INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT

IJRCM

CONTENTS

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

http://ijrcm.org.in/

ii

CALL FOR MANUSCRIPTS

We invite unpublished novel, original, empirical and high quality research work pertaining to recent developments & practices in the areas of Computer Science & Applications; Commerce; Business; Finance; Marketing; Human Resource Management; General Management; Banking; Economics; Tourism Administration & Management; Education; Law; Library & Information Science; Defence & Strategic Studies; Electronic Science; Corporate Governance; Industrial Relations; and emerging paradigms in allied subjects like Accounting; Accounting Information Systems; Accounting Theory & Practice; Auditing; Behavioral Accounting; Behavioral Economics; Corporate Finance; Cost Accounting; Econometrics; Economic Development; Economic History; Financial Institutions & Markets; Financial Services; Fiscal Policy; Government & Non Profit Accounting; Industrial Organization; International Economics & Trade; International Finance; Macro Economics; Micro Economics; Rural Economics; Co-operation; Demography: Development Planning; Development Studies; Applied Economics; Development Economics; Business Economics; Monetary Policy; Public Policy Economics; Real Estate; Regional Economics; Political Science; Continuing Education; Labour Welfare; Philosophy; Psychology; Sociology; Tax Accounting; Advertising & Promotion Management; Management Information Systems (MIS); Business Law; Public Responsibility & Ethics; Communication; Direct Marketing; E-Commerce; Global Business; Health Care Administration; Labour Relations & Human Resource Management; Marketing Research; Marketing Theory & Applications; Non-Profit Organizations; Office Administration/Management; Operations Research/Statistics; Organizational Behavior & Theory; Organizational Development; Production/Operations; International Relations; Human Rights & Duties; Public Administration; Population Studies; Purchasing/Materials Management; Retailing; Sales/Selling; Services; Small Business Entrepreneurship; Strategic Management Policy; Technology/Innovation; Tourism & Hospitality; Transportation Distribution; Algorithms; Artificial Intelligence; Compilers & Translation; Computer Aided Design (CAD); Computer Aided Manufacturing; Computer Graphics; Computer Organization & Architecture; Database Structures & Systems; Discrete Structures; Internet; Management Information Systems; Modeling & Simulation; Neural Systems/Neural Networks; Numerical Analysis/Scientific Computing; Object Oriented Programming; Operating Systems; Programming Languages; Robotics; Symbolic & Formal Logic; Web Design and emerging paradigms in allied subjects.

Anybody can submit the **soft copy** of unpublished novel; original; empirical and high quality **research work/manuscript** *anytime* in *M.S. Word format* after preparing the same as per our **GUIDELINES FOR SUBMISSION**; at our email address i.e. infoijrcm@gmail.com or online by clicking the link **online submission** as given on our website (*FOR ONLINE SUBMISSION, CLICK HERE*).

GUIDELINES FOR SUBMISSION OF MANUSCRIPT

1.   **COVERING LETTER FOR SUBMISSION**:

                                                                                        DATED: _____

THE EDITOR

IJRCM

Subject: **SUBMISSION OF MANUSCRIPT IN THE AREA OF _____.**

(e.g. Finance/Mkt./HRM/General Mgt./Engineering/Economics/Computer/IT/ Education/Psychology/Law/Math/other, please specify)

DEAR SIR/MADAM

Please find my submission of manuscript entitled '_____' for possible publication in one of your journals.

I hereby affirm that the contents of this manuscript are original. Furthermore, it has neither been published elsewhere in any language fully or partly, nor is it under review for publication elsewhere.

I affirm that all the co-authors of this manuscript have seen the submitted version of the manuscript and have agreed to their inclusion of names as co-authors.

Also, if my/our manuscript is accepted, I agree to comply with the formalities as given on the website of the journal. The Journal has discretion to publish our contribution in any of its journals.

NAME OF CORRESPONDING AUTHOR	:
Designation	:
Institution/College/University with full address & Pin Code	:
Residential address with Pin Code	:
Mobile Number (s) with country ISD code	:
Is WhatsApp or Viber active on your above noted Mobile Number (Yes/No)	:
Landline Number (s) with country ISD code	:
E-mail Address	:
Alternate E-mail Address	:
Nationality	:

NOTES:

a) The whole manuscript has to be in **ONE MS WORD FILE** only, which will start from the covering letter, inside the manuscript. *pdf. version is liable to be rejected without any consideration*.

b) The sender is required to mention the following in the **SUBJECT COLUMN of the mail**:

 New Manuscript for Review in the area of (e.g. Finance/Marketing/HRM/General Mgt./Engineering/Economics/Computer/IT/ Education/Psychology/Law/Math/other, please specify)

c) There is no need to give any text in the body of mail, except the cases where the author wishes to give any **specific message** w.r.t. to the manuscript.

d) The total size of the file containing the manuscript is expected to be below **1000 KB**.

e) **Abstract alone will not be considered for review** and the author is required to submit the **complete manuscript** in the first instance.

f) *The journal gives acknowledgement w.r.t. the receipt of every email within twenty four hours* and in case of non-receipt of acknowledgment from the journal, w.r.t. the submission of manuscript, within two days of submission, the corresponding author is required to demand for the same by sending a separate mail to the journal.

g) The author (s) name or details should not appear anywhere on the body of the manuscript, except the covering letter and the cover page of the manuscript, in the manner as mentioned in the guidelines.

2. **MANUSCRIPT TITLE:** The title of the paper should be **bold typed**, **centered** and **fully capitalised**.

3. **AUTHOR NAME (S) & AFFILIATIONS:** Author (s) **name**, **designation**, **affiliation** (s), **address**, **mobile/landline number** (s), and **email/alternate email address** should be given underneath the title.

4. **ACKNOWLEDGMENTS:** Acknowledgements can be given to reviewers, guides, funding institutions, etc., if any.

5. **ABSTRACT:** Abstract should be in **fully italicized text**, ranging between **150** to **300 words**. The abstract must be informative and explain the background, aims, methods, results & conclusion in a **SINGLE PARA**. *Abbreviations must be mentioned in full*.

6. **KEYWORDS:** Abstract must be followed by a list of keywords, subject to the maximum of **five**. These should be arranged in alphabetic order separated by commas and full stop at the end. All words of the keywords, including the first one should be in small letters, except special words e.g. name of the Countries, abbreviations.

7. **JEL CODE:** Provide the appropriate Journal of Economic Literature Classification System code (s). JEL codes are available at www.aeaweb.org/econlit/jelCodes.php, however, mentioning JEL Code is not mandatory.

8. **MANUSCRIPT:** Manuscript must be in **BRITISH ENGLISH** prepared on a standard A4 size **PORTRAIT SETTING PAPER**. *It should be free from any errors i.e.* **grammatical, spelling** *or* **punctuation.** *It must be thoroughly edited at your end*.

9. **HEADINGS:** All the headings must be bold-faced, aligned left and fully capitalised. Leave a blank line before each heading.

10. **SUB-HEADINGS:** All the sub-headings must be bold-faced, aligned left and fully capitalised.

11. **MAIN TEXT:**

THE MAIN TEXT SHOULD FOLLOW THE FOLLOWING SEQUENCE:

INTRODUCTION

REVIEW OF LITERATURE

NEED/IMPORTANCE OF THE STUDY

STATEMENT OF THE PROBLEM

OBJECTIVES

HYPOTHESIS (ES)

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

RECOMMENDATIONS/SUGGESTIONS

CONCLUSIONS

LIMITATIONS

SCOPE FOR FURTHER RESEARCH

REFERENCES

APPENDIX/ANNEXURE

The manuscript should preferably range from **2000** to **5000 WORDS**.

12. **FIGURES & TABLES:** These should be simple, crystal **CLEAR**, **centered**, **separately numbered** & self explained, and **titles must be above the table/figure**. **Sources of data should be mentioned below the table/figure**. *It should be ensured that the tables/figures are referred to from the main text.*

13. **EQUATIONS/FORMULAE:** These should be consecutively numbered in parenthesis, horizontally centered with equation/formulae number placed at the right. The equation editor provided with standard versions of Microsoft Word should be utilised. If any other equation editor is utilised, author must confirm that these equations may be viewed and edited in versions of Microsoft Office that does not have the editor.

14. **ACRONYMS:** These should not be used in the abstract. The use of acronyms is elsewhere is acceptable. Acronyms should be defined on its first use in each section: Reserve Bank of India (RBI). Acronyms should be redefined on first use in subsequent sections.

15. **REFERENCES:** The list of all references should be alphabetically arranged. *The author (s) should mention only the actually utilised references in the preparation of manuscript* and they are supposed to follow Harvard Style of Referencing. **Also check to make sure that everything that you are including in the reference section is duly cited in the paper**. The author (s) are supposed to follow the references as per the following:

- All works cited in the text (including sources for tables and figures) should be listed alphabetically.

- Use (**ed.**) for one editor, and (**ed.s**) for multiple editors.

- When listing two or more works by one author, use --- (20xx), such as after Kohl (1997), use --- (2001), etc, in chronologically ascending order.

- Indicate (opening and closing) page numbers for articles in journals and for chapters in books.

- The title of books and journals should be in italics. Double quotation marks are used for titles of journal articles, book chapters, dissertations, reports, working papers, unpublished material, etc.

- For titles in a language other than English, provide an English translation in parenthesis.

- *Headers, footers, endnotes and **footnotes** should **not be used** in the document.* However, **you can mention short notes to elucidate some specific point**, which may be placed in number orders after the references.

PLEASE USE THE FOLLOWING FOR STYLE AND PUNCTUATION IN REFERENCES:

BOOKS

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.

- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

JOURNAL AND OTHER ARTICLES

- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–23

UNPUBLISHED DISSERTATIONS

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

ONLINE RESOURCES

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

WEBSITES

- Garg, Bhavet (2011): Towards a New Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

SWOT ANALYSIS ON GREEN MARKETING: AN EMPIRICAL INVESTIGATION

K. SHARIFA NIZARA
RESEARCH SCHOLAR
MADURAI KAMARAJ UNIVERSITY
MADURAI

DR. I. MOHAMED SHAW ALEM
HEAD
MADURA COLLEGE
MADURAI

ABSTRACT

Green marketing is considered as one of the major trends in modern businesses today (Kassaye, 2001). It has become a strategic marketing approach focusing on business endeavours (Ottman 2000). Almost all research studies in the field of green marketing unanimously endorsed a finding that green consumers are on the rise globally and it offers long term competitive advantage to the companies to innovate, engage and promote green life styles (Bukheni, 2011). The opportunities offered by the current green marketing stage of sustainable marketing may not be fully utilized unless the looming threats and weaknesses are effectively addressed by concerted efforts with an institutional mechanism at international level. The empirical investigation in the field of green marketing for the past thirty years has revolved around the areas of environmental awareness of consumers, the buying behaviour of green consumers and green marketing strategy adopted by companies. The contribution of the studies though somewhat valuable to the stakeholders, the basic issues of the emerging concept related to its weaknesses and threats remain unresolved. They were mostly theoretically discussed at intellectual circles and did not make much headway in addressing the grievances of green companies. By using SWOT Analysis the present paper makes an attempt at identifying the strengths and opportunities; and pinpointing the weaknesses and threats in an order of priority under the each component of the analysis, so that the policy makers and interested groups can act on priority basis by addressing the issues one by one. This would ensure uniform implementation of green policies at national and global level which in turn helps the green companies and marketers to move ahead with confidence and making the environment-friendly movement a great success. With this backdrop, the present study is undertaken. Therefore, it is an empirical investigation on the concept of green marketing.

KEYWORDS

Green Marketing, Green Strategy, SWOT Analysis.

INTRODUCTION

Green marketing is considered as one of the major trends in modern businesses today (Kassaye, 2001). It has become a strategic marketing approach focusing on business endeavours (Ottman 2000). Almost all research studies in the field of green marketing unanimously endorsed a finding that green consumers are on the rise globally and it offers long term competitive advantage to the companies to innovate, engage and promote green life styles (Bukheni, 2011). It is now argued that green marketing is currently not achieving its potential and still in its infancy and lot of research is to be done to fully explore its potential. (Semmer.K.et.al., 2006). The opportunities offered by the current green marketing stage of sustainable marketing may not be fully utilized unless the looming threats and weaknesses are effectively addressed by concerted efforts with an institutional mechanism at international level. Green Washing, Green Myopia, lack of green standards and certification, eco labelling and erosion of faith among consumes on green claims are weakening the green marketing initiatives.

The empirical investigation in the field of green marketing for the past thirty years has revolved around the areas of environmental awareness of consumers, the buying behaviour of green consumers and green marketing strategy adopted by companies. The contribution of the studies though somewhat valuable to the stakeholders, the basic issues of the emerging concept related to its weaknesses and threats remain unresolved. They were mostly theoretically discussed at intellectual circles and did not make much headway in addressing the grievances of green companies. As a result companies like Coca Cola, McDonald and Wal-Mart are drifting away from their environmentally friendly behaviour and started building an image of socially responsive company as they couldn't adjust with the ground realities of green marketing. By using SWOT Analysis the present paper makes an attempt at identifying the strengths and opportunities; and pinpointing the weaknesses and threats; in an order of priority under the each component of the analysis, so that the policy makers and interested groups can act on priority basis by addressing the issues one by one. This would ensure uniform implementation of green policies at national and global level which in turn helps the green companies and marketers to move ahead with confidence and making the environment-friendly movement a great success. With this backdrop, the present study is undertaken. Therefore, it is an empirical investigation on the concept of green marketing.

REVIEW OF LITERATURE

Miles and Cavin (2000) argued that being a good environmental steward helps to create superior reputational and strategic advantage in firms' long term utility to create value. Polonsky (2000) stated that from the organization's point of view, the impact of green marketing is both internal and external. In the external environment, it affects the threats and opportunities for organizations, where as in internal environment it influences the strengths and weakness of organizations. Ottman (2006) pointed out that the consumer value positioning, caliberation of consumer knowledge and credibility of product claims are the biggest challenges to be met in the field of green marketing. The sustainability of internal reforms in the organization ensuring a "bridge between business and green" is challenging (Grant 2007). Mulchand Sen (2007) stated that the marketers need to understand the implications of Green Marketing. It is a golden goose, and can be a very powerful marketing strategy when it is done right. It was realized that environmental responsiveness is something that consumers, investors and other stakeholders take an intent and which provides opportunities for innovation and competitive advantage (Baker 2009). The study by Dharmendra Mehta (2011) indicated that Indians are not only conscious about their environment but also health conscious as well. This paradigm shift in attitude has made Indian consumers attractive to green marketers. It has made the population more responsive and aware towards green marketing appeals. The study by Saranya (2011) highlighted that the perception of green consumers on the extent of environmental friendliness of products in the minds of green consumers is said to have causing a vital impact on their purchasing decisions. Further they are also unlikely to compromise on traditional attributes such as convenience, availability, price, quality and performance. To meet this challenge there is no single green marketing strategy is right for every company to succeed. It is to be seen how companies handle this dilemmas associated with this growing field (Ginsberg and Bloom 2011). Green Washing is a serious threat to the green marketing companies which shattered the faith of the green consumers and lead them to believe that environmental claims are just marketing gimmicks (Kotler, 2011)

STATEMENT OF THE PROBLEM

The uniqueness of the present research paper is that instead of investigating a research problem from its practical value, the concept itself is being subjected to research analysis. Green marketing being an emerging and promising concept, its potentiality and hurdles in its practical situations remain a subject of discussion

among ultimate consumers, academicians, researchers and marketers. Unless and otherwise the threatening issues of green marketing are tackled to the satisfaction of its stakeholders, taking forward this marketing strategy benefiting the consumers and the entire world as a whole would hardly be achieved. In this context, it is intended to subject this concept for an empirical investigation to address the issues in an order of priority by bodies and institutions active in the field of green movement.

OBJECTIVES
1. To stress the significance of green marketing in the present context.
2. To know the profile of sample respondent – academicians and executives taken for the study.
3. To identify specifically the Strengths, Weaknesses, Opportunities and Threads (SWOT Analysis) in an order of priority.
4. To offer suggestions based on the findings of the study.

SCOPE OF THE STUDY
Major companies have already started adopting green strategy and positioning themselves as green companies in the market. Starbucks is saving 1.7 million pounds of paper, 3.7 million pounds of solid waste and 1,50,000 trees a year in 13,168 stores using re-useable mugs. HSBC offering 'Green' checking account by promoting a bank card with green element recycled paper. Google has taken initiative to generate environmentally friendly energy by using wave power generator through the wave motion to power the on board data centre and filed a 'patent' for 'Floating data centre' and will cool this with water. Google sees the future of computing at sea. IKEA (Swedish longest home furnishing chain store) is committed to social programs by partnering with UNICEF for reducing child labour. But marketers and small companies not knowing exactly as to how to meet the challenges and tackle the issues relating to weaknesses and threats, have became half hearted and stood wayside. The present paper by pinpointing the issues in an order of priority seeking solutions from the highly powered policy makers. This would not only strengthen the green intentions of companies but also clear the skepticism surrounding the movement.

METHODOLOGY
The present investigation is unique in its content as being a concept is itself subjected to analysis. It is both descriptive and analytical study based on primary as well as secondary data. By using well – structured interview schedule, data from the respondents were collected and analyzed using SPSS 14.0. Statistical tools like Percentage Analysis and Garrett's Ranking Technique are used for the analysis. Samples for the study are drawn from teaching faculty and practitioners i.e., company executives.

SAMPLING
Environmental concerns have been on the agendas of academia and industry for more than 30 years. It is therefore, decided to draw samples from these two segments for the study. The faculty works in the departments of Commerce and Management stream of five reputed colleges and company executives at the decision making level in the areas of production and marketing in Chennai city taken for the study. The said departments of five colleges namely Stella Maris College, New College, Madras Christian College, Presidency College, Ethiraj College and Loyola College and five companies namely TNPL, HCL, Mahendra and Mahendra, HUL and Wipro are taken for the study treated them as two separate clusters. The total population of two clusters stood at 64 comprising of 43 and 21 respectively. A sample of 20 from faculty and 10 from company executives were chosen to form a total sample size of 30. Hence, the cluster sampling technique with convenient selection of samples has been applied to the present study.

RESULTS AND DISCUSSION
The sample consists of two sets of respondents namely faculty and executives and their profile is presented in the following Table 1 & 2.

TABLE 1: PROFILE OF SAMPLE RESPONDENT-FACULTY AND COMPANY EXECUTIVES

Category	Item	Frequency	Percentage
Age Level	Upto 45	16	53.33
	Above 45	14	46.67
	Total	**30**	**100.00**
Gender	Male	19	63.33
	Female	11	36.67
	Total	**30**	**100.00**
Educational Qualification	Research Degree	18	60.00
	Provisional Degree	12	40.00
	Total	**30**	**100.00**
Number of Conferences, Seminars and High level meetings attended	Below 25	14	46.67
	Between 25 and 50	6	20.00
	Above 50	10	33.33
	Total	**30**	**100.00**

Source: Primary data

TABLE 2: PERIOD OF EXPERIENCE IN THEIR RESPECTIVE FIELDS

Category	Items							
	Teaching Faculty				**Company Executives**			
	Area of Teaching Experience	Frequency	%		**Industry Experience**	Frequency		%
Period of Experience	Marketing philosophy				Marketing division			
	a) Upto 10 years	8			a) Upto 10 years	3		
	b) More than 10 years	4	12	60.00	b) More than 10 years	2	5	50.00
	Organizational/ consumer behaviour studies				Research and development department			
	a) Upto 10 years	4			a) Upto 10 years	2		
	b) More than 10 years	4	8	40.00	b) More than 10 years	1	3	30.00
					Policy making decisions			
					a) Upto 10 years	1		
					b) More than 10 years	1	2	20.00
Total		20	100.00			10		100.00

Source: Primary data

The variables / issues which are to be grouped under each component of SWOT analysis were identified from the pilot study undertaken initially. The identified issues were given to sample respondents to rank according to their priority under each component of SWOT analysis namely Strengths, Weaknesses,

Opportunities and Threats of green marketing. By referring the Garrett's Ranking table, mean scores were assigned to each variable and ranks were assigned accordingly. The results of the analysis are presented in Tables 3, 4, 5 and 6.

TABLE 3: STRENGTHS OF GREEN MARKETING

S.No	Variable	Mean Score	Ranks
1.	Support of people, NGO's, Governmental and Internal Bodies like UNESCO,	67.30	I
2.	Overwhelming support by environmentally conscious people.	62.17	II
3.	Promoting innovation in technology, products and services.	60.73	III
4.	Increasing green consumer base.	46.40	IV
5.	Increased recognition by companies as effective marketing tool to enhance their market share.	36.23	V
6.	Transforming into a mass movement.	25.14	VI

Source: Computed data

TABLE 4: WEAKNESSES OF GREEN MARKETING

S.No	Variable	Mean Score	Ranks
1.	Green Guides, 2012 only administrative and optional	66.83	I
2.	Effects of green marketing mostly indirect and not measurable.	62.00	II
3.	Mixed environmental friendly behaviour of green consumers.	60.90	III
4.	Preference of short-term environmental solutions instead of long-term by companies.	45.50	IV
5.	Absence of specialized Management/ Technical experts on green issues.	37.00	V
6.	Based on ethical binding of companies and consumers.	25.77	VI
7.	Less attractive to mainstream population.		VII

Source: Computed data

TABLE 5: OPPORTUNITIES OF GREEN MARKETING

S.No	Variables	Mean Score	Ranks
1.	A money-spinning sector	72.13	I
2.	Chances for promoting Enviropreneurship	65.10	II
3.	Chances for innovation in production and distribution	61.30	III
4.	Chances for becoming socially and relevant and sustainable business model	49.10	IV
5.	Chances of receiving support mass media	40.30	V
6.	Chances for collaboration and co-operation between companies at international level	35.97	VI
7.	Chances for becoming a market leader	23.00	VII

Source: Computed data

TABLE 6: THREATS OF GREEN MARKETING

S.No	Variables	Mean Score	Ranks
1.	No Green standards and certification	75.73	I
2.	'Green Washing' and 'Green Myopia'	69.07	II
3.	Heavy capital investments in Green Technology	62.08	III
4.	Possibility of backlash from consumers and Government	52.00	IV
5.	Shift from 'Ecological Marketing' to 'Sustainability Marketing	46.53	V
6.	High environmental claims by MNCs	42.60	VI
7.	Segmentation of Green consumers	31.87	VII
8.	Non-readiness of consumers to pay premium for green products	23.40	VIII

Source: Computed data

FINDINGS

1. It is found from the profile of respondents that in respect of age, gender, education qualification, conferences, meetings etc., attended ; and period of experience, a majority of them belong to the category of – 'Upto 45', 'Male', 'Research Degree', 'Below 25' and 'Marketing Philosophy and Marketing Division' respectively.
2. It is inferred from the Garrett's Ranking analysis that under the component of 'Strengths', the variables such as 'Support of people, NGO's, Governmental, International bodies like UNESCO', 'Recognized as effective marketing strategy', and 'Increasing Green consumer base' with mean scores of 67.30, 62.17 and 60.73 were ranked I, II and III respectively.

Under the component of 'Weaknesses', the variables such as 'Green Guides, 2012 only administrative and optional', 'Effects of green marketing mostly indirect and not measureable', and 'Mixed environmental friendly behaviour of green consumers' with mean scores of 66.83, 62.00 and 60.90 were ranked I, II and III respectively.

Under the component of 'Opportunities', the variables such as 'A money spinning sector', 'Chances for promoting Enviropreneurship' and 'Chances for innovation in production and distribution' with mean scores of 72.13, 65.10 and 61.30 were ranked I, II and III respectively.

Under the component of 'Threats', the variables such as 'No Green standards and certification', 'Green Washing and Green Myopia' and 'Heavy capital investments in Green Technology' with mean scores of 75.73, 69.07and 62.08, were ranked I, II and III respectively.

The other remaining variables ranked IV, V, VI, VII and VIII under the components of the analysis though looked not so significant, but, however, may be considered for decision making purposes.

SUGGESTIONS AND CONCLUSION

Though the present study found the strengths and opportunities galore in the green marketing field, the identified weakness and threats signaled a warning to the environmentalists and green companies. For exploiting the identified strengths and opportunities to the advantage of green companies, the identified threats and weaknesses have to be addressed in the order of priority found in the analysis. In this regard, it is suggested that on lines of GATT, a policy making body at International level has to be established with the objective of framing and implementing guidelines to be followed by green companies globally. By notifying Green Standards and Certification for every product category from production to distribution, and adding provisions for dealing violators, an endeared concept of millions of people, would ensure a genuine and reliable environment-friendly marketing atmosphere worldwide. Governments of all countries by playing law maker roles have the responsibility to make the world a place worthy of living for our future generations. With the rapid changes in the consumer behaviour resulting from the green movement towards the sustainability of environment, the green products very soon will replace the traditional products. If this phenomenon continues to rise, a new market will emerge where opportunity would arise to innovate, emerge and promote green lifestyles. The finding of

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT   3

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

http://ijrcm.org.in/

the present research paper draws the attention of influential policy makers at national and international level over the issues identified in the analysis. As a whole the present paper highlights the issues under each component of SWOT analysis in an order of priority to be attended to by the parties concerned.

REFERENCES

1. De Bakker, & Frank, G. A. (2009). Corporate Culture and Environmental Practice: Making Change at a High-Technology Manufacturer. Organization & Environment, 22(2). http://doi:10.1177/1060266093.
2. Ginsberg J, Bloom P.2004. Choosing the Right Green Marketing Strategy. MIT Sloan Management Review.
3. Grant, J. (2007) The Green Marketing manifesto. Padstow: John Wiley and Sons, Ltd.
4. Kassaye, W. (2001). Green dilemma. Marketing Intelligence & Planning, 19(6), 444-55.
5. Miles Morgan P, Covin Jaffrey G, 2000. Environmental Marketing: A saurce of reputational, competitive and Advantage, journal of Business Ethics, vol 23, pp 300.
6. Ottman, Green marketing, opportunity for innovation, NTC publishers, 1998 149-179, 183-191, pg. 129-146 113-126 pg.45, 61, 57-82, 45-49.
7. Porter, M. E., & Van der Linde, C. (1995). Green and Competitive: Ending the Stalemate. Harvard Business Review, 73(5), 120–134.
8. Syeda Shazia Bukhari (2011)," Green Marketing and its impact on consumer behavior", European Journal of Business and Management, Vol.3 (4) p.375.

WEBSITES
9. http://kgk.uni-obuda.hu/system/files/MajlathMelinda.pdf.
10. www.aijsh.org.
11. www.bdc.ca.
12. www.biggreenopportunity.org
13. www.biggreenopportunity.org.
14. www.diva-portal.org
15. www.globalbizresearch.org.
16. www.greenmarketing.com.
17. www.irdindia.in.
18. www.sciroad.com.
19. www.theijbm.com.

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT 4

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

http://ijrcm.org.in/

MANAGEMENT PHILOSOPHY AND PRACTICES IN BHAGAVAD GITA: AN ANALYSIS

DR. KIRAN ARORA
PRINCIPAL
PCM S.D. COLLEGE FOR WOMEN
JALANDHAR

ABSTRACT
There are several useful principles, practises and philosophy in Gita for effective management. There are specific sources for management that address issues pertaining to self, self-mastery and self-assessment. There are also specific suggestions on the leadership traits. Bhagavad Gita as ancient Indian text offers a unique value proposition. We can have spiritual progress and material progress too in a very balanced way. All the aspects of management have been covered in Gita. There are greater management principles and practises which can be applied in a variety of management situations all the time. The teachings of Gita become long lasting impact on ever changing concept of management.

KEYWORDS
Bhagavad Gits, management.

INTRODUCTION

In this modern world, the art of Management has become a part and parcel of everyday life, be it at home, in the office or factory and in Government. In all organizations, where a group of human beings assemble for a common purpose irrespective of caste, creed, and religion, management principles come into play through the management of resources, finance and planning, priorities, policies and practice. Management is a systematic way of carrying out activities in any field of human effort. Management need to focus more on leadership skills, e.g., establishing vision and goals, communicating the vision and goals, and guiding others to accomplish them. It also asserts that leadership must be more facilitative, participative and empowering in how visions and goals are established and carried out. Some people assert that this really is not a change in the management functions and rather it's re-emphasizing certain aspects of management.

Its task is to make people capable of joint performance and to make their weaknesses irrelevant, says The Father of Scientific Management Peter Drucker. It creates harmony in working together - equilibrium in thoughts and actions, goals and achievements, plans and performance, products and markets. It resolves situations of scarcity, be they in the physical, technical or human fields, through maximum utilization with the minimum available processes to achieve the goal. Lack of management causes disorder, confusion, wastage, delay, destruction and even depression. Managing men, money and materials in the best possible way, according to circumstances and environment, is the most important and essential factor for a successful management.

OBJECTIVES OF THE STUDY

1. To Study and understand management principles applied in Gita.
2. To analyse the various management techniques and tools used such as crisis management, motivational tools and stress management in holy text of Gita.
3. To know these principles have any application in modern era of management.

