74%) and single brand retail (15%) etc. Certain sectors like atomic energy, lottery, gambling and betting, multi brand retail etc., are not yet permitted (GoI, 2009). Government's recent proposal to allow up to 49% FDI limit in defense and entry in multiple brands in retail have a serious discussion on different forums and revealing different versions of the stakeholders leads to examining multiple dimension of recent policy initiations. The Indian polity is also planning to initiate the full convertibility of rupee on a phased manner (current account convertibility was announced in 1994).

The institutional mechanism established for FDI growth in India has five major components. Firstly, the establishment of Foreign Investment Promotion Board (FIPB) for reviewing and recommending the FDI proposals, which do not come under the automatic route. approval holders in obtaining various approvals and resolving their operational difficulties. Secondly, the constitution of Foreign Investment Promotion Council (FIPC) to undertake vigorous investment promotion and marketing activities. Thirdly, Financial Investment Implementation Authority (FIIA) was constituted for assisting the FDI. Fourthly, The Foreign Exchange Management Act (FEMA) has been introduced as Enforcement Directorate, replacing the much punitive Foreign Exchange Regulation Act (FERA), with a broad aim of consolidating and amending the law relating to foreign exchange with objective of facilitating external trade and payments and for promoting the orderly development and maintenance of foreign exchange market in India. Lastly, constitution of Investment Commission (IC) for facilitating meetings and visits industrial groups and houses in India and large companies abroad in sectors where there was dire need for investment.

TRENDS IN FDI INFLOW

The pattern of FDI inflow to India, over the last twenty years, shows a rising trend, with 36.1 per cent growth rate on an average, with erratic oscillations. It is a clear indication of the international business confidence on India. A generally accorded prediction is that India would be the next super power (GOI, 2008b). Both policy and structural changes are being taken place in India that are conducive for building business confidence and, thereby, furthering international business partnership creating all-season investment enabling climate.

The saga of FDI inflow to India is worth analyzing. A cursory analysis of the chronological data during immediately preceding two decades discloses that FDI is growing at a rate of 36.1 percent on a twenty year over all average (refer table 1). Splitting the twenty year span into two decades, the FDI growth rate shows an almost consistent level to the overall percent, being 36.78 per cent during the first decade and 35.62 per cent during the second decade. The economic confidence of world economies was shattered by periodical business and economic turbulence. However, the business confidence of global investors on India continued to be positive, though subject to erratic disturbances, as evidenced by the statistics. Over the years three financial years (1992-93, 1994-94 and 2006-07) were remarkable with FDI growth rates crossing 100 percent over the immediate preceding years. Within two years of economic restructuring policy of India the FDI inflow recorded all time highest growth (202.31 per cent) during 1992-93. It can be inferred from the date that foreign investors were waiting at the door steps of India, as they rushed in when the economy started opening up.

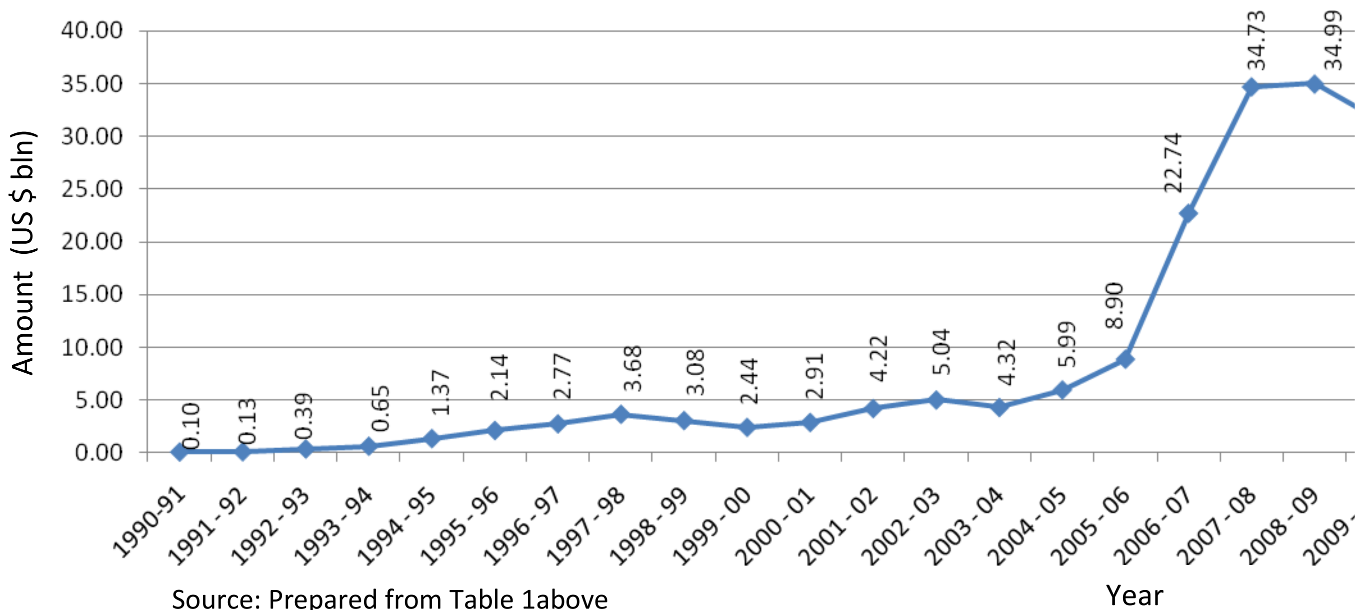
TABLE 1: INDIA'S FDI GROWTH TREND (1990 – 91 TO 2009-10)

Year	FDI (US $ bln)	Growth rate (%)	Five year average (%)	Ten year average (%)	Overall average (%)
1990 - 91	0.10	0	88.25	36.78	36.1
1991 - 92	0.13	30			
1992 - 93	0.39	202.31			
1993 - 94	0.65	66.41			
1994 - 95	1.37	110.09			
1995 - 96	2.14	55.82	16.19		
1996 - 97	2.77	29.38			
1997 - 98	3.68	32.92			
1998 - 99	3.08	-16.27			
1999 - 00	2.44	-20.89			
2000 - 01	2.91	19.23	21.61	35.62	
2001 - 02	4.22	45.19			
2002 – 03*	5.04	19.28			
2003 – 04*	4.32	-14.18			
2004 – 05*	5.99	38.52			
2005 – 06*	8.90	48.67	49.63		
2006 – 07*	22.74	155.47			
2007 – 08*	34.73	52.72			
2008 – 09*	34.99	0.76			
2009 – 10*	31.68	-9.46			

Source : http://dipp.nic.in/fdi_statistics/india_yearwise.pdf
**Center for Monitoring of Indian Economy(CMIE), July 2010, P.7*

The inward FDI accumulated an ever time higher amount of $34.99 billion during 2008-09, followed by a down fall in the next year. This accomplishment is quite incredible when it is known that FDI inflow during 1990-91 was a paltry amount of $0.10 billion. To understand the periodical trends in FDI inflow, the twenty year time frame was divided into four quarters, each comprising of five years and finding five year average for each quarter. The highest rate of growth recorded during the first quarter (88.25 per cent). This quarter was notable due to a few of other factors also. Firstly, the highest annual growth rate recorded during this quarter (202.31 per cent in 1992-93). Secondly, not a single year registered negative growth. Thirdly, FDI growth rate crossed 100 percent limit in two alternate years. Lastly, the single quarter that registered constant rising trend (refer figure 4.a).

FIGURE 1: OVERALL GROWTH TRENDS OF FDI INFLOW (1990-91 TO 2009-10)



Source: Prepared from Table 1above

A close examination of the second quarter (1995-96 to 1999-00) unveils the following trends. Firstly, the positive growth trend continued (though subject to oscillation) during the initial three years. Secondly, the last two years of this quarter registered setbacks, the highest negative accumulated growth in the overall scenario. Contradictory to the global trend (refer UNCTAD, 2000), inward FDI to India experienced a continuous decline during this period. These setbacks were due to the unfavourable FDI policy by the new political party at power (however they overhauled their policy later). Those who are aware of the East-Asian currency crisis towards the close of last century can easily understand that the reason for this reverse gear was the repercussion of the collapse of Asian Tigers. Lastly, the five year trend is showing a perfect inverted 'U' hypothesis (refer figure 4b) and recorded the lowest quarterly average (16.19 per cent) in the reference period.

The third quarter was relatively better than the previous quarter, being the quarterly average 21.61 per cent. This quarter experienced a cyclical trend in FDI flow. The last quarter witnessed an optimistic growth patterns as the rate of growth (49.63 per cent) got back to higher plateau after low growth rates during previous two consecutive quarters. An appreciable growth in FDI inflow (155.47 per cent) was witnessed in during 2006-07 (immediately preceding the global financial turmoil). It has been followed by a continuous down fall and eventually set back in 2009-10. The FDI inflow touched its ever recorded highest level ($34.99 billion) in the Indian economic history in 2008-09, when the world economies were engulfed by global financial landslide and the global inward FDI encountered a negative growth trend (UNCTAD, 2009).

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FIGURE 2: DECADAL GROWTH TRENDS OF FDI INFLOW (1990-91 TO 1999-00)

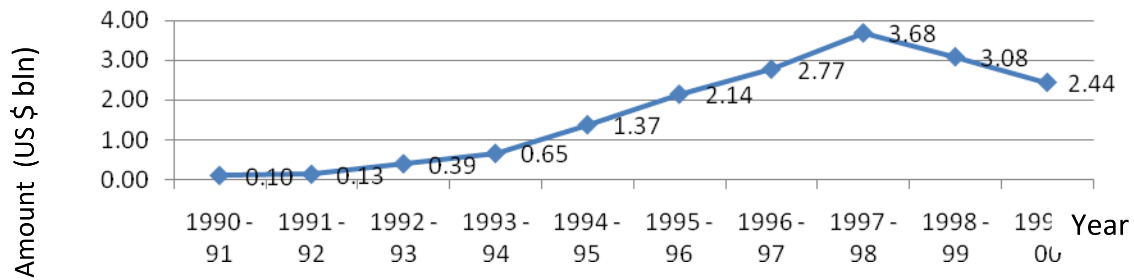


FIGURE 3: DECADAL GROWTH TRENDS OF FDI INFLOW (2000-01 TO 2009-10)

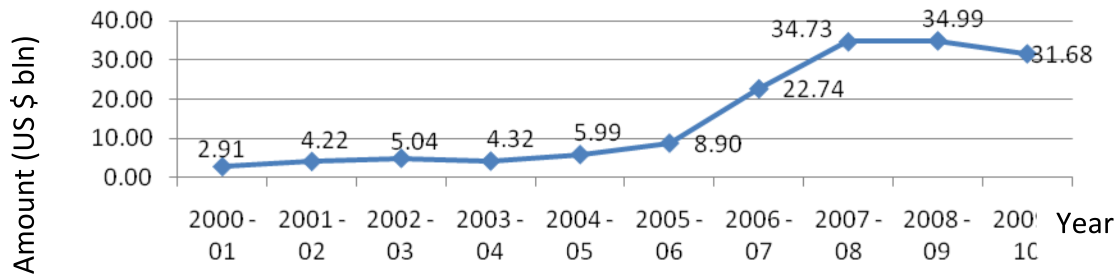


FIGURE 4A: FIVER YEAR GROWTH TRENDS (1990-91 TO 1994-95)

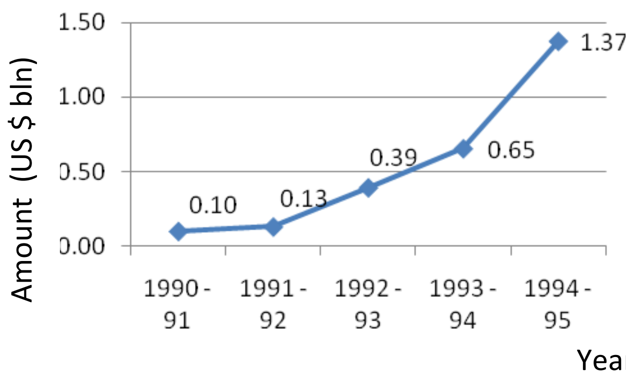


FIGURE 4B: FIVER YEAR GROWTH TRENDS (1995-96 TO 1999-00)

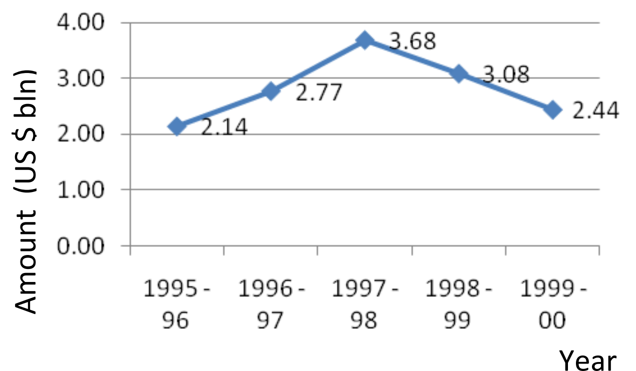


FIGURE 5A: FIVER YEAR GROWTH TRENDS (2000-01 TO 2004-05)

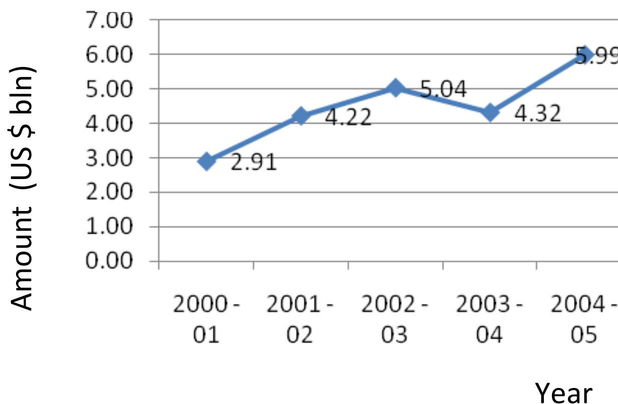
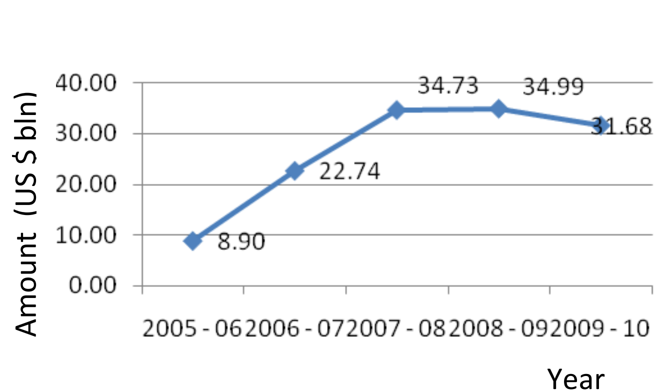


FIGURE 5B: FIVER YEAR GROWTH TRENDS (2005-06 TO 2009-10)



THE ROAD AHEAD

Efforts are on to reinforce the competitiveness of India as a first choice investment destination. The road ahead for India is not seemed to be smooth, when the world economies are contesting to woo foreign investors. We need shore up transparency and rationalize the rules and extend the cap limit to different sectors and allow new sectors in FDI list leads to tap good inflows to India, but no one can ignore that a liberal FDI regime is bound to act as a springboard for attracting foreign investors to India's near double digit growth story.

The Foreign Direct Investment Confidence index prepared by the global management consulting firm A. T. Kearney (2010) estimates that India is the third among the top 25 inward FDI optimistic countries across the world. The report also observes that the investors have shown a strong vote of confidence for the strength

of BRIC (Brazil, Russia, India and China) countries. Very recently the country has mooted the idea of CEO forums, as a second string of FDI friendly policy. The CEO forums can spearhead Track II diplomacy of the economic kind where in the high-level corporate interaction between two countries can create an enabling environment that could be capitalized wherever seemingly intractable bilateral hurdles crop up (Joshi, 2010).

India and China will retain their supremacy in this regard. Some policy prescriptions are put forward to cement the position of India as a global investment enabler. Such steps may include raising the cap limit, further liberalization of FDI in defense production, furtherance of automatic approval, liberalize the brown-field investment, overhaul of retail sector and more transparent governance and civil administration.

CONCLUDING COMMENTS

It has, ipso-facto, been proved that India is sustainable investment destination and the same has been reinforced by the sustained rise in the inward FDI flow to the country over the last twenty year span of time, signifying the growing degree of India's transationality (a measure of the relative economic importance of foreign affiliates in total economic activity; refer UNCTAD, 2005) and it will continue to surge in future also. The rapid strides in inward FDI can be cited as an important indicator of gains from structural economic reforms, underpinning the openness of the economy, reflecting the attractiveness of India as an investment destination. FDI is playing a decisive role in the infrastructure development in the country. It is widely known that the skepticism on the motive of foreign capital and heavy obsession on the principle of 'self-reliance' were the major impediments for the unimpressive growth FDI during the early stage of reform regimes. It is during the 1993-94 there seemed to be a realization of the importance of FDI. This enlightenment led to the progressive removal of barriers of foreign capital inflow through greater procedural simplifications and threshold limit. Now India provides a liberal, seemingly attractive and investor-friendly investment climate. The database on FDI we have discussed aforesaid is a solid evidence of recognizing its potential as an accommodative host for FDI. The major motivation of foreign investors to enter the Indian market is low-cost level of the skilled labour force and this decreasing cost advantages will be even more significant in the future. However, we are not overlooking the labour militancy and unrest, which is veritably a nightmare and strange industrial relation to foreign investors. The future of India's growth and output is seen to be connected to FDI and it was deemed necessary for promoting higher growth of output, exports and employment through enabling policy framework.

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BEHAVIORAL ANALYSIS OF THE FARMERS, AS END USERS, TOWARDS ORGANIC FERTILIZER: AN EMPIRICAL STUDY IN BANGLADESH

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ABSTRACT

Production efficiency in the field of agriculture can be attained through the balanced application of its inputs. Chemical fertilizer is widely used almost everywhere in the world to maximize yield from limited land but it depletes the organic matter of the soil. Organic fertilizer, better known as compost fertilizer in Bangladesh, ensures yield of crops along with retention of soil nutrients. In Bangladesh farmers have practiced applying organic fertilizer from ancient time but with the advent of chemical fertilizers the rate of usage of organic fertilizer has declined sharply. Currently farmers in Bangladesh are reluctant to apply organic fertilizer on a regular basis. The farmers are well aware of the positive sides of organic fertilizer yet they can't or don't use organic fertilizers. This paper has endeavored to explore the buyers' (farmers) behavioral analyses regarding the organic fertilizer.

KEYWORDS

Adoption process, Organic Fertilizer.

INTRODUCTION

Agriculture depends heavily on the natural environment. Farmers are the most direct victims in the economic losses and ecological damage caused by the pollution of any resource of the nature. However, farmers use lots of fertilizer to improve production outputs driven by the market economy, resulting in a vicious circle. At this point, the analysis of the farmers' decision-making and willingness of fertilizer application is of great significance. Agricultural production was highly dependent on fertilizer sourced from nature with organic contents. To enhance the production of crops, inorganic fertilizer was developed and introduced. Though immediate productivity is being enhanced through appropriate application dosage of inorganic fertilizer, organic fertilizer is highly needed for the maintenance and enhancement of soil productivity. It is said that the organic fertilizer is the food for the soil.

It has been found that in almost all the Agro Ecological Zones (AEZ) of Bangladesh, organic matter in the soil is depleting at an alarming rate. To increase and at least to sustain the productivity of the soil there has to be a balance in terms of application of organic and inorganic or chemical fertilizer onto the soil. Balanced fertilization is the key to successful crop production and maintenance of good soil health. Outcome of different studies suggested that use of organic fertilizer increases productivity as well as helps retain soil fertility. Not only for the soil but also for the entire environment the usage of organic fertilizer is positive. But day by day the farmers are becoming reluctant to use organic fertilizer. The broad objective of the study is to analyze the behavior of the farmers towards organic fertilizer.

SPECIFIC OBJECTIVES

1. Understanding the level of awareness of the farmers regarding organic fertilizer
2. Decision making process of the farmers regarding the organic fertilizer
3. Identification of factors for non adoption of organic fertilizer

METHODOLOGY

The nature of the study demanded extensive consultation of the *secondary data* sources. Rigorous review of the literature was conducted to shed light in this case to gather knowledge about the ins and outs of nonorganic fertilizer industry, its production process and technology, farmers' perception and attitude towards the product and the market situation. Reports from Bangladesh Fertilizer Association (BFA), Department of Agriculture Extension (DAE) were consulted along with different articles which were sourced from the web.

Before launching the survey over the farmers few qualitative techniques were attempted for gap analysis. On the onset seven Key Informant Interviews (KIIs) were conducted over policy makers, Agriculturalist, Academicians, with a semi structured questionnaire. The KIIs took place in Bangladesh Agriculture Research Council (BARC), Department of Agriculture Extension (DAE), Bangladesh Agriculture University (BAU), Sher-e-Bangla Agriculture University, Bangladesh Agriculture Research Institute (BARI). Apart from the KII nine group discussions were conducted in various districts.

Survey data were sourced through field visits in various parts of the northern and south-western areas of Bangladesh. The sample unit of this study is the farmers who purchase fertilizer for agricultural purpose. Non probabilistic sampling technique, specifically convenient sampling, is used for this study. A total of 220 farmers were surveyed from the districts of Natore, Rangpur, Rajshahi, Chapainababgonj, Pabna, Noakhali, Jessore, Borguna, Narail, Bogra and Mymensingh. The data collection instrument was a structured questionnaire with questions of various types like dichotomous, five point likert scale and multiple choice questions.

Data have been analyzed using both descriptive and inferential statistical tools. Descriptive statistics such as mean standard deviation, frequency, etc were used. Factor Analysis, a Multivariate Analysis technique, was used to reduce the data and identify the factors that impede the farmers in adopting organic fertilizer. The Principal Factor Analysis with Orthogonal rotation (Varimax), using the SPSS, was executed to separate the factors.

REVIEW OF LITERATURE

Organic fertilizers, which are now being used in the country, can be broadly classified as concentrated organic fertilizer, Nutrient enriched organic fertilizer, Bulky organic fertilizer and Green manure. The adoption and application of organic fertilizers for producing different crops is being done by the farmers from an unknown period of time. This organic fertilizer is adopted in the form of cow dung, poultry manure, compost, crop residues, and green manure that were traditionally and preferentially used solely in the country until 1950 when the chemical fertilizers were introduced through a project entitled "Rapid Soil Testing and Popularization of Chemical Fertilizers" (Islam, 2008,). In early 1950's, farmers applied organic manures such as cow dung, bone meal to Aus & Aman rice and farmyard manure (FYM), mustard oil cake and fishmeal to mustard and vegetable crops (EPBS 1964). Ahmed (2004) pointed out that the use of inorganic fertilizer started in the country in 1951 with the import of 2,698 tons of ammonium sulphate, phosphates in 1957 and muriate of potash in 1960. Quasem (1978) reported that in Bangladesh inorganic fertilizer was introduced at the farm level in 1959. Fertilizer consumption began to increase rapidly with the introduction of HYV rice (i.e. IR5 & IR8). The irrigated area of rice and other crops were increasing year after year. In irrigated condition, most of the farmers use HYV rice, which requires higher fertilizer dose than local low yield rice varieties. The HYV acreage and irrigation have a significant positive influence on fertilizer consumption (Hossain, 1987). Though the requirement of fertilizer has increased substantially the supply of organic fertilizer did not shoot up in that speed.

Therefore the farmers began to apply non organic fertilizer vehemently for producing HYV crops. Bruce (1987) reported that the fertilizer consumption per hectare in Bangladesh is considerably lower than that in many developed countries, but it is higher than the average level in many of developing countries. It has been observed that on total crop area basis about 198 kg nutrients were used for crop production, which was higher than in India, Pakistan, Sri Lanka, Thailand and even Philippines (BARC 2005).

Various researches have showed that the use of properly composted organic fertilizer has produced many desirable soil properties – greater plant water-holding and cation exchange capacity, lower bulk density of soils, and is an inducer of beneficial micro organisms (Lin et al. 1973; Parr et al. 1986; Chao et al. 1996). Incorporation of moderate amounts of animal manure and other organic materials into the field was an established agricultural practice generally recognized to have beneficial effects on the soil's physical, chemical, and microbiological properties. Adequate amount of soil organic matter greatly reduces the difficulties of good crop production (Allison 1978). There is also a close relationship between the nutrient status of soils and the organic matter content. Researches have shown that under long-term treatments, adding farmyard manure has raised soil fertility and yields to levels greater than those under synthetic fertilizer treatments (Parsa and Wallace 1979). Benefits of compost amendments to soil also include pH stabilization and faster water infiltration rate due to enhanced soil aggregation (Stamatoados et al. 1999). The levels of mycorrhizal colonization were greater under organic treatments than under the conventional chemical based cropping. Organic matter increased the available phosphorus in the soil through the organic anion, preventing P fixation and replacing the P bound to the soil (Swenson et al. 1949; Nagarajak et al. 1970; Kafkafi et al. 1998). It has been shown that microbial activity and biomass are higher in fields with organic amendments than fields with conventional fertilizers (Drinkwater et al. 1995). Soils with compost application have higher propagule densities of Trichoderma species than soils amended with synthetic fertilizers regardless of their production system history (Bulluck et al. 2002).

The intense cultivations with indiscriminate use of chemical fertilizer have reduced the organic matter of the soil significantly over last few decades. Every day significant part of agricultural land goes to urbanization and home stead area expansion in rural area. Moreover due to the growth of commercialization of agriculture, soil fertility in Bangladesh is declining rapidly. This is posing a serious threat to long term sustainability of agriculture in Bangladesh. Because soil fertility is reducing rapidly and as a result decreasing yield appears to be a major concern for all crops. The situation has been aggravated further due to the reduced supply of cow dung and other organic matter in the soil all over the country. The ideal organic substance of soil is supposed to be around 5% though the soil of Bangladesh contains very low organic substance which is in some cases even less than 1 % (Eusuf M. A. and Faruque O, 2009). The current cropping practice of Bangladesh is almost entirely a chemical fertilizer dependent cultivation process where the use of organic fertilizer is uncomfortably low or absent. Ali *et al.* (1997) observed that soil organic matter in Bangladesh has been depleted by 5% to 36% during 1967-1995. A detailed study on organic matter content of Bangladesh's soil by BARC (1998) revealed similar finding – organic matter content of most of the Bangladesh soils is very low, the majority being below the critical level (1.5%).

Ishaque (2001) reported that farmer used higher amount of all necessary type fertilizers in Boro season than in Kharif 1 and Kharif 2 seasons. Sidhu et al. (1982) also pointed that the average level of fertilizer use was higher during the Boro season (220 kg fertilizer/ha) and lower during the Aus (162 kg/ha) and Aman (142 kg/ha) seasons (Shah and Aziz, 2008). The most common practice is to apply all fertilizers including organic manure at the time of final preparation of land for rain fed crops. For irrigated crops, nitrogen fertilizer is applied in two to three installments depending on the life cycle of crop. At present more than 4.3 million tons of chemical fertilizers pricing to more than US $ 5538 millions are being used along with 70 million tons of organic manure (Islam, 2008,). According to Razzak (2006) and Alam (2006), about 7 million tons of organic fertilizers are produced every year from animal wastes, household wastes, city wastes and crop wastes. If this huge amount of organic fertilizers can be converted into bioslurry, we can fulfill a great portion of our huge fertilizer demand; consequently, it can be possible to cover a number of populations under electricity supply. From analysis, it is found that if 7 million tons of organic fertilizer is used for crop production completely, then it could cover 5.3 percent of Urea, 19 percent of TSP and 34.13 percent of MP to the total demand of fertilizer in the fiscal year 2008-09. If the total organic fertilizer is used as a bioslurry, then it could cover 11 percent demand of Urea, 89 percent of TSP and 22.8 percent of MP in the same period (Basak 2006).

It is now a reality that the farmers are informed about the application of mixed fertilization in the field. Even a decade earlier the benefits of mixed fertilizer use (chemical and organic fertilizer) on yields and soil health had to be proved by the agriculturists at field experiments. With so many countries embracing mixed fertilizer usage, the results are now found in the average productivity of the country statistics. The socio-economic analysis shows that farmer's income increase by using mixed fertilizer is generated from three sources: *first,* decrease in fertilizer cost – this was around 10% in Thailand while more than 30% in Philippines. (Philippines replaced more chemical fertilizer with organic fertilizer and there is no subsidy on chemical fertilizer in Philippines). *Second,* Yield is increased – in case of Philippines this was around 8-10% and Thailand by around 10%. And *finally,* when soil gets its health back, it will regain its water holding capacity and the demand of irrigation will reduce (Eusuf M. A. and Faruque O., 2009). The practice of balanced fertilization is receiving top priority to sustain/increase crop productivity as food security is so crucial for poverty stricken people, when the country is facing challenges of increasing population and shrinking natural resources including agricultural land and also when there exists big gap between research and farmer's yield (Islam, 2008). Proper processing of organic wastes and residues for use in agriculture appears to be promising and this can reduce the environmental pollution to a great extent.

Different findings suggest that organic fertilizer should be an essential part for Bangladesh to increase yield further and also making the cropping more sustainable by improving soil nutrients. The field experiment on maize, which took two years (2006-2008), was conducted in Rangpur. A dosage of 3 t/ha compost (from poultry manure) have increased the yield by 19% percent (from 6.98 t/ha to 8.31 t/ha) (Noor *et al.* 2008). A three year (2002 to 2005) long study found that yield of tomato increased because of 2.5 t/ha cow dung and poultry manure usage stands at 1.2 t/ha and 8.9t/ha respectively (Noor *et al.* 2006). Due to changing scenario of soil fertility, management with emphasis on organic matter replenishment, the organic fertilizers could play a vital role in restoring fertility as well as organic matter status of the soils. However, the economic value of organic fertilizer to a farmer is the value of increase in crop yields and/or crop quality that is derived from its use. The cost benefit ratio will determine the economic aspects of its use. It is to be remembered that besides supplying essential plant nutrients, organic fertilizer, irrespective of its sources, produces desirable physical, chemical and biological changes in soils.

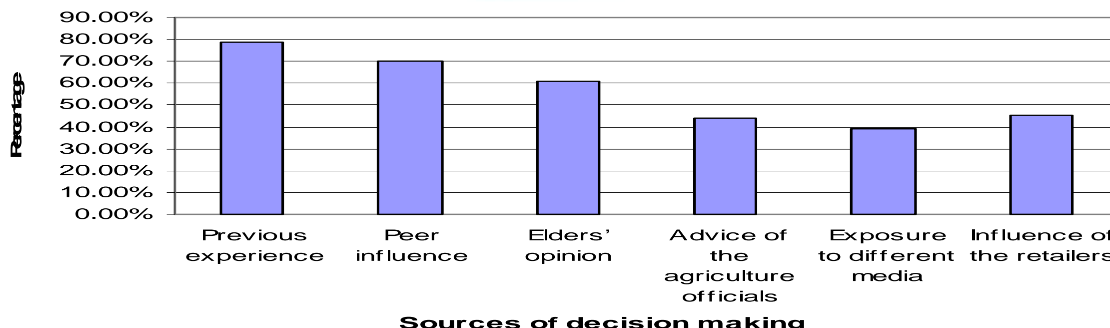
The previous researches of other scholars studied the farmers' act of using fertilization from three type's factor: market environment, personal characteristics and public policy. Nunez, et al. (2004) examined the impact of the fertilizer prices, agricultural products prices, expected earnings and regional market environment factors on the farmers' decision-making of using fertilizer. Xiang LU Bo, et al. (2000), Ji MA and CAI Xiao-yu (2007) analyzed the impact of the individual characteristics of farmers and public policy, and influencing factors included: the cultural quality of farmers, the farmers' awareness of whether there is excessive use and pollution in using fertilizer, whether the farmers have received fertilizer guidance provided by Agricultural Extension Station, farmers' attitude towards risk. Liu Yu, et al. (2009) contributed that the following factors influence the farmers' adoption of fertilizer—Scale of operation, Fragmentation of land, Distance of arable land away from residence, Transfer of information, Production experience, Willingness of farmers. It is understood that there is a huge potential of organic fertilizer in Bangladesh but this fertilizer sector is experiencing impasse mainly because of different stumbling blocks. The Licensing procedure is complicated and time-consuming in Bangladesh. The market for composting technology is really a weak one. The awareness level of the farmers regarding this issue is not so promising. All these variables are resulting in weak demand from farmers' end. The farmers of Bangladesh hardly follow any scientific methods to produce organic fertilizers. The farmers usually dispose the animal wastes mainly dung in open pit at their farmyard and leave them at least three months before they use for their crop fields. However, many private companies are now coming forward to produce organic fertilizers commercially. For commercial marketing the government has so far standardized about 28 organic and organochemical fertilizers. It is learnt that another 20 companies have applied for standardization of their organic and nutrient enriched organic fertilizers. Therefore, it is important that standard methodology should be followed by the companies as well as by the farmers in producing quality organic fertilizers (M S Islam, 2008).

FINDINGS

DECISION MAKING REGARDING ORGANIC FERTILIZER

In case of agriculture inputs the farmers primarily depend on their prior experience. Apart from that the farmers interact with other farmers to come to any decision. Influence of fellow farmers is also a key factor for the farmers incase of decision making specifically for fertilizer. As the figure1 depicts that near about 80% of the respondents make fertilizer related decision based on their previous experience. Peer influence (70%) and Elders' opinion (61%) are also important influencers for the farmers in case of fertilizer related decision making.

FIGURE 1: SOURCES OF DECISION MAKING OF THE FARMERS REGARDING FERTILIZER



LEVEL OF AWARENESS REGARDING ORGANIC FERTILIZER

All the responding farmers agreed on the positive sides of the organic fertilizer. The following table (Table 1) delineates the farmers' level of awareness of organic fertilizer.

TABLE 1: LEVEL OF AWARENESS OF ORGANIC FERTILIZER

Awareness level	Percentage
Aware of it	92.73%
Unaware of it	7.27%
Use it regularly/yearly	11.36%
Used occasionally/yearly	14.55%
Used once/yearly	19.09%
Aware but never used	47.73%

Source: Primary data—survey

Most of the farmers (over 92%) are aware of the ins and outs of organic fertilizer. It has been observed that only 11.36% of the responding farmers use organic fertilizer. Around 48% of the respondents state that they are aware of the organic fertilizer but they never used. Amazing issue of this table is that more than 7% respondents are unaware of the ins and outs of the organic fertilizer. The farmers who use organic fertilizer either regularly or occasionally prefer cow dung most. Table 2 depicts that organic fertilizer farmers mostly use cow dung, poultry manure, farmyard manure, wastages of crops etc. Of them cow dung is most widely used. Elements like water hyacinth, maize stove, sugarcane trash and tobacco stems are available in specific areas. They are not widely available like rice and wheat straw.

TABLE 2: KINDS OF ORGANIC FERTILIZER THE FARMERS USE

Rank	Type of fertilizer	Percentage
1	Cow dung	94.35%
2	Poultry manure	77.70%
3	Compost (common)	69.38%
4	Farmyard manure	61.37%
5	Ashes	59.62%
6	Rice straw	55.46%
7	Wheat straw	54.65%
8	Maize stove	39.76%
9	Sugarcane trash	33.35%
10	Water hyacinth compost	29.87%
11	Tobacco stems	26.06%

Source: Primary data—survey

Most of the users (farmers) rely on their own production process to generate organic fertilizer as depicted in table 3. This product is not widely available on a regular basis in the village areas. In some places only on the haat days the organic fertilizers are available.

TABLE 3: SOURCES OF PROCURING ORGANIC FERTILIZER

Procurement options	Percentage
Self preparation	64.34%
Commercial producers of the village	55.76%
Nonregular producers of the village	31.07%
Available in the Thana market (regularly)	29.98%
Available in the Thana market (on Haat days)	41.54%

Source: Primary data--survey

Our factor analysis is appropriate as KMO test result is greater than 0.5 (actual value is 0.539) and it is valid as Bartlett's test indicates .000 probability which is less than the significance level (.05) (Table 4).

Altogether 15 variables were identified which were responsible for the farmers' non adoption of organic fertilizer. Factor Analysis was conducted (Extraction Method: Principal Component Analysis) to isolate major five factors. The following table (Table 5) depicts the factors with cumulative variances. These five factors are responsible for defining more than 74% variances of non adoption of the organic fertilizers. Of the factors production and operational problem has the highest Eigenvalue followed by scarcity, financial constraint, poor knowledge level and deferred return.

TABLE 4: KMO AND BARTLETT'S TEST

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		0.539
Bartlett's Test of Sphericity	Approx. Chi-Square	729.66
	df	105
	Sig.	.000

TABLE 5: FACTORS THAT DISCOURAGE THE FARMERS' NONADOPTION OF ORGANIC FERTILIZER

Factor no.	Name of factor	Rotation Sums of Squared Loadings		
		Eigenvalue	**% of Variance**	**Cumulative %**
1.	Production and operational problem	8.207	20.567	20.566
2.	Scarcity of organic fertilizer	6.751	16.918	37.484
3.	Financial Constraint	6.453	16.171	53.656
4.	Poor knowledge level of the users	6.321	15.840	69.496
5.	Deferred Return	2.052	5.137	**74.634**

Extraction Method: Principal Component Analysis.

The following table (Table 6) delineates the factor, variables constructing the factor and the factor loads. Production and operational problem comprises of five variables whereas Scarcity of organic fertilizer, Financial Constraint and Poor knowledge level of the users are comprised of three separate variables. Deferred return is a single variable factor.

TABLE 6: VARIABLES THAT CONSTRUCT THE FACTORS FOR NON ADOPTION OF ORGANIC FERTILIZER

Name of factor	Name of Variable	Factor load
1. Production and operational problem	1. Lengthy production time	0.879
	2. Inadequacy of the ingredients	0.810
	3. Not suitable for the crops that the farmers produce	0.782
	4. Problem in carrying	0.716
	5. Difficult to store	0.702
2. Scarcity of organic fertilizer	1. Unavailability	0.871
	2. Supply is inconstant,	0.676
	3. Nonstandardized quality	0.620
3. Financial Constraint	1. Financial constraint	0.858
	2. Expensive compared to chemical fertilizer	0.656
	3. High application dosage	0.630
4. Poor knowledge level of the users	1. Indifference of the agro officials	0.846
	2. Peer discourage	0.645
	3. Poor level of knowledge	0.641
5. Deferred Return	1. Non immediate outcome	0.853

CONCLUSION AND RECOMMENDATIONS

Organic fertilizers, as the nutrient supplier for the soil, can not be substituted with any other kind of fertilizer. Organic fertilizer provides food for the soil which is required to maintain the productivity of the soil. Chemical fertilizers work as the food for the plants. The nutrient level of the soil of Bangladesh is depleting at an alarming rate as various research show. Outcome of different studies suggest that organic fertilizer should be an essential part for Bangladesh to increase yield further and also making the cropping more sustainable by improving soil nutrients. It is also realistic that only organic fertilizer can hardly attain the desired level of output. There should be balanced fertilization comprising both organic and chemical fertilizers. Organic fertilizer is applied by the farmers in different forms though not always in the form of compost. The farmers are to be accustomed of using organic fertilizer for every possible crop. In many situations and places it was found that organic fertilizer is at the top of their awareness list but due to some problems they become reluctant to procure and apply. After the analysis of the bottlenecks it is evident that to overcome the current situation and to increase the adoption of organic fertilizer among the farmers few measures should be chalked up and prioritized. Further study and analysis may be conducted to concrete the fact. In the following some of the recommendations that can be materialized for the betterment of the current situation are presented.

1. Endeavors are to be taken out and executed intermittently for increasing awareness of the farmers regarding the issue through integrated communication strategy.
2. Farmers are to be made visionary so that they don't become myopic and don't focus on the current need overlooking and sacrificing the future of their resources. They have to be made knowledgeable about the long run impact of applying organic fertilizer.
3. Capitalize the referral power of the Agricultural officials to motivate the farmers for choosing organic fertilizers.
4. Congenial business environment is to be ensured to encourage commercial production of organic fertilizer. In this regard legal issues in licensing and distribution are the primary bottlenecks to be handled.

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ECONOMIC GROWTH NEXUS TO PERFORMANCE OF BANKING SECTOR IN PAKISTAN

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ABSTRACT

This paper aims at finding the effect of financial liberalization in Pakistan's banking sector. The financial liberalization and reforms which were introduced in 1990s in Pakistan's banking sector, their impact on economic growth. The introduced reforms in the banking of sector of Pakistan were beneficial in a matter fact that they led to improved performance of the sector. Nationalized Commercial Banks in the country were privatized and their post privatization performance is much impressive as compared to when they were not privatized. There are a lot of mergers and acquisitions that took part within the domestic banks and the foreign banks in the country. As per the conditions set by the State Bank of Pakistan, the minimum capital requirement of Rs 1 billion to be maintained by all banks led to mergers and acquisitions, the amount of minimum capital requirement would be increased to Rs 6 billion in 2009. All the reforms that were untaken were beneficial to the banking sector and it led to better performance of the banking sector. Furthermore, it examines the relationship between financial liberalization and the performance of banks in Pakistan. An extensive analysis is carried on the performance of the banking sector on the basis of six indicators which are capital adequacy, asset quality, management soundness, earnings and profitability, liquidity and sensitivity to market risk. Similarly, M2 (broad money) to Gross Domestic Product ratio is also examined which tells us the relationship between the banking sector and economic growth.

KEYWORDS
Banking sector, Broad money, Financial liberalization, Economic growth, Reforms.

INTRODUCTION

Pakistan‟s banking sector reforms have been launched and implemented over 1990s.The reforms and restructuring introduced was in February 1994, when the State Bank of Pakistan was given full autonomy during Financial Sector Reforms. On 21st January, 1997 the Government of Pakistan issued three Amendment Ordinances those included the State Bank Act of 1956, Banking Companies Ordinance 1962 and Banks Nationalisation Act 1947. By these reforms introduced State Bank of Pakistan had the exclusive authority to regulate the banking sector and to conduct independent monetary policy. Banking sector liberalisation and reforms were well sequenced and well designed (Dr. Shamshad Akhtar, 2006). Pakistan has been implementing a wide range of structural reforms aimed at improving the economy. The reforms implemented are in the financial sector, capital markets reforms, tax and tariff reforms, reforms in tax administration, fiscal transparency, reforms in privatisation program, governance reforms and devolution and capacity building. Due to all these policies and efforts it has a targeted growth rate of 6 percent for the next five years. Pakistan‟s Gross Domestic Product for the year 2005-2006 was 6.6 percent and mainly the key drivers for this growth are the services sector and industrial sector. The services sector grew by 8.8 percent in 2005-2006; growth in the services sector was attributable to the strong growth in the finance and insurance sector, wholesale and retail trade and transport and communications sector. (Economic Survey of Pakistan, 2005-2006)

Financial liberalisation process in Pakistan has been remarkable. It did not just result in privatisation of large public sector banks but the process of privatisation also led to offering new management in most cases.

By the introduction of financial reforms the key issues like Non Performing Loans (NPL) decreased, allowed entry of private banks and Cash Reserves Requirement and Statutory Liquidity Requirement were increased which led to healthy performance of the banks. The stock of Non Performing Loans have decreased from Rs 18.8 billion in 2001 to Rs 14.0 billion in 2002 and Rs 7.0 billion in 2003.The main aim of introducing financial liberalisation and reforms was to

- ensure soundness of the financial sector
- maintaining price stability with growth
- prudent management of exchange rate
- strengthening of the payment system.

The reforms introduced in the banking sector focused on the strategic objectives and priorities such as (i) information technology and infrastructure development (ii) human resource development and (iii) improved accountability. Further more the reforms adopted by the State Bank of Pakistan include; further strengthening of prudential regulations, policy for opening and closing branches has been liberalised, a free floating market driven exchange rate system has been introduced. In addition, restrictions on buying and selling of foreign exchange by banks have been removed. Special banking courts have been established under this Act to facilitate the recovery of non performing loans and advances from defaulted borrowers. The Government of Pakistan has established the Corporate and Industrial Restructuring Corporate (CIRC) to deal with the non-performing loan portfolios of nationalised banks on certain agreed terms and conditions and issue government guaranteed bonds earning market rates of return. The purpose of establishment of CIRC is a two fold; to concentrate recovery efforts against loan defaulters and to improve profitability of nationalised banks. Appointment of independent persons to the Board of Directors of the Nationalised Commercial Banks is another reform introduced by the State Bank of Pakistan. The requirements for minimum capital of banks have been increased to Rs. 1 billion in order to encourage consolidation of smaller banks. The credit for all commercial banks has been made mandatory. State Bank of Pakistan in its reform agenda reduced the tax rate for commercial banks and tax laws have been changed to facilitate merger and acquisition of banks and financial institutions by allowing group tax loss relief. Another vital reform introduced by the State Bank is the issue of Government bonds against long outstanding tax refund claims of banks (Dr. Ishrat Hussain, 2002). The quality and reliability of reporting, the format of statutory accounts have been revised on the basis of international Accounting Standards. Further more in addition, the State Bank of Pakistan has published a list of approved auditors for various sizes of banks. All these reforms introduced by the State Bank of Pakistan is to develop good corporate governance culture, covering director‟s responsibilities, improved reporting and empowerment of audit committees and internal audit and independence of external auditors. State Bank of Pakistan has established a National Accountability Bureau (NAB) Cell to process the cases of the defaulters in order to facilitate debt resolution. Furthermore, a special law, the Financial Institutions (Recovery of Finances) Ordinance 2001 was enacted with a view to facilitate speedy recovery of loans.

LITERATURE REVIEW

Most of the economic theories and practical experiences indicated that the financial liberalisation and the performance of banking sector can stimulate economic development. Pakistan‟s Government adopted the plan of introducing reforms, deregulation and restructuring took a strong foothold in Pakistan as the government decided to privatise banks and allow entry of new banks, at the same time to stimulate Pakistan‟s economic development.

The term liberalisation refers to the freeing of trade, investment and capital flows between countries and so on. A lot of people recognised that it is an integral part of financial sector development. For e.g. government policies on trade liberalisation, interest rate deregulation and capital account opening. All of these methods may enhance economic growth and development. The function of public sector banks and other financial institutions in economic development has been examined in different studies.

According to Gerschenkron (1962) argues, "that governments can intervene through their financial institutions to direct savings of the people towards developmental sectors in countries where financial institutions are not adequately developed to channel resources in to productive resources." Understanding the importance of financial sector in economic development, most of the governments in developing countries sought to increase their ownership of banks and other financial institutions in 1960s and 1970s, in order to invest the credits towards the sectors of economy that perform well. Similarly, the government of ownership of state control finance through banks and other financial institutions effect in lower economic efficiency and resource allocation of these institutions. On the other hand Barth et al (2001) using cross country data on commercial bank regulation and ownership from 60 countries find that state ownership of banks is negatively associated with the performance of the banking sector. This means that if the banking is regularised by the government, it may not be productive, efficient and effective in countering towards the economic development. The banking sector and other financial institutions should be deregularised and should operate independently in order to be productive towards the economic growth and development. There should be no state regulation on the working of the state bank and other commercial banks in the country.

Another study by La Porta et al (2002) is based on government owned banks from 92 countries around the world, in his study he finds that government ownership of banks is high in countries which are characterised by "low levels of per capita income, underdeveloped financial institutions and inefficient governments and poor protection of property rights." Continuing further study finds evidence that state ownership of banks is associated with slower subsequent financial development, lower economic growth and especially lower growth of productivity in the economy. Now the question arises that how can the performance of banking sector be improved as a vital role towards economic growth.

According to Kaminsky and Schumkler (2003), "the financial liberalisation consists of the deregulation of the banking sector, the domestic financial sector, and the stock market sector viewed separately from the domestic financial sector. A full financial liberalisation occurs when at least two of the three sectors are fully liberalised and third one is partially liberalised. A country is partially liberalised when at least two sectors are partially liberalised."

Basing on Kaminsky and Schumkler‟s theory, it is vital to recognise that financial innovation and liberalisation are domestic. The restrictions on international financial transactions been relaxed, but also the regulations constraining the operation of domestic financial markets have been removed as countries have moved away from policies of financial repression. The Government of Pakistan launched and implemented the financial liberalisation and the banking sector reforms during the 1990s.

Secondly according to Barbara Stalling (2004),"financial liberalisation in the past two decades has profoundly transformed the financial system in developing economies around the world. First stage, liberalisation changed the rules under which financial sector operates, moving from a system where governments heavily influenced the volume, price and destination of loans to one where private sector institutions make such decisions on their own. Second stage, the resolution of crisis further changed the characteristics of the financial sector, third stage in many cases financial crisis, which required rescue programs absorbing large amounts of fiscal revenues and resulting in steep losses of output".

As in case of Pakistan, the financial reforms and liberalisation launched in 1990, it is more inclined towards Barbara Stalling‟s theory. Pakistan‟s liberalisation program aims to liberalise Pakistan‟s banking sector and its relationship towards economic growth. The Government of Pakistan introduced reforms in the State Bank of Pakistan and made it an autonomous institution and released restrictions to foreign banks, to expand their operations in Pakistan‟s domestic market. Privatization of nationalised commercialised banks which improved their profit efficiency and increase in minimum capital requirement from Rs 500 million to Rs 1 billion and would increase to Rs 6 billion by 2009.

Privatisation, financial liberalisation and reforms can improve efficiency of the banking sector without changing market structures if it hinders interventions by politicians and bureaucrats who would like to use the State Owned Enterprises to extend their political and personal gains. It is also argued that corporate governance is weaker in state owned enterprises than in private institutions or firms because of agency problems.

As Clark et al (2003) argues," State owned banks have multiple objectives and many principals who have no clear responsibility of monitoring. In under developed economies it is seemed as a major problem because state owned banks do not face a market for their skills or the threat of losing jobs for non performance". Using a combination of country case studies and cross country analysis conclude that privatisation of banks improves performance as compared to continued to state ownership.

Ekin Tokat (2005) addressed, "that in the process of financial liberalisation, banks become more pregnable, to external shocks if the banking system is not sufficiently developed". Economists have different perspectives on the theoretical link between financial development and economic growth. Schumpeter (1911) contends "that the services provided by financial intermediaries are essential drivers for innovation and growth".

By these explanations we are clear that financial intermediary such as banking sector plays a vital role in the economic growth and is a major driver for driving for development of economy. As economy grows it brings more demand for the financial services. So this means that financial liberalisation has an effect on the economy. There is no doubt that financial liberalisation can benefit to a nation‟s economic growth. Economic growth is defined as, "economic growth is the increase in the value of goods and services produced in the economy". Usually it is measured as a percent rate of increase in real gross domestic product (GDP). This means that if the performance of the services sector (that is the banking sector, development financial institutions and stock market) is impressive in the economy then it would increase the real Gross Domestic Product (GDP).

RELATIONSHIP BETWEEN FINANCIAL LIBERALISATION AND ECONOMIC GROWTH

Economists have different perspectives on the link between financial liberalisation and economic growth. Schumpeter (1911) argues that the services provided by financial intermediaries are essential drivers for innovation and growth in the economy. For an economy to be in booming it is necessary that there should be a well developed financial system channel in the country so that financial resource allocation could be made most productive. Robinson (1952) argues that finance does not exert a causal impact on economic growth. Instead, financial development (that is the banking sector of the country) follows economic growth as a result of higher demand of financial services. Dr.Ishrat Hussain (2000) argues, "when financial liberalisation and reforms were introduced in the Pakistani banking sector it led to better performance and thus had a viable effect on the economy as a whole."

The standard economic theory suggests that financial liberalisation leads to a more efficient resource allocation, high level of investment and higher economic growth. As McKinnon and Shaw (1973) suggest that," high interest rates brought about financial liberalisation and reforms would stimulate savings, which in turn would lead to higher level of investment and economic growth." Financial liberalisation can stimulate economic development through set different channels. The financial system that is the banking sector and development financial institutions system performs the important function for channelling funds, productive investment and important component of a country‟s strategy for economic growth.

According to various literatures on financial liberalisation it is observed that it could impact economic growth through different number of channels. When an economy is open that is market oriented, the different sectors in an economy can perform at their maximum level. Open market is a result of financial liberalisation and reforms that are introduced in banking sector or the financial regulation of the country by its government. If implemented in an effective and efficient manner can lead results to economic growth and prosperity for the country. When financial liberalisation is introduced in the banking sector, it allows flexibility in operations of different sectors of the economy that are Balance of Payments (BoP), Foreign Direct Investment (FDI), remittances, stock exchanges,

brokerage house or firms and foreign reserves held by the State Bank or other private banks. Subsidies and relief in taxes provided by the government in boosting its efficient industry can lead to maximum output; hence it would be in an appropriate position to export. When the balance of payments is positive which are exports are more then imports thus it would lead to trade surplus. Similarly different saving schemes introduced by the banking sector of the country could lead to mass investments, this would increase the deposit mobilization rate of different banks. When there is excess of money held with the banking sector, the cost of borrowing would be cheap and it would lend its money to different sectors such as agriculture, large scale manufacturing, small and medium enterprises and micro finance schemes. When all these sectors have commensurate production and efficient output, thus it leads to economic growth in country. Firstly, foreign investors who enjoy the improvements in the diversification benefits will drive up the local equity prices permanently, by reducing the cost of capital. Bekaert and Harvey (2000) and Henry (2000) proved that the cost of capital goes down after the major financial regulatory reforms.

It is acknowledged that financial liberalisation is an extremely important component of a successful development strategy for economics. If financial deregulation is implemented in isolation then it may not promote growth and thus impede economic growth. "The importance of achieving macroeconomic stability prior to reforms is well known, yet structural reform and institutional development in the financial sector, especially prudential financial supervision is equally essential as liberalisation proceeds." (IMF Working Paper No.95/123)

MONITORING AT BANKING SUPERVISION DEPARTMENT (BSD)

The objectives of off – site surveillance supervision department are as following:

- To monitor the condition of individual banks
- To evaluate their performance within the banking system
- To provide early identification of problems so that corrective action can be effected
- To target scarce on- site supervisory resources to areas or activities of greater risk

The banking supervisory department looks around receipt, review and analysis of financial statements by different banks operating in Pakistan and the returns submitted to State Bank of Pakistan. The off- site analysis at banking supervisory department facilitates the monitoring of each bank‟s performance and its observance of supervisory requirements over time, so that problems may be identified as soon as these emerge. The system also helps indicate those areas which reflect high probability of financial difficulties so that policies and corrective measures can be designed and implemented in accordance. In accordance with the responsibilities under the core principles recommended by the Bank Committee, the on- site examination capabilities at the State Bank of Pakistan have substantially augmented with the international standards. The regulations that have been designed or established by the State Bank of Pakistan for some time are aimed at convergence of essential industry indicators to the globally accepted criteria; a risk based approach to evaluations of the performance of banks has been adopted by all banks in all its assessments.

Timely or periodic on –site examinations of the financial condition of institutions within State Bank of Pakistan‟s jurisdiction, remains the most effective supervisory tool, which support Banking Supervision Department in maintaining a proactive approach in discharge of the statutory responsibilities. The State Bank of Pakistan‟s policy for frequency of inspection of banks and Development Financial Institutions (DFI) are aimed at designing to provide flexibility in scheduling inspections with the need to maintain safety and soundness. This policy devises a framework within which supervisory ratings, surveillance and financial monitoring results and other appropriate indicators of banks soundness are considered. There is a shift from supervisory focus from „ compliance oriented‟ to „Risk Assessment Approach‟ State Bank of Pakistan has developed a uniform bank rating system in conformity with international standards/benchmarks. Now the State Bank of Pakistan, which is the central bank, has been following a supervisory framework, CAMEL which involves the analysis of six indicators which reflect the financial health of financial institutions (banks). These are Capital Adequacy, Asset Quality, Management Soundness, Earnings and Profitability, Liquidity and Sensitivity to market risk.

METHODOLOGY AND EMPIRICAL ANALYSIS

RESEARCH APPROACHES AND STRATEGIES

According to the research objectives and questions, in this report we will use empirical analysis of the secondary data which is the deductive approach, which means developing a theory and designing a research strategy to test the hypothesis. It is often useful to combine the deductive and inductive approaches together. But in this paper, all questions needs a proper answer by describing what actually is happening and need to know the relationship between the banking sectors of Pakistan to economic growth. As there is a vast wealth of information which includes the working paper, literatures review reports and analysis. So therefore it is very much suitable to adopt the deductive approach. Deductive approach can save a lot of time and can be performed on this empirical analysis study. It is much quicker as compared to inductive approach and thus is a low risk strategy. These are all the reasons for choosing the deductive approach for the paper. As in order to answer the research questions, case studies, working papers and descriptive studies are the best option to answer the research questions and objectives. "A strategy for doing research which involves an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence"(Robson, 2002). By using this strategy researchers can answer why as well as what and how. The objective of descriptive studies is to actually portray an accurate profile of persons, events or situations (Robson, 2002). It should be very clear to researcher what data collection he needs to carry out before he starts his research. After complete evaluation of data it is necessary to give a conclusion. As this report mainly adopts the case study and descriptive study to answer the research questions and meet the research objectives. The aim of this paper is to find out what is happening and explore existing theory. Working papers and case studies are very much appropriate to answer research questions and match the research objectives.

DATA COLLECTION AND ANALYSIS

This paper will only use the secondary data to answer research questions and meet research objectives. Secondary data is the data which is actually already been collected for some purpose. In secondary data both qualitative and quantitative data are included. They are used in explanatory studies. The data includes raw data and published summaries. In this paper raw data will mainly be used. The other raw data that would be used or adopted is the written documents such as journals and magazines, articles, transcripts, government publications, speeches and internet. Different banks, financial intermediaries and markets store a variety of data to support their operations, government departments undertake several surveys and publish official statistics covering all social and economic topics. Annual report is published by all the banks. Secondary data is mostly used in case study analysis and survey type research. In these different sets of statistics figures and diagrams will be used to analyse quantitative and qualitative data from either a deductive or an inductive perspective. The secondary data is less expensive; it can save time and money. As my independent data collection would not be of quality and standard as collected by agencies and different organisations.

APPLICATION OF APPROACHES, STRATEGIES AND DATA COLLECTION ANALYSIS

Application of first objective

The first research objective is to examine the performance of the banking sector in Pakistan. The first question is what is the performance of the banking sector pro and post privatization process? Similarly would study the impact of financial liberalisation and reforms that were introduced by the government. So in order to answer these questions, the following data would be needed as follows:

Six indicators of performance

- Capital Adequacy
- Asset Quality
- Management soundness
- Earnings and Profitability

- Liquidity
- Sensitivity to market risk

The relevant data we are going to analyse for our study would be from 1990 to 2000. In this time frame we would study the performance of banking sector after privatisation and financial liberalisation and reforms introduced by the Government of Pakistan. The source of six indicators that we are going to employ in our empirical analysis would be taken from State Bank of Pakistan's Annual Reports, official URLs and published reports. The time period for this analysis would also start from 1990 – 2000. In this analysis we are going to study the aggregated sector; Public Sector Banks, Privatised Banks, Domestic Private Banks, Foreign Banks and the Banking System.

The performance of banking sector in Pakistan can be analysed using the supervisory framework, CAMEL. This involves six key indicators which would be discussed as following:

CAPITAL ADEQUACY

Capital Adequacy of any financial institution is instrumental in the formation of risk perception about it amongst its stakeholders. This refers to the ability of the capital base of a financial institution to absorb.(Shabbir H. Kazmi,2001)

In late 1998, State Bank of Pakistan introduced risk based system for capital adequacy in order to protect the interest of depositors as well as shareholders. According to capital adequacy banks in Pakistan are required to maintain 8 percent capital to Risk Weighted Assets (CRWA) ratio. The banks were asked to achieve a minimum paid up capital to Rs. 500 million by December 31, 1998. Further more the State Bank of Pakistan has raised this requirement to Rs. 1 billion and was given a deadline up to Jan 1, 2003 to comply with this. After 1998 this ratio has deteriorated due to economic sanctions imposed on Pakistan after it conducted nuclear tests. There was a shift in State Bank of Pakistan policy regarding the investment securities which led to decrease in the ratio. Most of the banks are able to maintain above the desired ratio as well as direct their investments towards most productive private sector advances. Another reason for decline in this ratio is due to the fact of higher promising of Non- Performing Loans (NPLs). This is considered as a positive development towards the performance of banking sector.

ASSET QUALITY

This is an important parameter for any banking institution, as the quality of its assets has a major bearing on the earning ability of that institution. Asset Quality is measured in relation to the level and severity of non- performing assets, recoveries and the level of promising. (Shabbir H. Kazmi, 2001)

Although, the Pakistani banking system is infected with large volume of Non-Performing Loans, its severity has stabilised to some extent. The rise over the years was due to increase in volume of Non-Performing Loans following enforcement of more vigorous standards for classifying loans, improved reporting and disclosure requirements adopted by the State Bank of Pakistan. In case of privatised and private banks, this ratio went up considerably and become a cause of concern. The level of infection in foreign banks is not only the lowest but also closes to constant. The ratio of net Non- Performing Loans to net advances, another indicator of asset quality, for all banks has declined. This has been remarkable in the case of Nationalised Commercial Banks, in terms of reduction in the ratio of loan defaults to gross advances. Privatised banks do not show significant improvement, their ratio is much lower than that of Nationalised Commercial Banks. The only exception is the group of private banks for which the ration has gone up due to bad performance of some of the banks in the group. It is still lower when it is compared with that of foreign banks.

MANAGEMENT SOUNDNESS

The management of a financial institution is measured against performance of its financial indicators. Management Soundness is rated in terms of performance in capital adequacy, asset quality, earnings and profitability, liquidity and sensitivity to market risk. (Shabbir H. Kazmi, 2001)

Nevertheless, total expenditure to total income and operating expenses help in gauging the management quality of any commercial bank. Pressure on earning and profitability of foreign and private banks caused their expenditure to income ratio to rise in 1998. The worst performers in this regard are the privatised banks, mostly because of high salaries and allowances.

EARNINGS AND PROFITABILITY

Profits add to while losses result in erosion of the capital base of a banking institution. Earnings and Profitability are usually measured in terms of returns obtained on assets or capital employed. (Shabbir H. Kazmi, 2001) Since, Nationalised Commercial Banks have significantly large share in the banking sector; their performance overshadows the other banks. Profit earned by this group resulted in positive value of Return on Asset of banking sector during 2000, despite losses suffered by Allied Bank Limited (ABL). Pressure on earning and profitability was most viable in case of foreign banks in 1998. The stress on earnings and profitability was inevitable despite the steps taken by the State Bank of Pakistan to improve liquidity. Treasury bills (T-Bills) portfolio of banks declined considerably, as they were less remunerative. Foreign currency deposits became less attractive due to the rise in forward cover charged by the State Bank of Pakistan. Banks reduced return on deposits to maintain their spread.

LIQUIDITY

A liquid position of a financial institution refers to a situation where it can obtain sufficient funds, either by increasing liabilities or by converting its assets at a reasonable cost. It is evaluated in terms of overall asset and liability management such that mismatches are minimised. (Shabbir H. Kazmi,2001) Liquidity indicators since 1997 indicates the painful process of adjustments made in the banking sector of Pakistan. Ratio of liquid assets to total assets has been on a constant decline. This was due to the fact that brought about by the monetary policy changes by the State Bank of Pakistan to manage the crisis-like situation created after 1998. Both the Cash Reserve Requirement (CRR) and the Statutory Liquidity Requirement (SLR) were reduced in 1999. These steps were reinforced by declines in State Bank of Pakistan's discount rate and T- bills yields to help banks manage rupee withdrawals and still meet the credit requirement of the private sector. Foreign banks have gone through this adjustment much more quickly than other banks. Their decline in liquid assets to total assets ratio, as well as the rise in loan to deposits ratio, is much steeper than other groups. Trend in growth of deposits shows the most painful part of the adjustment is over. This is reflected in reversal of decelerating deposit growth into accelerating one in year 2000.

SENSITIVITY TO MARKET RISK

Sensitivity to market risk refers to an institution's exposure to interest rate risk, exchange rate risk, equity price risk and country risk. (Shabbir H. Kazmi,2001) Rate sensitive assets have diverged from rate sensitive liabilities in absolute terms since 1997. The negative gap has widened. Negative value indicates comparatively higher risk sensitivity towards liability side, while decline in interest rate may prove beneficial.

APPLICATION OF SECOND OBJECTIVE

The aim of the second objective is to study the economic growth in Pakistan in relation to the performance of banking sector. What is the contribution of the banking sector towards economic growth? In this the data needed would be as follows:

- M2 (broad money) to Gross Domestic Product (GDP Ratio)

These two indicators which are to be employed for the empirical analysis would be taken from the State Bank of Pakistan's Annual Reports and official website. The time frame for the analysis of these two economic indicators would be from 1990-2000. It would be the extraction of data from the original source which would be analysed in depth with critics and relationship to the economic growth. There would be limitation regarding the analysis of this data because of the matter fact we may not be able to get M2 that is the broad money to Gross Domestic Product ratio for the time period of 1990-2000.

LIMITATIONS

There are some limitations in using of these methods. The research cannot be carried out in-depth detail because of the time limitation. Secondly, due to lack of some primary data. The available secondary data that we have would be inappropriate to the research question in this report, because they are collected by organisations or government for some certain purpose. The data used in this paper may not be of high quality due to the fact there are some aggregations and definitions which may be unsuitable.

ANALYSIS

The detailed analysis for each of the six key indicators of the supervisory framework, CAMEL is presented in this section. The CAMELS ratios, the period 1990-2002 are separately discussed for public sector banks, privatised banks, domestic private banks and foreign banks. The results for the entire banking system are discussed separately.

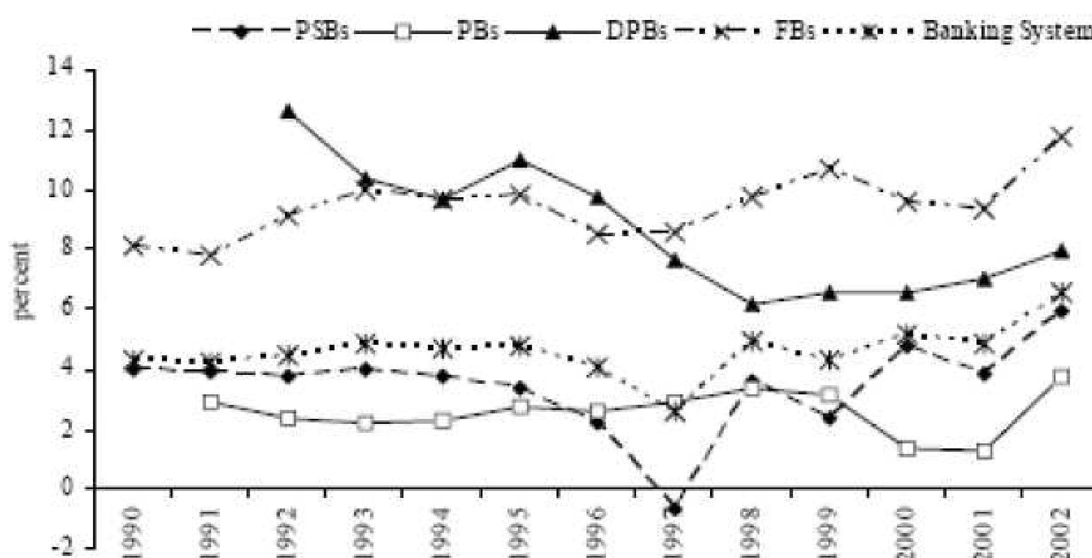
CAPITAL ADEQUACY

Public Sector Banks

The capital to liability ratio is used as a measure of capital adequacy in this study under examination. It basically shows the extent to which the capital held by the bank provided coverage to its liabilities (that is the depositors). This figure has been declining since 1990; this indicates that there is a decrease in the capital base of public sector banks. In the year 1997, this ratio became negative due to the fact that two of the largest banks in this sector made huge losses that are Allied Bank Limited and Muslim Commercial Bank. The subsequent recovery in this ratio can be explained by capital injection by the State Bank of Pakistan and revaluation of fixed assets in 1998. After 2000, improvement in the capital to liability ratio relative to pre-privatisation level can be seen for public sector banks. In order to keep on track, the State Bank of Pakistan had to provide capital support of Rs. 8 billion to one of these banks in 2000 to prevent further erosion of its capital base.

Privatised Banks

The group of banks comprises mainly of two banks that is the Allied Bank Limited and Muslim Commercial Bank with United Bank Limited joining in the year 2000. The capital to liability ratio for this group of banks is lowest amongst the four groups of banks that are analysed therefore it reflects poor capitalisation of these institutions. The ratio which showed improvement between 98-99 was in a plunge in 2000, due to capital base of these bank declining to just 1.3 percent of its liabilities due to heavy losses incurred by Allied Bank in that particular year. The capital adequacy improved when United Bank Limited joined the ranks of privatised banks in 2000, it was well capitalised. But still the capital to liability ratio remained below the average for the entire banking system.



Source: State Bank of Pakistan Figure 1. Capital to Liability Ratio

Domestic Private Banks

The capital adequacy of the newly established banks in the private sector is seen to be susbstainally higher than that of public sector banks and the privatised banks. The level of capital adequacy is seen to be much better than that of foreign banks, as in early years of their operations. As deposit mobilisation of these banks increased, their capital to liability ratio started declining from 12.6 percent in 1992 to less than half of that by 98 at 6.1 percent. This ratio started rising again and reached 8 percent by 2002.

Table 1. Indicators of Capital Adequacy

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Public Sector Banks													
Capital/ Liability	3.9	3.9	3.7	4.0	3.7	3.4	2.2	-0.6	3.6	2.4	4.8	3.9	5.9
Privatized Banks													
Capital/ Liability	-	2.9	2.3	2.2	2.2	2.7	2.6	2.9	3.4	3.2	1.3	1.3	3.8
Domestic Private Banks													
Capital/ Liability	-	-	12.6	10.3	9.6	11.0	9.7	7.6	6.1	6.5	6.5	7.0	7.9
Foreign Banks													
Capital/ Liability	8.1	7.8	9.1	10.0	9.6	9.8	8.5	8.6	9.7	10.7	9.6	9.3	11.8
Banking System													
Capital/ Liability	4.3	4.2	4.5	4.9	4.7	4.8	4.0	2.6	4.9	4.3	5.2	4.8	6.5

Source: State Bank of Pakistan

Foreign Banks

The capital to liability ratio of foreign banks operating in Pakistan as compared to public banks and domestic private banks during the period of our study is well above the level. It was 7.8 percent minimum in 1990, the ratio is still considerably higher than the maximum levels attained by the public sector and privatised banks between 1990-1992.

Banking System

The capital adequacy of the banking sector is seen to be improved due to the fact that government introduced financial liberalisation and reforms. As more of foreign banks started operating in the market, the competition increased and as the base of deposit mobilisation of these foreign banks was high, the capital adequacy was also stable. But in 1997, capital to liability ratio deteriorated susbstainally when of the biggest public sector banks made huge losses that is Allied Bank Limited and Muslim Commercial Bank.

Table 2. Indicators of Asset Quality

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Public Sector Banks													
Earning assets/ Total Assets	80.2	75.3	75.9	77.3	78.3	76.4	74.3	71.0	68.8	68.6	70.1	69.3	75.9
NPLs/ Gross Advances	18.1	21.6	20.0	23.6	28.3	27.1	27.2	32.0	30.2	32.4	26.3	25.9	25.5
Privatized Banks													
Earning assets/ Total Assets	-	78.4	81.9	79.8	79.2	79.3	77.5	81.0	79.4	77.1	83.1	82.2	87.4
NPLs/ Gross Advances	-	12.2	13.6	16.5	16.5	11.0	12.5	14.4	16.4	20.0	19.1	21.2	23.3
Domestic Private Banks													
Earning assets/ Total Assets	-	-	82.6	89.8	87.4	81.0	79.3	89.3	86.7	83.0	76.1	71.5	80.1
NPLs/ Gross Advances	-	-	20.6	10.9	7.6	5.9	5.9	6.3	9.8	13.3	11.0	11.1	7.6
Foreign Banks													
Earning assets/ Total Assets	77.2	76.7	80.0	77.1	76.1	72.9	74.4	74.4	73.7	64.4	76.6	67.8	75.2
NPLs/ Gross Advances	11.8	8.3	5.6	5.9	3.4	4.5	5.3	5.0	5.3	5.2	4.7	4.3	3.8
Banking System													
Earning assets/ Total Assets	80.0	75.9	77.6	78.3	78.7	76.8	75.3	75.4	73.5	71.1	74.1	71.4	79.6
NPLs/ Gross Advances	17.6	18.9	17.4	20.0	21.7	19.3	19.2	21.1	21.0	23.2	19.5	19.6	18.0

Source: State Bank of Pakistan

ASSET QUALITY

Public Sector Banks

The asset quality of any financial institutions is an important determinant of its financial health namely its earnings ability. The asset quality can be measured using indicators like earning assets to total assets and Non Performing Loans to total advances (gross). The asset quality of public sector banks does not seem to have improved much during the period under review. There is a deterioration observed in the ratio of earning assets to total assets as in the process of privatisation in the year 1991, when Muslim Commercial Bank and Allied Bank were handed over to private sector. Thereafter, some marginal improvement in asset quality can be seen up to 1994, after which the ratio has declined hitting its lowest level in 1999, when only 68.6 percent of the total assets were earning as compared to 80 percent in 1990 prior to initiation of the privatisation process.

Another vital indicator of asset quality is ratio of Non Performing Loans to total loans. There is an increasing trend in the public sector banks in the ratio of Non Performing Loans to total advances during the 90s, indicating a decline in their asset quality. This can be mainly attributed to the increasing amount of loans provided by public sector banks on political grounds. Another factor which is responsible for the increasing level of Non Performing Loans is due to the requirement of State Bank of Pakistan of higher disclosure in 1997, which forced banks to show their actual picture of stuck up loans. Thus, it resulted in a rise in the volume of Non Performing Loans. In 1990s, the ratio of Non Performing Loans to gross advances started declining after hitting a high of 32.4 percent in 1999.

Privatised Banks

The asset quality of the privatised banks as measured by the ratio of earning assets to total assets is seen to have improved during the period under review. The level of ratio of earning assets to total assets for this group of banks has consistently been higher that for the public sector banks, ranging from a low of 77.5 percent in 1996 to a high of 87.4 percent in 2002.