A BRIEF INTRODUCTION TO THE BHAGAVAD GITA

The Gita is the great epic storey in *Mahabharata.* With nearly one hundred thousand verses divided into eighteen books, it is one of the longest epic poems in the world and three times longer than the Bible. It is in fact a whole library of stories that exerted a tremendous influence on the people and literature of India. The struggle is between two groups of cousins, the Pandavas or sons of Pandu, and the Kauravas.The central story of the *Mahabharata* is a conflict over succession to the throne of Hastinapura, a kingdom just north of modern Delhi that was the ancestral realm of a tribe most commonly known as the Bharatas. (India was at that time divided amongst many small, and often warring, kingdoms.)

However, Pandu renounces the throne, and Dhritarashtra assumes power after all. The sons of Pandu—Yudhishthira, Bhima, Arjuna, Nakula, and Sahadeva—grow up together with their cousins, the Kauravas. Due to enmity and jealousy, the Pandavas are forced to leave the kingdom when their father dies. During their exile, they jointly marry Draupadi and befriend their cousin Krishna, who from then on accompanies them. They return and share sovereignty with the Kauravas, but have to withdraw to the forest for thirteen years when Yudhishthira loses all his possessions in a game of dice with Duryodhana, the eldest of the Kauravas. When they return from the forest to demand their share of the kingdom back, Duryodhana refuses. This means war. Krishna acts as counselor to the Pandavas.The Gita is found right here with the two armies facing each other and ready for battle. The battle rages for eighteen days and ends with the defeat of the Kauravas. All the Kauravas died and only the five Pandava brothers and Krishna survive.

It is within this enormous epic well less than one percent of the *Mahabharata* that we find the Bhagavad Gita, or the Song of the Lord, most commonly referred to simply as the Gita. It is found in the sixth book of the epic, just before the great battle between the Pandavas and the Kauravas. The greatest hero of the Pandavas, Arjuna, has pulled up his chariot in the middle of the battlefield between the two opposing armies. He is accompanied by Krishna, who acts as his charioteer. In a fit of despondency, Arjuna throws down his bow and refuses to fight, deploring the immorality of the coming war

The situation is extremely grave. A great kingdom is about to self-destruct in internecine warfare, making a mockery of dharma, the eternal moral laws and customs that govern the universe. Arjuna's objections are well founded. He is the victim of a moral paradox. On the one hand, he is facing persons who, according to dharma, deserve his respect and veneration. It is, seemingly, a dilemma without solution. It is this state of moral confusion that the Gita sets out to mend.

When Arjuna refuses to fight, Krishna has no patience with him. The Krishna changes his attitude and start teaching the mysteries of dharmic action in this world. He introduces Arjuna to the structure of the universe, the concepts of prakriti, primordial nature, and the three gunas, the properties that are active in prakriti. Then he takes Arjuna on a tour of philosophical ideas and ways of salvation. He discusses the nature of theory and action, the importance of ritual, the ultimate principle, Brahman, all the while gradually disclosing his own nature as the highest god.

This part of the Gita culminates in an overwhelming vision. Krishna allows Arjuna to see his supernal form, the Vishvarupa, which strikes terror into Arjuna's heart. The rest of the Gita deepens and supplements the ideas presented before the epiphany—the importance of self-control and faith, of equanimity and unselfishness, but above all, of bhakti, or devotion. Krishna explains to Arjuna how he can obtain immortality by transcending the properties which qualify not only primordial matter, but also human character and behaviour. Krishna also emphasizes the importance of doing one's duty, declaring that it is better to do one's own duty without distinction than to do another's duty well.

In the end, Arjuna is convinced. He picks up his bow and is ready to fight. The first is that the Gita is a conversation within a conversation. Dhritarashtra begins it by asking a question and that is the last we hear out of him. He is answered by Sanjaya, who relates what is happening on the battlefield. It is actually more dramatic and wondrous than the previous sentence indicates. Dhritarashtra is blind. Vyasa, his father, offers to restore his sight so he can follow the battle. Dhritarashtra declines this boon, feeling that seeing the carnage of his kinsmen would be more than he could bear. So instead, Vyasa bestows clairvoyance and clairaudience upon Sanjaya, Dhritarashtra's minister and charioteer. As they sit in their palace, Sanjaya relates what he sees and hears on the distant battlefield.

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT   5

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

http://ijrcm.org.in/

Sanjaya pops up now and again throughout the book as he relates to Dhritarashtra the conversation between Krishna and Arjuna. This second conversation is a bit one-sided, as Krishna does almost all of the talking. Thus, Sanjaya describes the situation, Arjuna asks the questions, and Krishna gives the answers.

MANAGEMENT GUIDELINES AND PRINCIPLES FROM THE BHAGAVAD GITA

There is an important distinction between effectiveness and efficiency in management. Effectiveness is doing the right things. Efficiency is doing things right. The general principles of effective management can be applied in every field, the differences being more in application than in principle. The Manager's functions can be summed up as:

- Forming a vision
- Planning the strategy to realize the vision.
- Cultivating the art of leadership.
- Establishing institutional excellence.
- Building an innovative organization.
- Developing human resources.
- Building teams and teamwork.
- Delegation, motivation, and communication.
- Reviewing performance and taking corrective steps when called for.

Thus, management is a process of aligning people and getting them committed to work for a common goal to the maximum social benefit - in search of excellence. Major functions of a manager are planning, organizing, leading and coordinating activities -- they put different emphasis and suggest different natures of activities in the following four major functions. The critical question in all managers' minds is how to be effective in their job. The answer to this fundamental question is found in the Bhagavad-Gita, which repeatedly proclaims that "you must try to manage yourself." The reason is that unless a manager reaches a level of excellence and effectiveness, he or she will be merely a face in the crowd.

GITA IS AN ART OF CRISIS MANAGEMENT

The first chapter ends with the title of "Arjuna's vishad yoga". The closest English word to vishad is despair. Depression and crisis come close too. Can vishad be yoga? The more I think of it, the more I feel that perhaps this is the best way to manage a crisis. . There is a crisis inside of a crisis. War is a crisis itself. The Pandavas and the Kauravas are at the beginning of a war. The formalities have been completed. The war has been declared. But, Arjuna goes numb. He does not want to fight. He has put down his bow and is prepared to die. The view that Gita is presenting here is that every crisis has a hidden opportunity for growth. A crisis has occurred. If you have come across a crisis, you can relate to it as well. So, a crisis creates an opportunities. What happens in any crisis is that the comfort zone is lost. Crisis is not hard to find. It happens all around us. Sometimes it is a car accident and sometimes it is death in the family. Sometimes one is fired from a job and sometimes business goers bankrupt. We live and die through multitude of crisis situations. Vishad can be an opportunity for growth. And this can only happen if you can keep your awareness and alertness fully ready. Normally, when a crisis happens, we lose our mind and create another crisis and so on. Why me? What did I do wrong in my past life? God is angry with me. If we can get past these approaches, then anything is possible. Even sky is not the limit. If you can keep you cool and deal with the crisis as a situation (and not as a problem), vishad can lead to yoga and it can become the path towards the center. Crisis is a situation, crisis is easy to find and crisis can bring revolution in one's life.

GITA IS A FORMULA FOR SUCCESS

Arjun was successful individual. After Bhagavad-Gita he becomes more successful. There are many aspects of Gita that contributed to his success. Let us understand the Karma Yoga in brief here. There are many definitions of yoga. Krishna's definition is so practical. Yoga should make us work efficiently. How do we bring efficiency in our work? There are several modern concepts of how to become efficient. It usually revolves around decreasing waste and increasing productivity. Lean thinking is one of the concepts of reducing waste. Krishna's karma yoga deals with these issues right here in Bhagavad-Gita. Let us try to explore it. Let us recapitulate on two important aspects of Karma Yoga:

1. Results are not in our hand
2. Accepting of results

Krishna talks about the fact that the results are not in our hand. People often conclude that we should not worry about results. I differ from this conclusion for several reasons. So, what is Krishna talking about? He is simply saying that results are not totally in your hand. Result depends upon other factors as well as the effort that you make. It is a fact of life. There is no advice here. Krishna is changing the focus of our work. Most of us are result oriented people. We spend most of our energy worrying about the results. Krishna wants to bring that focus on the preparation and the work itself. The result depends on our work and other factors. Krishna knows about the other factors as well. Divine forces or call it luck factor is one of them. No effort of nishkam karma is wasted and there are no obstacles (pratyavaya) in the path of nishkam karma. Nishkama karma protects one from the greatest fear. The divine supports people who flow with the current. Efficiency is increased because the focus is on the process and on the produce. All the energy is directed to the work. The divine factors are in line and hence the result has to be the best possible possibility.

STRESS MANAGEMENT

Stress at work, Stress at home, Stress in relations, Stress in family life, we all suffer from some or the other form of stress in life. Stress has become the most common word in our fast day to day life. In our daily life everyone suffers from stress at some point or the other. Stress can be due to workplace pressures, tensions in relationships etc. etc. Stress normally disturbs our physical and mental health. Due to stress a person fails to respond appropriately to emotional or physical threats to the organism.

Common stress symptoms include irritability, muscular tension, inability to concentrate and a variety of physical reactions, such as headaches and accelerated heart beat. Otherwise stress can also cause backache, insomnia, fatigue, hypertension, eating disorder etc. So it is very clear that stress can create havoc with your life. So it is imperative that we need to be cool & calm in life. Stress needs to be avoided in all cases in life. Now how can a person remain always cool and unruffled under all circumstances so that he/she never experiences any stress?

If we want to come out of stress in life then first of all we need to change our lifestyle. First & foremost thing is that we need to be peaceful at mind in all circumstances. For that we should be satisfied with what we have at present. Let's try to be happy & try to enjoy what we are having at present. Do not hanker your mind always after those things which are not very easy to attain in life & are beyond one's reach. It also says how to make harmonious relations with the people all around you. Be friendly with your relations & people around you at workplace. Once you are able to do that then you shall find that you are better off & much peaceful.Other than this, just enjoy your work. If you shall enjoy your work than considering it a burden, then also most of your stress shall leave you as a person's mind engrossed in work has little to think about other things in life. Once you are peaceful at mind then stress shall leave you. Finally as per teachings of "Bhagwat Gita", we need to be happy with our present state of life & should not hanker after the material desires.

MOTIVATION

When you are motivated in life, you are able to do everything in life with ease & enthusiasm? When you are motivated in life, success follows you in life. But when our mind gets depressed, dejected, de-motivated, life seems impossible & we are not able to lead life enthusiastically & as a result we do not succeed in life. We may be physically fit with blood gushing in our nerves, but if we are not well with our mind then we are certainly not going to perform to our full

potential. Mental health is where the key to success lies. If we are mentally supercharged then we can achieve any milestone, in spite of having any physical inadequacy. One can never succeed & be victorious in life if he feels himself, defeated at mind.

In the ancient Kurukshetra war, "Arjuna" the great disciple of "Lord Sri Krishna" also came into such a de-motivated & dejected state of mind. In that war "Arjuna" refused to do his duty of fighting a righteous battle as he got infatuated & started thinking of his enemies as his own near & dear ones. His mind became week & highly de-motivated. He told his master "Lord Sri Krishna" that he is going away from the war & do not want to fight on the battle field. Arjuna's mental health became weak & he got deeply depressed

Now to overcome his disciple Arjuna's depression & to motivate him to fight a righteous war, "Lord Sri Krishna" gave the great teachings of "Bhagwat Gita" to his disciple "Arjuna". After listening to all these great teachings, Arjuna's mental health became well & he became motivated & energetic to fight the war. Bhagwat Gita" explains that one should do one's duty equi-poised or to have the equanimity of mind, without caring & renouncing all attachment to success or failure. If one does one's duty efficiently & with single minded devotion, without any fear of success or failure in his/her endeavour, then certainly that person shall succeed in his/her work, as he/she is doing that work without any fear of success or failure. His/her mind shall be at peace & ease while doing such work without any fear of success or failure. Any person, whose mind is at peace, certainly works effectively.

By the teachings of Lord Krishna, weakness of mind of Arjuna was gone & he became motivated. Below is a verse of Bhagwat Gita in which Arjuna acknowledges that his weakness of mind has gone & that he is now motivated to do his duty of fighting a just & righteous war. The defeated & de-motivated mind of Arjuna became good & motivated by the teachings of Bhagwat Gita. Similarly we can also come out of the state of depression, de-motivation & dejection by reading the teachings of Bhagwat Gita. These teachings show us how to do our duty properly & how to lead a good life. So let's all follow the great teachings of Bhagwat Gita as told by Lord Sri Krishna Himself to Arjuna. These teachings are as much relevant in fast day to day life of ours today as these were in ancient times.

So let yourself always be motivated in life. Let enthusiasm, vigor be there in your life & let you stay motivated in the face of challenges of life. Such an attitude shall always keep away the negativity in your life. Do not have regrets in life & move on in all the situations, as with such an attitude you shall quickly go ahead in your career. Always feel good about yourself & never let have negative thoughts in your life. Positive thoughts in life shall increase your self-esteem & that shall keep you motivated. Also enjoy a harmonious life at home & in society as it always keeps one's mind motivated in life. A motivated life shall let you accomplish much more & have greater success in life.

MANAGEMENT LESSONS - OLD TRUTHS IN A NEW CONTEXT

The Bhagavad-Gita, written thousands of years ago, enlightens us on all managerial techniques leading us towards a harmonious and blissful state of affairs in place of the conflict, tensions, poor productivity, and absence of motivation and so on, common in most of Indian enterprises today – and probably in enterprises in many other countries. The modern (Western) management concepts of vision, leadership, motivation, excellence in work, achieving goals, giving work meaning, decision making and planning, are all discussed in the Bhagavad-Gita. There is one major difference. While Western management thought too often deals with problems at material, external and peripheral levels, the Bhagavad-Gita tackles the issues from the grass roots level of human thinking. Once the basic thinking of man is improved, it will automatically enhance the quality of his actions and their results.

UTILIZATION OF AVAILABLE RESOURCES

The first lesson of management science is to choose wisely and utilize scarce resources optimally. During the curtain raiser before the Mahabharata War, Duryodhana chose Sri Krishna's large army for his help while Arjuna selected Sri Krishna's wisdom for his support. This episode gives us a clue as to the nature of the effective manager - the former chose numbers, the later, wisdom. An effective work culture is about vigorous and arduous efforts in pursuit of given or chosen tasks. Sri Krishna elaborates on two types of work culture – divine work culture and demonic work culture. Divine work culture - involves fearlessness, purity, self-control, sacrifice, straightforwardness, self-denial, calmness, absence of fault-finding, absence of greed, gentleness, modesty, absence of envy and pride. Demonic work culture - involves egoism, delusion, personal desires, improper performance, work not oriented towards service. Mere work ethic is not enough. The hardened criminal exhibits an excellent work ethic. What is needed is a work ethic conditioned by ethics in work. The calm mind in the face of failure will lead to deeper introspection and see clearly where the process went wrong so that corrective steps could be taken to avoid shortcomings in future. The principle of reducing our attachment to personal gains from the work done is the Gita's prescription for attaining equanimity.

WORK RESULTS

The Gita further explains the theory of "detachment" from the extrinsic rewards of work in saying: If the result of sincere effort is a success, the entire credit should not be appropriated by the doer alone. If the result of sincere effort is a failure, then the entire blame does not accrue to the doer. The former attitude mollifies arrogance and conceit while the latter prevents excessive despondency, de-motivation and self-pity. Thus both these dispositions safeguard the doer against psychological vulnerability, the cause of the modem managers' companions of diabetes, high blood pressure and ulcers. Assimilation of the ideas of the Gita leads us to the wider spectrum of general welfare but there is also another dimension to the work ethic - if the service is blended with devotion, then the work itself becomes worship, a service for its own sake. Along with devotion yoga as a means of liberation, the Gita espouses the doctrine of pure action untainted by hankering after the fruits resulting from that action.

DEFEATISM & VICTORY IN LIFE

If one feels like a defeated person in life then the battle of life is lost for that person. So we should not let our mind delve into the state of depression, de-motivation & dejection. We should never let our mind feel defeated as then there is no positive meaning of life. You can never succeed & be victorious in life if you feel yourself defeated at mind.

In the ancient Kurukshetra war, "Arjuna" the great disciple of "Lord Sri Krishna" also came into such a de-motivated & dejected state of mind. In that war "Arjuna" refused to do his duty of fighting a righteous battle as he got infatuated & started thinking of his enemies as his own near & dear ones. His mind became week & highly de-motivated. He told his master "Lord Sri Krishna" that he is going away from the war & do not want to fight on the battle field. Arjuna's mental health became weak & he got deeply depressed. To overcome his disciple Arjuna's depression & to motivate him to fight a righteous war, "Lord Sri Krishna" gave the great teachings of "Bhagwat Gita" to his disciple "Arjuna". After listening to all these great teachings, Arjuna's mental health became well & he became motivated & energetic to fight the war.

So it is seen above, how the defeated & de-motivated mind of Arjuna became good & motivated by the teachings of Bhagwat Gita. Similarly we can also come out of the state of depression, de-motivation & dejection by reading the teachings of Bhagwat Gita. These teachings show us how to do our duty properly & how to lead a good life. So let's all follow the great teachings of Bhagwat Gita as told by Lord Sri Krishna Himself to Arjuna. These teachings are as much relevant in fast day to day life of ours today as these were in ancient times.

CONCLUSION

There are several useful principles, practises and philosophy in Gita for effective management. There are specific sources for management that address issues pertaining to self, self-mastery and self-assessment. There are also specific suggestions on the leadership traits. *Bhagavad Gita* as ancient Indian text offers a unique value proposition. We can have spiritual progress and material progress too in a very balanced way. All the aspects of management have been covered in Gita. There are greater management principles and practises which can be applied in a variety of management situations all the time. The teachings of Gita become long lasting impact on ever changing concept of management.

REFERENCES

1.   Principles of Management by C.B Gupta
2.   Swami Ranganthananda, "The Universal Message of Gita", Advaita Ashrama, Kolkatta
3.   'The Bhagavad Gita' translated by Lars Martin Fosse.
WEBSITE
4.   Wikipedia.org

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT   7

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

http://ijrcm.org.in/

IMPACT OF BEEKEEPING ON INCOME AND EMPLOYMENT: A STUDY IN CENTRAL PROVINCE OF ZAMBIA

SYED ALI
ASSOCIATE PROFESSOR
SCHOOL OF SOCIAL SCIENCES
MULUNGUSHI UNIVERSITY
KABWE

ABSTRACT

The study was conducted to know the impact of beekeeping activity on income and employment in the Central Province of Zambia. The study aims to find out the type of technology used in honey production, cost of honey production, net income and income to investment ratio. Further, it aims to know the employment creation potential, employment to investment ratio and income to employment ratio in beekeeping activity. The study revealed that the effect of beekeeping activity on net income and employment was positive. The income to investment ration was higher and the cost-output ratio was lower. The employment to investment ration and the income to employment ratio were higher. The study found several challenges to beekeeping activity. These include lack of appropriate beekeeping skills, financial and infrastructure constraints. The study suggested for training the beekeeping farmers in using modern techniques of honey production and its marketing. The study also suggested that the Government should declare the minimum price of honey and bee wax and the relevant Government Agency should purchase honey from the beekeeping farmers.

KEYWORDS

beekeeping skills, net income, employment, cost-output ratio, financial constraints.

INTRODUCTION

The aim of Revised Sixth National Development Plan (2013-16) in Zambia is to achieve the objectives of Vision 2030, i.e., prosperous middle-income country. The Plan focuses on public capital investments that have a bias to rural development and job creation so as to achieve inclusive growth (Lusaka times, 2014).

Zambia has potential to earn over US$ 12 million from in excess of 10,000 metric tons of honey exports annually but, need to increase investment in research and technology. The honey sector in Zambia has not been fully developed and is faced with a number of challenges such as limited access to markets and modern technology and limited investment in research and development (Sichinga, 2014). With the export and domestic market potentials for the product, beekeeping is likely to contribute to poverty reduction and develop the rural communities in the country (Ellis, 2014).

Beekeeping work is having one main object, namely to bring more cash in to the pockets of the people living in rural areas in order to enable them to improve their standards of living and hence help to stimulate the whole rural economy (Holmes, 1964). Beekeeping has potential to improve economic, social and health status of rural people if theoretical and practical training will be well conducted (Kumar, et.al., 2010). Beekeeping is one of the best practices that have been recognized to improve livelihood of poor farming communities without much investment cost (Baptist and Punduhewa, 1983). Zambia has thousands of hectares of Brachystegia wood lands, which provide an excellent source of nectar for bees, so that in most seasons bees can be depended upon to give a surplus of honey (Mickels-Kokwe, 2006).

Zambia is a traditional beekeeping country. It has immense potential to increase production. Presently, the national domestic demand alone is between 100-150 tonnes per annum, which has never been met. It is therefore imperative that the beekeeping industry be developed to levels where the domestic demand is met and surplus produced for export. The domestic demand for bee wax is large though most wax is exported, thus serving as an important source of foreign exchange for the nation (ZFAP, 1997).

The main markets for bee products continue to be United Kingdom (55%), Germany (35%), and South Africa (5%). Other markets (5%) have been Botswana, Libya, Tanzania and Zimbabwe. Honey and bee wax products have great market potential in Canada, Middle East, Japan and U.S (SNV, 2010).

Despite the conducive environment for beekeeping in Zambia to provide employment opportunities, reduce poverty levels and to earn foreign exchange, the sector is facing a number of problems, such as, poor statistics on the size and structure of the sector; lack of policies and a regulatory frame work to guide stakeholders on forest resource use, management of bees and handling of bee products; lack of national honey standards, lack of competition amongst input providers and traders; poor infrastructure and transport facilities; lack of collaboration between stakeholders and lack of market information and entrepreneur skills (Husselman, 2008).

IMPORTANCE OF THE STUDY

Employment creation and income generation are essential for poverty eradication. Zambia is a capital poor country. There is need to develop those activities which require less capital but create more employment and income. Beekeeping activity needs less capital but has the capacity to create more employment and generate more income for poverty reduction in rural areas. But the bee keeping sector in Zambia is facing many challenges relating to infrastructure, investment, technology, marketing, finance, etc. This study is important in finding out the potential of beekeeping activity in creating employment and generating income in the Kapiri Mposhi district of Central Province in Zambia and suggests policy measures. This study fills the gap in the existing literature on the potential of beekeeping activity in employment creation and income generation in the rural areas.

OBJECTIVES

The specific objectives of this study are to:
1. To know the socio-economic conditions of the beekeepers.
2. Find out the type of plants/cultivated crops which can offer fodder to honey bees.
3. Investigate the type of technology used in honey production.
4. Assess the sources of cost of honey production.
5. Find out the sources of revenue, net income and income to investment ratio.
6. Research the employment creation potential, employment to investment ratio and income to employment ratio in beekeeping activity.
7. Examine the sources of credit for beekeeping activity.

METHODOLOGY

This study used multi-stage random sampling technique for selecting the sample. In the first stage Central Province was selected. In the second stage Kapiri Mposhi district was selected. There are six agricultural blocks in Kapiri Mposhi district. They are: Mulungushi, Changondo, Chipepo, Lounchu, Lukanga and Nkole. In the third stage, out of these six blocks, Mulungushi Block was selected for this study due to higher number of bee keepers (about 40%). The Mulungushi Block consists of six agricultural camps. They are: Imansa, Kakulu, Luanshimba, Lukanda, Kaunga and Kambosha. In the fourth stage, out of these six camps, two camps, namely, Lukanda and Luanshimba, were selected due to higher number of bee keepers. In the fifth stage, a total of 128 bee keeping

households were selected- 82 from Lukanda and 46 from Luanshimba. The required data were collected through questionnaire and interview with the respondents. The information was collected in February/March 2015 for the recent bee keeping season, i.e., September to December, 2014. Estimation of the factors influencing net income and employment involved the use of ordinary least square regression techniques.

The traditional technology includes fixed comb-hives and the modern technology used was movable frame hives, top bar hives, smokers and protective cloth in honey production. The sources of cost of production of honey were technology cost, imputed value of family labor, cost of hired labor, cost of empty containers and transport. The source of revenue includes the value of quantity of honey and beeswax sold. To measure income to investment ratio, the net income was divided by the total cost. To calculate employment to investment ratio, number of man-days of employment created was divided by the cost of production. Income to employment ratio was measured by dividing the net income with the number of man-days of employment created. The sources of credit for beekeeping activity were taken as banks, micro finance institutions, co-operatives, relatives and friends.

MODEL SPECIFICATION AND ESTIMATION

Estimation of the factors influencing net income of the bee farmers involved the use of ordinary least square regression techniques and specified by equations:

$$NY=\beta_0+\beta_1BE+\beta_2T+\beta_3CT+\beta_4HL+\beta_5FL+\mu$$

Where:

NY= Net Income
BE= Beekeeping Experience (years)
T= Training in beekeeping (No. of days)
CT= Cost of Technology (in Kwacha)
HL= Cost of Hired Labor (in Kwacha)
FL= Cost of Family Labor (imputed value in Kwacha)
β_0= is a constant
β_1 to β_5= Regression parameters that were estimated
μ= Error term associated with data collection which was assumed to be normally distributed with zero mean and constant variance.

Estimation of the factors influencing employment involved the use of ordinary least square regression techniques and specified by equations:

$$Emp=\alpha_0+\alpha_1T+\alpha_2I+\alpha_3C+\alpha_4Tg+\alpha_5BE+\mu$$

Where:

Emp= Employment (in man days)
T= Value of technology used (in Kwacha)
I= Value of investment (in Kwacha)
C= Value of credit (in Kwacha)
Tg= Training in beekeeping (No. of days)
BE= Beekeeping experience (in years)
μ= Error term

DATA ANALYSIS AND DISCUSSION

The following results showed that when all the independent variables were zero, the income level was 329.8894 Kwacha. The income increases by 15.40401 Kwacha for an additional year of experience in beekeeping. The income increased by 21.25744 Kwacha for one additional day of training in beekeeping. When all the other independent variables are constant, the income reduced by 5.76671 Kwacha for an additional kwacha in technology cost. The income increased by 0.602546 Kwacha for one additional kwacha in hired labor cost but it increased by 2.994260 Kwacha for an increase in family labor cost by one kwacha. The family labor is significant in explaining the model.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	329.8894	112.8849	2.922353	0.0042
EXPERIENCE	15.40401	11.12775	1.384287	0.1689
TRAINING	21.25744	35.26279	0.602829	0.5478
TECHNOLOGY	-5.766718	5.800598	-0.994159	0.3222
HIRED	0.602546	0.477716	1.261305	0.2097
FAMILY	2.994260	0.580063	5.161954	0.0000
R-squared	0.482592	Mean dependent var		661.7177
Adjusted R-squared	0.460668	S.D. dependent var		506.3556
S.E. of regression	371.8637	Akaike info criterion		14.72211
Sum squared resid	16317347	Schwarz criterion		14.85857
Log likelihood	-906.7708	F-statistic		22.01197
Durbin-Watson stat	1.429433	Prob(F-statistic)		0.000000

The following results showed that when all the independent variables are zero, the level of employment was 93.58010 days of work. Employment increased by 0.453627 days for one additional kwacha increase in investment. The impact of loan on employment was negative. The employment reduced by 0.028188 man days for an increase in loan by one kwacha. The implication was that if more loan was available the employment opportunities would have increased. The employment increased by 3.165543 man days for an additional day of training and it was increased by 3.433432 man days for an additional year of experience in beekeeping. Thus, investment, credit and experience were significant to the model.

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	93.58010	9.752642	9.595358	0.0000
TECHNOLOGY	0.453627	0.484721	0.935851	0.3513
INVESTMENT	0.170424	0.022832	7.464224	0.0000
CREDIT	-0.028188	0.010422	-2.704717	0.0078
TRAINING	3.165543	3.051500	1.037373	0.3017
EXPERIENCE	3.433432	0.974293	3.524026	0.0006
R-squared	0.471225	Mean dependent var		148.1935
Adjusted R-squared	0.448819	S.D. dependent var		43.39864
S.E. of regression	32.21982	Akaike info criterion		9.830218
Sum squared resid	122497.8	Schwarz criterion		9.966683
Log likelihood	-603.4735	F-statistic		21.03147
Durbin-Watson stat	1.591085	Prob(F-statistic)		0.000000

SOCIO-ECONOMIC CONDITIONS OF BEEKEEPERS

Table (1) shows the socio-economic conditions of beekeepers.

TABLE 1: SOCIO-ECONOMIC CONDITIONS OF BEEKEEPERS

Distribution		Value	Percentage
Mean age of beekeepers (years)		43.4	-
Gender:			
(a)	Male	106	82.81
(b)	Female	22	17.19
(c)	Total	128	100.00
Marital Status:			
(a)	Married	119	92.96
(b)	Un-married	04	3.12
(c)	Divorced	02	1.56
(d)	Widow	03	2.36
(e)	Total	128	100.00
Main Occupation:			
(a)	Agriculture	125	97.65
(b)	Beekeeping	03	2.35
(c)	Total	128	100.00
Subsidiary Occupation:			
(a)	Agriculture	03	2.35
(b)	Beekeeping	125	97.65
(c)	Total	128	100.00
Average Land ownership (ha)		13	-
Level of Education			
(a)	Illiterate	20	15.62
(b)	Primary	46	35.93
(c)	Secondary	52	40.62
(d)	Tertiary	10	7.83
(e)	Total	128	100.00
Training in Beekeeping (days)		1.52	-
Experience in Beekeeping (years)		5.58	-

Source: Primary data

The total number of beekeepers was 128 and their mean age was 43.4 years. The age distribution of the beekeepers shows that 3.12 percent were between 15-24 years, 21.87 percent between 25-35 years; 58.6 percent between 36-60 years and 16.41 percent above 60 years. 82.81 percent were men and only 17.19 percent were female. This implies that majority of beekeepers were above middle age and beekeeping is a male dominated sector. These findings were similar to Ajao and Oladimeji (2013);Babatude et. al (2007); Ebojet et.al., (2008) Chale et.al., (2013); and SNV (2010). 92.96 percent were married, 3.12 percent were un-married, 1.56 percent were divorced and 2.36 percent were widows. The main occupation of the beekeepers was agriculture (97.65%). They were taking beekeeping activity as subsidiary occupation. The average land ownership of the beekeepers was 13 ha. It is interesting to know that majority of beekeepers studied up to secondary level (40.62%). The mean days of training in beekeeping were 1.52 and experience in beekeeping activity was 5.58 years.

TYPE OF PLANTS/CULTIVATED CROPS WHICH CAN OFFER FODDER TO HONEY BEES

Table (2) shows the type of plants/cultivated crops of Beekeepers, which can offer fodder to honey bees.

TABLE 2: TYPES OF PLANTS/CULTIVATED CROPS OF BEEKEEPERS, WHICH CAN OFFER FODDER TO HONEY BEES

Details of Plants/Cultivated Crops		Number of Beekeepers	Percentage
1.	Maize	121	94.53
2.	Sunflower	92	71.87
3.	Tomato	120	93.75
4.	Banana	114	89.10
5.	Coffee	0	0
6.	Mango	127	99.25

Source: Primary data

The above table (2) shows that 94.53 percent beekeepers were having access to maize, 71.87 percent to sunflower, 93.75 percent to tomatoes and 99.25 percent to mango trees for offering fodder to honey bees.

TECHNOLOGY USED IN HONEY PRODUCTION

Table (3) shows the technology used in Bee production.

TABLE 3: TECHNOLOGY USED IN BEE PRODUCTION

Details of Technology		No. of Bee keepers	Percentage
1.	Traditional (Fixed Comb-hives)	89	69.53
2.	Modern (Movable Frame hives, Top bar hives, Smokers and Protective Cloth)	03	2.35
3.	Both	36	28.12
4.	Total	128	100

Source: Primary data

The traditional technology (fixed comb-hives) was used by 69.53 percent beekeepers and the modern technology was used by only 2.35 percent beekeepers. Both traditional and modern technology was used by 28.12 percent beekeepers for producing honey.

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT 10

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

http://ijrcm.org.in/

COST OF PRODUCTION OF HONEY

Table (4) shows the cost of production of honey.

TABLE 4: COST OF PRODUCTION OF HONEY

Details of cost of production	Amount (Kwacha)	Percentage
1. Technology Cost	12.81	7.27
2. Family Labor (Imputed)	87.50	49.65
3. Hired Labor	31.32	17.78
4. Other Cost (empty containers and transportation)	44.57	25.30
5. Total Cost	176.20	100.00
6. Cost per litre	4.90	-

Source: Primary data

The total cost of producing 35.94 litres of honey was K. 176.20. The cost per litre production of honey was K. 4.90 only. Half of the total cost (49.65%) was due to family labor. The hired labor cost was only 17.78 percent, as most of the work was done by the family labor. The technology cost was the lowest because in Lukanda Camp area all the farmers were using traditional technology, i.e., fixed comb-hives and in Luanshimba Camp area the beekeepers were supplied freely, both types of techniques, by a Non-government Organisation. Hence the technology cost was zero in this camp area. The other cost includes purchase of empty containers and transportation of honey to the road side in Lukanda, as the road is far from the village.

SOURCES OF REVENUE, NET INCOME AND NET INCOME TO INVESTMENT RATIO

Table (5) shows the sources of revenue, net income and income to investment ratio of the beekeepers.

TABLE 5: SOURCES OF REVENUE, NET INCOME AND INCOME TO INVESTMENT RATIO OF THE BEEKEEPERS

Source	Quantity Sold in Litres	Price per litre (Kwacha)	Revenue in Kwacha	Net Income in Kwacha	Net Income per Litre	Net income to Investment Ratio	Cost-Output Ratio
Honey	35.94	22.76	817.99	641.79	17.86	3.64	0.20
Beewax	-	-	-	-	-	-	-
Total	35.94	22.76	817.99	641.79	17.86	3.64	0.20

Source: Primary data

The total revenue from the sales of honey was K 817.99. The beekeepers are not benefited from bee wax. This result was consistent with SNV (2010) which pointed out that beewax offers opportunities as an export by product whose potential remains unexploited and the development of beewax and other by products' markets would significantly increase the economic benefits from the sector. All the beekeepers sold honey in the village and road side only. They were unable to sell in the towns due to transportation problems. This finding is synonymous with the study by CIFOR (2008). The average net income of the beekeepers was K 641.79 and the net income per litre sale of honey was K 17.86 (cost per litre being K. 4.90). The net income to investment ratio was K 3.64. It means increase in cost of production by one kwacha leads to increase in net income by K. 3.64. The cost –output ratio was K 0.20, which means increase in cost of production by one kwacha leads to increase in output by K. 0.20.

EMPLOYMENT CREATION

Table (6) shows employment creation in beekeeping activity.

TABLE 6: EMPLOYMENT CREATION IN BEEKEEPING ACTIVITY

Details	Employment (Man-days)	Percentage	Employment to Investment Ratio	Income to Employment Ratio
Beekeepers	78.74	52.98		
Family labor	61.07	41.10		
Hired labor	8.80	5.92		
Total	148.61	100.00	0.84	4.32

Source: Primary data

The total employment created in beekeeping activity was 148.61 man-days. The percentage of employment creation for beekeepers was 78.74 man-days (52.98%), for family labor 61.07 man-days (41.10%) and for hired labor 8.80 man-days (5.92%) only. The employment to investment ratio was 0.84, which means one kwacha investment in beekeeping creates 0.84 man-days of employment. Income to employment ratio was 4.32, which means increase in employment by one man-day leads to increase in net income by K. 4.32.

SOURCES OF CREDIT TO BEEKEEPERS

Table (7) shows the sources of credit to beekeepers.

TABLE 7: SOURCES OF CREDIT TO BEEKEEPERS

Source	Amount	Percentage
Banks	-	-
Micro Finance	-	-
Co-operatives	22.26	11.26
Relatives/Friends	175.35	88.74
Total	197.61	100

Source: Primary data

The sources of credit to the beekeepers ware co-operatives and relatives/friends. The total credit from these sources was K 197.61. The credit from relatives/friends was k 175.35 (88.74%) and from co-operatives it was K 22.36 (11.26%). There was no role of banks and micro finance institutions in providing credit to the beekeepers. A similar result was observed by Ajao & Oladimeji (2013); Ebojei et.al. (2008); SNV (2010); ZHC (2010) and CIFOR (2008).

CHALLENGES OF BEEKEEPING ACTIVITY

Table (8) shows the challenges of beekeeping activity.

TABLE 8: CHALLENGES OF BEEKEEPING ACTIVITY

Details of Challenge	No. of Respondents	Percentage
Lack of beekeeping knowledge	53	41.40
Financial Constraints	127	99.21
Transportation problem	112	87.50
Total	128	100

Source: Primary data

Out of 128 respondents, 41.40 percent were lacking beekeeping knowledge, 99.21 percent were having financial constraints and 87.50 percent were having transportation problem to take honey to town/roadside for selling. These results were consistent with the study by CIFOR (2008) ; ZHC (2010) and SNV (2010).

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

http://ijrcm.org.in/

11

CONCLUSIONS AND SUGGESTIONS

1. The Beekeepers' main occupation was agriculture and beekeeping activity was their subsidiary occupation. Beekeeping was a male dominating activity and the average age of beekeepers was above 40 years. Those who studied up to tertiary, secondary and primary level were 7.83 percent, 40.62 percent and 35.93 percent respectively. The illiterates were 15.62 percent. The mean number of days of training given to the beekeepers was only 1.52 and the average number of experience in beekeeping activity was 5.58 years.

    There is need to encourage the un-employed youth to take up beekeeping occupation. There is need to sensitise this issue besides providing training facilities. Since there prevails gender inequality in this activity, the women should be trained and provided with modern techniques for producing honey and bee wax.

2. The beekeepers should be educated about the use of modern technology and financial assistance should be provided through banks and micro finance institutions. There is immediate need to form co-operative societies for production and marketing of honey.

3. The beekeepers should also sell bee wax for increasing their revenue. There is need to educate them on marketing of bee wax.

4. The cost of production of honey per litre was K 4.90 only, where as, the price per litre was K 22.76, even when they were paid less due to lack of regulatory framework cost guide and minimum price, thus the net profit per litre was K 17.86. The beekeeping activity has the capacity to reduce poverty in Zambia.

5. The effect of beekeeping activity on net income was positive. Since the income to investment ratio is higher (3.64:1) and the cost-output ratio is lower (0.20:1) beekeeping activity is most suitable for Zambian situation where there is shortage of capital.

6. The impact of beekeeping activity on employment creation was also positive, as it was a labor-intensive activity. The employment to investment ratio was higher, i.e., 0.84:1 and the income to employment ratio was also higher, i.e., 4.32:1. Hence, beekeeping sector of Zambian economy has the potential to absorb the un-employed persons and could reduce the un-employment problem.

7. Since lack of finance was the main challenge of the beekeeping sector, it is strongly suggested that the banks and micro finance institutions should provide credit to the beekeepers against their quantity of honey production as collateral on par with the "Loan a Cow" scheme being implemented by ZANACO Bank.

8. Government at all levels should endeavor to stimulate beekeepers to boost honey production by providing necessary infrastructure and enabling environment.

9. Since there is no fixation of minimum price of honey by the Government, the beekeepers are not getting reasonable price. Hence, the Government should declare the minimum price of honey and bee wax and should be purchased by the Government Agency, on par with the Food Reserve Agency which purchases maize from the farmers on the price fixed by the Government.

REFERENCES

1. Ajao, A.M & Oladimeji, Y.U (2013): Assessment of Contribution of Apiculture practices to Household income and poverty alleviation in Kwara State, Nigeria; International Journal of Science and Nature, Vol. 4 (4) 2013, pp.687-698.
2. Babatude, R.O; Olorunsanya; Omotesho, O.A and Alao, IB.I (2007): Economics of Honey Production in Nigeria. Implications for Poverty Reduction and Rural Development, GAEP, 3 (2), PP. 23-29.
3. Baptist, B.A; and Punchihewa, R.K.W (1983): A Preliminary Analysis of the principal factors which will affect apiary honey production in Sri Lanka, in K.N. Mahrotra;
4. Chala, K., Taiye, T and Kebede, D (2013): Assessment of Honey Production and Marketing System in Gomma District, South Western Ethiopia, Green Journal of Business and Management Studies, 3 (3), pp. 99-100.
5. CIFOR 92008): "Bee Keeping in Zambia", Center for International Forestry Research (CIFOR) February 2008, No. 7, Lusaka, Zambia.
6. Ebojei, G.O; Alamu, J.F and Adeniji, O.B (2008) Assessment of the contributions of Beekeeping Extension Society to the Income of Bee farmers in Kudama State.
7. Ellis, Sue (2014): "Honey big Revenue earner", Daily Mail, No. 28, 2014, Online edition.
8. Holmes, W.D (1964): Bark-hive Beekeeping in Zambia, Forest Development Bullettin ZA; Revised by G.M. Zulu, 1970, Government printer, Lusaka, p.23.
9. Husselman, M (2008):" Beekeeping in Zambia", Center for International Forestry Research, February 2008; No. 7, CIFOR, Lusaka, Zambia.
10. Kumar, J; Sharma, S; Lal, R (2010): "Beekeeping: A lucrative Rural Enterprise", Science Tech Entrepreneur, March 2010, p.5
11. Lusaka Times (Oct 4, 2014):) Official Statement of the President of Zambia on the release of Revised Sixth National Development Plan, Lusaka, 3rd October, 2014).
12. M.G. Jotwani, T.P. Sriharan; B. Subramanyam, P.J. Rao, D.S. Bisht and M. Naim (eds): Second International Conference on Apiculture in Tropical climate, Indian Agricultural Research Institute, New Delhi, India, pp. 87-99.
13. Mickels-Kokwe, G (2006): Small scale woodland-based Enterprises with outstanding economic Potential- The case of honey in Zambia, Bogor, Indonesia, Center for International Forestry Research.
14. Sichinga, Robert (2014):"Honey big Revenue Earner", Daily Mail, Nov. 28, 2014, Online edition
15. SNV (2010): Enhancing the competitiveness of the Zambian Agriculture Industry: Honey Value Chain Development; SNV Netherlands Development Organisation, Capacity Development Services for Apiculture in Zambia.
16. ZFAP (1997): Challenges and opportunities for Development: Ministry of Environment and Natural Resources, Zambia Forestry Action Plan, GRZ, 1998.
17. ZHC (2010): Report on the Zambia Honey Sector, 2010, Lusaka, Zambia.

FOREIGN DIRECT INVESTMENT IN INSURANCE SECTOR: TRENDS AND OPPORTUNITIES IN INDIA

KULDEEP KUMAR
ASSOCIATE PROFESSOR
IIMT
ISM SCHOOL OF MANAGEMENT
GURGAON

ABSTRACT

The Present paper analyses the trends and growth opportunities of foreign direct investment in insurance sector. The study is based on secondary data which has been collected for the last four years starting from 2010-11 to 2014-15. Further the study explores that the future looks interesting for the life insurance industry with several changes in regulatory framework which will lead to further change in the way the industry conducts its business and engages with its customers. Demographic factors such as growing middle class, young insurable population and growing awareness of the need for protection and retirement planning will support the growth of Indian insurance sector. Lastly the study concludes that attracting foreign direct investment has become an integral part of the economic development strategies for India. FDI has been a booming factor that has bolstered the economic life of India. Over the years FDI flow is increasing. However India has tremendous potential and government will for absorbing greater flow of FDI in the coming years.

KEYWORDS

Foreign Direct Investment, Insurance Regulatory Development Authority, Gross Domestic Product, Foreign Exchange Reserves.

1. INTRODUCTION

A milestone was achieved when the nation decided to privatize the industry along with requisite regulations. The industry functioned under a monopoly for several decades thereafter. However, other problems surfaced such as limited reach and penetration of enterprise and deteriorating servicing standards.

Indian insurance sector was liberalized in 2001. Liberalization has led to the entry of the largest insurance companies in the world, who have taken a strategic view on India being one of the top priority emerging markets. The Insurance industry in India has undergone transformational changes over the last 12 years.FDI in insurance remains a widely debated and heated issue in India's economic and political environment.

The insurance industry of India consists of 52 insurance companies of which 24 are in life insurance business and 28 are non-life insurers. Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. Apart from that, among the non-life insurers there are six public sector insurers. In addition to these, there is sole national re-insurer, namely, General Insurance Corporation of India. Other stakeholders in Indian Insurance market include agents (individual and corporate), brokers, surveyors and third party administrators servicing health insurance claims.

Out of 28 non-life insurance companies, five private sector insurers are registered to underwrite policies exclusively in health, personal accident and travel insurance segments. They are Star Health and Allied Insurance Company Ltd, Apollo Munich Health Insurance Company Ltd, Max Bupa Health Insurance Company Ltd, Religare Health Insurance Company Ltd and Cigna TTK Health Insurance Company Ltd. There are two more specialised insurers belonging to public sector, namely, Export Credit Guarantee Corporation of India for Credit Insurance and Agriculture Insurance Company Ltd for crop insurance.

India's life insurance sector is the biggest in the world with about 36 crore policies which are expected to increase at a compound annual growth rate (CAGR) of 12-15 per cent over the next five years. The insurance industry plans to hike penetration levels to five per cent by 2020, and could top the US$ 1 trillion mark in the next seven years.

The total market size of India's insurance sector is projected to touch US$ 350-400 billion by 2020 from US$ 66.4 billion in FY13. The general insurance business in India is currently at Rs 77,000 crore (US$ 12.41 billion) premium per annum industry and is growing at a healthy rate of 17 per cent. Indian insurance companies were expected to spend Rs 117 billion (US$ 1.88 billion) on IT products and services in 2014, an increase of five per cent from 2013, as per Gartner Inc. Also, insurance companies in the country could spend Rs 4.1 billion (US$ 66.11 million) on mobile devices in 2014, a rise of 35 per cent from 2013.

Insurance sector of India needs capital infusion of Rs 50,000 crore (US$ 8.06 billion) to expand, maintain a healthy capital base and improve solvency standards, according to Insurance Regulatory Development Authority (IRDA).

The following are some of the major investments and developments in the Indian insurance sector.

- Life Insurance Corp of India (LIC) has earmarked a total of around Rs 1 trillion (US$ 16.12 billion) for investments in bonds, including non-convertible debentures (NCDs), certificates of deposit (CDs), commercial papers (CPs) and collateralized borrowing and lending obligations (CBLOs), with primary focus on infrastructure and real estate in the year to March 31, 2015.

- Aditya Birla Financial Services Group has signed an agreement to form a health insurance joint venture (JV) with MMI Holdings of South Africa. The two will enter into a formal JV in which the foreign partner will hold a 26 per cent stake.

2. REVIEW OF LITERATURE

Two important indicators of the level of development of the insurance sector in any country are:

(i) level of insurance penetration which is measured as the percentage of insurance premium in gross domestic product (GDP); and (ii) insurance density ratio (wherein insurance density is defined as the per capita expenditure on insurance premium and is directly correlated with per capita GDP). Both insurance penetration and density have increased significantly over the years, especially with the opening up of the insurance industry to the private sector. However, the increase has been marginal as far as the non-life insurance sector is concerned. While the density of life insurance in India grew from US$ 9.1 in 2001 to US$ 47.7 in 2009, the density in the non-life insurance industry for the same period grew from US$ 2.4 to US$ 6.7.

Similarly, penetration in the life insurance sector increased from 2.15 per cent in 2001 to 4.60 per cent in 2009 and very marginally in the non-life insurance sector from 0.56 per cent in 2001 to 0.60 per cent in 2009. Thus, penetration in the non-life insurance sector has remained virtually constant over the years.

A recent study by McKinsey & Company indicates that consumers have an unmet need for long-term savings products and a preference for insurance vis-à-vis other investment products. Consumers rank insurance higher than other investment options because of the ease and convenience in investing, and in obtaining tax benefits and protection cover.

Indian consumers perceive life insurance as a low-risk and high-return investment, this being a perception driven by the awareness of LIC's performance and its record of delivering stable returns over the years. According to the study, India's insurance market has grown over the past six years. Liberalization of the sector has enabled the entry of a number of new players who have contributed to the growth, (over 40 per cent per annum), by enhancing product awareness and promoting consumer education and information. However, the market is still in a nascent stage.

India's insurance penetration is lower than the world average which in 2009 was 7.0 per cent, while for India it was 5.2 per cent. Although, the penetration of Indian insurance is higher than that of some South Asian countries like Pakistan (0.7%), Bangladesh (0.9%) and Sri Lanka (1.4%), it lags behind other Asian countries like Japan (9.9%), South Korea (10.4%) and Singapore (6.8%). However, in the life insurance sector, India's performance in terms of percentage of

penetration at 4.6 per cent is comparable with some developed countries and is above the world average of 4.0 per cent. In the non-life insurance sector, India with 0.6 per cent lags behind the world penetration average of 3.0 per cent. (Source: Swiss Re as given in IRDA, 2009–10).

The growing need for financial education for the families to take better financial decision and to increase their economic security has been widely recognized. It is felt that well informed and well educated customers can create economic ripples. They make better financial decisions for themselves and their families, increasing their economic security and well being. Secured families are more involved in their communities as home owners and voters. They are more involved as parents with their children's schools and teachers, enabling better educational and economic outcomes for their children. They contribute to vital, thriving communities, further fostering community economic development. Thus, being financially literate is not only important to the individual household and family, it is also important to communities and societies. (Hogarth, Jeanne M., 2006).

3. OBJECTIVES OF THE STUDY
The main objectives of the study are:
1.   To study the trends and growth of FDI in service sector.
2.   To analyse the percentage share of FDI in the insurance sector.
3.   To identify the determinants and challenges to FDI inflow in insurance sector.

4. METHODOLOGY
The data under the present study has been collected for last four years starting from 2010-11year to 2014-15 (Feb 2015) years. This has been collected from DIPP, Federal Ministry of Commerce and Industry, GOI, IRDA reports and RBI Bulletin and other related published reports. The data has been processed and presented in tables and graphs to study the trends, growth and percentage shares of FDI in insurance sector.

5. ANALYSIS AND INTERPRETATION
There are arguments that support and question FDI rise in the insurance sector. The different benefits are being increasingly identified as a function of introducing FDI reforms in insurance, like, capital for expansion, wider Scope for growth, moving towards global practices, provide customers with competitive and innovative products, more options and better service levels, Infrastructure facilities, boost economic life, job opportunities, increase level of competition, inflation control, availability of new technology, innovative risk management practices.

The insurance sector opened up in 2001, with the foreign direct investment ("FDI") limit up to 26 per cent. According to various reports this sector has subsequently witnessed two phases: one that saw high growth between 2001 and 2010 and the other, a dormant period between 2010 and 2012.

 However, apart from these periods of rapid and moderate growth, the industry has also seen product and operational innovations, given the increase in competition. As of Financial Year 2013, the total market size of this sector was US$ 66.4 billion and is expected to touch US$ 350-400 billion by 2020.

5.1 TRENDS AND ROUTES OF FDI FLOW IN INDIA
Economic reforms taken by Indian government in 1991 makes the country as one of the prominent performer of global economies by placing the country as the 4th largest and the 2nd fastest growing economy in the world. India also ranks as the 11th largest economy in terms of industrial output and has the 3rd largest pool of scientific and technical manpower. Continued economic liberalization since 1991 and its overall direction remained the same over the years irrespective of the ruling party moved the economy towards a market – based system from a closed economy characterized by extensive regulation, protectionism, public ownership which leads to pervasive corruption and slow growth from 1950s until 1990s.

The actual FDI inflows in India is welcomed under five broad heads: (i) Foreign Investment Promotion Board's (FIPB) discretionary approval route for larger projects, (ii) Reserve Bank of India's (RBI) automatic approval route, (iii) acquisition of shares route (since 1996), (iv) RBI's non – resident Indian (NRI's) scheme, and (v) external commercial borrowings (ADR/GDR) route. An analysis of the last eighteen years of trends in FDI inflows (Chart-3.5 and Chart-3.6) shows that there has been a steady flow of FDI in the country up to 2004, but there is an exponential rise in the FDI inflows from 2005 onwards.

FDI in sectors/activities permitted under automatic route does not require any prior approval either by the Government or RBI. The investors are only required to notify the Regional office concerned of RBI within 30 days of receipt of inward remittances and file the required documents with that office within 30 days of issue of shares to foreign investors.

The FIPB route – represents larger projects which require bulk of inflows and account for government's discretionary approval. Although, the share of FIPB route is declining somewhat as compared to RBI's automatic route and acquisition of existing shares route. Automatic approval route via RBI shows an upward trend of FDI inflows since 1995. This route is meant for smaller sized investment projects.

TABLE 1: FINANCIAL YEAR –WISE FDI INFLOWS (Amount US$ million)

Year	Total FDI Inflow	%age growth over previous year(in US$ terms)
2010-11	34,847	(-) 08%
2011-12	46,556	(+)34%
2012-13	34,298	(-)26%
2013-14	36,046	(+) 05%
2014-15(Apr-Feb 15)	41,223	

Source: RBI's Bulletin April 2015 dt 10-4-2015 (Table No 34-Foreign Investment Inflows

It is found that India was not able to attract substantial amount of FDI inflow from 1991-99. FDI inflows were US$ 144.45 million in 1991 after that the inflows reached to its peak to US$ 3621.34 million in 1997. Subsequently, these inflows touched a low of US $2205.64 million in 1999 but then shot up in 2001. Except in 2003, which shows a slight decline in FDI inflows, FDI has been picking up since 2004 and rose to an appreciable level of US$ 33029.32 million in 2008. The increase in FDI inflows during 2008 is due to increased economic growth and sustained developmental process of the country which restore foreign investor's confidence in Indian economy despite global economic crisis. Table 1 indicates that the FDI inflow increased to US$ 46,556 million during 2012 which shows 34% growth over the previous year 2011. During the year 2013 FDI inflow has been noted US$ 34,298 which shows 26 % decrease in growth over the previous year.

FIGURE 1: FDI INFLOW TRENDS
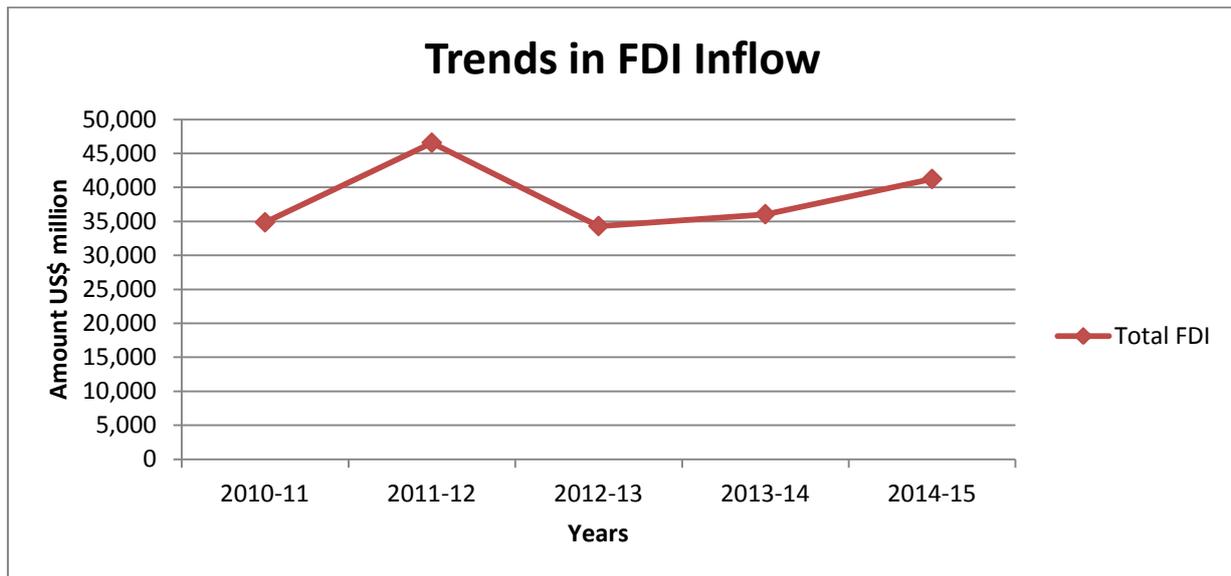
Figure 1 indicates that during 2014 FDI inflow indicated 5 percent growth and up to February 2015 total FDI inflow of US$41,223 million has been noticed. However, the pace of FDI inflows in India has definitely been slower than China, Singapore, Russian Federation, and Brazil. In Insurance sector the FDI is allowed on automatic route in India. According to experts, while India's insurance industry is no doubt growing and is poised to grow further, it is also facing profitability issues on account of distribution and operating models. It pegs the cumulative losses to private life insurers in the excess of Rs 187 billion till March 2012. Slow growth, rising costs and stalled reforms are further hindering the steady growth of this industry.

TABLE 2: TOP FIVE SECTOR ATTRACTING HIGHEST FDI EQUITY INFLOWS [(amount in Rs crores) (US$ in millions)]

Ranks	Sectors	2012-13 (April-March)	2013-14(April-March)	2014-15(April-Feb)	Cumulative inflows(April2000-Feb 2015	%age to total inflows (in terms of US$)
1	Service Sector	26,306 (4,833)	13,294 (2,225)	17,637 (2,881)	203,207 (42,340)	17%
2	Construction Development	7,248 (1,332)	7,508 (1,226)	4,559 (754)	113,116 (24,060)	10%
3	Telecommunications	1,654 (304)	7,987 (1,307)	17,110 (2,853)	83,829 (17,016)	7%
4	Computer Software and Hardware	2,656 (486)	6,896 (1,126)	12,594 (2045)	72,265 (14,862)	6%
5	Drugs and Pharmaceuticals	6,011 (1,123)	7,191 (1,279)	7,840 (1,304)	63,911 (12,901)	5%

Source: DIPP, Year-Wise FDI equity inflows

Note: Service sector includes Financial, Banking and insurance, Non financial/Business, Outsourcing, R&D, Courier, Tech, Testing and Analysis.

The sector-wise analysis determines that service sector (financial and non-financial), has been noted at the top to attract highest %age of FDI to the total inflows i.e., 17 percent. FDI inflow into service sector during the year 2013-14 has been noted US $ 2, 225 million, which was lower than the FDI inflow of 2012-13. The reason behind is the rupee depreciation occurred in India, which created doubt in the minds of foreign investors and resulted in pulling back of investment. European crisis and US crisis were the major reason for the lower investment in service sector in India, which were previously the major investors of this sector.