The ratio of Non Performing Loans to gross advances is another measure of asset quality, for privatised banks is seen to be lower that for the public sector banks. The ratio shows a rising trend over the years due to growing accumulation of Non Performing Loans in the portfolio of Allied Bank. Non Performing Loans as a proportion of gross advances for these banks reached 23.3 percent in 2002 when the United Bank with its large portfolio of Non Performing Loans joined the banks the ranks of privatised banks.

Domestic Private Banks

The asset quality of the domestic private banks is much better than of the public sector banks during the period under review and the privatised banks during the 90s. The ratio of earning assets to total assets show a high level of fluctuation during the period under study, with a low of 71.5 percent in 2001 and a high of 89.8 percent in 1997.

The ratio of Non Performing Loans to total advances, we see that this ratio is lower than that of public sector and privatised banks. There is a declining trend up to 96 after which it starts rising again. The reason may be due to the fact that domestic private banks were established only after 90s and therefore it would seek some time to see the effects of their lending policies.

Foreign Banks

The ratio of earning assets to total assets for the foreign banks was stable at around 75 percent throughout the year 90s. There is a noticeable decline towards the end of 1990s. The reason for this decline is due to the fact more than 95 percent of investment of foreign banks was in government securities.

The ratio of Non Performing Loans to total advances for foreign banks was stable around 4-6 percent during most of the period. This ratio is lower as compared to the banks in other three categories, the much lower rates of default and higher rates of recovery of the foreign banks.

Banking System
The asset quality of the entire banking system, by the ratio of earning assets to total assets has not seen much improvement as the result of privatisation. This ratio has declined in the later 90s mainly due to the deterioration in asset quality of the public sector banks. It is observed in 2000 that there is an improvement in this ratio when earning assets reached nearly 80 percent of total assets to the start of privatisation process in 90s.

OVERALL CONCLUSION

The major aim of this report is to study the economic growth in relationship to performance of banking sector in Pakistan, financial reforms and liberalisation, restructuring in the banking sector adopted by the State Bank of Pakistan and how the banking sector has a played a vital role in economic development of Pakistan. In chapter four an extensive analysis is carried on the performance of the banking sector on the basis of six indicators which are capital adequacy, asset quality, management soundness, earnings and profitability, liquidity and sensitivity to market risk. Similarly, M2 (broad money) to Gross Domestic Product ratio is also examined which tells us the relationship between the banking sector and economic growth. In order to follow the methodology in chapter three, chapter four analysed the performance of each indicator in respect of public sector banks, privatised banks, domestic private banks, foreign banks and the over all banking system.
After detailed analysis it is noticed that the performance of the banking sector is progressive and thus it is playing a vital role towards the economic development of the country. Similarly, the transformation of Pakistan�did"s banking sector has given the success in developing a robust and a stronger system, which results in generation of positive economic growth. There still are emerging challenges and risks that are to be faced by the banking sector but they are not uncommon in financial system. Pakistan, like rest of the Asian economies that is China and India is growing at a fast pace with real Gross Domestic Product Growth of 6.6 percent, the rise in per capita income to $ 800, a large emergence of middle income group and a growing trend for retail banking industry in the country. To become a developed nation and an economy it needs to develop its financial institutions and the banking sector of the country.

RESULTS OF FINANCIAL LIBERALIZATION AND REFORMS
The financial liberalization and reforms which were introduced by the State Bank of Pakistan in the year 1991 led to better; induction of professional management, reduction in administrative cost versus total income and reduction in tax rates. The liberalization in the banking sector set a policy for opening and closing of branches all over the country. Foreign banks were also for the first time given the opportunity to come and invest in the country. Foreign Pakistani living abroad were allowed to open Foreign Currency Accounts (FCAs) thus this led to increase in the amount of remittances and the foreign exchange held by the State Bank of Pakistan and other commercial banks also increased. Similarly, a free floating market driven exchange rate system has been introduced. Restrictions on buying and selling of foreign exchange by banks have also been removed.
The soft monetary policy adopted by the State Bank of Pakistan in the early 90s led to increase in huge deposit mobilizations held by the banks. On the other side massive loans were credited to the private sector and they invested in development of their businesses which increased the output. The first and foremost vital step initiated by the State Bank of Pakistan was to ask the local banks to reduce the number of Non Performing Loans (NPLs) and advances from defaulted borrowers. All these effective and efficient measure led to better performance of the banking sector, which in result plays an important role towards economic growth.
To increase the Minimum Capital Requirement (MCR) and Statutory Liquidity Requirement (SLR) of the banks asked by the State Bank of Pakistan can make the banks stronger in terms of liquidity and more cash in hand for disbursements. This has also encouraged consolidation of smaller banks which led to Mergers and Acquisitions amongst the big players in the banking sector of Pakistan. It is noticed that the banking sector of Pakistan is deregularised and is independent in following fiscal and monetary policies. The Corporate and Industrial Restructuring (CIRC) established by the government; in a matter fact to improve the profitability of nationalised banks and the outstanding loans recovery from defaulted borrowers. The banking sector of any developing should be functioning in an effective and efficient manner, to have impressive economic growth in the country.
All these policies and reforms that were initiated in the 90s have resulted in these years with healthy economic development and growth in the country. Now the banking sector of Pakistan is more structured and is still moving towards well development of its financial institutions. Better functioning of this during these years from 1990-2000 have increased the foreign reserves, exports are on a rise, massive flow in Foreign Direct Investment (FDI) in different sectors of the economy such as real estate, telecom, textiles pharmaceuticals, Large Scale Manufacturing (LSM),oil and gas. There is a good corporate governance culture which is being enforced by the State Bank of Pakistan (SBP) and Securities and Exchange Commission of Pakistan (SECP) which resulted in improved reporting, empowerment of audit committees and internal audit and independence of external auditors. Further more, the format of statutory accounts has been revised on the basis of International Accounting Standards.There is also a large expansion of branch network which includes the Public Sector Banks, Private Banks, Domestic Private Banks and Foreign Banks and thus huge deposits by private and some foreign banks. There is a rationalisation of branches by nationalised banks.
State Bank of Pakistan (SBP) has emphasized on towards focusing on local rupee deposit, in order to keep the value stronger to dollar. There is also a significant increase in inward remittance business as a result of governmental clamp down on unofficial remittance channel following September 11.

FUTURE CHALLENGES FOR BANKING SECTOR OF PAKISTAN

There are some future challenges for the banking sector of Pakistan to face, to have a more progressive economic growth in the country. It still needs to struggle with some of the challenges which are discussed as following:

CHALLENGES FOR BANKING SECTOR
The first challenge for the banking sector of Pakistan is to have the sustainability and requires second tier of reforms in order to implement the reforms in a productive manner and achieve economic growth in the country. Pakistan banking sector is about to enter a long-term secular growth trajectory (Merrill Lynch, 2006). The high explosion in the industry has proven that the sector has potential and is well versed. The implementation of these reforms should be broad based and well sequenced. The reforms must be all encompassing: resultantly the process is arduous, complex and continuous. (Dr.Shamshad Akhtar, 2007)
The second challenge for the banking sector in Pakistan is the growing interest from foreign investors. The local domestic banks need to be competitive, as they have to compete in the open market and de regularised atmosphere. There might be a lot of mergers and acquisitions from large players in the market and thus this will help in the process of consolidation of the banking sector. The growing trend of Mergers and Acquisitions and recent issue of Global Depository Rate (GDR) of Muslim Commercial Bank at the London Stock Exchange have attracted close to $ 1 billion inflows and another equivalent amount is yet to flow in by other transactions in pipe line.
The third challenge for the banking sector of Pakistan is to strengthen risk management through effective implementation of prudential regulations, financial infrastructure and technology and internal controls within commercial banks. They still have to develop strong vigilance and improved credit risk management to have a control of Non Performing Loans (NPLs) at manageable levels. In order to cope with this challenge they must have E-banking in order to enhance the interconnectivity of ATM switches to fully exploit ATM network of all the banks.

CHALLENGES TO PROSPER ECONOMIC GROWTH IN PAKISTAN
Pakistan is a fast growing economy in the region, with the real Gross Domestic Product (GDP) growth rate of 7 percent target. There are still some challenges to be faced in order to prosper the economic growth of the country such as in the short run it would be necessary to address emerging macroeconomics imbalances while these are still small and manageable. The key macroeconomic imbalances include rise in the current account deficit, widening saving investment gap and a weakening in fiscal indicators. Inflation has shown some decline but concrete measure needs to be taken so that the figures significantly come down to low levels.
The tight monetary policy adopted by the government and the State Bank of Pakistan, should be continued in regard to reduce the inflationary pressures and the aggregate demand remains strong in the economy. Some of the key challenges that needs to be taken care of by the State Bank of Pakistan are heavy

dependence on import related taxes and dependence on potentially volatile non tax revenues. The government and the State Bank of Pakistan need to take concrete measures in order to raise the tax to GDP ratio. In this regard, the reported plan of the Central Board of Revenue to seek a one percentage point increase in the tax to GDP ratio in the next five years needs to be vigorously implemented. There is a need to increase the M2 to GDP ratio, the reason being for this is that as there is more money supply more credit disbursements could be carried out to private sector to increase their output. Similarly, investments gap needs to be narrowed down and more foreign investments are gathered within the banking system. The process of privatisation should be further strengthened so that it attracts foreign investors in the country that would lead to increase in the Foreign Direct Investment (FDI), which in result would increase the foreign reserves held by the State Bank of Pakistan and other commercial banks in the country. Furthermore, the exports of the country have been too increased so as to reduce the gap in the balance of payment. As there is the fast growing trend of aggressive globalisation and increasing regional competition, it is a very vital challenge for the government of Pakistan and the State Bank of Pakistan to continue with the sound macroeconomic policies.

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BANK CONSOLIDATION AND CREDIT AVAILABILITY TO SMALL AND MEDIUM ENTERPRISES: EVIDENCE FROM NIGERIA

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ABSTRACT

The trend of collapse and continual closure of business by Small and Medium Enterprises (SMEs) in Nigeria due largely to financial constraint has raised the important question of whether or not bank consolidation really impacts on the sector. Using an aggregated data for all the Deposit Money Banks (DMBs) in Nigeria as at the end of 2008, this paper assesses the impact of bank consolidation on credit availability to SMEs in Nigeria. The results of the ordinary least squares (OLS) regression model show that so far, bank consolidation in Nigeria has no positive impact on the size of credit available to SMEs. Based on that, the paper recommends that the Federal Government should come up Credit Guarantee Scheme to enhance accessibility of SMEs to banks' financing, taking into consideration the peculiarities of the sector and the reasons responsible for the failure of previous financing schemes. The Central Bank of Nigeria (CBN) on her part should review the minimum capital base of N25 billion for banks and classify banks into international, national and regional to enable the emergence of small and medium-sized banks that will concentrate on SMEs financing.

KEYWORDS

Bank Consolidation; Credit Availability; Credit Guarantee Scheme; Small and Medium Enterprises.

INTRODUCTION

The recent publications of conflicting statements about the outcome of bank consolidation in Nigeria have attracted the attention of researchers and analysts. While banks management on the one hand claim that consolidation of the banking industry has done a magic wand in increasing credit size to the Small and Medium Enterprises (SMEs), on the other hand, SMEs operators insist that consolidation has not brought solution to their financial problems. Financial constraint is arguably said to be the main problem of SMEs. In recognition of the importance of SMEs, government in Nigeria has set up various credit schemes, programmes and institutions aimed at developing the sector and solving its financial predicament since the early 1970s. The programmes however, seem to have failed to promote the development of SMEs in Nigeria.

With consolidation of the banking industry, the Central Bank of Nigeria (CBN) believes that the financial problems of SMEs would be over. CBN (2006) and Soludo (2006) posit that banks in Nigeria would expand their branch network and mobilise more funds to lend to the SMEs and other deserving sectors of the economy. The belief of the CBN and Soludo is premised on one of the arguments in the literature that consolidation enables banks to extend more credit to SMEs due to the supposed positive relationship between capitalisation and deposits on the one hand, and on the other hand, deposits and credit size. Contrary to this position however, it is argued in some literature that consolidated banks seem to turn away from SMEs for bigger ticket transactions. According to this view, consolidation is more of a threat to SMEs than opportunity. The trend of collapse and continual closure of business by SMEs in Nigeria due largely to financial constraint has raised the important question of whether or not bank consolidation really impacts on credit availability to the sector.

OBJECTIVE OF THE STUDY

The objective of this paper is to assess the impact of bank consolidation on credit availability to SMEs in Nigeria. The aim is to see whether or not consolidation of the Nigerian banking system has brought about additional lending to the SMEs sector in line with the objective of the reform. To achieve the objective, the paper tested the null hypothesis that bank consolidation has no significant impact on credit availability to SMEs in Nigeria. The paper covers 8 years, from 2001 to 2008. This enables us to have two equal sub-periods, with 2001 through 2004 as pre-consolidation, and 2005 through 2008 as post-consolidation periods. The period is considered appealing because it provides before-and-after consolidation data.

The paper is further organised in eight sections. The next section offers a conceptual discussion about SMEs. Section three carries out review of theoretical and empirical studies on SMEs access to financing in the world. Section four covers a review of literature on SMEs' credit in the era of consolidation. Section five discusses the dataset and methodology of analysis. Sections six and seven respectively present the statistical description of the data and the results of regression analysis. Section eight concludes the paper and makes recommendation.

THE CONCEPT OF SMEs

SMEs are a mixed group found in a wide array of business activities and the concept of SMEs is relative and dynamic (Organisation for Economic Cooperation and Development (OECD), 2004). The definition of SMEs has tended to change over time and to a large extent, depends on a country's level of development (Olorunshola, 2003) cited in Ogburu (2007). Statistical definition of SMEs varies by country and is usually based on the number of employees, value of sales and/or value of assets and size of capital (Ganbold, 2008).

Ayyagari et al. (2007) for example, provided official SME definitions for 74 OECD, transition and developing countries, including references to the sources of data. Due to its ease of collection however, the most commonly used variable in defining SMEs is the number of employees. The European Union (EU) and a large number of OECD transition and developing countries set the upper limit of number of employees in the SMEs between 200-250, with a few exceptions such as Japan that stipulate 300 employees and the USA 500 employees. Before 1992, various government agencies in Nigeria tended to adopt various definitions to reflect differences in policy focus. In 1992 however, the National Council on Industry (NCI) synthesized the various definitions with a view to removing all ambiguities and agreed to revise them every four years (Olorunshola, 2003) as cited in Ogburu (2007). With the introduction of Small and Medium Enterprises Equity Investment Scheme (SMEEIS) in Nigeria in 2001 and the subsequent revision of the SMEEIS guidelines, SMEs are defined as enterprises with a total capital of not exceeding N500 million excluding land and working capital, and with no upper or lower limit of staff.

The concept of SMEs was introduced into the terrain of growth and development as early as the late 1940's with the introduction of targeted policies such as grants, special tax treatment, subsidized credits, etc., and the establishment of SME support agencies by governments (OECD, 2004). Despite this long history, SMEs were merely perceived as a synthetic construction of "social and political" importance, especially in the 1980's and up to late 1990's. Although domestic SMEs and the informal sector constituted most of what could be called the private business activity in most developing countries, private sector development strategies advocated for and implemented in these countries seem to favour the needs of large-scale businesses, including foreign invested ones.

SMEs in Nigeria are a very diverse group of businesses that operate in different sectors of the economy. They consist principally of businesses that are engaged in distributive trade, manufacturing, agriculture and services. It is estimated that all together, SMEs account for well over 50% of Nigerian GDP (Odeyemi, 2003) and about 70 percent of her industrial employment (Adebusuyi, 1997 cited in Olutunla and Obamuyi, 2008). The multiplier effects of investing in this very important sector is there very huge and of immense importance for economic growth and development. These admirable contributions underscore why governments and various international agencies facilitate the actualisation of sustainable industrial growth and mass job creation through the rapid growth and

development of SMEs (CBN, 2006). They also explain why Governments of different countries are always concerned about the growth and development of the sector.

SME AND ACCESS TO FINANCING

SMEs' access to finance has been a subject of great interest both to policymakers of both developed and developing economies and researchers because of the significance of SMEs in private sectors around the world (Da Silva et al., 2007; Beck *et al*, 2008). World Bank (2007) defined access to financial services as the absence of price and non-price barriers in the use of financial services determined by the forces of demand and supply. According to Beck *et al* (2008), Ganbold (2008) and De la Torre *et al* (2009), improving access to finance entails improving the degree to which financial services are available to all at a fair price.

A number of issues are associated with access to financial services. According to Claessen (2005), the first issue relates to the question of whether financial services are available in what quantity. The second relates to cost, that is, at what price, both implicit and explicit, are financial services available, including opportunity costs? The third issue relates to the range, type and quality of financial services being offered. Following Morduch (1999), Claessen (2005) named these dimensions differently as reliability, continuity and flexibility.

According to Ganbold (2008), the importance of SMEs access to finance is predicated upon four reasons. One, there is empirical evidence confirming that the expansion of access may reduce prevailing poverty in developing countries; two, the channels through which financial development may lead to growth often include access related stories; three, there is a lack of financial services in emerging economies, particularly when compared to the extent of access in developed countries; and four, empirical researches confirmed that lack of access to financial services by agents of economic growth and development, is one of the major impediments of fostering firms.

According to Ganbold (2008), a problem of access to financial services for SMEs exists when projects that could be financed internally in the event of resources availability do not get external financing due to what Stiglitz and Weiss (1981) referred to as principal-agent problems and transaction costs. This, according to Ganbold (2008), happens because there is always a lock between the expected internal rate of return of the project and the rate of return that external investors require to finance it.

Empirical evidences document that lack of access to finance is a key obstacle to the growth of SMEs worldwide. OECD (2004), Beck *et al* (2009) and Ganbold (2008) show that SMEs find it more difficult to access financing more than larger firms especially in developing countries. The theoretical argument suggests that suppliers of funds may choose to offer higher interest rates and credit rationing that would exclude from financing, a significant number of potential borrowers (Ganbold, 2008) largely due to agency and principal problem, asymmetric information, adverse credit selection and institutional problem (Beck *et al*, 2008).

Although this argument is not specifically aimed at SMEs, but given their nature and specific characteristics, SMEs are more affected by these problems than large firms. Some empirical studies using firm-level survey data have shown that SMEs not only perceive access to finance and the cost of credit to be greater obstacles than large firms, but these factors constrain SMEs more than large firms (Beck *et al*, 2009). According to Malhotra *et al* (2006) cited in Ganbold (2008), SMEs are usually more credit constrained than other segments of the economy because of financial sector policy distortions, lack of know-how on the part of banks, information asymmetry and high risk inherent in lending to SMEs.

A number of studies have been conducted on SMEs' access to financing. In his study, Charles (2002) investigated through interview the factors that influence the growth, performance, and development of SMEs in Nigeria and their implications on policy. He found that accessibility to finance and good management are central to SMEs' growth and development. Using a sample of firms and commercial banks in Lagos, Oyefuga *et al* (2008) evaluated the impact of SMEEIS on the growth of Nigerian SMEs. Their study found that inappropriate business plans and poorly packaged projects are the main reasons why SMEs find it difficult to access funds from the new scheme and that even though the scheme had been helpful to some SMEs, most of them are not even aware of their activities and potentials.

In his study, Obamuyi (2007) examined the level of loan delinquency among SMEs in Ondo State of Nigeria, and banks' lending behaviour towards them. The results of the research, which were based on the analysis of interview in 2004 with the managers of some selected commercial banks and SMEs, revealed that poor credit worthiness, lack of collateral security and the constraint imposed on banks' capital by regulations are responsible for banks' attitude of not expanding loan portfolio to SMEs. In their studies, Sanusi (2003) and Olutunla and Obamuyi (2008) found that SMEs' accessibility to formal financial system in Nigeria is very limited. According to CBN (2007), as at the end of the first quarter of 2007, out of N38.2 billion contributed to the scheme by banks, only N18.1 billion or 47.3% had been assessed by the SMEs, which clearly indicates that there has always been a gap between the supply capabilities of banks and the demanding needs of the SMEs. Based on prior studies, there seem to be a huge supply of both equity and loanable funds in the commercial banking sector, which the SMEs are not benefiting from. Beck *et al* (2009) carried out an in depth research on the drivers, obstacles, business models and lending practices of bank financing for SMEs. Using the primary data from a total of 91 banks in 45 countries, the authors studied bank financing to SMEs around the world and found that banks recognised the SME sector to be highly profitable, but perceived macroeconomic instability in developing countries and competition in developed countries as the main obstacles.

Alessandrini *et al* (2008) believed that lack of financing has been a major reason for SMEs' innovation failure. According to their research, financial services problem of the SMEs is not largely due to bank size nor distance, but the vulnerability of the enterprises to failure. Using credit-level data from Mexico, Nanda and Canales (2008) cited in Ganbold (2008) examined the relationship between the organizational structure of banks and credit terms to small businesses. They found that banks with decentralized lending structures grant more credit to small businesses and those with more *soft information*, and that decentralized banks are also more responsive to the competitive environment when setting loan terms.

Using fixed-effects regression model based on a balanced panel data of 115 SMEs randomly selected in Ondo State, Nigeria, Olutunla and Obamuyi (2008) examined the relationship between profitability, bank loans, age of business and the size of SMEs. Their results show that there is interdependence between bank loans and the profitability of SMEs, and a significant relationship between profitability and the size of business. Ihua (2009) on his own part compared SMEs' key failure-factors between the UK and Nigeria by developing a survey instrument testing ten key variables generated through sampling of key informants. The results indicated that while internal factors are responsible for SMEs failures in the UK, in Nigeria, external factors are the major factors responsible for SMEs failure.

SMES AND CREDIT IN THE CONSOLIDATION ERA

One popular argument in the literature on the persistence of SMEs perennial financial problems even after consolidation is the cost of intermediation. Olutunla and Obamuyi (2008) indicated that banks in Nigeria still lend at terrible interest rates of about 20 per cent as against zero per cent, 5 per cent and 3 per cent interest rates in China, Japan and Malaysia respectively. The study of Berger and Udell (2006) on SMEs financing using US data revealed that on the supply side, banks are not expanding SMEs loans due to inadequate capital, imperfect information, high transaction cost of dealing with small loans, geographical dispersion of the SMEs and large number of borrowers and low returns from investment; and on the demand side, SMEs are reluctant to obtain loans because of the collateral security, high interest rate, untimely delivery of credit etc. Thus, while consolidation has resulted in mega banks in Nigeria with sound capital base and relative stability in service delivery, it is however, argued that for the banks, it has not translated into a deepening of the quality of financial intermediation because while it can be argued that recapitalization has helped to build and foster a competitive and a more stable banking environment, it is debatable if the structure of their portfolio investments has the capacity to support the desired economic development aspiration of the proponents of banking consolidation.

One reason put forward as to why consolidated banks are less likely to lend to some businesses particularly those in need of working capital financing is that large banks tend to rely on formal, formulaic methods of determining whether to lend or not and the amount to give (Cole, 1998; Berger and Udell, 2002; Craig and Hardee, 2004; Berger *et al*, 2007). To the extent businesses are able to fulfil these requirements; they may be less likely to obtain credit from mega banks. On the other hand, one of the reasons underlying consolidation of banks is the cost savings, both through technological advancement and greater risk

diversification. To the extent that borrowers have these costs savings passed on to them, businesses may be said to have benefited from banking consolidation (Ely and Robinson, 2001).

Empirical literature has documented the effect of bank consolidation on SMEs financing with mixed result. On the whole, available findings seem to be consistent with the theoretical predictions, suggesting that larger banking institutions find gathering soft information relatively more costly and lending to informationally unclear borrowers less profitable and thus develop a phobia for lending to SMEs. According to Alessandrini *et al* (2008), there is robust evidence from the studies of Berger and Udell (1996), Peek and Rosengren (1998) and Strahan and Weston (1998) on many countries that big banks allocate a lower share of their lending to small firms, just as large banks involved in consolidation deals reduce loans to small businesses, which in turn suggest that large and informationally transparent firms appear to be more likely to borrow from large banks (Berger *et al*, 2007).

Beck *et al* (2009) posit that greater concentration results in reduced credit access through any lending technology, which may occur in several ways: they may choose to raise profits through higher interest rates or fees on loans to SMEs; or reduce risk or supervisory burden by tightening credit standards for SMEs; and/or they may choose to be less aggressive in finding or serving creditworthy SMEs. Notwithstanding the above however, concentrated banks may increase SME access to credit using one of the lending technologies, relationship lending. The study of Scott (2003) cited in Ganbold (2008) on the one hand, found that most small firms that experienced M&A neither report satisfaction with their new banking partners in services received and additional fees nor decline in competition in the banking market that served them. On the other hand, study by Craig and Hardee (2004) found that increased banking consolidation in local markets led to a decline in lending limits and in the amount of actual credit granted to small firms.

Whether banking consolidation adversely affects availability of credit to small business or not is less definitive. However, it seems to be somehow accepted in the literature that the degree of competition in small business loan markets has much to do with the outcome, that is, in a competitive small business loan market; the gap created by the retreat of large banks in funding is usually filled by other banks, new banks, and non-bank lenders. Craig and Hardee (2004) indicated that in markets where large bank lending was found to have declined there is often increased borrowing from the non-bank financial institutions.

Studies that have tried to examine the effects of banking market concentration and other indicators of market power such as regulatory restrictions on competition on SMEs and general economic performance ended up with mixed empirical results. According to Berger *et al* (2009), some of the studies found unfavourable effects from high banking market concentration and restrictions on competition (Jayaratne and Strahan 1998), others found favourable effects of bank concentration (Petersen and Rajan, 1995), and still others found that the effects may differ with the lending infrastructure or economic environment (Beck *et al*, 2008).

The empirical evidence on the effects of bank consolidation on credit availability to SMEs based on data largely from the US and UK experience is also mixed. In Nigeria, most of the studies focused on government financing policy for SMEs and not really the implication of the banking reform on the sector.

DATASET AND TECHNIQUE OF DATA ANALYSIS

The population of this study was the entire Deposit Money Banks (DMBs) in Nigeria. As at the end of 2008, the number of banks in Nigeria had further reduced to 24 from the 25 that met the N25 billion minimum capitalisation of 31st December 2005 deadline. The entire population of the study also constituted the study sample. The choice of the whole census as sample was predicated upon the nature of the data available. Data on loans and advances contained in individual bank's financial statements are not disaggregated to show the amount given to each sector or type of borrower as a result of which, CBN's aggregated data for all the DMBs based on sectors and type of borrowers had to be used. To account for the SMEs sector, CBN provides the year-by-year percentage given to SMEs from the total loans and advances contained in the aggregated data.

Although, a number of surrogates could be used to represent bank consolidation in relation to credit availability since a number of factors determine the volume of loans banks give, capitalisation and deposits are considered the most important as articulated by Kahn (1991), Jackson *et al* (1999), Hensa (2000) and Deutsche Bundes Bank (2005). Following the study of Schmitz (2005), this study examines the functional relationship between capital size and credit size on the one hand, and on the other hand, deposits size and credit size in order to assess the impact of consolidation on credit size to SMEs.

The paper therefore, uses two different sets of independent and one dependent variable. The two separate independent variables, bank consolidation and deposits are proxied by *LCAPITAL* (log of capital size) and *LDEPOSITS* (log of deposits) while the corresponding dependent variable in each case namely credit size is represented by *LSIZECRE* (log of credit size).

The study employs the ordinary least squares (OLS) regression to estimate the parameter of the following model:

$LSIZECRED = \alpha + \beta LCONSOL + u_t$ (1)

Where:

LSIZECRE Size of credit

LCONSOL Consolidation, proxied by capital size (LCAPITAL) and size of deposits (LDEPOSIT)

α, β Parameters of the model to be estimated

u_t Error term, assumed to be white noise.

The paper expects that the parameter of the model might have changed after consolidation. To examine this proposition, a dummy variable is introduced (taking a value of 0 before consolidation, and 1 afterwards) to obtain both the intercept and the slope dummies in line with Gujarati (2004). The model given in Equation 1 above is therefore modified as follows:

$LSIZECRED = \alpha + \beta_1 D + \beta_2 LCONSOL + \beta_3 D{*}LCONSOL + u_t$ (2)

Where the variables are as defined previously, and α *and* β_i to be estimated. Constant and slope dummies are represented by LCAPD/LDEPD and LCAPDUM/LDEPDUM for capital size and deposit size respectively.

STATISTICAL DESCRIPTION OF DATA

The descriptive statistics for the dataset of the dependent and independent variables computed from various CBN Statistical Bulletins and Banking Supervision Reports is given as follows:

TABLE 1: DESCRIPTIVE STATISTICS FOR INDEPENDENT AND DEPENDENT VARIABLES

VARIABLES	*LCAPITAL*	*LDEPOSIT*	*LSIZECRE*
Mean	6.349467901	7.807827332	4.495845726
Standard Error	0.353418588	0.265906887	0.186872774
Median	6.090075994	7.668593126	4.426399438
Mode	#N/A	#N/A	#N/A
Standard Deviation	0.999618719	0.752098251	0.528556022
Sample Variance	0.999237584	0.56565178	0.279371469
Kurtosis	-1.178310396	-0.744619202	3.849756696
Skewness	0.507725739	0.596393265	1.695221898
Range	2.783909677	2.163892155	1.702840592
Minimum	5.150351369	6.908471579	3.95931711
Maximum	7.934261046	9.072363734	5.662157703
Sum	50.79574321	62.46261866	35.96676581
Count	8	8	8

Source: Author's computation using SPSS

From the above table, the mean of the two independent variables, *LCAPITAL* and *LDEPOSIT*, and the dependent variable, *LSIZECRE*, are 6.35, 7.81 and 4.49 respectively and their respective coefficients of variation are 0.157, 0.096 and 0.117 indicating high level of variability in the observations within the variables. As for the extent of dispersion, *LCAPITAL* has the largest standard deviation. In all cases, mean is greater than the median, which depicts the presence of outliers and mild skewness in the observations.

A cursory look at the observations in all the variables discloses very little data non-normality distribution. This can be buttressed from both the kurtosis and the level of the descriptive statistics. Although, kurtosis for *LCAPITAL* and *LDEPOSIT* is less than 3, which is the value generally considered moderate, it is slightly above 3 for *LSIZECRE*. A further diagnosis of the dataset using *Shapiro-Wilk* normality test reveals a *p*-value of 0.591, 0.693 and 0.054 respectively. The rule in this test is that significant *p*-values imply that the sample is from a non-normally distributed population. Looking at the *p*-values in this case, except for *LSIZECRE*, they are not significant and at the same time not too insignificant indicating very slight non-normality.

The level of the variables during the period of the study lies between 5.15 and 7.93, 6.90 and 9.07, and 3.96 and 5.66 for *LCAPITAL*, *LDEPOSIT* and *LSIZECRE* respectively. This clearly indicates percentage growth anomaly in banks' capitalization and deposits. The dataset also reveals three outliers in *LCAPITAL* and one outlier in *LSIZECRE*.

It should be noted that the observable dataset computed from the various sources indicated above had even provided a clue on the cause of the data non-normality and the presence of outliers. The sudden jump in the total capitalisation of banks at the end of 2005 could have been responsible for the non-normality of the data distribution. Between 2001 and 2004, banks in Nigeria had recorded percentage growth of between 20 percent and 36 percent in their total capitalisation. However, at the deadline expiration of 31st December 2005 given by the CBN for banks to have minimum capital base of N25 billion each, total capitalisation suddenly jumped to N554.5 billion from N351 billion in 2004, thereby recording 58 percent growth.

Total capitalisation further increased by 88 percent in 2006 largely due to the quick return of some banks to the capital market to raise more money barely two months after the deadline. The percentage growth however, fell to 64 percent and 63 percent in 2007 and 2008 respectively. This skyrocketed increase in the capital base of banks in Nigeria from 2005 to 2008 is far away from the average percentage growth of 43 for all the observations within the 8-year period.

The dependent variable also contains an outlier. The average growth of the observations shows 40 percent. However, in 2005, 423 percent increase was recorded from 39 percent in 2004, thereby, causing credit size to jump from N55 billion to N287.6.

RESULT AND DISCUSSION OF FINDING

In this section, the result of the regression equation of the independent variable, *LCAPITAL*, and dependent variable, *LSIZECRE* is presented. The full results are contained in the appendix.

TABLE 2: LSIZECRE AGAINST LCAPITAL

Variables	*Coefficients and t-values*
Intercept	3.103
	(0.796
LCAPITAL	0.204
	(0.290)
LCAPD	6.995
	(1.556)
LCAPDUM	-0.946
	(-1.231)
R^2	0.72
Adjusted R^2	0.51
F-Start	3.396

Source: Author's computation using SPSS

T-values are reported in parentheses

Table 2 relates *LSIZECRE* (dependent variable) to *LCAPITAL* (independent variable). The estimated regression relationship for *LSIZECRE* model is:

LSIZECRE = 3.103 + 0.204 *LCAPITAL* + 6.995 *LCAPD* – 0.946 *LCAPDUM*

The equation shows that the independent variable (capital size) has no significant impact on the size of credit. That is, increase in the level of capital base does not guarantee increase in the size of credit to SMEs. The *t*-statistics in the regression show that *LCAPD* has the highest *t*-value 1.556 with no significance at all, while the adjusted coefficient of determination (R^2) offers somehow a good explanation of the variations in LSIZECRE, as the value is slightly above 50 percent and the unadjusted R^2 is 72 percent. Also, the value of the F-statistics is 3.396 with a *p*-value of 0.134. This indicates lack of fitness of the model. The unfitness of the model may not be unconnected with the non-normality and the presence of outlier and skewness in the data. Both the *LCAPD* and *LCAPDUM* show no positive impact. Their *t*-values are 1.556 and -0.231 with *p*-values that are only significant at 20 and 30 percent respectively.

From the result, the null hypothesis cannot be rejected. In other words, the result provides evidence that capital base of banks has no significant impact on the size of credit available to SMEs in Nigeria. That is, mere increase in capital base of banks does not translate into increase in credit size to SMEs.

The result provides support to the studies of Goldberg and De Young (1999), Sapienza (2002), Bonaccorsi di Patti and Gobbi (2003), Craig and Hardee (2004) and Carow *et al* (2005) that bank consolidation has no positive impact on the size of credit to SMEs. The result however, contradicts the finding of Avery and Samolyk (2000) who found that bank consolidation leads to an increase in credit size to SMEs. Further, given the relatively small size and ownership structure of banks in Nigeria prior to consolidation, the result of this study did not support findings from the studies of Peek and Rosengren (1998), Strahan and Weston (1998) and Berger *et al* (1999) that consolidation among small and medium-size banks increases credit to SMEs. On the other hand, it finds support for the view expressed in the literature that well capitalized banks are more likely to concentrate on big-ticket transactions rather than small ones as contained in the report of G10 (2001).

LCAPITAL was further replaced with *LDEPOSIT* based on the argument that capital size is not a correct measure of credit size, since banks do not give loans and advances from shareholders funds but use it for acquiring of assets and expanding branch network, which consequently enable banks to mobilize more deposits for lending activities, and thus, deposit is the correct measure of credit size. The summary of the result is presented below while the full results are contained in the appendix.

TABLE 3: LSIZECRE AGAINST LDEPOSIT

Variables	*Coefficients and t-values*
Intercept	3.416
	(0.470)
LDEPOSIT	0.112
	(0.111)
LDEPD	8.509
	(1.037)
LDEPDUM	-0.962
	(-0.871)
R^2	0.63
Adjusted R^2	0.36
F-Start	2.291

Source: Author's computation using SPSS

T-values are reported in parentheses

The estimated regression relationship for *LSIZECRE* model is:

LSIZECRE = 3.414 + 0.112 *LDEPOSIT* + 8.509 *LDEPD* – 0.962 *LDEPDUM*

The above table relates *LSIZECRE* to *LDEPOSIT*. From the table, *LDEPD* has the highest value of *t*-value 1.037 with no significance, while the adjusted coefficient of determination (R^2) offers little explanation of the variations in *LSIZECRE*, as the value is just 36 percent even though the unadjusted R^2 is up to 63 percent. Also, the value of the F-statistics is 2.291 with a *p*-value of 0.220. Both the *LDEPD* and *LDEPDUM* show no positive impact. Their *t*-values are 1.037 and -0.962 with *p*-values that are only significant at 36 and 43 percent respectively.

From the result, the null hypothesis cannot be rejected, that is, deposit, which is positively correlated with capitalisation, has no significant impact on the size of credit to SMEs in Nigeria. In other words, the result provides evidence that although the new capital base has impacted positively on banks' total deposits; these have not translated into additional lending to the SMEs sector in Nigeria. The result provides support to the study of Schmitz (2005) and Finger and Hesse (2009) that well capitalized banks may shift their huge deposits to lending to large firms at the expense of small businesses.

The result however, contradicts the prediction of Gupta (2003) that since liquid liabilities include deposits made by customers at banks, policies, which increase the deposits ceteris paribus, should have a positive influence on bank lending to all businesses. The assumption of Gupta might have been impaired by the scepticism of the capitalized banks about lending to the SMEs sector due to its risky nature or due to the absence of non-banking institutions that lend to SMEs or other smaller or even specialised banks in the country as indicated by the study Craig and Hardee (2004).

CONCLUSION AND RECOMMENDATIONS

SMEs not only contribute significantly to improved living standards and serve not only as a catalyst in the process of development, but also bring about substantial local capital formation and achieve high levels of productivity and capability. They are also the main agents for achieving equitable and sustainable industrial diversification and distribution; and in most countries, they account for well over half of the total share of employment, sales, and value added.

The result of this study provides information on the true nature of relationship between bank capitalization and credit size to SMEs in Nigeria. It further debunks the notion by the CBN that mere increase in bank capital base means automatic increase in the size of credit to SMEs. In view of the finding, the paper concludes that so far, bank consolidation in Nigeria has no positive impact on the size of credit available to SMEs. Based on the conclusion, the paper recommends that the Federal Government should come up with more realistic and realisable schemes that will enhance accessibility of SMEs to finance, taking into consideration the peculiarities of the sector and the reasons responsible for the failure of previous financing schemes. The CBN on her part should review the minimum capital base of N25 billion for banks and classify banks into international, national and regional to enable the emergence of small and medium-sized banks that will concentrate on SMEs financing.

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APPENDIX

```
REGRESSION
/MISSING LISTWISE
/STATISTICS COEFF OUTS R ANOVA
/CRITERIA=PIN(.05) POUT(.10)
/NOORIGIN
/DEPENDENT LSIZECRE
/METHOD=ENTER LCAPITAL LCAPD LCAPDUM.
```

REGRESSION

Variables Entered/Removed [b]

Model	Variables Entered	Variables Removed	Method
1	LCAPDUM, LCAPITAL, LCAPD [a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: LSIZECRE

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.847[a]	.718	.507	.37123

a. Predictors: (Constant), LCAPDUM, LCAPITAL, LCAPD

ANOVA [b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.404	3	.468	3.396	.134[a]
	Residual	.551	4	.138		
	Total	1.955	7			

a. Predictors: (Constant), LCAPDUM, LCAPITAL, LCAPD

b. Dependent Variable: LSIZECRE

Coefficients [a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	3.093	3.886		.796	.471
	LCAPITAL	.204	.701	.385	.290	.786
	LCAPD	6.995	4.491	7.075	1.558	.194
	LCAPDUM	-.946	.768	-6.900	-1.231	.286

a. Dependent Variable: LSIZECRE

```
REGRESSION
/MISSING LISTWISE
/STATISTICS COEFF OUTS R ANOVA
/CRITERIA=PIN(.05) POUT(.10)
/NOORIGIN
/DEPENDENT LSIZECRE
/METHOD=ENTER LDEPOSIT LDEPD LDEPDUM .
```

REGRESSION

Variables Entered/Removed [b]

Model	Variables Entered	Variables Removed	Method
1	LDEPDUM, LDEPOSIT, LDEPD [a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: LSIZECRE

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.795[a]	.632	.356	.42410

a. Predictors: (Constant), LDEPDUM, LDEPOSIT, LDEPD

ANOVA [b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.236	3	.412	2.291	.220[a]
	Residual	.719	4	.180		
	Total	1.955	7			

a. Predictors: (Constant), LDEPDUM, LDEPOSIT, LDEPD

b. Dependent Variable: LSIZECRE

Coefficients [a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	3.414	7.270		.470	.663
	LDEPOSIT	.112	1.009	.159	.111	.917
	LDEPD	8.509	8.201	8.605	1.037	.358
	LDEPDUM	-.962	1.105	-8.210	-.871	.433

a. Dependent Variable: LSIZECRE

STUDY OF LINKAGE OF DIVERSIFICATION STRATEGY AND CAPITAL STRUCTURE OF FIRMS: A SURVEY

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ABSTRACT

The role of strategic factors in capital structure decisions in well established in the studies of linkages between corporate strategy and capital structure. Diversification being one of the important strategies of management, establishes obvious linkage with the capital structure. The research around diversification and capital structure has gone a long way in last three decades and has shown varied results, however with some well-established findings during earlier phase. There is dual or reciprocal relationship between the two with predictions based on two distinct theoretical explanations i.e. Agency Cost Theory and Transaction Cost Theory. The studies have also explored the impact of combination strategy of product and international diversification on capital structure. The area has been practically unexplored with respect to Indian environment. However, the significance lies with the growth and liberalization of the Indian economy. This paper attempts to review the research so far on linkage between diversification strategy and capital structure decision in general and further provides the direction to explore the field in Indian context. Taking India IT sector as a case, the paper attempts a preliminary study in taking Indian IT sector as the case. The preliminary results indicate that the leverage of the firm goes down with international diversification with typical low debt structure for Indian IT firms and are in line with the previous studies. The results also support the agency cost theory with increase of agency costs with lower diversification.

KEYWORDS
Diversification Strategy, Capital Structure, Indian Firms

INTRODUCTION

Theory of Capital Structure by Modigliani and Miller (1958, 1963) has faced criticism over the period of time especially in their assumptions of perfect markets. Their theory stresses that under certain assumptions, the choice between debt and equity in a firm will not affect the firm value and therefore the decision is irrelevant. Time and again, the assumptions around this theory are questioned and subsequent research (Harris and Raviv 1991; Myers 1984) has pointed out that on relaxing the assumptions, the newer perspective of capital structure decisions emerges. The imperfections in the market play an important role and the choice of capital structure does affect the performance of the firm.

Research around Capital Structure decision in an organization has evolved with multidimensional perspectives over the years and has also explored the behavioral dimension along with the traditional financial paradigm. It has been found that the capital structure decisions are based on various strategic factors like management's values and goals, their risk taking ability, external and internal financial factors (Barton and Gordon 1987, 1988).

Further research has delved into the linkage of diversification strategy and capital structure decision. The role of strategic factors in capital structure decisions in well established in the studies of linkages between corporate strategy and capital structure. Diversification being one of the important strategies of management, establishes obvious linkage with the capital structure. Researchers have tried to establish a two-way relationship between the two. The studies have ranged from understanding the impact of nature of diversification, mode of entry, product or international diversification and many other areas in the field. The debate has been around two possible explanations based on agency theory and transaction cost economics.

The research around diversification and capital structure has gone a long way in last three decades and has shown varied results, however with some well-established findings during earlier phase. The studies have also explored the impact of combined strategy of product and international diversification on capital structure.

The area has been practically unexplored with respect to Indian environment. However, its significance lies with the growth and liberalization of the Indian economy. In Indian context, the diversification is happened both ways where in Indian companies are diversifying internationally and with Indian economy opening up across sectors, many multinational firms are penetrating either independently or jointly with Indian firms.

There have been very few studies in Indian context in the related area. Most of the studies have focused separately on determinants of capital structure and diversification but not established the relation between the two. These studies have been done for pre-liberalization period and India has gone through drastic change after that. The globalization has dominated Indian corporate world and the factors related to diversification and capital structure need study with respect to Indian environment.

This study primarily attempts to review the literature in the area to understand the direction as well as the gaps prevalent and also highlights the importance of context encompassing country specific factors to explain the linkage between diversification strategy and capital structure of any firm. Additionally, the paper attempts to explore this linkage in the Indian context, specifically comparing relationship between IT multinational firms with Non-IT multinational and domestic firms.

The initial finding in the paper gives an opportunity to explore the relationship in an exhaustive manner in a larger context with a possible comparison with developed and developing markets.

CORPORATE STRATEGY AND CAPITAL STRUCTURE DECISION

Strategic management is a process of aligning firm's internal resources with external environmental factors like economic, technological and socio political (Kracaw, Lewellen, Woo 1992). One of the important decisions for a firm is the financing decision for optimal capital structure, which however has been debated time and again. The researchers, lately, have started looking at the strategic influence on capital structure decision. It has been studied that behavior is a key element for understanding the debt-equity mix in the company (Carleton and Silberman 1977, Findlay and Whitmore 1974). The manager of the firm decides on any investments based on the debt they issued, that enables the equity holders to pursue risky strategies (Jensen and Meckling 1976).While considering the role of capital structure on firm's liquidation decision, Titman (1984) later explained that the customer would prefer low leveraged firm in the interest of ongoing service of goods. The game theory approach (Brander and Lewis, 1986) with two-stage sequential duopoly game explains that if a firm decides on a capital structure in first stage and then decides on an output strategy in second stage, then it tends to choose high debt to signal their competitor of high output in the second stage which will enable both the firms for output levels. Most of the research recognized the role of risk taking ability as an important element for choosing the capital structure.

A more formal framework (Barton and Gordon 1987, 1988) lays out that the capital structure decision in a firm is dependent on the goals and values of the management along with other internal and external factors highlighting a complex relationship between corporate strategy and capital structure in a firm (Kocchar and Hitt 1998). While using Andrew's dimensions of corporate strategy, the framework proposes that the variables like managers' risk taking ability, their goals, their preference for internally generated funds, external investors' willingness to lend and financial variables affect the top management's decisions on having debt or equity in a firm. This framework has established the basis for further studies on linkage of diversification strategy to capital structure of the firm.

DIVERSIFICATION STRATEGY AND CAPITAL STRUCTURE

The pioneer in this area of research is the strategy taxonomy (Rumelt 1974, 1989) categorizing the diversification strategy of the firm based on specialization ratio and relatedness ratio. While the specialization ratio defines the proportion of business based on one or more product lines, the relatedness ratio groups the business based on core skills or resources. The nine-level taxonomy was refined to four-levels (Wrigley 1970; Barton and Grdon 1987) as Single, Dominant, Related and Unrelated diversification based on number of variables with leverage as one of them. The earlier studies focused on the effect of diversification strategy on corporate growth (Berry 1971) and profitability (Rumelt 1974), while the later ones became more specific to establish the linkage between the diversification strategy and capital structure decision of the firm.

The significant findings based on five financial contextual variables as size of the firm, sales growth rate, profitability, higher capital intensity and high earnings risk, indicated that undiversified firms have lower debt levels compared to diversified firms with unrelated diversification leading to highest leverage, however only profitability and growth being the significant influencing factors(Barton and Gordon, 1987). Although the role of strategic factors on capital structure was well established, the later studies explored more contextual variables like cash-flow, highlighting that it gives the ability for firms to arrange for funds internally in accordance with pecking order theory (Myers and Majluf 1984). The later studies moved from US based firms to other countries like Australia (Lowe and Naughton 1995) using more specific terms to define the capital structure and newer contextual variables like effective tax rate. However, these studies did not established the same results to define the linkage suggesting a more complex relationship depending on country specific factors along with extent and nature of diversification. Many studies further suggested that firms need to have greater leverage for maximizing the firm value (Kaplan and Weisbach 1992; Singh et. al. 2003).

The study by Kocchar and Hitt (1998), establishes a bi-directional or reciprocal relationship between diversification strategy and capital structure. On one hand, the nature of diversification affects the capital structure of the firm which alters the resource profile, while the firm's capital structure affects the diversification strategy decision by any firm on the other.

THEORETICAL UNDERPINNINGS

This linkage analyzes multiple dimensions like nature of diversification, mode of entry, product and international diversification, the underlying reason for this relationship is being explained through two divergent theories – agency theory and transaction cost economics.

Agency Theory (Jensen 1988) explains the conflict of interests between managers and shareholders restricting the free cash flow to the managers in lieu of payouts to the shareholders and therefore former losing control on pursuing new projects. With their compensation tied up to the growth, managers are inclined to pursue new projects in haste going for uneconomical projects. The usage of debt becomes a control mechanism for managers', who become apprehensive of the bankruptcy costs, and therefore helping to curb their risk taking ability and consequently reducing the agency costs. The debt plays an important role in withholding the managers in their pursuit of diversification especially an unrelated one. The agency costs are the function of risk taking ability of the managers, uncertainty of their efforts and incentive intensity and costs are determined before the contract is established (Kocchar 1998). The theory leads to significant findings (Kocchar 1998) like

- The ratio of debt / equity of a firm increases with the relatedness of the business.
- The firms with high leverage would go for less restructuring or refocusing of their business.
- An increase in debt / equity ratio of a firm with lead to more related diversification.

Transaction cost economics is concerned with the governance of contractual relations in transactions between two parties (Williamson 1975, 1985). With the right governance structures, these costs of exchange can be reduced (Williamson 1979). These costs are essentially due to setup and running costs of governance structures and firms seek for reducing the governance mechanisms to curb these costs (Kocchar 1998). With high specificity of assets, these costs can go higher and the firm may look for other forms of governance. In the context of financing, the transactions arise with the contractual obligations of the financer and the firm. The benefits and controls of these transactions vary with debt and equity financing. The debt financers will get benefits from principal and interest repayments and can exercise control on firm's assets in case of default. However they do not have control over the managers' operations. On the contrary, shareholders only have residual claims of the cash-flows and on liquidation. However, equity holders have greater control over the managers' operations through authority of board of directors and therefore equity financing provides stronger governance in the firm. The choice of debt or equity financing is based on the trade-off between the benefits and governance (Kocchar 1998). The degree of specificity of assets will be the determining factor for making that choice (Willianson 1975). The high specificity of the assets prevents prevent the debt financers to invest in fear of non-recoverability of funds at the time of liquidation (Kocchar 1998). This leading to equity financers taking larger control to ensure efficient utilization of the assets with stronger governance, and hence the domination of equity financing. Similarly, R&D, being the specific assets, lead to higher equity financing, in fear of low liquidation value and reconfirms the finding that unique firm specific assets or skills are the most important determinants of capital structure (Balakrishnan and Fox 1993).

The different between the two theories lie in the way debt or equity plays the role of governance mechanism. The agency cost theory takes only the account lender's perspective and ignores the fact that debt holders might not lend with higher risks attached to the investment and making it very costly and therefore considering debt as the only governance mechanism. According to transaction costs theory, the costs arises from market failure to come up with optimal contract with costs related to setup and running of governance mechanisms come out after the contract is established. The assets under governance are firm resources, unlike of free cash flow in agency theory, and therefore consider the role of both debt and equity in governance structure. This particular difference leads to different findings for linkage between diversification strategy and capital structure with transaction cost theory establishing negative relationship between debt-equity ratio and degree of relatedness of the firm, however, finding is quite the opposite based on agency cost theory (Kocchar 1998). There are mixed evidences with respect to both the findings although agency cost theory stands ahead in popularity because of its simplicity in understanding.

INTERNATIONAL DIVERSIFICATION AND CAPITAL STRUCTURE

With varied evidences across country specific studies, it was evident that the financing policies of any multinational firm will be affected by a few additional factors like country based tax structures and concessional policies, political risk, capital flow barriers and restrictions to fund flows, legal uncertainties and financial market segmentation (Fatemi 1988). Taking agency theory perspective, the multinational firm will have to bear higher agency costs than the domestic firms and therefore will have lower debt-equity ratio. With international firms having an edge on diversification, the effects of agency costs, distress costs and foreign currency denominated debt are higher and therefore the firms will have lower debt) and the firms will go for shorter term debt possibly because of their larger access to global capital markets (Fatemi 1988).

The major study in this regards has been by Lee and Kwok (1988) for comparing the multinational and domestic firms to identify the factors and determinants of capital structure and laying down a framework providing linkage between environmental factors, firm related capital structure determinants and capital structure. According to their study, there are following environmental factors which affect the capital structure of international firms: Political Risk, Complexity of International Operations, Market Imperfections, Opportunities of international diversification, Foreign Exchange Risk, Local factors of the countries and can be categorized based on the agency costs, bankruptcy costs and foreign affiliate's capital structure. Based on the above factors, the different determinants of capital structure are:

- Political risks, complexity of international operations and market imperfections leading to agency costs which in turn decrease the leverage of the firm.
- Opportunities, political risks and foreign exchange risks lead to Bankruptcy costs which increases the debt structure of the company.
- The local country factors resulting in the capital structure of the foreign affiliate company and that increases and decreases the overall leverage accordingly.

The finding of above study was:

- MNCs have higher agency costs of debt compared to domestic companies irrespective of the size of the firm and the industry it belongs to.
- There was no significant difference between the bankruptcy costs of MNCs and Domestic Companies once the size effect was controlled.
- MNCs have less debt in their capital structure compared to Domestic companies although there was some variation when compared across industries.

The study of linkage of diversification and capital structure has been explored further in recent times for multinational firms. Research tends to suggest that (Burgman 1996; Chen et al.1997) multinational companies have less debt in their capital structure compared to domestic firms inspite of lower cost of debt for multinationals than the domestic firms (Mansi and Reeb 2002). The leverage was positively related to exchange rate risks and political risks asset specific international factors and capital structure can be used a tool to hedge political and exchange rate risk (Burgman, 1996).

Diversification, both product and geographical, plays an important role in the corporate strategy of a firm (Hitt, Hoskinson and Ireland 1994) and tends to improve the financial performance of the firm (Hall and Lee, 1999). The upstream-downstream hypothesis (Kwob and Reeb 2000) explains that the relation between international diversification and capital structure depends upon the relative risk of the home country (of MNC) and the foreign country and the results were similar for the US firms however showing an opposite effect for the emerging countries. With more studies with this comparison (Aviazian, Booth and Coles 2003), considering additional factors such as taxes, agency conflicts, financial distress and informational asymmetries as additional factors, found that the relationship of capital structure and international diversification is same as for developed countries and was dependent on similar variables. However, the additional county specific factors such as GDP growth, inflation and maturity of capital markets also played the role.) Additionally, there was found a non-linear inverted-U relationship between the degree of international diversification and short-term financing (Singh et.al 2004).

With most studies focusing on either product diversification or international diversification, not much has been explored considering the joint effect of the two. Hall and Lee (1999) studied the difference of effect of diversifying strategies between US and Korean firms and found out that the traditional models of diversification i.e. product diversification might not be effective in all the countries, unlike US firms. Although the study was done to understand the impact on performance because of diversification strategies, it also led to further investigation on impact on capital structure because of different combinations of product and international diversification.

Chikr and Cosset (2001) studied the effect on capital structure of multinational companies based on dual diversification strategy i.e. product and international. Their study was based on an event study for comparing the leverage of firms before and after acquisitions of foreign subsidiaries, while isolating the effect of other factors. Their study found that the MNCs with low degree of product diversification are least leveraged and the combination of two enables the companies to achieve higher profitability.

Another similar study by Singh et. al (2003) show that firm following a dual diversification will have higher leverage. The firms that are product diversified do not have different leverage than the domestic firms, however, their international diversification results in lower debt ratios. The results indicate that the usage of leverage due to dual diversification is more due to increased debt capacity with complementary effect of product and international diversification.

A study by Low and Chen (2004) taking a sample of 232 firms across 30 countries with different combination of product and international diversification and industry group, finds negative relation between international diversification and capital structure for US firms but not any significant relationship non-US firms. With respect to product diversification, their study shows higher debt ratios for diversified firms than non-diversified firms.

Overall, the literature indicates that international diversification has different risk-return relationships for different countries especially for the developing or emerging markets as compared to the developed ones and therefore the impact on capital structure of firms in these countries is also different. With different countries, the results have been mixed and do not give any conclusive evidence, however, giving evidences of the effect of more intricate country specific factors determining the capital structure.

DETERMINANTS OF CAPITAL STRUCTURE

In order to study the linkage between capital structure and the diversification strategy of the firm, the common approach in most of the studies is to compare the determinants of the capital structure across undiversified and diversified firms. There has been extensive research on determinants of capital structure and its relevance to the firm value. Based on the prior literature, it is evident that the factors that determine the capital structure are a combination of multiple variables. This section elaborates on these factors and their relationship with debt based on the past studies.

Size: Numerous studies have found Size as the determinant of capital structure, however with contradictory results so far. Larger firms are more diversified and therefore should be positively related to leverage but their preference for equity than debt has a negative impact on leverage. The most common measure of size is Log of total assets or total sales.

Agency costs: Myers' (1977) hypothesis of Underinvestment problem suggests that the value of firm is based on real assets and intangible assets and will depend upon future discretionary investments. However, they pose a conflict between bondholders and shareholders resulting in underinvestment problem and suggesting a negative relationship with debt levels. Since advertisement and R&D are good indicators of growth opportunities of the firm (Titman and Wessels 1988), they have been taken as a measure of agency costs

The different measures that have been used are

- Ratio of sum of R&D and advertisement expenses to Sales (Lee and Kwok 1988; Burgman 1996)
- Titman and Wessel (1988) measure (TW) = Cash and Marketable Securities / 3 Years average of total assets
- Free Cash Flow measure by Lehn and Poulsen (1989)

Profitability: Leverage is negatively related to profitability (Myers, 1984) and more profitable firms will prefer internal funds than debt. Other studies (Caeser and Holmes 2003) also support the same and found that more profitable companies will have lower debt levels.

The common variable used to measure the profitability is EBITD/Sales or Net Income / Sales.

Bankruptcy Risk: Increase of leverage will increase the possibility of bankruptcy and therefore increase the bankruptcy costs (Kraus & Litzenberger 1973). MCs with increase cash flow and profitability will have lower bankruptcy risk (Burgman 1996; Reeb et. al 1998).Overall the companies with lower default risk should sustain higher debt levels. There have been several measures of bankruptcy risk. Earlier researchers (Lee and Kwok, 1988) have used standard deviation of first difference in EBIT scaled by the mean values of total assets. Akhtar (2005) have used Standard Deviation of first difference in EBIT divided by Interest Expense. Chikr and Cosset (2001) have used multidimensional measure of bankruptcy risk proposed by Alman (1968) which was again refined later. For private firms, this Z-Score is measured as:

$Z' = 0.717T1 + 0.847T2 + 3.107T3 + 0.420T4 + 0.998T5$, where

T1 = (Current Assets-Current Liabilities) / Total Assets

T2 = Retained Earnings / Total Assets

T3 = Earnings Before Interest and Taxes / Total Assets

T4 = Book Value of Equity / Total Liabilities

T5 = Sales/ Total Assets

Higher the Z-score, lower is the bankruptcy risk of the company and therefore higher the leverage.

Exchange Rate Exposure Risk and Political Risk: The sensitivity of earnings to foreign exchange fluctuations, lower is the expected level of leverage (Burgman,1996). MNCs with more foreign rate exposure risk should have lower debt. Overall the leverage should have negative relationship with the exchange rate exposure risk.

Earlier researches (Burgman, 1996; He and Ng 1998; Shin and Soenen 1999; Chikr and Cosset 2001) have used exchange rate risk exposure by the time series measured as:

Rit = Beta (i0) + Beta(ix) + Beta(im)Rmt + Error term, Where

Rit = Rate of Return of ith company common stock
Rxt = Rate of return on the trade weighted exchange rate
Rmt = Rate of return on value weighted market index
The regression coefficient Beta (ix) is the foreign exchange rate risk exposure.
The other measure (Wright, Madura and Wiant 2002; Aktar 2005) that has been used is Total Foreign Subsidiaries Sales / Total Sales.
Political risk measure is the political risk ratings is also a similar measure like exchange rate exposure risk with the same consequences.
Degree of Multinational Diversification: There has been conflicting results on relation of multinational diversification and leverage. Degree of multi-nationality has been measured in multiple ways in the past studies. A few common measures are foreign tax ratio / total sales, number of foreign subsidiaries, foreign sales / total sales.
Debt Measure: In past studies (Burgman 1996; Chikr and Cosset 2001; Aktar 2005) has been defined as ratio of long term debt to sum of long term debt and market value of equity. Most of the studies have taken a simpler measure of debt-equity ratio.

RELATED RESEARCH IN INDIAN CONTEXT

There have been scattered studies with respect to developing or emerging markets while the prior studies more focusing either on developed countries specifically or the comparison with the less developed world. There have been very few studies in Indian context in the related area dealing separately on determinants of capital structure and diversification as a strategy with none establishing any linkage between the two.
Bhaduri (2002) has studied the capital structure issue in India with respect to market oriented reforms presenting a five-factor model for optimal capital structure in dynamic environment with respect to Less developed countries. The results are consistent with the recent theories around the topic indicating costly restructuring in Indian firms and have suggested a model for long-term and short-term borrowing. The results show that the growth opportunities in India increases firm value and therefore increase the long-term debt capacity.
Another study by Majumdar and Chibbir (1997) have analyzed the levels of debt in the capital structure and performance of Indian Firms indicating a negative relationship because of increasing government ownership.
The limitations of above studies are primarily in the context of Indian economic environment. The studies have been done for pre-liberalization period and India has gone through drastic change after that. The globalization has dominated Indian corporate world and the bi-directional flow of diversification necessitates the need for exploring the determinants of capital structure with respect to diversification strategy in the Indian context.
This paper attempts to explore this relationship in the Indian environment, which is influenced by globalization phenomenon. Not only there is explosion of foreign firms in India, but also an extensive diversification of Indian firms with respect to product as well as geography. Based on the literature so far, we establishes few hypothesis that are tested with a small sample of Indian domestic and multinational firms throwing some light on typical debt structure of Indian IT firms.
In the Indian context, both domestic and multinational companies would prefer equity than debt. The hypothesis in this context would be:
H1: Debt of the company is negatively related to Size of the company.
H2: Leverage of companies will have negative relationship with the agency costs
H3: Leverage will have negative relationship with profitability of the company.
H4: Leverage will have negative relationship with the z-score.
H5: Leverage will have negative relationship with Exchange Rate exposure risk.
H6: The debt of the company is negatively related to the degree of diversification of the company.

METHODOLOGY AND DATA

Based on earlier studies, the relationship of leverage with different determinants can be established through following model:
*Debt = β0 + β1*Agency Costs + β2*Bankruptcy Risk+β3*Size + β4*Profitability + β5*Exchange Rate Exposure Risk + β* Degree of Multinational Diversification*
However, in this paper, we do a preliminary analysis through descriptive statistics based on following measures of selected variables:

- Debt = Debt / Equity Ratio
- Agency Costs = AGENCY = (Advertisement + R&D Expense) / Total Sales
- Size = SIZE = Natural Log of Total Sales = Ln(Total Sales)
- Bankruptcy Costs = ZSCORE = Z Score (Altman's measure- as described in the above section)
- Profitability =PROF = EBIT / Total Sales
- Exchange Rate Exposure Risk = EXCHRISK is measured by the following regression equation
- Stock Return of the company = α0 + α1*Exchange Rate Index + α2*Weighted Stock Market Index + e
- The Exchange Rate Exposure Risk is the value α1
- Degree of Multinational Diversification = DIVER = number of foreign subsidiaries or number of overseas operations or development centers for any company, whichever is higher.

The selection of firms was done from CMIE database. These companies were NSE listed companies. Total 60 companies were taken as the sample with 15 as IT MC firms were selected with data from 2003 – 2009, Similarly 21 Non-IT MC firms and 24 Non-IT domestic firms were selected across different industries. A firm can be called MC if it has operations abroad on its own or through its subsidiaries. Therefore criteria for MC firms were number of foreign subsidiaries or number of development or operation centers overseas with minimum of 3 in number. In case if both are present then higher number is taken assuming there will be an overlap between the two. The subsidiaries or operations information was taken from latest annual reports of the company. The firms which have exports but do not have any overseas operations or subsidiaries or the firms with less than 3 subsidiaries overseas are considered as DC.
The data for other variables from take from CMIE database for 2003 – 2009 and average of 5 years was taken for the firm except for those for those for which the data was available for less than 5 years. The information on diversification status is taken from companies' annual reports for the last five years.
For exchange rate exposure index calculation, monthly NSE stock market returns for each company were taken from 2003 to 2009 except for those where data was available for less. The weighted market return was taken for NSE market return for the period of 2003-2009. The exchange rate return index was taken as Nominal Effective Exchange Rate (NEER) Index maintained by Reserve Bank of India. This index is a 36-currency based Trade weighted index (Base 1993-94 = 100). The index is also taken for the period of 2003 – 2009 on a monthly basis. The regression for each company was done based on the equation below:
Company's Monthly NSE Stock Return = α0 + α1* NEER Index + α2*NSE Return
Significant Coefficient Value of α1 is taken as the exchange rate exposure index for that company. In case the value is insignificant then 0 is assumed for that company by default.

ANALYSIS

Table 6.1 depicts the descriptive statistics of all the variables across 5 sets of samples. The results indicate that overall leverage of the sample goes down with the inclusion of IT companies in the sample. Indian IT companies have lowest leverage across the industry which is indicated from the data and also has the maximum diversification ratio. The similar relationship is found with Non-IT MC and DC firms showing lower leverage with more diversification. This supports the general view based on the earlier studies that leverage of the multinational companies is lower compared to the domestic companies. This supports our hypothesis H6 that degree of international diversification decreases the leverage.

When we see the agency costs, the results suggest that agency costs of Non-IT companies are higher compared to all firms for non-IT all firms. The results also show that agency costs are higher for Non-IT MCs compared to DC. This is consistent with the previous studies that multinational companies will have lower leverage and therefore higher agency costs and supports our hypothesis H2. However the same is not true for IT companies with lowest agency costs, explaining the distinct nature of the sector having low marketing and advertising costs.
The relationship with respect to profitability is consistent with earlier studies which say that higher profitable companies will have lower leverage. The IT companies with the lowest leverage are most profitable, followed by Non-IT MCs and then Non-IT DCs. This supports our Hypothesis H3 for profitability.
The exchange rate exposure risk is higher for all Non-IT firms. Exchange rate risk exposure is highest for all Non-IT MC firms compared to DC firms. The result is intuitive as with more international diversification, the exchange rate risk increases, however, this result is contradictory to most of the earlier studies and rejects the hypothesis. Another notable aspect is that IT firms though with highest international diversification do not have the highest exchange risk.
Z-Score is highest for IT MC firms and explains the lowest bankruptcy risk and supports our hypothesis for its relation with diversification. However the relationship is inconsistent with the hypothesis when we compare Non-IT MC and DC firms. The MC firms carry higher bankruptcy risk compared to DC firms although the average Z-Score for both is within safe limits. We think that the results might be biased due to data issues.
The above results are preliminary in nature and do not explain the significance of each of these factors on capital structure with different types of diversification. A more detailed analysis is required with a larger set of data to understand the specific relationships in the area. Our preliminary regression results with this sample of data revealed only firm size and exchange rate risk as the significant factors in this relationship. Moreover, the results also did not find diversification ratio significant for determination of the capital structure. However, we cannot base our results on such a small sample of data.

TABLE 1: DESCRIPTIVE STATISTICS

	Debt / Equity	Agency Costs	Profitability	Exchange Rate Risk	Z Score	Diversification Ratio
	All Firms					
Max	4.330	0.765	0.376	4.537	622.408	64.000
Min	0.000	0.000	-0.007	-2.475	0.701	0.000
Average	0.632	0.034	0.160	0.302	22.763	12.167
StdDev	0.744	0.100	0.090	1.081	91.096	15.734
Median	0.492	0.011	0.140	0.000	2.437	6.000
	All Non-IT Firms					
Max	4.330	0.765	0.376	4.537	8.361	38.000
Min	0.022	0.000	0.033	-2.475	0.848	0.000
Average	0.780	0.043	0.145	0.334	2.848	8.067
StdDev	0.782	0.115	0.084	1.028	1.898	11.232
Median	0.592	0.016	0.128	0.000	2.160	2.000
	All Non-IT MC Firms					
Max	4.330	0.765	0.376	4.537	8.361	38.000
Min	0.048	0.000	0.065	-0.230	0.848	3.000
Average	0.872 (.690)*	0.058	0.160	0.667	2.417	17.800
StdDev	0.942	0.169	0.074	1.331	1.782	10.586
Median	0.643	0.014	0.144	0.152	1.822	16.000
	All Non-IT DC Firms					
Max	2.562	0.126	0.344	1.126	7.587	2.000
Min	0.022	0.000	0.033	-2.475	0.996	0.000
Average	0.706	0.031	0.133	0.067	3.193	0.280
StdDev	0.638	0.035	0.091	0.606	1.952	0.678
Median	0.544	0.019	0.109	0.000	2.647	0.000
	IT MC Firms					
Max	1.216	0.038	0.323	3.990	622.408	64.000
Min	0.000	0.000	-0.007	-2.440	0.701	3.000
Average	0.200	0.006	0.203	0.188	87.615	22.857
StdDev	0.369	0.010	0.097	1.308	178.150	20.542
Median	0.031	0.004	0.219	0.000	17.609	14.000

'*' The average comes down to 0.690 if we remove one outlier data in the sample.

CONCLUSION

The role of strategic factors in capital structure decisions in well established in the studies of linkages between corporate strategy and capital structure. Diversification being one of the important strategies of the management establishes obvious linkage with the capital structure. The research around diversification and capital structure has gone a long way in last three decades. There have been well established frameworks and theories established to understand the relationship. However, the studies have shown different results in different context and country environment. In less mature markets of developing and emerging countries, the influence of country specific factors have been found significant and have also show contradictory results compared to the developed world. The country specific factors become more significant with international diversification, which was ignored in the earlier studies. Besides, there have been two distinct theoretical basis for explaining this phenomenon giving divergent explanations, however both confirming the linkage. There is no conclusive evidence so far and the results indicate that local risk-return relationship has larger consideration in determining capital structure with diversification.
In India, globalization has led many Indian companies to diversify internationally. There is significant change in the strategic factors in these companies due to globalization. Besides, India is highly exposed to the global capital markets and financing more approachable than before. Research in this field in India has not taken any encouraging path so far and most of the studies have been based on pre-liberalization period. The studies are more focused on determinants of capital structure in general without considering the strategic factors.
The preliminary results in the Indian context, has also indicated of the above relationship of decreasing leverage with more international diversification. The results have also substantiated partially, the earlier studies with respect to other determinants like firm size, agency costs, profitability and z-score. The exchange rate risk shows a positive relationship with leverage in case of Indian firms.
The results with respect to Indian IT firms are consistent for the relationship with diversification strategy, bankruptcy costs, profitability and firm size, however emphasizes the sector specific characteristics for other determinants of leverage like agency costs and exchange rate risks.
This paper is not an extensive analysis of previous studies in Indian context, however emphasizes that the country specific factors are important in determination of this relationship. This study is able to explain the distinct nature of Indian industry and its leverage compared to international studies and the larger objectives of this paper are:

- To understand the existing depth of literature in international context and explore its implications in the Indian context. Consequently, the data for the analysis is small and cannot be considered sufficient to establish firm results.
- There has been inconsistency in data reporting across companies in reporting number of subsidiaries and number of overseas operations. This could give some inconsistency in our results.
- The number of listed Indian IT companies are limited and therefore the data points are not enough to get a more accurate model

It is important to set a direction for the further research in this area considering the dynamic global environment. Following areas can be explored further to bring clarity in understanding the linkage between diversification strategy and capital structure in the Indian context:

The strategy of any firm will vary with the industry it belongs to. The previous studies were more generic in nature and do not explore the relationship specific to any industry sector.

- In Indian context, one of the areas worth exploring is the IT sector which has shown significant growth in past 2 decades and the international diversification has been quite prominent in the sector.
- With the growth and liberation of Indian economy, the diversification strategy has taken many forms. India corporate sector is influenced by few conglomerates which are diversifying in many ways. They are tying up foreign multinationals within the country and also expanding outside along with diversification in different sectors. This complex relationship needs more study with respect to capital structure.
- A related study in the direction of international diversification is the FDI investments in growing countries like India and China. Increased globalization has led to numerous studies on FDI investments and its determinants with some discussion on its impact on capital structure. The area becomes more important with India opening up its FDI limits in different sectors. The studies can be done with a focus on changing policies and reforms across sectors and their impact on capital structure decisions.

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A STUDY ON MONEY SUPPLY, INFLATION RATE AND GDP – AN EMPIRICAL EVIDENCE FROM INDIA

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ABSTRACT
Money, a vibrant tool in society that can do anything and everything in country's economy, the inflation rate and GDP also having equal partake along with money supply. Bump up in money supply will result in prices increment, which will pilot to fall in people's standard of living. With this in mind, it is important that the authorities set particular prominence on the control of money supply. In order to control the money supply, the monetary authorities must evaluate the amount of money within the country by time to time. If the money supply is in control, the inflation rate and GDP also in the line as they are next of kin to money supply. In this study I just covered the objective of eloquent about money supply, inflation rate and GDP of India with the help of secondary data through simple statistical methods and graphs for the period of ten years from 2000-01 to 2009-10. Virtually explain about the elected task I have had started with theoretical aspects and then moved into numerical data calculations. Hope exhibiting the facts and figures may lead to get the answer for the question we had in the introduction part of the study with no trouble. Lets we go into the study and finally reach the conclusion with the understanding about the money supply, inflation rate and GDP.

KEYWORDS
Consumer Price Index, Economy, GDP, Inflation Rate and Money Supply.

INTRODUCTION
Does the money supply inflation rate and GDP playing vital role in the economy of the country? For this question we can say the answer as "YES" without open the eye. But how much it implies? That is the question need to be answer with evidence. Here in this study I have attempted to reveal the facts and figures on money supply, inflation rate and GDP of India. Excess supply of a commodity or product usually reflected in downside pressure on its price, and the same is true for money. Excessive supply of money leads to its debasement, to a decline in its value that otherwise is known as inflation. Where money supply generally is an underpinning of economic activity, it also is the ultimate determinant of prices and inflation. On another hand, the gross domestic product (GDP) is one the crucial sign used to determine the strength of a country's economy; it represents the total value of all goods and services produced over a specific time period.