But to the fortune of India in spite being lower investment from the major investors USA and European countries, the investment from other countries like, Mauritius, Singapore, Japan etc. India's service sector has maintained its importance in the Indian economy.

There is significant growth in FDI in life insurance sector of the India. Because of liberalized policy of FDI leads to investment in this sector. Overall FDI was only Rs. 2821.63 crore in 2007-08 now it is increased to Rs. 6532.26 crore in 2011-12. It shows that there is significant growth of FDI in insurance sector.

Services sector puts the economy on a proper glide path. It is among the main drivers of sustained economic growth and development by contributing significant share in GDP. There is a continuous increasing trend of FDI inflows in services sector with a steep rise in the inflows from 2005 onwards. Service sector received FDI inflows of US$ 42,340 million during the period 2000-2015 (Table2.).

TABLE 3: FDI FLOWS IN INDIA, INSURANCE SECTOR (Rs in crores)

Year	Total FDI in India	Total inflow of FDI in Insurance Sector	%age of FDI inflows in Insurance sector over total FDI
2010-11	147532.43	6818.89	4.622
2011-12	201668.75	7648.72	3.793
2012-13	155505.65	7632.54	4.908
2013-14	190210.68	7985.44	4.198

(Source- IRDA 2010 to 2014 Annual Reports)

The FDI inflows are not constant, they are fluctuated in most of the years, particularly in the year 2004-05 the flow was very less by Rs 69454.32 crores.

As per Table 3, the insurance sector registered the highest inflow of FDI in the year 2012-13 by Rs 7632.54 crores, which equals to 4.908 per cent and in the Life Insurance sector it is Rs 6401.12 crores, which equals to 80.12 per cent over the flows to Insurance sector.

Hence, the inflows of FDI is very minimal in the Insurance sector as part of FDI flows in India, but within the insurance sector, flows to Life Insurance segment is very high comparatively.

Figure 3 shows the highest FDI flows of Rs 201668.75 crores, in the year 2011-12 in the Indian economy.

FIGURE 3: FDI INFLOW IN INSURANCE SECTOR
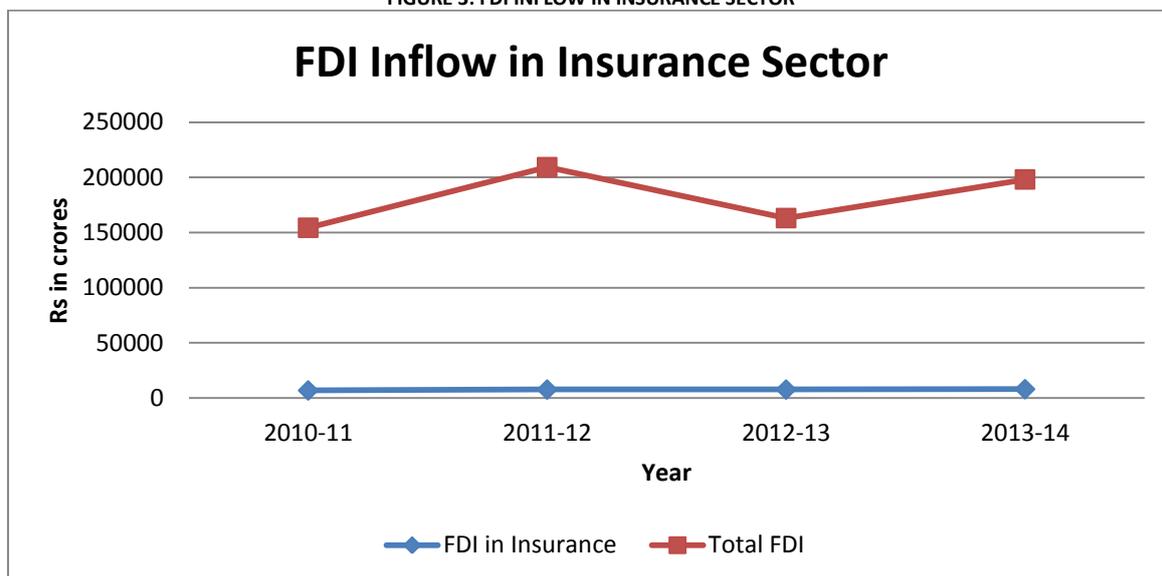
According to the latest FDI circular effective 12th May 2015, The FDI limit in insurance increased to 49 per cent from current level of 26 per cent. The 49 per cent cap would include FDI, foreign portfolio investments with automatic rout up to 26 percent and government rout beyond 26 percent and up to 49 percent. The hike in foreign investment limit to 49 per cent in the insurance sector has potential to attract up to USD 7-8 billion (about Rs 50,000 crore) from overseas investors, giving a major boost to the segment. In India FDI inflow in service sector in recent years puts the economy on a proper gliding path by contributing 55% to GDP.

5.2 DETERMINANTS OF FDI INFLOW

The major detriments of FDI inflow observed in the Indian context are large market size, economic growth, political stability, expected higher return on investment, high level of foreign exchange reserves, lower cost of transaction, ensuring ease of doing business, openness, government regulations, tax policies and firm specific advantages, competition capabilities, managerial skills and practice etc. are some of the crucial points for industrial organization to survive which make FDI inflow to the country attractive destination.

5.3 CHALLENGES

- **Resource challenge**: India is known to have huge amounts of resources. There is manpower and significant availability of fixed and working capital. At the same time, there are some underexploited or unexploited resources. The resources are well available in the rural as well as the urban areas. The focus is to increase infrastructure 10 years down the line, for which the requirement will be an amount of about US$ 150 billion. This is the first step to overcome challenges facing larger FDI.

- **Equity challenge**: India is definitely developing in a much faster pace now than before but in spite of that it can be identified that developments have taken place unevenly. This means that while the more urban areas have been tapped, the poorer sections are inadequately exploited. To get the complete picture of growth, it is essential to make sure that the rural section has more or less the same amount of development as the urbanized ones.

- **Political Challenge**: The support of the political structure has to be there towards the investing countries abroad. This can be worked out when foreign investors put forward their persuasion for increasing FDI capital in various sectors like banking, and insurance. So, there has to be a common ground between the Parliament and the foreign countries investing in India. This would increase the reforms in the FDI area of the country.

- **Federal Challenge**: Very important among the major challenges facing larger FDI is the need to speed up the implementation of policies, rules, and regulations. The vital part is to keep the implementation of policies in all the states of India at par. Thus, asking for equal speed in policy implementation among the states in India is important

5.4 OPPORTUNITIES

- India's insurable population is anticipated to touch 75 crore in 2020, with life expectancy reaching 74 years. Furthermore, life insurance is projected to comprise 35 per cent of total savings by the end of this decade, as against 26 per cent in 2009-10.

- The future looks interesting for the life insurance industry with several changes in regulatory framework which will lead to further change in the way the industry conducts its business and engages with its customers.

- Demographic factors such as growing middle class, young insurable population and growing awareness of the need for protection and retirement planning will support the growth of Indian life insurance

6. CONCLUSION

The study concludes that, FDI is as an engine of capital, technology, managerial skills, technological progress & capacity, access to foreign markets and in maintaining economic growth and development for developing countries, where as for developed countries it is considered as a tool for accessing the market of emerging economies. The study clearly observed from the data that foreign investors showed keen interest in different sectors because of liberalised regime pursued, launch of make in India scheme and ensuring ease of doing business and growth of Indian economy. FDI has helped the Indian economy grow and the government continues to encourage more investments of this sort. Attracting foreign direct investment has become an integral part of the economic development strategies for India. Foreign direct investment has been a booming factor that has bolstered the economic life of India. Over the years FDI flow is increasing. The study further observed that India has tremendous potential for absorbing greater flow of FDI in the coming years. Finally, the study also pointed out that, when discussing Foreign Direct Investment it is important to keep in mind that we are talking of investment. Hence, unless FDI has a net contribution of its own there is no reason why it should be distinguished from the general level of investment in the economy.

REFERENCES

1. Alam Feroz Mohd. (2005) "Impact of foreign direct investment on Indian Economy since economic liberalization", public opinion–monthly survey, vol.2, no.8.
2. Alam MS. (2000) "FDI and economic growth of India and Bangladesh: a comparative study" Indian Journal of Economics vol.80.
3. Cappelli, Peter, Harbir Singh, Jitendra Singh & Michael Useem (2010), "The India Way: How India's Top Business Leaders are Revolutionizing Management",
4. CMIE (2010), Monthly Review of Indian Economy, Economic Intelligence Service, July 2010, p. 7.
5. FICCI's FDI Survey2002, 2003 and 2004: The Experience of Foreign When to make India a manufacturing base.

6.   General Awareness Topic for MBA aspirants: FDI in Insurance sector-A welcome step. 2015. General Awareness Topic for MBA aspirants: FDI in Insurance sector-A welcome step. [ONLINE] Available at: http://www.mbarendezvous.com/FDI-in-Insurance-sector--A-welcome-step-568.php. [Accessed 21 March 2015].
7.   German Federal Statistics and International Trade Statistics (2005).
8.   Govt approves Ordinance to hike FDI in insurance to 49% - The Hindu. 2015. Govt approves Ordinance to hike FDI in insurance to 49% - The Hindu. [ONLINE] Available at :<http://www.thehindu.com/business/Economy/govt-approves-ordinance-to-hike-fdi-in-insurance-to-49/article6722092.ece>. [Accessed 01 April 2015].
9.   Gupta K.L and Harvinder Kaur, "New Indian economy and reforms" Deep and Deep publication pvt. Ltd New Delhi.
10. Gupta S.P, "Statistical Methods" Sultan Chand and Sons 23, Daryaganj, New-Delhi 2008
11. Gupta, M.S. (2004), "Foreign direct investment in India: Trend and policies", Bihar Economic Journal.
12. http://dipp.nic.in/English/default.aspx [Accessed 14 May 2015].
13. Insurance Sector in India, Indian Insurance Industry, LIC, IRDA. 2015. Insurance Sector in India, Indian Insurance Industry, LIC, IRDA. [ONLINE] Available at:< http://www.ibef.org/industry/insurance-sector-india.aspx>. [Accessed 08 March 2015].
14. KPMG Corporate Tax Rates Survey USA (2004).
15. Mahajan V.S. "Economic reforms and liberalisation" Deep and Deep publications pvt.ltd New Delhi.
16. Mishra.S.K and V.K Puri "Indian Economy". Himalayan Publishing house, Mumbai.2008.p, 510.
17. Prajnan (2008), "Journal of social and management sciences" vol. xxxvii no.2 July-Sep 2008.
18. Rastogi, S. and Runa Shankar, (2007): Enhancing Competitiveness: The Case of the Indian Life Insurance Company, Indian Institute of Management, Kozhikode.
19. S.Sinha Swapna et al. (2007) "Comparative analysis of FDI in china and India", Journal of Asia Entrepreneurship and Sustainability Volume III
20. Vijayakumar, A., (2001): Globalization of Indian Insurance Sector -Issues and Challenges, Insurance.

LAND COMPENSATION AND ITS IMPACT ON RURAL ECONOMY: A STUDY ON RAILWAY PROJECT IN PAPUM PARE DISTRICT OF ARUNACHAL PRADESH, INDIA

DR. TASI KAYE
ASSOCIATE PROFESSOR
DEPARTMENT OF COMMERCE
RAJIV GANDHI UNIVERSITY
RONO-HILLS DOIMUKH

BIRI AMJI
RESEARCH SCHOLARS
DEPARTMENT OF COMMERCE
RAJIV GANDHI UNIVERSITY
RONO-HILLS DOIMUKH

ABSTRACT
The government of Arunachal Pradesh has given prime importance for the infrastructural development in the state and for that matter the government has taken up various developmental projects like, highway project, railway project and hydro-electricity project, etc. during the last few years. However, such developmental project leads to the damage or destruction of various properties of the people like agricultural land, house properties, horticultural fields, forest resources, etc. that ultimately affects their means of livelihood. Hence, it is the moral responsibility of the welfare government to compensate the people for the loss of their assets during the construction of the project. Compensation is a monetary measure to pay the people for the losses they suffer and to help in re-establishment of their livelihood. Compensation finance becomes important source of income and economic activities to the beneficiaries. It also becomes an instrument for the inclusive growth of the rural people and for the overall development of the rural economy. The present paper highlights the impact of land compensation under railway project on socio-economic lives of the beneficiaries and on rural financial sector in Papumpare district, Arunachal Pradesh.

KEYWORDS
Arunachal Pradesh, Compensation finance, Developmental project, Railway project, valuation, land compensation.

INTRODUCTION
In the present era of fast economic development and globalization, the communication system be it road, rail, air or telecommunication becomes an important infrastructure that contributes significantly in economic growth. Arunachal Pradesh, at present has a road communication network of 19,000 km including earthen roads and tracks that constitute only around 36 percent. It is only through road communication the entire state is connected except with little air (helicopter) service. So for better infrastructural development and better communication the central government sanctioned the railway project in the year 1996-1997. The railway communication is at the initial stage with few km distances and its service started on 13th April 2014. The execution of this project resulted large number of deforestation and earth cutting which affected the inhabited and agricultural land of the local tribal people. Hence, the people residing in that particular area where the developmental activity was under taken have to lose their houses, their other establishments and the fertility of the soil also degraded. Along with such problem, the local people also suffered from different social and environmental pollution because of such developmental project.

Hence, it is the moral responsibility of the welfare government to compensate the people for the loss of their assets during the construction of such projects. Compensation is a monetary measure to pay the people for the losses they suffer and to help in re-establishment of their livelihood. Payment of compensation fund is a long process, which involves many steps and procedures. One of the important steps is the valuation of compensation amount. Valuation, in this context means the fixation of rate for various assets and properties and then calculating the total amount to be distributed as a compensation. The value or rate of various types of properties are approved and fixed by the government on the basis of different factors. Compensation payment becomes an important source of income and economic activities to the beneficiaries. It also becomes an instrument for the inclusive growth of the rural people and for the overall development of the rural economy. The beneficiaries can utilize their compensation amount for various developmental activities or to solve various social problems of their family. Thus compensation payment has a socio- economic impact in the lives of the Project Affected People **(PAP).**

OBJECTIVES
The following are the main objectives of the study:
1. To examine the valuation of land compensation under Railway project.
2. To study the utilization pattern of land compensation fund by the selected beneficiaries.
3. To analyze the socio-economic and financial implications of land compensation in the lives of selected beneficiaries.

RESEARCH METHODOLOGY
Both primary and secondary sources of information have been used during the study.

The primary data have been collected through field survey by using personal discussion and interview with the respondents, self observation, and interaction with experts. As for secondary data various articles, government reports, newspapers, magazines, dissertation, thesis and official websites have been referred to for better understanding of the problems. Among all these, internet was one of the most usable sources of secondary data for this study.

SAMPLING TECHNIQUE AND SIZE
For the present study, convenience sampling under non-probability sampling technique have been used. Three villages namely- **Gumto, Emchi,** and **Amba** have been selected with 10 sample beneficiaries from each village. Altogether 30 beneficiaries/respondents constitute the unit of observation for the present study.

LAND COMPENSATION
Basically there are many forms of compensation finance, but in the present study Papum Pare district three important types of compensation has been covered by the government i.e. compensation on Trans Arunachal highway project, Pare hydro project and the Railway project. These are the three important projects that are being undertaken by the government for the better development of the district and the state as a whole. The government and concerned departments are working very hard for the successful completion of the concerned projects as early as possible in order to facilitate better communication, transportation, electricity and to improve the living standards of the people in the state. So far the railway project has been completed and it has started its service.

However, present study is basically based on 21 km Harmuti- Naharlagun Railway project which was sanctioned on 31st January 2008.

COMPENSATION UNDER RAILWAY PROJECT

Construction of Railway is one of the most important projects being sanctioned by the government of India for the better economic development in the state and to widen the economic prospects of the state. The railway project was approved during the year 1996-1997. The name of the railway is New BG Railway Line and it is scheduled to run from Harmuti to Itanagar with a distance of 33 kilometers. The implementing agency of this railway project is N.F Railway Construction Organization. The estimation cost of the project as on February 1997 was Rs 156 crore. The New BG Railway line project will be taking off from Harmuti station of Rangiya- Murkongselek section undergoing Gauge conversion from MG to BG and connecting capital of Arunachal Pradesh i.e. Itanagar. The project got sanctioned an amount of Rs 160.48 crore as on 31st January 2008. Detailed estimate for balance section i.e. Naharlagun to Itanagar at a cost of 371.33 crore, has been sent to Railway Board on 7th July 2009 for approval. The detail of the railway project can be seen from Table-1.

TABLE-1: DETAILS OF THE RAILWAY PROJECT

Name of the project	Total beneficiaries	Cost of the project	Affected villages	Compensation paid/released	Proposed year of Completion
Railway project	More than 500	Rs 531.81 (371.33+ 160.48) crore	Emchi, Gumto, Amba, Yupia, Sooad, Borum, Tara Jully	Total amount of Rs 44 crore was released for compensation	Scheduled to complete by march 2013

Source: Office, Department of Land Management, Govt. of A.P. Itanagar

A total amount of Rs 44 crore has been released for compensation so far. The first phase of compensation was released in the year 2009-10 with an amount of Rs 35 crore approximately. The second phase of compensation was released in the year 2011-12 with an amount of Rs 6 crore and the third phase was also released in the same year itself for enlargement of the oil depot at Emchi village and diversion of railway track till the oil depot is completed. The affected villages under the railway project are Gumto, Emchi, Amba, Yupia, Sooad, Borum, and Tara Jully. However, present study is based on beneficiaries from three villages namely, Gumto, Emchi and Amba.

VALUATION OF COMPENSATION

Compensation whether in financial form or as a replacement of land or structures is the heart of the land acquisition. As a direct result of the government action, people lose their homes, their land and at times their means of livelihood. Compensation is to repay them for these losses and should be based on principles of equity and equivalence is crucial to determining compensation: affected owners and occupants should be neither enriched nor impoverished as a result of the compulsory acquisition. Legislation should ensure fair processes for determining valuation and compensation. While the public interest in keeping costs as low as possible is important, this concern should not deprive people of the equivalent compensation they need in order to re- establish their lives after the loss of their land. The following formula is used for the calculation of total amount to be compensated.

Total value of loss assets= Dimension & unit X Approved rate in Sq. mtr/ Nos

TABLE-2: VALUATION OF LAND COMPENSATION UNDER RAILWAY PROJECT AS PER 2009-10

Category of land	Approved rate per sq. Mtr.
Agriculture land	250.00
Horticulture land	250.00
Paddy field	250.00
Residential area	300.00
Commercial area	300.00

Source: Office, Department of Land Management, Govt. of A.P., Itanagar.

Table-2 shows the detail information regarding the valuation of land for compensation. In this Table we can clearly see that the affected land is agriculture land, horticulture land, paddy field, residential area and commercial area. The value of the land is different according to the nature of land. The commercial land is valued more than any other category of land due to its commercial importance. The commercial land is valued at Rs. 300/- per sq. meter and the agriculture and horticultural land at Rs. 250/- per sq. meter respectively. The valuations of land under different project are different because these projects are implemented for different purposes. Railway and Hydro projects valuation are similar because they are implemented for social cause and for the commercial purpose too, whereas the highway projects are basically for the social cause.

SOCIO- ECONOMIC IMPACT OF LAND COMPENSATION

Land compensation payment is a developmental activity undertaken by the state government to improve the lives of project affected people **(PAP)**. Projects, such as the construction of highways and railway lines often disrupt farming operations and day to day life of the people. And these are the projects being undertaken by the government. As a direct result of government action, people lose their homes, their land and at times their means of livelihood. So the government implements corrective measures by sanctioning compensation and it is a very good act from the part of government, as they give relaxation of the losses they cause to the public through those various projects, with a hope that they will make proper use of the funds available. So it's a great relief for the people, they get lots of money as compensation which can be spent for various commodities and purposes.

Here, the socio-economic impact of railway compensation is considered and another important point we can consider is the impact of the railway project itself. The government has taken up this railway project for the benefit of the people, for better infrastructural development, better transportation and to boost up the business sector of the state. But every project has two impacts i.e. positive impact and negative impact. Some of the positive impacts of the railway project are as follows:

➢ Generate employment opportunities
➢ Economy growth
➢ Mobility in the project area
➢ Safety in travelling
➢ Traffic decongestion
➢ Reduce levels of air pollution

Some of the negative impacts of the railway project are as follows:

➢ Loss of land and vegetation
➢ Loss of residential structures
➢ Loss of commercial structures
➢ Loss of livelihood
➢ Loss of gardens and plantation trees

PEOPLE'S ATTITUDE TOWARDS LAND COMPENSATION PAYMENT

Through the field survey, the researcher interacted with many beneficiaries in order to know their attitude towards compensation and their utilisation pattern of the compensation amount. There were mixed responses from the beneficiaries regarding their attitude towards compensation. Some beneficiaries reacted positively towards the land compensation and they believe that it has really benefited them and they are satisfied towards the government, and the process and methods used by them to calculate the compensation amount. There were also some beneficiaries who reacted negatively towards it and feel that it has not benefitted them the way it should have and they are not even satisfied with the government's method and process of calculating compensation amount.

Through the field survey it was found that affected people were deprived of this opportunity, instead the local administrators were involved as a representatives of the people. PAP firmly believes that these local administrators did not represent for their interest instead they did for their own benefit. The beneficiaries who have positive attitude towards compensation payment accepted that they were paid fair enough by the government but the involvement of the third

parties i.e. the local administrators, the rich businessmen and contractors hampered their interest. These people fooled and cheated the local people by promising them to collect fairly their compensation amount from the government, such things happens because of the long process and difficulties involved in acquiring the compensation amount. Such unfair things can be avoided if the government brings changes regarding the payment of compensation. Many people have suffered due to unfair practices by the third parties, instead of proper resettlement by using the compensation amount they have been deprived of these opportunities. Today many affected people are still regretting why they have seeked help from the third parties.

Another important thing that has been discovered is the fact relating to comparative benefits from land acquisition. Official respondents and some of the project affected people have clearly stated that the people of Arunachal Pradesh get more compensation amount than the people of the other states and it is a great benefit for them.

TABLE-3: ATTITUDE OF PAP ON COMPENSATION PAYMENT

S/NO	Name of villages	Compensation received (in lakhs)		Average amount	Attitude of PAP on compensation payment	
		Highest	Lowest		Satisfied	Not satisfied
1	Amba	80,00,000	11,00,000	45,50,000	5	5
2	Emchi	48,00,000	1,50,000	24,75,000	4	6
3	Gumto	34,00,000	2,00,000	18,00,000	3	7

Source: Field survey

Table-3 highlights the attitude of PAP regarding compensation amount they received. The table clearly shows that Amba village received highest compensation with an average of Rs 45, 50,000/- and Gumto village received lowest compensation with an average of Rs 18, 00,000/- in Amba only 50 percent of the people and in Gumto only 30 percent were satisfied with the amount they got and remaining 50 percent in Amba and 70 percent in Gumto were not satisfied because involvement of third party reduced their compensation amount and they were not satisfied with the rate fixed by the government.

TABLE-4: AVERAGE OF ATTITUDE

S/No	Name of village	Response of beneficiaries		Average response	Average percentage of response
		Satisfied	Not satisfied		
1	Amba	5	5	Not satisfied	60%
2	Emchi	4	6		
3	Gumto	3	7		

Source: Field survey

Majority of the beneficiaries i.e. more than 60 percent of the project affected people responded dissatisfactory regarding the compensation amount they received and were not satisfied with the system and the process being carried out by the department of land management during survey of the project affected areas.

THE UTILISATION PATTERN OF COMPENSATION AMOUNT

To study the utilisation pattern of compensation amount is one of the main objectives of the researcher. As per the field survey it has been found that more than 56 percent beneficiaries are not satisfied with amount they got as compensation and only 44 percent beneficiaries are satisfied to quite an extent. Regardless of whatever amount they got as compensation, the most important thing is the way they spend their money. One important thing that is to be mentioned here is that some of the beneficiaries have accepted that they claimed compensation illegally, so they are more than satisfied.

According to respondents, compensation amounts were used under five important heads:

❖ Construction of residential house
❖ Investments and savings
❖ Health needs and Medicare
❖ Expenditure on durable goods and other assets
❖ Clearance of loans and debts
❖ Honoring social obligations: education and marriage of son or daughter

TABLE-5: UTILIZATION PATTERN OF COMPENSATION AMOUNT IN PERCENTAGE

Sl./No.	Utilization Pattern of compensation	Percentage of Beneficiaries (%)
1.	Construction of Residential house	Around 63%
2.	Commercial Investment	Around 50%
3.	Saving	Around 40%
4.	Health needs and Medicare	More than 60%
5.	Expenditure on durable goods	More than 50%
6.	Clearance of loans and debts	More than 16%
7.	Honoring social obligations	Education-90% Marriage- 7%
8.	Unproductive	Drinks- 20% Gambling- 10%

Source: Field survey

More than 90 percent of the beneficiaries have invested their money for children education thus honoring social obligations. 63 percent of the beneficiaries have invested their money for construction of residential house thus improving their living standard and more than 50 percent of the beneficiaries spent their money for commercial investment, medical purpose and purchase of durable goods and only 20-30 percent beneficiaries have misused their money in drinks and gambling. This signifies that more than 70 percent of the beneficiaries made proper utilisation of their compensation money.

TABLE-6: AVERAGE OF AMOUNT SPENT IN DIFFERENT ACTIVITIES (in %)

S/No.	Activities	Name of village			Overall Average
		Gumto	Emchi	Amba	
1.	Construction of Residential house	41	35	46	40.6
2.	Investment	47	71	24	47.3
3.	Saving	27	29	27	27.6
4.	Health needs and Medicare	18	15	5	12.6
5.	Expenditure on durable goods	21	33	19	24.3
6.	Clearance of loans and debts	40	25	100	55
7.	Honoring social obligations	32	23	10	21.6
8.	Unproductive	20	7	3	10

Source: Field survey

Table-7 shows the average of amount spent in different activities in percentage. Here the average of amount spent in various activities in three affected village's i.e. Gumto, Emchi and Amba Of railway project has been calculated and after that the overall average amount spent in various activities by the beneficiaries from their total compensation amount has been calculated taking the average of all three villages. From the table we can observe that highest average amount of compensation has been spent by the beneficiaries for various investments and this indicates that they are aware of the importance and benefits of investments. Least average amount of compensation has been spent in unproductive activities like drinking and gambling and this indicates that people have realized the negative impact of these unproductive activities.

ECONOMIC IMPLICATIONS OF LAND COMPENSATION

Compensation had a great positive impact upon the PAP of three sample villages. Today the beneficiaries have better and standard houses to live and some of them have built such a beautiful houses that it is just sightseeing and they feel pleasure to have such houses and all the affected households have all the necessary items like TV, freeze, vehicles etc .required to live a standard life and such things have made their life easier to live. More than 60 percent beneficiaries have used their compensation amount for medical expenses, some used for clearance of debts and some for fulfilling social obligations. So the compensation money has uplifted to eradicate the economic problem of the people.

As compensation money has played an important role in eradication of economic problem, most importantly it has also been utilized by the affected people to boost up the economic status of their family and to secure their future and that has been done by savings and investments. These are two most important activities that have to be practiced by every household for brighter future. Through field survey the researcher has found that more than 49 percent of the beneficiaries have used their money for investments in various assets, activities and other contractual activities. They have invested their money in purchasing lands for commercial purpose, and after purchasing such lands they invested in constructions of shops for rent and some to run their own business and they also constructed rent houses from which they earn handsomely. Some invested their money in purchasing commercial vehicles like Maruti cars, tempos, Winger, School bus, Trucks, JCB, Falkland etc. Through which they earn good income adding to the earning capacity of their families. Some of them invested for some other important purpose like, development of fisheries and maintenance of old commercial properties, to improve their working. So it's quite good that almost 50 percent of the affected people have used their money in investments.   Saving is also another key area where they have used their money; more than 47 percent of the affected people have saved their money by opening various accounts in banks, like Fixed Deposit, deposit monthly in LIC, Rose valley, Falcon etc. So overall, they have utilized their money for good cause and that will bear more fruit in the future and automatically their economic status has improved and will be better in the future.

TABLE- 7: AVERAGE AMOUNT INVESTED

S/No	Name of village	Area of Investment (commercial)	No of beneficiaries	Total amount invested (in lakhs)	Average amount invested
1	Amba	Building	3	16,00,000	5,34,000
		Excavator	_	_	_
		Sumo	_	_	_
		Car	1	2,30,000	_
		Restaurant	2	3,20,000	1,60,000
		Educational institute	_	_	_
		Invested for job	_	_	_
2	Emchi	Building	1	6,00,000	_
		Excavator	1	22,00,000	_
		Sumo	_	_	_
		Car	1	2,30,000	_
		Restaurant	_	_	_
		Educational institute	1	5,00,000	_
		Invested for job	1	50,000	_
3	Gumto	Building	_	_	_
		Excavator	1	14,00,000	_
		Sumo	1	4,00,000	_
		Car	2	3,80,000	1,90,000
		Restaurant	_	_	_
		Educational institute	_	_	_
		Invested for job	_	_	_

Source: Field survey

In Amba village 30 percent of the beneficiaries have invested their money in commercial building, with an average amount of Rs 5,34,000/- and 20 percent of them invested in construction and management of restaurants with an average amount of Rs 1,60,000/-. In Emchi village highest amount has been invested for the purchase of excavators by one of the beneficiaries. 40 percent of the beneficiaries in Gumto invested in commercial buildings and an average amount of Rs 1, 90,000/- has been invested in car, with this an analysis can be made that many people are well aware of the importance of investments and its benefits.

TABLE- 8: INCOME FROM INVESTMENT

S/No	Name of villages	Area of investment (commercial)	Total income from investment (in Rs)	Average income from investment (in Rs)
1	Amba	Building	31,000	10,300
		Restaurant	115000	57,500
		Car	10,000	10,000
2	Emchi	Building	10,000	10,000
		Excavator	6,00,000	6,00,000
		Educational institute	50,000	50,000
		Invested for job	26,000	26,000
		Car	10,000	10,000
3	Gumto	Excavator	5,00,000	5,00,000
		Sumo	30,000	30,000
		Car	24,000	12,000

Source: Field survey

In Amba village the beneficiaries who made their investment in establishment of restaurant are earning sufficient amount of money an average of Rs 57,500/- monthly. In Emchi village investor of excavator is earning a huge amount of income an average of Rs 6, 00,000/- monthly followed by income from educational institute with an average of Rs 50,000/- and it is very clear from the table that majority of commercial investment have been made by Emchi beneficiaries. In Gumto investor of excavator is earning a handsome amount of money an average of Rs 5, 00,000/-Thus we can make an analysis from table 8 that beneficiaries who used their compensation money for commercial investment are enjoying the benefits by earning good amount of money, thus improving their economic status.

SOCIAL IMPLICATIONS OF LAND COMPENSATION

Compensation payment of railway project had a positive impact in the social lives of the affected people. The economic status of the effected people have improved to a great extent, today they have a beautiful and comfortable house to live in with a protective environment around them. All those people who have made good utilization of their compensation amount are enjoying a comfortable and standard life. The education of their children have improved as many parents have invested their money for their education and. They have been provided all the necessary things to have standard level of education, by admitting them in a good schools and colleges, provision of computers to their children and other necessary gadgets and things. Some of the respondents were also very delighted as many of their children have been employed as a teacher and engineers through compensation money. Thus the overall education system has been improved through compensation payment. Besides education, medical problems which are the most feared problem of the society and the problem which brings doom to a family have been reduced with the help of compensation money. Through field survey it was found that many families were suffering from various illnesses including major sickness which could not be treated in Arunachal Pradesh or within north- east. So for medical treatment outside it is very expensive and difficult. For them compensation payment was a great relief as they could go for treatment outside Delhi or Vellore with sufficient money.

Another important thing is that that some people have purchased lots of land both commercial and for residential purpose which make them the owner of huge surface of land. This is another thing that improves their status and shows their richness. And their sufficient earnings from their various investments and savings have automatically set up a strong status in the society, thus having great positive impacts in the society.

TABLE-9: INVESTMENT IN EDUCATION

S/No	Name of villages	No. of beneficiaries
1	Amba	8
2	Emchi	10
3	Gumto	9

Source: Field survey

Education sector was one of the important areas which gained advantage from compensation because many families invested their compensation money for their children education. In Emchi village 100 percent beneficiaries invested the money in the education of their children followed by Gumto and Amba village. Altogether 90 percent of the beneficiaries have invested in education sector.

Table-10 indicates the destination chosen for treatment of serious diseases by the selected beneficiaries. Due to the lack of advance medical facilities in the state, the people suffered from serious diseases like cancer, neuro problem, heart diseases, etc are generally referred to other places like Guwahati, Vellore, Delhi, etc. However, due to financial hardship the local people hardly go to these places for treatment. During the field survey it has been observed that the local people are availing such facilities after receiving compensation money. It is reflected from Table-10 that five families with two each from Emchi and Gumto villages and one from Amba village have availed advance medical facilities from Vellore and Guwahati after receiving compensation money. It is clear that the compensation money played a very important role in the life of beneficiary in availing medical facilities for treatment of different diseases purpose. It was reported that the beneficiaries get well after such treatment and enjoy the life.

TABLE-10: DESTINATION FOR MEDICAL TREATMENT

S/No	Name of villages	No. of families affected	Destination for treatment
1	Amba	1	Vellore
2	Emchi	2	Vellore, Guahati
3	Gumto	2	Vellore, Guahati

Source: Field survey

LAND COMPENSATION AND FINANCIAL INCLUSION

Provision of financial services to the poor and low income people at affordable cost is the main objective of financial inclusion scheme. It can also be stated that the extension of formal banking and insurance facilities to those unreached people who are not aware of these facilities in this modern period. According to Rangarajan Committee report on financial inclusion 2008, "Financial inclusion may be defined as the process of ensuring access to financial services and timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost." Thus, financial inclusion means the provision of financial services in the form of saving, credit and insurance facilities to the weaker section of the society to attain inclusive development.

In the present study it has been observed that land compensation finance has promoted financial activities among the beneficiaries. Around 20 percent of the beneficiaries opened bank account and 17 percent of them purchased insurance policies from the insurance Companies. The information about the impact has been presented in Table-11.

TABLE-11: LAND COMPENSATION AND FINANCIAL ACTIVITIES

Name of Villages	No. of beneficiaries having bank A/c	Name of the Bank	No. of beneficiaries purchase insurance
Gumto	2	SBI	4 (LIC)
Emchi	3	SBI, Cooperative	nil
Amba	1	SBI	1
Average	**2**	**SBI**	**3**

Source: Field survey

Table-11 indicates land compensation and its impact on financial activities in the life of beneficiaries. Receiving huge money in the form of compensation or any other type is meaningless until the beneficiaries have fundamental knowledge of saving and investment. It was observed during the field survey that in the tribal society the people hardly go to bank or purchase insurance policy due to financial illiteracy or poverty. However, it was reported that after receiving compensation money there were realization among the people about saving and investment activities. It is clear from Table-11 that the people became aware of saving of money and security of their life. On an average two beneficiaries in all three villages have opened a savings bank account and three of them reported to purchase insurance policy.

MAIN FINDINGS

❖ Attitude of people towards land compensation payment under three sample study villages has been drawn and majority of them found to be not satisfied.

❖ The comparative statement of compensation in three villages shows that beneficiaries of Amba village received the highest amount of compensation money, whereas beneficiaries of Gumto village received the lowest amount of compensation.

❖ 90 percent of the beneficiaries used compensation amount for Education. More than 60 percent of beneficiaries used for health and medical expenses.

❖ On an average 71 percent amount has been invested in productive economic activities and 10 percent of people used for unproductive activities in the study villages.

❖ It has been observed that land compensation finance has promoted financial activities among the beneficiaries. Around 20 percent of the beneficiaries opened bank account and 17 percent of them purchased insurance policies.

❖ Land compensation finance has been playing a very important role in promoting socio- economic development of the people in study villages in particular and the district as a whole.

CONCLUSION

The land compensation distributed in terms of financial resource in rural villages has found to be blessing in disguise. In the present study it has been observed that the compensation amount has been distributed in lakhs. As such, it is obvious that this fund has a significant implication on socio-economic life of the beneficiaries.

The beneficiaries used their money to solve various economic and social problems. They constructed better houses than their existing ones and they invested their money in various productive activities earning handsome profit. It also created significant financial awareness and literacy among the beneficiaries and promoted financial activities in terms of savings and investment and insurance. Compensation money has solved many social and economic problems of the beneficiaries in terms of educating their children, availing better medical facilities and marriage of their children. However, more understanding of financial planning and profitable use of the compensation money is still require. The role of the educational institutions like universities and colleges and educated youth in providing financial education to uneducated beneficiaries is urgently called for.

REFERENCES

1. Abelson, P. W. (1979). ÌProperty prices and the value of amenities, *Journal of Environmental Economics and Management*, 6, pp 11-28.
2. Adamowicz, W. L., Louviere, J. and Williams, M. (1994) Combining stated and revealed preference methods for valuing environmental amenities, *Journal of Environmental Economics and Management*, 26: 271-292.
3. Allen, G. R. (1980*). Relationship between highway noise, noise mitigation and resident property values*, FHWA/VA-81/1. Charlottesville, Va.: Virginia Highways and Transportation Research Council.
4. Anderson, B.A., Simons, D.B. (1983), Soil Erosion Study of Exposed Highway Construction
5. Andres, D.L., Andres, C.J. (1995) Roadside litter and current maintenance waste management practices: are we making any progress? In: Maintenance Management- Proceedings of the Seventh Maintenance Management Conference. Transportation Research Board/ National Research Council, Florida, July 1994, pp. 135-143.
6. Bateman, I., Day, B., Lake, L., & Lovett, A., **(**2001). *The effect of road traffic on residential property values.* Edinburgh Scotland*.*
7. Burns, J.W. 1972. Some Effects of Logging and Associated Road Construction on Northern Burns, J.W. 1972. Some Effects of Logging and Associated Road Construction on Northern California streams. Transactions of the American Fisheries society 101: 1-17.
8. Erickson, P.A., Camagis, G., Robbins, E.J. (1978), Highways and ecology: impact assessment
9. Fezzi, Carlo & Bateman, Ian J., (2009), "Structural Agricultural Land Use Modelling**,"** 2009 Conference, August 16-22, 2009, Beijing, China 51423, *International Association of Agricultural Economist.* Mitigation, National Technical Information Services, Virginia, USA.
10. Namy, S. (2007), Addressing the social impacts of large hydropower dams. *The Journal of International Policy Solutions.* Washington. Vol. 7, P. 11-17.
11. National Highway Authority of India (2011), *Consultancy of service for acquisition of land as per NH- Act 1956 amended for the construction of the Vadodara – Mumbai Expressway and spur connecting VM Expressway with Mumbai- Pune Expressway.* Request for proposal submitted to Government of India.
12. Speller Berg, I.F. & Morrison, T. (1998), *The ecological effects of new roads,* Wellington, New Zealand. Department of conservation.

INCOME AND EMPLOYMENT OPPORTUNITIES OF WOMEN IN RURAL LAKHIMPUR DISTRICT OF ASSAM

DR. GOBIN CHANDRA BORUAH
ASST. PROFESSOR
DEPARTMENT OF ECONOMICS
KHERAJKHAT COLLEGE
DEOTOLA

RUMEE DUTTA
ASSOCIATE PROFESSOR
DEPARTMENT OF ECONOMICS
L. T. K. COLLEGE
AZAD

ABSTRACT

Empowerment of women is a major social phenomenon in recent time in all parts of the society. In rural area women empowerment is more needed because three fourth of the countries women lives in village. Education, poverty, health and safety are major determining factors of women empowerment. Education itself does not merely mean the three R's – reading, writing & arithmetic but also increasing the level of understanding and realization their working right. Health and nutritional need of women are not just dependent on availability and access to these service, which constantly depriving her from getting these needs appropriately address. The economic condition, gender bias, discrimination, etc. have an adverse impact on the health of women and their working condition. In order to know the economic condition of rural women, the present paper tries to highlight the employment opportunities for women in rural economy and their level of income, by focusing conducting a primary survey in different villages of Lakhimpur district by canvassing a structural quaternaries so that a test of effectiveness can be made. Moreover, for secondary data use various government bulletin and authentic web sources.

KEYWORDS

Economic condition, Employment, Empowerment, Rural, Women.

INTRODUCTION

Empowerment of women is a major social phenomenon in recent time in all parts of the society. It requires an understanding of its multidimensional influence including family structures and other units. The issue is somehow globalised in all over the world including India due to the increasing trends of educated women which is widely spread among the urban areas. Therefore, women are now able to constitute about 35% of the workforce in software industry and enjoy the same status as men. But in the rural India in general and rural areas of Assam and the study district in particular, a large number of women have remain untouchable by empowerment. Therefore, it is more need for empowerment of rural women because they continue to play second fiddle to men and are handicapped socially and economically since independence. Basically Education, poverty, health and safety are major determining factors of women empowerment. Education itself does not merely mean the three R's – reading, writing & arithmetic but also increasing the level of understanding and realization their working right. Health and nutritional need of women are not just dependent on availability and access to these service, which constantly depriving her from getting these needs appropriately address. The economic condition, gender bias, discrimination and a number of other reasons have an adverse impact on the health of women and working condition respectively. Economic independence is a vital aspect of empowerment. The government has offered several programmes for welfare and support of women so that they are economically and socially empowered and become equal and active partners in national development along with men. For instance the National Policy for Empowerment of Women, 2001 has outlined three policy approaches to do away with gender inequality. MGNREGA, SGSRY also another means to provide job opportunities to women.

Basically most of the rural women are housewife while some of them are working in the farming sector. But still there is no any gainful employment opportunity for them in rural area. This is not that women are not willing to work; they are highly interested but due to the absence of such opportunities they are workless. Illiteracy is one of the major causes of women unemployment. Presently the SSA and RMSA tries to expand formal education in each and every sector of the societies and they might success but in this globalised era formal education not enough for a work rather skill-based education is most essential in every sector as the women working opportunities is concern.

REVIEW OF LITERATURE

Several scholar has been conducted numerous works on this global issue since long in all over the world. Srivastava, N. and Srivastava, R. (2009) studied on the basis of unit data and concluded that the employment opportunities for rural women has grown over the decade but the outcomes is not enough satisfactory. According to them the rural women are still largely concentrated on agriculture as self employed or casual labour. They are faces different types of problem in every stage of their working life including their types of job i.e. low paying job inspite of their adequate ability. Another some scholar has study the impact of government sponsored scheme on rural women in terms of income and employment generation. For instance, according to the Adloph, B. (2003) the poor women have succeeded in improving their life through membership of Self help group (SHG) in both side i.e. from economic as well as social improvement. In this context Tamuli, R. and Bhuyan, S. (2014) point out that through SHG, the Swarnajayanti Gram Swarojgar Yojana (SGSY) has a tremendous scope for improving the socio-economic condition of the rural poor women. The proper implementation of SGSY in rural area will expands the economic, social and democratic status of the rural women and promotes the rural development process.

OBJECTIVE AND METHODOLOGICAL ISSUE

The basic objective of the paper is to study the income and employment opportunities of rural women. However, the paper also tries to make an eagle eye view on the basic problems of women that they are generally facing in their working place.

Therefore, in order to know the economic condition of rural women of Assam, more specially in the Lakhimpur district of Assam, the present paper tries to highlight the employment opportunities for women in rural economy and their level of income, by focusing all social groups through collecting some data from different villages of Lakhimpur district by canvassing a structural quaternaries so that a test of effectiveness can be made. For collection of data, both the partly purposive sampling and partly random sampling is used. The survey covers 15 percent households of each village. On the other hand, for secondary data use various government bulletin and authentic web sources.

STATEMENT OF THE PROBLEM

The economy of Assam in general and Lakhimpur district in particular is basically agrarian in nature. So far as the agrarian economy is concerned, the income and employment structure is depends on many factors; these are the level of physical capital, ownership of land, mechanisation of agriculture, level of the expansion of small scale and cottage industries, level of education, family size, etc. But due to some societal causes the women work participation is always low compared with men. As farmers, agricultural workers and micro entrepreneurs, women constitute the backbone of Assam economy. Yet, together with children they remain one of the most vulnerable groups. Women shoulder the entire burden of looking after livestock, bringing up children and doing other household chores. At present they have attained levels of eminence and distinction, as educationist, doctors and engineers contributing the growth of the state and uniqueness of its local fabric. Contributing at work and at home, women-their status and their role – hold the key to the advancement of the state, its people and economy **(HDR Assam, 2003)**. But in most of the rural area of the study district, the women are still serving as a house keeper and child bearers.

A few women are taking part in every sector, i.e., in household, farm as well as non farm sector. But the women work force participation rate of Assam (20.71%) is less than the all India women workforce participation rate (25.68%). Interestingly, the women work participation rate among the women of urban Assam (10.61 %) is less than the work participation rate among the women of rural Assam (22.15%) *(Statistics of Women in India* 2007)*. Therefore, it is one of the very crucial issues of study in all around.

WOMEN EMPLOYMENT OPPORTUNITIES IN RURAL ECONOMY

There has been a general notation since long that the traditional agriculture provides employment to more person than is necessary to produce a given level of output in a backward area like Lakhimpur district of Assam. But as time departs, agriculture sector has partially mechanized, the additional occupational opportunities is creates and the rural job market also changed. As per employment policy in Assam 2010, about 89 per cent employment of Assam absorbed in unorganized sector. In rural area about 27 per cent of workforce is purely depends on primary sector. But agriculture sector is the main employment provider in rural area. As per the rural women employment is concern, the main women employment providers are:

AGRICULTURE AND ALLIED SECTOR

In a rural economy almost 80 per cent of the population earns their livelihood from agriculture. The rural women are extensively involving agricultural activities. However the nature and extent of their involvement differ with the variation of agro production system. The mode of women participation in agricultural production varies with the land owing status of farm household. Besides cultivation, there are some other agricultural subsidiary occupations where a large number of women are engaged in that sector. In animal husbandry, women have played a multiple role. With regional difference, women take care of animal production. Their activities vary widely ranging from care of animal, grazing, fodder collection, cleaning of animal sheds to processing milk and livestock products. In livestock management, indoor jobs like milking, fooding, cleaning, etc. are done by women in 90 per cent of families while management of male animal and fooder production are managed by men.

The nature and extent of women participation in fishery is varies across the country. In the highly fish producing state like Andhra Pradesh, Tamilnadu, Orissa, the rural women are involved in fish drying/curing, marketing and hand braiding and net-mending professionally.

Pigging, poultry, goatery, fishery are also providing the employment opportunities for rural women of the study district to some extent. The women are taking the care of them while the men are conducting the marketing activity. There are large numbers of pigging and poultry farm in rural area in the various part of the Lakhimpur district of Assam which are fully maintaining by the women. Nurserying and Gardening also another economically beneficiary opportunity for women where number of women are engaged in rural as well as semi urban economy.

Sericulture, handloom and textile industries in rural economy specially Dhakuwakhana subdivision of Lakhimpur district of Assam and the other part of the state, has huge potentiality for women employment generation, gives that the communities has some basic skill and the local market has demand for the product. As per the Employment Policy of Assam, 2010, there are almost 20 lakhs families in Assam who are engaged in this sector. Moreover the total no of women weavers in Assam are 13, 21,438 as per the statistical Handbook of Assam 2009, which implies its potentialities in rural areas.

The Tea Industries, especially in Assam, also provide some working opportunities basically who are belongs to the low literate group or very low literate group. For this the small tea growers played a significant role. The no of small tea gardens are continuously increasing across the state and the participation of rural women as a tea garden workers increase over time. As per the Statistical Handbook of Assam, 2009, the total no of women engaged in tea industries of Assam are 2, 86,096 in 2008-09 while around 15000 women tea workers from Lakhimpur district.

SMALL SCALE INDUSTRIES

Women in rural economy are directly or indirectly involved in processing of Non-Timber Forest Product (NTFP) particularly in the small scale enterprises. This includes basket, broom, rope making, tasar silk cocoon rearing, lac cultivation, oil extraction and bamboo works etc. Women constituted almost 51 per cent of the total employed in to forest based small scale industries. As for example, in Orissa, man collect grass for basket making while women cure it and make the basket. But in Assam and some north eastern states, the basket making is considered as man work only.

Besides these, there are some other job opportunities for women which generally notice in the rural area at a large scale. These are the insurance agent, company representative, NGO workers, etc. those are generally belongs to the highly educated group. As an effect of globalization and IT sectors on the rural area, the Business Process Outsourcing (BPO) has growth exponentially across the country in recent year. The gigantic growth is now reaching out to the most conservative part of the rural India as well. For instance, the "sources of change" in rural Rajasthan is a classic point. Rajasthan is highly conservative states where rural women are remain backward for centuries. But the "source of change" BPO, a socio-economic initiative launched by the Piramal Foundatin, presents a different picture of hope, with rows of rural women sitting behind the computers and running the BPO centre with great efficiency. Same pictures are emerged in rural area of Tamil Nadu and Andhra Pradesh also. Therefore, the Rural BPOs have successfully communicated the message that women can supplement family's primary income. In Assam, the rural women who are staying nearest of the urban communities have taken the batter chance regarding the IT sectors and successively get the employment opportunities.

WOMEN EMPLOYMENT AND THE GOVERNMENT PROGRAMME

The Indian planners and the Government of India have been taking an enormous steps regarding the rural employment generation since long. Now there are four major employment generation schemes which serving for rural women. Some employment generation programmees are providing self employment while some of them are provide wage employment. The major ongoing rural employment generation (self-employment) programmes are namely i) Swarnajayanti Gram Swarojgar Yojana(SGSY) ii) Prime Minister's Employment Generation Programmee (PMEGP) and major wage employment programmee are i) Sampoorna Gramin Rojgar Yojana (SGRY) and ii) Mahatma Gandhi National Rural Employment Generation Programmee (MGNREGA). The entire employment generation programme launched jointly for both male as well as female, no separate programme for female only. Among the above mentioned programme, SGSY and MGNREGA are most effective for women employment generation. As per the official website report of MGNREGA, there are 67.58lakh person days employment providing for women i.e., 24.66 per cent out of total 274.01lakh person days provided for rural unemployment in 2011-12 financial year in Assam. For India the MGNREGA generate 49.4 per cent person days for women which is considered as very high with compare to Assam. Besides these, there are some another programme which are implemented by states Government for providing employment generation in rural economy. For instance, in Assam, the Mukhya Mantri Karma Jyoti Achani, Mukhya Mantri Kalpataru Achani, etc. are implemented in this regard. Moreover, there are also some departmental programme e.g. ASSA (National Rural Health Mission), *Anganwadi* worker (Integrated Child Development Programme), etc. which also directly or indirectly providing for employment generation in rural area.

WOMEN WORKING STATUS IN THE SURVEYED VILLAGES

To understand the economic status of women in the rural economy of Assam in general and Lakhimpur district in particular, an attempt has taken to conduct a primary survey on 100 rural household in the different villages of Lakhimpur district. For this, five villages are taken in such a way that all category people are

incorporate under the process and all typical characteristics of Assam are focus throughout the villages. There are all together 142 women are surveyed under this process including the children and student.

TABLE 1: WOMEN WORKING STATUS IN SURVEYED VILLAGE

Village	Working person												Not in Labour force	Unemployed		
	Self employed			Regular Salaried			Casual Worker			All							
	M	F	P	M	F	P	M	F	P	M	F	P	P	M	F	P
Kharkati	12	0	12	5	2	7	19	1	20	36	3	39	41	4	5	9
Chorimoriya	5	3	8	0	0	0	28	2	30	33	5	38	45	4	2	6
Brisnupur Boloma	3	0	3	3	0	3	20	3	23	26	3	29	49	2	4	6
Nijarapar	23	0	23	5	0	5	15	0	15	43	0	43	34	3	2	5
Joriguri	7	o	7	2	1	3	14	1	15	23	2	25	42	6	2	8
Total	50	3	53	15	3	18	96	7	103	161	13	174	211	19	15	34

Source: Primary survey, 2011

Note: 'M' stands for Male, 'F' stands for Female and 'P' stands for Person

It is reveals in table 1 that out of 100 surveyed household there are only 40 females are participating in the work while 112 females are remain in the non-working group. On the other hand, during the same period, the no of total working male in the surveyed household are 161 and non working male are only 19. There are all together 419 respondents in the survey area including the children and student, where 279 are male respondents and 140 are female respondents. There are 30.4 per cent workers under the self employed where only 1.7 per cent is female self employed worker. The regular salaried worker in the study area is very less; only 10.3 per cent working people are able to get the wage in regular bases, where 1.7 per cent is belong to the female group. On the other hand, the no of casual workers or daily wage workers in the study area is very high. There are about 55.1 per cent male and 4.0 per cent female people are belong to the casual workers group.

FIGURE 1: STATUS OF WORKING OPPORTUNITIES
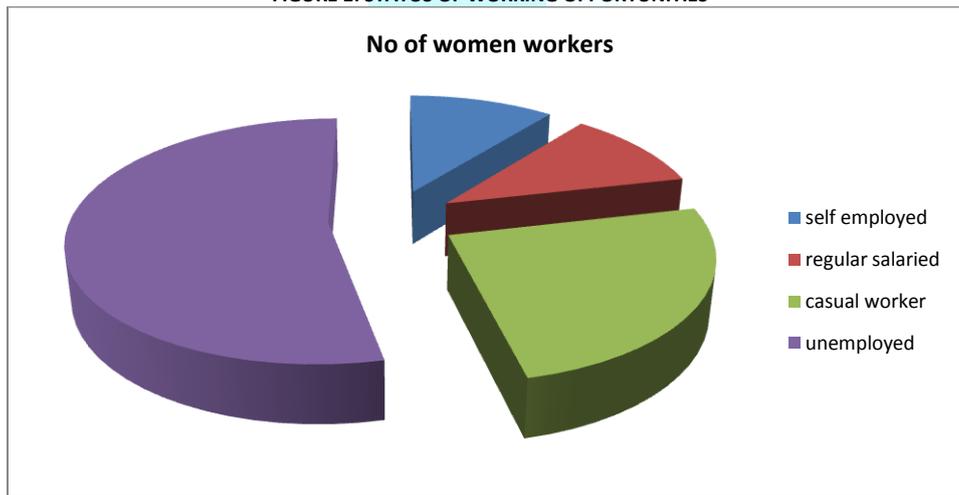
TABLE 2: WORKFORCE PARTICIPATION RATE IN THE SURVEYED VILLAGE (IN PER '000)

Village	Labour force participation rate			Unemployment Rate		
	Male	**Female**	**Total**	**Male**	**Female**	**Total**
Kharkati	73	52	125	100	455	176
Chorimoriya	75	23	98	108	500	146
Brisnupur Boloma	46	42	88	71	571	214
Nijarapar	73	20	94	65	1000	104
Joriguri	86	23	109	153	500	242
Total	**353**	**43**	**513**	**94**	**575**	**165**

Source: primary survey, 2011

However, the Labour Force Participation Rate (LFPR) and Unemployment Rate (UR) in per 1000 population are shown in table 2. The LFPR in the all surveyed village is 353 in case of male where it is just 43 in case of female. This is due to the over restriction of women in the Assamese society. The LFPR among the surveyed village is high in Kharkati i.e. 52, followed by Brisnupur Boloma 42 and it lowest in Nijorapar i.e. 20. On the other hand, the unemployment rate in all surveyed villages calculated as 9.4 per cent in case of male where it is only 57.5 per cent in case of female. The overall unemployment rate in the surveyed villages recorded as 16.5 per cent. In case of female unemployment rate, it is highest in village Nijorapar (100 per cent) followed by Brisnupur Boloma (57.5 per cent) and lowest in village Kharkati (45.5per cent). As the average unemployment rate is in concern; it is highest in village Joriguri (24.2 per cent) followed by Brisnupur Boloma (21.4 per cent) and lowest in Nijorapar village (10.4 per cent).

There are certain reasons behind the low LFPR & UR in the surveyed villages. The data reveals that the village where the male unemployment rate is lowest; the female unemployment is highest and vise versa. For instance, village Nijorapar, it is pre-dominantly agricultural dependant village. The villagers have given more importance on horticultural crops and vegetables rather than the paddy crops and the women work participation in case of vegetables cultivation is significantly lower than the women participation in the paddy cultivation. This is the cause behind the higher women workforce participation rate in the khakati village because the inhabitants are agricultural dependant and cultivates only paddy crops. However, the tribal women are very hard working in nature therefore the women labour force participation of Joriguri village is comparatively high then the other village. Similarly, Chorimoriya, which is nearest of urban centre, has emerged some effect of non-farm sector works also. But village Brisnupur Boloma is frequently flood affected since long and hence the agriculture is minor occupation there. It is, therefore, noted that the women workforce participation in rural area is basically depends on the agricultural sector, if agriculture is well practices the WLFPR rate is high and if agriculture is not practices the WLFPR is less in that area.

STATUS OF INCOME IN THE SURVEYED VILLAGES

So far as the status of income of the women worker is concerned, the highest average annual income of the employed women is shown in village Kharkati (`90,000) while lowest in village Brisnupur Boloma (`30,000) as shown in Table 3.

TABLE 3: STATUS OF INCOME AND EDUCATION OF WOMEN IN THE SURVEYED VILLAGES

Village	Average annual income of the employed women	Average educational level of working women	Average family size	Ownership of physical capital (money terms)
Kharkati	90000	8	5	25000
Choraimoriya	60000	7	5	20000
Brisnupur Boloma	30000	4	4	10000
Nijorapar	0	9	8	30000
Joriguri	50000	3	7	20000
Overall	57500	6	6	21000

Since there is no employed women respondent is covered in Nijarapar village so it is calculated as zero. The level of average education of the women in the surveyed village, average size of the family and average ownership of physical capital (in money terms) is shown in table 4. However, there is a direct relationship between income (Y) and education of workers (Ed), their family size (Fz) and ownership of physical capital (Pc), a model is being fitted for find out the effectiveness as equation (i).

$$Y = 5.376 + 60.02\ Ed* + 0.023\ Fz** + 80.26\ Pc *\ \dots\dots\dots\dots\dots(i)$$
  (8.32)   (9.75)   (2.32)   (7.58)

$R^2 = 0.482$ Adjusted $R^2 = 0.479$ N= 142

*significant in 0.01 level

**significant in 0.05 level

In the above specification it is found that one additional level of education has increase the women income by 60 rupee. Similarly, one increment of family size can enhanced the level of income very marginally by 0.02 rupee. It implies that the women belongs to the large family has motivated to work anywhere due to their poor family status in the rural area. However, one additional unit of the ownership of physical capital (in money terms) has increase the level of income by 80 rupee. The explanatory power of the specification is 0.482.