MONEY
By simply, money means more than the coin, paper or plastic to acquire goods and services. Money can be defined as any medium which facilitates the exchange of goods and services between people. Now in modern era money is any object or record, that is generally accepted as payment for goods and services and repayment of debts in a given country or socio-economic context. On another hand, money is often defined in terms of the three functions or services that it provides. Money serves as a medium of exchange, as a store of value, and as a unit of account.

MEDIUM OF EXCHANGE
Money's most important function is as a medium of exchange to facilitate transactions. Without money, all transactions would have to be conducted by barter, which involves direct exchange of one good or service for another. The difficulty with a barter system is that in order to obtain a particular good or service from a supplier, one has to possess a good or service of equal value, which the supplier also desires. In other words, in a barter system, exchange can take place only if there is a double coincidence of wants between two transacting parties. The likelihood of a double coincidence of wants, however, is small and makes the exchange of goods and services rather difficult. Money effectively eliminates the double coincidence of wants problem by serving as a medium of exchange that is accepted in all transactions, by all parties, regardless of whether they desire each others' goods and services.

STORE OF VALUE
In order to be a medium of exchange, money must hold its value over time; that is, it must be a store of value. If money could not be stored for some period of time and still remain valuable in exchange, it would not solve the double coincidence of wants problem and therefore would not be adopted as a medium of exchange. As a store of value, money is not unique; many other stores of value exist, such as land, works of art, and even baseball cards and stamps. Money may not even be the best store of value because it depreciates with inflation. However, money is more liquid than most other stores of value because as a medium of exchange, it is readily accepted everywhere. Furthermore, money is an easily transported store of value that is available in a number of convenient denominations.

UNIT OF ACCOUNT
Money also functions as a unit of account, providing a common measure of the value of goods and services being exchanged. Knowing the value or price of a good, in terms of money, enables both the supplier and the purchaser of the good to make decisions about how much of the good to supply and how much of the good to purchase.

MONEY SUPPLY
The money supply or monetary aggregates or money stock is the total amount of money available in an economy at a particular point in time. A number of items may qualify as media of exchange. The decision as to what items are to be included in the money supply remains an issue in economic debates. There is no universally applicable empirical definition of money supply and the choice may vary dependent on what issue is being examined. There are varying degrees of liquidity or 'moneyness', depending on how easily an asset can be converted into other assets. With the most liquid assets being notes and coins established as medium of exchange by legal fiat, "moneyness" of other assets depends on how easily they may be converted to notes and coins. Furthermore, as the degree of liquidity falls, the distinction between monetary assets and other financial assets becomes increasingly blurred. Therefore, in this context, the International Monetary Fund (IMF) has sought to outline standards for the measurement of the amount of money in an economy.

STANDARD MEASUREMENTS OF MONEY SUPPLY
According to the IMF's manual, money supply is measured as the combined deposit liabilities of the banking system and the currency liabilities of the central bank, both held by households, firms, nonprofit institutions and all public sector entities outside of the central government. In this official or standard representation of money supply, there are three monetary aggregates delineated; M0, M1 and M2. M0 includes only currency in the hands of the public, banks'

statutory reserve deposits held at the central bank and banks' cash reserves. This aggregate represents the monetary liabilities of the central bank and is usually referred to as the monetary base or reserve money. The second aggregate M1 comprises currency held outside the banking system and the current account deposit liabilities of commercial banks held for transitive purposes. It may also include some foreign currency deposits that are used for domestic transactions. This definition implies that only assets that are directly used in making payments should be considered as money. It should be noted that although most current account deposits do not attract interest, they provide a convenient and safe alternative to cash as a means of payment.

The M2 aggregation of money supply seeks to broaden the range of liquid assets to include some interest earning items, such as savings deposits and fixed or time deposits. This broad monetary aggregate, M2, comprises M1 plus short-term (usually a year and under) savings and time deposits, certificates of deposit, foreign currency transferable deposits and repurchase agreements.

In some countries, broad aggregation of money has been extended beyond M2 to include some less liquid financial assets. These aggregates add to M2, long-term foreign- currency time deposits, travelers cheques, short-term bank notes and money market mutual funds. Although these instruments are primarily used to promote long-term savings, they can be easily converted into currency or demand deposits at little cost. As such, they are said to facilitate the exchange of goods and services among individuals. The primary monetary aggregates outlined above all satisfy the liquidity criteria. While some assets could not be directly employed as payment for goods and services, the conversion costs were minimal. There are other less liquid financial assets, which satisfy the store of value criterion and their inclusion allows for broader measurements, such as M3 and M4.

MONEY SUPPLY FROM INDIA

Money supply data are recorded and published usually by the government or the central bank of the country; in India, Reserve Bank of India (RBI) doing that as its central bank of the country. First which measure of money supply RBI follows? There are four measures as listed below:

- M1: Currency with the public + Demand Deposits + Other deposits with the RBI.
- M2: M1 + Savings deposits with Post office savings banks.
- M3: M1+ Time deposits with the banking system
- M4: M3 + All deposits with post office savings banks (excluding National Savings Certificates).

RBI reports both M1 and M3. As M3 is broader in scope, it is taken as measure of money supply in India. The below table will exhibit the total components of money stock in India, from that we can take money supply from India during the study period.

TABLE NO: 1: COMPONENTS OF INDIA'S MONEY STOCK

Year	Currency in Circulation	Cash with Banks	Currency with the Public (2-3)	Other' Deposits with the RBI	Bankers' Deposits with the RBI	Demand Deposits	Time Deposits	Reserve Money (2+5+6)	Narrow Money (4+5+7)	Broad Money (8+10)
1	2	3	4	5	6	7	8	9	10	11
2000-01	218205	8654	209550	3630	81477	166270	933771	303311	379450	1313220
2001-02	250974	10179	240794	2850	84147	179199	1075512	337970	422843	1498355
2002-03	282473	10892	271581	3242	83346	198757	1244379	369061	473581	1717960
2003-04	327028	12057	314971	5119	104365	258626	1426960	436512	578716	2005676
2004-05	368661	12347	356314	6478	113996	286998	1595887	489135	649790	2245677
2005-06	429578	17454	412124	6869	135511	407423	1893104	571958	826415	2719519
2006-07	504099	21244	482854	7496	197295	477604	2342113	708890	967955	3310068
2007-08	590801	22390	568410	9054	328447	578372	2862046	928302	1155837	4017883
2008-09	691153	25703	665450	5570	291275	588688	3535105	987998	1259707	4794812
2009-10	799549	31516	768033	3839	352299	722739	4105151	1155686	1494611	5599762

Source: Reserve Bank of India, Note: Data for 2009-10 are provisional (# are Rupees in crore).

Table No: 1showing the total components of India's money stock from the year 2000 to 2010, in that we having the option to see the Reserve Money, Narrow Money and Broad Money as focal and currency in circulation, cash with banks, currency with the public, other deposits with the RBI, banker's deposits with RBI, demand deposits and time deposits as the source to give the key totals. Out of them Reserve Money comprises currency in circulation, other deposits and banker's deposits with the RBI.

Narrow Money consists of currency with the public, other deposits with RBI and demand deposits. Finally Broad Money incorporates time deposits with Narrow Money. Based on the above table we can go for some graphs, calculations and inferences further related to study.

CHART NO: 1: TREND LINE OF COMPONENTS OF INDIA'S MONEY STOCK

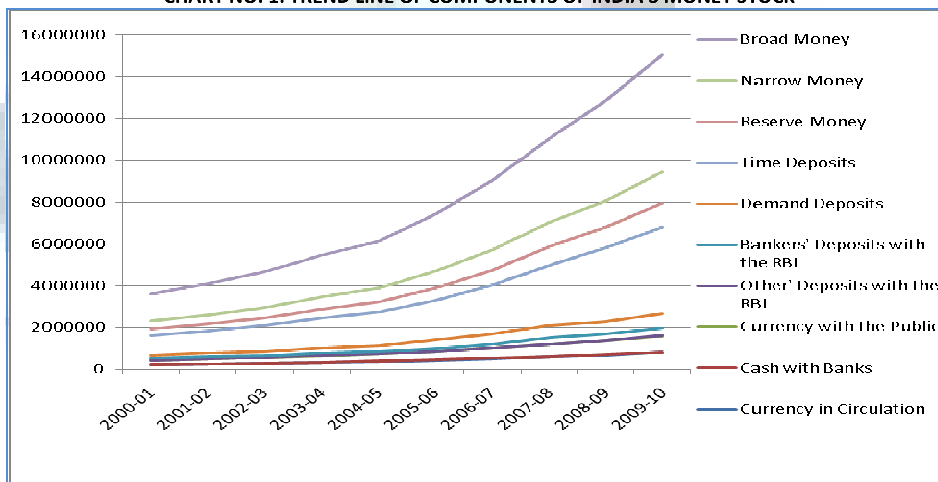


TABLE NO. 2: CAGR OF RESERVE, NARROW AND BROAD MONEY

Year	Reserve Money	Narrow Money (M1)	Broad Money (M3)
2000-01	8.11%	11.02%	16.82%
2001-02	11.43%	11.44%	14.10%
2002-03	9.20%	12.00%	14.66%
2003-04	18.28%	22.20%	16.75%
2004-05	12.06%	12.28%	11.97%
2005-06	16.93%	27.18%	21.10%
2006-07	23.94%	17.13%	21.72%
2007-08	30.95%	19.41%	21.38%
2008-09	6.43%	8.99%	19.34%
2009-10	16.97%	18.65%	16.79%

Source: Computed based on Reserve Bank of India data

Table No: 2 embody the Compound Annual Growth Rate (CAGR) of Reserve, Narrow and Broad money of India from the year 2000-01 to 2009-10. Reserve Money started with 8.11% in the year 2000-01 and reached 16.97% in 2009-10 by crossing many ups and downs. Narrow Money opened up with 11.02% and attained 18.65% in 2009-10. As already mentioned M3 is the reckonable unit for money supply in India, its founded 16.82% in 2000-01 and 16.79% during the year 2009-10, in-between 2000-01 to 2009-10 M3 accounted the highest CAGR of 21.72% in 2006-07 and lowest of 11.97% in 2004-05. By the way Table No: 2 explaining more that the Money Supply in India is in down trend from the year 2008-09.

INFLATION RATE

The inflation rate is one of the most important economic forces consistently weighing on the value of a nation's currency. By mean, the rate at which the general level of prices for goods and services is rising, and, subsequently, purchasing power is falling. Inflation, strictly defined, is the rise in prices over time due to the growth of money supply relative to money demand. In economics, the inflation rate is a measure of inflation, the rate of increase of a price index (for example, a consumer price index).

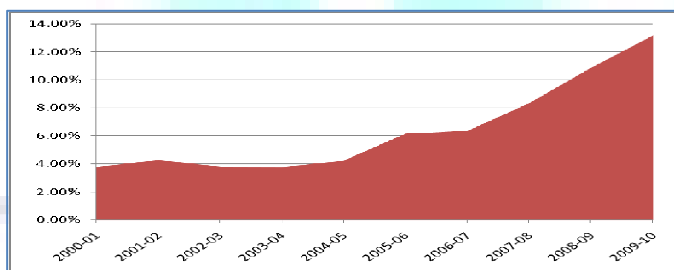
By trouble-free, it is the percentage rate of change in price level over time. The rate of decrease in the purchasing power of money is approximately equal. Without careful monitoring, there may be too much money chasing too few goods, thus placing upward pressure on prices that is inflation. Excessive inflation undermines business planning and leads to a decline in living conditions. There are two general methods for calculating inflation rates - one is to use a base period, the other is to use "chained" measurements. Chained measurements adjust not only the prices, but the contents of the market basket involved, with each price period. More common, however, is the base period reference. The most well known measures of Inflation are the CPI which measures consumer prices, and the GDP deflator, which measures inflation in the whole of the domestic economy.

TABLE NO: 3: INDIA'S INFLATION RATE (Average Consumer Prices)

Year	Inflation Rate (average consumer prices)
2000-01	3.78%
2001-02	4.30%
2002-03	3.81%
2003-04	3.77%
2004-05	4.25%
2005-06	6.18%
2006-07	6.37%
2007-08	8.35%
2008-09	10.88%
2009-10	13.19%

Source: International Monetary Fund (IMF)

CHART NO: 2 INDIAN INFLATION RATE (AVERAGE CONSUMER PRICES)



Inflation affects an economy in the distribution of income and wealth, and production. The Table No. 3 and Chart No.2 showing the inflation rate in India, it was reported at 13.19% in 2009-10. From 2000-01 until 2009-10, the average inflation rate in India was 6.49% reaching an historical high of 13.19% in 2009-10 and a record low of 3.77% in 2003-04.

From 2005-06 onwards the inflation rate started to breed and continues its upward movement. The dramatic increase in inflation leads the country under individual's economic problem; the above mentioned rate reflects the general increase in prices, taking into account the purchasing power of the common man in the country.

GROSS DOMESTIC PRODUCT (GDP)

GDP is a measure of all of the services and goods produced in a country over a specific period, classically a year. The GDP considers the market value of goods and services to arrive at a number which is used to judge the growth rate of the economy and the overall economic health of the nation concerned. Typically, it is expressed as a comparison to the previous quarter or year. For example, if the year-to-year GDP is up 3%, this is thought to mean that the economy has grown by 3% over the last year. Computing GDP is complicated, but at its most basic, the reckoning can be done in one of two ways: either by adding up what everyone earned in a year (income approach), or by adding up what everyone spent (expenditure method). Logically, both measures should arrive at roughly the same total. The income approach, which is sometimes referred to as GDP (I) is calculated by adding up total compensation to employees, gross profits for incorporated and non incorporated firms, and taxes less any subsidies. The expenditure method is the more common approach and is calculated by adding total consumption, investment, government spending and net exports. The following formula can exhibit how to calculate the GDP by expenditure method:

where:

$$GDP = C+G+I+NX$$

"**C**" is all private consumption, or consumer spending, "**G**" is the sum of government spending, "**I**" is the sum of all the country's businesses spending on capital and "**NX**" is the nation's total net exports, calculated as total exports minus total imports. (NX = Exports - Imports).

TABLE NO: 4: INDIAN GDP (PURCHASING POWER PARITY)

Year	GDP (PPP) (Billion $)
2000-01	1805.00
2001-02	2200.00
2002-03	2660.00
2003-04	3033.00
2004-05	3319.00
2005-06	3666.00
2006-07	4156.00
2007-08	2966.00
2008-09	3478.00
2009-10	3736.00

Source: CIA World Fact Book

Table No: 4 illustrating the Indian GDP (PPP) during the year from 2000-1 to 2009-10, from that we come to know about Indian GDP that accounted 1805 billion $ in the year 2000-01 and started to grow up till the year 2006-07 with 4156 billion $, then its got down to 2966 billion $ in the year 2007-08. Even the hasty down in the year 2007-08, the Indian GDP climbed to 3478 and 3736 billion $ during 2008-09 and 2009-10 respectively. The above entry gives the gross domestic product (GDP) or value of all final goods and services produced within a nation in a respective year. A nation's GDP at purchasing power parity (PPP) exchange rates is the sum value of all goods and services produced in the country valued at prices prevailing in the United States.

TABLE NO: 5: THE RELATIONSHIP BETWEEN INDIAN INFLATION RATE AND GDP REAL GROWTH RATE

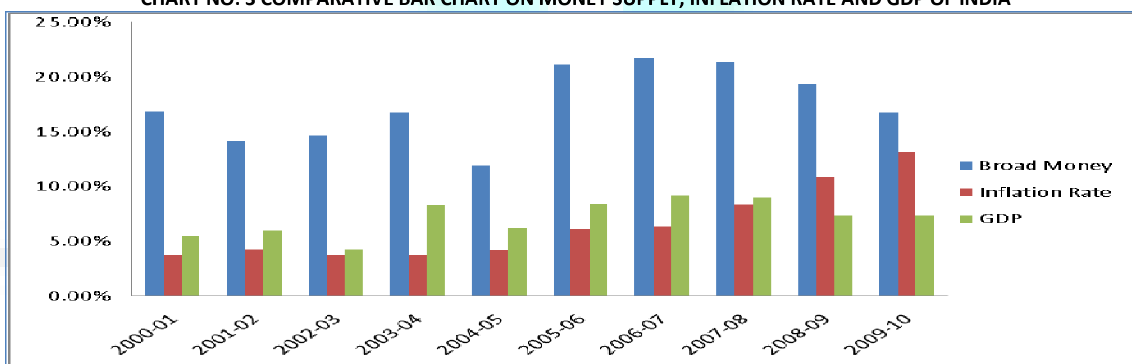
Year	Inflation Rate (average consumer prices)	GDP - real growth rate (%)	Correlation
2000-01	3.78%	5.50%	0.39582397
2001-02	4.30%	6.00%	
2002-03	3.81%	4.30%	
2003-04	3.77%	8.30%	
2004-05	4.25%	6.20%	
2005-06	6.18%	8.40%	
2006-07	6.37%	9.20%	
2007-08	8.35%	9.00%	
2008-09	10.88%	7.40%	
2009-10	13.19%	7.40%	

Source: IMF and CIA World Fact Book (computed).

Based on the data from IMF and CIA World Fact Book, I have attempted to reveal the relationship between the inflation rate and GDP real growth rate of India during the study period through statistical method called correlation. The table no: 5 demonstrating the Inflation Rate, GDP-real growth rate of India during the year 2000-01 to 2009-10 and also the correlation result between the both. The Indian Government seeks to reduce its deficit to 5.5% of GDP in FY 2010-11. By the receipt of 0.3958 correlation result we come to know that there is positive relationship between Inflation Rate and GDP real growth rate during the elected period but it seems not much influence on each.

To get a clear picture on money supply, inflation rate and GDP of India, I just formulated the graph and the same is putted below, with help from the chart we can straightforwardly compare the elements of the study took.

CHART NO: 3 COMPARATIVE BAR CHART ON MONEY SUPPLY, INFLATION RATE AND GDP OF INDIA



CONCLUSION

By latest RBI said that money supply was 64,327.53 billion rupees as of March 11, compared with 63,591.97 billion rupees on Feb. 25 and 54,744.89 billion on March 12, 2010. The inflation rate in India was last reported at 8.82 percent in February of 2011. Inflation affects an economy in the distribution of income and wealth, and production; it may controlled by monetary, fiscal and other measures. Monetary measures include adjustments in money supply and bank rates, open market operations and changes in reserve ratios. Fiscal measures include control on public expenditure, taxation, public borrowing and debt. Other measures include price control and rationing, changes in wage policy, etc. Apart from that as a citizen of the country every one should help to control the inflation rate by saving the money. As much as possible money should be saved, this will reduce the demand on the economy and hopefully reduce inflation. On other hand GDP, India's economy grew 8.2% compared to the same period a year earlier between October and December, government data showed on March 1, 2011. The Country's assorted economy includes customary village farming, modern agriculture, handicrafts, a wide range of modern industries, and a multitude of services. Services are the most important spring of economic augmentation, accounting for more than half of India's yield with less than one third of its labor force.

MICROFINANCE FOR SMEs: PROSPECTS, CHALLENGES & IMPLICATION

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ABSTRACT

Small and Medium Enterprises (SMEs) are a major contributor to the GDP of any country in general and developing countries in particular. SMEs are rather even larger contributor to exports and employment. Their role gets magnified in a developing country like India, where they are the catalyst of growth, with a significant contribution to the manufacturing and service sector. In developing countries, commercial banks mainly have provided loans to Small and Medium Enterprises (SMEs), wherein most of these loans are given to enterprises that have a relatively solid bottom line and sufficient financial data. On top of this, collateral is required for these loans in principal. Therefore, this type of loans is only available to some of the higher-performing SMEs. Whereas, there is another financial system: ***"Microfinance."*** *Its targets are not only poor and low-income groups but also micro enterprises. Microfinance has such features as non-collateral loans and mutual guarantee by each group. Hence, there exists a "financial gap" that is not covered by two financial systems. The enterprises, which belong to this gap, have a potential to grow their businesses and create employment, even though they are small in size. Because of the lack of collateral and financial data, SMEs have difficulties in raising funds from commercial banks. Meanwhile, they face a dilemma in that microfinance loans are not enough to meet their capital demand. As a result, they are forced to raise funds from informal finance such as the loans shark or relatives borrowings. This paper aims to highlight the Prospects, Challenges and Implications of scaling up microfinance to SMEs with detailed analysis of the financial gap.*

KEYWORDS

Microfinance, SME, GDP, Employment.

INTRODUCTION

The advantage for a Micro Finance Institution (MFIs) is that it's committed to that particular segment - that the staff are trained up, they are used to dealing with borrowers who do not have financial information and records. Whereas, the disadvantage is that firstly the products are designed really for the alleviation of poverty and really for the micro and small entrepreneur just going into business. It's not for the formal business as such. Secondly, for the organizational structure, the financial structure is set and this makes it slightly difficult to expand its products and services. Small businesses need a variety of financial products whereas the Micro Financial Institutions (MFIs) are normally offering one or a few limited financial products. For example, small business may need to finance fixed investment which needs longer term maturity, it may need a gestation period before a project can generate cash flow, it may need different forms of services, not only working capital but letters of credit, it may need equity as well. These products are quite often produced by the Larger Financial Institutions (LFIs). But the problem with them is that they feel small business lending is risky and hence it incurs high cost to serve them.

For the Micro Finance Institutions (MFIs) to enter the segment of customization of small business segment, it's clear that one needs a new organization setup, whether it is a division or a department. Experience shows, including from the leading MFIs, that one can't just do that in the existing structure. It's better to produce a new structure of some kind so that there is a different financial structure. Also there is a need for long term financing. Apart from this there also is a need for an equity structure in a financing institution which could provide small business lending. Different skills are henceforth needed for these activities. Thus, one can also visualize to have a hybrid structure. It could be - at the lower level, just formal financing institution providing line of credit to a microfinancing institution or a joint venture. And many of these combinations have been tried and experienced in most of the developed countries.

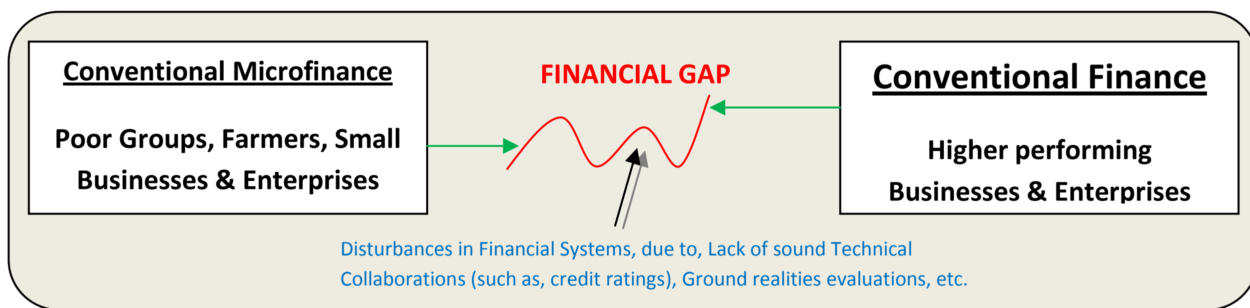
Thus, one can easily visualize a "financial gap" that is not covered by the above mentioned financial systems – Conventional Financial System for Loans Disbursement & Microfinance. Though both these systems work quite satisfactorily with Large Enterprises (LEs), but ironically most try to use the same techniques for SMEs as well, this is the main cause of underutilization of the resources for mobilizing the growth of SMEs. This area of the financial gap, have a potential to for those enterprises which have the lack of collateral and financial data, which makes them defunct in raising funds from commercial banks thus they are not able to grow / expand their businesses and create employment. Meanwhile, they face a dilemma in that microfinance loans are not enough to meet their capital demand. As a result, they are forced to raise funds from informal finance such as the loans shark or relatives borrowings.

Thus a new financing institutions needs to be set up for the purpose.

RECOGNIZING FINANCIAL GAP AS A PROBLEM

The model that has been proposed is one of the mixed finance model which is a combination of equity, quasi-equity and loan. The key to this proposed model is that there exist a number of financial instruments, not just a lending instrument and all is done in *synergy*. Along with the proposed model, technical assistance is also required which may prove to be a vital key for the filling-up of the financial gap. In order to cover the financial gap, the proposed model would prove to be an asset, especially in Indian concept, as it also takes into account the socio-political & socio-technical environments into consideration. Let us name this system as '**M- Microfinance'**.

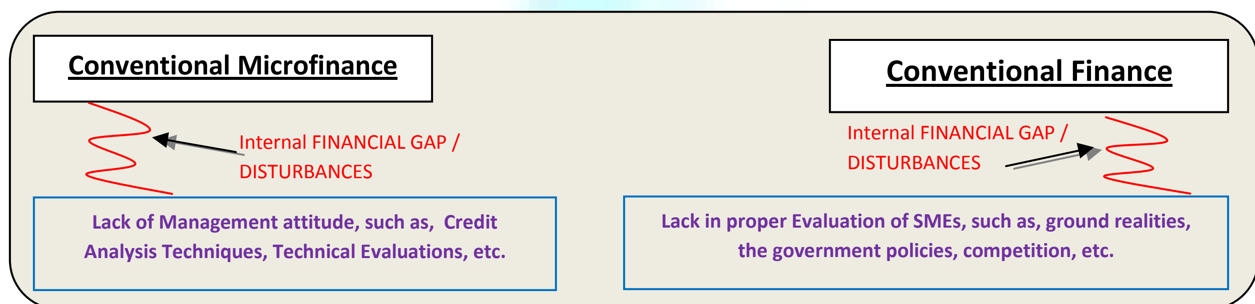
Most developing countries in general and India in particular un-doughtily foster that SMEs are essential to realize sustainable economic growth. In this context, the proposed model '*M-Microfinance*' could be a powerful tool for achieving this aim.



Why hasn't SME finance been conducted widely before in developing counties? Although there are various reasons, the most common is the lack of credit analysis techniques for SMEs as well as misunderstanding the concept for different requirements for LEs & SMEs. This and many other reasons shall be elaborated further in this paper.

DISTURBANCES IN CONVENTIONAL MICROFINANCE & SMES FINANCING

Generally, we're thinking in terms of SME Financing or more generally in terms of ***SME Development Strategy***.



(A.1) THE SCALING UP/DOWN CONCEPT AS A DISTURBANCE REMOVAL STRATEGY

The very question that poses into the mind is that whether SME financing is merely a scaled up activity or not. And when we talk of scaling up MFI financing into SME financing, obviously one has in mind whatever is happening in the MFI experience in terms of scaling up which largely amounts to increasing the size of loans to its borrowers, other than few other elements in it also. Whether that's what we really mean, venturing into basically scaling up into aggressive SMEs. Is that all to SME financing or not?

Then there's the second question, can SME financing be meaningfully continued in the existing manner? Can it be provided without provisioning of non-financial services? Then what really is SMEs? That is, how can one conceptualize the ideas about SMEs since there are historical perceptions about what SMEs are, there are legal definitions of what SMEs are. So how can one clearly identify what really we mean by SMEs when we talk about scaling up, or scaling down of the operations of the commercial banks into addressing SME sectors. What is the right delivery mechanism to address these SMEs?

Now, one could pose it as scaling up of MFI operations into addressing SMEs. Alternatively, one could see it as commercial banks scaling down their operations and trying to reach out the smaller segment in the market with smaller sized loans with some additional supervision and other advisory services attached to that kind of financing.

Historically in the seventies, sixties even, the developed countries had experience with development FIs on trying to channel finance to develop the industrial sector which largely is acknowledged to have failed. But in the meantime there even have been successful stories over the two decades or more with MFI lending. And increasingly most economists are now talking about scaling up of MFIs. Several rationales which economists normally associate with arguments for scaling up is nominal value of loan size increase with inflation.

The rationale of scaling up can be better understood if one goes back into the conventional notion of what tends to associate with scaling up. Obviously this whole issue of scaling up, the rationale did never actually address the issue of addressing the SME sector for justifying why MFI sector has to scale up its size of loans and the other activities. And if one looks into the historical perspective in terms of what went wrong, it is worthwhile to mention here the development financial institutions dealing with large scale lending to industries which largely had failed.

Thus, if one moves into SME units for scaling up, and if one uses that term "scaling up" what it involves is two aspects. One is on scaling up does address different groups of clients who obviously have different kinds of demand for loan services, and for different reasons. So often one have to associate those things with different kinds of non-financial packages. At the same time, on the supply side, the management-staff who are acquainted with dealing with small sized loans and those who deal with large sized loans differ in skill.

So, on both sides, there are reasons for packaging different things for addressing different sizes of loan. And one can't just say that within the same program, by just merely scaling up, we can achieve what we want to in terms of addressing the SMEs. So scaling up seems to be a bit of a misnomer if one uses it in the context of SME financing.

Thus, one ought to recognize that historically on one hand; commercial banks can come up with innovations to address groups who require smaller size loans with supervision. And on the other hand, there is a requirement of moving up from micro credits to micro enterprise and then to SME units.

One possibly ought to recognize that these two trends, up-scaling and down-scaling are in progress and one has to choose these somewhere in between. And depending on the specific experience of a country, one ought to pick up which side it should be tilted. Should it borrow more from the institutional arrangements and experiences of the MFIs or should it borrow more from the larger corporate banking or commercial banking sector. This is possibly something where no straitjacket solution can be given. It should depend on each individual country's own experience and the state of institutional development that the country is in.

As a case for a micro based approach, the core elements of a successful micro lending program can be applied to SME lending operations because underlying problems in such a case is that of lack of reliable information, lack of collateral and difficulty of inputs in contracts. But choice between a bottom-up approach, upgrading an NGO into a formal financial institution and a top-down approach, which is downscaling operations of commercial banks, seems to be a solution.

The second part within the context of SMEs is, that of the MFIs which have gone beyond lending operations. Lending itself is an enterprise activity which has enabled the MFIs to develop the managerial capacity at a very micro level. At even the smaller administrative level, you have local MFIs who have that capacity now. And for their own sustenance, many of these MFIs have engaged in commercial activities which are, in many contexts, linked up with the welfare of the clients they deal with. Either in terms of the marketing of their products or bringing in things from outside to provide or to create the extension services.

Now that has given them an edge in certain areas over an individually run private sector enterprise. It is possibly time to think whether we start acknowledging that some of these microfinancing institutions are effectively SMEs who also deserve to be supported in terms of bank financing.

Then the third element is, to avoid the issue of choice of delivery mechanism but a public investment in certain areas is critical. One thing is to ensure that the markets developed by developing the providers of the non financial services. But beyond that, there has to be some public investment in certain areas like information infrastructure, the financial infrastructure also and that has to be take care of.
Lastly, interest rate has been a thorny issue in the area of MFIs. And if one has to address the SMEs, it is very likely that the operational cost will increase by some proportion. It'll be more than what it is under the MFI sector. What that means is in order to recoup that, you ought to raise the interest rate that you charged your clients. But at the same time we have a situation where SMEs may need equity funding where it's a long term financing which normally one is encouraged to engage in if the interest rate is low. I mean there are rationales for that.
So there is a dilemma here. One possible area which can resolve this is to include that part of the cost in the project cost rather than try to recover that from the interest rate.

(a.2) Sustainability Concept (or Removal of Ground Realities / Limiting Factors) as a Disturbance Removal Strategy

The key issues that limit the expansion of the existent financial service particularly in developing countries like India is that there is still low financial intermediation in general and in rural areas of India in particular? Main reason is that in such areas of India, there exists manifest structural problems of market failures and absence of markets as well as low attention to research and innovation to alleviate problems discussed in above paragraphs. So the following paragraphs will highlight on these ever-present challenges in expanding financial services, as they apply in developing countries in general and India in particular.

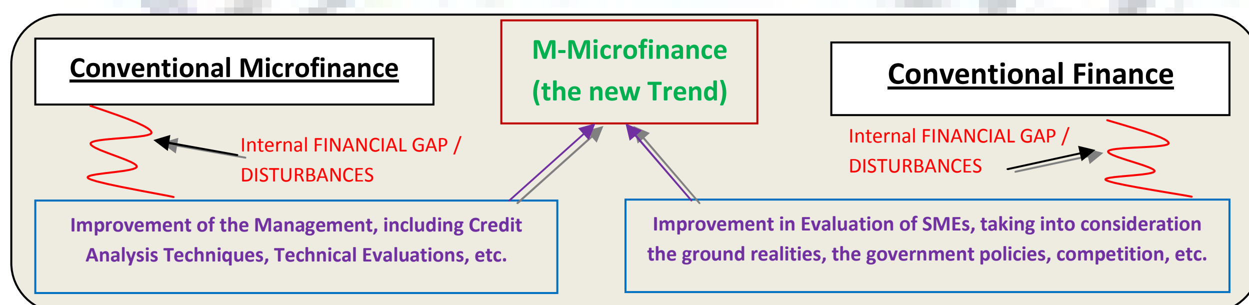
1. ***Market Failure:*** According to basic economic theory, credit can be traded through competitive markets where supply and demand forces interact like any other tradable goods. In the absence of externalities, and if these markets are left to operate freely, competitive markets tend to reach a state of equilibrium (Garson, 1999, p.26). But credit is a special good because it requires repayment, and repayment is not always made by borrowers. There always exist asymmetric information between lenders and borrowers which creates problems of adverse selection and moral hazard – the classic principal-agent problem (Yaron, 2005). However, when loans are relatively sizable, borrowers can usually offer traditional collateral that can conveniently be repossessed in a case of default. Also, when individuals' credit history can be easily and cheaply presented and the legal, judicial and enforcement function effectively, as is the case in most developed countries, the problem of the asymmetric information on the volume and cost of financial intermediation can be effectively mitigated. In contrast, in many developing countries in general, and in poorer ones in particular, most of the instruments that can mitigate asymmetric information do not exist or perform poorly.
2. ***Absence of Markets:*** Yet, in rural areas of developing countries in general and India in particular, the "market failure" paradigm simply cannot be applied because in many areas there is no (formal) market at all: supply and demand cannot meet. Supply is weak or missing - very few banks and other financial providers operate. There is little lending activity and no savings mobilization, mainly due to the high transaction cost involved. For many other reasons e.g. accessibility - hence transaction cost for the other party, cultural specificities, etc., there is little or no explicit demand for financial services (from formal markets). All sorts of financial transactions are concluded at the village level. Money is borrowed or lent by individuals and households, hoarded or saved at home, in Rotating Savings and Credit Associations, Social Insurance Systems, etc, or the Individual Money Lender.

The problem is further exacerbated in India because of low attention accorded to innovation in new methodologies. Such innovation in new methodologies and information, is fundamentally a public-good, in the sense that it is non-rival in consumption and non-excludable. Such goods are undersupplied in a competitive equilibrium. Thus, financial intermediaries in India, on top of their weak capacity, have low incentive for investing on such innovations since while they will bear all the costs on such efforts, it is often difficult to prevent others who will NOT share the research cost from adopting the new technology once it has proven successful. Absence of alternative methodologies further limit outreach financial services.
[*The logic behind the government role in innovations on new financial methodologies with a view to sustainably expanding outreach to the poor (Fernando, 2006) is presented in the ANNEXTURE-I*].
A micro-financial program, whether formal or informal, is said to be sustainable if it can pursue its activities and provide the required services in a "continuous" and objective oriented manner (Garson, 1999). Sustainability is therefore a primary issue for successful micro finance services. In seeking to achieve sustainability in financial intermediation and financial market development, consideration has to be given to the sustainability of the lender, the intermediate institution, the depositor, the borrower and the sector as a whole. If borrowers become chronically indebted, nothing else can be sustained. If savings cannot be mobilized on a consistent and continuing basis, there will not be resources to lend. If the lenders do not recover all the money they lend, they will soon cease to exist. If a financial intermediary cannot fully recover the cost of mobilizing recourses (money cost - interest paid to depositors, plus administrative costs of intermediation), the institution will soon have to shut its doors.
This, paper will try to explore factors affecting institutional sustainability focusing on microcredit interest rate, which not only plays a pivotal role in determining institutional sustainability, but also reflects on other dimensions of institutional efficiency. The key issue is that while there is a general consensus on the 'components' that should go into the computation of interest rate to be charged by a micro-credit service provider, the 'level' under each component is left to be fixed by each actor. This gives rise to various applications, which often is a cause for high level controversies. Clarity and 'consensus' around this very issue will help practitioners, supervisors, government, donors, NGOs, and other stakeholders to identify those practitioners which are on the right truck in pursuing this desirable objective, galvanize support towards them, as well as monitor and evaluate their progress.

THE PROPOSED MODEL (M – MICROFINANCE)

The recognition of the "financial gap" described above, has now been globally recognized and many agencies are presently customizing their activities of SME Micro-financing, depending upon the ground realities. This concept has been possible because the related agencies are now able to evaluate their actions & policies by taking into account the following points:

- ✓ That recently, there has been a new trend, called "commercialization" in microfinance.
- ✓ That, the goal of is to create a new style of microfinance that can raise funds from the financial market, and operate sustainably on its profits; in other words, to build a new style of microfinance on a commercial base.
- ✓ That, the Financial Institutions (FIs) are required to enhance fiscal soundness, transparency and governance. In terms of financing, they are required to set appropriate loan interest rates so that a profit can be obtained, to select customers capable of paying the interest, and to conduct exacting credit analysis.



In fact, similar trend can be observed in current scenarios in Japan, which requires the banks to improve their "keen eyes for SMEs." This says that banks in Japan should provide loans to MSEs, which have had difficulty in raising funds until now, by getting rid of collateral dependent loans, and by evaluating the SMEs precisely through managers' personality and ability.

CRITICAL ANALYSIS OF PROPOSED MODEL (M – MICROFINANCE)

Therefore, the new style as discussed in the above paragraphs for 'microfinance', turns its focus toward the "financial gap." In other words, by conducting appropriate credit analysis, microfinance tries to extend loans to SMEs, which are operating their businesses actively even though they don't have enough assets for collateral and sufficient financial data. Thus, we may say that the area of the "financial gap" seems to be drawn attention from both the financial systems, that is, Microfinance and Conventional SME Finance.

As outlined in the above paragraphs of this paper, sustainability is a primary issue for successful microfinance services. Establishing a system of sustained provision of modern financial services has, however, been challenging and most controversial. The sustainability of financial intermediation obviously depend on the operational locations, the infrastructure, the economic conditions, the technology level, the credit culture of the society, the efficiency of the Institution, etc. These all are reflected in the amount of interest that need to be charged from credit clients as well as the one that can be paid to depositors. Now let us assesses the different factors that go into setting the 'desirable' level of microcredit interest that can sustain the provision financial services in desired rural areas thereby lessening the financial gap and provide sustainability to the microfinance services.

Any lender has costs comprising four basic components which (should) determine the interest rate charged:

1. ***Cost of funds*** – The cost of funds is usually a composite figure as any lender is likely to be utilizing funds from a variety of sources that have been obtained at different rates. For example, many NGO-MFIs will have donor capital that has been provided in the form of a grant. They will also, hopefully, have built up some surplus income or equity from their own operations. Whilst there is no interest as such to be charged on these two sources of equity, account should be taken of the rate of inflation in order to maintain its 'real' value. In some cases an MFI will have funds from a foundation or trust which has provided 'patient capital'. Finally there will be loans from lending institutions, notably the commercial banks. The average cost of funds depends therefore both on what proportion of an MFI's resources come from all these different sources, and also what rates of interest are being paid (or should be charged) on each source.
2. ***Operating or Processing costs*** – Operating costs are relatively straightforward, and represent an important portion in the cost structure of the microfinance service. According to a recent study of 1003 MFIs in 84 countries by the Microfinance Information Exchange, Inc in 2006,

operating expenses (both personnel and administrative) represented 62 percent of charges to borrowers, financial expenses 23 percent, profits 10 percent, and losses from defaults 5 percent (Gonzalez, 2007). They include the costs of: staff identifying clients, checking their creditworthiness, processing loan applications, disbursing loans, monitoring and collecting repayments, and following up non-repayments. In addition there are also all the overheads in running any operation: the costs of the space occupied, communications, transport, support staff, auditors, etc, etc. However, the percentage cost of lending will vary enormously depending on a number of factors, notably:

- ✓ the size of the actual loans;
- ✓ pay structure, notably of the loan officers;
- ✓ the efficiency of the organization, the number of borrowers/loan officer often being taken as a good indicator; and
- ✓ it's scale of operations.

The loan size is the primary reason why the processing costs of micro-loans to poor customers are so much higher than the costs of much larger loans made by commercial banks to their business clients. Delivering low value financial transactions (credit & savings) entail relatively high fixed cost per Rupee value outstanding of credit or savings. This is the most common reason why so many observers of the microfinance sector cannot understand why MFIs have to charge a higher rate of interest than commercial banks.

3. ***Cost of risk or loan losses*** – The cost of risk or loan losses may also vary considerably. Almost all lending institutions make a standard provision for loan losses at the time of disbursement – it is usually 2% of disbursements. This goes into the loan loss reserve and at regular intervals the actual loan losses, and whatever proportion of poor-performing loans are judged to be irrecoverable, are written off against this reserve. A well managed institution which carefully selects and then closely monitors repayments by its customers will have to write off only a small proportion of its loans, say 1-2%. One which is poorly managed and/or lending to customers who either do not have the resources to repay their loans, or who refuse to do so, possibly for political reasons, will suffer much higher loan losses, say 10-30% p.a.
4. ***Net income, surplus or profit*** – Finally, there is the net income or surplus, often misunderstood, especially if the word 'profit' is used. Generating some surplus income is essential for a number of reasons.

First, all financial organizations must have some reserves against unforeseen contingencies and demands (which is why banking laws always specify a minimum capital adequacy ratio for any regulated financial institution). In similar manner, every NGO-MFI must be looking to generate a surplus in order to cover itself against various contingencies: natural disasters when customers in the affected area lose all their assets and therefore ability to repay; opening up a new line of credit for existing or new customers which is very unlikely to be wholly funded by donors, loans from banks, etc; unforeseen high loan losses not covered by the loan loss reserve; and losses which occur through internal fraud, embezzlement, etc.

Second, many NGO-MFIs may want to finance, at least in part, their social programmes, notably health and primary education. If sufficient net surplus can be generated from their microfinance operations, then this reduces their dependency on donor or government funds which has obvious benefits. Indeed many NGOs have initiated microfinance operations as a later activity, precisely in order to help fund their social programmes.

Third, it should also be noted, however, that in those countries which have introduced legislation for MFI banks, there is another powerful reason for such MFIs to build up their equity base through retained earnings. This strengthens their capacity both to leverage that equity with bank loans and also, if the return on the equity is good, to attract additional equity. In both cases, the MFI can then expand its activities and serve a greater number of clients.

Fourth, when an MFI is looking to expand or improve its systems in pursuit of providing sustainable services as is often the case, then these costs have to be met from somewhere. Unless these costs are covered by a donor, or a grant, they have to be met from the accumulated surplus that an MFI has built up from the total interest rate paid by customers net of the costs. Expanding outreach to those who are still unreached, as well as sustaining the service for future-generation poor is most desirable social objective. Indeed, more recent arguments on the contribution of microfinance on enhancing social welfare, focuses on the net increase in total 'social welfare' over and above the 'benefit to (private) customer' that result from consumption of financial services. The net social benefit is determined by the 'depth', 'breadth', and 'length' of outreach. Depth of outreach matters because society places greater value on helping the poor people than the better-off; breadth of outreach matters because society values helping more people than fewer people; finally, length of outreach matters, because society cares about the poor both now and in the future. Other things remaining equal, the greater the depth, breadth, and length of outreach, the greater the net social benefit (Woller and Schreiner, 2004).

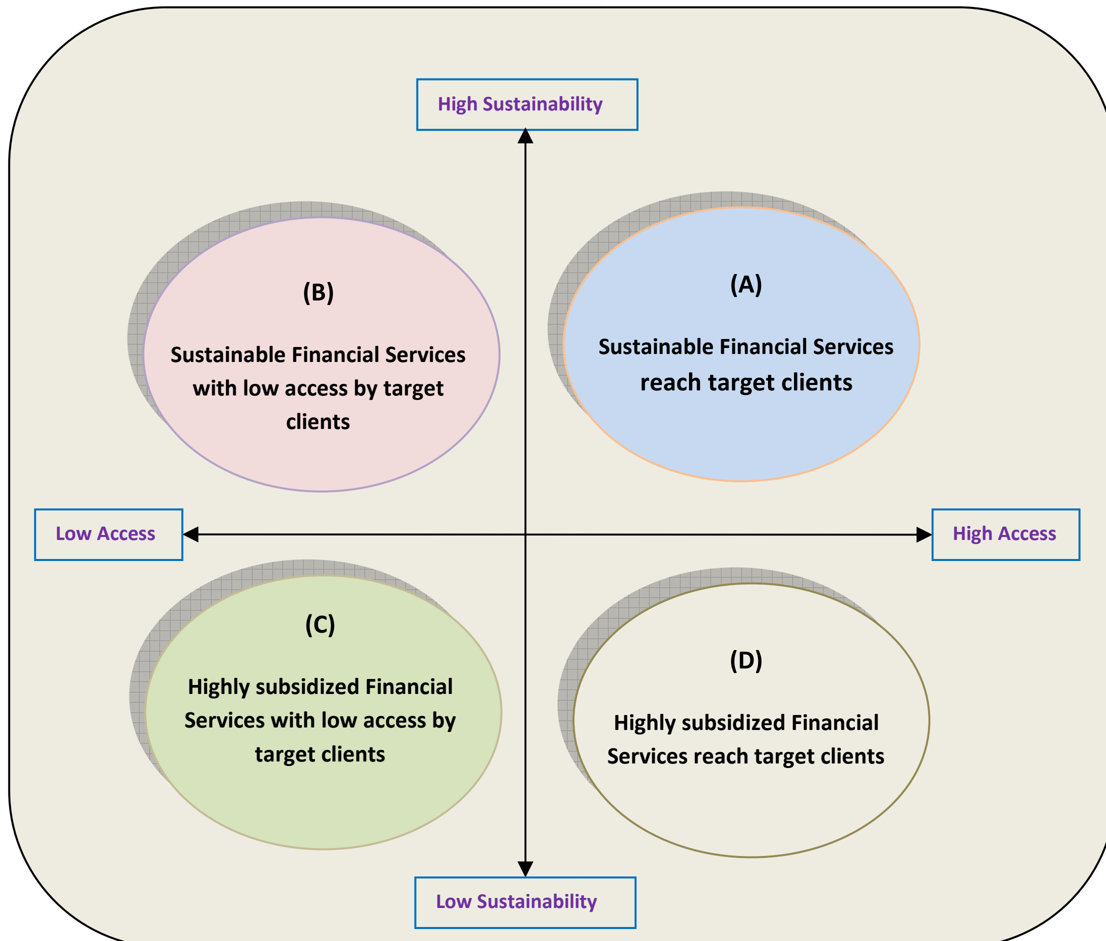
Thus, the ability to survive without looking for donations or other subsidies matter for sustainability – first, for the poor to get out of poverty, they require sustained microenterprise services like credit; second, the bulk of the poor people who are still out of the reach of any modern financial services need to be reached; and finally, the 'future poor' need to be taken account of in any policy decision on (current) resource allocation. Thus the length of outreach matters very much. This requires ensuring both full repayment and profitability. The latter – profitability – is perhaps the most controversial issue in the industry. While there is a general consensus on the 'components' that should go into the computation of interest rate to be charged by a micro-credit service provider, the 'level' under each component - hence the level of institutional 'profitability'- is left to be fixed by each actor. In particular, given the few choices for alternative sources of finance for the rural areas, and their weak bargaining power, there is a growing consensus that there should be a checking mechanism to monitor how service providers, working in diverse geographic and economic circumstances, are setting their microcredit interest.

CHALLENGES TO ESTABLISH THE PROPOSED MODEL

In countries like India there are three key challenges to establishing the proposed M-Microfinance System, which are,

- ✓ related to the incentive problem in organizations;
- ✓ charity-oriented credit programmes; and
- ✓ the problem of (Mis)Targeting

The reality is that the poor people do not necessarily lack business skills and are not looking only for charity hand-outs, as is often assumed. They are not passive recipients of money transferred from other segments of the economy in a top-down approach. Rather, they need to be empowered to create their own jobs and enhance private income and, in fact, they are too proud to look for charity! They only lack the opportunity for income generation and employment. Such service providers may be troubled by taking money from current clients to help 'future' clients. But such approaches based on higher subsidies can exhaust resources (which are in scarce supply) on current projects and the current poor, and lack sustainability as shown on Quadrant C and D of the Chart below. [*The detailed reference Johnson, Suzan, Markku Malkamaki, and Kuria Wanjau (2005) for the presented chart is presented in ANNEXURE-II*].



The micro-credit industry has sought to resolve the tensions between a focus on (current) poverty and a commitment to sustainability by integrating them within a matrix defined by two axes, or outreach (or access) and financial sustainability. The formal financial sector (e.g. commercial banks) may achieve financial sustainability, but has little outreach to poor clients (Quadrant B). Traditional efforts by nongovernmental organizations (NGOs) may reach poor clients, but are often unsustainable (Quadrant D and C). Good microfinance practice, on the other hand, combines both outreach and sustainability in the virtuous Quadrant A.

CONCLUSION

It is of utmost requirement that such a trend shall prove to be a success only if:

- ✓ It supports well-defined credit analysis techniques and those too supporting SMEs for a long time.
- ✓ It should not focus on only financial figures, but instead should understand actual conditions of SMEs by a careful look at each customer, and deal with their operations systematically & efficiently.

The need for sustainable financial services is very clear. How to realize this desirable objective is a bit controversial. As we have seen, the first option would be to let the market decide on such items like the microcredit interest rate and the clients to judge for themselves. One may even argue that it is better if the poor can access finance even if they pay higher interest rate – i.e., if the alternative is NOT having the access at all''. Since the poor are fully repaying and coming back for repeated loans, this means that, under the given circumstances, they 'value' the service and have the real demand. However, borrowers should not have to pay high interest rates to cover a program's inefficiencies. Because most microenterprise credit programmes operate in an environment with little direct competition, and in circumstances where poor clients are not organized to voice out issues affecting them, first of all such programmes must challenge themselves to control their costs, provide efficient services, and become self-sufficient. This, however, is not often happening and therefore calls for a new approach to certification for microfinance service providers. Mechanisms should be in place to check that the MFI is working at the "desirable", that is, what is the benchmark? level of efficiency.

Lastly, to conclude with it is very important on the part of the Government to provide a conducive environment for a sustainable microfinance. And these roles can be summarized as:

- ✓ Monitoring market distortions, capacity development to MFIs;
- ✓ Rural infrastructure;
- ✓ Expand Credit Analysis Service; and
- ✓ Support Innovation in Financial Services

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ANNEXURES

ANNEXTURE - I

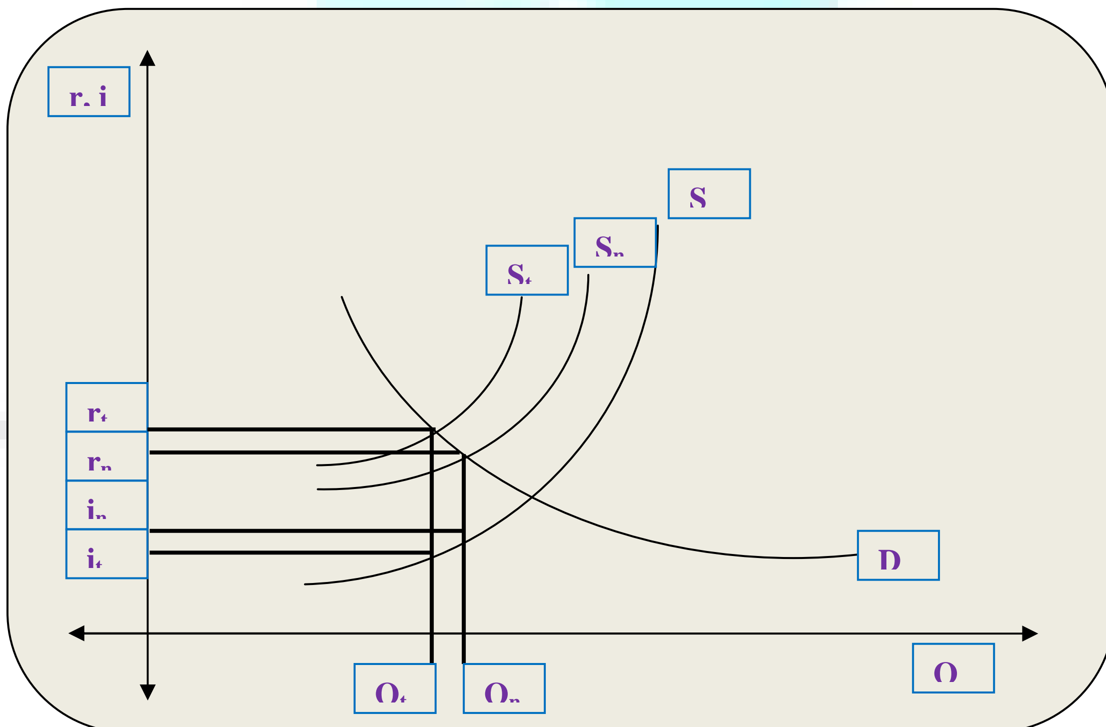

Figure : Impact of Operating Costs on the Supply of and Demand for Microcredit

Source: *Fernando, A. Nimal* (2006): Understanding and Dealing with High Interest Rates on Microcredit, A Note to Policy Makers in the Asia and Pacific Regions, Asian Development Bank

KEY

Horizontal axis: measures the quantity of lending or borrowing per unit of time.
Vertical axis: measures the interest rate (**r**) borrowers pay and gross return (**i**) lenders receive.
D: is the demand curve that measures the economy's demand for microcredit.
S: is the supply curve that measures the industry's supply of microcredit, if there were no lender operating cost.
S_t: is the industry's supply of curve of microcredit with operating costs.

- At this initial level of operating costs, borrowers pay an interest rate of r_t
- And the lenders' gross return after deducting operating cost is it
- The quantity borrowed (lent) is Q_t.
- Now assume that lender operating costs are reduced through some innovations and improvements in financial infrastructure. And this shifts the supply curve to S_n.
- Now the amount of microcredit lent (the amount of microcredit borrowed) increases from Q_t to Q_n and the gross return to lenders increases from it to i_n.
- And the interest rate to borrowers declines from r_t to r_n.

ANNEXTURE - II

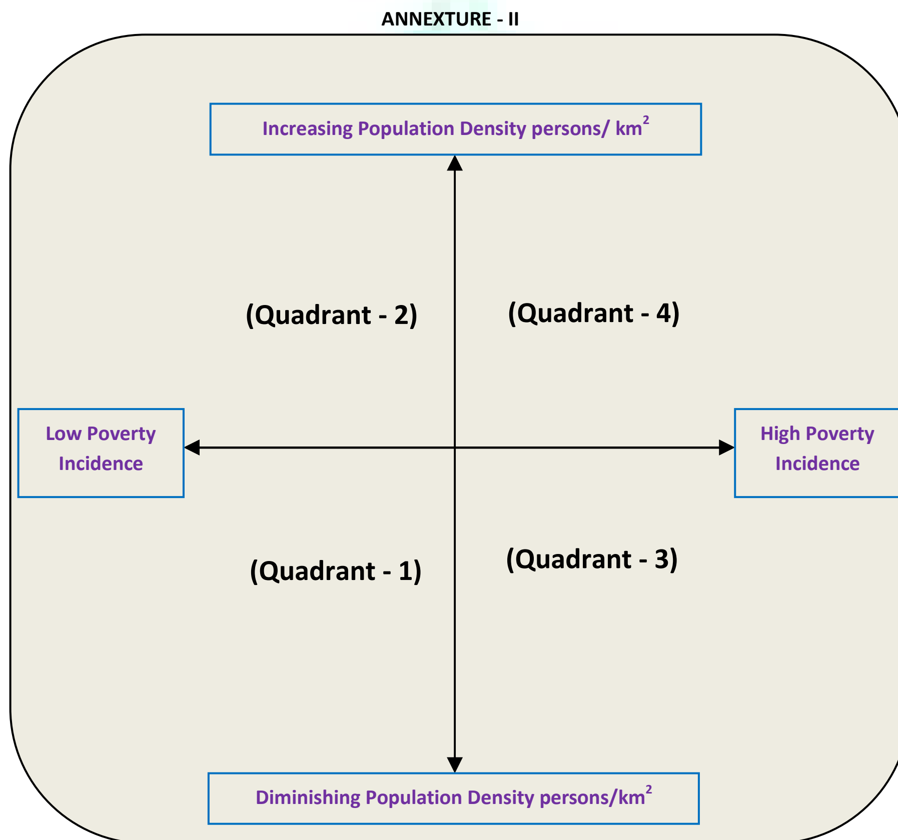

Figure : Defining Factors of Microfinance Credit Services Delivery

[**Source:** *Johnson, Suzan, Markku Malkamaki, and Kuria Wanjau* (2005): Tackling the 'frontiers' of Microfinance in Kenya: the role for decentralized services. Decentralized Financial Services, Nairobi, Kenya.]

In order to consider where the frontier of sustainable Microfinance Credit Service delivery currently lies, this paper uses two dimensions to guide the coverage: ***Population Density*** **and** ***Poverty Incidence***. *Lower population density relates to high transactions costs on both the supply and demand sides. Higher poverty incidence implies smaller transaction sizes on the demand side.*

Quadrant – 1: present the most promising environments for the purposes of sustainable financial service delivery, with high population density areas with low poverty incidence

Quadrant – 2: offers high population density and higher poverty incidence, so that transactions costs related to distances are lower, but providers are likely to encounter lower transactions sizes and the weaker economic environment in such areas is also likely to make productive investments more risky.

Quadrant – 3: reflects areas of low population density but low poverty incidence: the service delivery problem here is also less severe if transactions sizes are high enough and risks sufficiently diversified, that is, through investments in a range of sectors including manufacturing, trade and services and not solely agriculture.

Quadrant – 4: reflects the most extreme cases of high poverty incidence and low population density and hence the most challenging environment for service delivery.

TRADE ORIENTATION OF INDIAN INDUSTRIES

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ABSTRACT

The Economic Reforms of 1991 intensifies the process of trade liberalisation. Trade liberalisation focuses on reduction of both tariff and non-tariff barriers to trade. Reduction in trade barriers benefited trade of manufactured goods most. Due to this, trade orientation of Indian manufacturing increases rapidly. In this research paper, we attempted to examine trade orientation of the registered manufacturing sector during 1994-95 and 2005-06. To show trends in export and import annual growth rates have been calculated for 2 digit level industries. Export and import intensities have been calculated by dividing exports or imports by total output of the industry. As ASI does not provide exports and imports estimates, the data for imports and exports are taken from the Directorate General of Commercial Intelligence and Statistics (DGCIS). Our result shows that export intensity and import penetration both increased during the period of the study, suggesting that while the relatively open policies during this period helped remove some biases against exports, it penalized the relatively inefficient import competing industries.

KEYWORDS

Export Intensity, Import Intensity, Manufacturing, Trade.

INTRODUCTION

The nature of the trade regime has implications for growth in industrial productivity. There are many arguments explaining why more open trade regimes lead to performance improvements in the industrial sector. Perhaps the most basic is that returns to entrepreneurial effort increases as exposure to foreign competition rises [Corden (1974), Martin and Page (1983) and Tybout (1992)]. A second argument is that increasing returns to scale imply lower costs per unit as output increases [Pack (1988) and Tybout (1992)]. Finally, greater openness may accelerate adoption of technological innovations originating in industrial countries leading to more investment in product development. There has, however, been no clear confirmation of the hypothesis that countries with an outward orientation benefit from greater growth in productivity in the component sectors of manufacturing when combined with the small static costs of protection, this finding leaves those with a predilection towards a neutral trade regime in a quandary.

Liberalisation especially trade liberalisation, directly affects both export and import performance. Protective policies penalise a country's export because of at least two reasons. Due to reductions in competitive pressure, a certain degree of inefficiency is introduced in domestic production. This renders exports uncompetitive in the foreign market. Moreover, the lack of access to imported inputs also works against exporters, since the same is a variable to producers in other countries.

Adopting an outward oriented trade policy results in reduction of biases against exporters and we should expect an improvement in the export performance. This is however, dependent upon an elastic export supply function: pressure of supply bottlenecks would continue to constrain export performance. Low export supply elasticity may be a result of infrastructure bottlenecks or shortage of specialised labour. The effect of trade liberalisation on export performance is therefore ambiguous. The effect of trade liberalisation on import is also ambiguous.

Import liberalisation would result in a greater access to imported inputs and technologies. Also, increased competition would force domestic producers to adopt cost reducing steps and should result in domestic industries becoming more competitive. If this happens import penetration would decrease. If, however, domestic industries do not become competitive and continue to be high cost industries, then import penetration may rise. Competitiveness of the import competing sector is the crucial factor in determining whether import penetration would rise or not.

In this research paper, we examine trade orientation of the registered manufacturing sector during 1994-95 and 2005-06. The period chosen corresponds to the time when lag effect argument of Economic Reforms can be tested. Now, we discuss issues relating to data and variables and trends in export, import, export intensity, and import penetration of Indian industries.

METHODOLOGY

To show trends in export and import annual growth rates have been calculated for 2 digit level industries. Export and import intensities have been calculated by dividing exports or imports by total output of the industry (= exports or imports / industry output). Apart from above measures, trade classification index is also being presented. The trade classification index, defined as net imports over domestic availability (imports-exports) / (production + imports – exports). According to the trade classification index, the exportable sectors are those for which TCI < 0, importable sectors are those for which 0 ≤ TCI ≤ 0.8 and the non-competing sectors are those with TCI > 0.8 [Findlay and Garnaut (1986)].

DATA AND ESTIMATION ISSUES

Data for the study pertaining to the registered manufacturing sector only are taken from the Annual Survey of Industries (ASI). The ASI follows the National Industrial Classification (NIC)[1]. According to this, each production unit is classified in an industry group on the basis of the value of the principal product manufactured by it. The coverage of the Annual Survey of Industries extends to all factories registered under the Factories Act. The ASI publishes annual data at disaggregated three-digit industry level for a number of variables. These include variables on capital (fixed and working), employment (workers, employees and total persons engaged), wages and emoluments, inputs consumed, value of output, depreciation, net value added, net and gross fixed capital formation, increase in stocks, gross capital formation and profits.

Gross output for 22 two-digit industry groups (ASI Code 15-36) pertaining to manufacturing industry is reported. As ASI does not provide exports and imports estimates, the data for imports and exports are taken from the Export-Import Data Bank, Directorate General of Commercial Intelligence and Statistics (DGCIS), Government of India. Trade data is available in the ITC (HS) classification. Since, this is different than the NIC classification, a concordance between trade and

industry data has been prepared and trade data matched to the NIC categories (Appendix 1). Suitable deflators have been used to deflate the time series data. The wholesale price index (1993-94 = 100) for different sectors has been used for this purpose.

TRADE ORIENTATION

A major reason for the low industrial growth can be attributed to the fact that foreign demand was low due to policy regime facing the manufacturing sector. In particular, protection from foreign competition and absence of a competitive domestic environment has resulted in inefficient high cost and low quality manufacturing industries. However, in recent years policy makers has recognised the importance of trade in the development. This is evident in the form of increased export and import intensity of Indian industries.

In a study undertaken by Das (2003) calculated import penetration rations for 72 three digit industries in India. In his analysis, he found increase in the average level of import penetration in Indian industries in the post-reform period. According to his estimates, the average import penetration ratio for these 72 industries increases from 11 percent in the period 1986-90 to about 16 percent in the period 1996-2000. Pandey (2004) also found same results. He has calculated export intensity and import penetration in 2 digit level industries and found increase in both variables during 1990s.

Goldar and Rengnathan (2008) in an attempt determine relationship between import penetration ratio and capacity utilisation in India Industries. However, he found that between 1998-99 and 2003-04, there was an increase in the import penetration ratio in some industries, but in a large number of industries, there was a fall in the import penetration ratio. The average import penetration ratio in Indian Industries increased from about 9 percent in 1989-90 to 16 percent in 1998-99, but declined to about 14 percent in 2003-04.

In the table 1 annual growth rates of export at two digit industry level has been given. Exports of all manufacturing grew by 12.63, 13.19, and 14.76 percent during 1996-97 to 2000-01, 2000-01 to 2005-06 and 2005-06 to 2008-09 respectively.

TABLE - 1: EXPORTS OF INDIAN INDUSTRY (CAGR IN %) (According to 2 Digit Classification of ASI)

ASI Code	Commodity Name	1996-97 to 2000-01	2000-01 to 2005-06	2005-06 to 2008-09	2000-01 to 2008-09	1996-97 to 2008-09
15	Manufacture of Food Products and Beverages	-11.49	12.84	25.85	17.55	6.95
16	Manufacture of Tobacco Products	-4.81	4.42	25.48	11.87	6.01
17	Manufacture of Textiles	7.28	4.85	4.86	4.85	5.65
18	Manufacture of Wearing Apparel Dressing and Dyeing of Fur	17.49	7.98	5.43	7.02	10.40
19	Tanning and Dressing of Leather Manufacture of Luggage, Handbags, Saddlery, Harness and Footwear	6.37	4.34	11.01	6.79	6.65
20	Manufacture of Wood and Products of Wood and Cork, Except Furniture, Manufacture of Articles of Straw and Plating Materials	-7.53	21.24	14.20	18.55	9.13
21	Manufacture of Paper and Paper Products	17.47	15.52	7.24	12.34	14.03
22	Publishing, Printing and Reproduction of Recorded Media	-0.48	13.50	16.73	14.70	9.40
23	Manufacture of Coke, Refined Petroleum Products and Nuclear Fuel	30.75	32.21	28.38	30.76	30.76
24	Manufacture of Chemicals and Products	11.05	16.52	14.80	15.87	14.25
25	Manufacture of Rubber and Plastic Products	16.35	21.30	3.11	14.13	14.87
26	Manufacture of Other Non-Metallic Mineral Products	16.43	13.88	9.88	12.36	13.70
27	Manufacture of Basic Metals	15.89	13.23	12.45	12.94	13.91
28	Manufacture of Fabricated Metal Products, Except Machinery and Equipments	15.41	11.63	5.10	9.14	11.19
29	Manufacture of Machinery and Equipments N.E.C	11.73	16.51	20.87	18.13	15.96
30	Manufacture of Office, Accounting and Computing Machinery	NA	NA	NA	NA	NA
31	Manufacture of Electrical Machinery and Apparatus N.E.C.	17.61	13.76	41.61	23.50	21.50
32	Manufacture of Radio, Television and Communication Equipments and Apparatus	NA	NA	NA	NA	NA
33	Manufacture of Medical, Precision and Optical Instruments, Watches and Clocks	32.10	14.98	12.34	13.98	19.73
34	Manufacture of Motor Vehicles, Trailers and Semi-Trailers	2.99	25.12	19.89	23.13	16.02
35	Manufacture of Other Transport Equipment	26.29	50.23	69.22	57.09	46.07
36	Manufacture of Furniture; Manufacturing N.E.C.	2.48	18.51	10.04	15.26	10.83
Total	Total Manufacturing	12.63	13.19	14.76	13.77	13.39

Source: Estimated from DGCI&S data.

While manufacture of food products and beverages, manufacture of tobacco products, manufacture of wood and products of wood and cork except furniture, manufacture of articles of straw and plating materials and publishing, printing and reproduction of recorded media showed negative growth during 1996-97 to 2000-01, other industry groups have shown positive growth in both half of the study period. 2000-01 to 2008-09 saw impressive growth rates of exports for the manufacturing sector. During this period, exports increased at a rate of more than 13 percent per annum. Manufacture of coke, refined petroleum products, nuclear fuel (30.76 percent) and manufacture of other transport equipment (57.09 percent) were the fastest growing exporting sector. Export performance of Indian industry is also measured by export intensity.

In the following table 2 export intensity has been presented. Export intensity measured as the ratio of exports to output, increased marginally for all manufacturing industries during 2000-01 to 2005-06. However, there was a significant increase in overall export intensity in the first half 1994-95 to 2000-01 where most of the individual industry groups witnessed increasing export intensity during this period. Our evidence suggests a clear change in the pattern of export intensity, consistent with the hypothesis that outward oriented trade policies remove the bias against exports, making them more competitive.

TABLE - 2: EXPORT INTENSITY IN MANUFACTURING INDUSTRY

ASI Code	Industry	1996-97	2000-01	2005-06
15	Manufacture of Food Products and Beverages	0.056	0.027	0.038
16	Manufacture of Tobacco Products	0.105	0.073	0.099
17	Manufacture of Textiles	0.263	0.243	0.236
18	Manufacture of Wearing Apparel Dressing and Dyeing of Fur	1.630	1.849	1.753
19	Tanning and Dressing of Leather Manufacture of Luggage, Handbags, Saddlery, Harness and Footwear	0.915	0.938	0.838
20	Manufacture of Wood and Products of Wood and Cork, Except Furniture, Manufacture of Articles of Straw and Plating Materials	0.075	0.073	0.094
21	Manufacture of Paper and Paper Products	0.030	0.044	0.073
22	Publishing, Printing and Reproduction of Recorded Media	0.023	0.028	0.037
23	Manufacture of Coke, Refined Petroleum Products and Nuclear Fuel	0.046	0.112	0.178
24	Manufacture of Chemicals and Products	0.109	0.122	0.197
25	Manufacture of Rubber and Plastic Products	0.120	0.172	0.268
26	Manufacture of Other Non-Metallic Mineral Products	0.931	1.239	1.782
27	Manufacture of Basic Metals	0.095	0.142	0.163
28	Manufacture of Fabricated Metal Products, Except Machinery and Equipments	0.049	0.072	0.062
29	Manufacture of Machinery and Equipments N.E.C	0.098	0.150	0.196
30	Manufacture of Office, Accounting and Computing Machinery	NA	NA	NA
31	Manufacture of Electrical Machinery and Apparatus N.E.C.	0.145	0.218	0.181
32	Manufacture of Radio, Television and Communication Equipments and Apparatus	NA	NA	NA
33	Manufacture of Medical, Precision and Optical Instruments, Watches and Clocks	0.121	0.260	0.323
34	Manufacture of Motor Vehicles, Trailers and Semi-Trailers	0.097	0.103	0.122
35	Manufacture of Other Transport Equipment	0.009	0.023	0.088
36	Manufacture of Furniture; Manufacturing N.E.C.	0.111	0.091	0.061
	Total	0.166	0.206	0.225

Source: Estimated from ASI and DGCI&S data.

Imports also grew throughout this period, the annual rate of growth being much higher during 2000-01 to 2005-06 and 2005-06 to 2008-09 as compared to earlier period. Import penetration, however, showed a slightly different trend as shown in table 4. Import intensity remained virtually constant for all manufacturing industries during 1996-97 to 2000-01. Roughly half the two digit industry groups had falling import intensity during this time period. Subsequently, there was an increase to 0.300 in 2005-06 from 0.219 in 2000-01. Within this 4 industry groups showed decrease, rests have shown increase in import intensity.

TABLE - 3: IMPORTS OF INDIAN INDUSTRIES (CAGR IN %) (According to 2 Digit Classification of ASI)

ASI Code	Commodity Name	1996-97 to 2000-01	2000-01 to 2005-06	2005-06 to 2008-09	2000-01 to 2008-09	1996 -97 to 2008-09
15	Manufacture of Food Products and Beverages	3.50	27.58	-0.17	16.37	11.91
16	Manufacture of Tobacco Products	-9.23	25.20	4.24	16.88	7.43
17	Manufacture of Textiles	16.38	16.01	5.71	12.03	13.46
18	Manufacture of Wearing Apparel Dressing and Dyeing of Fur	34.25	8.28	31.07	16.32	22.02
19	Tanning and Dressing of Leather Manufacture of Luggage, Handbags, Saddlery, Harness and Footwear	9.94	10.62	19.81	13.98	12.62
20	Manufacture of Wood and Products of Wood and Cork, Except Furniture, Manufacture of Articles of Straw and Plating Materials	12.13	11.75	7.21	10.03	10.72
21	Manufacture of Paper and Paper Products	1.81	13.00	17.24	14.57	10.15
22	Publishing, Printing and Reproduction of Recorded Media	11.64	14.52	-2.23	7.92	9.15
23	Manufacture of Coke, Refined Petroleum Products and Nuclear Fuel	4.58	13.52	22.31	16.74	12.53
24	Manufacture of Chemicals and Products	-0.13	18.75	31.04	23.21	14.88
25	Manufacture of Rubber and Plastic Products	2.00	25.10	16.76	21.91	14.87
26	Manufacture of Other Non-Metallic Mineral Products	30.11	11.21	20.76	14.70	19.62
27	Manufacture of Basic Metals	-7.46	21.03	14.04	18.36	9.04
28	Manufacture of Fabricated Metal Products, Except Machinery and Equipments	10.78	19.95	22.41	20.86	17.40
29	Manufacture of Machinery and Equipments N.E.C	3.25	19.19	20.83	19.80	14.01
30	Manufacture of Office, Accounting and Computing Machinery	NA	NA	NA	NA	NA
31	Manufacture of Electrical Machinery and Apparatus N.E.C.	20.86	31.65	20.24	27.25	25.08
32	Manufacture of Radio, Television and Communication Equipments and Apparatus	NA	NA	NA	NA	NA
33	Manufacture of Medical, Precision and Optical Instruments, Watches and Clocks	20.84	18.67	17.30	18.15	19.04
34	Manufacture of Motor Vehicles, Trailers and Semi-Trailers	-13.69	22.76	38.91	28.59	12.59
35	Manufacture of Other Transport Equipment	-4.01	62.32	7.06	38.87	22.78
36	Manufacture of Furniture; Manufacturing N.E.C.	13.28	27.08	21.01	24.77	20.82
Total	Total Manufacturing	8.66	18.34	20.25	19.05	15.48

Source: Estimated from DGCI&S data.

It appears, therefore, that liberalisation affected the export and import competing sectors differently while the export sectors were becoming more competitive, the import competing sectors were not. Thus, as export intensity was increasing, import penetration was also increasing as in conformity of the results found by Pandey (2004).

TABLE - 4: IMPORT INTENSITY IN INDIAN INDUSTRY

ASI Code	Commodity Name	1996-97	2000-01	2005-06
15	Manufacture of Food Products and Beverages	0.005	0.004	0.012
16	Manufacture of Tobacco Products	0.003	0.002	0.006
17	Manufacture of Textiles	0.042	0.054	0.086
18	Manufacture of Wearing Apparel Dressing and Dyeing of Fur	0.014	0.027	0.026
19	Tanning and Dressing of Leather Manufacture of Luggage, Handbags, Saddlery, Harness and Footwear	0.088	0.103	0.124
20	Manufacture of Wood and Products of Wood and Cork, Except Furniture, Manufacture of Articles of Straw and Plating Materials	0.478	1.009	0.863
21	Manufacture of Paper and Paper Products	0.213	0.177	0.265
22	Publishing, Printing and Reproduction of Recorded Media	0.046	0.089	0.125
23	Manufacture of Coke, Refined Petroleum Products and Nuclear Fuel	1.013	1.020	0.756
24	Manufacture of Chemicals and Products	0.169	0.123	0.219
25	Manufacture of Rubber and Plastic Products	0.180	0.152	0.277
26	Manufacture of Other Non-Metallic Mineral Products	0.716	1.486	1.898
27	Manufacture of Basic Metals	0.173	0.106	0.169
28	Manufacture of Fabricated Metal Products, Except Machinery and Equipments	0.025	0.031	0.038
29	Manufacture of Machinery and Equipments N.E.C	0.398	0.444	0.651
30	Manufacture of Office, Accounting and Computing Machinery	0.000	0.000	0.000
31	Manufacture of Electrical Machinery and Apparatus N.E.C.	0.269	0.452	0.777
32	Manufacture of Radio, Television and Communication Equipments and Apparatus	0.000	0.000	0.000
33	Manufacture of Medical, Precision and Optical Instruments, Watches and Clocks	0.534	0.803	1.171
34	Manufacture of Motor Vehicles, Trailers and Semi-Trailers	0.076	0.039	0.042
35	Manufacture of Other Transport Equipment	0.144	0.123	0.680
36	Manufacture of Furniture; Manufacturing N.E.C.	0.044	0.054	0.052
	Total	0.205	0.219	0.300

Source: Estimated from ASI & DGCI&S data.

TRADE CLASSIFICATION INDEX

An examination of manufacturing output according to the nature of market orientation shows a marginal change over the period. Industries having trade classification index (TCI) value TCI < 0 are exportable sectors, importable are those for which 0 ≤ TCI ≤ 0.8 and the non-competing sector are those with TCI > 0.8. Throughout the period (1996-2006) non-competing industries formed very low share of the output and marginally increased to 2.05 percent in 2005-06 from 1.78 percent in 1996-97. During 1996-2001, the share of import competing industries fell drastically, while that of export promoting industries increased. After 2001, the share of the import competing industries shows an impressive growth. It is evident that outward oriented policy has diminished the importance of the non competing industries that cater exclusively to the domestic market.

TABLE - 5: TRADE CLASSIFICATION INDEX

	Share of Output			Annual Growth Rates		
	1996-97	2000-01	2005-06	1996-97 to 2000-01	2000-01 to 2005-06	1996-97 to 2005-06
Export Promoting	43.14	54.91	43.00	12.44	6.53	9.12
Import Competing	55.12	42.77	54.95	-0.65	17.62	9.12
Non-Competing	1.74	2.32	2.05	13.85	9.13	11.20
Total	100.00	100.00	100.00	5.86	11.87	9.16
Export competing/import competing	0.78	1.28	0.78	5.86	11.87	9.16

Source: Estimated from DGCI&S and ASI data.

CONCLUSIONS

We have examined trade orientation of the registered manufacturing sector of Indian industry during the 1990s and 2000s. Our findings confirm the accelerated rate of growth rates of exports and imports into 2000s. The following are the main points which emerged from the above analysis. Both exports and imports grew slowly during 1996-97 to 2000-01, picking up in the subsequent period. Export intensity continuously increased in all sub-periods for most industry groups. Import penetration also showed similar trends and increased to 0.300 in 2005-06 as compared 0.205 in 1994-95, although, there were wide differences among the industry groups. However, our results are in contrast to findings of the Goldar and Rengnathan (2008). Moreover, export and import penetration both increased during the period of the study, suggesting that while the relatively open policies during this period helped remove some biases against exports, it penalized the relatively inefficient import competing industries (Pandey 2004).

NOTES

[1]There are two sources of data for industrial production. One is the index of industrial production (IIP) and the other s National Accounts Statistics that is based on ASI data. While the IIP is available at monthly intervals, the NAS is published annually, but with a longer time lag. The IIP is available for 18 two-digit industry groups, as well as five use-based, three input-based and two sector-based categories. The source of the data used for the index is voluntary reporting of monthly output by firms with equipment investment of over ` 20 lakh in 1980. Small-scale firms are included in those industry groups where they dominate. The IIP is revised every ten years or so. The index is, however, plagued by incomplete coverage, and does not cover the unregistered manufacturing sector at all. Moreover, with the ease of controls on output and investment since the early 1980s, non-reporting may have gone up.

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APPENDIX

APPENDIX - 1: CONCORDANCE BETWEEN ASI AND TRADE DATA

ASI Code	**Concordance between ASI and Trade Data (HS Code) Two Digit level**	HS Code
15	Manufacture of Food Products and Beverages	16-23
16	Manufacture of Tobacco Products	24
17	Manufacture of Textiles	50-60
18	Manufacture of Wearing Apparel Dressing and Dyeing of Fur	61-63
19	Tanning and Dressing of Leather Manufacture of Luggage, Handsbages, Saddlery, Harness and Footwear	41-43, 64
20	Manufacture of Wood and Products of Wood and Cork, Except Furniture, Manufacture of Articles of Straw and Plating Materials	44-46
21	Manufacture of Paper and Paper Products	47-48
22	Publishing, Printing and Reproduction of Recorded Media	49
23	Manufacture of Coke, Refined Petroleum Products and Nuclear Fuel	27
24	Manufacture of Chemicals and Products	28-38
25	Manufacture of Rubber and Plastic Products	39-40
26	Manufacture of Other Non-Metallic Mineral Products	25-26, 68-71
27	Manufacture of Basic Metals	72-81
28	Manufacture of Fabricated Metal Products, Except Machinery and Equipments	82-83
29	Manufacture of Machinery and Equipments N.E.C	84
30	Manufacture of Office, Accounting and Computing Machinery	NA
31	Manufacture of Electrical Machinery and Apparatus N.E.C.	85

APPENDIX - 2: TRADE CLASSIFICATION INDEX

ASI Code	Trade Classification Index	1996-97	2000-01	2003-04	2004-05	2005-06
15	Manufacture of Food Products and Beverages	-0.054	-0.023	-0.033	-0.014	-0.027
16	Manufacture of Tobacco Products	-0.114	-0.077	-0.094	-0.102	-0.103
17	Manufacture of Textiles	-0.284	-0.234	-0.215	-0.173	-0.175
18	Manufacture of Wearing Apparel Dressing and Dyeing of Fur	2.623	2.217	1.942	2.681	2.375
19	Tanning and Dressing of Leather Manufacture of Luggage, Handsbages, Saddlery, Harness and Footwear	-4.771	-5.053	-4.622	-4.526	-2.504
20	Manufacture of Wood and Products of Wood and Cork, Except Furniture, Manufacture of Articles of Straw and Plating Materials	0.287	0.483	0.457	0.468	0.435
21	Manufacture of Paper and Paper Products	0.155	0.118	0.149	0.145	0.161
22	Publishing, Printing and Reproduction of Recorded Media	0.022	0.058	0.077	0.084	0.080
23	Manufacture of Coke, Refined Petroleum Products and Nuclear Fuel	0.492	0.476	0.328	0.345	0.366
24	Manufacture of Chemicals and Products	0.056	0.001	0.004	0.018	0.021
25	Manufacture of Rubber and Plastic Products	0.056	-0.020	-0.032	-0.047	0.009
26	Manufacture of Other Non-Metallic Mineral Products	-0.274	0.198	0.184	0.219	0.104
27	Manufacture of Basic Metals	0.072	-0.038	-0.049	-0.043	0.006
28	Manufacture of Fabricated Metal Products, Except Machinery and Equipments	-0.024	-0.042	-0.039	-0.026	-0.024
29	Manufacture of Machinery and Equipments N.E.C	0.231	0.227	0.271	0.283	0.313
30	Manufacture of Office, Accounting and Computing Machinery	Na	na	na	Na	na
31	Manufacture of Electrical Machinery and Apparatus N.E.C.	0.111	0.189	0.379	0.417	0.374
32	Manufacture of Radio, Television and Communication Equipments and Apparatus	Na	na	na	Na	na
33	Manufacture of Medical, Precision and Optical Instruments, Watches and Clocks	0.292	0.352	0.357	0.396	0.459
34	Manufacture of Motor Vehicles, Trailers and Semi-Trailers	-0.022	-0.068	-0.077	-0.050	-0.086
35	Manufacture of Other Transport Equipment	0.119	0.090	0.251	0.236	0.372
36	Manufacture of Furniture; Manufacturing N.E.C.	-0.072	-0.038	-0.027	-0.024	-0.010
	Total	0.037	0.014	0.034	0.055	0.070

GLOBAL FINANCIAL CRISIS AND ITS IMPACT ON INDIAN INSURANCE INDUSTRY

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ABSTRACT

The global financial crisis is an outcome of deep economic recession which generally refers to business cycle contraction and slowdown activity over a long period of time. It is a situation where macro indicator like gross domestic product, employment, capital utilisation, household incomes and business profit fall and bankruptcies and unemployment rates are rise. Global Financial Crisis is among the greatest financial challenges to the world economy which is originated in United States of America. The global economic slowdown is unprecedented in scale and has severe implications on policy formulation among emerging market. The financial crisis may primarily be a banking crisis, and the solvency of the insurance sector as a whole does not appear to be threatened. Currently India has one of the largest insurance markets in the world. Strong economic growth in the last decade combined with a population of over a billion makes it one of the potentially largest markets in the future. This paper provides an overview of global financial crisis (GFC) and its impact on the Indian insurance industry. It identifies the channels through which the GFC has impacted the global economy and evaluates performance of insurance industry of India during the crisis period.

KEYWORDS

Global Financial crisis, Insurance, India.

INTRODUCTION

The current global economic slowdown is of an unprecedented form, one that has not been experienced since the establishment of the current world economic order after the end of the Second World War in 1945 which causing heavy fall in world stock market, collapsed of large financial institution, increase in unemployment and shrinking in governmental revenues. Even in government of wealthiest nations had to come up with rescue packages to bail out their financial systems. The crisis has exposed fundamental weaknesses in financial systems worldwide, demonstrated how interconnected and interdependent economies are today. Although recent data indicate the large industrialised economies may have reached bottom and are beginning to recover for the most part. Subprime losses of this financial crisis was much higher than the combined total losses incurred during the previous major crisis that included the US savings and loan crisis during 1986-95, Japan banking crisis of 1990-99 and Asian banking crisis 1998-99. For the compensation of such a heavy losses numerous plans were put forwarded, the secretary of treasury of US announced $ 700 billion financial aid packages intended to limit the damage.

NEED AND OBJECTIVE OF THE STUDY

The study covers the entire world economy whether developed or developing, in terms of measure the impact of financial crisis. The focus is shifted on causes and emergence of financial crisis and how it extends to worldwide. Indian insurance market moved to newer heights in the twenty first century and the investors were getting reasonable income from their investments in the insurance markets. The objective of the study are;-

- To study the causes of global financial crisis.
- To evaluate the performance of stock market in crisis period.
- To study the growth prospects of insurance industry in India.
- To analyze its impact of financial crisis on the India insurance industry in India.

METHODOLOGY

In order to examine the impact of financial crisis on insurance industry in India, the first year premium of life insurance industry taking into consideration because share of life insurance business in total premium collection is more than 80 per cent in India. Data is collected from monthly report of IRDA and classified into two sub periods namely, crisis period and post crisis period. The period from April 2008 to December 2008 is taken as crisis period and January 2009 to March 2010 is taken as post crisis period.

DATA ANALYSIS TOOLS

The statistical tools "Student-t test" is conducted to determine if there is an impact of financial crisis on insurance industry in India. The results are then tested at 5% level of significance and formula used;

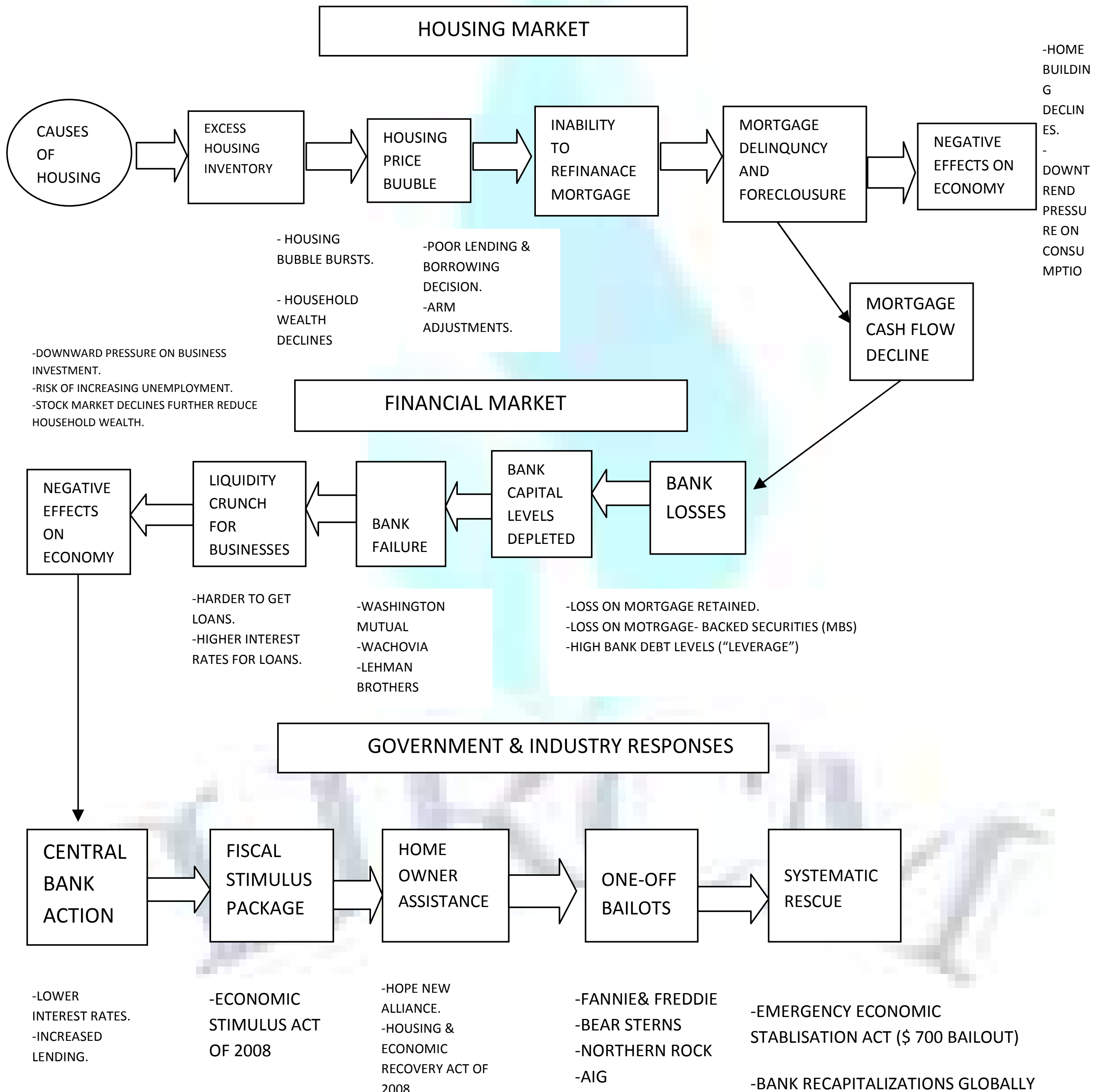
1- $$S = \sqrt{\frac{\sum(X_1-M_1)^2 + \sum(X_2-M_2)^2}{n_1+n_2-2}}$$

2- $$t = \frac{M_1 - M2}{S} \sqrt{\frac{n_1 n_2}{n_1 + n_2}}$$

FINANCIAL CRISIS

The events of 2008 have already passed into history, but they still have the power to take our breath away. The ugly signs of financial crisis first manifested in Feb. 2007 when the London based HSBC sacked the chief executive of its North America mortgage lending business after it reported losses of $105.4 billion. Within the fortnight DR Horton, the largest real a state company in the US warned of huge subprime related losses. By July end when Bear sterns, one of the biggest players in the subprime market, talked to trouble at two of its hedge funds. The global financial crisis came to its forefront of business world after the second quarter of 2008, with the failure of number of American financial companies. At the same time US bureau of labour statistics declared the unemployment figures were at 6.1 %. In the great depression unemployment rate is higher than 25%. The commerce department reported the GDP growth was at 2.8%, shows indication of recession, although this was revised down from 3.3% figure projected a month ago. The financial crisis literally reduced Wall Street into fall street. Some of the well established Wall Street investment banks were became victim of financial crisis. Fannie Mae and Freddie Mac would be nationalised to ensure the financial stability on 7th September 2008. After a week, it came into light that financial services firm Lehman Brothers would file to bankruptcy after being denies support by the Federal Reserve. On 15th September 2008 Merrill lynch acquired by the bank of America. Due to above factors global market indices were crashed. On 16th September 2008, the giant AIG (American Insurance Group) the world's top insurer, which suffered due to its credit rating being reduced, was helped by Federal Reserve which created $85 billion credit facility to stop it from collapse.

FIGURE- 1: SUBPRIME MORTGAGE CRISIS



SOURCE: http://en.wikipedia.org/wiki/File:Subprime_Crisis_Diagram_-_X1.png

Over the next two week, Golden Sachs and Morgan Stanley converted into commercial bank so that they have more market liquidity. On 28th September 2008, it was announced that Fortis, a large banking financial firms would be semi nationalised with Luxemburg. The very next day another US bank Wachovia would be bought by CITI group and stock market values fell dramatically in reaction of failure of financial institution in the US.

The problem began when banks thought the solution to relining was with subprime mortgages. Banks deceitfully offered significantly discounted interest rates that would eventually skyrocket after an initial 2 year term. In some cases, the principal was higher after the two year period. The problem was that loans were granted to people with very poor credit ratings, including to people with Loan to Value (LTV) ratios of more than 88% compared to the maximum cut off of 75% which is arguably also pushing it. Another problem was that people were able to provide their own income which was never verified. In this critical situation banks grouped the loans into Mortgage Backed Securities (MBS) which were bought by various investment banks who converted MBS into new financial instruments called Collateralised Debt Obligation (CDO). The banks originally developed MBS because they are only required to hold 1.6% of capital for mortgage backed securities, compared to 4% to hold a mortgage. The CDO instruments were then setup in the Cayman Islands to avoid taxes where they were then artificially rated by credit agencies who received most of their income from structured finance products. The real problems were for firms that invested in CDO securities based on the artificial ratings. As people began to default their mortgages because of the new high rates after the initial 2 year term and falling home values, the CDO's failed along with the firms heavily invested in these securities. Many leading international banks started to sponsor of balance sheet Structured Investment Vehicles (SIVs) to freely undertake activities which were not possible otherwise because of regulatory norms of banks, like capital adequacy and management of liquidity risks. The SIVs faced no such constraints, and could borrow freely from short term Asset Backed Securities Paper (ABCP) market and take large leveraged position in paper like CDOs/CLOs whose valuation liquidity were most unknown. In pre crisis period, these SIV's or shadow banks generated good profit for the sponsoring banks. Once the crisis started, the sponsoring banks had to take the losses of the SIVs. It was the policy of the US government ever since the Great Depression, to promote housing through the financial system which led to the subprime mortgage crisis. It was the moral hazard begun with Long Term Capital Management (LTCM) bailout and the subsequent bailouts of financial firms which were not commercialised banks and whose bankruptcy did not threaten the deposit base, which lead to mispricing of risks; with financial intermediaries coming to believe that if their increasing of risk bets were successful, they stood to make immense financial gains and if they turned sour, the authority would get tax payers to bail them out. These distortions in US financial system were than internationalised by Asset Backed Securities (ABC) which increasingly came to be held by banks around the world. Packaging a host of different securities including a subprime mortgages into increasingly opaque securities in the belief that this diversification of the assets in each securities even more insecure. It was like packaging different types of meat into pies and selling them around the world. When then it turned out that there was an infected piece of meat which had been baked into many of the pies in the form of subprime mortgages which turned sour with the downturn in the US housing market, none of the holder pies around the world know contained the infected meat. All interbank lending based on these opaque, asset backed securities ceased and a global financial crisis was triggered. The immediate official response to the crisis, in which the insurer AIG was bailed out which them led it to fully repay its counterparties like Golden Sachs bailing them out it turn, only justified the beliefs of those who had undertaken the important lending that any losses would be borne by taxpayers. The subprime crisis is a raging problem that has taken the GFC by storm. The following charts shows the write downs made by various firms due to the impact of the subprime loans:

TABLE- 1

FIRMS	W/O IN $BN	FIRMS	W/O IN $BN
UBS	38.3	MERRILL LYNCH	25.1
CITI GROUP	22.1	AIG	17.2
MORGAN STANLAY	13.1	HSBC	10.7
BANK OF AMERICA	7.9	DUSTSCHE BANK	7.4
WASHINGTON MUTUAL	6.5	RBS	6
CREDIT AGRICOLE	6	AMBAC	6
SOC GEN	4.8	WAACHOVIA	4.7

SOURCE: "Tackling subprime- solution and suggestion" Banking and Finance, Jan 2010

INTERNATIONALISATION OF GLOBAL FINANCIAL CRISIS

The intensification of the financial crisis in the international financial markets of advanced economies that started around mid-2007 has hit much harder than expected.GFC is not confine to one economy or a region but having a global contagion effect. Main reason behind the rapid spread of financial crisis that USA accounts for one fourth of world's GDP and a slowdown there has corresponding influence anywhere. Global financial crisis that emanated from United States (US) has led to liquidity and solvency problems all around the world. Countries like the UK and USA which have been at the centre of the crisis see their currencies in danger of sliding, both because their governments need to borrow abroad and because of a general lack of confidence. At the time of writing the dollar remains relatively strong simply because of the weakness of other currencies, but sterling has fallen dramatically against both the dollar and the euro. The magnitude of the crisis will depend on the response of the USA and EU. Trillion dollar rescue packages are launched around the world, but while the markets may eventually respond, the UK is already in a recession. Its magnitude will depend, in part, on how accommodative monetary policy can be, with the recent interest rate cut a sure sign the authorities are concerned more about the financial crisis than recent inflationary pressures. Global financial crisis has gripped the entire world economy, Europe, Australia, Asia, North America, South America are all severely hit by adverse gravity of the crisis. So far the crisis has mainly manifested itself in domestic monetary developments in the largest economies, although countries like Iceland, Ukraine, Hungary and the Baltic States have been driven to seek IMF or EU help. Investment bank UBS stated on October 6 that 2008 would see a clear global recession, with recovery unlikely for at least two years. Three days later UBS economists announced that the "beginning of the end" of the crisis had begun, with the world starting to make the necessary actions to fix the crisis: capital injection by governments; injection made systemically; interest rate cuts to help borrowers. The United Kingdom had started systemic injection, and the world's central banks were now cutting interest rates. The global economy weakened through 2008, with the final three months of the year being marked by a fall in global demand of unusual severity. Worse still, all available lead indicators point to the downslide continuing through most of 2009. The financial crisis that began in the US in 2007 has now become a full scale economic crisis affecting virtually the entire global economy, including countries which had not been directly exposed to the toxic financial assets that triggered off the crisis in the US and Europe. The Japanese economy second largest economy in the world has been reported to have declined by a 12.7 per cent annualised rate in 4Q08, the sharpest decline in 35 years. Table-2 shows the world trade projection, exports and imports of advanced and emerging countries projected by IMF.

Table - 2: WORLD TRADE PROJECTIONS

% y/y	2006	2007	2008	2009	2010
World trade volume (goods and services)	9.4	7.2	4.1	–2.8	3.2
Exports					
Advanced economies	8.4	5.9	3.1	–3.7	2.1
Emerging and developing economies	11.2	9.6	5.6	–0.8	5.4
Imports					
Advanced economies	7.5	4.5	1.5	–3.1	1.9
Emerging and developing economies	14.9	14.5	10.4	–2.2	5.8

Source: IMF, 2009.

According to the IMF, world trade growth is projected to contract by –2.8 per cent in 2009 after a peak of 9.4 per cent in 2006. In this worse scenario growth projection of world economy was also affected Export and Import of the advanced country is estimated to decline at a higher rate in comparison with emerging and developing country.

At the same time, a sharp decline in Asian countries foreign trade was presents a mirror image of the complete collapse of Asian trade. Table-3 depicts the comparative figure of May 2008 and May 2009, demonstrates the decline of merchandise export and import of Asian economy.

TABLE - 3 COMPARATIVE STUDY OF EXPORT AND IMPORT OF ASIAN COUNTRY

Country	Export (Decline %)	Import (Decline %)
CHINA	26.3	43.1
INDIA	37.1	37.3
JAPAN	49.4	42.7
KOREA	15.4	24.3
MALAYSIA	29.8	30.3
TAIWAN	26.6	40.3
THAILAND	44.4	56.6

Export of China was decline by 26.3% and import by 43.1% while the export figure of second largest economy Japan (in terms of GDP) was decline by 49.4%. India was also one of the victim of financial crisis where export and import contracted by 37%.

The financial crisis affected the world stock markets even in India. The combination of a rapid sell off by financial institutions and the prospect of economic slowdown have pulled down the stocks and commodities market. Stock prices have fallen by 60 per cent. India's stock market index—Sensex— touched above 21,000 marks in the month of January, 2008 and has plunged below 10,000 during October 2008. Table- 4 revealed the clear cut picture of major stock exchange and the impact of global financial crisis on world stock market during 2008.

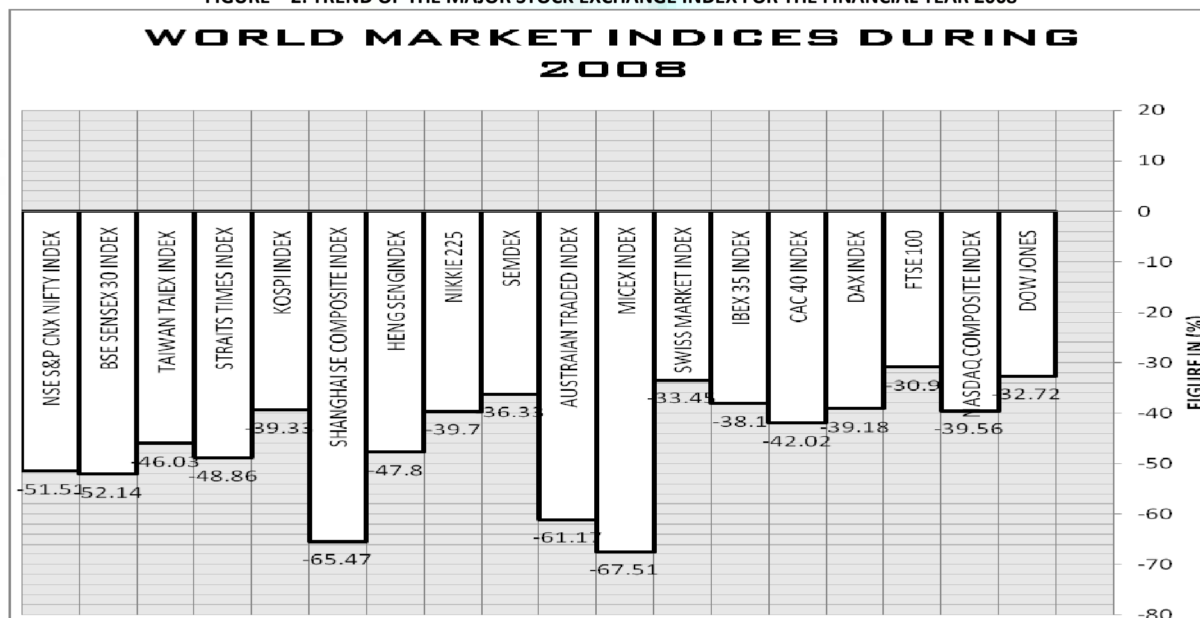
TABLE - 4 IMPACT OF GLOBAL FINANCIAL CRISIS ON WORLD STOCK MARKET

COUNTRY	INDICES	STARTING OF 2008	CLOSING OF 2008	DECLINE IN %
USA	DOW JONES	13043.96	8776.39	-32.72
USA	NASDAQ COMPOSITE INDEX	2609.63	1577.03	-39.56
UK	FTSE 100	6416.7	4434.17	-30.9
GERMANY	DAX INDEX	7908.41	4810.2	-39.18
FRANCE	CAC 40 INDEX	5550.36	3217.97	-42.02
SPAIN	IBEX 35 INDEX	14856.5	9195.8	-38.1
SWITZERLAND	SWISS MARKET INDEX	8318.82	5534.53	-33.45
RUSSIA	MICEX INDEX	1906.86	619.53	-67.51
AUSTRAIAN	AUSTRAIAN TRADED INDEX	4509.24	1750.83	-61.17
MAURITIUS	SEMDEX	1857.78	1182.75	-36.33
JAPAN	NIKKIE 225	14691.41	8859.56	-39.7
HONG KONG	HENG SENGINDEX	27560.52	14387.48	-47.8
CHINA	SHANGHAI SE COMPOSITE INDEX	5272.81	1820.8	-65.47
SOUTH KOREA	KOSPI INDEX	1853.45	1124.47	-39.33
SINGAPORE	STRAITS TIMES INDEX	3444.34	1761.56	-48.86
TAIWAN	TAIWAN TAIEX INDEX	8506.28	4591.22	-46.03
INDIA	BSE SENSEX 30 INDEX	20300.71	9716.16	-52.14
INDIA	NSE S&P CNX NIFTY INDEX	6144.35	2979.5	-51.51

SOURCE: http://www.bloomberg.com/markets/stocks/world-indexes/

During an economic decline, the global economy marked by a fell in collapse in the stock market. USA market indices Dow Jones fall down from 2609.63 at the starting of 2008 to 1577.03 at the end of the year and Japanese market from 14691.41to 8859.56 in 2008. The index fell 777 points on 29 September, its biggest ever one day fall. Stock market of china had a downfall of 65.47% in 2008. Indian stock market was also not untouched with the effect of global financial crisis. As the effect, BSE SENSEX (1978-79=100) falls down by 52.14% and NSE S&P CNX NIFTY INDEX by 51.51%.

FIGURE – 2: TREND OF THE MAJOR STOCK EXCHANGE INDEX FOR THE FINANCIAL YEAR 2008



INDIAN INSURANCE INDUSTRY

Insurance is basically a protection against a financial loss which can arise on the happening of an unexpected event. Insurance companies collect premiums to provide for this protection. By paying a very small sum of money a person can safeguard himself and his family financially from an unfortunate event. Insurance is a contract between the person who buys Insurance and an Insurance company who sold the Policy. By entering into contract the Insurance Company agrees to pay the Policy holder or his family members a predetermined sum of money in case of any unfortunate event for a predetermined fixed sum payable which is in normal term called Insurance Premiums.

In India, insurance has a deep-rooted history. Insurance in various forms has been mentioned in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmashastra) and Kautilya (Arthashastra). The fundamental basis of the historical reference to insurance in these ancient Indian texts is the same i.e. pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. The early references to Insurance in these texts have reference to marine trade loans and carriers' contracts.

Insurance in its current form has its history dating back until 1818, when Oriental Life Insurance Company was started by Anita Bhavsar in kolkata to cater to the needs of European community. The pre-independence era in India saw discrimination between the lives of foreigners (English) and Indians with higher premiums being charged for the latter. In 1870, Bombay Mutual Life Assurance Society became the first Indian insurer. At the dawn of the twentieth century, many insurance companies were founded. In the year 1912, the Life Insurance Companies Act and the Provident Fund Act were passed to regulate the insurance business. The Life Insurance Companies Act, 1912 made it necessary that the premium-rate tables and periodical valuations of companies should be certified by an actuary. However, the disparity still existed as discrimination between Indian and foreign companies. The oldest existing insurance company in India is the National Insurance Company Ltd., which was founded in 1906. The Government of India issued an Ordinance on 19th January, 1956 nationalising the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The Life Insurance Corporation (LIC) absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies—245 Indian and foreign insurers in all. In 1972 with the General Insurance Business (Nationalisation) Act was passed by the Indian Parliament, and consequently, General Insurance business was nationalized with effect from 1st January, 1973. 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd. The General Insurance Corporation of India was incorporated as a company in 1971 and it commence business on January 1st 1973. The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector. Before that, the industry consisted of only two state insurers: Life Insurers (Life Insurance Corporation of India) and General Insurers (General Insurance Corporation of India)[1]. The Government introduced reforms in the insurance sector in 1990s, primarily to encourage more domestic investments to increase insurance coverage and create an efficient and competitive insurance industry. The Government's monopoly came to an end in 1991 when restrictions on the entry of private and foreign companies were lifted. The effect of insurance reforms has been positive on the insurance industry. There has been positive growth in all the segments, with investments flowing in the right direction. Reforms have helped to achieve rapid growth in critical areas and sustain them over a period of time through channelized strategies. The insurance sector, which was nationalised in 1956 (life) and 1972 (non-life), has been playing an important part in the country's financial development. In 1999 the Insurance Regulatory and Development Authority (IRDA) Act was enacted, which opened the insurance sector to private players. During the past 5 years, the sector grew in terms of size and in terms of penetration. After the sector was deregulated, the market was invaded by diverse insurance product offerings that stressed on marketing and distribution strategies. Though the insurance sector was highly concentrated, it showed a declining trend in concentration after the sector was opened to private participation.

The growing demand for insurance around the world is having a positive effect on the insurance industry in all economies. The global insurance premium for the year 2009 was USD 4066 billion, which is 1.1 per cent (inflation adjusted) lower than USD 4220 billion reported during the previous year 2008. The share of life insurance business was 57 per cent in total premium collection. While life insurance business collected USD 2331 billion as premium, the same for non-life business was USD 1735 billion. During 2009, the premium in life insurance business fell by 2 per cent on account of double digit decline in premium collection in USA and UK. However, compared to 2008, when life insurance premium fell by 5.8 per cent, this is an improvement on account of the improved sentiment in the calendar year 2009. The real growth in terms of global premium for the year of 2009 was in negative

(1.1%) where as growth in premium for industrialised nations was -1.8%. Emerging market reported to grew at the rate of 3.5% and the Asian country by 2.8% in terms of premium growth. In sixty-six per cent of the countries, insurance grew faster than GDP, which shows the robustness of the industry.

India is the 5th largest market in Asia by premium following Japan, Korea, China and Taiwan, has the potential to become one of the biggest insurance markets in the region. For India, increasing GDP, coupled with the growth in demand, has opened many doors for the country's insurance industry. In life insurance business, India ranked 9th among the 156 countries during 2009, the life insurance premium in India grew by 19.68 per cent where the global life insurance premium had contracted by 2 per cent. The share of Indian life insurance sector in global market was 2.45 per cent during 2009, as against 1.98 per cent in 2008. The non-life insurance sector witnessed a marginal growth of 1.6 per cent during 2009. However, its performance was better when compared to global non-life premium, which contracted by 0.1 per cent during the same period. The share of Indian non-life insurance premium in global non-life insurance premium remained very low at 0.46 per cent and India ranked 26th in global non-life insurance premium.

Insurance is a federal subject in India and the matter of solicitation. The Insurance industry in India has gone through a gradual change. Over the past decade, there has been increase in premiums, players and outreach. The number of insurers has also increased making it mandatory for the regulatory authorities to put in place a revised regulatory framework. The Insurance industry, like many other industries has also become competitive with number of insurers attracting investors with numerous product innovations. A combination of these factors along with strong economic growth in the last few years has positioned India as a regional insurance hub and now India aspires to be an international financial centre. The pace of growth of this industry is fast. Market structure and major players of Indian Insurance Industry may be classified as-

[1] http://en.wikipedia.org/wiki/Insurance_in_India

TABLE-5

MINISTRY OF FINANCE

INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY (IRDA)

LIFE INSURANCE (23)

NON-LIFE INSURANCE (24)

PUBLIC	*PRIVATE*
LIC	ING Vysya
	HDFC Standard
	Birla Sunlife
	ICICI Prudential
	Kotak Mahindra
	TATA AIG
	SBI Life
	BAJAJ Allianz
	Max New York
	Met Life
	Reliance
	Aviva
	Sahara
	Shriram
	Bharti Axa
	Future Generali
	IDBI Federal
	Canara HSBC
	Aegon Religare
	DLF Pramerica
	Star Union Dai-ichi
	India First

PUBLIC	*PRIVATE*
National	Bajaj Allianz
New India	Bharti AXA
Oriental	Cholamandalam
United India	Future Generali
	HDFC Ergo
	ICICI Lombard
	IFFCO Tokio
	Raheja QBE
	Royal Sundaram
	Reliance
	SBI General
	Shriram
	TATA AIG
	Universal Sompo

SPECIALISED	*RE-INSURER*
AIC	GIC
Apollo Munich Health	
ECGC	
Max Bupa Health*	
Star Health	

Note : * Insurers have commenced operations in 2009-10
Source- Annual report of IRDA 2009-10

CAPITAL REQUIREMENT AND FOREIGN PARTICIPATION

The improvement in FDI flows reflected the impact of recent initiatives at creating an enabling environment for FDI and for encouraging infusion of new technologies and management practices. The government's proposal to increase the FDI cap in the insurance sector from the present 26 per cent to 49 per cent has raised expectation among the international insurance companies.

FINANCIAL CRISIS AND INDIAN INSURANCE INDUSTRY

The Indian economy has been growing and has become one of the fast growing economies in the world. With the growth of industry, trade, and commerce the insurance also grew over a period of time and gained maturity. The insurance sector was opened up in the year 1999 facilitating the entry of private players into the industry. With an annual growth of 24.6 per cent and the largest number of policies in force, the potential of the insurance sector is huge. India's insurance industry recently underwent major structural changes. Both the life and general insurance sectors, which were nationalized in the 1950s and 1960s, respectively, saw an across-the-board liberalization process in 2000. Since then, the Indian insurance sector has enjoyed rapid growth. This remarkable increase has been a result of the growing contribution of the life insurance sector as compared to the general insurance sector. The contribution of life insurance premiums to the GDP called as Insurance Penetration has increased from 2.26% in 2003 to 4.6% in 2009. Life insurance penetration in India was less than 1 per cent till 1990-91.

During the 90's, it was between 1 and 2 per cent and from 2001 it was over 2 per cent. However, the contribution of the general insurance sector has remained almost constant. The growth of the insurance sector in the last decade has made it one of the promising sectors in the economy. Another measure of insurance development is per capita spending on insurance, i.e. insurance Density. An average Indian spent USD 11.5 on insurance products in 2001, comprising USD 9.1 for life insurance and USD 2.4 for non-life insurance products.

The following table depicts insurance premium as a percentage of GDP and Insurance density (life and general) in India:

TABLE - 6 INSURANCE PENETRATION AND DENSITY IN INDIA

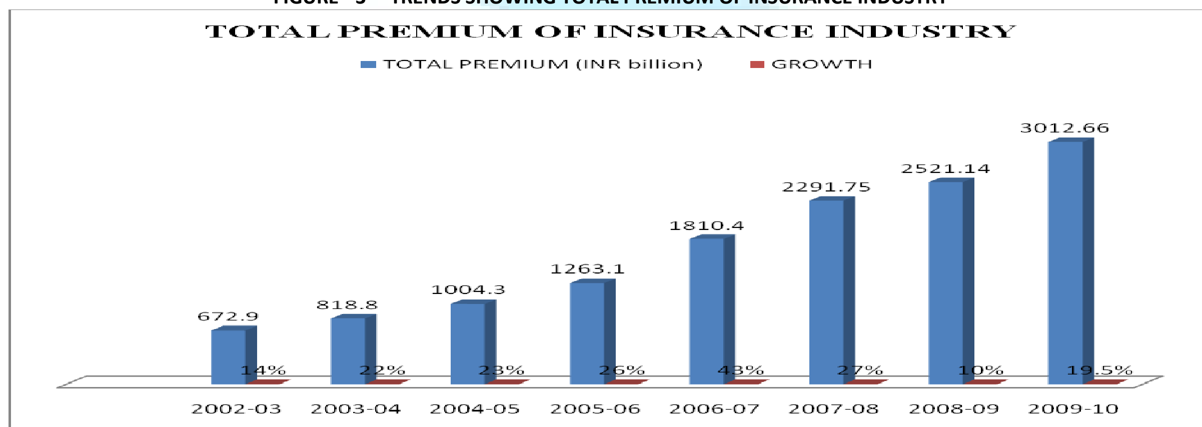
YEAR	LIFE INSURANCE		NON LIFE INSURANCE		TOTAL	
	PENETRATION	DENSITY	PENETRATION	DENSITY	PENETRATION	DENSITY
2001	2.15	9.1	0.56	2.4	2.71	11.5
2002	2.59	11.7	0.67	3.0	3.26	14.7
2003	2.26	12.9	0.62	3.5	2.88	16.4
2004	2.53	15.7	0.61	4.0	3.17	19.7
2005	2.53	18.3	0.61	4.4	3.14	22.7
2006	4.10	33.2	0.60	5.2	4.80	38.4
2007	4.00	40.4	0.60	6.2	4.70	46.6
2008	4.00	41.2	0.60	6.2	4.60	47.4
2009	4.60	47.7	0.60	6.7	5.20	54.3

Source; Swiss Re Sigma various volume and annual report of IRDA

- INSURANCE DENSITY IS MEASURED AS A RATIO OF PREMIUM (IN USD) TO TOTAL POPULATION.
- INSURANCE PENETRATION IS MEASURED A RATIO OF PREMIUM (IN USD) TO GDP.

The Indian insurance sector has seen rapid growth. The total premium of the insurance industry has grown at the rate of 19.49 per cent in 2009–10 to reach INR 3012.66 billion. Life insurance premium has grown at a high rate of 19.68 per cent valued INR 2654.5 billion in the same year. At the same time non life insurance total premium underwritten was INR 358.16 billion, grew at a rate of 18 per cent.

FIGURE - 3 TRENDS SHOWING TOTAL PREMIUM OF INSURANCE INDUSTRY



TESTING OF HYPOTHESIS

H_0 (Null Hypotheses) = There is no significant difference on single year premium business of life insurers in India of global financial crisis.

H_A (Alternative Hypothesis) = There is significant difference on single year premium business of life insurers in India of global financial crisis.

TABLE-7 TEST OF HYPOTHESIS TO DETERMINE THE IMPACT OF GLOBAL FINANCIAL CRISIS ON SINGLE YEAR PREMIUM BUSINESS OF LIFE INSURERS IN INDIA

PREMIUM FOR CRISIS PERIOD				PREMIUM FOR POST CRISIS PERIOD			
MONTH	X_1	X_1-M_1	$(X_1-M_1)^2$	MONTH	X_2	(X_2-M_2)	$(X_2-M_2)^2$
Apr-08	2780.1	-3031.235556	9188388.993	Jan-09	13043.7	3436.5253	11809706.37
May-08	5339.22	-472.1155556	222893.0978	Feb-09	6679.93	-2927.2447	8568761.339
Jun-08	6201.32	389.9844444	152087.8669	Mar-09	15090.9	5483.7253	30071243.53
Jul-08	5858.41	-3031.235556	9188388.993	Apr-09	3601.58	-6005.5947	36067167.3
Aug-08	6273.57	462.2344444	213660.6816	May-09	5052.47	-4554.7047	20745334.6
Sep-08	8148.55	2337.214444	5462571.359	Jun-09	5802.28	-3804.8947	14477223.42
Oct-08	5087.37	-723.9655556	524126.1256	Jul-09	7540.21	-2066.9647	4272342.933
Nov-08	5652.39	-158.9455556	25263.68963	Aug-09	9044.18	-562.99467	316962.9947
Dec-08	6961.09	1149.754444	1321935.283	Sep-09	8005.88	-1601.2947	2564144.609
				Oct-09	7644.71	-1962.4647	3851267.568
				Nov-09	8668.12	-939.05467	881823.667
				Dec-09	12201.1	2593.9253	6728448.635
				Jan-10	7789.71	-1817.4647	3303177.815
				Feb-10	8543.85	-1063.3247	1130659.347
				Mar-10	25399	15791.825	249381747.4

$\sum X_1 = 52302.02$ $\sum X_2 = 144107.62$

$n_1 = 9$ $\sum (X_1 - M_1)^2 = 26299316.09$ $n_2 = 15$ $\sum (X_2 - M_2)^2 = 394170011.5$

$M_1 = \frac{52302.02}{9} = 5811.33556$ $M_2 = \frac{144107.62}{15} = 9607.174667$

$$S = \sqrt{\frac{\sum (X_1 - M_1)^2 + \sum (X_2 - M_2)^2}{n_1 + n_2 - 2}} = 4371.755044$$

$$t = \frac{M_1 - M_2}{S} \sqrt{\frac{n_1 n_2}{n_1 + n_2}} = 2.0595$$

For $v = 22$, $t_{0.05} = 1.72$

ANALYSIS OF TEST

The calculated value is more than the table value. Hence, the Null Hypothesis is rejected and Alternative Hypotheses is accepted. Global financial crisis had an impact on crisis and Post crisis premium of life insurance industry of the country. The above test reaffirmed the impact of global financial crisis on premium of life insurance industry in India, also supported by the figures which show single year premium collection of life insurers fall in March 2009 by 28.2 per cent as compare to March 2008. Growth rate of total premium of insurance industry has also increased but at a diminishing rate in 2008-09 in comparison of past years. in reality

CONCLUSION

The global economic slowdown has hit the vital sectors of our economy, posing serious threats to economic growth. The crisis is forcing countries around the world to test the limits of their fiscal and monetary tools. India is no exception. A series of fiscal and monetary measures have been taken by the Government and the RBI to minimize the impact of the slowdown as also to restore the economic buoyancy.

The role of insurance companies may be describes as shock absorbers in the financial crisis. Insurance companies are major investors in financial markets. On aggregate, the largest investors worldwide are investment funds, followed by insurance companies and pension funds. Moreover, a part of the assets under management of private equity and hedge funds are owned by insurance companies and pension funds. Insurance companies have generally not had to sell into falling markets as a result of leverage, liquidity, regulatory and other considerations. They also have continued to write insurance business in a variety of areas, thus not only supporting economic activity in this context, but also generating premium incomes that have at least partly been re-invested in financial assets making these investors major players in global financial markets. One of the positive factors for insurance companies is that they are typically funded by a relatively stable flow of premiums, with very limited reliance on short-term market funding. As a result, they typically bear far less liquidity risk than commercial or investment banking firms.

Finally paper is concluded with the remark that the impact of the slowdown on India's growth rate is certainly not alarming. India still is one of the fastest growing economies in the world. With the right mix of monetary and fiscal policies plus domestic reforms of the productive sectors, as an economy, India has the potential to emerge from this global recession stronger than before.

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FOOD INFLATION IN INDIA- WHERE ARE THE PRICES HEADING?

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ABSTRACT

Since November 2009, inflation has been moving northwards on the back of surging prices of fuel, commodity, fruits and vegetables. This consistently rising inflation has resulted in a growing concern among policy makers, industry captains, bankers as well as the common man. On June 12 2010, inflation shot through the roof of touch an 11 year high of 16.9%. The calendar year 2009 also saw inflation at a negative rate, ironically, food inflation roaring to its maximum level. Inflation slid to 8.15% in August from July's uncomfortably high of 9.78% but the finance minister is justified to feel the heats not yet off on price. It's just as well that India has launched a new series of WPI which measures the prices of a basket of wholesale commodities. A makeover long overdue, the new index has an updated base year of 2004-05 and covers a large number of items. According to the new index,, inflation has declined on account of falling prices of food items such as vegetables, fruits, cereals and pulses. New inflation series has 241 more items than the old series that has 1993-94 as base year which only reflects price rise in 435 articles. By all indications as a more refined socio-economic reflector, it will offer a clearer view of living costs. Any inflation tracking device must account for a better off India's changing production and consumption trends. Accordingly, manufacturing goods and fuel get more weightage while primary articles including food see some downgrading. Things ranging from edible and non edible items widely used by the middle class such as soft drinks and ice creams to Televisions, washing machines, gold, silver, computers, dish antenna and micro ovens enter the basket while old and outmoded articles like type writers make an exit. Food inflation fell to 12.63% for the week ended on June 26 on cheaper potatoes and onions but it brought little relief to consumers as fuel inflation shot up to 18.02% keeping the pressure on overall prices. Food inflation was 12.92% and fuel inflation was 12.09% in June.

KEYWORDS
Wholesale price index, Consumer price index, food inflation.

INTRODUCTION

Since November 2009, inflation has been moving northwards on the back of surging prices of fuel, commodity, fruits and vegetables. This consistently rising inflation has resulted in a growing concern among policy makers, industry captains, bankers as well as the common man. On June 12 2010, inflation shot through the roof of touch an 11 year high of 16.9%. The calendar year 2009 also saw inflation at a negative rate, ironically, food inflation roaring to its maximum level. The wholesale food prices in India touched a 10 year high with food inflation coming at 19.95% for the week ended December 5, 2009. This article looks back into the spiraling food inflation in 2009, its implications, reasons and solutions.

WHOLESALE PRICE INDEX (WPI)

It was introduced in the year 1907, which is calculated on the basis of average rate of change in the wholesale market. A set of 435 commodities are used for wholesale price Index based inflation calculations. The base year for WPI calculation is 1993-94. It is available at the end of every week (generally Friday) for a period of one year.

The Government will adopt revised WPI besides considering actual prices. Instead of current 435 commodities, the revised WPI will have 980 commodities included in it. This will be rationalized by incorporating new items, removing unimportant items and amalgamating similar items. The base year will be revised to 2004-05 from the current base year of 1993-94. This new wholesale price index would give a more accurate figure for inflation.

COMMODITY PRICE INDEX (CPI)

The WPI based inflation rate, which is measured on point-to-point basis, is somewhat different from that of CPI based inflation. It is a statistical time series value based on the weighted average rate of change in prices of a set of goods and services purchased by consumer. CPI is more comprehensive and it catches the inflation value from the end consumer side rather than from wholesale side. CPI is based on monthly basis. India uses CPI, which most developed countries use CPI calculations for inflation rate.

Prices of set of 435 commodities especially dal, rice fruits and vegetable are used to calculate WPI in India. Economists say that India should adopt CPI for inflation calculation as it is the one that shows price rise that end consumers would experience. The finance minister counts it saying that in India there are four commodity price indices.

- CPI for Industrial workers
- CPI for urban non manual employees
- CPI for Agricultural laborers
- CPI for Rural laborers

In existence which makes switching over to CPI risky and complex and also CPI has too much time lag in reporting. CPI are the prices that people actually pay is fairly soft.

FOOD INFLATION IN INDIA

The table below gives the retail prices for some of the key agricultural commodities in four Indian metros. This is just to give an idea of how the prices have moved in the last one year.

Clearly, the prices of all key agricultural commodities have risen sharply. Significant price increase has been observed in commodities like arhar dal, sugar, potatoes and onions.

FOOD INFLATION FOR SELECT COMMODITIES

- Onions: 98.15 percent
- Vegetables: 65.39 percent
- Fruits: 15.19 percent
- Potatoes: -)2.94 percent
- Milk: 13.27 percent
- Eggs, meat, fish: 12.94 percent
- Cereals: 0.23 percent
- Rice: 2.86 percent
- Wheat: (-) 6.11 percent

The key reason cited for the spiraling food price inflation is the bad monsoon in India. Monsoons have a major impact on the price levels in the country. The primary articles inflation originates in commodities whose production is affected by the monsoon like food or cash crops. Normally, food prices are at a kind of peak at the end of June, and once the rain starts, prices start moving. If monsoon is good, prices fall and vice versa. Last year food prices fell as monsoon advanced, this year it has moved up.

June is a critical month for all, Government leaders, bureaucrats, economists, policy makers, industrialists, farmers and besides, millions of ordinary Indians. During this month, the south west monsoons usually set across the country bringing the much needed rains. Last year, monsoons set in on time, but its progress was halting by the time the season ended around September, the country had experienced one of the worst monsoons over the 35 years. Crops withered across the country and agricultural production suffered a setback with a loss of over 15 million tons of food grains. If at all the exceptionally robust monsoon of 2010 is having a positive impact on food crops, the retail market remains ignorant till date. Food inflation stood at 10.35% for the week ended Aug 14 2010. Last year it was 13.45% for the same week. With festive season and incidentally both *Ramzan* and *Shravan* starting together, there are complains by both the communities regarding the rising prices of food articles. The prices are hovering to a maximum level.

In 2008, it was estimated that India loses INR 58,000 crore worth of agricultural food items due to lack of post harvesting infrastructure such as cold chains, transportation, and storage facilities. If the Government ensured proper storage facility, food inventory would have been more then sufficient leading to prices remaining under control. I am not sure if the Government is still doing enough to have proper food storage facilities in the country.

The Indian farmers are largely dependent on the four-month monsoon season during which 80% of the year's total rainfall takes place. The reason is that 60% of the country's total cropped area is not irrigated. The Government has again been talking about inclusive growth and stress on rural India. These facts don't point to any meaningful efforts to help farmers in a country where over 10,000 farmers have committed suicide over the last decade.

The per hectare agricultural yield in India is half that of China. This again points of inefficiency and the failure to help the farmers adopt latest technology in order to increase the crop output. These things have not been taken care of in the past and even when discussed, nothing substantial has been done in order to overcome these challenges. steps are to be taken in the near future to ensure minimal food wastage, high crop productivity and increase in irrigated land. if the INR 58,000 crore of food crop is not wasted on an annual basis, India's deficits could be wiped out in less then a decade without any other measures being taken. However, looking into the very near term, some ways to ease food prices would be:

Crackdown on hoarders and black marketers could help prevent prices from rising further. This step might not significantly reduce prices but will ensure that prices don't escalate further. The Government should allow the private sector to import and store the primary agricultural commodities at zero import duty. This will help ease the prices to a large extent. The Government also needs to unload the wheat inventory it has in its storage locations. This will have an immediate impact on the prices.

IMPACT OF FOOD INFLATION ON INDIAN CONSUMERS

The high food price inflation is having a significant impact on the Indian consumer in general and the Indian middle class in particular. The chart below gives the way the Indians spend.

As evident from the chart above, nearly 43% of the personal disposable income goes into food products. Unfortunately, this is the segment which is experiencing highest inflation. A high food inflation ensures that consumers have to cut back on their spending (on non-necessary items). This in turn will impact the consumption part of the GDP growth. The following table gives a section of their incomes spent of the following:

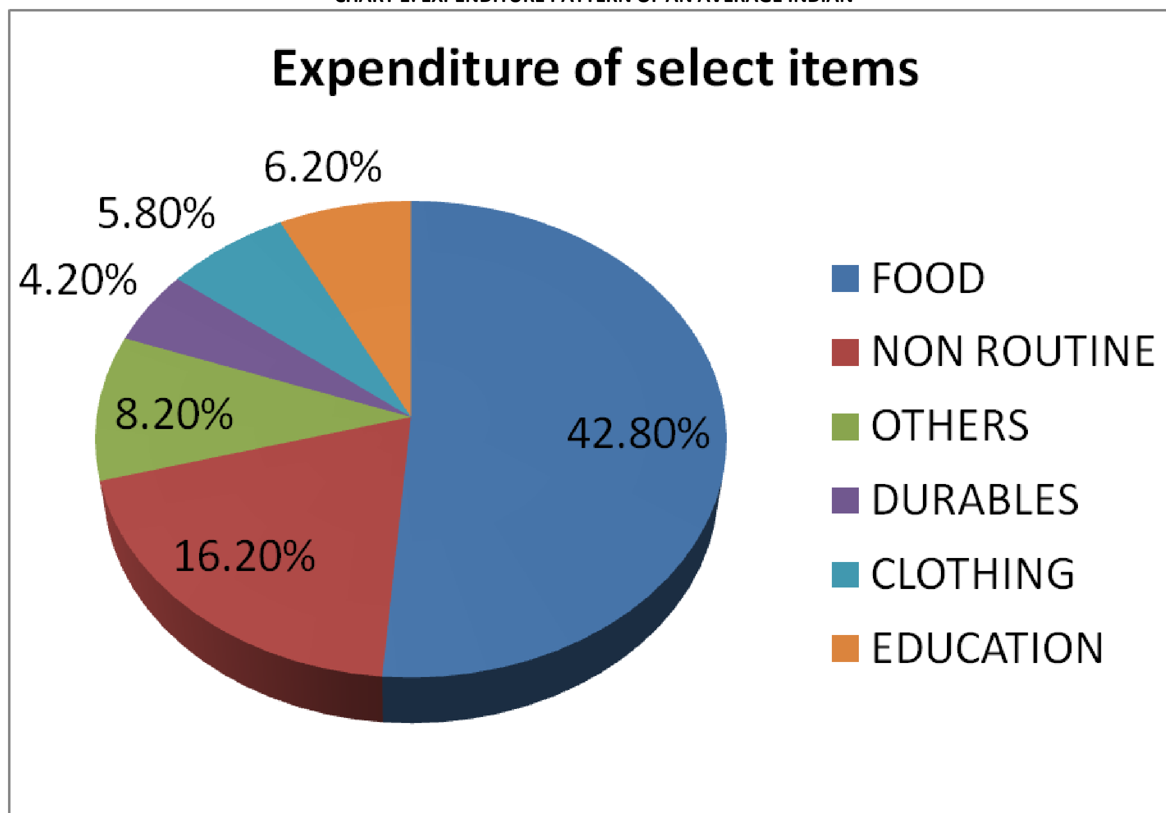
TABLE: 1 PERCENTAGE INCREASE IN THE PRICES OF SELECT COMMODITIES FOR THE YEAR 2009-10

• COMMODITIES	• PERCENTAGE
• FOOD	• **42.8%**
• NON ROUTINE	• **16.2%**
• OTHERS	• **8.2%**
• DURABLES	• **4.2%**
• CLOTHING	• **5.8%**
• EDUCATION	• **6.2%**
• TRANSPORT	• **8.8%**
• HEALTH	• **3.9%**
• HOUSING	• **3.9%**

Source: compiled

Even today 43% of the nincomes by the Indians is spent on food articles. Another important point to note is that a majority of Indians still don't invest in equity markets. They prefer going for fixed deposits which are currently yielding only around 8-10% annually. On the other hand, inflation for an average household is easily around 12-15% (even education, health and housing cost are going up).

CHART 1: EXPENDITURE PATTERN OF AN AVERAGE INDIAN



Thus, a large section of the population are losing out on their purchasing power without realizing about it. For those who realize this, there is only one option - to speculate in the stock markets and try to get returns which beat the annual inflation rate. In this also, most of us know how many retail investors actually make money in the markets.
Considering these factors, it is very important for the Government to try and control the inflation or at least try and ensure that these circumstances do not arise again in the future. As mentioned above, there are several ways of curbing food inflation. It is only that the Government needs to be more proactive rather then being reactive.
Food price inflation touched record heights of almost 20% in December, hurting millions of poor and middle class Indians. Within the fuel category, prices of petrol rose by 26.85%, diesel by 22.7%, and cooking gas by 14.47%. On an annual basis milk became costlier by 15.91% and fruits by 7.81%. the following table gives a clear picture of changes in the prices of selected food grains for the years 2009-10

TABLE 2: COMPARATIVE PRICES FOR SELECT COMMODITIES DURING 2009-10

• COMMODITIES	• DECEMBER-09	• DECEMBER-10
• SUGAR	• 35	• 31
• POTATOES	• 23	• 28
• ONIONS	• 21	• 70/80
• ARHARDAL	• 85	• 80
• WHEAT	• 17.5	• 22
• RICE	• 20	• 25

Source: Compiled

TABLE 3: FOOD PRODUCTION FOR SELECT YEARS 2009-10

• KHARIFF PRODUCTION	• 2009-10	• 2008-09	• DIFFERENCES
• RICE	• 69.45	• 84.58	• -15.13
• CEREALS	• 22.76	• 28.34	• -5.58
• PULSES	• 4.42	• 4.78	• -0.36
• TOTAL FOOD PRODUCTION	• 96.63	• 117.7	• -21.07
• OIL SEEDS	• 15.23	• 17.33	• -2.65
• SUGAR CANE	• 249.48	• 273.93	• -24.65

Source: Compiled

FOOD SHORTAGE CAUSES HIGH INFLATION

On one hand, increased demand for vegetables owing to *Shravan* rituals has cancelled the advantage of good monsoons as the main characters of the last; including Cauliflower, Cluster Beans, Lady's Finger and Green Peas remain pricey at Rs 40-60 per Kg. People are purchasing a few varieties at on go and in small quantities. Unlike *Navaratri,* when vegetable prices tend to dip for it is a period of fasting, during *Shravan* most *Hindu* consumers consume vegetarian food for the month so prices that would have ordinarily come down due to good monsoon continue to remain in the range of Rs 40-60 per Kg. Garlic has become the villain of the piece having shot up from Rs 70-80 per Kg in June 2010 to Rs 100-160 per Kg in Sept 2010.
From cyclone Phyan to poor monsoons citizens have faced all sorts of reasons for continued inflation. Though the experts say that the two did not damage farm yields as is being projected, one hopes this year's bountiful rains will mitigate the worries faced by the citizens by the end of 2010. (Bella Jaisinghani, Sunday Times August 29 2010)

TABLE 4: COMPARATIVE PRICES OF SELECT FOOD ITEMS

PRICEY GREENS

Veggies	Nov/Dec 99	June 2010	Aug 27 2010
Green Peas	114	120	60
Green Peas(frozen)	100	150	80
French beans	20	80-90	60-80
Cluster beans	60	60	40
Tomatoes	35	30	25
Onion	24	14	16
Potatoes	22	15	14
Lady's finger	60	90	48

OTHER EDIBLES

Mutton	240	270	240
Chicken	92	105	94-115
Eggs	40-45	35	40
Moong Dal	100	100-120	108
Tuvar Dal	100	70-80	84
Chana Dal	60	50	54
Rice (*Kolam*)	38-42	35	36-42
Rice (*Basmati*)	70-75	75-80	55

Source: Compiled

Food price inflation touched record heights of almost 20% in December, hurting millions of poor and middle class Indians. Poor rains last year led to an upsurge in food inflation which continues to play havoc with the finances of ordinary Indians. According to Government figures released last year, food inflation touched 16.55 for the week ended May 22. This was the sixth consecutive week that food price inflation remained above 16% level. Food inflation fell to 12.63% for the week ended on June 26 on cheaper potatoes and onions but it brought little relief to consumers as fuel inflation shot up to 18.02% keeping the pressure on overall prices. Food inflation was 12.92% and fuel inflation was 12.09% in June

The Government on June 25 raised the prices of Petrol and diesel by up to Rs 3.50 per litre while that of LPG and kerosene were hiked by Rs 35 per cylinder and Rs 3 a litre respectively. **Finance Minister Pranab Mukharjee** had said that the decision would push up inflation by less than a percentage point. Within the fuel category, prices of petrol rose by 26.85% diesel by 22.7% and cooking gas by 14.47%. On an annual basis milk became costlier by 15.91% and fruits by 7.81%. India's Finance minister Pranab Mukherjee said high inflation in the country is due to shortage of supply in food items and high procurement prices of cereals. Speaking to newsmen here he said, "If, you look at the current trend in the inflationary pressure, it is not because of substantial monetary expansion but because of supply bottlenecks in respect of certain essential commodities particularly the food items,". He added that the contribution of the other items to inflation is not as high as food items. "It (food inflation) reached as high as 19.9 per cent. Gradually, it is coming down. Substantially, it (high food inflation) is because of the short supply in edible oil, pulses and sugar," Mukherjee said. He said supply of cereal is adequate, but their prices increased because remunerative procurement prices led to rise in retail prices as well.

The Finance Minister said the RBI has assured him that like last fiscal, the government's borrowing programme in the next fiscal will also be undertaken in a way that the resources for private sector does not dry up. He said the goal of fiscal consolidation and high growth are not contradictory approaches and he would like to see high nine per cent growth as soon as possible. Mukherjee also said that whenever there is a proposal for banking consolidation, it should be considered in consultation with the RBI. As regards the food items, prices of potatoes on an annual basis declined by 42.11%, onion by 8.75% and vegetables, taken together fell by 4.21%.part of the reason for further decline in food inflation is good progress of the monsoon and part is due to good winter crops which brought down prices of pulses and potatoes.

The Union Agriculture Minister Sharad Pawar on Friday July 9 2010 said that India is likely to have a bumper food grains production in the 2010-11crop year on account of good monsoon and a rise in the area under cultivation. "The way sowing operation is undergoing and reports of good monsoon from the states we are likely to have a bumper crop this year" said Pawar. He further said that decline in the prices of Agricultural commodities will bring down food inflation which is pegged at 12.63 percent at present. He believes food inflation is coming down day-by-day. The Prime Minister Dr. Manmohan Singh and his economic advisors are confident that once the monsoon sets in and following a good rabbi (winter) harvest, food price inflation will drop down to single digit.

It's not just poor monsoons in 2010 that has to be blamed for high food price inflation. Mismanagement by several Ministers in releasing food grains from overflowing state owned godowns or imposing arbitrary curbs on exports or delaying imports have also resulted in escalation of food prices. The prices of pulses shot up by more than 30%, milk prices by 20% and fruits by 15%. Surprisingly, despite last year's poor rains and high food inflation, India's Gross Domestic Product continues to expand at a brisk pace.

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SOCIAL ENTREPRENEURSHIP – STUDY OF KAUSHALYA FOUNDATION

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ABSTRACT

Social entrepreneurs establish innovative and systemic approaches for meeting the needs of the populations that lack the financial resources or political clout to achieve lasting benefit on their own. Rather than leaving societal needs to the government or business sectors, social entrepreneurs find, what is not working and solve the problem by changing the system, spreading the solution, and persuading entire societies to take new leaps. Social entrepreneurs often seem to be possessed by their ideas, committing their lives to changing the direction of their field. They are both visionaries and ultimate realists, concerned with the practical implementation of their vision above all else. Social entrepreneurship should reflect the need for a substitute for the market discipline that works for business entrepreneurs. Social entrepreneurs play the role of change agents in the social secto. Social sector leaders will exemplify these characteristics in different ways and to different degrees. The closer a person gets to satisfying all these conditions, the more that person fits the model of a social entrepreneur. Those who are more innovative in their work and who create more significant social improvements will naturally be seen as more entrepreneurial. Let's consider each one in terms of "KAUSHALYA FOUNDATION".

KEYWORDS

Entrepreneurship, Growers, Innovation, Vendors, Vision.

INTRODUCTION

Entrepreneurs are essential drivers of innovation and progress. In the business world, they act as engines of growth, opportunity and innovation to fuel economic expansion. Social entrepreneurs act similarly, tapping inspiration and creativity, courage and resilience, to seize opportunities that challenge and change established, but fundamentally unbalanced systems. These entrepreneurs are ambitious and persistent, tackling major social issues and offering creative ideas for wide-scale change.

Unlike business entrepreneurs who generate values by creating the new markets, the social entrepreneur aims for the values in the form of constructive change which will benefit the communities and ultimately societies at large. Social entrepreneurs establish innovative and systemic approaches for meeting the needs of the populations that lack the financial resources or political clout to achieve lasting benefit on their own. Rather than leaving societal needs to the government or business sectors, social entrepreneurs find what is not working and solve the problem by changing the system, spreading the solution, and persuading entire societies to take new leaps. Social entrepreneurs often seem to be possessed by their ideas, committing their lives to changing the direction of their field. They are both visionaries and ultimate realists, concerned with the practical implementation of their vision above all else.

Each social entrepreneur presents ideas that are user-friendly, understandable, ethical, and engage widespread support in order to maximize the number of local people that will stand up, seize their idea, and implement with it. In other words, every leading social entrepreneur is a mass recruiter of local change makers—a role model proving that citizens who channel their passion into action can do almost anything.

Over the past two decades, the citizen sector has discovered what the business sector learned long ago: There is nothing as powerful as a new idea in the hands of a first-class entrepreneur. Just as entrepreneurs change the face of business, social entrepreneurs act as the change agents for society, seizing opportunities others miss and improving systems, inventing new approaches, and creating solutions to change society for the better. While a business entrepreneur might create entirely new industries, a social entrepreneur comes up with new solutions to social problems and then implements them on a large scale.

Social entrepreneurship should reflect the need for a substitute for the market discipline that works for business entrepreneurs. Social entrepreneurs play the role of change agents in the social sector, by:

- Adopting a mission to create and sustain social value (not just private value)
- Recognizing and relentlessly pursuing new opportunities to serve that mission
- Engaging in a process of continuous innovation, adaptation, and learning
- Acting boldly without being limited by resources currently in hand
- Exhibiting heightened accountability to the constituencies served and for the outcomes created

This is clearly an idealized definition. Social sector leaders will exemplify these characteristics in different ways and to different degrees. The closer a person gets to satisfying all these conditions, the more that person fits the model of a social entrepreneur. Those who are more innovative in their work and who create more significant social improvements will naturally be seen as more entrepreneurial. Let's consider each one in terms of "KAUSHALYA FOUNDATION"

"KAUSHALYA FOUNDATION"– THE SOCIAL ENTREPRENEUR

Started in 2007, – Kaushalya Foundation(KF), by creative and highly qualified professionals from Indian Institute of Management (IIM), Ahmedabad with wide experience in the field of agriculture and organized retailing chose to sell vegetables on the streets of Patna. Perhaps the most highly educated green grocer India has ever produced, the young man from Nalanda, Kaushalyandra Kumar has established his venture Kaushalya Foundation in 2007. KF launched the project Samriddhi, a farmer's co-operative in Patna in 2008, which sells vegetables in ice-cooled pushcarts. They are focusing on mobilizing and organizing informal and fragmenting vegetable sector of Bihar. The goal of the foundation is to create values and opportunities to the societies dependent on agriculture sector, especially disadvantaged ensuring sustainable livelihood, enriched environment, improved quality of life and good human values.

The foundation has been working towards professionalizing vegetable street vendors and marginal growers, and empowering them to face the future challenges in the new global economy, and thus creating wealth and prosperity from farm gate to food plate through undertaking the holistic view of vegetable supply chain.

The foundation is reformer and revolutionary, but with a social mission. They are making fundamental changes in the way things are done in the vegetable sector. Their visions are bold. They want professionalism in trade channel of agriculture sector by creating lucrative, dignified self-employment for the families and societies dependent on this sector. They attack the underlying causes of problems, rather than simply treating symptoms. In order to improve socio-economic condition, they are functioning at the grass root level. They are trying to reduce needs rather than just meeting them. They seek to create systemic changes and sustainable improvements by breaking intergenerational transfer of poverty. They are acting as media between street vendor sand vegetable growers to the mainstream market. Though they may act locally, their actions have the potential to stimulate global improvements in their chosen arenas.

KF is getting overwhelming response from farmers & vegetables vendors. The number of farmers & vendors associated with the organization has increased to 3000 & 600 respectively. This number is growing exponentially with increasing awareness label.

At present, the Kaushalya Foundation is a setup, consisting of 23 employees spread operating in two states. If they remain on course, Kaushlendra believes they will be be spearheading brand Bihar, a 100cr organisation in 2012. Expansion plans are going according to plan with two new collection centres are scheduled to be commissioned in Fatuha and Ekangar Sarai which will

This is the core of what distinguishes social entrepreneurs from business entrepreneurs even from socially responsible businesses. The social mission of the foundation is fundamental. Their mission of social improvement cannot be reduced to creating private benefits (financial returns or consumption benefits) for individuals. Making a profit, creating wealth, or serving the desires of customers may be part of the model, but these are means to a social end, not the end in itself. Samriddhi is trying to increase the profitability and efficiency at the each level of vegetable supply chain from farmers to street vendors to organized retailers by developing organizational framework. Each level of the supply chain can optimize their values and opportunities by increasing their self efficiency. Profit is not the gauge of value creation for the foundation, but social impact. The foundation is envisioning for a long-term social return on investment. They are working on reasonable and holistic approaches to provide social security and financial services to all the level of supply chain. They want to create lasting improvements and to think about sustaining the impact.

RECOGNIZING AND RELENTLESSLY PURSUING NEW OPPORTUNITIES

They are not simply driven by the perception of a social need or by their compassion, rather they have a vision of how to achieve improvement and they are determined to make their vision work. They are persistent. Their social model – an organization of vegetable vendors and approach – bringing two ends together of vegetable supply chain take advantage of new economy that favors big retail chains. The foundation approach is the fastest means to do so. They have the potential to gain better terms of trades such as better sourcing prices, lower transaction costs access to training and other services. The foundation has designed a framework for organizing the two far ends of the chain under a common umbrella and facilitates direct link between producer groups and street vendors. Their framework connects small and marginalized stakeholders to the mainstream market by improving financial and social concerns. The model also empowers vendors and growers for the new market challenges for better returns to growers and vendors. The foundation's framework provides platform and support to vendors and growers to reduce the operational cost and increasing the price realisation in the evolving economy. This in turn provides added benefits to the vendors & growers like insurance cover for family, free education and many social and financial services. The foundation is trying to learn about what works and what does not work in vegetable supply chain to end customer. The key element is persistence combined with a willingness to make adjustments as one goes. Rather than giving up when an obstacle is encountered, entrepreneurs ask.

ENGAGING IN A PROCESS OF CONTINUOUS INNOVATION, ADAPTATION, AND LEARNING

Social entrepreneurs are innovative. The foundation is focusing on new grounds, developing new models, and pioneering new approaches. However, innovation can take many forms. It does not require inventing something wholly new. They are simply applying an existing idea in a new way or to a new situation. They are using many business strategic concepts in vegetable sector from long-term contracts, distribution channels to regular training. Entrepreneurs need not be inventors. They simply need to be creative in applying what others have invented. The foundation is adapting the business sector concepts in vegetable market which is the backbone of the Indian economy. Their innovations may appear in how they structure their core programs or in how they assemble the resources and fund their work. On the funding side, the foundation is looking for innovative ways to assure that their ventures will have access to resources as long as they are creating social value. It is not just a one-time disintegrating of creativity, rather it is a continuous process of exploring, learning, and improving the quality of life for people based on the vegetable segment of India. Of course, with innovation comes uncertainty and risk of failure. Large numbers of government schemes are available which can change the grower's life. But vegetable sectors couldn't use the affluent resources due to lack of understanding, expertise and time. The foundation is acting as agent to assist to learn about various government schemes. The foundation tends to have a high tolerance for ambiguity and learns how to manage risks for themselves and others. They are treating failure of a project as a learning experience, not a personal tragedy.