PROBLEMS FACE BY WOMEN IN EMPLOYMENT SECTOR

There are numbers of problem which generally facing by the working women at home or in the working place, which are discussed as follows:

The paid working women are facing the problem at their working place just by virtue of their being women. The social attitude to the role of women lags much behind the low. The attitude which considers women is fit for certain jobs and not others, cause prejudice in those who recruit employees. Even when the qualified women are available, the preferences are given to male candidates of equal qualification. A gender bias creates an obstacle at the recruitment stage itself. In the time of remuneration or wages, the women are unable to get the adequate wages or remunerations which generally get male workers for the same work. Moreover a woman could still bear with the problems if she has control over the money she earns. Most of the woman's salary handed over to her father, husband or in low.

Moreover, the working women are often facing the sexual harassment in the working place, in the overcrowded public place like public transport station when the women are in the way to their working place. Similarly in the time of employment or up gradation of employment on the basis of merit, the women are exploited by officers or her advancement is often attributed sexual favours.

The psychological pressure is always emerging by women to getting her job. Most of the problems, which beset working women, are rooted in the social perspective; that men are the bread winners and women are seen as the house keeper and child bearers. This typical role model continues to put obstacles for the working women.

CONCLUSION

On the basis of above discussion it is clear that for improvement of income and employment status of rural women, the expansion of education, both formal and skill base, ensure of women security in the working place, ignoring the neglecting habits of women in working place, removing the over restriction on women in society are some essential pre-action. The Government should take encouraging initiatives by providing financial, material and institutional support for the business endeavors of rural women. Moreover, government should introduce proper act for women protection in the working place. Since, women is the half part of the society and the development of society as well as economy is determined by the development of women in every side, so we should never neglect women as weak and inviting them to participate simultaneously with men in better nation building goal.

REFERENCES

1. Adolph Barbara (2003): "The Role of Self Help Group in Rural Non-Farm employment", NRI working paper, DFID
2. Boruah, G. C. and Bora, J (2014): Employment Opportunities for Women in Rural Economy, published in *"Women Empowerment in North-East India"* Edited by S B Tamuli, Published by EBH Publisher (India), 2014
3. Government of Assam (2003): "*Assam Human Development Report, 2003".*
4. Government of Assam (2009): "*Statistical Hand Book of Assam, 2009", Directorate of Economic and Statistics.*
5. Government of Assam (2011): "*Employment policy of Assam, 2011",* Department of Labour, Govt. of Assam.
6. National Institute of Public Corporation and Child Development (2007): "*Statistics of Women in India* 2007", New Delhi.
7. Sahidullah, Fatima Tohsin (2009): *Status of women in Assam, "*The Assam Tribune", Jun 17, 2009.
8. Srivastava, N. and Srivastava, R (2009): "Women, work, and Employment Outcomes in Rural India," Working paper FAO-IFAD-ILO, Rome.
9. Tamuli, R and Bhuyan, S (2014): Women Empowerment Through SHGs : An Analytical Study on SGSY in Lakhimpur district of Assam, published in *"Women Empowerment in North-East India" Edited by S B Tamuli, Published by EBH Publisher (India), 2014*

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT 27

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

http://ijrcm.org.in/

SUSTAINABLE AGRICULTURAL DEVELOPMENT AND RURAL POVERTY IN INDIA

DR. JASMEET KAUR
ASST. PROFESSOR
SYMBIOSIS INTERNATIONAL UNIVERSITY
PUNE

ABSTRACT

The share of agriculture in GDP of Indian economy has been declining to 15% now due to high growth rates of industrial and service sectors but the economic and social parameter is beyond any comparison in India. The paper deals in the spatial pattern of sustainable agricultural development as Composite Index of Agricultural Development (CIAD) and its relationship with rural poverty in India. The regression analysis leads us to the various findings through model building and analyzing the whole structure of poverty in India. The models represent various indicators of rural poverty and sustainable agricultural development and justify the relationship in between the two. The striking picture here is that the states having vast agricultural potential, such as Madhya Pradesh, Kerala and Orissa have remained at the lower rung of the development ladder due to their geographical configuration and social composition of population (having high percentage of SC & ST population), along with poor irrigational facility, which has acted as a constraint in the wide spread technological diffusion in agriculture. In these states, agriculture still is of subsistence nature and has not been commercialized. With the lowest composite scores, Assam too, suffers from unfavorable conditions for agriculture, in terms of land availability, irrigation facility, high concentration of ST population, remote setting and low level of interaction with developed regions, all this acting as an obstacle in achieving high level of agricultural development. The analysis of rural poverty and related indices reveals higher concentration of rural poor in the slow –growing , backward states like Bihar , Orissa, Madhya Pradesh and Uttar Pradesh. In these states, there still exist semi-feudal agrarian relation in the rural sector, with high concentration of scheduled caste and scheduled tribes. As against this, the incidence of poverty is much lower in the prosperous regions of Punjab, Haryana, Andhra Pradesh, Kerala etc, resulting into relatively higher variability in regional distribution of rural poverty. India must strive to break the cycle of poverty, credit burden and environmental degradation and improve the livelihood of farmers.

KEYWORDS
agriculture development, rural poverty.

INTRODUCTION

The share of agriculture in GDP of Indian economy has been declining to 15% now due to high growth rates of industrial and service sectors but the economic and social parameter is beyond any comparison in India. The paper deals in the spatial pattern of sustainable agricultural development as Composite Index of Agricultural Development (CIAD) and its relationship with rural poverty in India. The regression analysis leads us to the various findings through model building and analyzing the whole structure of poverty in India. The models represent various indicators of rural poverty and sustainable agricultural development and justify the relationship in between the two. The importance of farm credit as a critical input to sustained agriculture is reinforced by the unique role of Indian agriculture in the macroeconomic framework and its role in poverty alleviation. But, the lack of adequate flow of institutional credit has deprived the farmers, especially small farmers in using improved variety of seeds, particularly high yielding variety, use of pesticides, insecticides, proper and adequate dose of fertilizers, timely availabilities of irrigation facilities and agricultural equipment's. Nothing significant can be done unless adequate amount of investment is pumped in agricultural for enhancing agricultural production and productivity of farmers.

The striking picture here is that the states having vast agricultural potential, such as Madhya Pradesh, Kerala and Orissa have remained at the lower rung of the development ladder due to their geographical configuration and social composition of population (having high percentage of SC & ST population), along with poor irrigational facility, which has acted as a constraint in the wide spread technological diffusion in agriculture. In these states, agriculture still is of subsistence nature and has not been commercialized. With the lowest composite scores, Assam too, suffers from unfavorable conditions for agriculture, in terms of land availability, irrigation facility, high concentration of ST population, remote setting and low level of interaction with developed regions, all this acting as an obstacle in achieving high level of agricultural development. The analysis of rural poverty and related indices reveals higher concentration of rural poor in the slow –growing , backward states like Bihar , Orissa, Madhya Pradesh and Uttar Pradesh. In these states, there still exist semi-feudal agrarian relation in the rural sector, with high concentration of scheduled caste and scheduled tribes. As against this, the incidence of poverty is much lower in the prosperous regions of Punjab, Haryana, Andhra Pradesh, Kerala etc, resulting into relatively higher variability in regional distribution of rural poverty. India must strive to break the cycle of poverty, credit burden and environmental degradation and improve the livelihood of farmers.

LITERATURE REVIEW

Gopalakrishnan et al.(2009) explored that rather than being a panacea for Indian agriculture, corporate food provision will likely accelerate many key elements of India's agricultural crisis. It will produce a decline in land productivity, reduce food security, adversely affect price stability and will tend to negatively impact employment and credit relations. His paper explores the changes in class and social relations that come about with the transition to a corporate system of food provisioning. It considers the potential impacts of such changes in the Indian context.

The potential of agricultural growth for reducing poverty in today's poor rural areas in Africa and South Asia is hotly debated. Some argue that the constraints and risks for agricultural growth are too great in most rain-fed areas. Other sources of growth are also needed, but there are limited ideas and examples of non-agricultural growth driving poverty reduction in such areas, leaving a bleak outlook of social and economic decline in these areas. Others argue that agriculture can and should play a critical role in economic growth and poverty reduction, but the recent record is poor, and current policies have had very limited success in promoting the sort of broad-based agricultural growth needed to attack rural poverty.

The Indian economic reforms of 1991 affected the economy not only in terms of output but brought about some structural changes in the various macroeconomic relationships. Ghosh et al (2005) quantify here the impacts and identify which of the macro variables were significantly affected and which could not be the result of the reforms. For the analysis, the technique of interventions analysis of time-series is used. Two kinds of measures are noted: (a) the year-to-year effects, and, (b) the overall growth pattern, during 1991 to 2002-03 due to reforms for each of the variables. Private final consumption expenditure (PFCE), investment (GCF) and all the GDP variables except that of services were found to be substantially higher during the post-reforms period than what they would have been in the absence of the reforms. The reforms seem to have made only a marginal impact on investment in the agricultural sector. Unless more reforms are brought in, the GDP may grow at the most only by 6.1 per cent between 2003 and 2010.

Vyas's study(2004) say's Present policies and programmes neither protect a sizeable section of the agricultural population from natural and market-induced uncertainties nor enable them to contribute meaningfully to overall growth of the economy. It is possible, however, to turn the tide by enhancing investment to strengthen the resource base of agriculture, devising suitable instruments to compensate small and marginal producers for losses from natural calamities, designing organisational interventions to impart strength to their economy, lightening the interest burden from non-formal sources of credit, and encouraging rural financial institutions to take over the debts of the farmers from usurious sources. A positive feature in our situation is that we have some examples of success in all these areas. There is a need to extend and scale up these efforts.

A review of the above stated studies clearly reveals that important question in the development debate regarding rural development has been the relationship between agriculture and the rural economy. In certain respects, past policy perceptions and practice have often equated rural development with agriculture,

and rural development policies have been subsumed under an agricultural policy package. The issue of how and under what conditions agriculture is a driving force of rural growth has received scant attention or has given mixed messages including in the position of major multilateral financing institutions.

OBJECTIVE, HYPOTHESIS AND RESEARCH METHODOLOGY

The principal objective of the proposed paper is to present in a concise way, some of the conceptual issues regarding the role of agriculture in both rural and overall sustainable development, emphasizing its role in poverty reduction.

The study shall rest on the following Hypotheses:-

Hypothesis testing begins with an assumption that we make about a population parameter. It is an inference or a supposition made as a basis for reasoning.

1. There is a strong link between sustainable agricultural development and rural poverty.

2. The pattern of agricultural credit flows has helped reduce rural poverty.

For the purpose of seeking holistic picture of the topic the study would be based on secondary data collected from various sources such as Annual Reports of National Sample Survey Organization, Central Statistical Organization, State Publications of the Directorate of Economics and Statistics of different states of the country, Economic & Political Weekly, Research foundation, Reserve Bank of India /State Bank of India publications. Rates of growth would be calculated for consolidated credit flows across different cross-section of farmers. These would be calculated on linear and exponential basis. The study would be done both for National aggregate followed by interstate comparisons. In view of the economic welfare considerations, in the present study most of the indicators have been made relative with respect to population. However, keeping in view logical considerations, some indicators have been standardized with respect to geographical area and some have been calculated in ratios and percentage. Furthermore for advanced levels of research more secondary data as per acceleration effect, time series analysis and auto correlation can be studied with various statistical tools like SPSS/ EVIEWS. The period of study is from early 90's till present.

PATTEN OF AGRICULTURAL DEVELOPMENT

The Indian economy stands at a cross road at the current juncture. Apart from the geographical distribution of growth being skewed, it has also favored mostly the non-agricultural sectors manufacturing, construction and services, bypassing the vast agricultural sector. The slowdown in the agricultural growth in recent times has widened the rural-urban divide and has serious consequence for employment and poverty, contributing to the severe distress in the rural areas. Low agricultural productivity and growth rate of agricultural production, combined with high level of dependence on this sector, being the cause of distress. Since increased agricultural production and productivity in rural sector, leads to higher income in the hands of rural population, including the small and marginal farmers, by raising small holder's productivity and real agricultural wages, thereby improving their material well-being.

Rural poverty is a complex and multidirectional phenomenon having many faces and is illustrated in many ways. The issue is difficult to comprehend without examining several interrelated aspects of changes in agriculture sector. It is believed that agricultural development can go a long way in solving the problem of stagnation in rural India.

The significant role of agricultural development in reducing rural poverty has long been recognized in economic literature, yet the debate is on, how far the performance of agriculture sector is effective in reducing rural poverty.

ANALYSIS: SPACES OF RURAL POVERTY IN INDIA

Poverty is the sum total of multiplicity of factors that include not just income and calorie intake, but a situation of "pronounced deprivation of wellbeing" with lack of access to resources or assetlessness, being a unifying characteristics of poverty in all its manifestation . In India, rural poverty emanates from semi-feudal relations of production in the agriculture. The land reforms measures, undertaken after independence, are not implemented effectively, and have failed to make substantial changes in the agrarian relations. Hence, almost all agricultural labor-households and a large portion of small and marginal farmers and landless non-agricultural labor-households are poor. Yet, there is a variation in the regional distribution of incidence of rural poverty in India.

Since, poverty ratio alone, does not do justice to the range of deprivation, when multidimensional nature of rural poverty is acknowledged, those indicators are chosen for the analysis, which reflect the material condition of rural poor, such as percentage of population below the poverty line, per capita agricultural income. Human development index, percentage of small and marginal holdings to total, percentage of cultivators and agricultural workers to the total workers and ratio of percentage contribution of agriculture and allied in Gross State Domestic Product(GSDP) to percentage to cultivators and agricultural workers to total workers.

The analysis of rural poverty and related indices in Table 1 reveals higher concentration of rural poor in the slow –growing , backward states like Bihar , Orissa, Madhya Pradesh and Uttar Pradesh. In these states, there still exist semi-feudal agrarian relation in the rural sector, with high concentration of scheduled caste and scheduled tribes. As against this, the incidence of poverty is much lower in the prosperous regions of Punjab, Haryana, Andhra Pradesh, Kerala etc, resulting into relatively higher variability in regional distribution of rural poverty.

TABLE 1: STATUS AND VARIABILITY OF RURAL POVERTY AND RELATED INDICES

States	% of pop below poverty line	Per capita Agri. Income	Human dev. Index	Ratio of contri. Of agri to GSDP	% of cultivators & agri workers	% of small & marginal holdings
Andhra Pradesh	11.2	8013.82	.416	.42	62.30	82.73
Assam	22.3	6160.05	.386	.54	52.65	83.333
Bihar	42.1	2688.10	.367	.36	77.35	93.41
Gujarat	19.1	7188.13	.479	.32	52.04	60.27
Haryana	13.6	10442.73	.509	.40	51.56	65.31
Karnataka	20.8	6109.75	.478	.34	55.89	72.90
Kerala	13.2	6285.74	.638	.72	23.26	98.57
M.P	36.9	5286.34	.394	.38	71.59	65.07
Mahashatra	29.6	5534.74	.523	.22	55.41	73.422
Orissa	46.8	5254.97	.404	.38	64.73	83.82
Punjab	9.1	13822.58	.537	.78	39.36	29.69
Rajasthan	18.7	5788.85	.424	.40	66	52.56
Tamil Nadu	22.8	4826.76	.531	.27	49.55	89.99
Uttar Pradesh	33.4	5176.49	.388	.47	66.03	91.13
West Bengal	28.6	6849.65	.472	.53	43.94	95.30
C.V.	**45.25**	**37.75**	**16.40**	**35.33**	**24.13**	**23.33**

Source: Data collected from review of agriculture, Special article in EPW.

It is interesting to note from the above table that though regional differences in percentage of population below poverty line is near 50% that of other chosen indicators is much less. This clearly reflects that all those indicators which are based on agricultural sector viz; per capita agricultural income, ratio of contribution of agriculture to Gross State Domestic Product, percentage of agricultural workers and percentage of small and marginal holdings have lesser vulnerability across states. This is indicative of the fact that the problem of rural poverty occurs from a traditional and subsistence agriculture in India and lack of alternative employment opportunities, absence or lethargic industrial sector in rural India is a common feature across all states.

The economic status of the rural population has a strong bearing of the agricultural income, as low agricultural income is being considered here for analyzing the status of rural poor, which does not reveal very high level of regional variation , although extreme values are observed in agriculturally highly developed regions like Punjab and Haryana , on the one side and low growth states like Bihar , Orissa the majority of rural poor comprise of small and marginal farmers and agricultural laborers, their percentage in the rural sector gives an insight into the incidence of rural poverty, since it reflects their poor ownership and access to land assets . Similarly, the percentage of cultivators and agricultural workers to total workers, represents the level of dependence of the population on agricultural sector for their livelihood ,which seem to vary around 70 percent for the predominantly agrarian underdeveloped states of Bihar, Madhya Pradesh, Uttar Pradesh etc. The inability of the secondary and tertiary sector to generate enough employment opportunities is primarily responsible for the high level of dependence on agriculture in these states. In both the cases the regional variations is not very high (C.V. 23.33 and 24.13percent), since the majority of population in India still turns to agriculture sector for livelihood.

The rural poverty analysis is not complete unless the human resource, incorporating the indicators of social development. Interestingly, the values of the index range between 3 to 5, for the major Indian states, are revealing low level of regional variations among them. This is due to the fact that HDI incorporates health and education indices related to the demographics features, including literacy and life expectancy , for the population as a whole(both rural and urban) , which are almost similar across the country ,barring a few exceptions. A striking regional pattern emerges from this analysis that underdeveloped slow growing states have unfavorable rural poverty indicators, whereas developed regions fare better in them.

CLASSIFICATION OF STATES AS PER CIAD AND RURAL POVERTY

It is equally interesting to see the interstate rankings of CIAD as well with the chosen indicators of rural poverty in the following tables to get the picture of the relationship between the two. The rankings were of Composite Index of Agricultural Development are shown in table 2 below.

TABLE 2: COMPOSITE INDEX OF AGRICULTURAL DEVELOPMENT (CIAD)

STATES	MID 90's		MID 20's	
	INDEX	RANK	INDEX	RANK
ANDHRA	11.53	4	11.84	4
ASSAM	3.78	16	5.99	15
BIHAR	8.08	7	14.79	3
GUJARAT	7.56	8	7.78	10
HARYANA	14.66	2	15.57	2
HIMACHAL	3.72	17	7.52	11
KARNATAKA	8.13	6	6.85	12
KERALA	5.38	13	9.18	8
M.P	6.96	11	5.69	16
MAHARSHTRA	7.29	9	5.16	17
MEGHALAYA	1.67	19	4.4	18
NAGALAND	2.50	18	3.75	19
ORISSA	4.96	14	6.25	14
PUNJAB	18.15	1	15.63	1
RAJASTHAN	6.51	12	9.23	7
TAMILNADU	10.36	5	8.98	9
TRIPURA	4.54	15	6.57	13
U.P	13.13	3	11.01	5
WEST BENGAL	7.17	10	10.42	6
MEAN	**7.68**		**87.69**	
SD	**4.28**		**31.43**	
CV	**55.70**		**35.84**	

Source: Computations based on data from Agricultural Statistics in India, CSO.

The Composite Index table is showing the variations in the agricultural development in various states of India. The rankings are ranging from 1 being the highest rank and 19 being the lowest as per the composite agricultural index. These values reassert the fact that even after four decades of Green Revolution, the modern technological use in agriculture is still concentrated in the same states and regions, influencing the variation in agriculture production and productivity too.

TABLE 3.A: RELATIONSHIP BETWEEN CIAD AND PERCENTAGE OF POPULATION BELOW POVERTY LINE

CIAD % of population below poverty line	States with High CIAD	States with Medium CIAD	States with Low CIAD
States with High %	Bihar, U.P.		Orissa ,Maharashtra, M.P,
States with Medium %		West Bengal, Kerala, Gujarat,	Karnataka, Assam, Tamil Nadu
States with low %	Punjab, Haryana, Andhra Pradesh		

The first part of the table which depicts the relationship between CIAD and percentage below poverty line gives us a clear picture that all those states which are high on agricultural development are also high in population living below poverty line like Bihar and U.P. On the other hand states like Orissa, Maharashtra and M.P are low in agricultural development but are high in the percentage of population living below poverty line. Also the states like Punjab and Haryana which top the ranks of CIAD are showing low percentage of population below poverty line which proves that agriculture can improve the living standards of any states if they are developed in agricultural standards too.

TABLE 3.B: RELATIONSHIP BETWEEN CIAD AND PER CAPITA AGRICULTURAL INCOME

CIAD Per capita agri-income	States with High CIAD	States with Medium CIAD	States with Low CIAD
States with high Per capita agri-income	Punjab, Haryana, A.P,	Gujarat	
States with medium Per capita agri-income		West Bengal, Rajasthan, Kerala	Karnataka, Assam
States with low Per capita agri-income	Bihar ,U.P.	Tamil Nadu	Orissa, M.P, Maharashtra

As compared to the previous table the states of Punjab and Haryana are now topping the charts with high CIAD and also high per capita agricultural income. However the states like Maharashtra, M.P. Orissa and Assam are low in agricultural development and in turn are low in per capita agricultural income also. This clearly specifies that the states with less agricultural development show low per capita income generated by agriculture in these states.

TABLE 3.C: RELATIONSHIP BETWEEN CIAD AND PERCENTAGE OF AGRI WORKERS

CIAD % of agri workers	States with High CIAD	States with Medium CIAD	States with Low CIAD
States with High %	Punjab	Kerala, Tamil Nadu, West Bengal	
States with Medium %	Andhra Pradesh, Haryana	Gujarat	Assam, Karnataka, Maharashtra, Orissa
States with low %	Bihar, U.P.	Rajasthan	M.P,

The condition of the agricultural labor in India has been deteorating since last few years and which has also led to various farmers' deaths in the country. The above table shows that Punjab has highest percentage of agricultural workers and M.P. being the lowest. The various other states like Maharashtra, Karnataka, Bihar and Gujarat are the ones which have medium agricultural development and also medium percentage of agricultural workers. This means that there is still a transition awaited in these states so that they can fully utilize the man power resources available to them.

RELATIONSHIP BETWEEN AGRICULTURAL DEVELOPMENT AND RURAL POVERTY

Agriculture is not the only source of income in rural areas but it is the dominant source, and besides, the scale of non-agricultural income generating activity in rural areas almost certainly depends upon the level of agricultural production. Thus, in this section an attempt has been made to study the relationship between agricultural development and poverty.

The time series shows that the incidence of poverty fluctuates in response to variations in real agricultural output per head, but there is no significant time trend. There is a statistically significant inverse relationship between rural poverty and agriculture performance for India as a whole, suggesting that agricultural growth by itself tends to reduce the incidence of poverty. The analysis for individual slates presents a somewhat different picture.

The relationship between agricultural development and rural poverty is studied under three regression models with CIAD as the Y variable (independent) and the following as dependent variables;

X1= rural poverty

X2= per capita agricultural income

X3=percentage of agricultural workers to total labourers

The coefficient of determination (r2) compares estimated and actual y-values, and ranges in value from 0 to 1. If it is 1, there is a perfect correlation in the sample — there is no difference between the estimated y-value and the actual y-value. At the other extreme, if the coefficient of determination is 0, the regression equation is not helpful in predicting a y-value. In the above analysis the y values are the composite index of agricultural development and all the other indicators of rural poverty are the x values.

Table 4: REGRESSION RESULTS OF AGRICULTURE DEVELOPMENT AND RURAL POVERTY RELATED INDICES

Rural poverty related Indices	Beta	Std. Error	R^2	T VALUE
X1:rural poverty	-10.40	8.143	0.112	-1.277
X2:per capita agricultural income	0.068	0.336	0.251	0.202
X3:percentage of agricultural workers	-1.975	7.231	0.005	-0.273

Source: Data collected from review of agriculture, Special article in EPW.

The regression results reveal a positive relationship between Agricultural Development and X2-per capita agricultural income, while a negative relationship between X1- rural poverty, X3-percentage of agricultural workers.

CONCLUSIONS

The regression results are as expected. The negative 'b' values in the model indicate that better the agricultural development lower the rural poverty. Alternatively, positive 'b' value in the model reflects that agricultural development has a positive impact on agricultural income.

For the regression analysis the composite index of agricultural development has been taken as independent variable and rural poverty and its related indices are taken as dependent variables. The regression results so obtained are given in the table 4. The coefficients of regression analysis, confirm the findings of a large section economists, that there exists an inverse relationship between agricultural development and rural poverty(X1), with 'b' value being -10.40 explaining 11 % of responsiveness. This highlights that agricultural development leads to reduction in rural poverty, through high agricultural yield, by raising small holders' productivity and by increasing real agricultural wages. But the low variance explained, signifies that major growth is derived from the small section of large farmers, whereas the small and marginal farmers along with agricultural laborers, do not share the gains.

The economic status of rural population also gets reflected in the per capita agricultural income, as a large part of their income originates from agricultural income, which shows a strong direct concurrence with agricultural development, as developed agriculture leads to higher farm productivity and production. The other two variables, chosen for the analysis, associated with rural poverty are agricultural workers and small and marginal farmers. The level of dependence of rural population on land for livelihood is very in almost all the states, with less regional variations, but higher regional variations are obsessed in agricultural development, resulting low level of concurrence between the two.

The high dependency with lower contribution, once again gets related to rural poverty. The ratio of agricultural contribution to agricultural workers shows a positive relationship, as a higher level of agricultural development results in higher contribution per dependent agricultural worker. The regression analysis confirms to the basic postulate that rural poverty, is a function of agricultural development and higher growth in agriculture sector plays a significant role in reducing poverty, but this, alone, is not a sufficient condition and agricultural growth, by itself, is unlikely to make a dent in rural poverty, which encompasses a multiplicity of factors. Promoting new technologies and reforming agricultural research and extension: Major reform and strengthening of India's agricultural research and extension systems is one of the most important needs for agricultural growth.

REFERENCES

1. 1978 Report of the Baking Commission (New Delhi, Publications Division). 27-03-1999 [REVIEW OF AGRICULTURE]Issue: VOL 34 No. 13 March 27 - April 02, 1999] Emerging Crisis in Punjab Agriculture
2. Agricultural Growth and Productivity Sustainable Rural and Urban Development Project coordinator: Donald F. Larson
3. Institutional Dimensions of Trade Liberalisation and Poverty', presented at OECD Global Forum on Agriculture, meeting on Agricultural Trade Reform, Adjustment and Poverty, Paris, 23-24th May 2002, by J. Kydd, A. Dorward and C. Poulton, 2002Source: United Nations Department of Economic and Social Affairs (DESA)Date: Apr 2008
4. Pranab Bardhan , Dilip Mookherjee--Poverty Alleviation Efforts of Panchayats in West Bengal 28-02-2004 [SPECIAL ARTICLES]Issue: VOL 39 No. 09 February 28 - March 05, 2004
5. R Thamarajakshi--Agriculture and Economic Reforms 14-08-1999 [COMMENTARY]Issue: VOL 34 No. 33 August 14 - August 20, 1999
6. Rajaram Dasgupta--Priority Sector Lending 12-10-2002 [SPECIAL ARTICLES]Issue: VOL 37 No. 41 October 12 - October 18, 2002
7. Rural Poverty in Madhya PradeshD K Srivastava , S K Sanyal , C Bhujanga Rao , Pinaki Chakraborty
8. S L Shetty-Reviving the Economy 28-07-2001 [PERSPECTIVES]Issue: VOL 36 No. 30 July 28 - August 03, 2001
9. The Economic Survey for FY12
10. V S Vyas--25-12-2004 [REVIEW OF AGRICULTURE]Issue : VOL 39 No. 52 December 25 - December 31, 2004

CHALLENGES AFFECTING ORGANISED RETAILING IN INDIA

MANOJ KUMAR SINGH
ASST. PROFESSOR
L. N. MISHRA COLLEGE OF BUSINESS MANAGEMENT
MUZAFFARPUR

ABSTRACT

The Indian retail industry has been thrown open to foreign majors and is packed with players who strive to offer great products and value-for-money to Indian consumers. The country holds a vast promise for retailers with its burgeoning spending power and a rising middle class. The US$ 500 billion Indian retail market, growing at an annual rate of about 20 per cent, is largely dominated by small shops and 'kirana' stores as of now. The organized retail segment is in its nascent stage and has a huge potential to harness in the sub-continent. Foreign giants like Wal-Mart and IKEA have recently received the Government's nod to enter into the Indian market, after making all the necessary compliances. This research paper provides the current status of the retail sector in India and the detailed information about the challenges faced by the retail sector in India. The paper includes the opportunities of retail stores, retail format in India and the recent trends in retail. This paper surveys the managers to understand the challenges impacting the retail sector. It concludes with providing the detailed opportunities available for the retail sector.

KEYWORDS
Retail Sector, Challenges, Opportunities, Emerging Trends, Retail Formats.

INTRODUCTION

The Indian retail market is mainly dominated by the unorganized sector. The Organized segment accounts for 8 per cent of the total retail landscape, according to a study by Booz & Co and Retailers Association of India (RAI).

The Indian retail industry has expanded by 10.6 per cent between 2010 and 2012 and is expected to increase to US$ 750-850 billion by 2015, according to the report by Deloitte. Food and Grocery is the largest category within the retail sector with 60 per cent share followed by the Apparel and Mobile segment.

The recent wave of reforms by the Government to Foreign Direct Investment (FDI) in various sectors is bringing a new zeal to the investment climate in India. One of the most debated reforms is the policy for allowing 51 per cent FDI in Multi-brand retail. The foreign direct investment (FDI) inflows in single-brand retail trading during April 2000 to December 2012 stood at US$ 95.36 million, as per the data released by Department of Industrial Policy and Promotion (DIPP).

IMPORTANT DRIVERS FOR RETAIL INDUSTRY IN INDIA

1. **RAPID INCOME G ROWTH**: consumers have a greater ability to spend.
2. **INCREASING URBANIZATION**: larger urban population that value convenience, coupled with the higher propensity of the urban consumers to spend.
3. **GROWING YOUNG POPULATION**: growth of the post-liberalization maturing population, with the attitude and willingness to spend.
4. **SPEND NOW VS. SAVE EARLIER**: consumers are willing to borrow for present consumption, which has resulted in the emergence of big retail chains in most metros; mini metros and towns.

RETAIL FORMATS IN INDIA

1. **HYPER MARTS/SUPERMARKETS**: large self-servicing outlets offering products from a variety of categories.
2. **MOM-AND-POP STORES**: they are family owned business catering to small sections; they are individually handled retail outlets and have a personal touch.
3. **DEPARTMENTAL STORES**: are general retail merchandisers offering quality products and services.
4. **CONVENIENCE STORES**: are located in residential areas with slightly higher prices goods due to the convenience offered.
5. **SHOPPING MALLS**: the biggest form of retail in India, malls offers customers a mix of all types of products and services including entertainment and food under a single roof.
6. **E-TRAILERS**: are retailers providing online buying and selling of products and services.
7. **DISCOUNT STORES**: these are factory outlets that give discount on the MRP.
8. **VENDING**: it is a relatively new entry, in the retail sector. Here beverages, snacks and other small items can be bought via vending machines.
9. **CATEGORY KILLERS:** small specialty stores that offer a variety of categories. They are known as category killers as they focus on specific categories, such as electronics and sporting goods. This is also known as Multi Brand Outlets or MBO's.
10. **SPECIALTY STORES:** are retail chains dealing in specific categories and provide deep assortment. Mumbai's Crossword Book Store and RPG's Music World are a couple of examples.

EXPECTED FUTURE TRENDS IN THE RETAIL SEGMENT IN INDIA

- **FDI IN SPECIALTY STORES:** Multi-brand organized retail in specialty stores such as Consumer Electronics, Footwear, Furniture and Furnishing etc. are expected to expand and mature in the next few years. However the policy condition on sourcing will continue to be a major bottleneck for FDI in many of these segments.
- **DOMINANCE OF UNORGANIZED RETAIL:** Flexible credit options and convenient shopping locations will help traditional retail to continue its dominance in the retail sector.
- **GROWTH IN SMALL CITIES AND TOWNS:** Stiff competition and saturation of urban markets is expected to drive domestic retail players to tap the potential in small cities.

BENEFITS OF ORGANIZED RETAIL INDUSTRY

1. **UNIQUE FEATURE OF THE STORE:** Organized retail provides brands much needed visibility and platform for customer interaction. It also helps in launching of new product or product variant and in market penetration. It has wider product range and more frequent, speedier deliveries.
2. **ENHANCE SHOPPING EXPERIENCE FOR CONSUMERS:** Attractive display of the products which wills stimulate customers to buy. Organized retail stores put stress on proper infrastructure like well maintained building, air conditioning, trained employees, electronic machine, parking facilities and proper display of goods category wise. Here customers feel comfort, joy and entertainment. Purchasing becomes joy for him. Self-selection saves time and gives more opportunities and satisfaction. Fix cost removes the threat of misleading. They avail various discounts and promotional schemes presented by the manufacturers. They also get product of different varieties and of proper quality.
3. **PROMOTION:** Increase in the number of retail outlets increases competition among these retailers. To attract customers they give various promotional schemes as various discounts, buy one get one free, another product with any particular product, festival special, etc.

4. **BACKWARD INTEGRATION:** The retail marketers directly purchase from farmers and reducing middlemen, thus provide proper cost to farmers and also set proper price for consumers. They also make contract with farmers to get proper amount of crops and vegetables.

5. **CREATING POSITIVE SOCIAL CHANGE:** Retailing leads to improvement in local infrastructure by providing adequate parking facilities, ATM, a safe and secure environment which encourages the setting up of 24 hrs. Convenience stores, a hygienic ambience to the consumer's etc. This is enabling positive social change in the industry.

6. **RISING EMERGING MARKET DEMAND AND RISE OF GLOBAL MIDDLE CLASS:** The size of the global middle class is expected to triple between now and 2030. Yet 29% of retail sector respondents to our global survey reported that their efforts to enter these markets had yet to produce any positive results.

7. **NEW MARKETING CHANNELS AND SOCIAL MEDIA:** Across the world, the number of people with regular access to the internet has increased dramatically. Social media advertising will surely add value.

8. **COMPETITIVE DIFFERENTIATION VIA CSR AND GREEN BRANDING:** The global financial crisis, instead of shifting focus away from corporate social responsibility (CSR), seems to have made it more of a priority. Almost three in four companies in the retail sector consider CSR "as a must."

9. **MULTICHANNEL APPROACH:** The growth of e-commerce and m-commerce, and recent rapid shifts in consumer behavior, has increased the benefits for retailers that can stay in touch with consumers through multiple channels.

10. **DEMOGRAPHIC CHANGE:** Demographic changes - aging and migration, for example - are leading to rapid growth in specific market segments. Individuals in developed countries are increasingly seeking to deny the aging process.

11. **PRIVATE LABEL:** The recent recession has increased the sales of private label goods, and many consumers report they will remain loyal to these brands. Retailers have embraced this opportunity by introducing tiered brands for different income brackets and shopper needs.

12. **LAUNCHING NEW PRODUCTS AND SERVICES:** Consumer behavior is changing, and constant innovation of products and services from retailers is required as a result.

13. **GLOBAL URBANIZATION**: As one panelist said, "The world's population is undergoing a historic shift from rural to urban." Higher consumer incomes and increased customer concentration will present considerable opportunities for the retail sector.

14. **COMPETITIVE DIFFERENTIATION VIA LOCAL BRANDING**: There are significant benefits to local sourcing of products; they are often healthier, fresher and more environmentally friendly.

15. **ENHANCING EFFICIENCY IN THE SUPPLY CHAIN**: The supply chain presents a significant opportunity for retailers to reduce inefficiencies and compete on cost, which is increasingly crucial as companies in low-growth consumer markets battle for market share.

CHALLENGES FACED BY THE ORGANIZED RETAIL INDUSTRY

1. **INTERNATIONAL STANDARDS:** Even though India has well over 5 million retail outlets of different sizes and styles, it still has a long way to go before it can truly have a retail industry at par with International standards. This is where Indian companies and International brands have a huge role to play.

2. **INEFFICIENT SUPPLY CHAIN MANAGEMENT**: Indian retailing is still dominated by the unorganized sector and there is still a lack of efficient supply chain management. India must concentrate on improving the supply chain management, which in turn would bring down inventory cost, which can then be passed on to the consumer in the form of low pricing.

3. **LACK OF RETAIL SPACE**: Most of the retail outlets in India have outlets that are less than 500 square feet in area. This is very small by International Standards.

4. **CULTURAL DISPARITY**: India's huge size and socio economic and cultural diversity means there is no established model or consumption pattern throughout the country. Manufacturers and retailers will have to devise strategies for different sectors and segments which by itself would be challenging.

5. **ESCALATING REAL ESTATE PRICES**: The enormous growth of the retail industry has created a huge demand for real estate. Property developers are creating retail real estate at an aggressive pace. With over 1,000 hypermarkets and 3,000 supermarkets projected to come up by 2011, India will need additional retail space of 700,000,000 sq ft (65,000,000 m2) as compared to today.

6. **HUMAN RESOURCE PROBLEMS**: Trained manpower shortage is a challenge facing the organized retail sector in India. The Indian retailers have difficultly in finding trained person and also have to pay more in order to retain them. This again brings down the Indian retailers profit levels.

7. **FRAUDS IN RETAIL:** It is one of the primary challenges the companies would have to face. Frauds, including vendor frauds, thefts, shoplifting and inaccuracy in supervision and administration are the challenges that are difficult to handle. This is so even after the use of security techniques, such as CCTVs and POS systems. As the size of the sector would increase, this would increase the number of thefts, frauds and discrepancies in the system.

8. **INFRASTRUCTURE AND LOGISTICS:** The lack of proper infrastructure and distribution channels in the country results in inefficient processes. This is a major hindrance for retailers as a non-efficient distribution channel is very difficult to handle and can result in huge losses. Infrastructure does not have a strong base in India. Urbanization and globalization are compelling companies to develop infrastructure facilities. Transportation, including railway systems, has to be more efficient. Highways have to meet global standards. Airport capacities and power supply have to be enhanced. Warehouse facilities and timely distribution are other areas of challenge. To fully utilize India's potential in retail sector, these major obstacles have to be removed.

9. **COMPLEXITY IN TAX STRUCTURE**: The sales tax rates vary from state to state, while organized players have to face a multiple point control and system there is considerable sales tax evasion by small stores. In many locations, retailers have to face a multi point octroi with the introduction of value Added Tax (VAT) in 2005, certain anomalies in the existing sales tax system causing disruption in the supply chain are likely to get corrected over a period of time.

10. **CURRENCY FLUCTUATION:** In the past three months, the dollar/INR exchange rate has fluctuated by approx. 8 per cent. This may put considerable currency risk on any foreign investment in India.

11. **RED TAPE**: Getting various government approvals: Entry of a multi-brand MNC retailer in the retail sector would fall under the approval route. This implies that the MNC retailer would have to go through different layers of Government departments before getting the go ahead.

12. **POLITICAL RISK**: The largest opposition party in India has opposed FDI in retail and some of its leaders have indicated that they will scrap the policy if their party comes to power. A political change in state and central governments puts a lot of political risk on investment in retail.

CONCLUSION

The overall Indian retail sector is expected to grow 9 per cent in 2012-16, with organized retail growing at 24 per cent or three times the pace of traditional retail (which is expected to expand at 8 per cent), according to the report by Booz & Co and RAI. Deloitte also seconds this forecast and expects that organized retail, which constitutes eight per cent of the total retail market, will gain a higher share in the growing pie of the retail market in India. Various estimates put the share of organized retail as 20 per cent by 2020.

There is ample growth for retail sector though some tough challenges exist. Retail can overcome these challenges by grabbing the opportunities available.

REFERENCES

1. Anoop Pandey & Sanjay Manocha (2012), "Organized Retailing In India – Challenges And Opportunities" Vsrd-Ijbmr, Vol. 2 (3), 2012, 65-80.
2. Deepika Jhamb (2011), "Organized Retail in India - Drivers Facilitator and Swot Analysis", Asian Journal Of Management And Research Volume 2 Issue 1, 2011, Pg 264-273.
3. Deepika Jhamb And Ravi Kiran (2012) "Emerging Trends Of Organized Retailing In India: A Shared Vision Of Consumers And Retailers Perspective", Middle-East Journal Of Scientific Research 11 (4): 481-490, 2012.
4. Dr. Shahid Akhter, Iftekhar Equbal (Feb 2012), Organized Retailing In India – Challenges And Opportunities, International Journal Of Multidisciplinary Research Vol.2 Issue 1.
5. Dutt, D.2004, 'An Outlook For Retailing In India, Vision2005' (From a Presentation By Ksa Technopak At Mdi Gurgaon In January And February).

6.   "Indian Retail Market – Opening More Door" – A Report By Deolitte – January 2013.
7.   Sunita Sikri & Ms. Dipti Wadhwa (2012) "Growth And Challenges Of Retail Industry In India: An Analysis", Asia Pacific Journal Of Marketing And Management Review Vol.1 Issue 1.

WEBSITES
8.   Http://www.Ey.Com/Gl/En/Industries/Consumer-Products/Turn-Risk-And-Opportunities-Into-Results--Retail-Sector---The-Top-10-Opportunities.
9.   Http://www.Ibef.Org/Industry/Retail-India.Aspx
10. Http://www.Indianmba.Com
11. Http://www.Indiaretailing.Com

DECADAL ANALYSIS OF EFFECT OF LITERACY RATE ON CHILD LABOUR IN CONTEXT TO INDIAN U.T.'s

RITU PRIYA
ASST. PROFESSOR
GURU NANAK KHALSA COLLEGE FOR WOMEN
LUDHIANA

ABSTRACT
Child labour in India is increasing day by day. Child labour means use of children (5 to 14 years of age) in factories, farms and mines. And we are very well aware of this fact that child labour is social problem. Child labour is work that harms children or deprives them from attending school. Today, around 215 million children are employed throughout the world. Official figures of India, alone, indicate that there are over 12 million child laborers in the country, though many NGOs estimate that the more accurate figure is a staggering 60 million children. So the present research paper will help us in creating awareness among public and will educate them regarding children's rights by applying statistical tool. In this paper we will correlate the growth rate of child labour with the growth rate of literacy rate of Indian U.T.'s. And this paper will help us to know that whether the literacy rate of India help to solve the problem of child labour or not.

KEYWORDS
Child Labour, Growth Rate, Literacy Rate, Union Territories.

INTRODUCTION AND MEANING OF CHILD LABOUR
Children do not constitute anyone's property: they are neither the property of their parents nor even of society. They belong only to their own future freedom."

Mikhail Bakunin

Some parents are happy with the money their children gain, but it is very hard to face such children's life's pain. Education is the birth right of every child. Child labor is work that harms children or deprives them from attending school. Around the world and in the U. S., growing gaps between rich and poor in recent decades have forced millions of young children out of school and into work. **The International Labor Organization** estimates that 215 million children currently work under conditions that are considered illegal, hazardous, or extremely exploitative. Underage children work at all sorts of jobs around the world, usually because they and their families are extremely poor. Large numbers of children work in commercial agriculture, fishing, manufacturing, mining, and domestic service. Some children work in illicit activities like the drug trade and prostitution or other traumatic activities such as serving as soldiers.

LITERATURE REVIEW
Rivera-Batiz (1985) proved empirically that there is a negative correlation between child labor and hours dedicated to schooling.
Lloyd (1993) suggests that larger household size reduces children's educational participation and progress in school, and reduces parents' investment in schooling. Both factors make it likely that larger household size increases the probability that a child will work.
Shreeniwas (1993) says that the degrees to which boys or girls, or all children equally, are affected by household size is very much a cultural factor. In Malaysia, e.g., Chinese girls appear disadvantaged in larger households but their brothers are not.
Basu (1993) argues that in India, families from urban slums in Tamil Nadu discriminate in order to provide a few children, mainly boys, with "quality" private education; where mothers enter the labor force, it is girls who must stay at home. Families from Uttar Pradesh try to provide all children equally with less expensive public education.
Bonnet (1993) argues that the failure of the education system in Africa has led many parents to view child labor as the preferred option for their children.

OBJECTIVES OF THE STUDY
1. To study the decadal growth in child labour and literacy rate with main emphasis on Indian U.T.'s.
2. To make analysis and check the effect of literacy rate on child labour.
3. To suggest the relative measure for solving the inefficiency, if there is any.

RESEARCH METHODOLOGY
To explore the objective of the study, the union territories of India are taken into consideration. We are taking under consideration the factor that is literacy rate and its effect on child labour in UT's of India. Two decades are considered viz. 1991-2001 and 2001-2011.

Selected Factors	Symbols
Growth rate in literacy rate (1991-2001)	X1
Growth rate in child labour (5-14 Years) (1991-2001)	Y1
Growth rate in literacy rate (2001-2011)	X2
Growth rate in child labour (5-14 Years) (2001-2011)	Y2

Two statistical tools i.e. growth rate and Karl's Pearson correlation are used to attain results. After calculating the growth rate of two decades of both the factors, we will correlate number of child laborers with the literacy rate of Indian union territories. And then analyze that whether there is positive correlation or negative correlation between the two factors. Secondary data is taken from Census 2001 and 2011, Ministry of Labour and Employment, Office of Registrar General, India and from various Websites as mentioned in references.

ANALYSIS AND DISCUSSION OF RESULT
To analyze the result, we will first find the growth rate between the two said factors of two decades and then we will correlate the said two factors:

TABLE 1: GROWTH RATE IN LITERACY RATE OF TWO DECADES OF INDIAN UNION TERRITORIES (IN PERCENTAGE)

Union Territories	Literacy Rate 1991	Literacy Rate 2001	Growth Rate (X1)	Literacy Rate 2001	Literacy Rate 2011	Growth Rate (X2)
Delhi	75.29%	81.67%	8.47%	81.67%	86.21%	5.56%
Daman and Diu	71.20%	78.18%	9.80%	78.18%	87.10%	11.41%
Chandigarh	77.81%	81.94%	5.31%	81.94%	86.05%	5.02%
Andaman & Nicobar	73.02%	81.30%	11.34%	81.30%	86.63%	6.56%
Dadar and Nagar Haveli	40.71%	57.63%	41.56%	57.63%	76.24%	32.29%
Lakshadweep	81.78%	86.66%	5.97%	86.66%	91.85%	5.99%
Puducherry	74.74%	81.24%	8.70%	81.24%	85.85%	5.67%

SOURCE: Census 2001 & 2011 and Office of Registrar General, India.

GRAPH 1: SHOWING GROWTH RATE IN LITERACY RATE OF TWO DECADES (1991-2001 AND 2001-2011)
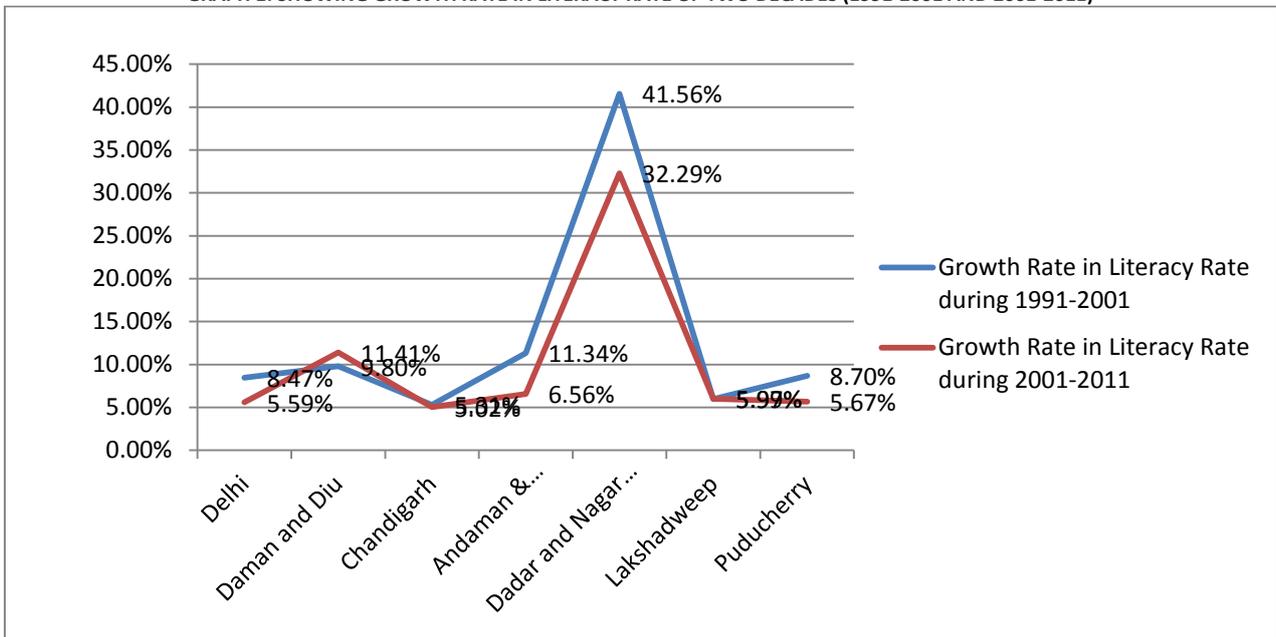
As it is cleared from the above table that literacy rate of U.T.'s of India is increasing. And overall literacy rate during 1991-2001 is increasing at a very fast pace as compare to 2001-2011 except two U.T.'s viz. Daman & Diu and Lakshadweep.

And now for further analysis, we will find out the growth rate in child labour.

TABLE 2: GROWTH RATE IN CHILD LABOUR OF TWO DECADES OF INDIAN UNION TERRITORIES (IN PERCENTAGE)

Union Territories	Child Labour 1991	Child Labour 2001	Growth Rate (Y1)	Child Labour 2001	Child Labour 2011	Growth Rate (Y2)
Delhi	27351	41899	53.19%	41899	26473	-36.82%
Daman and Diu	941	729	-22.53%	729	774	6.17%
Chandigarh	1870	3779	102.09%	3779	3135	-17.04%
Andaman & Nicobar	1265	1960	54.94%	1960	999	-49.03%
Dadar and Nagar Haveli	4416	4274	-3.22%	4274	1054	-75.34%
Lakshadweep	34	27	-20.59%	27	28	3.70%
Puducherry	2680	1904	-28.96%	1904	1421	-25.37%

Source: Census 2001 & 2011 and Ministry of Labour and Employment

GRAPH 2: SHOWING GROWTH RATE IN CHILD LABOUR OF TWO DECADES (1991-2001 AND 2001-2011)
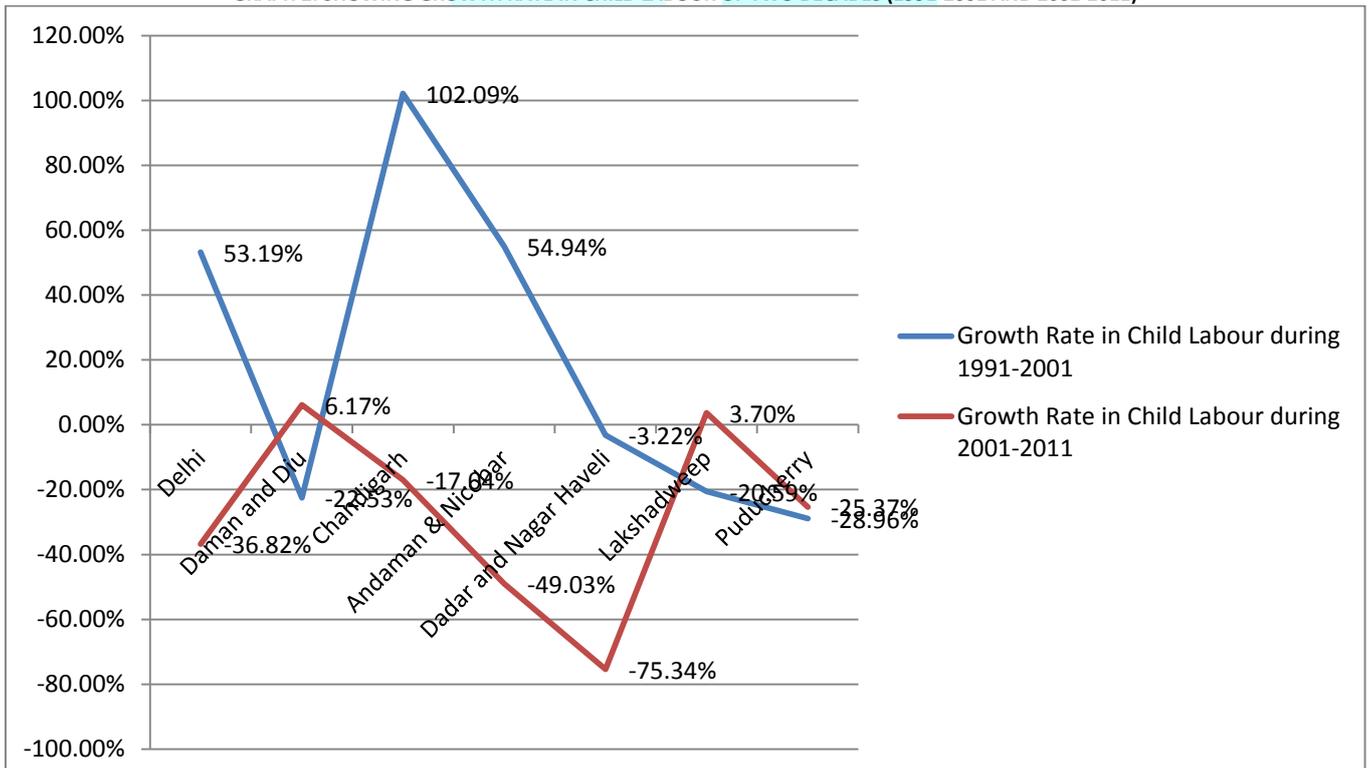
INTERPRATATION FOR THE PERIOD 1991-2001

So it is clear from the above data that during 1991-2001, there is increase in growth rate in child labour in Delhi, Chandigarh and Andaman & Nicobar, while literacy rate of these U.T.'s are increasing in that decade. Chandigarh is on number one position having growth rate of 102.09%, Andaman & Nicobar is on

number second having growth rate 54.94% followed by Delhi with a growth rate of 53.19%. This decreasing trend shows a negative impact of literacy on child labour. Means whether the people of these U.T.'s are literate still they are not aware regarding the hazards of child labour and rights of children. While growth rate of other U.T.'s are decreasing viz. Daman & Diu, Dadar & Nagar Haveli, Lakshadweep and Puducherry. Means here, with the increase in literacy rate, child labour is decreasing. Following diagram will clearly show the picture and relationship between these two factors during the period 1991-2001.

GRAPH 3: SHOWING RELATIONSHIP BETWEEN LITERACY RATE AND CHILD LABOUR DURING 1991-2001
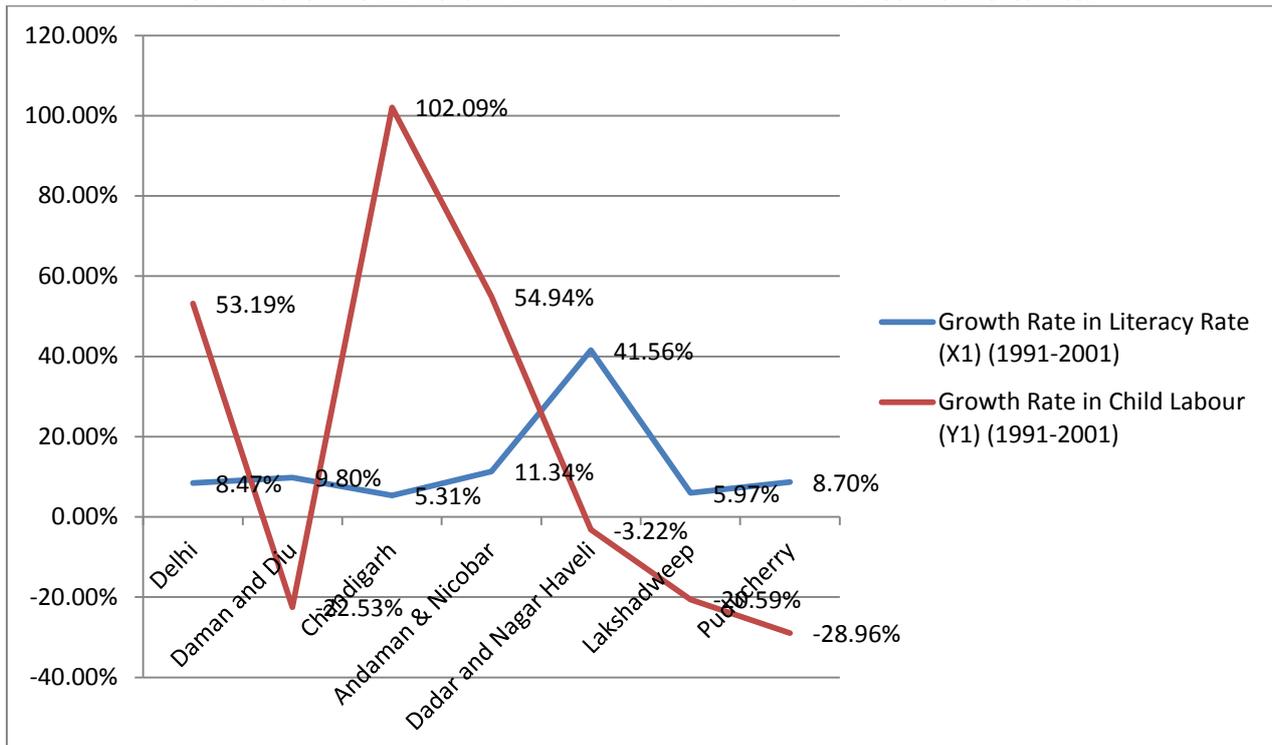
INTEPRETATION FOR THE PERIOD 2001-2011

Now as far as period of 2001-2011 is concerned, it is clear from the above data that the situation in Delhi, Andaman & Nicobar and Chandigarh is improved. In this decade child labour is decreasing with the increase in literacy rate. Means literacy of this decade brought awareness among the people of these U.T.'s. but the position of Daman & Diu and Lakshadweep is negatively effected. In last decade position of these U.T.'s is satisfactory but in this decade child labour is increasing. Dadar & Nagar Haveli and Puducherry are on same level, means decreasing growth rate and Dadar & Nagar Haveli brought a great change from -3.22% to -75.34%. Following diagram will clearly show the picture and relationship between these two factors during the period of 2001-2011.