ACTING BOLDLY WITHOUT BEING LIMITED BY RESOURCES

Social entrepreneurs do not let their own limited resources keep them from pursuing their visions. The foundation provides unlimited resources to all vendors and growers as they have collaborated with all levels of supply chain. They use scarce resources efficiently, and they leverage their limited resources by drawing in partners and collaborating with others. They focus more on long term contracts with organized buyer – retailers with systematic distribution centers at various locations. This helps in efficient logistics with effluent storage capacity. Most of the farmers are unaware of new technology and financial resources. With unlimited financial and technological resources, farmers emphasize on better quality, optimum costs and minimum wastage of vegetables. The foundation provides all resource options, from pure philanthropy to the commercial methods of the business sector. They are developing resource strategies that are likely to support and reinforce their social missions. They take calculated risks and manage the downside, so as to reduce the harm that will result from failure of quality of the product. They understand the risk tolerances of their end customers and use this to spread the risk to those who are better prepared to accept.

EXHIBITING A HEIGHTENED SENSE OF ACCOUNTABILITY

The foundation has created centralized system for various types of services. They are focusing from billing, procurement and marketing, promotions, advertising to administration and merchandising. Because market discipline does not automatically weed out inefficient or ineffective social ventures, social entrepreneurs take steps to assure they are creating value. This means that they seek a sound understanding of the constituencies they are serving. They are making sure the all the levels of supply chain have correctly assessed the needs and values of the people they intend to serve and the communities in which they operate. In some cases, this requires close connections with those communities. They understand the expectations and values of their investors including anyone who invests money, time, and/or expertise to help them. They seek to provide real social improvements to their beneficiaries and their communities, as well as attractive (social and/or financial) return to their investors. Creating a fit between retail values and community needs is an important part of the challenge. When feasible, the foundation is creating market-like feedback mechanisms to reinforce this accountability. They are assessing their progress in terms of social, financial, and managerial outcomes, not simply in terms of their size, outputs, or processes. They use this information to make course corrections as needed.

CONCLUSION

The Foundation describes a set of behaviors that are exceptional. These behaviors should be encouraged and rewarded in those who have the capabilities and temperament for this kind of work. While we might wish for more entrepreneurial behavior in both sectors, society has a need for different leadership types and styles. Social entrepreneurs are one special breed of leader, and they should be recognized as such. This definition preserves their distinctive status and assures that social entrepreneurship is not treated lightly.

The foundation creates and supports infrastructure from root level of vegetable supply chain to big retailers. They are aiming to propagate organic farming and use their expertise in marketing to reach the markets not only in India but also abroad so that the farmers of Bihar fetch good return for their produce. The foundation is targeting to penetrate the vegetable markets in the US, Europe and Japan.

The ice-cooled pushcart vegetables are a hit with customers in parts of southern Patna which increases confidence in the foundation in the whole system of vegetable supply chain. The vegetables taste garden fresh, are priced reasonably and, to add to that, they are weighed accurately with electronic weighing machines. Moreover, the pushcart vendor gives the buyers a cash-memo which no other vegetable seller does, as further authentication of the quality and quantity of the vegetables.

Finally, they are not only selling vegetables, but also the name of the farmer and the village where it has been grown. The farmer should not remain an unsung hero any more as the tag on the vegetables mention of the name of the farmer and his village.

KF is enriching the lives of all-

Farmers	- Better price realization
	- Access to quality inputs and credit
	- Reduction in wastage
Consumers	- More choice and convenience
	- Lower price
	- Reliable quality
Inter-mediaries	- Displacement from current role
	- Market intelligence provider
Roadside vendors	- Streamlining and supply chain
	- Access to credit
	- Reduction in wastage
Government	- Reduction in poverty
	- Partnering government in social responsibility.

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DYNAMISM OF INDIA'S FINANCIAL SECTOR DURING THE GLOBAL ECONOMIC RECESSION

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ABSTRACT
The present paper tries to evaluate the different dimensions of Indian financial sector and future perspectives. It is found that the current global economic recession (GER) is the results of very much global market integration and less level of government intervention. More or less, the GER has been affected the Indian financial sector in various dimensions such as financial flows- FDI and Portfolio investments, stock market, Forex reserves, BOP, government revenue, etc. The Forex reserves were fallen from 51.76 percent to -18.71 percent, due the outflow of portfolio investments, fluctuations in BOP, and over speculation of FIIs/. However, the Indian banks have stood their own feet and attacked the recession than the USA and other European banks. This paper suggested that public sector property can stabilize the economy rather than provide stimulus packages while the private sector pushes the economy in to adverse conditions and reduce unnecessary administrative expenditure of the governments to stabilize this sector. Inflationary conditions have also taken place in the recent. Hence, sufficient credit policy for balance the money and commodity markets have to be maintained.

KEYWORDS
Depression, Forex reserves, Globalization, Global recession, portfolio flows sub-prime.

INTRODUCTION
Eight decades ago, entire the world economies had suffered with great depression due to laissez-faire of free market conditions with out government intervention. In the recent, 2007 onwards, the similar trend has appeared over the globe. Even though India recognized 3rd strongest country after America and China, India has been facing some recessional waves from the rest of the world. Financial sector institutions and their regulators have been at the centre of the global crisis. In the age of globalization, no country can remain isolated from the fluctuations of the world economy. It is evident that there is sharp decline in the growth rate of GDP to 5.8 percent in the second half of from 7.8 percent in the first half of 2008-09(Economic Survey 2009-10) and more or less, financial sector especially financial flows, stock market, Forex reserves, balance of payments etc affected in this regard. In this context, the present study is tried to evaluate with the following purpose.

PURPOSE AND METHODOLOGY ADOPTED
The present study is proposed to evaluate the different dimensions of Indian financial sector during economic recession conditions. The analysis is based on the official reports of the government of India; RBI reports, United Nations reports etc. Growth rates/ percentages are thoroughly used towards effective analysis.

GLOBAL ECONOMIC RECESSION AND THE INDIA
In the winter 2006/7 US housing prices started to fall for the first time in fifteen years. As a result many of the sub prime housing loans became bad loans. This meant that hundreds of billions of dollars of financial derivatives which were based on these underlying mortgage loans also lost most of their value. Thus, by the summer of 2007 "the house of financial cards" began to collapse and a growing number of American and European banks announced huge losses on their mortgage related securities and investments. This process of financial collapse gradually gathered steam and came to a boil in September 2008 when major American investment banks (like Lehman Brothers) collapsed and others (such as Merrill Lynch) were saved through forced mergers with healthier banks. The financial melt-down of September 2008 led to a freeze of credit markets in the US and Europe and transmitted the sudden liquidity squeeze throughout the financial world (www.bsodmyself.com).

America is the most effected country due to global recession, which comes as a awful news for India. India has most outsourcing deals from the US. With the collapse of huge Wall Street banks and the resulting freeze of bank credit flows in the West, there was an immediate worldwide liquidity crunch and a massive amplification of the recessionary forces in the US, Europe and Japan. The liquidity shock was immediately felt in India, with foreign institutional investors (FIIs) withdrawing their money, credit for foreign trade vanishing and loans from foreign banks drying up. With the sudden shrinkage in world trade after September 2008, India's exports in January-March, 2009 were about 20 percent lower than in the previous year. This meant that hundreds of thousands *of jobs were lost* in sectors like garments, textiles, footwear and leather products and gems and jewellery.

RECESSIONAL CONTAGION EFFECTS ON INDIAN FINANCIAL SECTOR
The effect of recession on the Indian Economy was not significant in the beginning. In India, the impact of the crisis has been deeper than what was estimated by our policy makers although it is less severe than in other emerging market economies. The extent of recessional impact has been limited due to the Indian Financial sector particularly our *banks have no direct exposure to tainted assets* and its limited off-balance sheet activities. The credit derivatives market is in an *embryonic stage* and there are restrictions on investments by residents in such products issued abroad. India's growth process has been *largely domestic demand* driven and its reliance on foreign savings has remained around 1.5 per cent in recent period. India's comfortable foreign exchange reserves at some extent provide confidence in our ability to manage our balance of payments notwithstanding lower export demand and dampened capital flows. Rural demand continues to be robust due to mandated agricultural lending and social safety-net programmes.

a. INDIAN STOCK MARKET-OUT FLOWS OF PORTFOLIO INVESTMENT

The global economic recession has had a deep impact on the Indian stock market as it was evident from the fact that Bombay stock market benchmark index touched a high of about 21200 in January 2007 to a low of around 7000 points in the year 2008 (source: Sensex reports of concern years and Misra and Puri 2010). The combined effect of the reversal of portfolio equity inflows (given details in FDI flows), the reduced availability of international capital both debt and

equity and the perceived increase in the price of equity with lower equity valuations has led to the bearish influence on stock market. But now the SENSEX crossed to 20 thousand and above points due announced the stimulus packages by the government and more FIIs.

b. FOREX RESERVES

Forex outflows trend is registered during the recession period. The Forex (foreign exchange) reserves were increased to 7.14 percent in 2005-06 compared with the previous year and recorded highest level at 51.76 percent in 2007-08. It was fallen to minus level at -18.71 percent in 2008-09 and became positive growth in 2009-2010 (December 2009) respectively. Other words, At end-March 2009 the foreign exchange reserves stood at US $ 252 billion which was declined from US $ 309.7 billion in 2007-08 (table-1). Obviously, the recession had slight impact on Forex reserves in the country. The out flow of foreign exchange by FIIs, as fallout of crisis is tightening of liquidity situation in the economy. Thus, money and credit markets were also affected (Misra and Puri 2010).

c. BALANCE OF PAYMENTS IN INDIA (BOP)

The current economic crisis was largely insulated by the reversal of Foreign Institutional Investors (FIIs), external commercial borrowings (ECB) and trade credit. India's BoP exhibited considerable resilience during fiscal 2008-09 despite one of the severest external shocks. The current account balance [(-) 2.4 per cent of GDP in 2008-09 vis-à-vis (–) 1.3 per cent in 2007-08] remained well within the sustainable limits and there was limited use of *foreign exchange reserves*, despite massive decline in net capital inflows to US$ 7.2 billion in 2008-09 as against US$ 106.6 billion in 2007-08. As per the latest BoP data for fiscal 2009-10, exports and imports showed substantial decline during April-September of 2009-10 compared to the corresponding of 2008-09 (table 2). Moreover, there is reduction in the capital account receipts in 2008-09 with total net capital flows (Economic survey of India (ESI), 2009-10). The external debt has continuously increased from18.1 percent in 2004-05 to 20.5 percent in 2008-09.

d. FDI AND PORTFOLIO FLOWS

FDI is considered to be the most attractive capital inflow for emerging economies as it is expected to bring latest technology and enhance production capabilities of the economy. FDI and portfolio investment inflows have been maintained systematically but the growth is fluctuated. FDI inflows was $ 34,360 million in 2007-08 but a slightly increased to $ 35,168 million in the next year which is very less than the previous periods. On an average, the percentage of FDI inflows to the GDP was 0.5 percent in 2004-05 it was 1.4 percent in 2008-09. Meanwhile, the real impact has focused on the inflows of portfolio investment inflows due the fear of speculation. The portfolio inflows were as high as $27,433 million in 2007-08 turn negative and stood at -$ 14,030 million during 2008-09. This is due to sale of equity stakes by FIIs to replenish overseas cash balances,(this knock-on effect on the stock market and the exchange rates through creating a supply-demand imbalance in the Forex market (ESI, 2009-2010)

TABLE - 1 SUMMARY OF CHANGES IN FOREIGN EXCHANGE RESERVES (US$ BILLION)

Items	Foreign exchange Reserves at the end of the financial year		Total Increase / decrease reserves	Increase / decrease in reserves of BOP basis
	Reserves	% Growth		
2004-05	141.5	-	+ 28.6	+26.2
2005-06	151.6	7.14	+ 10.1	+15.0
2006-07	199.1	30.92	+ 47.5	+36.5
2007-08	309.7	51.76	+ 110.6	+92.2
2008-09	252.0	-18.71	- 57.7	-20.1
2009-2010	283.5	12.70	+31.5	+11.2

Source: Economic survey of India of concerned year.

e. Taxation

The economic slowdown has severely dented the Centre's tax collections with indirect taxes bearing the brunt. The tax- GDP ratio registered a steady decreased from 12.56 per cent to 10.95 per cent between 2000-01 and 2008-09. The government expects tax revenue to increase from 100 billion to 120 billion rupees in 2010 by expanding economic activities. (www.india-briefing.com)

TABLE – 2: SELECTED INDICATORS OF THE EXTERNAL SECTOR (% TO THE GDP)

Items	2004-05	2005-06	2006-07	2007-08	2008-09
Trade Balance	-4.7	-6.2	-6.5	-7.4	-9.7
Invisible Balance	4.3	5.0	5.5	6.1	7.4
(BOP)	-2.6	-3.4	-3.4	-4.3	-5.6
ECBs	0.7	0.3	1.7	1.8	0.7
FDI (net)	0.5	0.4	0.8	1.3	1.4
Portfolio Investment	1.3	1.5	0.7	2.2	-1.2
External Debt	18.1	16.7	17.5	18.1	20.5

Note : ECBs- External Commercial Borrowings; Source: Economic survey of India of concerned year

f. BANKING - SECTORAL DEPLOYMENT OF CREDIT

As mentioned previously, the Indian banks have strongly stood their own feet and attacked the recession the growth recovery is significant in the later because of strong and healthy performance of financial sector as opined by the experts. Indian banking activities in the recession period is much better than the USA and other European banks due their large domestic operations. No bank (slightly effected the ICICI bank) has highly effected; however, gross banking credit to various sectors is slightly declined. The impact of recession on banking in India is assessed by their credit operations.

The table 3 shows that credit to the priority sector fallen by 15.4 per cent (year-on-year) in 2009 as compared to 22.5 per cent in 2008. Among the priority sub-sectors, credit to micro and small enterprises (MSEs) recorded a growth of 19.3 per cent (year-on-year) in November 2009 as compared to 22.7 per cent in March 2007-08. The credit operations have a slight declining trend in almost all lending sectors like Public Food Procurement Credit, Non-Food Gross Bank Credit, Priority Sectors, Industry, Housing, Real Estate Loans and Tourism and Hotels and Restaurants. Worst position is occurred by Public Food Procurement Credit. This declining trend may be fear of global recession even though different financial packages by government were introduced to wind up the recession conditions in the economy.

ATTACKING EFFORTS AGAINST THE CRISIS BY GOVERNMENT & RBI

Faced by the sharp credit crunch and the sudden slowing down of the economic activity after September 2008, the Government and Reserve Bank responded quite swiftly. The Government launched three fiscal stimulus packages between December 2008 and February 2009. They include *Fiscal Response, Monetary Response and Risk Management Credit Management*. These stimulus packages came on top of an already announced expanded safety-net programme for the rural poor, the farm loan waiver package. The challenge for fiscal policy is to balance immediate support for the economy with the need to get back on track on the medium term fiscal consolidation process.

TABLE 3: SECTOR WISE DEPLOYMENT OF GROSS BANK CREDIT

Items	2007-08	2008-09
Gross Bank Credit	17.9	9.9
1. Public Food Procurement Credit	4.1	-15.3
2. Non-Food Gross Bank Credit	18.1	10.4
a) Priority Sectors	22.5	15.4
i. Agriculture	23.0	21.4
ii. Micro and Small Enterprises (MSEs)	22.7	19.3
iii. Other Priority Sectors	21.9	4.7
b) Industry (Medium & Large)	18.6	12.8
3. Housing	7.4	7.3
4. Real Estate Loans	44.6	15.3
5. Tourism and Hotels and Restaurants	11.6	22.7

Source: Economic survey 2009-2010

In order to deal with the liquidity crunch and the virtual freezing of international credit, RBI took steps for monetary expansion which gave a cue to the banks to reduce their deposit and lending rates. RBI taken steps such as reduction in the cash reserve ratio (CRR) by 400 basis points from 9.0 per cent in August 2008 to 5 per cent in January 2009. • Reduction in the repo rate (rate at which RBI lends to the banks) by 425 basis points from 9.0 per cent as on October 19 to 4.75 per cent by July 2009 (the lowest in past 9 years) in order to improve the flow of credit to productive sectors at viable costs so as to sustain the growth momentum. • In order to make parking of funds with RBI unattractive for banks, the reverse repo rate (RBI's borrowing rate) was reduced by 275 points which currently stands at 3.25 per cent. These steps have resulted positively to the economy.

CONCLUSIONS

To sum up, the global financial recession was started off as a sub-prime crisis of USA has brought all nations including India into its fold. The GDP growth has slowed since the last quarter of 2008 owing to deceleration in employment, export-import, and tax-GDP ratio, reduction in capital inflows and significant increase in outflows of Forex reserves due to economic slowdown. Outlining the areas hit by the recession, in India, exchange rates have come down at some extent and Indian exports have plummeted showing a negative growth of 10- 15 per cent. Money is flowing out of India and domestic liquidity has been squeezed.

The demand for bank credit is also slackening despite comfortable liquidity in the system. The recession has little direct effect on Indian Economy because of the conservative policies followed by Indian banks especially the Reserve Bank and lesser inter-bank borrowings as compared to the Europe and USA.

Nevertheless, a sound and resilient banking sector, well-functioning financial markets, robust liquidity management by banks and payment and settlement infrastructure, buoyancy of foreign exchange reserves have helped Indian economy to remain largely immune from the contagious effect of global meltdown. Indian financial markets have capable of withstanding the global shock at some extent (except stock market); strong internal drivers for growth may escape the worst consequences of the global financial crisis.

SOME POLICY IMPLICATIONS/ FUTURE OUTLOOK

Talking about what needs to be done at global front to fight against the recession, there should be a need of coordinated fiscal stimulus by major economies like US, China, Japan; rapid capitalization of weak financial institutions; better international surveillance of financial market; no rise in protectionist measures related to goods and services; improved and better coordinated regulations and supervision of financial institutions and increased resources for IMF and World Bank can, to some extent, lessen the affect of recession in hard hit countries.

A lot of recessions have been worsened or lengthened particularly by the U.S siding with players in different military and political conflicts around the world. Thus, it should adhere to the wisdom of good terms and trade with all nations including USA.

Economists have reporting that the recession has not controlled in the country. Hence, easy access of credit at low interest rate can expands investment. RBI should also consider reduction in repo and reverse repo rates but rose in the recent die to inflationary conditions.

Besides the recessionary conditions, interestingly, on the other side, in the recent, inflationary conditions have also taken place in the economy. It will further add fuel to flame elevating the inflation numbers as people tend to borrow and spend on least important needs than priority needs since they have easy access to funds. Inflationary conditions have also taken place in the recent. Hence, sufficient and suitable credit policy for balance the money and commodity markets have to be maintained.

To ensure liquidity of mutual funds, all close ended schemes should be listed on the stock exchange. The need of the hour is to prohibit premature redemption of close ended schemes.

It is view that during market fall, the market lot of derivatives segment should have been kept as it is or it should have been reduced instead of increasing the same or the Securities Exchange Board of India (SEBI) should introduce index wise uniform market lot size for example sensex stocks 200, mid cap stock 1000.

Government should give tax sops on the savings of Indian citizens abroad, who are bringing back money to homeland to invest it here.

Short selling should be banned in India as there are chances that the speculators may use this instrument to make money out of the global financial meltdown.

People at the top government level should be the role models in cutting down unnecessary expenditure by switching to simple lifestyles and shelving down not-so-important projects. A government can't spoon feed all of its population. Reduce subsidies and less priority expenditures of the government.

An ideal government should be not only a facilitator of business providing infrastructure to a community but also conductor of business. It may reduce outflows of Forex reserves, funds so saved to infrastructure development and activities that will generate employment at the time of adverse trade cycle conditions. Maintain public/government assets (PSUs) including financial institutions to stabilize the economy rather than provide stimulus packages while the private sector push the economy in to adverse conditions as evidence that, in the midst of the current world economic crisis, many claims that there is a necessity to return to the Marxian and Keynesian traditions that of state intervention in order to better understand the dynamics of market economies like India. If various regulatory bodies and government do adopt the above said suggestions, it may prove to be an effective weapon to fight out adverse trade cycle conditions.

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MANAGING RELIGIOUS PHILANTHROPY FOR SOCIO-ECONOMIC DEVELOPMENT

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ABSTRACT
Economies are considered to have three sectors. First, the Public Sector which is owned by the State and provides services in the Public interest. The Second, the Private Business Sector which is privately owned and profit motivated and the last one is the third Sector that embraces a wide range of community, voluntary and not-for-profit activities. Third Sector organizations are created by groups or individuals to meet a shared need. People have made an effort to form these organizations to provide a service to advocate a cause for them where the business and government sectors failed. The primary objective of the proposed study is to examine the role of religious philanthropy in the development of education, public health, women, community etc from a wide range of socio-economic & management perspectives.

KEYWORDS
Management, Philanthropy, Socio-economic and third sector.

INTRODUCTION
Economies are considered to have three sectors. First, the Public Sector which is owned by the State and provides services in the Public interest. The Second, the Private Business Sector which is privately owned and profit motivated and the last one is the third Sector that embraces a wide range of community, voluntary and not-for-profit activities. Third Sector organizations are created by groups or individuals to meet a shared need. People have made an effort to form these organizations to provide a service to advocate a cause for them where the business and government sectors failed.

Third Sector is another name by which the non-profit or voluntary sector is known. Government and private sector are being the first two sectors. Third sector organizations are variously identified as voluntary association, civic association, non-government organizations and mutual aid organizations. Economic liberalization in developing countries like India has changed the direction of the country from socialistic pattern to market economy. Therefore, the involvement and participation of third sector organizations is relevant in all spheres of development activities. The process of liberalization of the Indian economy enabled the mushrooming of a wide verity of third sector institutions and their participation in social transformation programs.

One of the major limitations of Indian Parliamentary democracy has been its centralized nature. The centralized democracy in India has failed and pendulum has moved towards participatory and responsive government. A study by PRIA (Society for Participatory Research in Asia) and Commonwealth Foundations (Commonwealth Foundation, 2003) brings to light people's perception towards the good life and shared dream of citizens of India. Indians want peace, education and socio-economic security. They want to act and act responsibly, towards shaping such a society and governance. And here comes the role of third sector that can help in achieving their vision of desirable world; a world of peace, harmony and economic security, a world where relations across individuals and families, communities and nations are characterized by equity and justice.

Religion and generosity - the gifts of time, of funds, and of material - have been closely linked throughout human history. Religious institutions, buildings, and activities have been a major focus of giving in virtually all religious traditions and in countries at all stages of development. Charitable support for the poor and for the victims of disasters has an equally long and widespread history. Philanthropic funding for social development (as distinguished from charity) is a somewhat more recent phenomenon. Support for schools and hospitals, often through endowments, were its first forms. The funding of institutions engaged in human resource development came later but is beginning to grow rapidly.

Although there are many definitions of morality, religion and spirituality we must look at these concepts for what they are in order to ascertain how they play a role in socio-economic development. Morality, "a doctrine or system of moral of conforming to a standard of what is right and good," can tell us which standards are "right," but it may actually lead to a less just society depending upon whose perspective is adopted en masse. Religions across the world have played a large role moving societies towards development. At its most basic level, religion is an organized system of beliefs, practices, rituals, and symbols designed (John and Brenda, 2003)

- To facilitate closeness to the sacred or transcendent (God, higher power, or ultimate truth/reality); and
- To foster an understanding of one's relationship and responsibility to others living together in community (Koenig, 2001).

Spirituality "is the personal quest for understanding answers to ultimate questions about life, meaning and relationship to the sacred or transcendent, which may (or may not) lead to or arise from the development of religious rituals and the formation of community." The interplay between the various roles of morality, religion, spirituality, social justice and charity is a complex one. It gets to the very core of the complex moral relationships between the individual, society and conceptualization of the "sacred or transcendent." Although intended to foster spiritual growth, organized religion is susceptible to the same limitations of any organized institution (Koenig et al, 2001). Historically, the idea of charity and benevolence to the poor has its roots in religion. Christianity, Hinduism and Islam all hold charity as one of the foundations of their faith. The major religions, at their most basic level, facilitate the spiritual connection with a transcendent and with others through doctrines conveyed through literature and symbols. They teach us that we cannot nor should not operate in a vacuum when it comes to helping others. Our genuine concern for others must be rooted in the real situation as it is and not in our faulty human understanding of dictating what is best.

SCOPE AND SIGNIFICANCE OF THE STUDY
Third sector being very important and leading development partners of the government have been striving through implementation of various socio-economic programs for economic and socio-cultural empowerment of ill-fated rural people of the country. Third sector broadly refers to and includes those people-centered initiatives that fall in-between the spheres of the state and the market. Today we see various kinds of engagements over the world with the idea and

practice of third sector. Against this background, it is imperative to engage with issues concerning the third sector and the socio-economic development. No major attempt has been made so far in this direction. Research on third sector organizations and their involvement in the socio-economic development of the people is very much required for assessing the various issues concerned to the management of the third sector.

OBJECTIVES OF THE STUDY

The present study on third sector and its impact on socio-economic development are to analyze the involvement of third sector institutions in the process of socio-economic change where the formal sector is failed to implement the change successfully at the grass-root level. The proposed research is set out with the following objectives:

1. To study the efforts of third sector organizations in the development of the economy where the formal sectors failed at the grass root level.
2. To enquire the different activities conducted by the religious philanthropic organizations in the process of national development in the era of globalization.

RESEARCH DESIGN

The present study is designed as a descriptive research based on primary data and secondary data. Descriptive research includes surveys and fact finding enquiries of different kinds. The major purpose here is the description of the state of affairs as it exists at present. In social science and business research the term ex post- facto research is used for descriptive research studies. This includes attempts by researchers to discover causes even when they cannot control the variables.

The population of the study includes all the religious philanthropic institutions and the beneficiaries located in coastal Kerala and Karnataka.

SAMPLE DESIGN

Three districts from Coastal Kerala namely Kasargod, Kannur and Kozhikode and Three districts from coastal Karnataka namely Dakshina Kannada, Udupi and Uttara Kannada were chosen for the study. The structured schedule with a few open ended questions was administered to collect the data from religious organizations and beneficiaries of religious organisations. Such organizations are scattered randomly and finding them itself is a challenging task. Hence the development of a specific sampling technique was a difficult and tedious process. Therefore snowball technique of sampling has been selected to trace and collect the required data. Total 107 organizations belonging to three religions i.e. Hindu, Islam and Christian have been approached for this field study.

The number of beneficiaries of religious philanthropic organizations is numerous; the documented beneficiaries are a few. Hence based on the information provided by the organizations, the beneficiaries has been selected using the judgmental method of non-probability sampling .The structured questionnaire has been administered for the same purpose. In total 297 beneficiaries of three religions i.e. Hindu, Islam and Christian were selected for collecting the data.

DATA COLLECTION

Both primary and secondary Sources of Data are used in the study. The primary data is collected from religious philanthropic organizations and beneficiaries through field study. The secondary sources such as the related studies on third sector, religious philanthropy and socio-economic development were referred.

DATA ANALYSIS TECHNIQUES

Data analysis involves converting a series of recorded observations into descriptive statement and/ or inferences about certain relationships. For the Statistical analysis of the data, the major tools used includes: Factor Analysis, Analysis of variance (ANOVA), Kruskal Wallis test, Fishers exact test, Chi-Square test, pie-charts, averages, percentages graphs, bar diagrams, tests of significance and software packages SPSS and Micro Soft Excel.

AREA OF THE STUDY

Kerala has 14 districts. Based on geographical, historical and cultural similarities, the districts are generally grouped into three groups 1) North Kerala: Kasaragod, Kannur, Wayanad, Kozhikode and Malappuram 2) Central Kerala: Palakkad, Thrissur, Eranakulam and Idukki 3) South Kerala: Thiruvananthapuram, Kollam, Alappuzha, Pathanamthitta and Kottayam .Three Northern coastal districts namely Kasaragod, Kannur and Kozhikkod were selected for the field study.

Karnataka, one of the developing southern states in India, is divided into 27 districts and 4 geo-political regions for the purpose of administrative convenience. Karnataka is a land of many religions and these religions have vitally influenced the culture and lives of people. Coastal Karnataka comprises of three districts namely Dakshina Kannada, Udupi and Uttara Kannada and this has been selected for the study purpose.

LIMITATIONS OF THE STUDY

Like any other research this study also have its own limitations.

1. The results of the study cannot be generalized to the entire third sector, as the study focuses only on religious philanthropic organizations.
2. The authenticity of the information about the procurement and allocation of funds by the organizations may be biased.
3. The study is restricted to Coastal Kerala and Karnataka.
4. Primary data collected is only from few religious organizations due to the non-availability of the published data.

DATA ANALYSIS AND INTERPRETATION

As the purpose of the study is to understand the philanthropic work of the third sector organisations and their involvement in the socio-economic development, the data has been coded for different religions.The primary data collected through the field study from different religious organizations and beneficiaries is analyzed using SPSS software and interpreted.

TABLE NO. - 1 ACTIVITIES OF THE ORGANIZATIONS-RELIGION WISE

	RELIGION					
	R-1		R-2		R-3	
	No. of organizations	%	No. of organizations	%	No. of organizations	%
Educational programmes for all /girls/dropouts	13	72.2%	22	44.9%	37	92.5%
Medical camp/Medical aid to the needy	15	83.3%	23	46.9%	31	77.5%
Community related programmes	16	88.9%	21	42.9%	28	70.0%
Mass marriages	2	11.1%	7	14.3%	11	27.5%
Awareness about religious activities	9	50.0%	26	53.1%	28	70.0%
Scholarship	9	50.0%	21	42.9%	30	75.0%
Distribution of books/uniforms	11	61.1%	14	28.6%	28	70.0%
Promote rural enterprises	2	11.1%	3	6.1%	4	10.0%
Ensure food security	4	22.2%	10	20.4%	12	30.0%
Help in poverty reduction	12	66.7%	10	20.4%	18	45.0%
Improve gender equality	7	38.9%	2	4.1%	7	17.5%
Promote accessible financial services	3	16.7%	7	14.3%	5	12.5%
Women empowerment	8	44.4%	5	10.2%	11	27.5%
Vocational training for unemployed to secure employment	7	27.8%	4	8.2%	15	37.5%
Reduce child labour	3	16.7%	2	4.1%	7	17.5%
Literacy campaign for adults	5	27.8%	2	4.1%	6	15.0%
Education on basic rights	3	16.7%	2	4.1%	12	30.0%
Women entrepreneurship	3	16.7%	3	6.1%	6	15.0%
Educate about environment degradation and pollution	8	44.4%	4	8.2%	7	17.5%
Financial assistance-concessional interest/interest-free loans	3	16.7%	4	8.2%	6	15.0%
Encourage simple marriage/ unnecessary spending	5	27.8%	6	12.2%	19	47.5%
Eradicate the dowry system/social awareness	7	38.9%	2	4.1%	18	45.0%
Counseling for higher education	10	55.6%	6	12.2%	17	42.5%
Encourage the self employment	8	44.4%	6	12.2%	16	40.0%
Helping in construction of house	5	27.8%	3	6.1%	12	30.0%

Source: Survey Data

As far as the activities are concerned 67.3% of the organizations conduct educational programs for all /girls/drop outs. 64.5% conduct medical camp or provide medical aid to the needy, 60.7% for community related programs, 58.9% for awareness about the religious activities, 56.1% for scholarship, 49.5% for distribution of books and uniforms, 37.4% for help in poverty reduction, 30.8% for counseling for higher education, 28% for encourage self employment and to encourage simple marriages and unnecessary spending, 25.2% for eradicate the dowry system/ create social awareness, 24.3% each for vocational training for unemployed to secure employment and to ensure food security, 22.4% for women empowerment, 18.7% each for mass marriages and helping in construction of house, 17.8% for educate about environmental degradation and pollution, 15.9% for education on basic rights, 15% to improve gender equality, 12.1% each for literacy campaigns for adults and finance assistance-concessional interest / interest free loans, 8.4% for promoting rural enterprises.

INFERENCE

It can be concluded that the R-1 organizations are giving first priority to community related programs and then to health promotion. The R-3 organizations main concern is to Education and then to health care, whereas the R-2 religious organizations are more concerned about community development and then to education.

FACTOR ANALYSIS OF RELIGIOUS ORGANISATIONS

TABLE NO. 2 - KMO AND BARTLETT'S TEST

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		.796
Bartlett's Test of Sphericity	Approx. Chi-Square	1248.471
	d.f	300
	Sig	.000

TABLE NO. 3 - TOTAL VARIANCE EXPLAINED

Component	Initial Eigen values			Extraction sums of squared loadings			Rotation sums of squared loadings		
	Total	% of variance	Cumulative %	Total	% of variance	Cumulative %	Total	% of variance	Cumulative %
1	8.321	33.283	33.283	8.321	33.283	33.283	4.897	19.587	19.587
2	1.953	7.811	41.094	1.953	7.811	41.094	3.520	14.078	33.666
3	1.673	6.693	53.795	1.673	6.693	47.787	3.091	12.366	46.032
4	1.502	6.007	58.468	1.502	6.007	53.795	1.941	7.763	53.795
5	1.168	4.673	62.911						
6	1.111	4.443	66.923						
7	1.003	4.012	70.511						
8	.897	3.588	73.770						
9	.815	3.259	76.880						
10	.778	3.110	79.883						
11	.751	3.003	82.575						
12	.610	2.441	86.633						
13	.563	2.251	90.528						
14	.528	2.112	92.219						
15	.487	1.947	93.798						
16	.474	1.895	95.220						
17	.423	1.691	96.418						
18	.395	1.579	97.429						
19	.355	.1.422	98.271						
20	.300	1.198	99.003						
21	.253	1.011	99.556						
22	.211	.842	100.000						
23	.183	.732							
24	.138	.552							
25	.111	.444							

Extraction Method: Principal Component Analysis

TABLE NO.4 -ROTATED COMPONENT MATRIX

	Component			
	1	2	3	4
Educational programmes for all /girls/dropouts			.548	
Medical camp/Medical aid to the needy				-.508
Community related programmes	.	.712		
Mass marriages	.488			
Awareness about religious activities				.552
Scholarship		.546		
Distribution of books/uniforms		.755		
Promote rural enterprises	.759			
Ensure food security				.710
Help in poverty reduction				
Improve gender equality			.681	
Promote accessible financial services	.698			
Women empowerment			.719	
Vocational training for unemployed to secure employment	.586			
Reduce child labour			.497	
Literacy campaign for adults	.617			
Education on basic rights				.504
Women entrepreneurship	.639			
Educate about environment degradation and pollution			.654	
Financial assistance-concessional interest/interest-free loans	.729			
Encourage simple marriage/ unnecessary spending		.693		
Eradicate the dowry system/social awareness	.578			
Counseling for higher education		.493		
Encourage the self employment	.516			
Helping in construction of house	.491			

EXTRACTION METHOD: PRINCIPAL COMPONENT ANALYSIS

ROTATION METHOD: VARIMAX WITH KAISER NORMALIZATION

A. ROTATION CONVERGED IN 7 ITERATIONS

Factor analysis was carried out to bring out the important underlying factors of the activities carried out by the all religious organisations. Kaiser-Meyer-Olkin measure of sampling adequacy shows that sample is adequate and Bartlett's test of sphericity shows that Factor analysis can be performed for the various components as 0.796>0.5 and p=0.000<0.01 HS.

Factor analysis was performed by using principal component extraction method to explore the principal factors concerned with various activities. The present factor analysis extracted 4 factors.

Factor 1 is a first principal component, which contributes 19.587 % variation as a contributing factor, which constitutes-Community related programmes, Promote rural enterprises, Promote accessible financial services, Vocational training for unemployed to secure employment , Literacy campaign for adults, Women entrepreneurship, Helping in construction of house, Eradicate the dowry system/social awareness ,Encourage the self employment and Financial

assistance-concessional interest/interest-free loans are correlates positively with each other and to the factor. So these are the primary important activities that have been considered by the all religious organisations for the socio-economic development.

Second set of important activities, which contributes 14.078 %variation as a contributing factor, constitutes- Scholarship, Distribution of books/uniforms, Counseling for higher education and Encourage simple marriage/ unnecessary spending are positively correlated with each other and to the factor.

Third set of activities, which contributes 12.366 %, variation as a contributing factor, which constitutes -Educational programmes for all /girls/dropouts, Improve gender equality, Women empowerment, Reduce child labour and Educate about environment degradation and pollution are positively correlated with each other and to the factor.

Lastly the activities, which contribute 7.763 %, variation as a contributing factor, which constitutes – Awareness about religious activities, Ensure food security and Education on basic rights are positively correlates with each other and to the factor.

INFERENCE

It can be observed from the above analysis that factor-1is related on social and employment problems, factor- 2 stands for education ,factor -3, concentrates on child and women issues whereas factor-4 speaks about food security and religious values.

CONCLUSION

The greatest advantage that the voluntary organisations have over other development agencies is their flexibility, speed of operation, and ability to respond quickly to changing circumstances. The voluntary organizations known for her virtues for human touch, dedication, flexibility, self-reliance and nearness to the community. Voluntary action is not limited to any particular sector of the development. The voluntary section is playing a catalytic role in terms of enabling people to define their own development priorities, and is innovative in their willingness to experiment with new ideas. Their record in alleviating poverty is uneven, although the evidence suggests that their performance is better than that of Government. But that doesn't mean that the state has lost its relevance. It is very much relevant and significant to the citizens of India. People in India want strong state, strong citizens associations and strong intermediary enablers to do overall development of the citizens.

Third sector organisations have dedication, determination and commitment arising from a strong desire to attain their goals that the government machinery sadly lacks. The approaches and methods of functioning of an organisation are quite flexible. If with regard to the particular area and a particular target group, the decided strategy doesn't work then it is changed impromptu; saving time, money, and the programme being shelved. As they operate in grass root levels they can adopt an integrated approach to the overall development and they can experiment upon and improvise projects which can indirectly a help to the government. They can effectively organize awareness camps and provide motivational inputs. They have the capacity to mobilize large groups of the local population, stimulate unity and self reliance and direct them towards attainment of a particular goal.

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INVESTMENT PROCESS OF VENTURE CAPITAL: AN EXPLANATORY STUDY OF ANDHRA PRADESH INDUSTRIAL DEVELOPMENT CORPORATION VENTURE CAPITAL LIMITED (APIDC-VCL)

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ABSTRACT
It is a well-known fact that several brilliant ideas to work on and processes developed in laboratories cannot be put into commercial operation on account of want of funds. No traditional financier would come forward to financing these institutions. The financial institutions have a bias for foreign technology and they do not believe the ability of the local entrepreneurs. In such a situation venture capital assumes considerable significance. Venture Capital is basically a relationship among three major participants: investors, venture capitalists (VCs) and entrepreneurs. Investors – financial institutions, banks, insurance companies, pension funds, angel investors, NRIs – Contribute to the pool of funds. Funds thus pooled from various investors are invested in business opportunities by VCs. Entrepreneurial teams that supply business opportunities to VCs are central players in venture capital process. It is the investment manager who aims at delivering superior returns to the investors by creating value in all investment life stages: deal sourcing, deal analysis, due diligence, deal structuring and investment, monitoring, and exiting. The study was conducted by taking the following objectives into consideration viz. to understanding the conceptual view of venture capital; to analyze the process of venture capital funding in APIDC-VCL; and to find the drawbacks and to offer appropriate measures.

KEYWORDS
Deal analysis, Deal sourcing, Deal structuring and investment, Due diligence, Exit , Monitoring, and Venture capital.

INTRODUCTION
It is a well-known fact that several brilliant ideas to work on and processes developed in laboratories cannot be put into commercial operation on account of want of funds. No traditional financier would come forward to financing these institutions. The financial institutions have a bias for foreign technology and they do not believe the ability of the local entrepreneurs. Kulkarni, in his article "venture capital and its relevance in India", rightly pointed out the reluctance of the traditional financial institutions in funding innovative entrepreneurs. In such a situation venture capital assumes considerable significance. Venture financing acts not only as a financial catalyst but also provides a strong impetus by for entrepreneurs to develop products involving newer technologies and commercialize them.

The venture capital may be defined as investment infused in the business in the form of equity, quasi-equity or conditional loan made in new, untested and high risky or high technology firms but with high potential for growth and profits. For taking such trouble and the risky business the "angel" financier hopes to end up with his pot of gold. This return is generally earned when the venture capitalist "exits" by selling its shareholding.

Andhra Pradesh Industrial Development Corporation Venture Capital Limited (APIDC-VCL) is a fully owned undertaking of Andhra Pradesh (AP) government was established in 1990 with the overall objective of serving as a special agency for planned industrialization of AP. APIDC-VCL, initially promoted in 1989 by Andhra Pradesh Industrial Development Corporation (APIDC), is considered as a leading developmental/venture finance government undertaking in India. The approval of the government of India to commence operations was accorded in April, 1990. But, in 1994 it was privatized and Dynam Venture East Private Limited (DVEPL) was awarded control of APIDC-VCL after a competitive selection process and it became the India's first public-private venture capital company. Since then, it became a joint venture undertaking wherein 51 per cent equity of APIDC-VCL is held by DVEPL, while the rest 49 per cent by APIDC.

REVIEW OF LITERATURE
The stages in the venture capital funding, assessment and monitoring process have been analysed in a number of studies such as Bygrave and Timmons, 1992; Fried and Hisrich, 1994; MacMillan, et.al., 1985; Tyebjee and Bruno, 1994; and Sweeting, 1991. These stages have been identified from direct analysis of the operation of venture capitalist's and have been based on approaches which have sought to develop an understanding of what it is that venture capitalists do. Identification of these stages helps to highlight the inter-linkages between them.

NEED FOR THE STUDY
As becomes clear in what follows, however, the greater body of research has tended to focus on issues raised by individual stages. There is a clear gap in the literature to date has been the failure to recognize the dynamic nature of the process of venture capital financing. In fact, there is a need to conduct an in-depth study on venture capital process. Hence, the present study, "Investment Process of Venture Capital: An Explanatory Study of APIDC-VCL, Hyderabad", is an attempt in this direction.

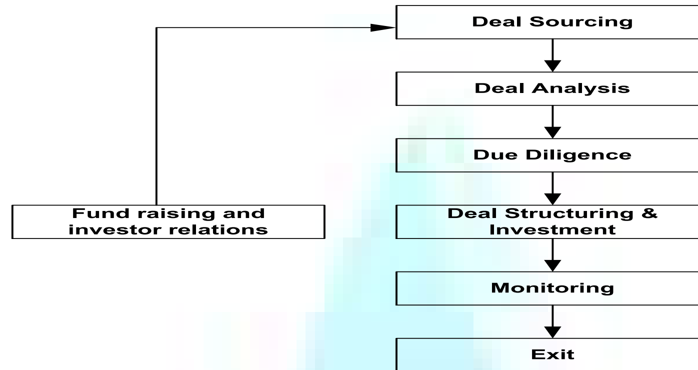
OBJECTIVES OF THE STUDY
The study was conducted by taking the following objectives into consideration:
1. to understanding the conceptual view of venture capital;
2. to analyse the process of venture capital funding in APIDC-VCL; and
3. to find the drawbacks and to offer appropriate measures.

DATA COLLECTION
The study was based on both primary and secondary data. The primary data was collected by making interactions with the officials of the APIDC-VCL, the observation of the working, and from the internal records. The secondary data was collected from the records of APIDC-VCL, periodicals, journals and news papers. The data drawn were analysed with the help of diagrams.

PROCESS OF VENTURE CAPITAL IN APIDC-VCL

Venture Capital is basically a relationship among three major participants: investors, venture capitalists (VCs) and entrepreneurs. Investors – financial institutions, banks, insurance companies, pension funds, angel investors, NRIs – Contribute to the pool of funds. Funds thus pooled from various investors are invested in business opportunities by VCs. Entrepreneurial teams that supply business opportunities to VCs are central players in venture capital process. It is the investment manager who aims at delivering superior returns to the investors by creating value in all investment life stages: deal sourcing, deal analysis, due diligence, deal structuring and investment, monitoring, and exiting. The overall venture capital process of APIDC-VCL at a snapshot is depicted by the following Figure-1:

FIGURE - 1: VENTURE CAPITAL PROCESS OF APIDC-VCL



Source: Field data

A brief summary of each of these stages of the process is given below:

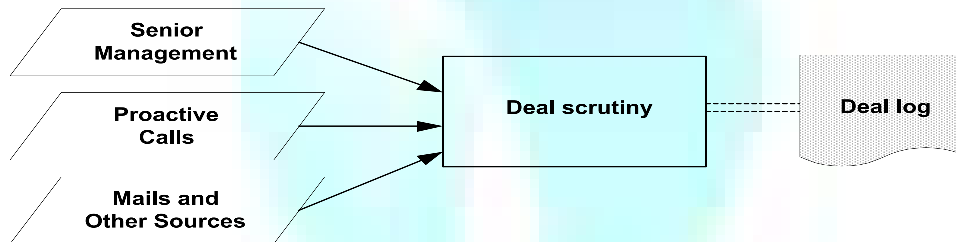
FUND RAISING AND INVESTOR RELATIONS

It is primary stage of venture capital process in which funds from various sources are raised from time to time for investing the same in the attractive business opportunities.

DEAL SOURCING

Venture capitalists to be destination sources of capital must learn to compete for the best deals. APIDC-VCL pro-actively identifies both new investment projects and entrepreneurial teams through extensive linkages with financial and technical institutes in India, expatriate Indian alliances in the Western World. In the figure-2 below system overview of deal sourcing of APIDC-VCL is presented.

FIGURE-2: DEAL SOURCING IN APIDC-VCL: SYSTEMS OVERVIEW



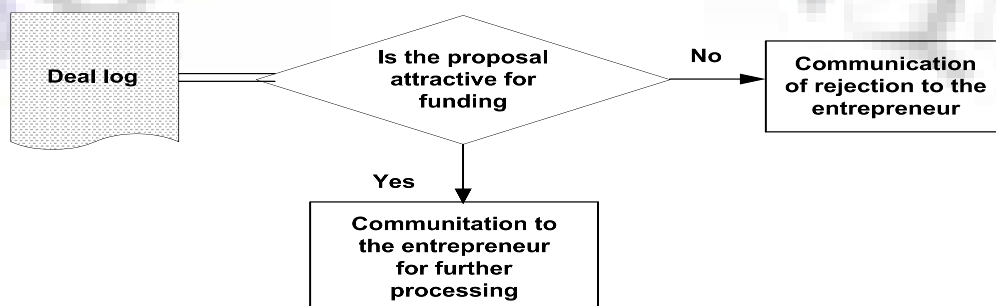
Source: Field data

- Deal generation is multi-sourced. Senior management is actually involved in it by networking with prospective entrepreneurs as well as financial institutions, banks, and others.
- Business analysts in venture capital company undertake business development for deal sourcing.
- Major alternative source for deal generation is informal channels such as e-mails.
- Deals having been generated pass through deal scrutiny. In this sub-stage the salient features of the proposal are recorded, analysed for further processing.
- End-result of deal sourcing process is deal log or deal summary which is a mechanism that permits the general partners to scan the cogent elements of a large number of business plans in a relatively short period of time.

DEAL ANALYSIS

Venture capital is a financial service industry and venture capital firms operate with a small contingency of staff who is knowledge employees. They are engaged in the deal analysis which precedes in-depth analysis, which saves on time, cost and effort. Figure-3 presents deal analysis.

FIGURE-3: DEAL ANALYSIS IN APIDC-VCL



Source: Field data

- Deals having been logged, are considered for further processing.
- The team analyses the attractiveness of the deal, and decides whether the proposal should be taken-up for further processing and eventual investment.
- If proposal is accepted in this stage, the entrepreneur is invited for further presentation or if rejected, it is communicated to the entrepreneur.

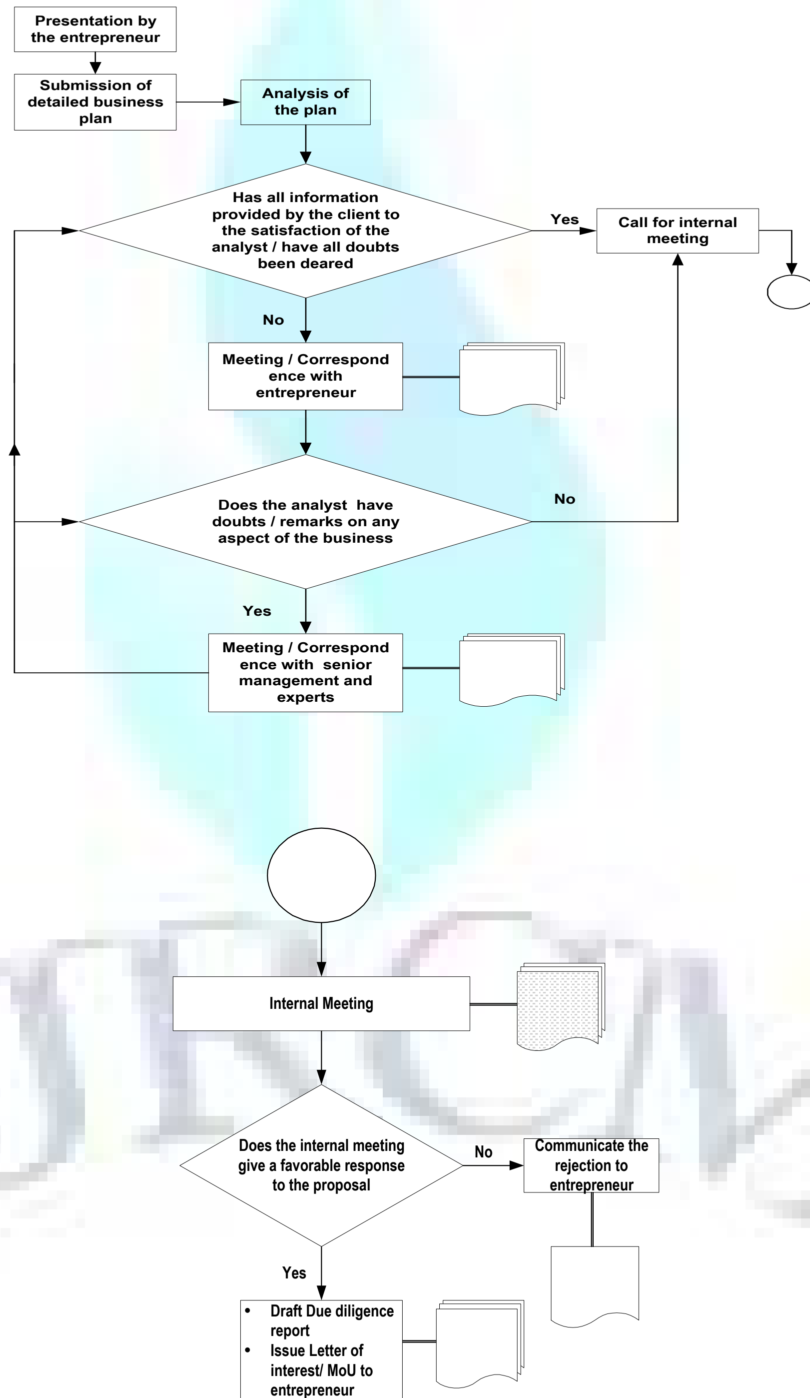
AREAS OF CONCERN

- Initial scrutiny of the proposals received is not systematically done.
- Stage of progress in processing of proposals is not communicated to entrepreneurs.
- Time limit is not in the system either for consideration or rejection of the proposal.

DUE DILIGENCE

Once the proposal passes through initial screening, it is subjected to due diligence process which is a rigorous analysis, and investigation into, the deals received by venture capitalists. Due diligence analysis examines the enterprise, entrepreneurial talent, the product/s or service/s, and the chances of market success. It is time-consuming process, running into several weeks, sometimes months. It involves verifications, references, back-ground checks on management, market potential of the product/s or service/s through systematic study of suppliers, customers, competitors. The process of due diligence is shown in figure-4.

FIGURE-4: DIAGRAMATIC PRESENTATION OF THE DUE DILIGENCE PROCESS



PROCEDURAL STEPS IN THE DUE DILIGENCE PROCESS ARE AS FOLLOWS

- Starting point in due diligence is presentations by entrepreneurs.
- Subsequent to the presentation, the entrepreneur is required to submit a detailed business plan.

- Concerned business analyst studies deeply the business plan so as to understand entrepreneur's business.
- Business analyst meets/corresponds with the entrepreneur, seeking information till he satisfies himself with all aspects of business.
- To clarify his doubts on various aspects of business, business analyst also seeks guidance from the senior management and advice them the industrial experts.
- Internal assessment completed, the senior management and business analyst team take a final view as to whether the proposal has any pitfalls or should be taken-up for investment.
- On a favorable outcome of the meeting, a letter of interest is issued to the entrepreneur, and due diligence report is drafted by the concerned business analyst.

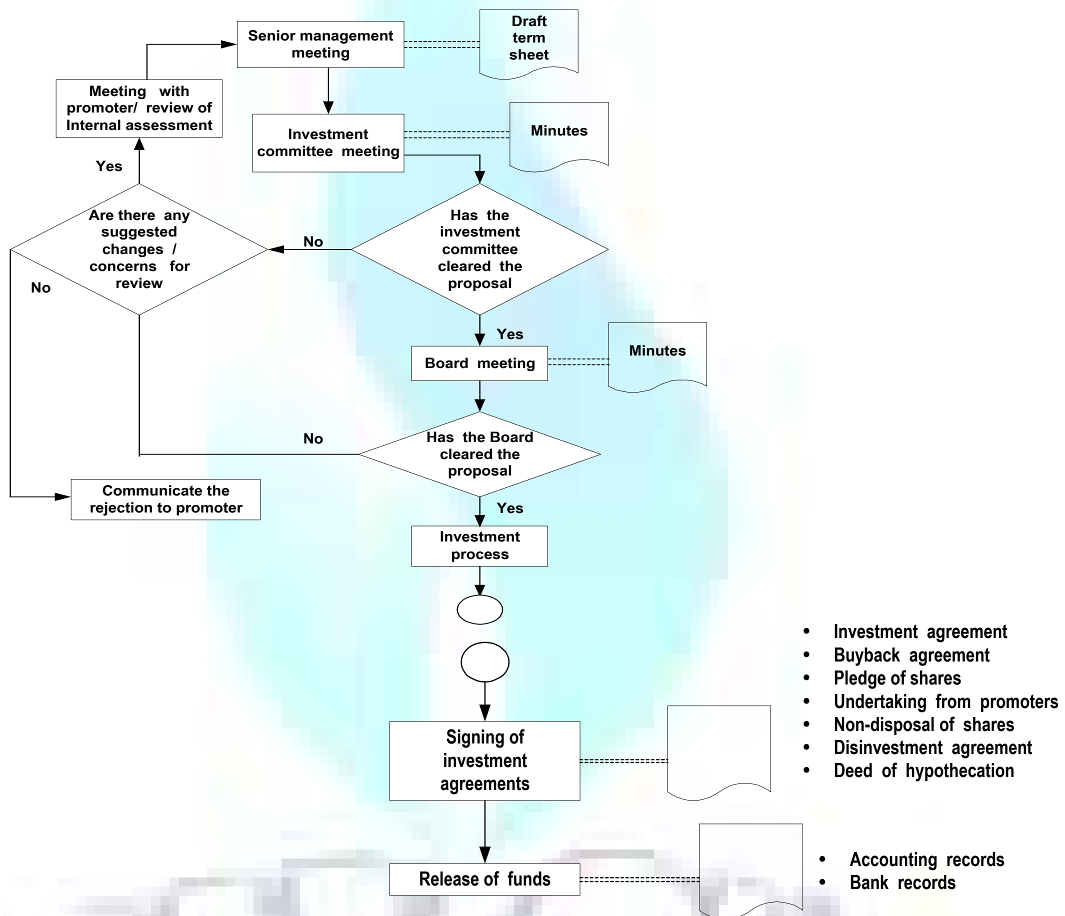
AREAS OF CONCERN

- Proceedings of the meetings with the entrepreneur and his team during the due diligence process are recorded in individualistic methods/styles of the respective business analysts.
- Minutes of internal meeting and of meetings with experts and reasons for rejection of proposal, are not properly recorded.

DEAL STRUCTURING AND INVESTMENT

Venture having been evaluation as viable, the venture capitalist and investee company are engaged in negotiation to strike the deal and determine its terms viz., the amount, form and price of the investment. This process is shown in figure-5.

FIGURE-5: DEAL STRUCTURING AND INVESTMENT IN APIDC-VCL



Source: Field Data

- Taking into consideration the summary of the internal meeting and the due diligence report, the senior management decides the term-sheet of the investment.
- Subsequently the company presents its due diligence report and proposed term-sheet to the investment committee for its deliberation and approval.
- Proposal having been cleared by the investment committee, it is put up to the board for its final approval.
- After the board's approval, the investment is made by the company/venture capital fund into the project/enterprise under consideration.
- Term-sheet, minutes of investment committee and board are important documents in the process.

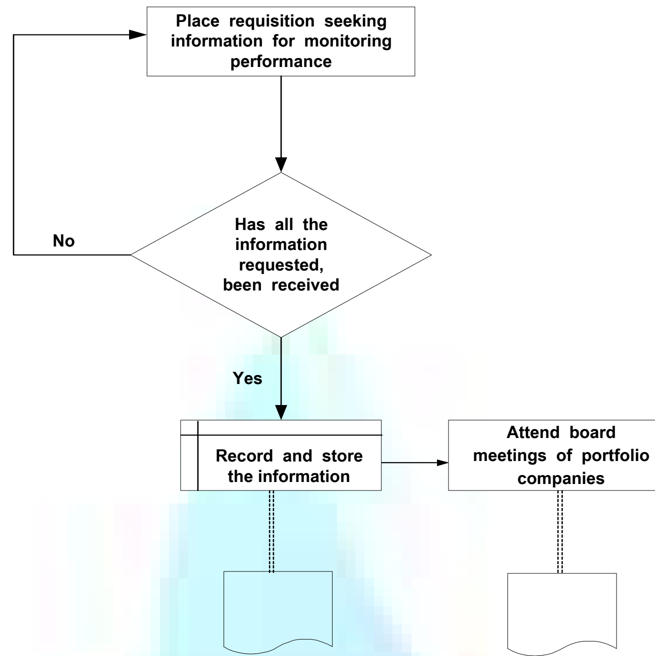
AREA OF CONCERN

- The project implementation schedule of the prospective portfolio enterprise does not form part of the deal agreements.

MONITORING OF PORTFOLIO ENTERPRISES

The purpose of this stage is to avoid losses by seeing red flags well in advance that signal and warn impending dangers. 'Monitoring' refers to the collection and use of specific information by management committee on critical events associated with project operation, while the 'nurturing' is a comprehensive term that encompasses provision of guidance and skills for the management of the venture. In figure-6 is shown the monitoring process in APIDC-VCL.

FIGURE-6: MONITORING PROCESS IN APIDC-VCL



Source: Field data

- Monitoring is undertaken, taking into account the conditions of the deal, targets agreed to in the various agreements, compliance to statutes applicable to the respective portfolio enterprises.
- It specifically looks at the company performance, focusing on its operations, finances, attainment of targets agreed upon, and legal compliance.
- Business analysts place requisitions for information from portfolio enterprises so as to monitor the latter's progress.
- On non-receipt of information, requisitions are repeated with reminders.
- Received information is recorded and stored in the company.
- Senior management and analysts attend regularly meetings with portfolio companies.

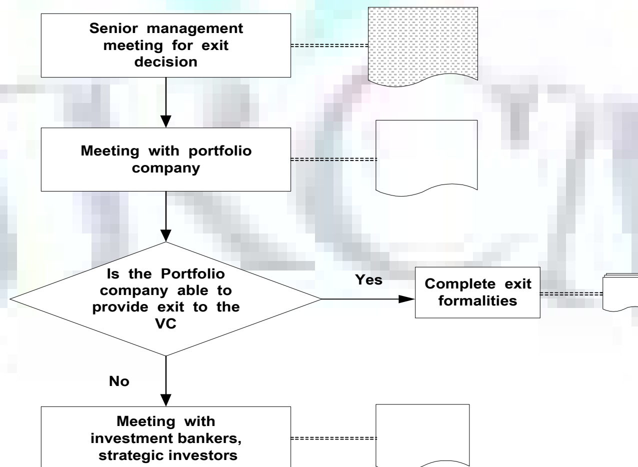
AREAS OF CONCERN

- Systematic monitoring is absent.
- Progress from meeting to meeting with Portfolio Company is not recorded and analyzed.
- Collection of requisite information from Portfolio Company is found difficult.
- Effective interaction between senior management and business analysts is lacking.

EXIT

Asset manager works with the portfolio company to create market value for the latter by taking it to the public in the most profitable manner. The portfolio company can obtain high valuations by selling a partial stake to a larger company having synergy with the former. Typically, such sales are not preferred by the promoter/entrepreneur. Asset manager sets the initial expectations right on the value of offered stake and proceeds in a manner amicable to the promoter/entrepreneur. Figure-7 shows the exit process in APIDC-VCL.

FIGURE-7: EXIT PROCESS OF APIDC-VCL



Source: Field data

- The primary objective of Venture Capital Company is to invest in attractive business ventures exit with high returns.
- High return-generation exits would allow venture capital company to provide attractive returns to the investors.
- Exit decision is a critical one taken by senior management, taking into account the market and industry conditions and time-frame of investment.
- Usually forms of exit are initial public offer (IPO), strategic sale or mergers and acquisitions (M&As).
- It is the senior management that takes informed decision on the timing and mode of exit.
- The senior management team meets with portfolio company to take their latter's consent for the exit decision by the former.

- Portfolio company failing to provide exit to the venture capital company at the required rates of return, the latter explores alternative exit routes as per the investment agreement.

AREA OF CONCERN

- Pro-active analysis of sectors the portfolio companies are operating in, is not done.

FINDINGS OF THE STUDY

DEAL SOURCING

- The Source of deal generation is not recorded.
- Sketchy deal log.
- There is no defined process of evaluating proposals in the beginning.
- Deal sourcing of APIDC-VCL proactively identifies both new investment projects and entrepreneurial teams through its extensive social networks.

DEAL ANALYSIS

- There is no systematic initial scrutiny of the proposal.
- Lack of communication about the stage of progress to the entrepreneur; and
- There is no specific time limit for communicating acceptance or rejection of the proposal.

DUE DILIGENCE

- Meetings of the due diligence process are not recorded.
- Recording of internal meetings were not taken place.
- Reasons for rejecting proposals are not specified.
- Industry or sector studies/reports are not available.

DEAL STRUCTURING AND INVESTMENT

- Senior management meetings are not recorded.
- Implementation schedule of a proposal, post-investment is not forming part of agreement and it is not monitored.

MONITORING PORTFOLIO ENTERPRISES

- Absence of systematic monitoring.
- Not recording and analyzing meeting-to-meeting progress with portfolio enterprises.
- Not collected requisite information from portfolio enterprises.
- Lack of effective interaction between senior management and business analyst.

EXIT

- Lack of pro-active analysis of sectors, the portfolio enterprise are operating in.

SUGGESTIONS

- Since monitoring of portfolio enterprises is weak, corporate governance practices should be instituted in APIDC-VCL to improve its overall nurturing and monitoring practices with regard to portfolio enterprises.
- APIDC-VCL should adopt business analyst-initiated pro-active approach of seeking the new ventures for venture funding, as against entrepreneur-initiated re-active approach.
- There should be proper recording of the proceedings of first meeting of senior management of APIDC-VCL and entrepreneurs.
- APIDC-VCL should develop effective two-way communication system between it and entrepreneurs to ensure synchronize their operations.
- Schedule of new project implementation of portfolio enterprises should be part of deal agreement between APIDC-VCL and portfolio enterprises.
- APIDC-VCL should evolve management information system (MIS), facilitating internal integration between senior management and business analysts, and portfolio enterprises.
- APIDC-VCL should be pro-active in analyzing the sectors in which Portfolio Enterprises are operating. This pro-active stance enhances the profitable exit from the portfolio enterprises.

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MICRO FINANCE LOANS – ENHANCING BUSINESS OR MEETING PERSONAL EXPENSES?

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ABSTRACT

The main objective of micro finance activity is to alleviate poverty and generation of employment for those poor people who were excluded from formal financial services. Malwa region of Madhya Pradesh, India, with a rural population of approximately 13977860 (2001) is a new developing area in terms of Micro Financing. The funding activity has picked up few years back but there is lack of proper training to the beneficiaries of micro finance. This research tries to study the issues which contribute in success of micro enterprise and micro finance of Malwa region. By a survey done on sample of borrowers in eight villages, the research explores the fact whether the borrowers have an understanding and appreciation for the facility of micro finance being provided to them or not. In this empirical study, the results indicate that majority of the borrowers have a tendency to misutilise the funds borrowed. They treat micro finance funding as just another source for meeting personal expenses. The research has identified this as serious concern for micro finance organizations.

KEYWORDS

Alleviate poverty, financial planning, micro enterprises, profitability, sustainability.

INTRODUCTION

Micro finance institutions of Bangladesh sound assertion, that micro finance has successfully enabled extremely poor people to engage in self employment projects that allow them to generate an income and in many cases begin to build wealth and exit poverty. The astonishing success and sustainability of micro finance in Bangladesh, has worked as a motivator for many researchers to do research in micro finance. In India the role of micro finance & micro enterprises in poverty eradication has long been recognized as vital, that's why the number of micro and small enterprises has increased steadily, according to the 1990 Economic Census Report of the central statistical organisation, there were a total 1, 27, 98,245 micro enterprises. But number of micro enterprises increased manifold as per the economic census report of 2005 the total count was 41.83 million enterprises. But, the state-wise growth of micro finance and micro enterprises in India is uneven. States like Himachal Pradesh, Chattishgarh and Madhya Pradesh are having slow growth in comparison of other states. While there can be many reasons for this disparity, but what is very common for micro enterprises of all states is that there is a need to give impetus to the growth of these enterprises.

Therefore, it is necessary to explore the problems faced by micro finance institutions and the small and micro enterprises who are the beneficiaries of funding facility. The extent of funding needed by micro enterprise and the repayment of loan depends on the successful running of the business. But, successful running of the small business is an issue, which depends on many factors like local market, skills of the promoter etc.

In Madhya Pradesh, the central part of India, Micro Finance activity is yet to gain momentum. There are a few MFIs working in this field. They provide funding support as well as technical guidance to the owners of small businesses. The repayment of loans and successful running of small business is necessary for sustained growth of these institutions. This study focuses on the issues faced by small and micro enterprises that avail the funding facility from micro finance agencies. The paper tries to address two issues – First it identifies the factors which affect the repayment of loans, second it tries to list the issues related to financial management which contribute to success of micro enterprise. Beside that research emphasize on critical issues which should be properly dealt by MFIs for success of micro finance in this region.

MICRO FINANCE SCENARIO IN MADHYA PRADESH

In Madhya Pradesh, micro-enterprise and micro-finance development have emerged as one of major strategies to combat the twin issues of poverty and unemployment. However, Micro enterprise development in Madhya Pradesh is still lagging. Micro finance is still in nascent stage of growth in Madhya Pradesh in comparison of other states viz. Andhra Pradesh etc. In Madhya Pradesh though micro finance started in 1985 but still the total number of micro finance institutions are twenty three and total client outreach is 5, 51,235 Approximately. On the other hand, states like Andhra Pradesh has the total number of micro finance institution are forty and total client outreach is 4,949,393. (Source: The Bharat Micro Finance Report)

Malwa region of Madhya Pradesh, which is one of the poorest, most remote and hardest to serve region in Madhya Pradesh with over 40% of the population living below the poverty line. The employment picture in rural areas for Malwa region over the past 20 years has remained consistently bleak. This high level of unemployment is an impediment to poverty reduction and requires urgent attention. In the rural context of Malwa region, micro enterprise development is a best strategy for eradication of poverty and unemployment.

In Malwa region approximately fifteen micro finance institutions are active viz. spandana, sporty financial ltd., Basix, Priya sakhi mahila sangh, Unnati mahila sangh, Sks, Share, Lok biradari trust etc.

A general observation and a preliminary discussion with the clients revealed that there is a need to educate them on the proper utilization of micro finance funds. In some of the cases it was found that beneficiaries are using the funding facility for uses other than business.

OBJECTIVES OF RESEARCH

1. Identification of issues, related to financial management which can contribute in the success of micro enterprises.
2. Establish a relationship if any, between loan repayment and profitability of micro enterprises.
3. Find out the difference if any, between the loan repayment and profitability of micro enterprises which utilize the loan for the purpose it is sanctioned and the ones that don't utilize the loan for purpose.

LITERATURE SURVEY

Poverty is often linked to insufficient income and lack of livelihood and employment (Dreze and Sen, 1989) describe poverty as a severe failure of basic capabilities. Historically poverty eradication program bases on employment creating livelihood has worked effectively. The importance of micro and small enterprises (MSEs) in eradication of poverty and generation of employment is well documented (see, e.g. Machaira, 1997; UNIDO, 2003). (Michael Pretes, 2002) stated that micro enterprises are firms with fewer than five employees; they are usually unregistered and do not pay taxes. Basically a micro enterprise is smaller than small and medium enterprises. It is a very small (micro), informally organized business undertaken by poor people, each micro enterprises is different, so the size, type of business and legal arrangements can vary a great deal. (Raman .T. Ayco)

Micro enterprise development is feasible only when capital and liquidity needs are well addressed especially in an environment with imperfect capital market. Credit is critical in two ways depending on the conditions under which it is used. If credit is accessible and reasonably priced, it allows firms to address liquidity constraints, thus boost profitability and growth. However, credit may negatively affect profits and survival if firms are not prudent borrowers (Fisman & Raturi, 2004) or operate under poor economic conditions and bear high borrowing cost (Bigsten & Shimeles., 2003; Beck, Demirguc-Kunt, & Maksimovic, 2002; Steel & Andah, 2004)

Loan default risk increases manifold in case of imperfect markets (Von Pilschke, 1992) and charging high borrowing cost does not resolve the problem either (Stilgitz or Weiss, 1981). On the other hand, credit on the economical and easy terms provided by institutional sources was not utilized properly for the purpose; it was granted and intended too (Dasgupta, 2001).The achievement of high money turnover, good repayment rates, coverage of costs and huge number of low income clients does not necessarily imply that poverty alleviation is achieved in developing countries (Johnson, 1997).

In various well documented cases relating to the Grameen Bank of Bangladesh (Rahman 1999, Goetz and Gupta, 1996), borrowers have to refinance loan to make payments (often borrowings from moneylenders or other MFIs) have to sell household assets or their own food supplies to make payments or have to leave their home village for an urban area to work on daily wages in order to repay their loan. As (sinanowitz, 1999) observed in his study the fact that If client maintains good loan repayment schedule they get privilege of further loans and this advantage act as a motivator to borrow new loans to repay existing loans on time. And this perception become dangerous and give rise to over indebtedness and excess dependency.

Micro finance institutions following the conventional Grameen group model are known to follow rigid repayment schedules. The weekly repayment schedule normally followed by these MFIs puts an excessive pressure on the members to maintain regular repayment. The client's even resort to borrowings from informal agencies at very high rate of interest to repay the MFIs loans to maintain their access (Sinha and Matin, 1998)

To return the loan on time many clients start working on daily wages. The increase in the share of casual labour in total employment is regarded as an indication of deteriorating employment is not associated with job security or other employment benefits. Rising prices may increase the inherent value that micro finance customers place in their access to credit, which may cause them to make sacrifices elsewhere in order to remain in good reputation with their lender. (Tim Ogden, 2008)

Micro enterprises operate at the margins, there fore high interest rates and other service charges can easily consume the already meager profits of the borrower .When poverty eradication is viewed in terms of social or human development, it provides the long term objectives that is needed for sustainability of efforts. And for sustainable and successful micro enterprise development, it is essential to identify and fill the gaps, which are crucial to the development and sustainability of micro enterprise.

There is a significant literature devoted to the constraints to micro enterprise growth and the factors which contributes in micro enterprise development (see, e.g. Mead & Liedholm, C, 1998; Snodgrass & Biggs, 1996).However; there is a paucity of studies which highlight the issues related to financial management for the success of rural micro enterprises.

RESEARCH METHODOLOGY

This research deals with identifying the major factors related to financial management which can contribute in the success of micro enterprises and MFIs. The first step is to identify the correlation between loan repayment and success of micro enterprise. The loan repayment of customers is assessed by the "number of installments repaid" and the success of micro enterprise is measured by the "average profit per month". Both the variables are scale variables. Pearson Product Moment Correlation is calculated to establish the relationship.

In the second step, the sample is divided into two prominent categories; one consisting of those micro enterprises which use the micro finance funding for the purpose it has been sanctioned. The second group consists of those micro enterprises, which use the loan amount for purpose other than the one sanctioned. The comparison in these two groups is done on the basis of One Way ANOVA. The differentiating variables being – Educational background of borrower, amount of loan taken, type of business, reasons for difficulty in repayment, financial performance, profit per month.

SAMPLE DESCRIPTION

The population of the study includes the clients of micro finance institutions; it includes NBFC, NGO, Societies, trust etc of Madhya Pradesh. These MFIs are working predominately for poor people. In all there are twenty three agencies who have funded approximately 2.2 lacs of clients (Source:-The Bharat Micro finance Report-2009). Out of these twenty three, fifteen approx. are based in Malwa region, i.e., districts of Indore, Ujjain, and Ratlam. The sample is selected for study is clients of these MFIs. A sample size of 54 micro enterprises was selected from eight villages on the basis of their population from Indore district. These micro enterprises are run by either joint liability group or self help group .Data was collected by interviewing these micro entrepreneurs with a structured questionnaire to get insight into their financial management. Through this exercise, internal dynamics and external factors influencing the micro enterprise operation, which contribute in success or failure of micro enterprise, were ascertained. The information about type of business, type of loan, gestation time allowed for loan, period of loan, interest rates, recovery procedure, major problems faced by micro enterprises, performance of micro enterprises, major reasons of failure of micro enterprise, type of business successful and area's cash economy etc. were ascertained from the micro entrepreneurs and from employees of micro finance institutions was collected.

FINDINGS AND DISCUSSION

Sustainability of micro finance institutions and micro enterprise are mutually dependent on good prospects of repayment beside other factors. Out of total sample of micro enterprises 50% micro entrepreneurs have not used the loan for the purpose it is taken. They used the loan for personal purpose or in other business that they find suitable. The total micro entrepreneurs used loan for purpose are 50% and loan not used for purpose are 50%.

TABLE 1: LOAN USAGE

Status	Loan used for purpose (50%)	Loan not used for purpose (50%)
Profitable	39.5%	-
Break-even	13.95%	36.4%
Loss	46.51%	63.6%

TABLE 2: CORRELATION BETWEEN LOAN REPAYMENT & PROFIT

		Number of Installments repaid	Profit Per Month
Number of Installments repaid	Pearson Correlation	1	.050
	Sig. (2-tailed)		.720
	N	54	54
Profit Per Month	Pearson Correlation	.050	1
	Sig. (2-tailed)	.720	
	N	54	54

Out of total sample size 19.75 % micro enterprises are profitable where as loan repayment rate is 96.23%, which is very high. Correlation for loan repayment and profitability (table 2) is only 0.05, and it is not significant. This means that, all the borrowers whether they are earning profit or loss, are repaying the installment in time. This may be because of the fact that many of them have supplemental incomes and the micro finance institutions keep a strong follow up for repayments. Further, the average age of the loan is only six months to one year. This may be one of the reasons for proper repayment

TABLE 3: DESCRIPTIVE STATISTICS

	N	Minimum	Maximum	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Educational Background of Borrower	54	0	3	.43	.602	1.643	.325	4.413	.639
Amount of Loan taken	54	1	3	1.26	.521	1.927	.325	3.021	.639
Age of Business	54	0	3	1.91	.401	-2.602	.325	10.974	.639
Type of Business	54	2	14	5.11	3.830	1.559	.325	.924	.639
Whether the loan is used for purposed	54	1	2	1.20	.407	1.514	.325	.301	.639
Number of Installments repaid	54	0	4	2.22	.664	.527	.325	3.361	.639
Reasons for Difficulty in payment	54	0	2	.35	.677	1.701	.325	1.454	.639
Financial Performance	54	0	3	1.96	1.027	-.358	.325	-1.268	.639
Profit Per Month	54	-400	1000	144.44	607.397	.603	.325	-1.449	.639
Valid N (list wise)	54								

The table 3 shows the descriptive statistics for the data collected from 54 groups. The variables under study are as shown in the above table. As seen, the conditions for normality are fulfilled by almost all the variables. The values for skewness and kurtosis fall between the acceptable range of +2 and –2 for 7 variables. For two variables, it does not follow a normal distribution. These variables are Age of Business and Number of installments repaid. The probable reason for this may be the fact that micro finance is a relatively new activity in the region and the awareness about this facility is rare among the people.

An ANOVA was applied to test the effect for seven variables on the usage of loan taken by the borrower. The effect was seen for the fact whether they use the loan for business purpose or use it otherwise. A Man Whitney test (non- parametric) was applied for the remaining two variables which did not follow a normal distribution.

Table 4 summarizes the results for one way ANOVA. As seen, out of seven variables, namely 'amount of loan taken' and 'reasons for difficulty in repayments' were found significant at 99% confidence level and 'profit per month' was only marginally significant. While, Educational Background of Borrower, Amount of Loan taken, Type of Business and Financial Performance not found significant.

TABLE 4: ONE WAY ANOVA FOR TESTING DIFFERENCE BETWEEN PEOPLE USING LOAN FOR BUSINESS & THOSE USING IT OTHERWISE

		Sum of Squares	df	Mean Square	F	Sig.at 1%
Educational Background of Borrower	Between Groups	.197	1	.197	.540	.466
	Within Groups	19.006	52	.366		
	Total	19.204	53			
Amount of Loan taken	Between Groups	.929	1	.929	3.592	.064
	Within Groups	13.442	52	.258		
	Total	14.370	53			
Type of Business	Between Groups	19.959	1	19.959	1.370	.247
	Within Groups	757.374	52	14.565		
	Total	777.333	53			
Reasons for Difficulty in payment	Between Groups	1.947	1	1.947	4.526	.038*
	Within Groups	22.368	52	.430		
	Total	24.315	53			
Financial Performance	Between Groups	2.408	1	2.408	2.340	.132
	Within Groups	53.518	52	1.029		
	Total	55.926	53			
Profit Per Month	Between Groups	1177181.113	1	1177181.113	3.331	.074
	Within Groups	1.838E7	52	353387.543		
	Total	1.955E7	53			

Thus, we may interpret that, the borrowers who use the loan in the right way, i.e. they utilize it for the purpose of business for which it is sanctioned, differ from the ones who take the loan and use in the wrong way. Such borrowers do not realize the importance of financial discipline. These two groups differ with respect to amount of loan taken, difficulty in repayment and profit per month. It is obvious that the profitability differs for the two groups as the basic principle of finance suggests that the long-term capital should be used for long term investments only and it should never be used otherwise. This is a very important finding for the institutions engaged in micro finance activity. They measure the quality of their work in terms of installments repaid by the borrowers, but, what they actually fail to realize is that, the idea of micro financing is to make the borrower self sufficient. This also calls for the attention to the fact that the borrowers need to be trained in financial management of their businesses.

Further, the two groups of borrowers did not differ with respect to Educational Background, Type of Business and Financial Performance (in terms of cash available every month). This indicates that, the utilization of funds is not a function of type of business or availability of cash for repayment. There are people who have multiple source of income. They borrow from Microfinance institutions and repay the installments in time irrespective of the fact that they use the money for purpose it was given or not. They use the money as resource in their other businesses or for personal requirements. The micro finance institutions are not able to differentiate between the borrowers on the basis of their business sense. It seems to have become a habit of people to consider the micro –finance facility as a resort to fulfill the immediate requirement of funds and treat it as just another source of short-term funds. Further, there seems to be a gross misunderstanding among the people in terms of cash received and profitability. When asked about the financial performance, they measure it in terms of cash collected. They don't consider the expenses to be made, repayments to be done etc. This again highlights the need for financial training to the borrowers.

TABLE 5: MAN WHITNEY TEST STATISTICS FOR TWO VARIABLES

	Age of Business	Number of Installments repaid
Mann-Whitney U	126.000	161.000
Wilcoxon W	192.000	227.000
Z	-4.352	-2.113
Asymp. Sig. (2-tailed)	.000	.035
a. Grouping Variable: Whether the loan is used for purposed		

The Man Whitney test (Table 5) further confirms our observations.

The α level: $\alpha = .05$

Ho: There is no significant difference between the groups using loan for purpose and not for purpose in respect of Age of business and Number of installments paid.

H_1: There is significant difference between the groups using loan for purpose and not for purpose in respect of Age of business and Number of installments paid.

Since the exact p value is less than the specified α level (.05) 0.035 < 0.05 .We fail Ho. Thus we have sufficient evidence to conclude that the two groups of people differ significantly with respect to the remaining two variables, namely, 'Age of Business' and Number of installments repaid. The average age of business and installments repaid is less for the group of people who don't use the loan for right purpose. This may be due to the fact that the when the micro finance activity started, people took it in right sense and used the loan for business purposes. But, with the passage of time, they realized that the micro finance institutions are not interested in their business, rather they are only concerned about the installment repayment. Therefore, many people started taking loans from these institutions and used them for whatever purpose they desired. Now, most of them had some other sources of income as well, so, they continued to repay the installments.

Thus, the findings of this research draw attention to a very serious problem creeping into the micro finance activity. The institutions need to take care that they select the borrowers very carefully, train them in financial management of business and evolve a mechanism for a continuous monitoring.

CONCLUSIONS

The main objective of micro finance activity is to alleviate poverty and generation of employment for those poor people who were excluded from formal financial services. But MFIs are defeating the main objective. MFI's financial health is sound because of excellent loan repayment rate but profitability status of micro businesses is not satisfactory. The main reasons are that, MFIs are not paying attention on educating the client on how to use loan amount in an effective and profitable way. Besides this, the owners of micro enterprises are not trained to understand the basic concepts of finance such as calculating profit of business and working capital requirement. Training in this aspect is must so that they can do the necessary financial planning for their business and can think ways for effective development of their business.

Training to micro entrepreneurs on prudent use of funds for business will definitely contribute in success of micro enterprise and ultimately success of micro finance. The clients using loans for other purposes are facing consistent loss or are able to just breakeven somehow. Micro finance institutions must develop proper check and balances for clients not using loan for purpose it is taken otherwise it will give rise to over indebtedness and increased consumption pose a threat to sustained livelihood. Proper check and balances will arrest other problems such as harassment of borrowers and suicides in case of non repayment.

Reckless borrowing will ruin both MFI clients as well as MFI in long term. Clients who are spending loan amount in fulfilling their social obligation or religious tradition, for them a proper training on how to use loan amount, should be imparted so that they can professionally bring equilibrium in their business needs and social needs. This training will ultimately contribute in the success of micro enterprises. Beside that it will improve quality of services provided by MFI.

Success of micro business is closely related to MFIs, so due attention must be given on client's economic upliftment beside their own financial success.

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INTERNATIONALIZATION OF INDIAN BUSINESS: DRIVERS AND CHALLANGES

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ABSTRACT

Globalization is widely seen as a dominating phenomenon of current century encompassing worldwide integration of financial systems, trade liberalization, deregulation and market opening resulting in a global market and patterns of industrial development. It has created a more broad and competitive market across countries due to convergence of production and industrial patterns. As a result firms need to have competitive advantages that are globally viable rather than domestically. The rise of MNC enterprises has been attributed to efficiency advantages in the management of inter-dependencies concerning know-how, reputation, the value chain and marketing through internationalization. The benefit of internationalization depends on ownership capabilities. The growth in China and India has led to emergence of new breed of MNC's. As a result of liberalization policy - Indian economy witnessed dramatic growth, changes in domestic market and firm activities specifically in relation to overseas expansion strategies. Indian firms augmenting existing skills in production capabilities and process R&D by acquiring technology focused firms in advance markets. Paper explores patterns and motives for internationalization by Indian firms and investigates different strategies adopted by Indian firms to internationalize their operations. Initially paper gives brief of some success stories of Indian companies in pharmaceutical, software and automobile sectors. Further, paper elaborates on the conditions to be assessed before actual internationalization process, drivers for internationalization, opportunities and challenges involved in internalization of companies. Finally, paper gives various ways ahead for the companies for the active participation in internationalization process.

KEYWORDS

Globalization, Internationalization, Less Developed Countries, Multinational Companies , Strategies Adopted.

INTERNATIONALIZATION OF INDIAN BUSINESS: A BACKDROP

Globalization is widely seen as a dominating phenomenon of current century encompassing world wide integration of financial systems, trade liberalization, deregulation and market opening resulting in a global market and patterns of industrial development. It has created a more broad and competitive market across countries due to convergence of production and industrial patterns. As a result firms need to have competitive advantages that are globally viable rather than domestically. The impact on competitiveness should drive the choice of activities to locate in different geographies. Firms in developing countries now faced competition in domestic market with global firms and needed upgrade their capabilities to survive. The rise of MNC enterprises has been attributed to efficiency advantages in the management of inter-dependencies concerning know-how, reputation, the value chain and marketing through internationalization. The benefit of internationalization depends on ownership capabilities. The mainstream perspective in international business assumes that firms will internationalize on the basis of a definable competitive advantage that allows them to secure enough to cover the additional costs and risks associated with operating abroad. In last few decades it is evident that firms and institutions from developing countries are making sustained and deliberate effort to take advantage of the new opportunities. The growth in China and India has led to emergence of new breed of MNC's. The firms from these countries are making inroads in sectors such as manufacturing, services and trading as well as high-technology sectors. Some of the firms such as Infosys, Lenovo, Ranbaxy and Espat are now competing at a global level (Kumar N, 2008).

Internationalization process depends on the dynamism of International markets as well as domestic market conditions. It refers to the degree to which a firm's sales revenue or operations are conducted outside its home country and viewed as a process of transferring a firm's knowledge across borders, whether it is technology, production, marketing or other activities. Internationalization of firms from emerging economies is also motivated by learning objectives that allow these firms to overcome the initial resource hurdles arising due to technological gaps. The internationalization process of firms considers being a gradual process. It is a slow and incremental process. Internationalization is often confused with globalization. Globalization is defined as the economic, political, and societal forces pushing 21st century towards greater international involvement. It may be unalterable, but internationalization involves many choices (Altbach & Knight, 2007). Developing country multinationals invested abroad based on firm specific advantages in product and process technologies that suited conditions in the host countries in which they invested. They competed on price rather than product differentiation.

The Indian market is increasingly becoming global and Indian companies have to succeed domestically and globally if they want to survive and grow (Khera, 2004). As a result of liberalization policy Indian economy witnessed dramatic growth, changes in domestic market and firm activities specifically in relation to overseas expansion strategies. Indian firms augmenting existing skills in production capabilities and process R&D by acquiring technology focused firms in advance markets. For last few years, with more of India Inc venturing abroad in software, biotechnology, automotive and oil sectors, India is fast dropping its tag of being a FDI destination and is emerging as a major foreign direct investor. The *Fortune 500* list of the world's largest non-US firms in 2006 included six Indian companies, these were Bharat Petroleum, Hindustan Petroleum, Indian Oil Corporation (IOC), Oil and Natural Gas Corporation (ONGC), Reliance Industries, and the State Bank of India (Ramamurti & Singh, 2008). The value of actual Indian investments abroad has increased from US$ 319 million to more than US$ 1450 million between 1999 to March 2004. In 2003, there were 1229 approved overseas investments by Indian firms, up from 395 deals in 1999.

According to UNCTAD, India's ranking improved from 80 to 54 during 1990 to 2004 in terms of outward FDI performance index covering 132 economies. Although most of these overseas deals are happening in the US, Russia, UK, and also in lesser developed countries. For example, there are 1441 Indian companies operating in Singapore, of which more than 450 are technology enterprises (Nayyar, 2007). It turns out that India, unsurprisingly, is a somewhat unique country. It is poor on average, but quite rich and advanced in specific pockets. India's high value, highly competitive resources offer potential in the global market. The context and timing bestows Indian companies with a set of advantages and challenges. This will be reflected not only in the business and organizational choices of individual companies but also in the overall patterns of internationalization of Indian companies as a genre.

It is pertinent to notice that both outward and inward flows of investment in the Indian economies increased quite rapidly with some spurts in some of the years (Table -1). The average foreign direct investment inflows, during the 1995-2007 periods, were US $ 6,771.23. It is also clear that during 1996-2007, the average increase in OFDI was US $ 2900.08 million. However, a consideration of the 2000-2007 periods reveals that the average annual rise in the OFDI from India was US $ 4637.75 million. Comparative analysis of the flows of FDI and OFDI clearly brings out the fact that FDI inflows continuously remained higher than that of the OFDI flows. However, the gap between the FDI and OFDI flows, which were very wide before the year 2000, has been narrowed down substantially after 2001 (Aulakh, 2007; Ramamurti, 2008).

TABLE - 1: INDIA'S FOREIGN DIRECT INVESTMENT INFLOWS AND OUTFLOWS (US $ Millions)

Years	Inward FDI	Outward FDI
2000	3585	509
2001	5472	1397
2002	5627	1669
2003	4323	1879
2004	5771	2179
2005	7606	2978
2006	19622	12842
2007	22950	13649
Total	**74956**	**37102**

Source: UNCTAD (2008).

The changing pattern of OFDI from India during the recent past can essentially be attributed to numerous factors. Indian economy has shown high degree of dynamism in the process of structural transformation and the liberalization policy environment has succeeded more recently due to the systematic development of capabilities that has provided dividends in terms of OFDI. Thus, with this backdrop, paper explores patterns and motives for internationalization by Indian firms and investigates different strategies adopted by Indian firms to internationalize their operations. Initially paper gives brief of some success stories of Indian companies in pharmaceutical, software and automobile sectors. Further, paper elaborates on the conditions to be assessed before actual internationalization process, drivers for internationalization, opportunities and challenges involved in internalization of companies. Finally, paper gives various ways ahead for the companies for the active participation in internationalization process.

SUCCESS STORIES OF INTERNATIONALIZATION

THE INDIAN PHARMACEUTICAL INDUSTRY

It is at the forefront in international expansion compared to other manufacturing sectors in the Indian economy. The Indian pharmaceutical industry is the thirteenth largest in the world in terms of market output; accounting for a market of about US$ 2.5 billion (Ramani, 2002). It is ranked as the most advanced pharmaceutical industry amongst developing countries and is one of India's best science-based industries. Indian pharmaceutical firms are accessing advanced markets and acquiring new technology through the process of internationalization (Pradhan & Alakshendra, 2006). Indian pharmaceutical industry has one of the world's richest resources - in manufacturing, research capabilities, and entrepreneurship (Dixit, 2008).

RANBAXY LABORATORIES: Ranbaxy Laboratories Limited was established in 1961. Ranbaxy started as a manufacturer of active pharmaceutical ingredients (API) and soon began looking at international markets for exporting these ingredients. By 2006 Ranbaxy has world-class manufacturing facilities in eight countries namely China, Ireland, India, Malaysia, Nigeria, Romania, the US & Vietnam. Ranbaxy has expanded its geographical presence through joint ventures to new countries like Thailand, Canada and China and through wholly own subsidiaries in countries like the Netherlands and Hong- Kong (Chaudhuri, 2008). At the end of 2005, the number of subsidiaries and joint ventures of Ranbaxy stood at 50 covering a total of 30 countries (Pradhan, 2004).

DR. REDDY'S LABORATORIES: Dr. Reddy's laboratory (DRL) was founded by Dr. Anji Reddy in 1984, and in 1986 it started operations on branded formulations. Within a year of its inception, DRL also became the first Indian company to export active pharmaceutical ingredients to Europe. By 2006 DRL's earnings totaled revenue US $ 546 million of which overseas market brought 66%; US contributed 16%, Europe 11% and rest of the world 39%. The big achievement of DRL's generic foray came in 2001 when DRL became the first Indian company to launch the generic drug, Fluoxentine with 180 day market exclusivity in the US. DRL's international marketing successes were built on a strong manufacturing base which itself was a result of inorganic growth through acquisition of international and national facilities. In 2006 DRL acquired Beta harm for US $ 572 million; highest overseas acquisition by Indian firm in pharmaceutical sector.

WOCKHARDT LTD: Wockhardt was started by the Khorakiwala family in 1959 as a small pharmaceutical distribution and selling entity. The company set up its first formulation plant in 1977 and soon established a bulk drug plant in 1983. Currently, Wockhardt's product portfolio includes pharmaceuticals (bulk drugs and formulations), medical nutrition, Agri-sciences and also hospitals. Wockhardt's expansion of international production into Europe and the US is based largely on acquisitions of plants that had FDA approval. It entered the UK market by acquiring Wallis Laboratory in 1998 and CP pharmaceuticals in 2003. In 2004 Wockhardt acquired the German pharmaceutical company 'Esparma', GmbH to enter Germany; the largest generic drug market in Europe the Company also has nine international patents and 94 trademarks.

NICHOLAS PIRAMAL INDIA LTD (NPIL): NPIL is part of the Piramal Enterprises, one of the India's largest diversified business groups with interests in retailing, textiles, auto components and engineering. The Piramal enterprise was founded in 1933 and until 1987 most of the group's revenues had come from textile business. In 1988 acquired Nicholas Laboratories, an Indian subsidiary of a UK based pharmaceutical firm, renamed it Nicholas Piramal India limited (NPIL) and made it profitable in 4 years. The success of this acquisition possibly spurred Piramal group to use acquisitions as a strategy of growth. Acquisitions helped NPIL create strong linkages with MNC pharmaceutical firms and consequently NPIL has developed an impressive record in managing business partnerships (JVs and alliances) with a number of multinational firms like Roche, Boehringer, Allergan, Boots, Aventis, and Novartis. As a result NPIL has established itself as a partner of choice for any MNC looking at the Indian market. In 2005 NPIL acquired Avecia pharmaceuticals in UK and its affiliate company Torcan Chemical Ltd, Canada for US $ 22 million. In the last decade Indian pharmaceutical firms have emerged as most aggressive overseas investors of all Indian industries.

INDIAN SOFTWARE AND IT SERVICES INDUSTRY:

The software industry actually got its start in 1968 with the establishment of Tata Consultancy Services (TCS), a wholly-owned subsidiary of Tata Group. Competitive advantage of Indian software industry stems mainly from its highly skilled workforce, low cost of skilled labor, and deep-rooted democratic institutions. India's success can also be attributed to the global demand for software development service and shortage of skilled personnel abroad. Indian software firms have emerged as global powerhouse in computer software development. Indian IT consulting companies are now competing globally with the established industry giants. India's enhanced reputation and credibility in software has developed a spillover effect into Information Technology (IT) enabled services (Ghemawat, 2000).

TATA CONSULTANCY SERVICES (TCS): TCS was set up in 1968 by pooling together the management talent from existing Tata companies. TCS is currently a leading IT services provider with a wide range of services across the entire information technology spectrum, such as consulting, IT services, business process outsourcing or BPO, IT infrastructure services, engineering and industrial services, or product-based solutions. With a 2.2 billion dollar turnover for 2005-2006 — it was the first Indian IT company to cross the 2 billion turnover mark. It employed 60,000 consultants in January 2006 in 160 offices in 34 different countries. The company first opened a commercial office in London; another outpost was set up in Nyon, Switzerland as a partnership with a local new company with the view to enlarging TCS services' continental European customer base. TCS expanded and strengthened its presence in Central Europe (Hungary, Poland and

Romania) and in Russia. Tata bought Jaguar and Land Rover from Ford it was one of the first Indian multinational firms to gain world-wide recognition. This acquisition was however only one among many high profile overseas acquisitions carried out by Indian multinationals since the late 1990's (Goldstein, 2007).

WIPRO: Wipro going through various phases of growth has embraced a global business model beyond the low-cost advantage to incorporate building greater industry expertise and delivery of complex solutions. The global model complements the low-cost products and services model by expanding and building sophisticated operations in North America and Europe. Wipro has a dozen offices in the U.S. and development centers in Brazil, Europe, China, Canada, and Mexico. As part of Wipro's global expansion, they are upgrading their capabilities to become a global player.

SOFTWARE OUTSOURCING: Outsourcing of software development to subcontractors in India is relatively a new development. Indian engineers had to come over to the client site to do the development work. This reduced risks and simplified project management. But as the reputation and capability of Indian software developers grew, more work was sent off shore i.e. to India. Outsourcing software development work reduces uncertainty, lowers cost and speed up development. India offers a time zone advantage. Modern telecommunication technology allows transfer of information instantly to all development centers.

INDIAN AUTOMOBILE SECTOR:

Indian manufacturers started going abroad; planting their manufacturing facilities strategically in countries which have a good market and leveraging its country status with the regional trade block agreements of those countries. By 2005, it capitalized on its strengths using the opportunities of the open markets and upgraded technologies through international alliances.

BHARAT FORGE LIMITED'S (BFL) journey towards becoming an international player began in 1997. Company wanted to grow beyond the Indian market and to reduce over-dependence on a single market and also take advantage of different growth opportunities across varying geographies. India's only forging company supplying globally and the country's largest exporter of auto components (Kalyani, 2004). Bharat Forge competes on the basis of its ability to respond rapidly to its customers' demands.

PATTERNS AND MOTIVES FOR INTERNATIONALIZATION BY INDIAN FIRMS

Globalization is opening up a whole set of opportunities for firms in developing countries. These firms created linkages through internationalization and the learning experience resulting from these linkages and the leverages which these linkages provide to firms has emerged as one of the main motive for internationalization of firms. The other motives are:

- *Profit-making opportunities*- Earning money is a key motive for all internationalization projects. There is money in overseas market hence increase profit and market share.
- *The "No. 1 Position"* usually not material in achieving a dominant position in the world market. Relative size is more important, i.e. the value of sales compared with those of competitors, and in particular the objective of being the largest and strongest in the own core market, perhaps being "world market leader" (Lange, 2004).
- *Competitive advantage:* The initial globalization project of Indian IT firms was often related to low-value-added outsourcing tasks, the Indian IT industry is progressively shifting to a higher value-added knowledge process outsourcing (KPO) position (Jonsson, 2008).
- *Increasing "Shareholder Value"*- The expansion of company's commercial activities is to increase the sales and size, at the same time expansion requires large financial resources, which needs to increase the value of shareholders.
- *Peace and democracy* - Financial investments allow having better relationships both *personally and politically.* This results in avoiding or at least reducing the risk of armed conflicts.
- *Prosperity*- Companies necessarily work in their own interests, so also governments naturally attempt to create or improve conditions for their own countries and communities of countries by increasing exports in order to generate growth in their economies.

KEY FACTORS FOR BUILDING A GLOBAL CHAMPION:

- *Global Ambition* **-** Indian corporate leaders have to be equally bold and aggressive to reach the top league.
- *Developing a winning formula*- Once investors gain confidence that the company can run operations more profitably than its competitors, they provide capital and the acquisition currency to pursue rapid global expansion.
- *Global leadership capacity:* To truly build customer loyalty, companies have to be seen as market insider within array of products and services that fit local market conditions.
- *Acquisitions and Integration:* - Indian companies aspiring to become global champions have to be prepared to make several global acquisitions and integrate them effectively. Doing such acquisition requires cash for sure, but it also requires confidence and self assurance.

STRATEGIES ADOPTED BY INDIAN COMPANIES

India's software services companies, like Infosys and Wipro, are perhaps the best known examples of companies following the low-cost partner strategy. Several Indian firms, including Bharat Forge, Tata Steel, and Hindalco, an aluminum manufacturing firm belonging to the Aditya Birla Group, illustrate quite well the global consolidator strategy. The strategies followed by Indian companies are as under:

OUTSOURCING - where the domestic market is relatively either very small or unattractive, the company has made a choice to be primarily focused on overseas opportunities, e.g., Sundaram Fasteners and Bharat Forge. Outsourcing strategy type companies in most of the cases do business with institutional customers. Brand, local knowledge, and distribution reach are important for success when a company deals with retail or individual customers overseas.

MULTINATIONALIZATION - where companies having substantial overseas business and after operating for a few years are aiming to create sustainable competitive position in several geographies, e.g., Wockhardt, and Asian Paints. Multinationalization companies will tend to go for a few centralized functions like research, finance, IT systems and marketing functions for local responsiveness.

JOINT VENTURE - for large investment of time and resources, the joint venture is a useful route. The speed of entry and expansion resulting from joint ventures can outweigh the costs related to coordinating divergent interests of partners and the fears of one partner capturing adverse share of value. Marketing alliances can be useful in internationalization strategy as in the case of Tatas and Rover for sale of cars in the UK and also Aptech's China joint venture.

LEADERSHIP*:* A common element across all the Indian companies that have made overseas breakthroughs is the presence of a strong leader who believes in the ability of the organization to succeed in international markets and who creates the necessary business and organizational wherewithal. Fakirchand Kohli of Tata Consultancy Services and Parvinder Singh of Ranbaxy started going overseas.

CLUSTERS AND NETWORKS - Clusters provide an opportunity for firms in a particular industry to feed off each other by supplying specialized services, cooperating in research and development, attracting a pool of skilled labor, and creating a market for each other's products within close geographical proximity. In an international context, the agglomeration economies created by clusters create opportunities for exporting and to attract foreign investors to a particular location.

MERGERS AND ACQUISITIONS - M&A activities were initially an expansion strategy of the Indian service firms, and until 2002 about eighty percent of the M & As was within the service sector. Post-2002, Indian manufacturing MNCs have again become increasingly involved in M&A activities. The evidence of international investment made by Indian companies abroad through mergers and acquisitions is presented in table - 2. The Indian companies' total sales during the period 2000 to 2008 were US $ 22991 million. Whereas the total purchases were of the order of US $ 56114 million during the same period. Thus, the aggressive mergers and acquisition strategy of the Indian companies resulted into purchases larger than the sales of the order of US $ 33123 million. Out of the nine years period under consideration, the purchases exceeded sales with substantial margin in six years. The consistent rise in the value of OFDI in mergers and

acquisitions by Indian companies has provided the status of 'Global Players' to Indian companies. Mergers and acquisitions of Indian companies' abroad show that more than 40 per cent were in manufacturing sector (pharmaceuticals, automotive, consumer goods, chemicals, fertilizers, and metals). However, the 30 percent share of mergers and acquisitions has gone to sectors like IT, software and business process outsourcing (CMIE, 2007). Indian companies' strategy of mergers and acquisitions, during 2000-07 periods, was that more than 42 mergers and acquisitions were only in the US, 19.52 per cent were in the UK and in the Western Europe accounted for 52.19 per cent of the total acquisitions (Bertoni, Elia and Rabbiosi, 2008).

TABLE-2: INDIA'S VALUE OF CROSS-BORDER MERGERS & ACQUISITIONS 2000-08 (US $ Millions)

Years	Sales	Purchases	Sales-Purchases Gap
2000	1219	910	309
2001	1037	2195	-1158
2002	1698	270	1428
2003	949	1362	-413
2004	1760	863	897
2005	3754	4958	-1204
2006	4740	6586	-1846
2007	5580	30414	-24834
2008	2254	8556	-6302
Total	**22991**	**56114**	**-33123**

Source: UNCTAD (2008)

Table - 3 provides information on top twenty five foreign acquisitions by Indian firms during the 2000-07 periods. Out of the top 25 foreign acquisitions by Indian firms, six foreign acquisitions belonged to the Tata group of companies and five belonged to the Indian public sector companies. Two of the foreign acquisition of the Tata Group has been in UK and USA each and two were in East Asia (one each in Singapore and Thailand) whereas out of five foreign acquisitions of Indian public sector companies, four belonged to ONGC Videsh and one belonged to VSNL Ltd. This table further reveals that, out of 25 foreign acquisitions, sixteen were in the developed countries and the nine were spread over to various other parts of the globe. The seven foreign acquisitions by Indian firms were in the area of resources such as petroleum, steel and aluminum. It is noticed that, among the top 25 foreign acquisitions, 100 percent ownership were reported in twelve foreign acquisitions, followed by 97 percent to 50 percent in four foreign acquisitions, and one each foreign acquisition has ownership control of 30 percent and 25 per cent, which were the minority joint ventures.

TABLE - 3: TOP 25 FOREIGN ACQUISITIONS BY INDIAN FIRMS FROM 2000 TO 2007

Year	Value (US $ million)	Rank	Indian Firm	Target Firm	Country	Industry	Ownership per cent
2007	12100	1	Tata Steel	Corus Steel	UK	Steel	100
2007	6000	2	Hindalco	Novelis	USA	Aluminium	100
2006	1400	3	ONGC Videsh	Petrobas	Brazil	Petroleum	
2002	766.1	4.	ONGC Videsh	Greater Nile Oil Project	Sudan	Petroleum	25
2006	677	5.	Tata Tea and Tata Sons	Glaceau	USA	Health Drinks	30
2004	600	6.	ONGC Videsh	Greater Plutonio Project	Angola	Petroleum	50
2004	600	7.	Opto Circuits India Ltd	Eurocor GmbH	Germany	Medical Equipment	
2006	570.3	8.	Dr. Reddy's	Betapharm Arzneimittel GmbH	Germany	Pharmaceuticals and Healthcare	100
2006	565	9.	Suzlon Energy	Hansen Transmissions	Belgium	Energy	100
2006	522	10.	Kraft Foods Ltd	United biscuits	UK	Food and Beverages	
2000	431.2	11.	Tata Tea	Tetley Group	UK	Food and Beverages	100
2006	324	12.	Ranbaxy Laboratories Ltd	Terapia SA	Romania	Pharmaceuticals and Healthcare	97
2000	323	13.	ONGC Videsh	Sakhalin-I PSA Project	Russia	Petroleum	100
2005	300	14.	Ispat Industries Ltd	Finmetal Holdings	Bulgaria	Steel	
2005	289.2	15.	Videocon International	Thomson SA (CRT business)	Europe, china	Consumer Goods	100
2004	283.7	16.	Tata Steel	NatSteel Asia Pte.	Singapore	Steel	100
2005	254.3	17.	VSNL Ltd	Teleglobe International Holdings Ltd	USA	Telecom	100
2005	234.7	18.	Mtrix Laboratories	Docpharma NV	Belgium	Pharmaceuticals and Healthcare	95.5
2006	220	19.	Tata Coffee	Eight o' Clock Coffee Co.	USA	Food & Beverages	100
2006	210	20.	Susken Communication Tech Ltd	Bornia Hightec	Finland	Information Technology	
2006	209	21.	Ballarpur Industries Ltd	Sabah Forest Industries	Malyasia	Pulp and Paper	77.8
2003	191.2	22.	Reliance Infocomm	Flag Telecom	USA	Telecom	100
2006	185	23.	Seagate Tech Ltd	Evault Inc.	USA	Information	
2001	184.6	24.	Citrix Software India Pvt. Ltd	Sequoa Software	USA	Information Technology	
2005	175	25	Tata Steel Ltd.	Millenium Steel Plc	Thailand	Steel	100

Source: Nayyar (2008)

Analysis of Indian firms' internationalization strategies suggests that acquisition is preferred route Indian firms' international expansion compare to organic routes in advanced countries.

WAYS THAT INDIAN FIRM GO ABROAD

The Boston Consultancy Group in their report on global challengers from emerging economies categorizes four main strategies by which firms expand abroad:

TAKING LOCAL BRAND GLOBAL: (THE INDIAN AUTOMOTIVE INDUSTRY) - Bajaj Motors and Mahindra & Mahindra have been working on rolling out their own products across the world. Mahindra & Mahindra, for instance, manufactures tractors and cars. Scorpio is already sold in South East Asia as well as in South Africa. M&M claim cost efficiency and engineering skills are strengths behind their market successes.

TURNING LOCAL ENGINEERING INTO GLOBAL INNOVATION: (PHARMACEUTICALS) - The globalization of the Indian pharmaceutical industry is an example of how a locally developed skill is leveraged. The Indian pharmaceutical industry grew by reverse engineering drugs and manufacturing these for the local market. Based on their manufacturing skills, Indian pharmaceutical firms such as, Ranbaxy and Dr Reddys and the insulin giant Wockhardt began positioning themselves as global generic manufacturers of drugs.

GLOBAL CATEGORY LEADERSHIP - By taking a local category leadership position and leveraging it to a global category leadership position, is evident in for instance polyester yarn with the Reliance group or in steel where Bharat forge has pioneered a dual shoring system (Jasson, 2008).

PRECONDITIONS WHILE ADDING TO THEIR INTERNATIONAL DIMENSION

BACKGROUND INFORMATION – In order to appreciate the context within which a country's political, economic, and social institutions have emerged, some understanding of its history, geography, culture, and demography is necessary.

THE GENERAL POLITICAL AND ECONOMIC SITUATION – It is difficult to understand the business environment in a country without studying the current political system and institutions, major government economic policies, and a variety of data and other information on the country's economy.

CULTURAL ASSESSMENT – This would require an investigation into cultural elements such as language, religion, and social structure and attitudes. Language presents particular difficulties when venturing into a foreign country, despite the prevalence of the English language. Cultural differences, a factor which increases the risk of operating abroad and may either deter international entry or reduce the likelihood of success.

GENERAL PRODUCT DATA - A variety of data can be used to give an indication of the standard of living in a country, which includes-product data such as the number of passenger vehicles, television sets, telephones, and the literacy rate of the population.

RISK FACTORS – The potential risks involved in entering a foreign country vary greatly with the country concerned. Political risks may include wars, civil unrest, terrorism, and changes in government policy or the law. Economic risks range from exchange rate exposure to the risk of non-payment or financial instability.

REPUTATIONAL BARRIERS -Firms from developing countries face reputation as a barrier to entry in export markets. Buyers abroad have limited information about quality and service reliability because they have little prior experience in dealing with these firms. Reputational barriers are especially higher in service sector such as software. To mitigate reputational barriers, Indian software exporters have adapted several strategies, like joint ventures and to open branches near customer locations.

Developing countries generally require more procedures to start a new venture and subsequently, require a longer time horizon for full implementation of the new firm. This increases the cost of starting a new venture and encourages development of an underground economy as entrepreneurs seek faster, less bureaucratic methods of new business development.

DRIVERS TO INTERNATIONALIZATION

The implication of country origins, their level of maturity, position in the value chain and strategies is that the drivers of internationalization manifest themselves in a wide variety of ways. There are a number of ways.

HOME COUNTRY DRIVERS (PUSH FACTORS) - Home country drivers, which refer to conditions that influence companies to move abroad, consist of: market and trade conditions, costs of production, local business conditions and home government policies. Global and local competitive pressures appear most frequently as a driver and take many forms.

HOST COUNTRY DRIVERS (PULL FACTORS) - Developed countries may be more attractive because of their large markets, which may be more accessible as a result of regional integration agreements, especially in North America and Europe. The case of developing countries, markets that are large or growing will be the most attractive, but considerations of market size will, of course, depend on the type of product. Host countries with low costs of labor or other required resources are more likely to receive inward FDI. Apart from factor costs, MNCs also invest in host countries because of their resources; these refer to a wide variety of potential factor inputs, including natural resources, labour and infrastructure.

OPPORTUNITIES FOR INTER LDC TECHNOLOGY TRANSFERS

Technology is a fundamental competitive advantage of firms in business today. From creation of new products to knowledge of markets or industrial processes, technology plays a major role in the success of both domestic and transnational firms. Technology transfer is a multidimensional process through which innovation is disseminated; it is the process by which technical information enters the public domain and becomes generally available for use. Namely: advertising, commercial banking, computer software, hotels, and management consulting. Technology up-gradation is directly linked to performance and adding value to the product, which is directly related to the profit.

Transfer of technology may be foreign direct investment (FDI), joint ventures, wholly owned subsidiaries, licensing, technical-service arrangements, joint research and development (R&D) arrangements, training, information exchanges, sales contracts and management contracts. Technology enters a country through:

- Trade in goods with technological input;
- Contracts between private and/or state enterprises;
- FDI by firms with knowledge base asset that brings newer technology;
- Education;
- Imitation, reverse engineering, de-compilation of software, trial and error;

The ability to be internationally competitive also depends on having up-to date technology. As most LDCs have undertaken the trade liberalization, technological progress has become vital for their competitiveness and economic viability(UNCTAD, 2007).Technology cooperation may includes: patent; know-how; trademark; franchise; distribution; copyright; computer software; technical services and assistance; engineering services; and management services. FDI is widely viewed as being one of the principal vehicles for the international transfer of technology. It contributes directly to the increase in productive capital stock, technological growth, and facilitates transfer of managerial skills; besides improving global market access (Dunning, 2006).

The corporate technological internationalization takes place in following ways:

Technology-seeking FDI in R&D - It is directed towards offsetting home country weaknesses in a given technological field by selecting a host country with proven strength in the desired technology.

Home-base-exploiting FDI in R&D - The rationale for the investment here is to exploit the existing corporate-specific capabilities in foreign environments. A firm possessing a competitive advantage in a technological field in its home market seeks to exploit it abroad, particularly in regions which are weak in the technological field considered.

Home-base-augmenting FDI in R&D - It consists in targeting technologies in which the firm has a relative advantage at home and the host country is also relatively strong. Such R&D activities are aimed at monitoring or acquiring competitive advantages which are complementary to those already possessed by the firm so as to augment a firm's existing stock of knowledge.

Market-seeking FDI in R&D - It corresponds to situations where a firm invests abroad in technological activities in which it is relatively weak in its home country and the host country is also relatively weak. In other words, there is neither a home technological advantage nor a host country technological advantage. The most important strategy in terms of patents.

CHALLENGES IN INTERNATIONALIZATION

The biggest challenge for EMNCs as a late comer is how to create new competitive advantages in the market. Organization learning is crucial for them to fulfill a successful catch up strategy, and this learning process is likely to be long and expensive, especially where the technology continues to advance rapidly and competition from the incumbent firms remains fierce. The key to the success of EMNCs has been the ability to treat global competition as an opportunity to build capabilities and adopt strategies that turn latecomer status into a source of competitive advantage (Fan, 2007). The challenges are:

THE GLOBAL ECONOMIC SLOWDOWN: India is hit by the global recession. This is primarily visible in an increase in lay-offs in the export sector where orders have shrunk. The difficulty of finding external financing, on which Indian multinational firms have become increasingly dependent. The Indian IT industry is also hit hard, with almost half its export revenues coming from the US market and in particular the financial markets, which is the epicenter of the recession.

INCREASING COMPETITION: India has become a very important destination for most global firms. While this is good for the economy and for overall economic efficiency, the earlier fairly safe home market of Indian firms now is contested. As the Indian market develops it will become more competitive and less of a captive market for Indian firms.

TALENT CRUNCH: One result of the expansion of the Indian economy is a serious shortage of talent. Indian IT firms are currently recruiting abroad, in Russia, the Philippines and other places. The rapid inflow of global firms in combination with a poor supply through higher education and an unresponsive government has led to this almost crisis situation.

GLOBAL FIRMS REQUIRE GLOBAL MANAGEMENT: There are currently few Indian managers with international management experience. Indian industry is currently so hard up for good managers that, according to local Swedish multinationals, it is as expensive or even more to recruit an Indian manager as to bring in a Swedish expatriate to manage Indian operations (Jasson, 2008). Companies from India, face a difficult and challenging task in going international but not an impossible one - Infosys, TCS, and Wipro. (Khera, 2004).

WAYS AHEAD

The ability to take advantage of the niche markets inherent in the Born Global phenomenon will become faster, easier, and less expensive. Developing nations can enact policies that support an increase in globally oriented entrepreneurship, and the establishment of entrepreneurial firms. The basics to compete in the global market are:

- Produce world class quality (e.g., software, pharmaceuticals, auto component, etc.)
- Build international scale capacities (e.g., Bajaj Auto, Hero Honda, TVS),
- Leverage India's low cost advantage (e.g., software, pharmaceuticals, auto components)
- Develop strong product development capabilities (e.g., Indica, Scorpio)
- Expand size of domestic market to provide foundation for exports (e.g., Bajaj Auto, Indica) become a global base for exports of manufactured goods (e.g., auto components),
- Build Indian MNCs (e.g., Infosys, Ranbaxy)
- Enhance competency levels (e.g., manufacturing clusters at Surat — gems and jewellery; Tirupur — Textiles; Pune — Auto components)
- Radically improve quality of infrastructure (e.g., telecom, roads, power, ports)
- Conducive government policies (e.g., Special Economic Zones to overcome constraints, of infrastructure.

CONCLUSION

In the last decade Indian pharmaceutical firms have emerged as most aggressive overseas investors of all Indian industries. Analysis of Indian firms' internationalization strategies acquisition is preferred route by Indian firms' international expansion compare to organic routes in advanced countries. The overseas expansion of Indian firms is related to the need to improve global competitiveness, acquisition of assets, and move up the value chain; increase their product offering and consolidation of existing market shares.

The world saw the emergence of India as a leading software exporter leading to internationalization of Indian software Industry. Initial general opinion on India's success in software was attributed to low cost skilled labor available in India. The main factors driving internationalization of Indian software industry can be: Availability of skilled, reliable and knowledgeable workforce, stable political system and governmental assistance and demand for software development in the US and Europe.

'Think Global, Act Local' Building downstream capabilities, knowledge of the market, local laws, and client relationships are essential, but developing these can be expensive for an organization. The key enabler for competitiveness for Indian companies is our large capacity of 'brain power.' This needs to be carefully nurtured and expanded. Emphasis on IT-based technologies in manufacturing, engineering, and product development and training to improve marketing skills required to create delivery systems for global customers. The world is beginning to believe in India; we need to believe in our ability to compete, perform, and succeed.

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SMEs IN THE ECONOMIC GROWTH OF AGRA: OPPORTUNTIES AND CHALLENGES
(WITH SPECIAL REFERENCE TO AGRA SHOE CLUSTER)

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ABSTRACT
The Importance of Small and Medium Enterprises (SMEs) in any economy cannot be overlooked as they form a major chunk in the economic activity of nations. They play a key role in industrialization of a developing country like India. The Agra Footwear Cluster comprises approximately 5000 units- e registered and mechanized or mechanized. A number of units are small scale registered or unregistered firms, and even run as household units/workshop, usually function in a traditional manner with little or no mechanization. Looking back, 1991 was a turning point: a break with the past that opened up new opportunities and posed new threats to these units. Step by step, import tariffs were lowered and regulations relaxed, making it easier to import both non leather components crucial for premium export quality and to import machines. By 1996 it had become clear that Agra's exporters were facing increasingly tough international competition. In the light of above scenario, it became imperative to identify the opportunities the Agra shoe cluster avail, the challenges they confront and to suggest action plan to purge these challenges. Based on the primary survey the study finds that the opportunity and challenges for the Agra shoe cluster. The footwear cluster in Agra has enough growth potential provided strategic intervention is made in certain "key areas". Strategies in some key areas have been discussed in detail in Action Plan.

KEYWORDS
SMEs, Shoe Cluster, IDR.

INTRODUCTION
In India, the SSI owes its definition to the Industries Development and Regulation (IDR) Act, 1951. The sector has been defined in terms of investment limit in land & machinery (original value) since 1996 and the current investment limit is Rs. 10 million.
The SMEs id defined follows:

Type	Mfg.Enterprise	Service Enterprise
Micro	Up to Rs.25 lakh	Up to Rs.10 lakh
Small	Rs.25 lakh to Rs.5.0 cr.	Rs.10 lakh to Rs.2.0 cr.
Medium	Rs.5.0 cr. to Rs.10.0 cr.	Rs.2.0 cr. to Rs.5.0 cr.

A special role for SMEs was earmarked in the Indian economy with the advent of planned economy from 1951 and the subsequent industrial policy followed by government. India has nearly three million SMEs, which account for almost 50 percent of industrial output and 42 percent of India's total exports. By and large, SMEs developed in a manner, which made it possible for them to achieve the objectives of:
1. High contribution to domestic production
2. Significant export earnings
3. Low investment requirements
4. Operational flexibility
5. Low intensive imports
6. Capacity to develop appropriate indigenous technology
7. Import substitution
8. Technology-oriented industries
9. Competitiveness in domestic and export markets

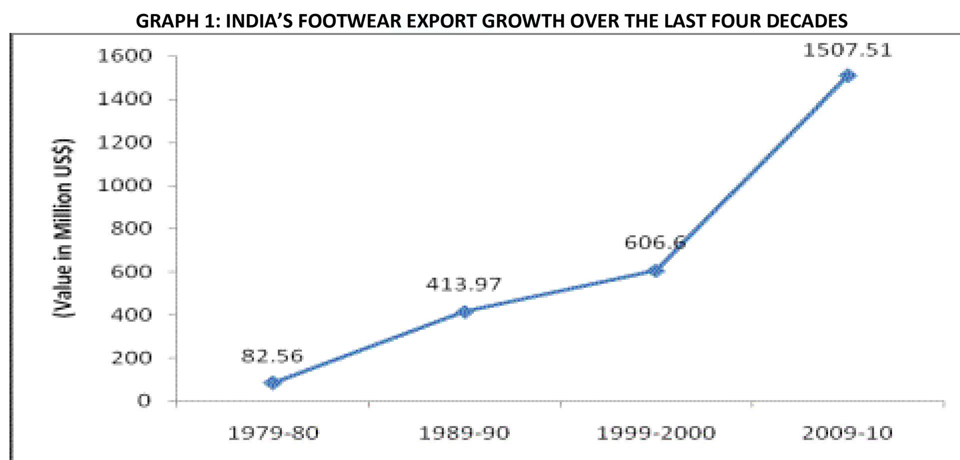
However, as a result of globalization and liberalization, coupled with WTO regime, SMEs have been passing through a transitional period. With enhanced competition from China and a few low cost centers of production from abroad, many units have, of late been facing a tough time. However, those SMEs who had a strong technological base, international business outlook, competitive spirit and willingness to restructure themselves withstood the current challenges and came out successful to make their own contribution to the Indian economy.
It is the most important employment-generating sector and is an effective tool for promotion of balanced regional development. These account for 50 percent of private sector employment and 30 to 40 percent of value-addition in manufacturing. It produces a diverse range of products (about 8000 odd items), including consumer items, capital and intermediate goods. The SSI sector in India employs around 26 million people and is involved with the production of over 7500 industrial items with the product range varying from very simple items produced with traditional technology to high tech products. At present, the SSI sector accounts for over 90% of industrial units in the country, 40% of value addition in the manufacturing output and approximately 35% of India's exports.

OBJECTIVES OF THE STUDY
1. To Evaluate the Economic Contribution of the Shoe SME in the Agra District.
2. To conduct the SWOT Analysis of the Shoe Industry in Agra District.

BRIEF DESCRIPTION OF INDIAN FOOTWEAR INDUSTRY

The Indian leather footwear Industry has undergone remarkable changes during the last three decades, with the large raw material reserve, access to large supply of labour and management. The factory sector of the footwear industry has made rapid strides in the production and export of shoe uppers and full shoes. The government's , trade and industrial policies, institutional support, coupled with progressive entrepreneurship growing demand for export and domestic demand have been the major factors contributing its growth. The clinical changes in the footwear manufacture have brought about traceable and tangible mechanization in the industry. The footwear industry in India is the second largest employer in the country. The concentration of footwear units in various parts of the country is Tamil Nadu, Delhi, Kanpur, Agra, Bangalore, etc. India's footwear export growth during last four decades has been depicted in the following graph.

GRAPH 1: INDIA'S FOOTWEAR EXPORT GROWTH OVER THE LAST FOUR DECADES



Source: http://www.leatherindia.org/footwear_2010.asp

STATUS OF FOOTWEAR CLUSTER IN AGRA

Agra, India's most diverse as well as most tightly knit footwear cluster is a prime example of an artisanally rooted, low-cost cluster with predominantly Cottage/small scale manufactures. It was specialized in cheap handmade build up shoes. Agra is charaterised by a cast based artisanal community that makes and a traders community that sales. The shoe industry in Agra is characterized by an abundance of highly skilled workers and concentration of necessary ancillary units. In addition Agra has a well developed whole sale market both for raw materials and shoes. The rapid changes that have taken place by a way of technological development, transformation of specialized skills, organizational improvements on one hand and tremendous changes in demand for variety of shoes both in domestic and international markets on other hand, were responsible for the growth of this industry in Agra. The Agra Footwear Cluster can be categorized into two parts according to the market they are catering to. These are: Domestic Units and Export Units.

Agra is a larger footwear manufacturing center, in India, having around 60,000 skilled workers and providing employment to around one lack persons in around mostly 5000 cottage, (home based) SMEs entrepreneurs producing about 90 million pairs of shoes and 110 million pairs of sandals and chappals annually, which satisfies approximately 53% of the domestic requirement of the footwear. Traditionally, this has also been a center of cottage industry production, based on family run production units operating from home, however as the production volume increased, these individual units converted into the organized units, thereby improving working standards and conditions. About 25% population of Agra city is directly or indirectly earning their lively hood through this industry. The following tables show the illustrative growth of the modernisation of the footwear industry and the estimation of employment on footwear cluster in Agra:-

TABLE 2: GROWTH OF AGRA SHOE INDUSTRY

S.N.	Year	No. of Mechanised Units	No. of Semi Mechanised Units
1.	1970	10	50
2.	1980	15	85
3	1990	25	120
4	2000	40	180
5.	2005	50	200

Source: agra.nic.in

TABLE 4: ESTIMATES OF EMPLOYMENT IN FOOTWEAR CLUSTER IN AGRA

S.No	Types of Production Units	No. of Unit	Employment (Direct)
1.	House hold units	3000	15 000
2.	House hold workshop	1250	10,000
3.	Non-house hold workshop	500	10,000
4.	Semi-mechanised workshop	200	20,000
5.	Mechanised factories	50	15,000
6.	Workers in ancillary units	--------	18,000
7.	Women job workers	------	10,000
8.	Factory workers (women)	-----	2,000
	Total	5000	1,00,000

Source: agra.nic.in

SWOT ANALYSIS

Given the opportunities and challenges of the Agra Shoe Cluster, several important questions arise for Agra as a player in this segment. First, how is the Agra Shoe industry coping up with the challenges? What are the strengths to be highlighted in the global market and what are the shortcomings that need to be overcome? How do we compare with our competitors and what should be our strategies to effectively compete in the market? Given the fact that India's success in this industry has significant implications on its economy in terms of export revenue and employment generation for educated youths, these questions are of importance.

For the purpose of SWOT analysis a self structured questionnaire was prepared and asked them to fill it up. The questionnaire comprised of a number of statements related to strength, weakness, opportunity and threats which were identified on the basis of informal discussion with the Shoe factory owners, employees, published interviews and secondary sources.

These statements were asked to be rated by the respondents on the basis of 5 point likert scale. The highest rate **one** was to be given to the most favored statement and the lowest rate **five** was to be attributed to the least preferred statement.The statistical tool used for the purpose of SWOT analysis was weighted mean and software used was Microsoft Excel. The weighted mean for every statement was calculated on the basis of rates given by respondents and then every statement was ranked according to weighted mean in order of preference. The matrix of SWOT has been given in the **table** and ranks have been given to each of them according to the weighted mean score.

TABLE 5: SWOT ANALYSIS

RANK	STRENGTHS	AVG. SCORE
	MARKETS	
1.	Strong presence in the domestic market	**2.4**
2.	Ancillary arrangement with medium/SSI units.	**2.3**
3.	Development trust and relationship in the long run.	**2.2**
4.	No import is requiring as all items are indigenous.	**2.1**
	TECHNOLOGY	
1.	Availability of customized and local made machines.	**2.4**
2.	Machinery is available at low price.	**2.1**
	INPUTS AVAILABILITY	
1.	Raw materials are available in sufficient quantity.	**2.3**
2.	Availability of other inputs like Adhsives, chemicals, Last, Punch, mould, Grainderies and packing materials (Boxes) etc.	**2.2**
	INNOVATION CAPABILITY	
1.	Ability to develop duplicate and customized machines.	**2.1**
2.	Flexible operating practices.	**2.0**
	SKILLS	
1.	Workers are very skilled and working like machines.	**2.4**
2.	Workers are specialized in specific field.	**2.3**
3.	Most of the job is learnt while doing in house hold units.	**2.2**
4.	Vast pool of skilled laborers.	**2.1**
	BUSINESS ENVIRONMENT	
1.	Stable business environment till today and increasing day by day.	**2.0**

RANK	WEAKNESSES	AVG. SCORE
	MARKETS	
1.	Imports started coming in especially from China.	**2.5**
2.	Middlemen/traders enjoying most of the profits in the value chain.	**2.3**
	TECHNOLOGY	
1.	Low level of technological development.	**2.4**
2.	Manufacturing defects and use of substandard materials.	**2.3**
3.	Problem with quality and productivity.	**2.3**
	INPUTS AVAILABILITY	
1.	Most of the raw materials are indigenous.	**2.3**
2.	Imported materials are also used.	**2.2**
	INNOVATION CAPABILITY	
1.	Very frequently changes in design, technology, process and marketing due to foreign branded footwear availability in the market.	**2.6**
	SKILLS	
1.	No skill up gradation training for the workers.	**2.2**
	BUSINESS ENVIRONMENT	
1.	Business Environment is changing.	**2.6**
2.	Competition is going to increase.	**2.5**

RANK	OPPORTUNITY	AVG. SCORE
	MARKETS	
1.	The domestic market has tremendous market potential and can be utilized at the maximum.	**2.6**
2.	Globalizations can be user tremendous market potential for the competitive firms (entire globe is the market – global village).	**2.5**
3.	Tariff and non-tariff barriers are depleting.	**2.4**
4.	Quality and productivity is the rule of the game.	**2.4**
5.	Enterprises can join hands together for international marketing, brand buildings and participation in trade fairs.	**2.3**
	TECHNOLOGY	
1.	Advent of latest technology with the intervention of CLRI, FDII, CFTI and foreign country.	**2.6**
2.	Creation of technological awareness among entrepreneurs.	**2.3**
3.	Tremendous enthusiasm on the part of the cluster actors.	**2.2**
4.	Possibility of establishing consider for providing technical knowhow.	**2.1**
	INPUTS AVAILABILITY	
1.	Competition is going to make availability of inputs cheaper and sufficient.	**2.2**
	INNOVATION CAPABILITY	
1.	Exposure visits, participating in exhibitions may make the entrepreneurs and technicians more innovative and problem solving.	**2.3**
2.	Demonstration effect /awareness program.	**2.2**
	SKILLS	
1.	Increased awareness is likely to improve the skill base of the workers.	**2.2**
	BUSINESS ENVIRONMENT	
1.	Changing business environment and marketing channel can provide opportunity for enterprising firms.	**2.3**

RANK	THREATS	AVG. SCORE
	MARKETS	
1.	Competition is going to increase because of setting up modern units elsewhere in the country.	**2.6**
2.	Overseas importers are smart enough to change their sourcing country.	**2.5**
	Survival of the fittest.	
	TECHNOLOGY	
1.	Low level of technological development.	**2.3**
2.	Technology can impose a major threat unless it is changed/ modernised.	**2.2**
3.	Technology is an ever changing process.	**2.1**
	INPUTS AVAILABILITY	
1.	Difficulty in encountering competition unless raw materials are made cheaper.	**2.6**
2.	Quality of raw materials.	**2.4**
3.	Quality of footwear components.	**2.2**
	INNOVATION CAPABILITY	
1.	Innovation is required in every facets of business operations.	**2.4**
	SKILLS	
1.	Skill base of the workers needs up gradation to adopt latest technology.	**2.5**
	BUSINESS ENVIRONMENT	
1.	The changing business environment is always a problem for the less enterprising firms.	**2.3**

Source: Primary Survey

CONCLUSION

To conclude, this research work evaluates the strengths and weaknesses of Agra Shoe industry as a player in this segment vis-a-vis its competitors. The opportunities for the industry are the domestic market has tremendous market potential and can be utilized at the maximum, globalizations can be user tremendous market potential for the competitive firms (entire globe is the market – global village), tariff and non-tariff barriers are depleting, advent of latest technology with the intervention of CLRI, FDII, CFTI and foreign country, creation of technological awareness among entrepreneurs, tremendous enthusiasm on the part of the cluster actors, changing business environment and marketing channel can provide opportunity for enterprising firms, etc. On the other hand major threats to the industry are competition is going to increase because of setting up modern units elsewhere in the country, difficulty in encountering competition unless raw materials are made cheaper, innovation is required in every facets of business operations, the changing business environment is always a problem for the less enterprising firms, etc.

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SAFE MANAGEMENT OF HEALTH CARE WASTE

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ABSTRACT

Bio Medical Wastes have become one of the most widespread and important environmental and public health issues and present day concern throughout the globe and as such, the problem has been recognized as one of the important issues towards abatement of pollution in the country along with the rest of the world. Hospital Waste Management is and important subject that needs urgent attention. It is appropriate to consider an incremental approach realizing that an improvement is of great value even if resources do not allow achievement of highest standards immediately. 'Bio-medical waste' means any solid and/or liquid waste including its container and any intermediate product, which is generated during the diagnosis, treatment or immunization of human beings or animals or in research pertaining thereto or in the production or testing thereof. Over the years there have been tremendous advancements in the health care system. However it is ironic that the health care settings, which restore and maintain community health, are also threatening their well-being. Poor waste management practices pose a huge risk to the health of the public, patients, professionals and contribute to environmental degradation.

KEYWORDS
Health care waste, Bio Medical Waste, Pollution, Safe Management.

INTRODUCTION

There are many examples and ample evidences that improper and unscientific disposal of hospital and bio-medical wastes can cause serious damage to health and environmental. Protection of health and environment is a challenging problem of this county. Environmental pollution is detrimental to human health as people and environment are interconnected (David. W. Pearce, 1993). Hospitals and dispensaries are rapidly increasing due to continuously degrading environment. However, hospitals, themselves generate large quantities of Bio-Medical Waste which is a complex mixture containing infectious, chemical, pharmaceutical and radioactive wastes that can pose health and safety hazards due to its infective and toxic characteristics. As a result there is a growing concern among public and civic bodies about storage, treatment, transportation and ultimate disposal of BMW (WHO, 1999) (A. Pruss, et al., 1999). All producers of waste are legally and financially responsible for the safe and environmentally sound disposal of the waste they produce as per the polluter pays principles. This principle also attempts to assign liability to the party that causes the damage. The costs of separate collection, appropriate packaging and onsite handling are internal to the establishment. The cost of off-site transport, treatment, and final, disposal is external and paid to the contractors who provide the service. The cost of contraction, operation and maintenance of system for managing health-care waste can represent significant part of the overall budget of a hospital or health-care establishment (A. Pruss et al., 1999). However several hospitals are generally small or medium sized and cannot afford to install expensive treatment plants due to various economic constraints.

Bio-Medical Wastes Management has been a neglected subject in India. Recently, the government of India (GOI) has promulgated the Bio-Medical Waste (Management and Handling) Rule in July 1998. As per the GOI Rules, Bio-Medical Wastes have been classified into 10 categories (Ministry of Environment Forests Notification 1998). Of utmost importance is medical waste to be managed in an environmentally sound manner. Environmentally sound management of the medical waste requires proper understanding of medical waste requires proper understanding of risks associated with the disposal of such wastes, and methods of proper segregation, storage, handling treatment and disposal. Collection, transportation and final disposal of large volumes of wastes require a high level of management and technical expertise. There is also a rising public awareness about the need for an environmentally acceptable management of solid wastes. The final disposal of solid wastes can be carried out by several methods incineration, composting, and land filling and recycling certain hazardous wastes such as hospital wastes which of course, should be positively incinerated (P.R. White, et al., 1995).

Bio Medical Wastes includes wastes generated from health care establishment (small and large; private and Government), research facilities and laboratories and also includes course of health care undertaken from residence (insulin injection and dialysis). 75% of waste generated from hospitals, clinics, research centers and laboratories are regarded non ha-zardous and only 25% of wastes are hazardous and toxic. Health Organization regional office for Europe at Bergen, Norway In 1983. The seriousness of the issue was brought to limelight during the "beach wash- ups" of summer 1988. Investigation carried out by the Environment Protection Agency (EPA) of USA in this regard culminated in the passing of Medical Waste Tracking Act (MWTA), Nov 1988.

COMPONENTS OF BIO-MEDICAL WASTE

1. Human anatomical waste (tissues, organs, body parts etc),
2. Animal waste (as above, generated during research/experimentation, from veterinary hospitals etc.),
3. Microbiology and biotechnology waste, such as, laboratory cultures, microorganisms,
4. Human and animal cell cultures, toxins etc,
5. Waste sharps, such as, hypodermic needles, syringes, scalpels, broken glass etc.,
6. Discarded medicines and cyto - toxic drugs
7. Soiled waste, such as dressing, bandages, plaster casts, material contaminated with blood etc.,
8. Solid waste (disposable items like tubes, atheters etc. excluding sharps),
9. Liquid waste generated from any of the infected areas,
10. Incineration ash,
11. Chemical waste.

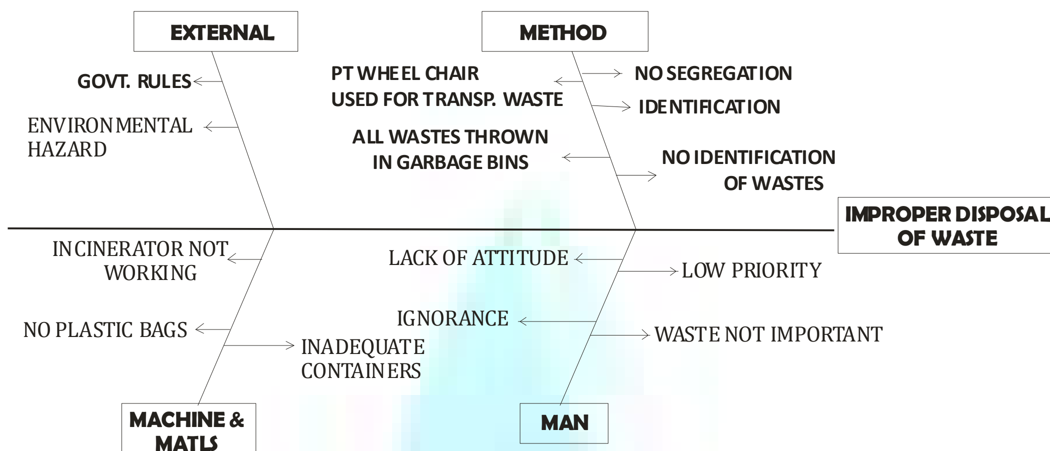
HEALTH HAZARDS ASSOCIATED WITH POOR MANAGEMENT OF BIO-MEDICAL WASTE

a) Injury from sharps to staff and waste handlers associated with the health care establishment.
b) Hospital Acquired Infection (HAI) (Nosocomial) of patients due to spread of infection.
c) Risk of infection outside the hospital for waste handlers/scavengers and eventually general public.
d) Occupational risk associated with hazardous chemicals, drugs etc.
e) Unauthorized repackaging and sale of disposable items and unused / date expired drugs.

HOW TO HANDLE MEDICAL WASTE

Medical waste can be pathogenic, infectious, or physically injurious. These wastes must be handled carefully to prevent personal injury and the spread of disease. Appropriate handling, packaging, marking, and disposal procedures are available to reduce the risk of injury or illness. A medical waste management

plan should be developed based upon the type and quantity of wastes generated. Using good personal hygiene, especially frequent hand washing and sanitizing, is one of the more effective ways of controlling hazards and reducing the risk of infection. Using gloves and other required protective equipment further ensures safety during medical waste handling.



1. Develop a medical waste management plan based upon an inventory of wastes generated. The inventory should include actual and potentially infectious and pathological materials. Disposable materials that have been contaminated with blood or other body fluids must be treated as medical waste. Broken glassware, needles, scalpel blades, and other contaminated sharps should be included in this inventory.
2. Educate and test personnel in the recognition and safe handling procedures for all medical wastes that may be generated. Train people handling medical wastes to use personal protective equipment; sharps containers, proper hand-washing techniques, and surface sanitizing procedures. Be sure medical waste generators and handlers know how to properly don, doff, maintain, and dispose of personal protective equipment.
3. Distribute puncture-proof sharps containers and medical waste "biohazard" bags to waste generating areas. Use red bags with a recognized biohazard warning symbol for collecting medical wastes. Store and ship medical wastes in more durable, leak-proof containers recommended by the transportation and disposal company you use.
4. Segregate infectious and pathological medical wastes from general and hazardous wastes. Store wastes awaiting disposal in a secure area with limited access. This area should contain leakage and be easily cleaned and sanitized.
5. Dispose of medical wastes through a permitted infectious and pathological waste disposal facility. Ensure that the facility uses incineration, steam sterilization, or another approved destruction method for treating medical wastes. Be sure to check with authorities to assure compliance with local waste handling and management requirements.
6. After handling medical wastes, clean and sanitized your hands with antiseptic soap and alcohol-based sanitizing solutions. Sanitize horizontal surfaces and areas that have been in contact with medical wastes frequently. A 10 per cent bleach solution is effective for sanitizing most surfaces.

STATEMENT OF THE PROBLEM

In recent years the mismanagement of hospital waste has become critical in urban areas. In addition to transmission of communicable diseases such as gastro-enteric infections, respiratory infections through air, water, direct human contact with the blood and infectious body fluids could be responsible for transmission of hepatitis B and C and AIDS in the metropolitan cities (P. Rush brook, 1999). The waste generated in these institutions essentially comprises solid and liquid waste estimated to be 80-85% of the waste generated in the hospitals and are not hazardous, while the rest is hazardous or likely to cause infections (Lakshmi Raghupathy, 1998). The waste generated in a hospital will be in the range of 1 to 4.5 kg per bed per day (R.Murali, 1999). The wastes generated from hospital and medical health institutions are a major source of environmental and public health problems thus requiring safe handling and secure disposal.

HOW TO DISPOSE OF HOSPITAL WASTE

Hospitals must dispose of and manage their waste properly. This is done to prevent the *spread* of diseases that *are* borne by hospital waste. According to the World Health Organization, hospital waste is categorized as: infectious, sharps, radioactive, pathological, pharmaceuticals and other waste, which includes contaminated bed linen and utensils. Depending on the type of hospital waste, various methods of disposal have to be adopted.

Waste Category	Treatment & Disposal
Human Anatomical Waste (human tissues, Organs, body parts)	Incineration/ Deep burial
Animal Waste (animal tissues, organs, body parts carcasses, bleeding parts, fluid, blood, and experimental animals ised in research, waste generated by veterinary hospitals colleges, discharge from hospitals, animal houses)	Incineration/ Deep burial
Microbiology & Biotechnology Waste (Wastes from laboratory cultures, stocks or specimens of micro organisms live or attenuated vaccines,human and animal cell culture used in research and infection agents from research and industrial laboratories, wastes from production of biological, toxins, dishes and devices used for transfer of cultures)	Local autoclaving/ microwaving/ Incineration @
Waste Sharps (needles, syringes, Scalpels, blades, glass, etc., that cause puncture and cuts. This includes both used and unused sharps.	Disinfection (chemical treatment/ Autoclaving/ Microwaving and Mutilation shredding
Discarded Medicines and Cytotoxic Drugs (Wastes comprising of outdated, contaminated and discarded medicines)	Incineration / Destruction and drugs disposal in secured landfills.
Soiled Waste (Items contaminated with blood, and body fluids including cotton, dressings, soiled plaster casts, lines, beddings other material)	Incineration/ Autoclaving/ Microwaving
Solid Waste (wastes generated from disposable items other than the waste sharps such as tubings, catheters, intravenous sets, etc.)	Disinfection by chemical treatment/ Autoclaving/ Microwaving and Multilation shredding
Liquid Waste (Wastes generated from laboratory and washing, cleaning, housekeeping and disinfecting activities)	Disinfection by chemical treatment and discharge into drains
Incineration Ash (ash from incineration of any biomedical waste)	Disposal in municipal landfill
Chemical Waste (Chemicals used in production of biological, chemicals used in disinfection, as insecticides, etc.,)	Chemical treatment and discharge into drains for liquids and secured landfill for solids.

1. Prepare a plan to dispose of hospital waste. This plan should take into consideration proper ventilation and premises for disposal. This plan should also find opportunities to minimize, recycle, and perhaps, even reuse waste material if possible. Conduct a waste survey at the hospital. Evaluate various options and estimate the cost of implementing various strategies.
2. Train employees regarding the different types of waste and the way to handle to each type. This should be done for new and old employees alike.
3. Segregate waste material based on the type of waste. The waste should be stored in separate storage containers for each type and should be clearly labeled. Hazardous material should be stored according to regulations. Waste should be stored in a central storage unit before being transported to the disposal plant.
4. Dispose of the waste using a steam autoclave. Shred biohazard as well as normal wastes after being treated by steam autoclaving. Animal pathological waste, chemotherapy wastes and radioactive wastes cannot be treated with a steam autoclave. Pathological wastes like body

HANDLING: PACKAGING, STORAGE & TRANSPORTATION

Handling medical wastes - including initial handling, storage, and transportation-involves issues of potential occupational risks and potential operational problems. Improper handling of medical wastes is closely linked to problems resulting from inadequately packaged and contained wastes as they move about the hospital and then are transported off-site for disposal. The integrity of packaging, particularly of such items as sharps, is critical to ensuring the containment of wastes during their collection, storage, and transportation.

MEDICAL WASTE TREATMENT METHODS

1. Medical waste generally refers to waste generated as a result of health-care activities, most often from hospitals and other types of medical facilities. It includes a wide range of materials, such as needles, chemicals, syringes, body parts, medical instruments and radioactive substances. Lack of medical waste disposal management can increase the risk of infections and diseases to the public and can pollute the environment. Numerous methods are available to treat medical waste and render it less hazardous and noninfectious.
2. Steam Sterilization, also known as autoclave, is a commonly used method of decontaminating hazardous clinical waste. Steam sterilization is an economical method in which medical waste is kept in a specialized sealed chamber and exposed to steam at a specified temperature and pressure for a specified amount of time. Steam sterilization is an excellent alternative to incineration (in which waste deposits are burned under controlled conditions) and also helps to diminish the cost of disposing untreated medical waste.
3. Gas sterilization is not as common as steam sterilization for treating medical waste. In this method, medical waste is put in an evacuated air-tight chamber and treated with a sterilizing agent (such as ethylene oxide or formaldehyde). The gas that comes into contact with the waste penetrates and kills any harmful infectious agents.
4. Grinding of medical waste before exposing it to a liquid chemical disinfectant (such as chlorine bleach) is another medical waste treatment. Grinding ensures sufficient exposure of the chemical agent to all parts of the waste and helps in easy disposal of any residues. The resulting liquids are dropped into the sewer system; solid residues are disposed in landfills,
5. Thermal inactivation is used for treating large volumes of liquid clinical waste. It involves heating waste to temperatures at which infectious agents are killed. The chamber is preheated to a specific temperature at which the waste is held for a specified time, and then released.
6. Irradiation involves sterilizing waste by exposing it to a cobalt source. Cobalt gives out gamma radiations that destroy all microbes in waste.
7. Microwave treatment also can disinfect waste. Waste is shredded, then mixed with water and internally heated to neutralize all biologicals.

Packaging: Polyethylene bags are frequently used for containing bulk wastes (e.g., contaminated disposable and residual liquids); they may have to be doubled bagged with polypropylene bags that are heat resistant if steam sterilization (see below) is used. These bags, however, must be opened or of such a nature as to allow steam to penetrate the waste. Color coded bags are frequently used to aid in the segregation and identification of infectious wastes. Most often red or red-orange bags are used for infectious wastes (hence the term "red bag' waste). An ASTM Standard (#D 1709-75) for tensile strength based on a dart drop test and the mil gauge thickness of the plastic determine its resistance to tearing. Use of the biological hazard symbol on appropriate packaging is recommended by the EPA to assist in identifying medical wastes. In addition, EPA recommends that all of these packages close securely and maintain their integrity in storage and transportation. In general, compaction or grinding of infectious wastes is not recommended by EPA before treatment. Even though it can reduce the volume of waste needing storage, compaction is not encouraged due to the possibility of packages being violated and the potential for aerosolization of microorganisms. Commercially available grinding systems that first involve sterilization before shredding or compaction may alleviate this latter concern .Sharps are of concern, not only because of their infectious potential, but also because of the direct prick/stab type of injury they can cause. For sharps, puncture-proof containers are currently the preferred handling package. In the past, needles were re-capped, chopped, or disposed of by other practices that are no longer common due to their potential for worker injury and, in the case of chopping, for aerosolization of microorganisms during the chopping procedure new technologies for containing needles and facilitating their safe handling continue to emerge.

Storage: Storage of the waste needs to be in areas which are disinfected regularly and which are maintained at appropriate temperatures (particularly if wastes are being stored prior to treatment) EPA recommends that storage time be minimized, storage areas be clearly identified with the biohazard symbol, packaging be sufficient to ensure exclusion of rodents and vermin, and access to the storage area be limited. The importance of the duration and temperature of storing infectious wastes is noted, due to their association with increases in rates of microbial growth and putrefaction. The recommendation by EPA for storage of infectious waste is limited, however, to suggesting that "storage times be kept as short as possible'. EPA does not suggest optimum storage time and temperature because it finds there is "no unanimity of opinion' on these matters. As the EPA Guide notes, there is State variation in specified storage times and temperatures. State requirements often stipulate storage times of 7 days or less for infectious wastes that are unrefrigerated. Sometimes longer periods are allowed for refrigerated wastes.

Transportation: EPA recommendations with respect to the transportation of infectious wastes briefly address the movement of wastes while on-site and in an even more limited way address the movement of wastes off-site. The recommendations are largely limited to prudent practices for movement of the wastes within a facility, such as placement of the wastes in rigid or semi-rigid and leak-proof containers, and avoidance of mechanical loading devices which might rupture packaged wastes. Broader issues, such as record keeping and tracking systems for infectious or medical wastes once they are taken off-site, and the handling and storage of wastes at transfer stations, have not yet been addressed. EPA does recommend that hazard symbols Yet, State and Federal agencies have promulgated conflicting or incompatible guidelines with respect to the use of the biohazard symbol and other transportation specifications. States often follow the EPA guidance on the use of the biohazard symbol, but application of 11 regulations and policies of the Department of Transportation (DOT) and Department of Energy (DOE) may suggest more limited use of the symbol, creating confusion for commercial handlers of medical wastes. DOT has issued regulations for the transportation of etiologic agents. These regulations may apply to most medical wastes contained in packages bearing the biohazard symbol, as a result of the DOT's definition of "etiologic agent" in the Code of Federal Regulations. This is a result of the fact that the precise content of most medical waste boxes with a biohazard symbol is not known, but is likely to contain a defined etiologic agent. Further, the DOT regulations specify that packages of this sort be a maximum of one liter in size. Further, the various classifications of medical, and specifically infectious, wastes by different States complicate the interstate shipment of wastes. Depending on the State, a waste may be designated either as a hazardous, solid, or special waste or simply as freight for the purposes of interstate commerce. Some States have manifest systems, others do not. These factors complicate, but do not prevent, the shipment of wastes within (and outside of) the country. If more medical wastes are shipped between States, which is the apparent trend, the likelihood of accidents will increase. The desirability of more consistent and complete guide lines or regulations regarding the off-site transportation of infectious wastes should be considered in this context.

SUGGESTIONS & CONCLUSIONS

The following suggestions are given in order to improve the performance of the facilities:

1. Practice of basic hygiene and cleanliness in all the medical institutions and hospitals is a fundamental mandatory necessity.
2. It is important to segregate the waste. Segregation must ensure that plastics and metals do not enter incinerator. Non incinerable waste (60% of total waste) can be suitably steam sterilized
3. Collection should be made in separate color coded bags and identified containers. Sharps should be collected separately.
4. Main storage units must be provided near the entrance. These store rooms can be located nearby the entrance which will facilitate the storage of the waste while entering into the premises. The container should be washed and it is directed out of the facility without entering into the treatment unit.
5. Improve the destruction efficiency of incinerator with respect to temperature and residence time.
6. Incinerator should be provided for automatic feeding devices for inlets as provided by CPCB guidelines without inducing back pressure and minimizes the air ingression to avoid the spillage of wastes and also preventing from labor injuries and also preventing sudden temperature fall.
7. Excessive air flow system should be modified to starved air flow system because of 50% of emission controls for without cleaning devices.
8. The temperature at the fully mixed height in the final combustion zone of the incinerator shall be measured and recorded continuously. Temperature sensors shall be located such that flames from the auxiliary burners do not impinge on the sensors.
9. Sharp pit are filled with shredded plastics and sharps. It is recommended plastic shredded material should be segregated and only the sharps should be filled in the sharp pit at both the facilities.
10. A glass recycling unit should be installed in the plant which will reduce the land degradation greatly.
11. The persons handling the waste should use protective gears like apron, thick rubber gloves long boot and face mask. They should be immunized against communicable diseases.
12. The workers should be checked for respiratory disorders at least once in six months, Wearing of personal protective equipments should be encouraged in awareness programme.
13. The prevailing mosaic flooring is to be replaced with white glazed tiles which will enable to identify the spillage easily.
14. For both facilities Logbook data should be entered properly, clearly with actual works carried out. When there is breakdown in treatment units it should be properly recorded.
15. PLC system (Program Logic Control) has to be provided and it should be interlinked with all the unit operations.
16. Operation Management System - A data logger with controller based on solid state microprocessor shall be provided for both incinerator and autoclave at both the facilities.
17. Burners should be maintained in operating condition and conformity about the burners to be noted in the records (log book).
18. Secured landfill coverage should be improved.
19. Each hospital has to make a waste audit and identify the type and quantity of waste that is being generated. It is advisable to over classify the waste rather than under classify. Segregation can reduce the risk waste generation to a great extent.
20. Simple low cost equipment can be used to disfigure the sharps before disposal.

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POST MARITAL SEXUAL ANXIETY AMONG DOCTORS
(A COMPARATIVE STUDY AMONG MALE AND FEMALE DOCTOTRS)

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ABSTRACT
The aim of the present study was to study post marital sexual anxiety among male and female doctors. The target group of 60 doctors in Hassan district, Karnataka, were selected among them 30 were male and 30 were females. The random method was employed in the selection of the sample. The personal data prepared by the investigator and Post marital anxiety scale (Kumar 1994) were used to collect the data. Descriptive statistical analysis has been carried out in the present study. Results on continuous measurements are presented on Mean ± SD (Min-Max). The result reveals that there is no significant relationship between male and female doctors regarding sexual anxiety.

KEYWORDS
doctors, female, male and post martial sexual anxiety.

INTRODUCTION
Sex is one of the basic needs of human beings. But because of lack of sex education, majority of our people have many misconceptions and fears about normal sexual activities. Persons who have problems in the sexual area may present to the doctor with symptoms of anxiety, depression or vague physical symptoms. Some people present with premature ejaculation, partial or total impotency, lack of sexual desire, lack of sexual satisfaction. They would have sought help from self styled quacks and got exploited by them. In many cases the underlying anxiety disorder or depressive disorder may be the cause of sexual inadequacies. Ignorance, misconceptions and guilt complicate the picture. They have to be reassured and properly educated. Treatment is required for the underlying anxiety or depression. The couple has to be counseled initially individually and later on together. ***Anxiety*** is that, with no obvious external cause, impairs daily functioning. ***Sexual anxiety*** refers to fears and apprehensions one holds about his being successful as far as sexual relations in marriage are concerned. These fears and apprehensions are caused by distorted notions one develops about sex during his growing years mostly based on unscientific information he gets from his friends, acquaintances and cheap sex books (Tjaden, 1998; Kumar, 1992).Anxiety about sexual performance is an awful pit to slip into -- and one that is, unfortunately, very common and politically correct in that it can happen to anyone, any gender, any age, any personality type, any IQ. It messes with one's sense of self esteem and self worth and can spread into other areas of performance, causing general and wide spread problems with confidence. Sexual performance anxiety can be caused by even a very brief simple event -- even in very stable, emotionally healthy individuals. The whole dilemma is much like being in a very slippery-sided pit -- the speedier and more frantic you are, the slipperier you make your problem -- the calmer and slower you move in escaping, the more likely you are to escape. With this knowledge, in this study we tried to know the post marital sexual anxiety among male and female doctors who are there to solve this problem many a times. With all knowledge of human body and mind are they in sexual anxiety? With this question we studied post marital sexual anxiety among male and female doctors in Hassan district of Karnataka state.

OBJECTIVE
1. To study post marital sexual anxiety among doctors.
2. To study gender difference in post marital sexual anxiety among doctors.

MATERIALS & METHODS
The sample of present study was taken from doctors in Hassan district, Karnataka. The target groups of 60 doctors were selected among them 30 male and 30 females. The random method was employed in the selection of the sample. The respondents were given assurance of confidentiality.

TOOLS
Following tools were employed in the present study
1. Personal data sheet.
2. Post marital anxiety scale by Kumar 1994.

Personal data sheet: The socio demographic data for the present research was elicited using this personal data sheet. The researcher prepared this schedule himself. This is detailed schedule, which consists of provision to collect data on age, sex, income etc.

Post marital anxiety scale by Kumar 1994 (PMSAS) consists of 16 highly diagnostically sensitive items presented in a 4- point rating format. A numerical value of 1,2,3 and 4 is to be assigned to 'rarely', sometimes, 'often and always responses categories give against each item. The total score on the scale thus varies from 16 to 64, showing the lowest to the highest levels of sexual anxiety of the person. The scale can be scored area-wise also.

RELIABILITY

The split – half reliability, correlating the odd even items and applying the spearman-brown formula for doubling the test length, was found to be .93(n=30), with an index of reliability of .96

Indices	N	r- value	Index of reliability
Split - half	30	.93	.96
Re- test	20	.78	.88

VALIDITY

All the 16 items of the scale were found to be highly diagnostically sensitive as their discriminative value ranged between .27 to .64 following analysis. The area-wise distribution of these items is given in table.

AREA-WISE ITEM DISTRIBUTION

Area	Item nos	Total
Sexual potency(SP)	2, 5, 7, 9, 10,13,16	8
Sexual inhibition(SI)	6, 11, 12, 14	4
Sexual attractiveness(SA)	1, 3	2
Sexual monotony (SM)	4, 8	2

STATISTICAL METHODS

Descriptive statistical analysis has been carried out in the present study. Results on continuous measurements are presented on Mean ± SD (Min-Max) and results on categorical measurements are presented in Number (%). Significance is assessed at 5 % level of significance. The following assumptions on data is made, **Assumptions: 1.**Dependent variables should be normally distributed, 2.Samples drawn from the population should be random, Cases of the samples should be independent. Student t test (two tailed, independent) has been used to find the significance of study parameters on continuous scale between two groups .

RESULTS AND DISCUSSION

The objectives of the present study are to find out the relationship of post marital sexual anxiety among doctors and to study gender difference in post marital sexual anxiety among doctors. The data obtained from 30 male and 30 females doctors, relevant statistical techniques to test the objectives formulated for the study. The results were presented in the Tables.

They are in the age group of 25 to 50 years. **Table 1** shows that mean age of male is significantly less than the female doctors (34.48 vs 38.93 years) . The overall age of doctors studied is 36.63 years

The marital status is 1 to > 5 years. **Table 2** shows marital status is more in females compared to males with P=0.040*

Table3 shows the sexual anxiety among doctors (male & female). There is no strong significant relationship between male and female doctors regarding the sub index of the post marital sexual anxiety scale. Rests of the scores are as follows in the sexual potency the mean & SD of male &female is 11.1±4.52 &10.17±3.81 There is no significant relationship between male and female scores (t= 0.397). In Sexual Inhibition the mean and SD of male and female is 6.71±3.34 & 6.45±2.76 respectively where the total score is 0.743 and there is no significant relationship between male and female doctors. In Sexual attractiveness the mean and SD of male and female doctors are 2.97±1.45 & 2.69±1.00 respectively where the total is 0.394 & There is no significant relationship between male and female doctors. In Sexual Monotony the mean and SD is 3.03±1.62 & 3.10±1.47 of male and female doctors and the total is 0.860& There is no significant relationship between male and female doctors. In all these series there was no significant relationship between male and female doctors. Even there is no significant sexual anxiety was observed among the subjects studied.

CONCLUSION

Sexual anxiety is often part of social anxiety where people may feel that they are inferior to others in some important way or where they are too concerned about other people's reactions to them. When self-confidence is low we are primed to accept negative beliefs about ourselves on the flimsiest of evidence. With about 40% of the population having social difficulties at one level or another, it can be seen that this is, potentially, a major community problem. The human mind has a tendency to look for reasons for everything and then to seek out exclusions even to the 'truth' we then decide upon. That is, even as we decide on something we are looking around for reasons why this decision is wrong. As a small, soft bodied species, this would have been a useful survival trait for our distant ancestors: not being very concerned about change or something new and being unwilling to fully explore its potential problems, could have proved fatal in a dangerous environment.

The difficulty is, in the world today, we still cling to these traits even when they are not useful. When self-doubt is linked in, this means that the person concerned searches for reasons within themselves for any perceived problems. For example, the anxious and self-doubting man does not see a lack of sexual interest in someone whom friends find attractive as an example of personal taste, but rather as a sign that there is something wrong with him. If he then tries to generate such an interest in order to be 'normal' and fails, he is then likely to seek It is not possible to be extremely anxious and sexually aroused at the same time. This is a simple truth about the way the body and mind work together. Unfortunately, many people, do not understand this. Reasons within himself for this. And these reasons are unlikely to be rational ones; rather they will tend to be of a kind that is more ready to accept personal worthlessness as the cause than anything else.

The knowledge of human physiology, anatomy & psychology may be the reason of no anxiety among the doctors regarding sex in our present study. As before study, we have drawn the hypothesis that the persons who are qualified to solve sexual related problems among normal population (who otherwise may be got exploited by quacks) must not have sexual anxiety was correct. As in country like India it is very difficult to convince the people without having somewhat knowledge about biology to answer the questions related to sex we have chosen doctors for the study. Another reason to take up study on doctors is the curiosity that with all knowledge whether these people also face such problems. There is lot of scope for further study .After the study even one can suggest the subjects to the doctors /psychologists and help them to solve the problem and lead happy & safe life.

TABLES

TABLE 1: AGE DISTRIBUTION OF SUBJECTS STUDIED

Age in years	Male		Female		Total	
	No	%	No	%	No	%
25-30	9	29.1	5	17.2	14	23.3
31-40	16	54.8	14	44.8	30	50.0
41-50	4	12.9	10	34.5	14	23.3
>50	1	3.2	1	3.4	2	3.3
Total	30	100.0	30	100.0	30	100.0
Mean+SD	34.48+6.84		38.93+7.01		36.63+7.25	

Mean age of male is significantly less than the females (34.48 vs 38.93 years) . Tha overall Age of the doctors studied is **36.63** years.

TABLE 2: MARITAL STATUS OF SUBJECTS STUDIED

Marital status	Male		Female		Total	
	No	%	No	%	No	%
1(> 5years)	20	66.6	26	86.6	46	76.6
2(<5 years)	10	33.3	4	13.3	14	23.3
Total	30	100.0	30	100.0	60	100.0

P=0.040*

The marital status is more in females compared to males with P=0.040*

TABLE 3: COMPARISON OF POST MARITAL SEXUAL ANXIETY (PMSAS) IN MALES AND FEMALES

PMSAS	Male	Female	Total
Sexual Potency	11.1±4.52	10.17±3.81	0.397
Sexual Inhibition	6.71±3.34	6.45±2.76	0.743
Sexual attractiveness	2.97±1.45	2.69±1.00	0.394
Sexual Monotony	3.03±1.62	3.10±1.47	0.860

There is no significant relationship between male and female doctors regarding any of the sub index of sexual anxiety.

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CLIENTS SATISFACTION TOWARDS PRIVATE LIFE INSURANCE COMPANIES

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ABSTRACT
Life Insurance is the fastest growing sector in India since 2000 as Government allowed Private players and FDI up to 26%. Life Insurance in India was nationalized by incorporating Life Insurance Corporation (LIC) in 1956. All private life insurance companies at that time were taken over by LIC. The insurance sector went through a full circle of phases from being unregulated to completely regulate and then currently being partly deregulated. It is governed by a number of acts. The growth has opened an array of opportunities for global firms to either set-up their division in India or to enter into a joint venture with the Private Insurance Companies in India. In this article clients satisfaction towards private life insurance companies are discussed. Three objectives are framed for the analysis. The private life insurance company should have a clear vision and mission that should be known to all the stakeholders like employees, agents, customers and business associates. To achieve greater insurance penetration, private sector insurance company is to create a more vibrant and competitive industry, with greater efficiency, choice of products and value of customers.

KEYWORDS
Agents, Clients Satisfaction, Life Insurance, Private Sector.

INTRODUCTION
In law and economics, insurance is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for payment. An insurer is a company selling the insurance; an insured, or policyholder, is the person or entity buying the insurance policy. The insurance rate is a factor used to determine the amount to be charged for a certain amount of insurance coverage, called the premium. Risk management, the practice of appraising and controlling risk, has evolved as a discrete field of study and practice. The transaction involves the insured assuming a guaranteed and known relatively small loss in the form of payment to the insurer in exchange for the insurer's promise to compensate the insured in the case of a financial loss. The insured receives a contract, called the insurance policy, which details the conditions and circumstances under which the insured will be financially compensated.

In India, Insurance is a national matter, in which life and general insurance is yet a booming sector with huge possibilities for different global companies, as life insurance premiums account to 2.5% and general insurance premiums account to 0.65% of India's GDP. The Indian Insurance sector has gone through several phases and changes, especially after 1999, when the Govt. of India opened up the insurance sector for private companies to solicit insurance, allowing FDI up to 26%. Since then, the Insurance sector in India is considered as a flourishing market amongst global insurance companies. However, the largest life insurance company in India is still owned by the government.

LIFE INSURANCE IN INDIA
Life Insurance is the fastest growing sector in India since 2000 as Government allowed Private players and FDI up to 26%. Life Insurance in India was nationalized by incorporating Life Insurance Corporation (LIC) in 1956. All private life insurance companies at that time were taken over by LIC. In 1993 the Government of Republic of India appointed RN Malhotra Committee to lay down a road map for privatization of the life insurance sector. While the committee submitted its report in 1994, it took another six years before the enabling legislation was passed in the year 2000, legislation amending the Insurance Act of 1938 and legislating the Insurance Regulatory and Development Authority Act of 2000.

ACTS
The insurance sector went through a full circle of phases from being unregulated to completely regulated and then currently being partly deregulated. It is governed by a number of acts.

The Insurance Act of 1938 was the first legislation governing all forms of insurance to provide strict state control over insurance business.

Life insurance in India was completely nationalized on January 19, 1956, through the Life Insurance Corporation Act. All 245 insurance companies operating then in the country were merged into one entity, the Life Insurance Corporation of India.

The General Insurance Business Act of 1972 was enacted to nationalize the about 100 general insurance companies then and subsequently merging them into four companies. All the companies were amalgamated into National Insurance, New India Assurance, Oriental Insurance and United India Insurance, which were headquartered in each of the four metropolitan cities.

Until 1999, there were not any private insurance companies in India. The government then introduced the Insurance Regulatory and Development Authority Act in 1999, thereby de-regulating the insurance sector and allowing private companies. Furthermore, foreign investment was also allowed and capped at 26% holding in the Indian insurance companies.

In 2006, the Actuaries Act was passed by parliament to give the profession statutory status on par with Chartered Accountants, Notaries, Cost & Works Accountants, Advocates, Architects and Company Secretaries.

A minimum capital of US$20 million (Rs.100 Crores) is required by legislation to set up an insurance business.

PRIVATE LIFE INSURANCE
Insurance industry in India is one of the flourishing sectors, especially general and life insurance which accounts for 2.5% and 0.65% respectively of total India's GDP. The growth has opened an array of opportunities for global firms to either set-up their division in India or to enter into a joint venture with the Private Insurance Companies in India. The industry has witnessed many alterations especially post 1999 when the Indian government allowed the privatization of the

sector to promote insurance for attracting FDI up to 25%. Since then the Indian Insurance industry is regarded as a booming market amongst the international insurance firms. Although, the biggest insurance firm in India is still controlled and governed by the government.

REVIEW OF LITERATURE

P. Muthulakshmi conducted a study on "Satisfaction of insured in Private Insurance Company Ltd.". The objectives were to examine the satisfaction of the insured, to study the performance of private insurance company and to offer suitable suggestions. She found not that, most of the respondents were of the view that, the advertisement about the policies of insurance is inadequate. Hence it was suggested that, the information regarding the insurance policies are to be advertised through notices, postures and banners. She found that the people in rural area are illiterates. The proposal forms and claim forms were printed only in English. Rural people could not read and understand it. So it was suggested that the insurance companies should print the forms in Tamil or both in English and Tamil.

Dr. N. Raman & Ms. C. Gayathri conducted a study on "A Study on Customers Satisfaction towards New Insurance Companies" and they concluded that life insurance is a contract for payment of a sum of money to the person assured on the happening of the event insured against. Usually the contract provides for the payment of premium periodically to the corporation by the assured. Life insurance is universally acknowledged to be an institution, which eliminated 'risk'. It certainly substitutes for uncertainty and comes to the timely aid of the family in the unfortunate event of death of the breadwinner. By and large, life insurance is civilizations partial solution to the problems caused by death.

OBJECTIVES

- To study the awareness of clients about private life insurance companies
- To identify the motivating factors to invest in private life insurance companies
- To find out the client satisfaction towards services offered by private life insurance companies.

METHODOLOGY

This study is mainly based on the Primary data. The well structured questionnaire issued to the respondents regarding the satisfaction of private life insurance. For this purpose, totally 100 respondents were selected for this study. The following tools were used to analyze the client satisfaction, Percentage analysis and Chi-square Test.

STUDY RESULT

TABLE: 1 AGE OF THE RESPONDENTS

AGE	RESPONDENTS	PERCENTAGE
Below 30 years	21	21
31- 40	46	46
41- 50	29	29
More than 50	4	4
Total	100	100

It is seen from the above table that out of total respondents 46% are belong to 31-40 years, 29% respondents are belong to 41-50 years, 21% are belong to below 30 years and 4% are belong to more than 50 years. It is concluded that the majority of the respondents are belong to the age group of 31-40 years.

TABLE: 2 MONTHLY INCOME

INCOME	RESPONDENTS	PERCENTAGE
Below 10000	67	67
10000- 20000	21	21
Above 20000	12	12
Total	100	100

It is observed from the above table that out of the total respondents 67% have their monthly income below 10000, 21% of the respondents are have their income between 10000-20000 and 12% have their income above 20000. It is inferred that majority of the respondents monthly income level falls between below 10000.

TABLE: 3 AWARENESS ABOUT PRIVATE INSURANCE COMPANIES

PRIVATE INSURANCE	AWARE	NOT AWARE
Bajaj Allianz	66	34
ICICI Prudential	71	29
Reliance	33	67
SBI	37	63
Shriram Life Insurance	10	90
HDFC Standard	55	45

From the above table, 66% respondents are aware about Bajaj Allianz, 71% respondents are aware about ICICI Prudential, 33% respondents are aware about Reliance, 37% respondents are aware about SBI, 10% respondents are aware about Shriram Life Insurance and 55% respondents are aware about HDFC Standard. It is found that majority of the respondents are aware of ICICI.

TABLE: 4 AWARENESS ABOUT POLICY DETAILS

POLICY DETAILS	AWARE	NOT AWARE
Rate of Return	96	4
Maturity Value	98	2
Term of Policy	99	1
Additional Benefits	89	11
Surrender Benefits	60	40
Loan Facilities	83	17
Term of Payment	97	3
Amount of Premium	98	2

It is observed from the above table, 96% respondents are aware about Rate of Return, 98% respondents are aware about Maturity Value, 99% respondents are aware about Term of Policy, 89% respondents are aware about Additional Benefits, 60% respondents are aware about Surrender Benefits, 83% respondents are

aware about Loan Facilities, 97% respondents are aware about Term of Payment, 98% respondents are aware about Amount of Premium. It is concluded that majority of the respondents are aware about Term of Policy.

TABLE: 5 PREFERENCE FOR PRIVATE LIFE INSURANCE COMPANY

PRIVATE LIFE INSURANCE COMPANY	RESPONDENTS	PERCENTAGE
ICICI Prudential	32	32
Bajaj Allianz	30	30
SBI	12	12
HDFC Standard	8	8
Reliance	16	16
Shriram	6	6
Total	100	100

The above table reveals that, out of the total respondents 32% respondents are preferred ICICI Prudential, 30% respondents are preferred Bajaj Allianz, 16% respondents are preferred Reliance, 12% respondents are preferred SBI, 8% respondents are preferred HDFC Standard and 6% respondents are preferred Shriram. It may be observed that that majority of the respondents preferred ICICI Prudential Life Insurance.

TABLE: 6 FACTORS MOTIVATED TO INVEST IN PRIVATE LIFE INSURANCE COMPANIES

FACTORS MOTIVATED	RESPONDENTS	PERCENTAGE
Risk coverage	46	46
Compulsory Savings	8	8
Tax concession	22	22
Loan facilities	14	14
Investment avenue	10	10
Total	100	100

It is observed from the above table, 46% respondents are influence by Risk Coverage factor, 22% respondents are influence by Tax Concession, 14% respondents are influence by Loan Facilities, 10% respondents are influence by Investment Avenue and 8% respondents are influence by Compulsory Saving. It is concluded that majority of the respondents are influenced by Risk Coverage.

TABLE: 7 VALUE OF POLICY

VALUE OF POLICY	RESPONDENTS	PERCENTAGE
Below Rs. 100000	40	40
Rs. 100000 to 300000	20	20
Rs. 300000 to 500000	30	30
Above Rs. 500000	10	10
Total	100	100

It is seen from the above table, 40% respondents value of policy is below Rs.100000, 30% respondents value of policy is Rs.300000 to Rs.500000, 20% respondents value of policy is Rs. 100000 to Rs. 300000 and 10% respondents value of policy is above Rs.500000. it is concluded that majority of the respondents value of policy is below Rs.100000.

CHI-SQUARE ANALYSIS

HYPOTHESIS-1 Chi-square analysis on the relationship between Age of the respondents and Value of policy

TABLE: 8

AGE	VALUE OF POLICY				TOTAL
	Below Rs.100000	Rs.1 L to 3L	Rs.3L to 5L	Above 5L	
Below 30 years	12	4	3	2	21
31- 40	10	11	25	-	46
41- 50	16	5	2	6	29
More than 50	2	-	-	2	4
Total	40	20	30	10	100

Calculated Value = 39.9147
Table Value (at 5%) = 16.9
Degree of freedom = 7

The chi-square test was applied to find out whether there is a relationship between age group and value of policy or not. The calculated value of chi-square is 39.9147 and the table value at 5% level is 16.9. The calculated value is higher than the table value. Hence, the null hypothesis is rejected. There is relationship between age group and value of policy.

HYPOTHESIS-2 Chi-square analysis on the relationship between Monthly Income of the respondents and Value of policy

TABLE: 9

MONTHLY INCOME	VALUE OF POLICY				TOTAL
	Below Rs.100000	Rs.1 L to 3L	Rs.3L to 5L	Above 5L	
Below 10000	25	15	17	10	67
10000- 20000	10	5	6	-	21
Above 20000	5	-	7	-	12
Total	40	20	30	10	100

Calculated Value = 11.8058
Table Value (at 5%) = 12.6
Degree of freedom = 6

The chi-square test was applied to find out whether there is a relationship between monthly income and value of policy or not. The calculated value of chi-square is 11.8058 and the table value at 5% level is 12.6. The calculated value is lesser than the table value. Hence, the null hypothesis is accepted. There is no relationship between monthly income and value of policy.

HYPOTHESIS-3 Chi-square analysis on the relationship between Age of the respondents and Term of policy

TABLE: 10

AGE	TERM OF POLICY				TOTAL
	LESS THAN 10 YEARS	10 TO 15 YEARS	15 TO 20 YEARS	ABOVE 20 YEARS	
Below 30 years	1	4	10	6	21
31- 40	1	15	27	3	46
41- 50	-	16	8	5	29
More than 50	3	-	-	1	4
Total	5	35	45	15	100

Calculated Value = 58.6105
Table Value (at 5%) = 16.9
Degree of freedom = 7

The chi-square test was applied to find out whether there is a relationship between age group and term of policy or not. The calculated value of chi-square is 58.6105 and the table value at 5% level is 16.9. The calculated value is higher than the table value. Hence, the null hypothesis is rejected. There is relationship between age group and term of policy.

CONCLUSION

As the market moves from an emerging to an emerged, a change in approach is necessary. There is very tough competition among the private insurance companies on the level of new trend of advertising to cover a major part of Customers. The entries of more private Players in the Insurance Sector have expanded the product segment to meet the different level of the requirement of the customers. It has brought about greater choice to the customers. The private life insurance company should have a clear vision and mission that should be known to all the stakeholders like employees, agents, customers and business associates. To achieve greater insurance penetration, private sector insurance company is to create a more vibrant and competitive industry, with greater efficiency, choice of products and value of customers. After overhauling the all situation that boosted a number of private Companies associated with multinational in the Insurance Sector to give befitting competition to the established private sector.

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RURAL ENTREPRENEURSHIP IN JAMMU AND KASHMIR: OPPORTUNITIES AND CHALLENGES

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ABSTRACT

Rural development is more than ever before linked to entrepreneurship. Institutions and individuals promoting rural development now see entrepreneurship as a strategic development intervention that could accelerate the rural development process. Furthermore, institution and individuals seem to agree on the urgent need to promote rural enterprises, development agencies see rural entrepreneurship as an enormous employment potential. Politicians see it as the key strategy to prevent rural unrest; farmers see it as an instrument for improving farm earnings and women see it as an employment possibility near their homes which provides autonomy, independence and a reduced need for social support. To all these groups, however, entrepreneurship stands as a vehicle to improve the quality of life for individuals, families and communities and to sustain a healthy economy and environment. WTO is fostering globalization and competition worldwide and India is no exception. In the era of internationalization, Indian rural entrepreneurs have more challenging opportunities. They should strive to grab opportunities by overcoming their problems with a view to make them competitive globally. This paper provides a complete look about scope, opportunities and challenges for rural entrepreneurs in agriculture, horticulture, handicraft, handloom and sericulture in the state of Jammu and Kahmir.

KEYWORDS

Rural, Handicraft, Entrepreneurship, Horticulture, Opportunities.

INTRODUCTION

The word 'entrepreneur' is derived from the French word 'entreprendre' which means 'to undertake'. In the early 16th century the French men who organized and led military expeditions were referred to as 'entrepreneurs'. After 1700, the term was applied to other types of adventures, mainly civil engineering like construction of roads, bridges and building[1].

The term 'entrepreneur' was applied to business initially by the French economist, Cantillon, in the 18th century, to designate a dealer who purchases the means of production for combining them into marketable products [2].

Rural development is more than ever before linked to entrepreneurship. Institutions and individuals promoting rural development now see entrepreneurship as a strategic development intervention that could accelerate the rural development process. Furthermore, institutions and individuals seem to agree on the urgent need to promote rural enterprises, development agencies see rural entrepreneurship as an enormous employment potential. Politicians see it as the key strategy to prevent rural unrest; farmers see it as an instrument for improving farm earnings and women see it as an employment possibility near their homes which provides autonomy, independence and a reduced need for social support. To all these groups, however, entrepreneurship stands as a vehicle to improve the quality of life for individuals, families and communities and to sustain a healthy economy and environment.

The entrepreneurial orientation to rural development accepts entrepreneurship as the central force of economic growth and development accepts entrepreneurship as the central force of economic growth and development, without it other factors of development will be wasted or frittered away. However, the acceptance of entrepreneurship as a central development force by itself will not lead to rural development and the advancement of rural enterprises. What is needed in addition is an environment enabling entrepreneurship in rural areas. The existence of such an environment largely depends on policies promoting rural entrepreneurship. The effectiveness of such policies in turn depends on a conceptual framework about entrepreneurship, i.e., what it is and where it comes from. Moreover, the entrepreneurship concept, what it means and where it comes from, in the foundation for policies promoting entrepreneurship and the key to understanding the role of entrepreneurship in development.

Defining entrepreneurship is not an easy task. There are almost as many definitions of entrepreneurship as there are scholar books on the subject[3]. To some entrepreneurship means primarily innovation, to others it means risk-taking, to others a market stabilizing force and to others still it means starting, owing and managing a small business. Accordingly, the entrepreneur is then viewed as a person who either creates new combination of production factors such as new methods of production, new products, new markets, find new sources of supply and new organizational forms; or as a person who is willing to take risks; or a person who, by exploiting market opportunities, eliminates disequilibrium between aggregate supply and aggregate demand, or as one who owns and operates a business[4].

It is false to assume that socially and economically depressed areas will transform into fast growing areas by injection of external investment funds and external expertise. Without entrepreneurial capabilities which are well developed or potentially available, external funds will be wasted on projects that will not provide long term economic growth. Consequently instead of becoming more and more integrated into other economically and socially rich areas, such areas will become increasingly isolated, depopulated, poorer and therefore less and less capable of attracting people who, given other available resources, would make an impact from a development standpoint. Entrepreneurial, orientation to rural development, contrary to development based on bringing in human capital and investment from outside, is based on stimulating local entrepreneurial talent and subsequent growth of indigenous companies. This in turn would create jobs and add economic value to a region and community and at the same time keep scarce resources within the community. To accelerate economic development in rural areas, it is necessary to increase the supply of entrepreneurs, thus building up the critical mass of first generation entrepreneurs[5], who will take risks and engage in the uncertainties of a new venture creation, create something from practically nothing and create values by pulling together a unique package of resources to exploit an opportunity. By their example they will stimulate an autonomous entrepreneurial process, as will as a dynamic entrepreneurship, thereby ensuring continuous rural development.

It is important to stress that rural entrepreneurship in its substance does not differ from entrepreneurship in urban areas. Entrepreneurship in rural areas is finding a unique blend of resources, either inside or outside of agriculture. This can be achieved by widening the base of a farm business to include all the non-agriculture uses that available resources can be put to or through any major changes in land use or level of production other than those related solely to agriculture. Thus, a rural entrepreneur is some one who is prepared to stay in the rural area and contribute to the creation of local wealth. To some degree, however, the economic goals of on entrepreneur and the social goals of rural development are more strongly interlinked than in urban areas. For this reason entrepreneurship in rural areas is usually community based, has strong extended family linkages and a relatively large impact on a rural community.

SIGNIFICANCE OF RURAL ENTREPRENEURSHIP

Diversification into non- agricultural uses of available resources such as catering for tourists, black smithing, carpentry, spinning, etc. as well as diversification into activities other than those solely related to agricultural usage, for example, the use of resources other than land such as water, woodlands, buildings, available skills and local features, all fit into rural entrepreneurship. The entrepreneurial combinations of these resources are, for example: tourism, sport and recreation facilities, professional and technical training, retailing and wholesaling, industrial application (engineering, crafts), servicing (Consultancy), value

added (Products from meat, milk, wood, etc) and the possibility of off-farm work. Equally entrepreneurial, are new uses of land that enable a reduction in the intensity of agricultural production, for example, organic production. Dynamic rural entrepreneurs can also be found. They are expanding their activities and markets and they find new markets for their products and services beyond the local boundaries.
Although agriculture today still provides income to rural communities, rural development is increasingly linked to enterprise development. Since national economies are more and more globalized and competitions is intensifying at an unprecedented pace, affecting not only industry but any economic activity including agriculture, it is not surprising that rural entrepreneurship is gaining in its importance as a force of economic change that must take place if many rural communities are to survive. However, entrepreneurship demands an enabling environment in order to flourish.

OBJECTIVES OF THE STUDY

1. To identify the economic pattern of rural entrepreneurship in the area (J&K).
2. To review the opportunity for rural entrepreneurship in J&K.
3. To study the challenges for rural entrepreneurship in J&K.

METHODOLOGY ADOPTED

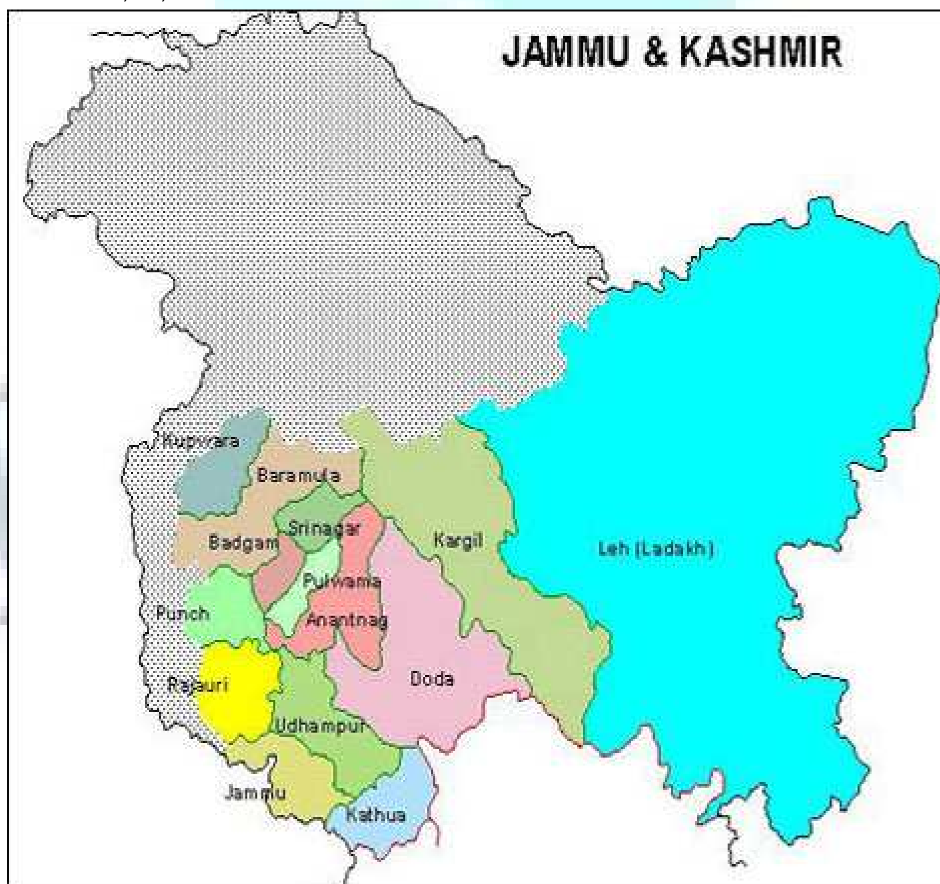
Significant part of the study depends on secondary sources. But information has also been obtained from primary sources which include interviews, comments, observations, opinion, notes, etc. of the persons concerned with the rural sector. The primary information was also gathered through discussion with persons in District Industries centre (DIC), DSEO, Chief Agriculture office, ACD Office. Materials for the present study were collected from the published records available in the library of Baba Ghulam Shah Badshah University, Rajouri (J&K), DSEO, District Industries Centre, Rajouri, various Economic survey, magazines, journals, annual reports and periodicals, have also been gone through to derive information pertaining to the present study.

LIMITATIONS OF THE STUDY

Nothing is perfect so is this study. The present study suffers from certain limitations. The study is based on the information from secondary source which reduce the degree of reliability. However, attempt has been made to collect maximum information from the official record of agriculture sector in general and J&K in particular on the various aspects of the study. Most of the departments neither publish the information nor do they allow the outsiders an access to their records, internal workings etc. on the pretext of maintaining secrecy. This restricts the data availability. It was difficult to collect all the necessary data from grass-root level.

GEOGRAPHICAL SCENARIO

The State of Jammu & Kashmir is situated in the extreme north of India and is bounded by china in the north and east, by Afghanistan in the north-west, by Pakistan in the west and by the States of Punjab and Himachal Pradesh in the south.
The State of Jammu & Kashmir can be divided into three regions i.e
i) Ladakh
ii) Kashmir Valley and
iii) Jammu.
There were fourteen districts in J&K at the time of 1981 Census and their number remained the same even in 2001 census. Census could not be conducted in 1991 due to disturbed conditions prevailing in the State. The State of Jammu & Kashmir has 14 district, 59 sub- Districts (Tahsils), 121 CD Blocks, 6,652 villages and 75 towns (of which 72 are statutory and 3 census towns). The state covers an area of 222, 236.0 Km^2.[6]
According to the census 2001, the total population of Jammu & Kashmir state is 10,143,700 which is 0.99 percent of the total population of the country. Out of this population 5,360,926 are male and 4,782,774 famales[7].



OPPORTUNITIES FOR RURAL ENTREPRENEURSHIP

AGRICULTURE

Jammu and Kashmir is basically an agrarian economy. The dependence of rural labor force on agriculture and allied activities is quite substantial as it directly or indirectly, supports about 70 percent of population. As per census 2001, 18.38 lakh persons comprising 15.92 lakh cultivators and 2.46 lakhs as agricultural labourers depend directly on Agriculture for their livelihood forming about 49 percent of the total working force (37.54 Lakh persons).

PRODUCTION OF MAIN CROPS

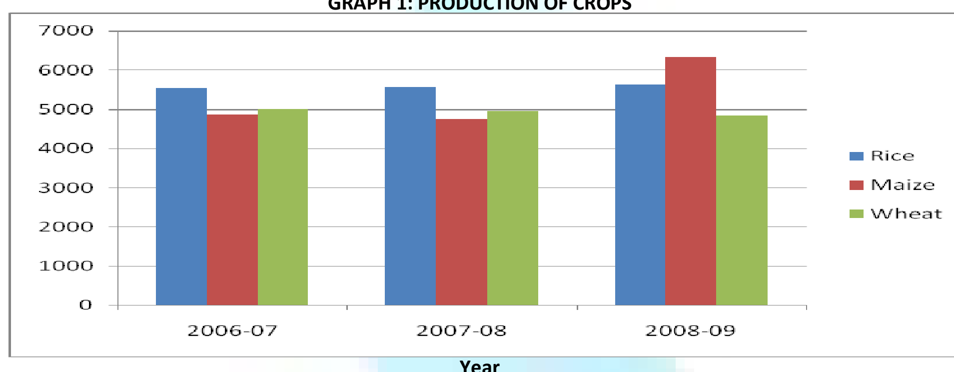
Production of main crops during the period 2006-07 to 2008-09, has been computed in Table 1.

TABLE 1: PRODUCTION OF CROPS

Year	Rice	Maize	Wheat
2006-07	5546	4869	4983
2007-08	5574	4751	4959
2008-09	5638	6332	4835

Source: Agriculture production deptt., J&K

GRAPH 1: PRODUCTION OF CROPS



Year

SAFFRON

Kashmir's agriculture has an international identity. The world's best saffron is grown in the valley and its major intensity is in district Pulwama and Budgam. Nearly 98% of total area in the state under the crop is cultivated in Kashmir province only. Its cultivation in Jammu division is limited to district Kistwar only.

HORTICULTURE

Horticulture provides ample opportunities for sustaining large number of agro industries which generate substantial employment opportunities.
J&K is well know for its horticultural produce both in India and abroad. The state offers good scope for cultivation of all types of horticultural crops covering a variety of temperate fruits like apple, pear, peach, plum, apricots, almond, cherry and sub tropical fruits like mango, guava, citrus litchi, phalsa, berete.

PRODUCTION

The overall production of fruit has been recorded to be 16.91 lakh metric tones for the year 2008-09.

TABLE 2: PRODUCTION OF FRUIT

Year	Fresh Fruits				Dry Fruits				Total Fruits
	Apple	Pear	Others	Total	Walnuts	Almond	Others	Total	
2006-07	1222.18	43.09	108.41	1373.68	114.93	15.18	0.22	130.33	1504.01
2007-08	1311.85	45.86	120.31	1477.92	146.78	11.26	0.24	158.28	1636.20
2008-09	1332.81	47.38	150.74	4530.94	147.64	12.17	0.25	160.06	1691.00

Source: Directorate of Horticulture (P&M), J&K.

The production of fruit for 2008-09 was 16.91 lakh metric tones with 15.31 lakh metric tones fresh and 1.60 lakh metric tones dry fruit.

OPPORTUNITIES FOR RURAL ENTREPRENEURSHIP IN INDUSTRY

Unfortunately, J&K has not been able to attract investments in this sector and remained an industrially backward state due to its unique economic disadvantages rising out of remoteness and poor connectivity, hilly and often inhospitable terrain, weak resource base, poor infrastructure, sparse population density, shallow markets and most importantly a law and order situation threatened by militancy. Nevertheless, many small and medium scale industries have come up basically in the traditional sectors along with some new areas like food processing, agro-based units and metallic and non metallic products. However, natural factors are more conducive for handicrafts, village and small scale industries.

HANDICRAFTS

Handicraft activities occupy an important position in the economic structure of J&K state. Being environment friendly these activities are best suited to the state as they are more labour intensive and less capital intensive in nature, therefore, having scope for employment generation at a large scale. J&K handicraft products have won world wide fame for their attractive designs, functional utility and high quality craftsmanship. In absence of large scale industries in the State, handicrafts remained a key economic activity from times immemorial. Crafts like shawls, crewels, namdha, chain stitch, wood carving, costume jewellery, kani shawls and carpets hold a significant share in the overall production and export of the state. Silken carpets in particular constitute a specialty having no parallel in quality and design at national level and therefore, occupy an important position in the international market. The handicraft sector of the State has great contribution towards foreign exchange earnings to the State and country in particular. Handicraft sector also plays an important role in the development and the welfare of artisans.
The sector engages approximately 3.74 lac artisans in manufacturing handicraft products in J&K State.

PRODUCTION AND EXPORT OF HANDICRAFT GOODS

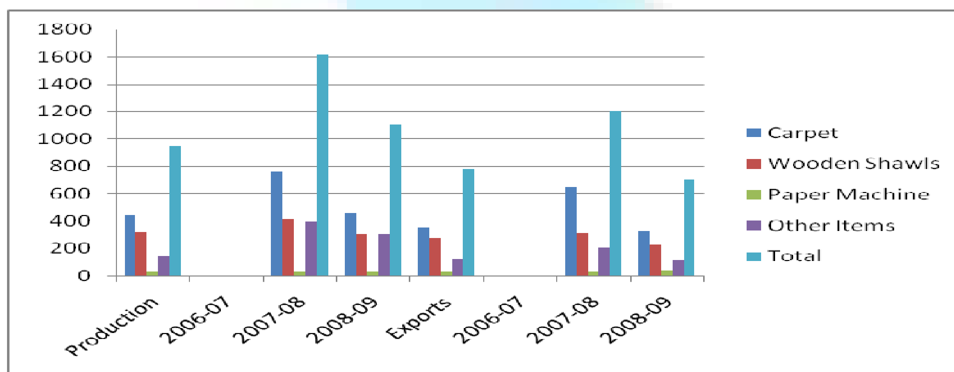
Production of various handicraft goods for the year 2008-09 stood at Rs 1100 corer. Exports of handicraft have also maintained an upward trend. The export figure of handicraft goods worth Rs 705.50 corers during 2008-09 become low as compared to previous years due to the global recession in the world market.

TABLE 3: PRODUCTION AND EXPORT OF HANDICRAFTS GOODS

Year	Carpet	Woollen Shawls	Paper Machine	Other Items	Total
Production 2006-07	450.00	320.00	35.00	144.50	950.00
2007-08	761.27	420.58	37.92	394.82	1614.59
2008-09	457.60	303.45	35.49	303.46	1100.00
Exports 2006-07	351.50	275.00	31.50	127.00	785.00
2007-08	649.02	310.29	33.65	207.51	1200.47
2008-09	326.00	226.5	41.00	112.00	705.50

Source: Economic survey 2009-10, Directorate of Economic & Statistics, J&K.

GRAPH 2: PRODUCTION AND EXPORT OF HANDICRAFTS GOODS



Source: Economic survey 2009-10, Directorate of Economic & Statistics, J&K.

HANDLOOMS

The tradition of weaving by hand constitutes one of the richest and most vibrant aspects of the economic and cultural heritage of the State. This industry is a labour intensive cottage industry having considerable employment potential after Agriculture, Tourism and Handicraft sector. The industry is centuries old known for specialized weaving for Pashmina shawls, Raffal shawls, silk sarees, Kishtwari Blankets, loies, chashme Bulbul Blankets in hilly areas of the state, cotton check bed sheets and long cloth in Jammu and Kathua district. The production of these textile goods, having great demand in the National and International market. Handloom is low energy sector with no adverse impact on environment as weaving in totally pollution free activity.

SERICULTURE

J&K state has a significant role in view of its unique climate condition in the country for the production of bivoltine silk, which is one of the priority areas of the Indian silk Industries. India is the 2nd largest producer of Silk in the world after china. It is an agro based cottage industry with a high capacity of employment generation in the rural areas. It has the capacity to ameliorate the economic condition of small areas by providing employment opportunities in pre and post cocoon activities and is useful in upliftment of cultivators' income. Sericulture activity covers plantation of mulberry trees, culturing of silkworms, production of cocoons and raw silk. One of the features of this farm based economic enterprise is the involvement of women. While cultivation of mulberry and harvesting of

leaf is carried out by male members, silk worm rearing is done mostly by women. The rearing of silk worms is done in rural areas, and the reeling and weaving is confined mostly to urban areas.

About 22,000 rural families in 2,300 villages are presently associated with silkworm. Annually about 800 MTs of cocoons are produced in the State generating an income of about 800.00 lacs by generating four lacs Mandays in different departmental activities and one lacs Mandays in post cocoon sector. About 1.50 lac meters of silk cloth are produced per annum which again generates income and employment , in the state.

India has the unique distinction of producing all four varieties of silk viz; Mulberry, Eri, Tasar and Muga. Mulberry alone, accounts for 92.5% of the total raw silk production in the country, whileas Eri with 5.3%, Tasar 1.7% and Muga with 0.5%, accounts for rest of the production[8].

OPPORTUNITIES

Opportunities for rural entrepreneurship in J&K are as follows:

1. The state has borders with Pakistan, Tibet and china which offers excellent opportunities for pursuing trade with these countries. Restoration of old trade links and opening of new trade links will certainly help the state economy.
2. The state has huge number of skilled manpower available which on account of shortage of resources remains mostly unutilized. This skilled manpower is available particularly in handicrafts, handlooms, sericulture and other export oriented sectors of the economy.
3. The natural factors are more conducive for handicrafts, setting-up of small and medium scale industries in the traditional sector along with some new areas like food processing, agro based units.
4. Handicraft sector has a tremendous potential for foreign exchange earning and creating more employment opportunities in the state.
5. GOI, Economic Survey (2009-10): Directorate of Economics of Economics & Statistic , J&K. P. 229.
6. Food processing offers tremendous opportunity for rural entrepreneur.
7. Opportunity in modern packaging.
8. Manufacturing of sports goods like cricket bets.
9. Handicrafts is more labour intensive and less capital intensive in nature.
10. In absence of large scale industries in the State, handicrafts remained a opportunity for rural entrepreneurship.
11. Climate for sericulture is good opportunities for rural entrepreneurs.
12. Strong base of traditional skills not found else where.
13. Untapped natural resources.
14. A natural environment which can be utilized by the entrepreneurs in the field of sericulture, fisheries, floriculture, livestock, agriculture, handlooms etc.
15. Rural entrepreneurship can reduce the migration of skilled labours from J&K to another state.
16. Opportunities in the field of making Taat, Grass Taat, Kangri, etc.

CHALLENGES

Main challenges for rural entrepreneurship are as follows:

1. The Jammu & Kashmir State has suffered badly from disturbed condition prevailing in the state for almost more than two decades.
2. The Jammu and Kashmir State with its varied and diversified geographic, agro-climatic and topographic features poses very peculiar and unique problems for rural entrepreneurs.
3. Closed corner location, remoteness and isolation from major markets, scattered population, and lack of economic infrastructure and dislocation of normal civic life during the last two decades all these factors and characteristics define special developmental challenges.
4. Remoteness and isolation is a major challenge. It is landlock and located far from the major markets.
5. High transport costs make it harder to turn to the major markets to compensate for the drawbacks of the small size of its domestic markets.
6. Due to adverse climatic conditions during winters, agricultural activities remain suspended as a result of which, only one crop is sown during the year in most path of the state.
7. Because of its small domestic markets J&K is relatively un-diversified in its production structure and exports.
8. Inadequate double cropping due to lack of irrigation facility in some areas and climatic difficulty in others.
9. Inadequate research in the field of agriculture in the state.
10. Horticulture is no doubt contributing substantially to the State GDP but there are certain problems which are providing as hindrances for further growth of this sector. The problem areas are:
    Absence of post Harvest infrastructure non- establishment of cold storages has locked the growth of Horticulture.
    Surprisingly there is not even a single cold storage facility for apple preservation in the valley. The lack of this facility forces the entrepreneurs to sell their produce at cheaper rates.
11. There is inadequacy of agro-processing facility 30% of apple produced in the state are of low grade which can be processed for value addition rather than direct sale.
12. Locational disadvantage is another issue of concern. The main consumption markets of the country are far away from production centers in the state. Lack of modern and efficient infrastructure like fast means of connectivity aggravates the problem of transporting the fruits especially of perishable nature to the main markets of the country.
13. A major constraint to the development of agriculture in J&K is the fact that only 50% of the ultimate irrigation potential of the state has been harnessed.
14. J&K state is also deficient in rainfall;
15. Hilly terrain.
16. Small and fragmented land holdings.
17. Fragile soil in hilly areas susceptible to soil erosions.
18. Lack of training and awareness.
19. Lack of market links and tie up.
20. Distant market and higher air freight.
21. Less market accessibility due to poor communication/road links.
22. The handloom sector adversely affected by the machine made fabrics and trade liberalization is facing multifaceted challenges from the textile sector. Poor productivity of weavers increased cost of production of handloom cloth, cheaper synthetic substitutes in textile sector and changing consumer tastes has given a serious blow to the handloom sector.
23. The production of quality bivoltine silk is still a challenge.

SUGGESTIONS

WTO is fostering globalization and competition worldwide and India is no exception. In the era of internationalization. Indian rural entrepreneurs have more challenging opportunities. They should strive to grab opportunities by overcoming their problems with a view to make them competitive globally. In order to attract more entrepreneur the need of the hour is to provide more subsidy in the agriculture, handloom, handicraft, horticulture and sericulture sector. Rural entrepreneurs should use latest technologies in different production process of cocoons in sericulture. The production of quality bivoltine silk is still a challenge.

Rural entrepreneurs should shift from conventional sun drying of cocoons to the concept of hot air drying. The Hot Air Dryer will facilitate the timely drying of cocoons on scientific lines in bulk (3000 kgs per shift) which will help the farmers to maintain the quality of cocoons and to fetch better prices and timely disposal of the cocoons.

Diversification of agricultural activities is the need of the hour to keep up with the changed circumstances. State Government should comeforward for establishment of cold storage for apple. Rural entrepreneurs are using old marketing techniques they should use of IT in marketing, and use of modern packaging.

Rural entrepreneurs should go in the field of horticulture because one hectare of land planted with fruit trees provides additional employment for one thousand mandays.

Rural entrepreneurs should make attractive designs, functional utility and high quality craftsmanship. To give boost to handloom sector, the government should focus on product design, diversification and provide credit facilities to rural entrepreneurs.

Microfinance is widely accepted as a 'miracle cure' for eradication of poverty. There are more than 20,000 microfinance institutions operation in developing countries. These institutions should comeforward to provide credit facility to rural entrepreneurs.

CONCLUSION

Rural Entrepreneurship has an important role to play in the development of a country. It is one of the most important inputs in economic development. The number and competence of entrepreneurs affect the economic growth of the country. Entrepreneurship has been termed as the fuel of economic progress and the prime mover of economic growth and development. Finally, the study concludes with the observation that rural entrepreneurship is a prestigious area in the rural development of the nation. They are playing a pivotal role in India's economic development. Thus entrepreneurship is the best way to fight the evil of unemployment.

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IMPACT OF DEMOGRAPHIC VARIABLES ON PERFORMANCE OF ENTREPRENEURS IN KERALA

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ABSTRACT
The Indian employment market is uncertain. The number of unemployed youth is ever increasing. In this context, both the Central and State governments are working on to develop entrepreneurship as a recourse to employment problems. Innovative marketing is a requirement for any business. This paper throws light towards the concepts and practice of awareness creation on entrepreneurial ventures and to analyse the influence of demographical variables on the performance of entrepreneurs in Kerala. In order to do so, there needs to be specific skill and knowledge set needed from the individual irrespective of the sex or creed who is looking for entrepreneurship. In western countries, they have tried the concept of Entrepreneurships who by virtue of his skill and knowledge set will be able to run an organization on his own by working inside the confines of a parent organization. This has taken empirical study in arriving at the conclusions. The main intention behind this paper is to enhance the entrepreneurship concepts to Indian society.

KEYWORDS
Entrepreneurship, Innovative marketing, skill and knowledge.

INTRODUCTION
Entrepreneur is a person who innovates, allocates and manages the factors of production. An Entrepreneur is the one who plays a significant role in the economic development of the country. This person can be regarded as the one who has initiative skill and motivation to set up a business or an enterprise of his own and who always envisions high achievements and success. He is a catalyst of social change and he works for common good.
According to Mary Kay Ash (2002), "When you reach an obstacle, turn it into an opportunity. You have the choice. You can overcome and be a winner, or you can allow it to overcome you and be a loser. The choice is yours and yours alone. Refuse to throw in the towel. Go that extra mile that failures refuse to travel. It is far better to be exhausted from success than to be rested from failure." This particular person has the ability to perceive latest economic opportunities and to device their exploitation. This particular person is the supplier of resources, supervisor, and coordinator and ultimate decision maker. According to Abhimanyu (2001), "An entrepreneur tends to bite off a little more than he can chew hoping he'll quickly learn how to chew it". An entrepreneur is a person who is able to express and execute the urge, skill; motivation and innovative ability to establish a business or industry of his own either alone or in collaboration with his friends.

ENTREPRENEURSHIP DEVELOPMENT PROGRAMME
Entrepreneurs are not just born, they can be developed and trained to undertake and trained to undertake ventures and be creative. Every body doesn't have the potential to become an entrepreneur. Entrepreneurship development programme means "a carefully designed programme, intended to help an entrepreneurial aspirant to acquire entrepreneurial qualities such as motivation for accomplishments, and skills and competencies necessary for playing his entrepreneurial roll efficiently." Entrepreneurial development is essentially an educational process and endeavor in human resource development. Development of entrepreneurship incorporates four basic issues as...
- Availability of material resources
- The selection of real entrepreneurs
- The formation of industrial units
- Policy formulation for the development of the region.

OBJECTIVE OF THE STUDY
The main objective behind this study is to analyze the impact of entrepreneurship ventures on society. Especially the impact of demographic variables on the performance of entrepreneurs in Kerala.

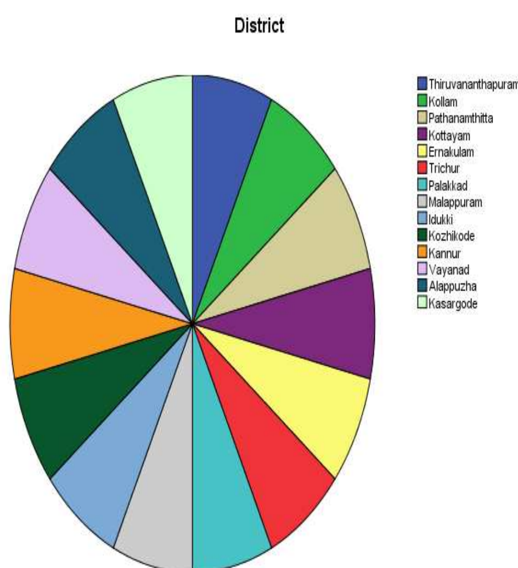
SAMPLING AND METHODOLOGY
Kerala,"God's own country ", is blessed with lot of resources. Unfortunately people are not utilizing the potential to its maximum.15 entrepreneurs were selected from each district on the basis of probability sampling methodology.

ANALYSIS AND INTERPRETATION
Based on the survey a sample size of N=210 was collected and the demographic variables were taken into consideration for descriptive. The demographic variables used for descriptive are as under:
- District
- Gender
- Age
- Qualification
- Type of Family

DESCRIPTIVE OF ENTREPRENEURS IN EACH DISTRICT

District	Frequency	Percent	Valid Percent	Cumulative Percent
Thiruvananthapuram	15	7.1	7.1	7.1
Kollam	15	7.1	7.1	14.3
Pathanamthitta	15	7.1	7.1	21.4
Kottayam	15	7.1	7.1	28.6
Ernakulam	15	7.1	7.1	35.7
Trichur	15	7.1	7.1	42.9
Palakkad	15	7.1	7.1	50.0
Malappuram	15	7.1	7.1	57.1
Idukki	15	7.1	7.1	64.3
Kozhikode	15	7.1	7.1	71.4
Kannur	15	7.1	7.1	78.6
Vayanad	15	7.1	7.1	85.7
Alappuzha	15	7.1	7.1	92.9
Kasargode	15	7.1	7.1	100.0
Total	210	100.0	100.0	

The above table indicates the district wise distribution of entrepreneurs in the state of Kerala. It can be seen that each district has a sample size of 15 which is based on the probability sampling.



DISTRICT-WISE DISTRIBUTIONS OF ENTREPRENEURS

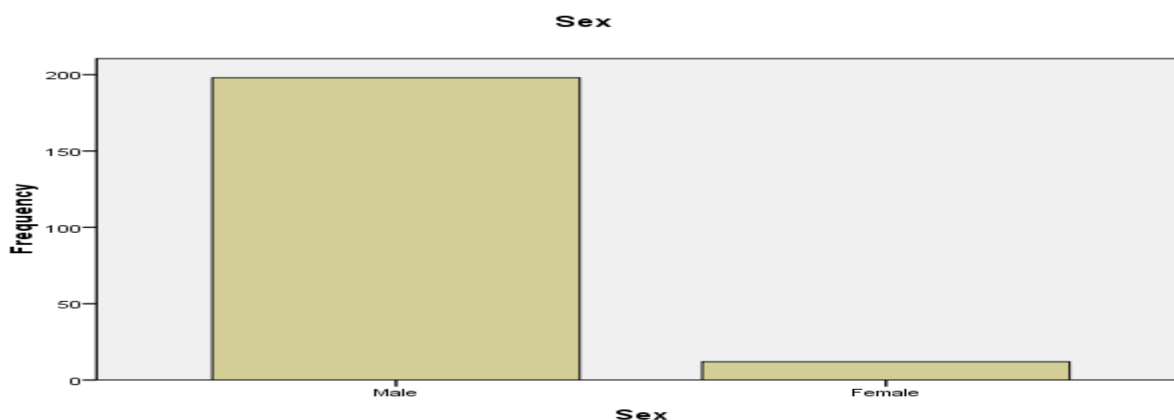
From the above figure, it can be seen that the distribution of entrepreneurs is equal across districts (N= 15 per district).

GENDER WISE DISTRIBUTION OF ENTREPRENEURS

	Gender	Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Male	198	94.3	94.3	94.3
	Female	12	5.7	5.7	100.0
	Total	210	100.0	100.0	

From the above table it is clear that among the 210 samples, 94.3% of the population is male entrepreneurs and the remaining are female entrepreneurs. This shows that the majority of the entrepreneurs surveyed are male.

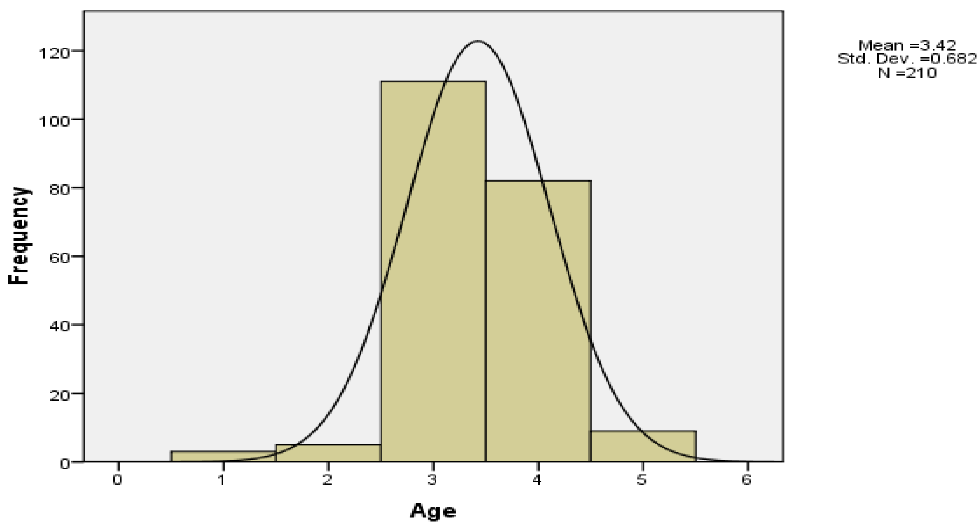
GENDER WISE DISTRIBUTIONS OF ENTREPRENEURS



AGE WISE DISTRIBUTION OF ENTREPRENEURS

Age	Frequency	Percent	Valid Percent	Cumulative Percent
Less than 25 years	3	1.4	1.4	1.4
26 years to 35 years	5	2.4	2.4	3.8
36 years to 45 years	111	52.9	52.9	56.7
46 years to 55 years	82	39.0	39.0	95.7
Above 55 years	9	4.3	4.3	100.0
Total	210	100.0	100.0	

The age wise distribution of entrepreneurs is given in the above table and it can be seen that the majority of the entrepreneurs belong to 36 to 45 ages



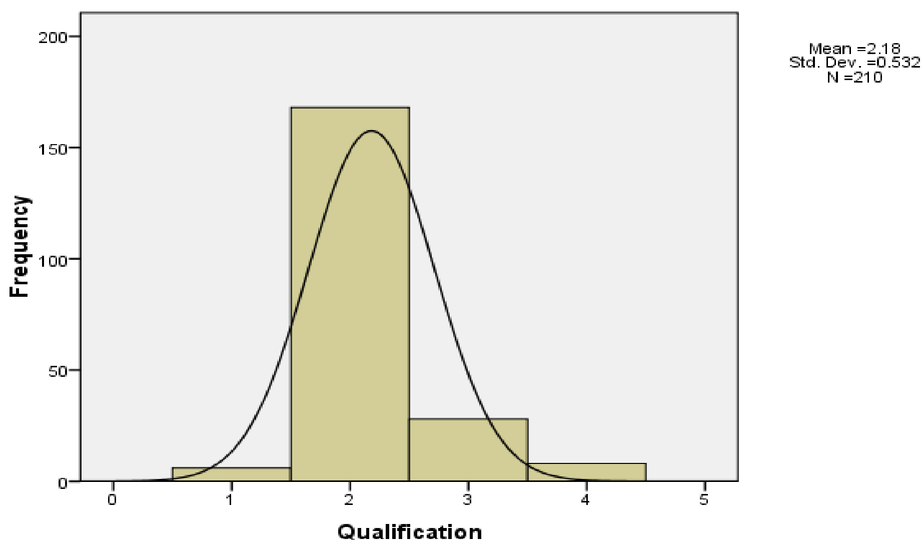
AGE WISE DISTRIBUTION OF ENTREPRENEURS

The above histogram provides a pictorial distribution of the entrepreneurs' age with normal curve fitted to it.

EDUCATIONAL QUALIFICATION OF ENTREPRENEURS

Education	Frequency	Percent	Valid Percent	Cumulative Percent
School Level	6	2.9	2.9	2.9
College Level	168	80.0	80.0	82.9
Professional Level	28	13.3	13.3	96.2
Others	8	3.8	3.8	100.0
Total	210	100.0	100.0	

The above table shows that the majority of the entrepreneurs are graduates which justify the high educational level in Kerala state. Also around 13% of the entrepreneurs surveyed are professionals.



EDUCATIONA QUALIFICATIONS OF ENTREPRENEURS

The above histogram depicts the age wise distribution of the entrepreneurs with a normal curve fitted to it.

FAMILY ORIENTATION OF ENTREPRENEURS

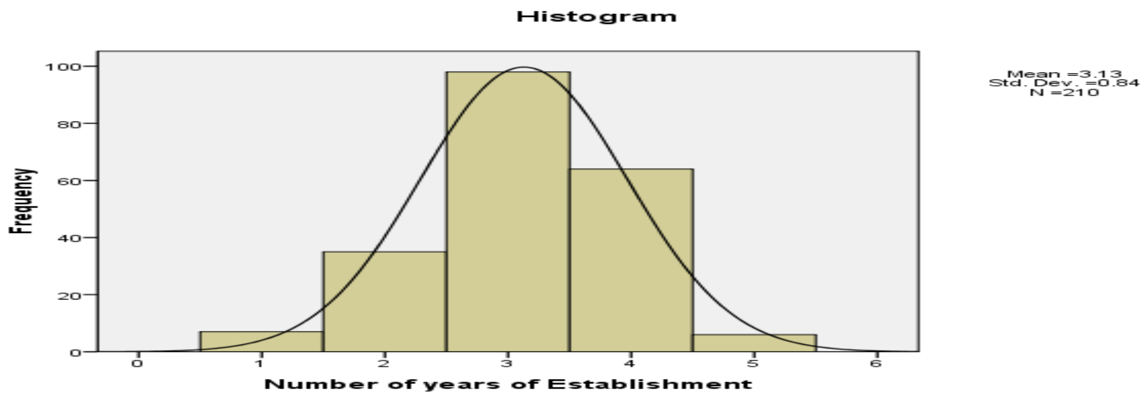
Family type	Frequency	Percent	Valid Percent	Cumulative Percent
Joint	112	53.3	53.3	53.3
Nuclear	98	46.7	46.7	100.0
Total	210	100.0	100.0	

The above table indicates that out of the entrepreneurs surveyed, approximately half are from a joint family orientation and the other half are nuclear family oriented.

PERIOD OF EXISTENCE OF THE ENTERPRISE

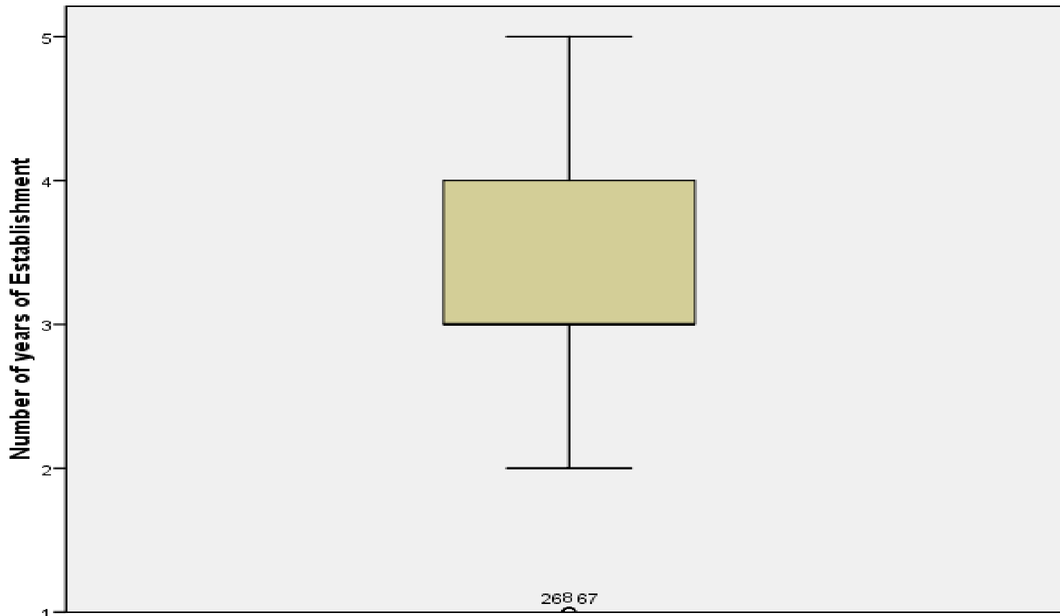
Years	Frequency	Percent	Valid Percent	Cumulative Percent
Less than 5 years	7	3.3	3.3	3.3
5 years to 10 years	35	16.7	16.7	20.0
10 years to 15 years	98	46.7	46.7	66.7
15 years to 20 years	64	30.5	30.5	97.1
Above 20 years	6	2.9	2.9	100.0
Total	210	100.0	100.0	

This above table shows the period of existence of the enterprise. From the above, it can be seen that 95% of the firms were in the business for a 5 to 20 year period. Around half of the business existence range is 10 to 15 years.



PERIOD OF EXISTENCE OF THE ENTERPRISE

The above histogram shows the distribution of the existence of the enterprise with a normal curve fitted to it.



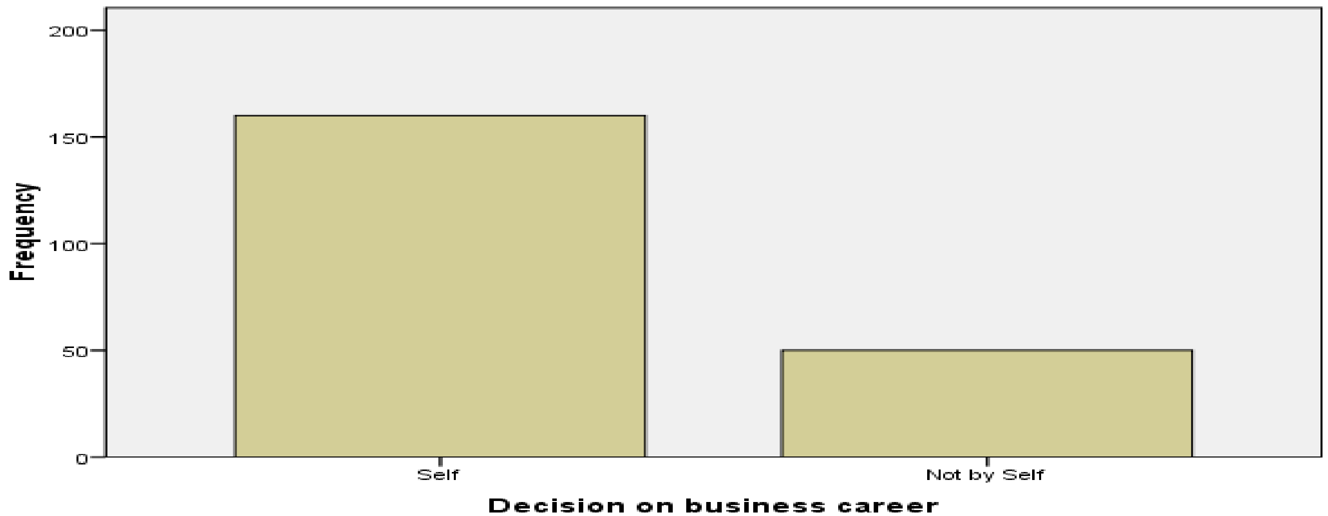
PERIOD OF EXISTENCE OF THE ENTERPRISE

The box plot indicates that the majority of the data points lie between 3 and 4 (25th percentile to 75th percentile) with a few outliers.

CAREER DECISION OF ENTREPRENEURS

Career Decision	Frequency	Percent	Valid Percent	Cumulative Percent
Self	160	76.2	76.2	76.2
Not by Self	50	23.8	23.8	100.0
Total	210	100.0	100.0	

This above table shows the career decision of entrepreneurs. Three forth of the surveyed entrepreneurial decisions were self made than by others.



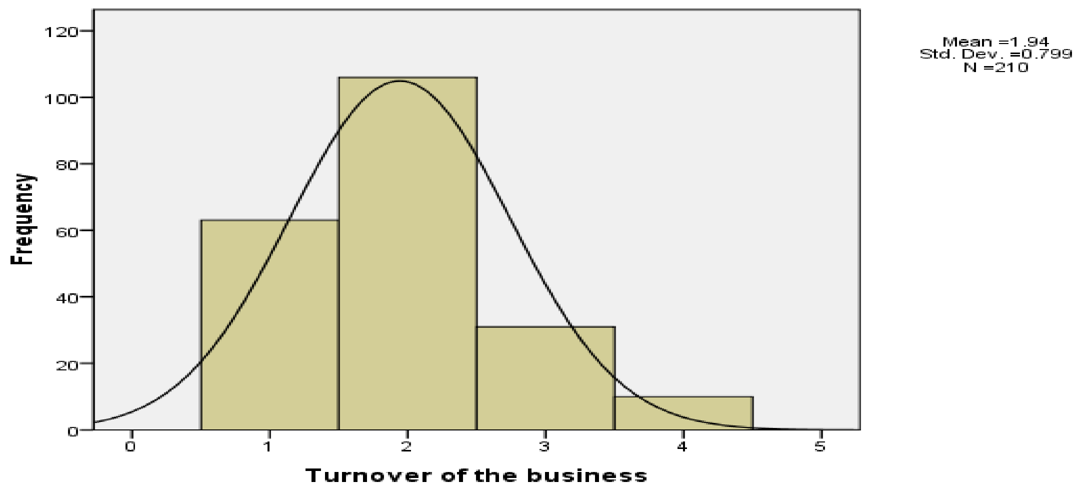
DECISION ON BUSINESS CAREER

The figure shows the pictorial representation of the career decisions by the entrepreneurs. The self decision has the highest data points as compared to not by self decisions.

DETAILS OF TURNOVER OF THE BUSINESS

Turnover	Frequency	Percent	Valid Percent	Cumulative Percent
Less than 1 crore	63	30.0	30.0	30.0
1 to 5 crores	106	50.5	50.5	80.5
5 to 10 crores	31	14.8	14.8	95.2
above 10 crores	10	4.8	4.8	100.0
Total	210	100.0	100.0	

The table above gives the details regarding the details of turnover of the business. About half of the business has a turnover of 1 to 5 crores.



DETAILS OF TURNOVER OF THE BUSINESS

DESCRIPTIVE OF AGE AGAINST THE NUMBER OF YEARS OF ESTABLISHMENT

	Number of years of Establishment			Statistic	Std. Error
Age	Less than 5 years	Mean		3.86	.340
		95% Confidence Interval for Mean	Lower Bound	3.03	
			Upper Bound	4.69	
		5% Trimmed Mean		3.84	
		Median		4.00	
		Variance		.810	
		Std. Deviation		.900	
		Minimum		3	
		Maximum		5	
		Range		2	
		Interquartile Range		2	
		Skewness		.353	.794
		Kurtosis		-1.817	1.587
	5 years to 10 years	Mean		3.37	.124
		95% Confidence Interval for Mean	Lower Bound	3.12	
			Upper Bound	3.62	
		5% Trimmed Mean		3.41	
		Median		3.00	
		Variance		.534	
		Std. Deviation		.731	
		Minimum		1	
		Maximum		5	
		Range		4	
		Interquartile Range		1	
		Skewness		-.722	.398
		Kurtosis		2.211	.778
	10 years to 15 years	Mean		3.47	.065
		95% Confidence Interval for Mean	Lower Bound	3.34	
			Upper Bound	3.60	
		5% Trimmed Mean		3.44	
		Median		3.00	
		Variance		.417	
		Std. Deviation		.645	
		Minimum		2	
		Maximum		5	
		Range		3	
		Interquartile Range		1	
		Skewness		.351	.244
		Kurtosis		-.125	.483
	15 years to 20 years	Mean		3.30	.085
		95% Confidence Interval for Mean	Lower Bound	3.13	
			Upper Bound	3.47	
		5% Trimmed Mean		3.34	
		Median		3.00	
		Variance		.466	
		Std. Deviation		.683	
		Minimum		1	
		Maximum		5	
		Range		4	
		Interquartile Range		1	
		Skewness		-.763	.299
		Kurtosis		2.687	.590
	Above 20 years	Mean		3.83	.167
		95% Confidence Interval for Mean	Lower Bound	3.40	
			Upper Bound	4.26	
		5% Trimmed Mean		3.87	
		Median		4.00	
		Variance		.167	
		Std. Deviation		.408	
		Minimum		3	
		Maximum		4	
		Range		1	
		Interquartile Range		0	
		Skewness		-2.449	.845
		Kurtosis		6.000	1.741

The descriptives provides mean, standard deviation, range, skewness and kurtosis for each category of the score.

FINDINGS

It can be seen that each district has a sample size of 15 which is based on the probability sampling.94.3% of the population is male entrepreneurs and the remaining are female entrepreneurs. It can be seen that the majority of the entrepreneurs belong to 36 to 45 ages. The majority of the entrepreneurs are graduates which justify the high educational level in Kerala stateThat out of the entrepreneurs surveyed, approximately half are from a joint family orientation and the other half are nuclear family oriented.95% of the firms were in the business for a 5 to 20 year period. Around half of the business existence range is 10 to 15 years.Three forth of the surveyed entrepreneurial decisions were self made than by others. Half of the business has a turnover of 1 to 5 crores. These really show the impact of demographical variables on the performance of entrepreneurs in Kerala.

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MARKET ORIENTATION IN AGRICULTURE: CASE STUDIES OF DEVELOPMENT INTERVENTIONS IN INDIA

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ABSTRACT

Agriculture is a major livelihood source in many developing countries. It contributes to over 65 percent of livelihood sources in India. A suitable marketing strategy is an important contributing factor in maximizing returns from agricultural produce. Various innovative interventions have been designed and implemented in the field based on the concept of market orientation, with the objective of increasing profits for farmers. In this paper efforts are made to Illustrate two such development interventions from the field and to examine the impact of these measures on the profitability of farmers. The conclusion reached here is that market-oriented interventions helped in increasing the profitability of farmers as compared to the profitability of normal crop practices prevalent in the region.

KEYWORDS
Agricultural production, case studies, market orientation.

INTRODUCTION

India is the seventh largest country in the world in terms of area and the second largest in terms of population. Interestingly, 72.2 percent (742.6 million) of the total population of India is rural (Ministry of Agriculture, 2004). The major livelihood source of more than 65 percent of Indians is agriculture. Despite the importance of agriculture in the Indian economy, this sector is facing several problems. Low productivity and declining returns have led increasing numbers of farmers to abandon farming as a means of livelihood or to otherwise lose interest in it. Many farmers burdened by agricultural debt have committed suicide in various parts of India. This situation is a potential threat to the food security of the country. Limited resources, erratic rainfall, climatic hazards, and fragmented landholdings are some of the major factors associated with low agricultural productivity, leading to low profit for farmers.

The agricultural sector in India faces several difficult challenges in the era of globalization. In this new and competitive world market, Indian farmers are finding it difficult to survive with low-profit agricultural production. There is no lack of demand for agricultural produce, but the need is to tap the available market demand properly and efficiently. An important factor contributing to the low profitability of agricultural production is a lack of market orientation among Indian farmers. As various academicians and practitioners have pointed out, quite correctly, any business that increases its market orientation will improve its profitability (Narver and Slater, 1990). Some have argued that profitability is the consequence of market orientation (Kohli and Joworski, 1990). The impact of market orientation on business performance may be indirect via factors that have been found to influence profitability (Adu and Singh, 1998). As in the case of any other business enterprise, market orientation in the agricultural sector also improves productivity for agricultural goods, leading eventually to wider economic development (Drucker, 1958). Further, it has been noted that apart from the primary assembling markets, there are also 27,294 rural periodic markets in the country. Most of these (85 percent) have not been developed, which hinders the spread of market orientation in rural areas (Acharya, 1998). Some development organizations have implemented market-oriented development interventions and other innovative experiments to tackle this problem, and have succeeded in making agriculture a profitable venture to some extent. This paper examines two such case studies and analyzes the profitability enjoyed by farmers involved in these interventions. This exercise offers useful insights for development practitioners in the field who are involved in promoting agriculture as a livelihood source; it will be helpful in designing more effective, focused, and innovative interventions for increasing the profitability of agricultural produce and thus benefiting farmers.

In the following sections, I will discuss the background and rationale of the study, review the literature on the major problems of agriculture, define the concept of market orientation and understand its importance for agriculture, examine two case studies and their implications for practitioners, and discuss the future direction of research studies in this area.

BACKGROUND AND RATIONALE OF THE STUDY

Marketing as a discipline has evolved substantially over the past few decades, with intensive studies being done in the context of various business and corporate entities. Marketing in agriculture is as valid a concept as it is in any other business. The need for continued research activities on marketing in the agricultural sector is critical in view of the large number of people whose livelihood depends on agriculture.

Studies on market orientation have shown a positive relationship with business performance. Whether the concept of market orientation as it was developed in the context of the large organization environment is actually relevant in the agricultural sector—whether it is appreciated and practised—needs to be tested. A critical element in the development of market orientation is the availability of timely and relevant market information (Ellis, 2005). In agriculture, farmers are mostly located in remote areas, which are often not well connected with the market. Hence the need for market information in agriculture becomes particularly important for farmers.

Several development organizations across the world have developed various models aimed at supporting farmers by providing them with timely and pertinent market information. These development organizations have introduced various innovations in agriculture to increase the profitability of farmers. One way of increasing profitability is by deepening or expanding market orientation. This paper documents some of the innovative and best practices of market orientation in agriculture and food production for attaining the larger goal of knowledge creation in the agricultural sector. This paper is descriptive, being based on two case studies of development interventions concerning market orientation in agriculture. It also suggests some directions for future research.

BRIEF REVIEW OF THE LITERATURE

STATUS OF AGRICULTURE IN INDIA

As in most developing countries, agriculture is an important pillar of the Indian economy. It contributes 22 percent to the country's gross domestic product (GDP). Out of a total 329 million ha, the net cropped area is 142.5 million ha. More than 70 percent of Indians live in rural areas, and agriculture is the major livelihood for the majority of the rural population. Agriculture not only provides food security but also employment opportunities to the vast majority of the rural population. Agriculture supports 115.5 million farm families. It also accounts for 13 percent of the country's exports (Ministry of agriculture, 2004). More than 250 different crops are cultivated in India's varied agro-climatic regions and under different cropping systems. India ranks seventh in total area among the countries of the world, but ranks first in irrigated area (Economic survey, 2007).

Nevertheless, Indian agriculture alone is unable to support the livelihood of all agriculturalists because the distribution of farm holdings is largely dominated by small and marginal farmers. Small landholdings of less than 1 ha coupled with low prices of farm produce means that farmers are unable to support themselves through agriculture alone. Since 1951, the proportion of the rural population in the total population has declined sharply, and so has the percentage of the population pursuing cultivation or farming as a profession (Table 1).

TABLE 1: POPULATION, CULTIVATORS, AND AGRICULTURAL LABOURERS

Year	Total Population	Average Annual Growth Rate (%)	Rural Population	Cultivators	Agricultural Labourers	Total
1951	361.1	1.25	298.6 (82.7)	69.9 (71.9)	27.3 (28.1)	97.2 (100.0)
1961	439.2	1.96	360.3 (82.0)	99.6 (76.0)	31.5 (24.0)	131.1 (100.0)
1971	548.2	2.22	439.0 (80.1)	78.2 (62.2)	47.5 (37.8)	125.7 (100.0)
1981	683.3	2.20	523.9 (76.7)	92.5 (62.5)	55.5 (37.5)	148.0 (100.0)
1991	846.4	2.14	628.9 (74.3)	110.7 (59.7)	74.6 (40.3)	185.3 (100.0)
2001	1,028.7	1.95	742.6 (72.2)	127.3 (54.4)	106.8 (45.6)	234.1 (100.0)

Source: www.censusindia.net

Agriculture is dependent on two major resources, land and water. Unfortunately, Indian farmers often lack both these resources. According to a 1991–92 survey, 11.25 percent of rural families are landless. Among landholders, 69.35 percent own less than 1 ha (marginal farmers) and 21.25 percent own between 1 and 2 ha (small farmers). Growing population pressure means that land fragmentation is also increasing. Farmers find it difficult to earn a livelihood under conditions of such severe land scarcity. It is almost impossible under current circumstances to bring more land under cultivation.

Water is another critical resource for agriculture. Out of the total arable area of 169 million ha in India, only 28 percent is under irrigation. About 40 percent of the cropping area is located in low-rainfall regions where employment opportunities are available for only 40 to 50 days in a year. Rain-fed agriculture is found in about 60 percent of the net sown area. Most farmers can manage to raise only a single crop a year. It is possible to increase the area under irrigation, but with declining investment in the agricultural sector in subsequent budgets, this course of action is also difficult to pursue. Crops generally fail twice in any given five-year period, thus increasing the vulnerability of farmers (Hegde, 2000). Increasing input prices and almost constant output prices worsen the situation of cultivators. Agricultural produce usually arrives in the market when prices are already too low, which means that farmers do not make sufficient profit, which jeopardizes their very survival. Under the present circumstances, it is difficult to increase the area of agricultural land and the amount of irrigation water. The only way of increasing the profitability of agricultural produce is to get higher prices in the marketplace.

The agricultural sector in India grew more slowly than the other sectors of the economy in the decades both before and after the 1991 reforms. A moderate annual average growth of 3.0 percent in the first six years of the new millennium starting in 2001–02 (notwithstanding growth rates of 10 percent in 2003–04 and of 6 percent in 2005–06) has meant that agriculture and allied sectors have continued to be a cause of concern (Table 2).

TABLE 2: ANNUAL AVERAGE GROWTH RATE (AT CONSTANT PRICES)

Five Year Plan	Overall GDP Growth Rate	Agriculture and Allied (Percent)
Seventh Plan (1985–90)	6.0	3.2
Annual Plan (1990–92)	3.4	1.3
Eighth Plan (1992–97)	6.7	4.7
Ninth Plan (1997–2002)	5.5	2.1
Tenth Plan (2002–07)	7.6	2.3
2002–03	3.8	-7.2
2003–04	8.5	10.0
2004–05 (P)	7.5	0.0
2005–06 (Q)	9.0	6.0
2006–07 (A)	9.2	2.7

Source: (www.indiabudget.nic.in)

Note: P: Provisional; Q: Quick Estimates; A: Advanced Estimates.

Growth rates before 2001 based on 1993–94 prices, and those from 2000–01 onwards based on new series at 1999–2000 prices.

In a rapidly growing economy like India, a declining agricultural growth rate is a matter of concern. Between 1980 and 2003, agriculture declined from 38 percent to 22 percent of total GDP (Government of India ,2004). Following the 1991 reforms, growth has been strongest in the service sector, yet agriculture still employs nearly 60 percent of the total workforce (World bank, 2003). To increase the share of agriculture in the country's GDP, an efficient production system needs to be developed. This requires a well-thought-out strategy coupled with a supportive policy.

With the spread of globalization and liberalization, demand for vegetable crops has increased. During the 1990s, high-value agriculture—defined as fruits, vegetables, dairy, poultry, eggs, meat, and fisheries—grew by more than double the rate registered by the cereal sector (Gulati and Bathla, 2002). Acreage under horticulture—which includes fruits, vegetables, spices, floriculture, and plantations—was estimated to increase up to 20 million ha by the year 2006–07 (Table 3).

TABLE 3: AREA AND PRODUCTION OF MAJOR HORTICULTURAL CROPS

Crops	2002–03		2003–04		2004–05		2005–06(Estimate)	
	Area	Production	Area	Production	Area	Production	Area	Production
Fruits	4.8	49.2	5.1	49.8	5.3	52.8	5.9	54.4
Vegetables	5.9	84.8	6.7	101.4	7.1	108.2	7.2	113.5
Spices	2.4	3.8	5.2	4.0	3.2	4.9	3.2	5.9
Plantation crops	3.1	13.1	3.3	9.4	3.1	10.4	3.2	9.8
Flowers	0.1	0.2	0.2	0.6	0.1	0.7	0.1	0.8
Others	0.09	0.9	0.1	0.3	0.4	0.4	0.4	0.5
Total	16.4	152.0	20.6	165.5	19.2	177.4	20.0	184.9

Source: http://nhb.gov.in/

In 2005–06, India was the second largest producer of both fruits and vegetables in the world, with production of 53 million tonnes and 108 million tonnes, respectively. Production of vegetables increased from 58.53 million tonnes in 1991 to 87.53 million tonnes in 1998–99, about one and a half times in the span of seven years (Table 4).

TABLE 4: AREA AND PRODUCTION OF VEGETABLES

Year	Area (in million ha)	Production (in million tons)
1991–92	5.14	58.53
1996–97	5.51	7.51
1997–98	5.61	72.7
1998–99	5.87	87.53

Source: www.indiastat.com

Among vegetables, the tomato is considered one of the important crops. Tomatoes enjoy a huge demand all year round. Tomato production has increased from 3,330.5 thousand metric tonnes (1 metric tonnes=1,000 kg) in 1987–88 to 8,637.7 thousand metric tonnes in 2004–05, about three times in a period of two decades, leading to a decrease in tomato imports (Table 5).

Cucurbits, one of the largest families of vegetables, include bottle gourd, ridge gourd, smooth gourd, bitter gourd, and cucumber. Despite a huge demand, the area under cultivation and production of these vegetables are both very low. Hence, there is great potential for increasing production, thus maximizing profits for farmers.

TABLE 5: AREA, PRODUCTION, AND PRODUCTIVITY OF TOMATOES IN INDIA (1987–88, 1991–92 to 2004–05)

Year	Area (in thousand ha)	% of total vegetable area under cultivation	Production (in thousand metric tonnes)	% of total vegetable production	Productivity (in metric tonnes/ha)
1987–88	237.3	5.8	3,330.5	6.8	14.0
1991–92	289.1	5.2	4,243.4	7.2	14.7
1992–93	305.6	6.1	4,549.6	7.1	14.9
1993–94	345.9	7.1	4,934.0	7.5	14.3
1994–95	351.8	7.0	5,261.3	7.8	15.0
1995–96	355.7	6.7	5,442.0	7.6	15.3
1996–97	391.2	7.1	5,787.8	7.7	14.8
1997–98	413.7	7.4	6,183.7	8.5	14.9
1998–99	466.3	7.8	8,271.8	9.4	17.7
1999–2000	456.5	7.6	7,426.8	8.2	16.3
2000–01	460.1	7.4	7,242.4	7.7	15.7
2001–02	458.1	7.4	7,462.3	8.4	16.3
2002–03	478.8	7.9	7,616.7	9.0	15.9
2003–04	502.8	8.5	8,125.6	9.6	16.2
2004–05	497.6	8.4	8,637.7	10.2	17.4

Source: www.indiastat.com

MARKET ORIENTATION AND ITS NEED IN AGRICULTURE

Marketing has been defined by various authors in different ways. Marketing is a philosophy of business management based on the need of customer orientation and profit orientation (McNamara, 1972). The marketing concept rests on four pillars: target market, customer needs, integrated marketing, and profitability (Kotler, 2002). Firms adopt the marketing concept with the expectation of making long-term gains in profitability (Webster, 1988). Marketing has been an important problem in agriculture; it needs focused attention in the present context.

Over forty years ago, the concept of market orientation was introduced (Levitt, 1960). Market orientation is defined as the extent to which an actor in the marketplace uses knowledge about the market, especially about customers, as a basis for decision making about what to produce, how to produce it, and how to market it (Jaworski and Kohli, 1993). Market orientation is the systematic gathering of information about customers and competitors, both present and potential, the systematic analysis of information, and the systematic use of such knowledge for guiding the recognition of strategy and its understanding, creation, selection, implementation, and modification (Hunt and Morgan, 1995). There is general agreement in the literature about the congruence between market orientation and business performance (Narver and Slater, 1990). Unlike the case of developed countries, not many studies exist in the Indian context that empirically demonstrates a positive relationship between market orientation and business performance (Jain and Bhatia, 2007).

Some studies have emphasized the importance of innovation as the determinant of market orientation and business performance (Deshpande *et.al.* 1993). Innovativeness mediates the relationship between market orientation and business performance. It is believed that market orientation can lead to firm innovation (Jin *et.al*. 1998). The opposing perspective is that of product orientation, or, more correctly, innovation orientation, because it has the potential to create markets and customers (Leyland *et.al.*2007). However, in developing countries, marketing practices were found to be a superior predictor of business performance than market orientation (Ellis, 2005).

The concept of market orientation rests firmly on the notion of market intelligence, especially intelligence on customer needs. Market orientation emphasizes the importance of competitiveness and profit making based on identifying customer needs, wants, and aspirations, and on delivering compatible offerings that are competitively priced and are better than those offered by rival firms (Blankson *et. al*., 2006). Market orientation is regarded as a major prerequisite for the ability to create superior customer value, which in turn is regarded as a major determinant of competitive advantage. It is widely acknowledged that food production—that is agriculture and fisheries, and the subsequent processing links in the food value chain—need more market orientation. Given the low productivity and declining profits of agribusiness, it makes sense for farmers to possess not only adequate intelligence about market needs but also the ability to respond to these needs quickly and efficiently. It has been argued that agribusiness firms in general and cooperatives in particular need to develop competency in market learning and responsiveness, that is, they need to become market oriented (Grunert *et.al*. 1996).

If every farmer is considered as representing one small agribusiness firm, it becomes necessary that each such farmer should learn to be market oriented for the purpose of profit maximization. Indian agriculture is largely supply driven, and hence farmers need to adopt a greater degree of market orientation. This change requires a shift from a supply-driven production system to a demand-driven production system. This goal can be achieved by nurturing and encouraging market orientation through various interventions, such as disseminating market information, promoting competition among farmers, and developing linkages with the agro-processing sector (Vaswani *et.al.* 2003).

Market orientation has been studied both as an aspect of organizational culture and as a behavioral phenomenon (Day, 1999). This study seeks to address market orientation as a behavioral phenomenon, that is, the need for generating market intelligence among farmers so that their produce can command sufficiently high market prices and thus earn more profit. Market orientation in agriculture involves two behavioral components: customer orientation and competitor orientation. It also involves two decision criteria: long-term focus and profitability. Although market orientation is likely to be related to business

performance in general, under certain conditions it may not be critical and is useful only if the benefits exceed the cost of resources. Hence, a cost–benefit analysis can be an effective tool in analyzing the impact of market orientation on agricultural production (Kohli and Jowrski, 1990).

GAPS IN THE LITERATURE

Agriculture is a major source of livelihood in India. The role of marketing in the profit maximization of agricultural and food produce has been widely acknowledged. During the last fifty years, the market orientation of Indian farmers has increased manifold both in terms of forward and backward linkages. Furthermore, market orientation and its impact on the profitability of business enterprises have been widely explored in developed countries. In the context of transition economies and less developed countries, studies on market orientation are scant (Selassie *et.al.* 2002). Research on the impact of market orientation on the profitability of agriculture has been a grey area, particularly in the Indian context. This paper describes two case studies where market orientation was adopted as a practice in the field and analyzes the resulting profitability enjoyed by the farmers participating in the interventions.

RESEARCH QUESTIONS AND OBJECTIVES

This paper examines two case studies of market-oriented interventions undertaken by a development organization working in the rural areas of Jharkhand state, in India. It asks a basic question: can market orientation increase profitability of agricultural production? The study, which is based on field experience, highlights the importance of developing and adopting market orientation in agriculture for achieving higher profits for farmers. It also brings out some important implications for development professionals working in the field.

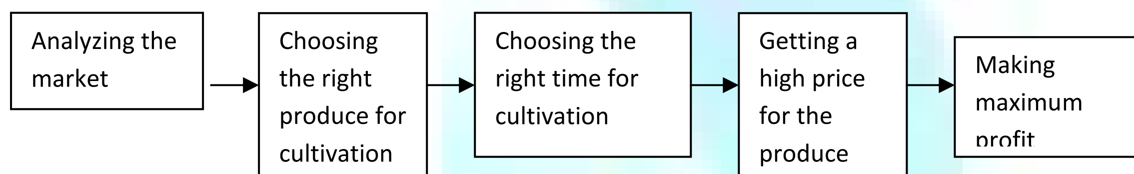
METHODOLOGY

This paper first surveys the relevant literature on marketing and tries to define market orientation in the context of agriculture. It then supplements this with findings from the field. The study adopts a multiple case study method. The case study is a method of detailed examination of a single example of a class or phenomenon (Abercombie *et.al.* 1984), for example, a programme, a process, an organization, or an event (Yin, 1984). It has also been argued that as the case study is a detailed examination of a process, the pre-existence of a theory for explaining it is not necessary; instead the theory will emerge from the analysis of the evidence (Mannen *et.al*. 1982). An analysis of the costs of cultivation and the benefits of crop production means an analysis of the profitability of agriculture for farmers, where profits resulting from the intervention are compared with profits resulting from normal crop practices in the region.

CONCEPTUALIZATION OF MARKET ORIENTATION IN THE CONTEXT OF AGRICULTURE AND FOOD PRODUCTION

In this paper, market orientation means the implementation of the marketing concept in the field or on the ground. In the context of agriculture and food production, market orientation can be defined as the process of analyzing markets, choosing the right produce to be cultivated, harvested, and marketed at the right time with the objective of fetching the maximum profit in the marketplace. Market orientation in agriculture and food production is depicted in Figure 1.

FIGURE 1: MARKET ORIENTATION IN AGRICULTURE AND FOOD PRODUCTION



It has been observed that agricultural produce in general, and vegetables and fruits in particular, often faces the problem of market glut. Agricultural produce being perishable in nature suffers heavy losses due to low prices resulting from a glut or overproduction. Nevertheless, the demand for fruits and vegetables exists throughout the year. Those farmers who are properly oriented towards market demand will make suitable changes in the agricultural schedule—shifting the time of sowing, harvesting, and marketing—in such a way that the produce reaches the market at the peak price. In this way, with the same amount of produce (or even less), they can fetch a good profit. For development organizations working in the area of livelihood promotion, encouraging market orientation in agriculture and food production can be a good strategy. As the demand for fruits and vegetables remains high round the year, a formal marketing plan may not be necessary, but farmers need at least a marketing strategy as part of their agribusiness. There are three main elements that farmers must consider when thinking about marketing:

1. Business orientation
2. Competitor orientation
3. Customer orientation

The same is true of farmers involved in agribusiness. Business orientation means describing exactly what goods and services or products a farmer wants to sell. For example, in the case of perishable produce like vegetables and fruits, the strategy employed would necessarily have to be different than the strategy employed in the case of less perishable produce like cereals and pulses. Regarding competitor orientation, it is necessary to observe the market closely. In the case of non-availability of produce at the local level, a competitor may become a global player. Similarly, in the case of easy availability of produce, local competitors become more important. Special attention should be paid to these aspects of agribusiness. Factors such as the location of competitors, the scope of the services they are offering, and the customers they are targeting need to be considered. Customer orientation means identifying and understanding the needs of customers and then undertaking the cultivation of those food products that are in demand. This three-pronged strategy will prove to be more effective and hence desirable for any farmer. Serving the needs and demands of local markets in particular will give farmers a competitive advantage.

SAMPLING AND DATA COLLECTION

Data for the study were collected from one of the poorest regions of Jharkhand state. A total of 50 and 30 farmers were selected randomly for tomato and cucurbit cultivation respectively from the same village for the year 2007–08. The farmers of this particular village were among the most willing to take up these interventions. Additionally, the location of the village on a hilltop meant that it suffered difficult agro-climatic conditions compared to other villages in the same region. Information on crop, variety, total land under cultivation, production, and income generated was collected. Profits resulting from these interventions were compared with profits yielded by maize, the most widely cultivated crop in the area under similar land conditions. Data for maize were collected from 35 farmers.

CASE STUDIES OF DEVELOPMENT INTERVENTIONS IN MARKET ORIENTATION

Lack of market orientation is one of the most important factors contributing to low agricultural income. This fact was realized by a development organization working in Jharkhand, and hence it designed a few market-oriented development interventions for promoting agriculture-based livelihood in the rural areas of

some of the poorer states of India. As the region chosen for the intervention was located near an industrial city, there was a huge potential for vegetable cultivation. Hence the tomato and the cucurbit were selected for the intervention.

Meetings in every village of the project area were organized to discuss the agricultural problems faced by local farmers. During the discussions, low productivity was identified as the real problem. Farmers were told that if they could shift their production even slightly in response to market demand, they could earn a good profit from the same amount of produce, rather than from a smaller amount. Earlier, some farmers had come forward to take up this innovative experiment on a small piece of land. This intervention yielded higher profits and better returns, which in turn helped the development organization in convincing other farmers to take up these interventions on a larger scale in subsequent years. These case studies are discussed below.

TOMATO CULTIVATION IN THE RAINY SEASON

The tomato is considered the world's largest vegetable crop. In India, the estimated area under tomato cultivation is about 350,000 ha, and tomato production is 5,300,000 tonnes. The average productivity of tomato in India is merely 158q/ha, while productivity in the USA is 588q/ha, in Greece 498q/ha, in Italy 466q/ha, and in Spain 465q/ha ((http://www.indiaagronet.com/tomato/resources/1/1center.htm). If we calculate income per kg of crop, the figure for India will be even smaller. Climatically, the tomato is suitable for cultivation round the year. But it is cultivated usually in the *rabi* season (*rabi* is the local name for winter crops, which are usually sown in November). In an experiment conducted in Bihar, it was found that the tomato is the most remunerative crop, followed by brinjal, potato, cauliflower, and cabbage (Prasad, 2008).

When the tomato reaches the market, its price ranges between Rs. 1 / kg and Rs. 2 / kg. However, in the rainy season, the price goes up to Rs. 20/kg to Rs. 30/kg. Looking at the vast difference in prices, it was realized that shifting the cultivation season of tomato from *rabi* to *kharif* (*kharif* is the local name for rainy-season crops in India; the season begins after the onset of the monsoon, that is, around the second fortnight of June) would be a profitable intervention for poor farmers. However, the *kharif* tomato crop suffers from various problems. The incidence of pest infestation and disease is quite high, and hence the crop needs close monitoring and proper training. Accordingly, a suitable intervention was designed and implemented.

However, productivity of the *kharif* crop was lower compared to that of the *rabi* crop, but profit was much higher. Each farmer could earn Rs. 0.1 million/acre of fertile land in a single season. *Tand* (the local word for uplands in Jharkhand), which is known for its low fertility, also provided an income of Rs. 30,000/acre to farmers. Hybrid varieties of tomato were selected as the demand for hybrid tomatoes is higher than for local tomatoes because the keeping quality of the former is better compared to that of the latter. The biggest limitation of tomato cultivation is the plant's high susceptibility to water logging. The plant needs staking to avoid lodging of plant. In addition, disease and pest incidence rates in the rainy season are very high. For higher yields, it is important to select hybrid varieties that can resist wilt, one of the major diseases of the tomato. But once the crop has grown, under a high level of monitoring, it can provide excellent returns for farmers.

If proper irrigation is provided, the crop may give fruit for four or five months. As the cultivators were small and marginal farmers, the smallest unit of land (that is, 0.10 acre) was used for calculating the cost of cultivation. The Laxmi variety was selected for cultivation. The cultivation was done in *tand* land. A nursery was prepared during the period from the second fortnight of May to the first fortnight of June. Transplanting was done 30 days after the nursery preparation. The crop was ready for the first picking by the first fortnight of September. This is the time when the tomato rate is as high as Rs. 40/kg in the local markets. The picking of fruit continued until the end of December. In this way, a change in the production schedule in response to the needs of customers helped farmers in fetching good profits from their produce in the market. Table 6 gives the details of the cost of tomato cultivation.

TABLE 6: COST–BENEFIT ANALYSIS OF TOMATO CULTIVATION

S. No.	Particulars	Cost
1	Seed	5gm @ Rs.190/10 gm of seed = Rs. 95
2	Fertilizer a. Urea b. Phosphate c. Potash	Rs. 75 Rs. 150 Rs. 50 Total: 275
3	Insecticide	50
4	Fungicide	50
5	Polythene sheet	50
6	Labour cost	200
7	Irrigation	100
8	Stake	50
9	Other expenses	100
10	Total cost	970
11	Expected yield	4 qt* @ 40 qt/acre
12	Expected rate	Rs. 10/kg
13	Expected return	Rs. 4,000/-
14	Expected net return	Rs. 3,030/-

*Note: 1 qt= 100 kg.

CULTIVATION OF CUCURBITS IN POLYBAGS

India is the second largest producer of vegetables in the world. Cucurbits are one of the important vegetable crops in the country. In Jharkhand, the potato is usually planted after the harvesting of *kharif* paddy, and the crop is usually harvested in December and January. After the harvesting of the potato crop, farmers usually cultivate cucurbits, which start giving fruits from the second fortnight of April or the first fortnight of May. It was observed that when the crop reached the market, rates would drop as low as Rs. 2/kg. However, just before the crop glutted the market, the rates would be as high as Rs. 8/kg or Rs. 10/kg. An intervention was designed with the objective of catching the peak price in the market. It was suggested that the cucurbit nursery should be grown in polybags for 40–45 days. After the potato crop had been harvested, the prepared cucurbit plants could be transplanted in the fields. This intervention helped in saving about 30–35 days of the growing time, which meant that the produce was ready for the market quite early compared to previous years.

This helped farmers in fetching a good price for their produce and thus making more profit. This intervention was designed to help farmers use their land to the optimum level. Farmers following current agricultural practices can hardly raise two crops in a year. To maximize income from fragmented landholding in order to feed their families, farmers need to use their land more efficiently. The intervention of growing plants in polybags for a certain period and then transplanting them to the field can help maximize land use. In addition to encouraging efficient land use, this intervention also has several other advantages.

BENEFITS OF POLYBAG CULTIVATION

- Efficient utilization of land: As plants are grown in polybags for 40–45 days, when transplanted they can produce fruit within 10–12 days. This method when adopted can produce 4–5 crops in a year.

- Low cost of cultivation: When the seedlings are in polybags, the cost of weeding and hoeing is reduced. This also reduces the water requirement as irrigation losses decline significantly, leading to a final decrease in cost.
- Easy management: This intervention reduces the total sown area as farmers can put the polybags in their backyards, thus making management and supervision much easier.
- Early crop and high profit: By raising an early crop, farmers can take advantage of high market prices during the season, thus making a good profit.

Vegetables like bottle gourd, bitter gourd, sponge gourd, ridge gourd, and cucumber were selected for cultivation. Hybrid varieties were selected because of their high demand and high-yield potential. A nursery was prepared and seeds were sown in polybags. Two seeds were sown in each polybag to ensure germination. After 40–45 days of planting the seeds, the plants were ready to be transplanted to the field. For data analysis in this case study, bitter gourd was selected. The 'Chaman' variety of bitter gourd was taken up for cultivation. This crop was cultivated in *badi* (land in the backyards of homes and generally considered fertile). This crop lasted for four months. Analysis of cost of cultivation has been done for 0.1 acre of land (Table 7).

TABLE 7: COST–BENEFIT ANALYSIS OF CULTIVATION OF BITTER GOURD

S. No.	Particulars	Cost
1	Seed	40 gm @ Rs. 35/10 gm of seed= Rs. 140
2	Fertilizer	100
3	Insecticide	50
4	Fungicide	50
5	Polybag	50
6	Labour cost	150
7	Irrigation	100
8	Other expenses	100
9	Total cost	740
10	Expected yield	4 qt @ 40 qt/acre
11	Expected rate	Rs. 10/kg
12	Expected return	Rs. 4,000/-
13	Expected net return	Rs. 3,260/-*

*** Note:** These returns can be expected during the four-month period from January to April.

RESULTS AND DISCUSSION

Market orientation in food-processing firms has been defined as a shift from marketing what the farmer produces to finding out what the consumer wants and then producing a product that meets that need (Moore and Gorham, 1965). Similar is the case with the agricultural production system. Market orientation in agriculture means producing and marketing food at the right time as per customer demand. This implies a shift from a supply-driven agricultural production system to a demand-driven production system (Vaswani *et.al*. 2003). In a study on the market orientation of food-processing firms and the economic implications of this, it was found that the performance of food-processing firms had improved following the adoption of market-oriented concepts and that innovation had been accelerated (Moore and Gorham, 1965).

A total of 50 farmers cultivated hybrid tomato in the *kharif* season in 4.1 acres of land. They produced about 130 qt of tomato and earned Rs. 146,266. They got a maximum of Rs. 20/kg and a minimum of Rs. 8/kg for their produce. On an average, each farmer earned a net profit of Rs. 2,925. The expected cost–benefit analysis of the tomato-based intervention is presented in Table 6.

The major crop cultivated in *tand* land is maize. In the same region and in the same type of land, 35 farmers cultivated maize in 2 acres and produced a crop of 56.4 qt. They earned a minimum of Rs. 2/kg and a maximum of Rs. 5/kg for their produce, and earned a total net profit of Rs. 16,915. On an average, each farmer earned about Rs. 483. The profit earned from the market-oriented hybrid-tomato intervention was six times more than the earnings from the normal crop production in this region.

Similarly, in the case of bitter gourd, 30 farmers cultivated the vegetable in 2 acres and produced a crop of 39 qt. They got a minimum of Rs. 8/kg and a maximum of Rs. 12/kg for their produce, and earned a net profit of Rs. 40,500. On an average, each farmer earned a net profit of Rs. 1,350. The profit earned from the market-oriented cucurbit-based intervention was 2.79 times more than the earnings from the normal crop production in this region. This crop was cultivated in *badi* areas.

The expected crop–benefit analysis is presented in Table 7. The comparative analysis of profits from various crops is presented in Table 8.

TABLE 8: COMPARATIVE ANALYSIS OF PROFITS FROM DIFFERENT CROPS

S. No.	Crop Cultivated	Total Number of Farmers	Total Area under Cultivation (Acres)	Maximum Price of Produce Obtained (Rs.)	Minimum Price of Produce Obtained (Rs.)	Total Net Profit (Rs.)	Profit Per Farmer (Rs.)
1.	Tomato	50	4.1	20	8	146,266	2,925
2.	Cucurbit (bitter gourd)	30	2	5	2	16,915	483
3.	Maize	35	2	12	8	40,500	1,350

It has also been argued in the literature that the overriding objective of market orientation is profitability (Felton, 1959). The findings of this study are in line with the general argument in the literature that there is a positive relationship between market orientation and profitability (Narver and Slater, 1990).

CONTRIBUTION OF THIS STUDY AND IMPLICATIONS FOR PRACTITIONERS

The case studies examined here show that a market-oriented strategy can help farmers earn more profit from the same resources. These interventions can be designed without much effort. The only things necessary are focused attention, market orientation, and market analysis. Practitioners in the field can analyze their local context, particularly by conducting market analyses of demand and supply gaps at specific times, and then design interventions for the benefit of farmers. This study will not only assist in designing such interventions but will also help farmers in increasing their income. If farmers quit farming, growing population pressure and increasing demand for food will endanger the food security of a country. To help farmers continue farming, it is necessary to help them increase the profitability of agriculture. Market orientation can be an important step in this direction.

LIMITATIONS OF THIS STUDY AND FUTURE DIRECTIONS FOR RESEARCH

This paper attempts to illustrate some of the best practices in the field. It does not test the impact of market orientation on business performance quantitatively. Quantitative analysis of the impact of market orientation on agricultural profitability can be an interesting area of research. Testing some of the general business models in the context of agriculture will also provide useful insights for ensuring the success of agribusiness.

CONCLUSIONS

The general belief that agriculture is less profitable and more risky compared to other business ventures is not always true. The adoption of some market-oriented cultivation practices could result in very good profits from the same level of resources. In the two case studies described here, it is clearly shown that the profits were 6 times (Tomato) and 2.79 times (Cucurbits) in market-oriented intervention than the normal crop practices in the region. These findings suggest that with a little effort farmers can earn a good profit from agriculture. We must accept the fact that agriculture is an entrepreneurial activity like any other and hence needs a managerial orientation for making it a profitable venture. Adopting a market-oriented strategy will help farmers in earning more profits, in securing their livelihood, and in enhancing the food security of a country.

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TRENDS AND PATTERNS OF FDI IN INDIA: AN ANALYSIS

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ABSTRACT

Foreign Direct Investment (FDI) has assumed a lot of significance for the emerging economies. India has also learnt a lesson from the experienced of the other Asian economies. During the last decade there has been a remarkable change in the composition of sources of FDI inflows in India. Due change in FDI regime, many countries have started investing heavily in India. This paper investigates the changing scenario and also analyses the inflows of FDI in India, countrywise, sectorwise and statewise inflow of foreign direct investment in India during the period 1992-2009.

KEYWORDS

FDI, Business, India, Investment.

INTRODUCTION

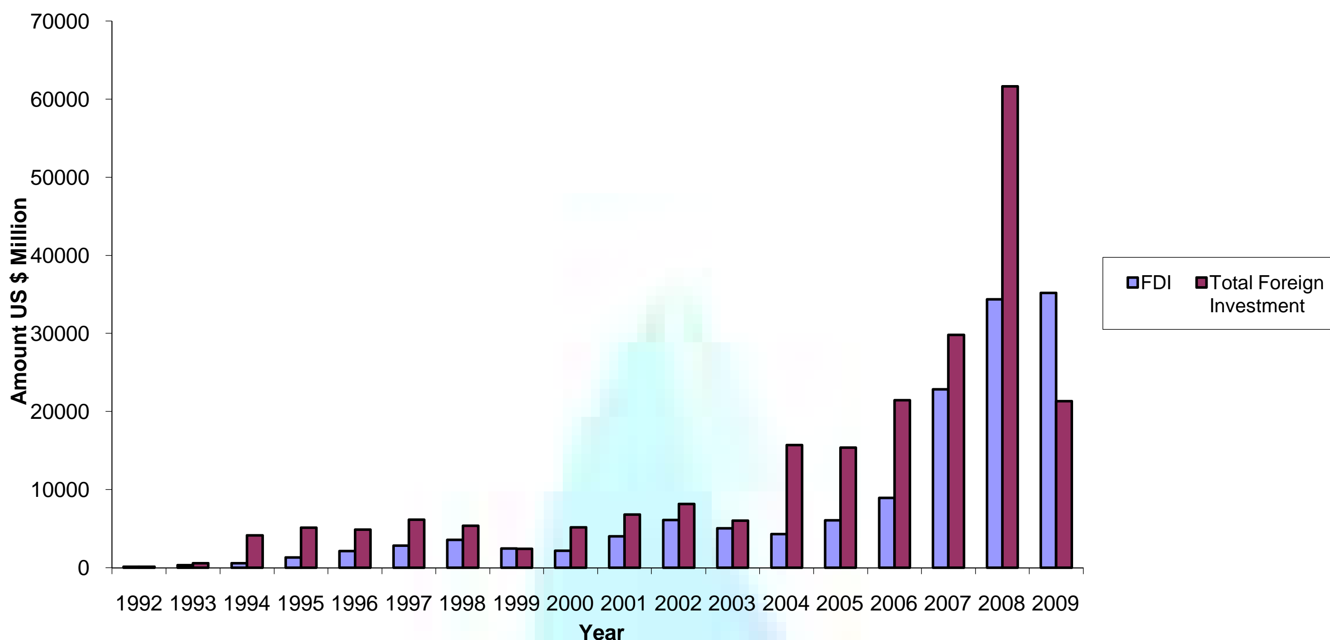
Capital is stated as the engine of economic growth. This statement has gained more importance in the recent times. Traditionally, the various sources of capital for developing countries were – either the demand of their output by industrial countries or foreign aid or loans from foreign banks. However, now-a-days, the official development assistance flows are steadily declining, Foreign Direct Investment (FDI) is an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy in an enterprise resident in an economy other than that of the foreign direct investor.One of the more noteworthy financial developments in developing countries during the past decade is the anormous growth of foreign direct investment (FDI): From $36 billion a year in 1991 to $173 billion in 1997, according to the world bank's 2001 Global Development Finance Report. Although the growth in FDI flows cooled off after the Asian, Russian and Brazilian financial crises of 1997-98 in 2000 they stood at an estimated $178 billion, not only higher than before these crises, but well above where they were at the beginning of the decade. The resurgence in investment flows and technology transfer through FDI to the developing world indicate that developing countries today receive twice as much as the value of world. FDI flows was in mid-eighties. This was possible due to the liberalization of FDI policy by the host countries. Today the transnational corporations and other investors are more attracted to deploy their tangible and intangible assets in the developing countries with a view to increase their competitiveness and profitability, and the developing countries consider the increased FDI inflow as necessary for strengthening their resource base, technological capability, access to external capability, access to external markets and thus, improve the overall economic performance. India is one of the developing countries, which have introduced liberalization policy from July 1991 and as its past relaxed the FDI regulatory framework on a selective basis. Such a positive and 'open-door' policy of India toward foreign investment.

TABLE 1: SHOWING INFLOW OF FOREIGN DIRECT INVESTMENT AND TOTAL FOREIGN INVESTMENT IN INDIA DURING 1992-2009 Amount US $ Million

Year	FDI	Total Foreign Investment	Percentage
1992	129	133	96.99
1993	315	559	56.35
1994	586	4153	14.11
1995	1314	5138	25.57
1996	2144	4892	43.83
1997	2821	6133	46.00
1998	3557	5385	66.05
1999	2462	2401	102.54
2000	2155	5181	41.59
2001	4029	6789	59.35
2002	6130	8151	75.21
2003	5053	6014	83.72
2004	4322	15699	27.53
2005	6051	15366	39.38
2006	8961	21453	41.77
2007	22826	29829	76.52
2008	34360	61631	55.75
2009	35168	21313	165.00
CAGR	36.56%	32.58%	

Source: RBI Bulletin

DIAGRAM 1: SHOWING INFLOW OF FOREIGN DIRECT INVESTMENT AND TOTAL FOREIGN INVESTMENT IN INDIA DURING 1992-2009



This table 1 clearly explains that the percentage share of foreign direct investments inflow is found more than 27.00 percent of total foreign investment throughout the study period, except the year 1994 and 1995. Table further shows that the total foreign direct investment of US $129 million in 1992 to inflow of US $35168 million in 2009 is a long journey of 18 years represents a whopping increase of 272.62 times. In 1997 inflow of FDI increased by 21 times touching the figure of US $2821 million, just within its existence of six years, representing 46 percent of total foreign investment of this year. In the year 2000 FDI inflow declined to US $2155 millions due to slow FDI inflows in India. Within a period of next six years its FDI reached the figure of US $5035 million in the year 2003 which was nearly seven times increase. After this inflow of FDI increased year after year except the year 2004, touching the figure of US $22826 million in the year 2007 representing 76.52 percent of its total foreign investment. During the period of five (1999 to 2004) years inflows of FDI started declining, fluctuating, in different years and ultimately touching the low amount of US $2135 million representing the 41.59 percent of its total foreign investment. From the year 2005, inflow of FDI again started increasing and touched the figure of US $35168 million in 2009. The CAGR of FDI is 36.56 percent. In the case of foreign investment the CAGR is 32.58 percent. In 2005 government announced the SEZ Act, SEZs scheme was launched with the specific intent of providing an internationally competitive and hassle free environment for exports. SEZs are being increasingly perceived as a major source of attracting FDI across the globe. In the year 1999 and 2009 inflow of FDI has increased to the level of US $2462 million and US $35168 million and its percentage is 102.54 and 165.00 of total foreign investment respectively. In these years indirect foreign investment has moved in negative direction because the total foreign investment was found less than foreign direct investment.

STATEWISE INFLOW OF FDI

The statewise trends in FDI show that the RBI's regional offices during 2000 to 2009. The data relevant to the analysis is presented in table.

TABLE 2: SHOWING INFLOW OF FDI DURING 2000-09 RBI'S REGIONWISE Amount in US $ million

Regional offices of RBI	States covered	Amount	Share in total FDI inflows
Mumbai	Maharashtra, Dadra & Nagar Haveli, Daman & Diu	30700.4	36
New Delhi	Delhi, Part of Uttar Pradesh and Haryana	12716.9	15
Bangalore	Karnataka	5867.9	7
Ahmedabad	Gujarat	5624.8	7
Chennai	Tamil Nadu, Pondichery	4725.0	6
Hyderabad	Andhra Pradesh	3495.4	4
Kolkata	West Bengal, Sikkim, Andaman & Nicobar Island	1277.6	1.5
Jaipur	Rajasthan	438.3	0.5
Chandigarh	Chandigarh, Punjab, Haryana, Himachal Pradesh	384.2	0.5
Panaji	Goa	252.9	0.3
Kochi	Kerala, Lakshadweep	203.1	0.2
Bhopal	Madhya Pradesh, Chhattisgarh	148.7	0.2
Bhuvneshwar	Orissa	97.4	0.1
Guwahati	Assam, Arunachal Pradesh, Maipur, Meghalaya, Mizoram, Nagaland, Tripura	53.2	0.1
Kanpur	Uttar Pradesh, Uttarakhand	16.4	0.0
Patna	Bihar, Jharkhand	.04	0.0
Region not indicated	-	18431.2	21.6
Total	-	84433.6	100

Source: RBI.

DIAGRAM 2: SHOWING INFLOW OF FDI DURING 2000-09 RBI'S REGIONWISE

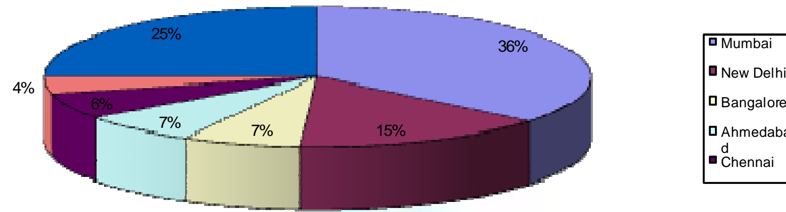


Table 2 shows that the Mumbai region has attracted largest amount of foreign direct investment of US $ 30700.4 million that is the 36 percent of the total foreign direct investment flows during the period 2000-09. New Delhi region has attracted the total of US $ 12716.9 million which is the 15 percent of the total foreign direct investment in flows during the same period. Bangalore region and Ahmedabad region have received foreign direct investment of US $ 5867.9 million and US $ 5624.8 million which are the 7 percent and 7 percent of the total inflows of foreign direct investment. While regionwise, this percentage in Mumbai, New Delhi, Bangalore, Ahmedabad, Chennai, Hyderabad, Kolkata, Jaipur, Chandigarh, Panaji, Kochi, Bhopal, Bhunveshwar and Guwahati turns out to be 36, 15, 7, 7, 6, 4, 1.5, 0.5, 0.5, 0.3, 0.2, 0.2, 0.1 and 0.1 percent respectively during the above said period.

Countrywise inflow in India

It is proposed to analyze the country wise inflow of Foreign Direct Investment in India during 1992 to 2009. The data relevant to the analysis is presented in table 3.

TABLE 3: SHOWING INFLOW OF FDI DURING 1992-2009 TOP 10 INVESTORS IN INDIA Amount in US $ Million

Country	Amount	Percentage	Rank
Mauritius	40214.81	38.03	1
USA	8709.21	8.24	2
Singapore	8146.99	7.71	3
UK	5865.78	5.55	4
Metherland	4199.24	3.97	5
Japan	3314.60	3.13	6
Germany	2795.76	2.64	7
Cyprus	2774.04	2.62	8
France	1507.24	1.43	9
Switzerland	1403.64	1.33	10
Other country	26801.78	25.35	-
Total	105732.31	100.00	-

Source: RBI.

DIAGRAM 3: SHOWING INFLOW OF FDI DURING 1992-2009 TOP 10 INVESTORS IN INDIA

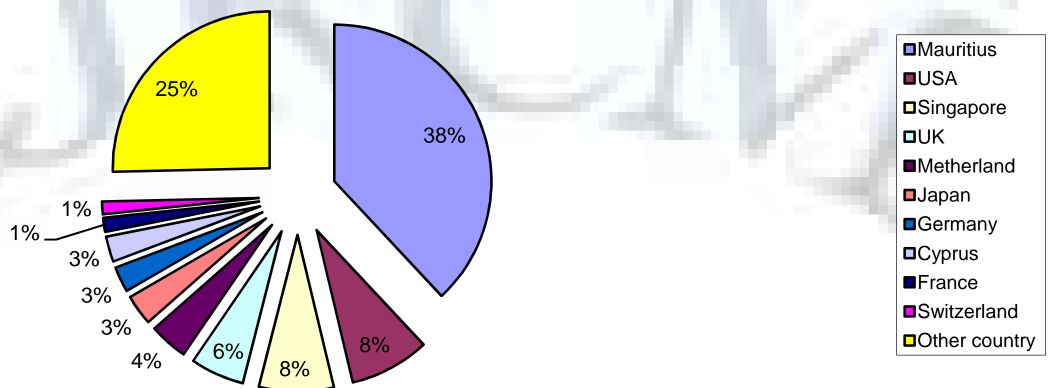


Table 3 indicates the inflow of FDI in India during 1992 to 2009 total amount of US $105.73 billion received various countries. Among all the countries Mauritius has been the largest direct investor in India. Firms based in Mauritius invested over US $40 billions in India between 1992 to 2009 or over two fifth approximately of total FDI inflows during this period. Mauritius has low rates of taxation and an agreement with India on double tax avoidance regime. To take advantage of that situation, many companies have set up dummy companies in Mauritius before investing to India. The United States (US) is the second largest investor in India. The total capital flows from the US was around US $8 billion, which accounted for 8.24 percent of the FDI inflows. The Singapore and United Kingdom are India's third and fourth largest FDI inflows. Netherland, Japan, Germany, Cyprus, France, and Switzerland keep the fifth, sixth, seventh, eight, ninth and tenth positions with share figures 3.97, 3.13, 2.64, 2.62, 1.43 and 1.33 percent respectively under the study.

SECTORWISE ANALYSIS

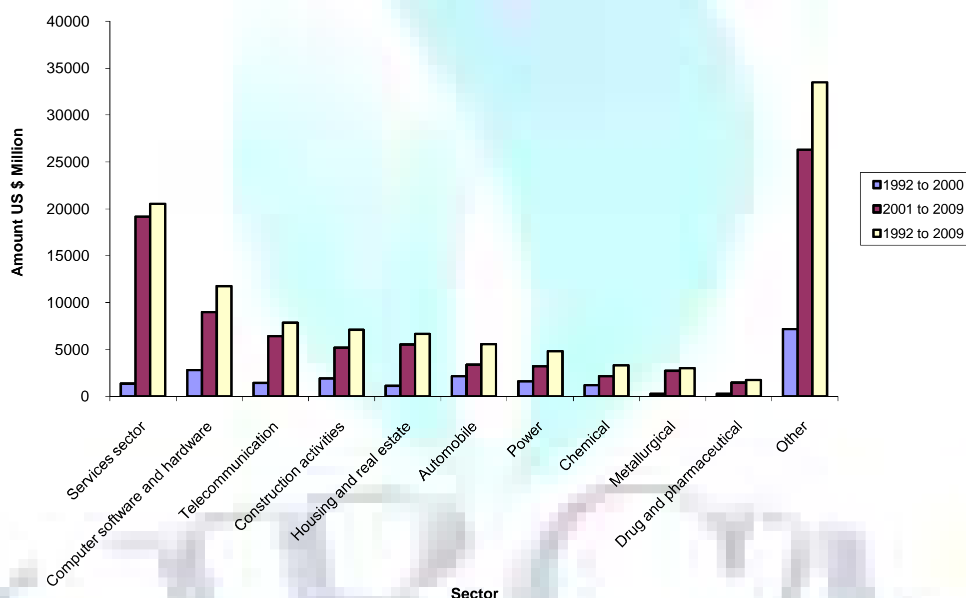
The sector wise break-up of foreign direct investment provides a wide list of items in which India is attracting foreign direct investment as a part of its reform policies. The top ten sectors which have received the larger amount of foreign direct investment during the study period includes services sector, computer software and hardware, telecommunication, construction activities, housing and real estates, automobile industry, power, chemicals, metallurgical industries and drugs and pharmaceuticals. In the present study time period has been divided into two parts i.e. 1992-2000 and 2001-2009.

TABLE 4: SHOWING SECTOR WISE INFLOWS OF FDI IN INDIA DURING 1992 TO 2009 Amount in US $ million

Sector	1992 to 2000	2001 to 2009	1992 to 2009	Percentage	Growth rate in times
Services sector	1361.02	19173.76	20534.78	19.42	14.08
Computer software and hardware	2799.34	8953.83	11753.17	11.12	3.20
Telecommunication	1427.58	6399.92	7827.50	7.40	4.48
Construction activities	1912.31	5191.01	7103.32	6.72	2.71
Housing and real estate	1124.37	5512.49	6636.86	6.27	4.90
Automobile	2160.73	3388.37	5549.10	5.25	1.57
Power	1611.53	3190.15	4801.68	4.54	1.98
Chemical	1190.15	2133.95	3324.10	3.14	1.79
Metallurgical	276.55	2723.26	2999.81	2.84	9.84
Drug and pharmaceutical	268.45	1457.91	1726.35	1.63	5.43
Other	7166.69	26306.94	33475.64	31.67	-
Total	21298.72	84433.39	105732.31	100.00	-

Source: RBI.

DIAGRAM 4: SHOWING SECTOR WISE INFLOWS OF FDI IN INDIA DURING 1992 TO 2009



Growth rate in times = $\frac{\text{Amount of Phase II}}{\text{Amount of Phase I}}$

Table 4 shows that the services sector has attracted largest amount of foreign direct investment which has increased from US $1361.02 million to US $19173.76 million during the study phase. In the entire period of 1992-2009 this sector has attracted the foreign direct investment of US $20534.78 million that is the 19.42 percent of the total foreign direct investment flows. It is followed by computer software and hardware sector as their share has been increased from US $2799.34 million to US $8953.83 million during the same period. This sector has attracted a total of US $11753.17 million which is the 11.12 percent of the total foreign direct investment flows. The telecommunication sector has received foreign direct investment of US $7827.50 million which is the 7.40 percent of the total flows of foreign direct investment. While sector wise, this growth rate in services sector, computer software, telecommunication, construction activities, housing real estates, automobile industry, power, chemicals, metallurgical industries and drugs and pharmaceuticals turns out to be 14.08, 3.20, 4.48, 2.71, 4.90, 1.57, 1.98, 1.79, 9.84 and 5.43 times respectively during the study period.

CONCLUSION

It emerges from the foregone analysis that overall inflow of foreign direct investment in India witnessed an increasing trends during the study period. Compound Annual Growth Rate (CAGR) of foreign direct investment inflow and foreign investment are 36.56 percent and 32.58 percent respectively during the whole

period under study. Policy of the Indian Government related to SEZ is mainly responsible for the FDI inflows. It is because government announced the SEZ Act, SEZs scheme was launched with the specific intend of providing an internationally competitive and hassle free environment for exports. SEZs are being increasingly perceived as a major sources of attracting FDI across the global markets.The countrywise analysis found that Mauritius has been the largest direct investor in India. Mauritius has low rates of taxation and an agreement with Indian double tax avoidance regime. The United States (US) is the second largest investor in India. To take advantage of double tax avoidance regime, many companies have set up dummy companies in Mauritius before infesting to India.Sectorwise analysis that the services sector has attracted largest amount of foreign direct investment inflows within 19.42 percent of total FDI inflows during the period 1992 to 2009.The statewise trends in FDI shows that the RBI's regional offices at Maharashtra, New Delhi, Karnataka, Tamil Nadu and Gujarat have been the largest recipients of FDI. These states are either known for their strong industrial base or as software hubs. The key sectors attracting FDI to the Mumbai-Maharashtra region are energy, transportation services, telecommunications and electrical equipment. Delhi attracts FDI inflows in sectors like telecommunications, transportation, electrical equipment and services. The states of Uttar Pradesh and Haryana have also performed really well in recent years due to its abundance of natural resources, Uttar Pradesh attracts FDI in chemical, pharmaceuticals and minerals whereas Haryana attracts FDI in the electrical equipment, transportation and food processing sectors. Tamil Nadu has done well in sectors related to automotive and auto components. Andhra Pradesh and Karnataka have attracted FDI mainly in areas associated with software and to a lesser extent, hardware for computer and telecommunication.

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THE NEW CONSOLIDATED FDI POLICY 2011: WHETHER IGNORING SOMETHING IN ITS DRIVE TOWARDS BOOSTING INVESTOR CONFIDENCE?

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ABSTRACT

India in its march towards being a developed one, is in dire need of FDI to establish itself stalwartly on economic footing. Like every other issue FDI too is governed by legal framework. Foreign investments into India are subject to the industrial policy established by the Department of Industrial Policy and Promotion (DIPP) under the Ministry of Commerce and Industry which is the nodal agency and the prime legislation governing FDI is Foreign Exchange Management Act, 1999 (FEMA), and side by side there exist a whole lot of regulations made there under and the various press notes, press releases and clarifications etc. issued on the subject from time to time. The revised FDI policy of India will surely carry forward the process of liberalization which further would assist in enhancing of the FDI into the Country. However, the revised FDI policy has kept itself miles away from significantly expected changes such as permitting FDI in Limited Liability Partnership, Multi-Brand Retail Trading – which are the most top of the chart agenda in the FDI. Further several other subjects on which draft discussion papers were released earlier for public comments have not also been responded to. It is imperative that these areas are also taken up by our Government for liberalization towards making India one of the most hot spot FDI destinations on the globe.

KEYWORDS

FDI, Investment, India, Trade, Law.

INTRODUCATION

Every developing economy today is so called "*FDI hungry*". Beyond all doubts FDI bears a direct relation with sound economy. Considering case of India distinctively; India in its march towards being a developed one, is in dire need of FDI to establish itself stalwartly on economic footing. Like every other issue FDI too is governed by legal framework. Foreign investments into India are subject to the industrial policy established by the Department of Industrial Policy and Promotion (DIPP) under the Ministry of Commerce and Industry which is the nodal agency and the prime legislation governing FDI is Foreign Exchange Management Act, 1999 (FEMA), and side by side there exist a whole lot of regulations made there under and the various press notes, press releases and clarifications etc. issued on the subject from time to time.

To attract FDI factor which plays a stellar role is legal framework. There has been always a demand from the investor circles that legal framework should be so simplified and slackened that investors have an ease in investing. But the investor destinations inherently and specifically the emerging economies like India; many times have to face contradictions and paradoxes with its domestic demands i.e. protecting the interests of the domestic producers and in parallel to promote scales of FDI as well. Realizing this very potent fact, in an attempt to simplify the rules and regulations pertaining to the foreign direct investment policy, the Department of Industrial Policy and Promotion had issued a consolidated FDI policy (the "Circular") on March 31, 2010 The Circular which became effective from April 1, 2010 consolidated all prior press notes / press releases / clarifications issued and reflected in a coherent manner the current policy framework on FDI thus becoming so called "***ready reckoner***" on foreign investment-related regulations. To the surprise of many, this time it was not meant to be a onetime affair but the Government this time had bigger plans to update the FDI policy bi-annually, by issuing a new circular which would supersede all prior press notes and circulars. Keeping intact the promise, in this chain the government of India has recently released the third edition of the Consolidated FDI Policy Circular on 31 March 2011 which has become effective from April 1, 2011. It is further crucial to note that it is necessary to comply with any changes notified by the Reserve Bank of India after the issuance of this Circular. Commenting on the new policy, commerce and industry minister Anand Sharma said***,*** *"The Circular 1 of 2011 is a part of ongoing efforts of procedure simplification and FDI rationalization which will go a long way in inspiring \investor confidence.*[2] ***Now the question which remains to be analyzed and answered is that whether this current drive of the Indian government will in actuality help in maintaining the balance between two contradictory interests existing in India and really come out to boost investor confidence or not.***

WHY SUCH A TRIGGER OVER FDI?

The government has been mulling over liberalizing the foreign direct investment (FDI) policy since a few weeks post budget. The finance minister had said during the budget that India needs overseas funds flows to support its key domestic sectors and overhaul its infrastructure. Thus this time the prime aim of the government is to make sure that policy and legal framework do not become a stumbling block. During 2009-2010 FDI in India showed a whopping increase mainly due to grave recession in other parts of the globe but recent decline from April to May really is perturbing. Thus the Indian government has made scores of changes to the FDI policy to attract more foreign direct investment amidst 25% decline in FDI during the eleven month period between April-February 2010-11. FDI in flows in the country was USD 18.3 billion during April-February 2010-11, down 25 per cent from USD 24.6 billion in the same period last fiscal.[3] *Rajiv Kumar, director-general of FICCI, said, "We certainly need a more liberal FDI policy framework to attract larger foreign investments. This is especially needed in the context of declining FDI flows in the past few months."*[4] The recent policy review on FDI has introduced a number of changes, and we will attempt to discuss all of the major ones on this article. Primarily, the changes appear to be investor friendly as they seek to remove several obstacles that have long held back foreign investment in crucial sectors. In fact, this policy review symbolizes one of the more progressive sets of changes made to FDI policy in recent times, as we shall examine.

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[3] The Hindu, *FDI Norms Fine-Tuned To Attract More Investment*, Available on www.thehinduonnet.com (Last accessed on 4 April, 2011)

[4] The Hindu Business Line , **Industry hails easing of foreign direct investment norms, Available on** http://www.thehindubusinessline.com (Last accessed on 3 April, 2011)

THE MAIN FEATURES OF THE NEW CONSOLIDATE FDI POLICY CIRCULAR

- **REMOVAL OF THE CONDITION OF PRIOR APPROVAL IN CASE OF EXISTING JOINT VENTURES/ TECHNICAL COLLABORATIONS IN THE "SAME FIELD":**

This has been done through deletion of Clause 4.2.2 of the earlier Circular (No. 2 of 2010) which provided that FDI would be subject to the "Existing Venture/ tie-up conditions" as stated in sub-clauses of Clause 4.2.2 (basically stating that where a non-resident investor has an existing joint venture/ technology transfer/ trademark agreement, as on January 12, 2005, new proposals in the same field for investment/technology transfer/technology collaboration/trademark agreement would have to be under the Government approval route through FIPB/ Project Approval Board).[5] A discussion paper had been released by DIPP last year on the need for review of this condition. Based on stakeholder comments received by the DIPP on its discussion paper, the Government while releasing the FDI Circular 1 of 2011 has in its press release stated that it has decided to abolish this condition.[6] The press release further states that *"It is expected that this measure will promote the competitiveness of India as an investment destination and be instrumental in attracting higher levels of FDI and technology inflows into the country*".[7] Foreign investors are no longer required to obtain Government approval even if they had previous ventures in India so long as the new investment otherwise falls within the automatic route. **This truly levels the playing field. It is perhaps the most significant and likely impactful change introduced in the new policy.**

- **PRICING OF CONVERTIBLE INSTRUMENT - GREATER FLEXIBILITY INTRODUCED**

This has been done through amendment made in Clause 3.2.1 of the Circular which earlier provided that *"The pricing of the capital instruments should be decided/determined upfront at the time of issue of the instruments"* Now it has been added that "price / conversion formula" be determined upfront so in effect instead of having to specify the price of convertible instruments upfront, companies will now also have the option of prescribing a conversion formula, subject to the condition that price at the time of conversion should not in any case be lower than the fair value worked out, at the time of issuance of such instruments, in accordance with the prevailing valuation norms (viz. DCF method of valuation for the unlisted companies).[8] This would help the recipient companies in obtaining a better valuation based upon their performance.

- **LIBERALIZATION OF POLICY FOR NON-CASH CAPITAL CONTRIBUTIONS**

This amendment has been brought about through additions in Clause 3.4.6 of the Circular. The existing policy FDI provided for conversion of only ECB/lump-sum fee/Royalty into equity. The Government has now decided to permit issue of equity, with prior approval from FIPB, in the following cases, subject to stipulated conditions:

(a) Import of capital goods/ machinery/ equipment (including second-hand machinery)
(b) Pre-operative/ pre-incorporation expenses (including payments of rent etc.)

This measure, which liberalises conditions for conversion of non-cash items into equity, is expected to significantly ease the conduct of business.[9]

- **FOREIGN INSTITUTIONAL INVESTOR INVESTMENT:**

Clause 3.1.4 (i) of the earlier Circular 2 of 2010 provided as under: "An FII may invest in the capital of an Indian company either under the FDI Scheme/Policy or the Portfolio Investment Scheme. 10% individual limit and 24% aggregate limit for FII investment would still be applicable even when FIIs invest under the FDI scheme/policy."It has now been clarified in Clause 3.1.4 (i) that aggregate FII limit of 24% can be increased to sectoral cap/ statutory ceiling by Board of Directors resolution followed by special resolution in shareholders meeting.[10] While this has always been clear under the FEMA provisions, the earlier FDI Circulars did not specifically mention this and now with this amendment the provisions relating to FII investments are aligned with the FEMA provisions.

- **HUNDRED PERCENT FDI IN SOME AREA OF FARM SECTOR:**

The new FDI Policy allow 100 per cent FDI in development and production of seeds and planting material, floriculture, horticulture, and cultivation of vegetables and mushrooms under controlled conditions. Besides, animal husbandry (including of breeding of dogs), pisciculture, aquaculture under controlled conditions and services related to agro and allied sectors have been brought under the 100 per cent FDI norm. Similarly, the tea sector has also been brought under the 100 per cent FDI norm. The DIPP has imposed certain conditions for companies dealing with development of transgenic seeds and vegetables wanting to take the 100 per cent FDI route. Under the 100 per cent FDI in tea sector, it demands compulsory divestment of 26 per cent equity of the company in favour of an Indian partner/Indian public within a period of five years prior to approval of the State Government concerned in case of any future land use change.[11]

ASSESSING THE BRIGHTER SIDE

The government this time is much determined to raise the FDI levels and thus making the changes as swiftly as possible. This is surely a positive sign towards advancement of our economy. The government has in a key policy reform introduced flexibility for Indian companies to raise overseas capital but side by side even plugged the loopholes for back door FDI entry breaching sectoral caps. The business analysts across the country have welcomed the new policy as a welcome move and have regarded it as the most important move related to joint ventures as well."PE equity across the sectors will get a huge push," said Punit Shah, executive director (tax and regulatory services) at auditing consultancy firm KPMG. Besides, FDI guidelines have been simplified and rationalised to help downstream investments.[12] "It brings in more clarity, nothing more," said Shah.[13] On the whole, the change in the policy will help particularly infrastructure companies, and capital-intensive industries in general. The change relates to more flexibility in issuance of equity. Even Power companies, new telecom operators and automobile component companies that import capital goods/machinery — including the second-hand equipment — can convert it into equity in projects in India. There has been serious opposition against the move to allow seed development by foreign companies. However, some progressive voices have supported the initiative. Sain Daas, president of Indian Mazie Development Association, termed it as a "corrective measure for growth of seed variety".

EVALUATING FLIP SIDE OF THE COIN

Though the 2011 consolidated ready reckoner has liberalized rules to a greater extent yet some concerns still remain to be sorted out and pondered over seriously in order to fully reap the benefits of enhanced FDI in our much volatile economy. We cannot go on one side in promoting FDI blindly and ignoring the impact on our domestic inhabitants. As per the new FDI policy, foreign companies having an existing joint venture in India will not require permission of the local partner to set up a wholly-owned subsidiary in the same field of business. This policy is expected to increase capital flow into the economy as well as employment. However, the new policy can lead to increasing dependency on foreign companies and shut down of small domestic firms not in a position to sustain competition from established foreign players. Critics are saying that the Government seemed to have considered only the downward trend of foreign investments in the country and not much heeded to the Indian firms, especially the small scale enterprises and booming industries. Especially with allowing 100% foreign investment in agriculture sector, the Indian authorities have brought up a storm of destruction for small enterprises and local firms. Of course the Indian consumers might see better branding, packaging and glamor in the markets of agricultural sector with 100% foreign investment, but this is bound to lead to a number of blows to the common consumers including a risk of price rise and acquisition or closing down of small scale local enterprises.

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[5] Press Release on Circular 1 of 2011 Department of Industrial and Policy and Promotion, Ministry of Commerce and Industry Government of India.
[6] *Id.*
[7] *Id.*
[8] Press Release on Circular 1 of 2011 Department of Industrial and Policy and Promotion, Ministry of Commerce and Industry Government of India.
[9] *Id.*
[10] *Id.*
[11] The Hindu, *100 % FDI Allowed In Some Areas Of Farm Sector*, Available on www.thehinduonnet.com (Last accessed on 4 April, 2011)
[12] M. Rajendran, *Some Measure of Equity* , Available on www.businessworld.in (Last accessed on 6 April, 2011)
[13] *Id.*

CONCLUSION

Thus on the whole the revised FDI policy will surely carry forward the process of liberalization which further would assist in enhancing of the FDI into the Country. However, the revised FDI policy has kept itself miles away from significantly expected changes such as permitting FDI in Limited Liability Partnership, Multi-Brand Retail Trading – which are the most top of the chart agenda in the FDI. Further several other subjects on which draft discussion papers were released earlier for public comments have not also been responded to. It is imperative that these areas are also taken up by our Government for liberalization towards making India one of the most hot spot FDI destinations on the globe.

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