GRAPH 4: SHOWING RELATIONSHIP BETWEEN LITERACY RATE AND CHILD LABOUR DURING 2001-2011
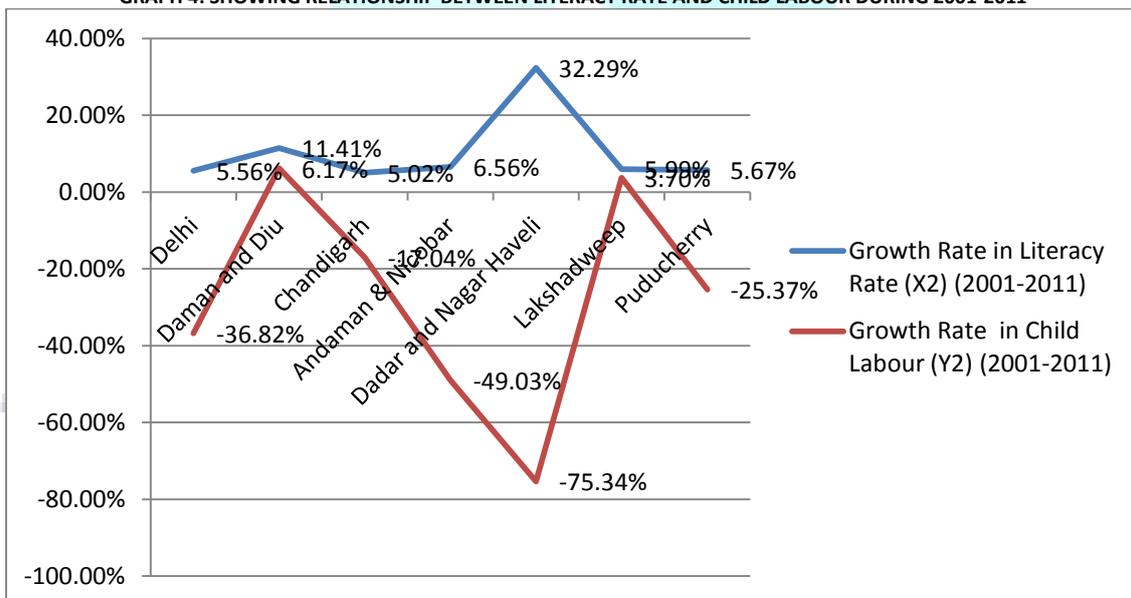
OVERALL ANAYSIS OF TWO FACTORS OF DIFFERENT DECADES WITH THE HELP OF CORRELATION

Variables	Correlation Coefficient	Degree	Description
X1Y1	-.2242	Low Degree	-ve Correlation
X2Y2	-.6309	Moderate Degree	-ve Correlation

FINDINGS

1. Here X1Y1 represents correlation between literacy rate and child labour of 1991-2001. Overall result of this tool is -.2242 means low degree negative correlation which states that with the increase in literacy rate, child labour is reducing means positive impact of literacy rate. More the people will be educated, less will be child labour.

2. And X2Y2 represents correlation between literacy rate and child labour of 2001-2011. Overall result of this tool is -.6309 means moderate degree negative correlation which again states that with the increase in literacy rate, child labour is reducing means positive impact of literacy rate in this decade also.

3. But during 2001-2011, there is a great change as difference in correlation and graph (3) & (4) shows. So overall position of Indian U.T.'s shows that education plays very important role in the development of child. More the people will be educated, less will be the exploitation of children .

4. But still there are some U.T's in which problem of child labour is prevailed.

SUGGESTIONS

Following are some suggestions which will be helpful in removing this problem:

1. Programmes should be organized by the government by arranging camps so that awareness can be created among general public regarding rights of children and hazards of child labour.

2. Government in U.T.'s should make safety laws for children.

3. Counseling sessions must be there in education and working institutions.

4. All the UTs must follow the law and order situation or other measures as adopted by Dadar & Nagar Haveli and Puducherry. Because during the decadal analysis there is –ve growth rate in child labour in both decades.

CONCLUSION

So at the end, we can conclude that education plays very important role in human life. We can learn basic things, moral values, social problems and solutions of the various problems only with the help of education. Child labour is social curse which should be removed as earliest as possible. Education is fundamental right not only for child but for everyone. We will solve this problem with the help of above recommendations but as we know that India is a developing country and near about 70% of India's population is living in a rural areas and villages. There is huge gap between rich and poor. It is easy to say that education is right of every child, but still there are so many people who can't exercise their fundamental right because of the money and lack of schools and educational facilities. Government should take some serious steps to remove this problem. It is the money and size of family which forces a child to work in factories, mines and in dangerous processes. Parents should understand the value of education. All the rules of Factories Act, 1948 should be strictly implemented regarding child labour. Defaulters should be strictly punished who force a child to work in hazardous processes.

LIMITATIONS

Only secondary data is used in this study and only union Territories are taken into consideration in order to show the overall result of India.

REFERENCES

1. Basu A.M. (1993). "Family size and child welfare in an urban slum: Some disadvantages of being poor but 'modern'." Chapter in Lloyd (ed.), 1993.
2. Bonnet M. (1993). "Child labor in Africa." *International Labor Review*, 132 (3).
3. Census 2001 and 2011.
4. Lloyd C.B. (1993). "Fertility, family size and structure - consequences for families and children."Proceedings of a Population Council Seminar, New York, 9-10 June, 1992. New York: The Population Council.
5. Rivera-Batiz F.L. (1985). "Child labor patterns and legislation in relation to fertility" (mimeo).
6. Shreeniwas S. (1993). "Family size, structure, and children's education: ethnic differentials over time in Peninsular Malaysia." Chapter in Lloyd (ed.) 1993.

WEBSITES

7. www.artinstitutefor children.org/
8. www.betterworld.net/
9. www.Shoutslogan.com

ASSESSING THE IMPACT OF STORE AESTHETICS AND ADVERTISEMENT ON CONSUMER PERCEPTION TOWARDS BRANDED MEN'S ATTIRE: AN EMPIRICAL INVESTIGATION

DIPTI JAIN
ASST. PROFESSOR
CHANDERPRABHU JAIN COLLEGE OF HIGHER STUDIES AND SCHOOL OF LAW
DELHI

ABSTRACT

The spending power, willingness to spend and ability of customers has enlarged in India. The main aim of any business is to attract new customers and retain the existing customers. Keeping this in mind, businessmen have come up with the organized retail outlets and effective advertisements to attract new customers and to satisfy the needs of the existing customers in order to retain them. A well designed advertisement and properly maintained store not only increase store foot traffic, but also promotes the sale and maintains the brand identity. The present study contains the analysis and discussions in order to understand the customer perception regarded branded men's wear based on store aesthetics and advertisement effect. The survey was conducted on the basis of convenient sampling. The study will also reveal which brand is more preferred over others those are Levis, U.S.Polo Assn, Van Heusen, Puma and Addidas. The findings from this study were analyzed using factor analysis. The population of this research consisted of shoppers from Delhi. The sample of the study comprised of 200 shoppers. Respondents belonged to different age groups, income groups and occupations. A pre – structured questionnaire was used with a 5 point Likert rating scale to the consumers visiting apparel stores and a large number of respondents were also contacted in their houses, offices and colleges. The empirical results revealed that instead garments shop consumer prefers multi branded outlets and exclusive outlets. Therefore, brand preference should be created through effective advertisements. The results also revealed that product display in the store and theme of advertisement should be according to the offerings as men like formal, sporty, trendy and casual look.

KEYWORDS

consumer perception, brand, store aesthetics, advertisement.

INTRODUCTION

Brands have become so important in our life that we have started eating, walking, sleeping and living in the world of brands. Brands are nothing but the names, symbols that differentiate one product from the others in the market place but brands are not confined to the names only, but brands offer a kind of promise about the quality, attributes, functional and emotional benefits.
Brand is a trademark or distinctive name identifying a product or a manufacturer. It is a product line so identified. A distinctive category and a mark indicating identity or ownership.(Keller and Kelvin, 2003)

BRANDING PROCESS

Branding is one of the most important issues for the business if it wants to face competition successfully. Branding helps customers recall your brand over your competitors. Effective branding will create the kind of company loyalty that leaves the competition out of the mind of the prospects. The process of branding is fivefold:

FIGURE 1
BRANDING

| Attributes (Characteristics) And Benefits (use) | Values | Culture | Personality | User |
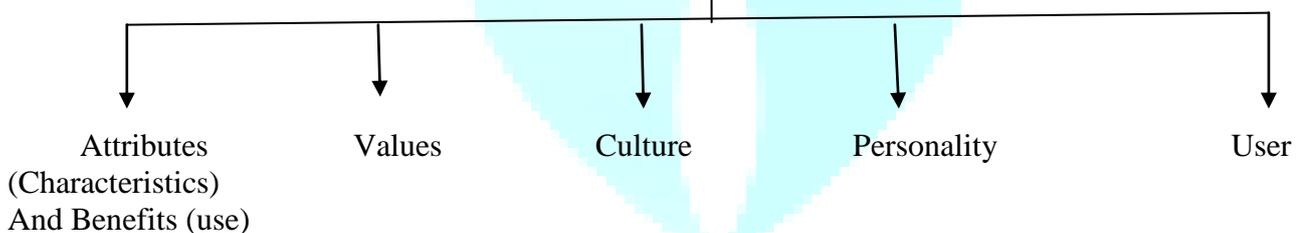
CONSUMER PERCEPTION

Perception means the adaptation of reality. The process of selection is the processing and the interpretation of input data from the environment to make the m purposeful logical and coherent for finally arriving at intangible decisions. Perception has a strategy implication for marketer because consumer buying decision process depends on consumers' perception based on what they have interpreted rather than the physical stimuli (reality).

FACTORS INFLUENCING CUSTOMER ATTITUDE TOWARDS BRANDS

BRAND AWARENESS: This refers to the ability of the potential buyer to recall or recognize that a brand is a member of particular product category.
Price: Price charged by the company also affects consumer attachments to brand.
Perceived quality: Customers perception of high quality is a desired association that all firms seek in the market place. The customers may have a positive image towards quality if the price is low in relation to quality. A good quality image brand can command a premium for its product which adds to the profitability of the company.
Brand association: brand begins with a name, but it is more than just a name. It is a portfolio of the quality associated with the brand. It can be formed on the basis of color, symbol, logo, advertisement, worth of mouth, celebrity etc.

INDIAN APPAREL MARKET

According to report submitted by Wazir," The Indian apparel industry is estimated to grow at CAGR of 15% over the next five years. The consumer spends 4 percent of its total household expenditure on apparel**.**
The Indian apparel market helps in the generation of employment and foreign reserves. India is the sixth largest exporter of readymade garments in the world with apparel worth 9.7 billion dollars exported from the country in 2007-2008.The Indian retail market is expected to US$ 470 bn in 2011, accounting for 35% of GDP and is expected to grow to US$ 675 bn by 2015, @ CAGR of 7.5% and will be expected to reach to us$ 124 billion by 2020, @ CAGR of 13%.

FIGURE 2

Indian Domestic consumption apparel Market
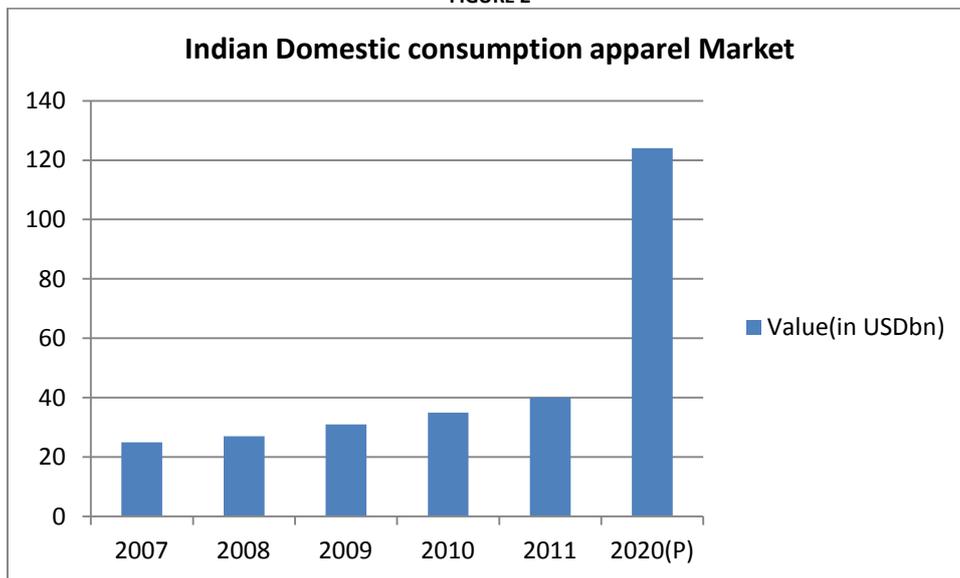
Source: Wazir Advisor

Indian cloth and apparel business is projected to grow up from the 3,27,000 crores (US$70 BN) in 2011 to Rs 10,32,00 crores (US$220 bn) by 2020. The expected CAGR is 11% domestic apparel retail market was worth RS 1, 54, 00 crores (US$ 33 bn) in 2009 anis expected to reach Rs 470000 crores (US$100 bn) by 2020.Men currently dominate the share of apparel market i.e. 40%.

TABLE 1

CATEORGY	% OF SHARE IN APPAREL	BRANDED	% OF SHARE IN APPAREL	BRANDED
MEN	40%	5	39%	18
Women	35%	4	42%	20
Kids	25%	1	19%	5
Total	100%	10	100%	43

Source: Wazir Advisors

MAJOR INFLUENCERS OF APPAREL MARKET

FIGURE 3

MENS APPAREL: The majority of the population of India is of men .A survey conducted on the respondents showed that 21.8% men are highly brand conscious, 20.9% are high, 29.2% are moderate, 19% are somewhat low and 9.3% are very low. The figure reveals people of our country are aware about the brands and demand for brands are high in our country.

Men's clothing includes:
- Shirts
- T-shirts
- Trousers
- Jeans
- Pullovers
- Jackets

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT ‎ 40

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

http://ijrcm.org.in/

- Jeans
- Socks
- Vests
- Underwear

MAJOR RETAILERS IN THE MARKET
VAN-HUESEN
US POLO ASSN
PUMA
UNITED COLOR OF BENETTON
LEVIS

ONLINE MENS APPAREL INDIAN MARKET
The Men of this era are fashionable. Men's wear consists of Indian, Western, Casual, Formal etc that caters to variant occasions and moods. Apparel online retail market is growing substantially. Currently, the online apparel retail share in India is 4%and it is expected to grow at 37% CAGR by 2020.The online websites offering men's clothing is as follows**:**

- Amazon.com
- Flipkart.com
- Myntra.com
- Jabong.com
- Yebhi.com
- Homeindia.com
- Mapvclothing.com

TABLE 2

Indian	Year of establishment	Reach (in Mn)	Penetration (cities)	Range (brands)	Revenues (inUSD Mn)
Myntra.com	2007	3	1200	350	100
Yepme.com	2011	0.5	500	-	30
Jabong.com	2012	1.5	500	500	150
Yebhi.com	2004	1.2	1100	150	20

Source: Wazir Advisors

LITERATURE REVIEW
STORE AESTHETICS & VARIABLES
According to Richardson et al. 1996; "making an investment in store aesthetics provides a big" bang for the bung" because the effect is holistic and not product specific. Research has revealed that an aesthetically pleasing store has a significant effect on the purchase intention of the consumers. (Wang, Hong &Lou (2010) According to Sirgy et. Al 2000 revealed if the store is correctly located, it can lead to higher footfall and higher chances of converting potential customer into actual customers.According to Berman & Evas, 2013," parking facilities can add or deattract customers from the store atmosphere. A difficult or congested parking area dissuades shoppers from shopping.According to Berman & Evas, 2013,"display window are included in the store beautification. Display windows shows the new product available in the store and its main aim is to induce the potential customers to enter the store by catching their attention through the products displayed in the windows. Research has found increase in purchase intention and sales in store with a display window, especially with new products (Edwards & Shakley, 1992).
According to Lewison, 1997,"a well designed store layout encourages shoppers to visit stores regularly and creates a shopping atmosphere that contributes towards shopping efficiency.According to Aalpert& Maltz 2005." Music played in the store can have a influence on the act of consumer like sales, arousal of intention to purchase. According to Sharma &Stafford, 2000," the salesmen hire by the store and the customer service provided by the store has a persuading effect on the customers and their purchase intention.
STORE AESTHETICS AND PURCHASE INTENTION
The previous studies have proven that the consumer perception is influenced by the store aesthetics. The retailers design store environment in a manner that will enhance customers' positive feelings which will result in higher willingness to purchase (Mano, 1999).
The physical atmosphere of the store create consistent purchase behavior by operational arousal and pleasure to purchase (Babin &Attaway,2000).it has been found that the purchase intention of a customer depends upon two things- the thoughts of the customer and the atmosphere of the store.(Sharma & Staaford, 2000)
According to Gillani, 2012, "elements like colors, layout, product display catch attention of the consumer and deliver certain stimuli, and helps in communicating to customers about their importance in the store.
According to Gogoi, 2013,"Purchase intention would lead to development of brand loyalty by local customers"
Ritu Narang (2006) in a study entitled "A Study on Branded Men's wear", conducted in Lucknow with an intent to find the buying behavior of consumers of branded men's wear.
The aim of this study are to learn the buying behavior of the consumers of branded men's wear, to study the affect of advertising on the buying judgment of consumers, to study the affect of promotional actions on buying behavior of consumers (Kazmi, 2001; Mathur, 2002). The research type was exploratory as it was conducted to develop a concept about the purchasing behavior of buyers of branded men's garments and the impact of advertising on their buying decision. The conclusion of the study was that the majority of times consumers go to the outlets of famous branded garments with the aim of shopping , according to Jaishri & Jethwaney, 1999.
The purchasing of branded outfits is not impetuous. Though, in contrast to women, male buyers go to the showroom to while away the time;The count of people going to visit an outlet with a brand name in the back of their mind are similar to the count of people going to visit an outlet with no brand name in the back of their mind.Advertising has maximum impact in creating brand awareness (Kamalaveni, 2008).
Jayashree (1998) says "In subject to textiles, the purchaser have a preference for a ample range of fabrics to select them, and their predilection vary according to the period, weather and geographical areas Consumer taste is a controlling factor in determining the character of goods that appears in the market. A ratiocinative approach to garments wants and costs makes the consumer more effectively take part in full market economy".
Buyers buying behavior acts as an important reason in understanding buyers behavior and is a primary market segmentation indicator for companies to meet up their customers' desires and wants; marketers should make every effort to identify the sex distiction in decision-making design. Research concentrating on the subject of masculinity distinction in decision-making designs could facilitate marketers to find improved ways of conversing with both genders and to direct marketing mix decisions (Mitchell and Walsh, 2004). Marketing researcher argue that sex based segmentation, particularly if it is based on genetic sex, meet up a number of the necessities for winning execution: the division were simple to formulate, effortless mode to access, and adequate for the consumer products and services to be marketed profitably 3&4. Numerous studies in the past have provided considerable evidence that gender relates to buyers insight, mind-set, fondnessand purchase decisions (Bakewell and Mitchell 2006; Sproles and Kendall, 1986; Canabal, 2001).

Celebrity endorsement: according to Mcaleer,2010,"celebrity endorsement although being an expensive process but is used commonly by the marketers as a strategic tool as tit will be helpful for the companies in drawing out many benefits like instant credibility, instant attention, media exposure, super market presence, improved financial returns and also helpful in differentiating the company product from that of competitors, thereby, creating brand awareness and influencing the consumer intention to purchase in a positive manner(Karina, p.r, 2008).

According to Au-Yeung Pui yi, Priscilla, 2012, Hongkong, "consumers are not ready to pay higher charges for the branded products endorsed by the celibrities. Celebrities' endorsement can create only awareness and can gain attention of the consumers.

According to Richards and Sturman (1977); apparel market is affected by lifestyle segmentation. It is difficult to predict consumers' acceptance towards alternative fashion, style and materials.

Prasad and chandershekar (1998) revealed that brands are created and fought in consumer mind through effective communication. The key attributes like reputation, recognition, affinity and expertise determine brand power. Guerrero, L.et al. (2000);" most consumers believe that store brands are trustworthy, diverse from the brands of the producer and are excellent worth for resources. The quality perception depends on the store and when the cost is identical. According to goswami (2007)," apparel reaches the consumers through retailing and the Indian apparel industry and the steady increase in consumer spend examine the apparel orientation of the urban Indian shoppers by way of segmentation.

OBJECTIVES
1. To identify the factors which can create the brand loyalty in case of mens apparel
2. To find out the impact of advertisement for branded clothing
3. To study which brand is preferred among the given brand by the male consumer
4. To find out the most preferred elements of the store aesthetics by male shoppers.

HYPOTHESIS
- **H01**: Consumers' perception towards branded men's attire is dependent on store aesthetics.
- **H11**: Consumers' perception towards branded men's attire is independent of store aesthetics.
- **HO2**: Consumers' perception towards branded men's attire is dependent on advertising
- **H12**: Consumers' perception towards branded attire is independent of advertising.

RESEARCH METHODOLOGY
SAMPLE SIZE
200
DATA SOURCE
Both primary and secondary sources of data have been used and survey questionnaire was designed for primary data collection .To strengthen the results, secondary data sources such as websites of companies, publications, blogs etc.
DEVELOPMENT OF SURVEY QUESTIONNAIRE
A questionnaire was segmented into five section .Each section has 5 different questions (table 1) using five points Likert scale (table 2). Detailed attention was laid on drafting statement to keep it simple and short, positively phrased and neutral to avoid any bias.

TABLE 3: QUESTIONNAIRE STRUCTURE

Section	Section name	No of questions	Scale used
A	STORE FEATURES	6	LIKERT
B	RELIABILITY AND CONVENIENCE	5	LIKERT
C	PRICE AND VARIETY	3	LIKERT
D	ADVERTISEMENT EFFECTS	4	LIKERT
E	BRAND PERFORMANCE AND EQUITY	6	LIKERT

TABLE 4: NUMERICAL CODE FOR QUESTIONS

Scale	Strongly agree	Agree	Neutral	Disagree	Strongly disagree
Numerical code	5	4	3	2	1

RESEARCH METHODOLOGY
The study employed factor analysis, KMO and Bartlett's test of sphericity and Croanbach's Alpha test for data analysis using SPSS 17 Statistical software. Two factors- store aesthetics and advertising effect were taken for the study. The variables - store aesthetics and advertising effect were taken as the independent variables,, whereas consumer perception towards brands was taken as the dependent variable. The retail store chosen for the survey was leading apparel branded store in Delhi. 250 respondents who visited the store were asked to participate in the study as respondents.

Factor analysis using SPSS for windows was conducted in order to assess the impact of advertising and store aesthetics on consumer perception towards branded Men's attire. KMO and Barlett test of Sphericity method is employed to calculate the correlation matrix between factors, before employing factor analysis .Kaiser(1974) recommended that to accept the KMO values of >0.5 , a researcher should ensure the generation of reliable factors. Further, Bartlett's Test of sphericity exhibited significance value of less than 0.05(.000), thereby ensuring the appropriateness of factor analysis for this research work. The obtained factors were rotated to get a factor solution and extracted factors were then tested for reliability using Cronbach's Alpha.. The method of Varimax rotation had been applied to achieve factor rotation. If the total explained cumulative% variance of rotated factor is above 60% (0.6) means rotated factors were selected and if it is 50%(0.5) , can be selected . According to table 4, five factors were extracted, whose Eigen value is above 1. The total variance explained of the 5 factors extracted is 58.338 which is above 0.5 which shows that the results are acceptable. After applying Varimax rotation, there are two criteria to reject the variable. If coefficient on all factors is less than 0.4 or more than 0.4 on at least two factors meanwhile. According to result, no variable should be omitted based on the criterion.

RESULTS AND DISCUSSION
As already described, a questionnaire was focused to assess the impact of store aesthetics and advertising effect on branded men's attire under 5 broad heads namely, store features, reliability and convenience, price and variety, advertisement effect and brand performance and equity.

TABLE 5: RESPONDENDENTS DEMOGRAPHICS

Variable	Category	Frequency	%
Gender	Male	200	100%
Age	18-29	120	60%
	30-41	63	31.5%
	41-50	17	8.5%
Marital status	Married	67	33.5%
	Unmarried	133	66.5%
Occupation	Private employee	47	23.5%
	Govt. employee	5	2.5%
	Self employed	46	23%
	Student	102	51%
Income	No income but pocket money	90	45%
	]less than 2 lacs	4	2%
	2 lacs-5 lacs	67	33.5%
	5 lacs and above	39	19.5%

Source: Primary data

For drawing the demographics of respondents, content analysis was conducted to strengthen the results, 100% of respondents were male. The minimum age of the respondents was 18 years. The respondents were classified into different age group ,majority of the respondents belonged to 18-29 years i.e. 60% followed by the respondents in the age group of 35-45 years(8.5%).the minimum percentage of the respondents were above the age of 50 years. . A majority of respondents (51%) were student and 45% of the respondents had no income, but received pocket money.

RESULTS FROM FACTOR ANALYSIS

TABLE 6: KMO AND BARTLETT'S TEST

Kaiser-Meyer-Olkin Measure of Sampling Adequacy	.672
Bartlett's Test of Sphericity Approx. Chi-Square	382.87
Df	210
Sig.	.000

TABLE 7: TOTAL VARIANCE EXPLAINED

Rotation of sum of squared loadings			
Component	Total	% of variance	Cumulative%
1	3.256	15.371	15.371
2	1.941	9.265	24.636
3	2.205	10.501	35.137
4	2.91	13.856	48.993
5	1.872	9.345	58.338

TABLE 8: ROTATED COMPONENT MATRIX

Section	Variable	1	2	3	4	5
A	Store aesthetics	.709				
	Display window	.845				
	Trial rooms	.827				
	Music played	.667				
	Location	.675				
	Dressing and quality of Sales personnel	.517				
	Store layout	.646				
B	Reliability and convenience					
	Proximity		.783			
	Parking facilities		.505			
	After sales services		.534			
	No false claims in advertisement		.654			
	Credit card facility		.765			
C	Advertisement effect					
	Image, language &music used in advertisements			.589		
	Celebrity endorsement			.745		
	Audible			.697		
	Air timings perfect			.786		
D	Price and variety					
	Variety in price range				.778	
	Discounts/ offers				.897	
	Product range				.734	
E	Brand performance and equity					
	Easy to identify from competitors					.569
	Good quality producers					.665
	Build public image					.623
	Brand associates with image					.567
	Reputation of the company					.776
	Trustworthiness of brand					.654

TABLE 9: CRONBACH ALPHA VALUE

Factor	Description	Alpha value
A	STORE FEATURES	0.8753
B	RELIABILITY AND CONVENIENCE	0.6901
C	PRICE AND VARIETY	0.5276
D	ADVERTISEMENT EFFECTS	0.6596`
E	BRAND PERFORMANCE AND EQUITY	0.771

As seen from the results (table-4), the KMO MEASURE OF sampling adequacy score is .672, well above the recommended 0.5 level. Kaiser|(1974) recommended that to accept the KMO values of >0.5 , a researcher should ensure the generation of reliable factors. Further, Bartlett's Test of Sphericity exhibited significance value of less than 0.05(.000), thereby ensuring the appropriateness of factor analysis for this research work. The coefficient of correlation for every variable was less than 0.5. the determinant of correlation matrix was 0.001, KMO value was 0.672 and Bartlett,s test significance value is 0.000 and hence acceptable to perform principal component factor. The number of factors was determined by cutoff Eigenvalue=or>1 which resulted in 5 components (table 5). The table shows the total variance explained by all the factors is 58.338, above 50%, hence study is justified. To further strengthen the results, the Cronbach Alpha value of all the variables were calculated ranging from 0.527 to 0.875which is more than 0.5and proves that variables are reliable and acceptable.

FINDINGS AND SUMMARY

- Van Heusen was the highly preferred brand out of all the brands chosen by the consumer and the Adidas was least preferred brand among the respondents of Delhi.
- Men's founded TV to be the best source to promote the branded products than radio. Therefore, the companies should promote their product or create awareness about their brand through effective advertisement.
- The respondents of Delhi prefer to buy the product from multi store or exclusive showroom than buying the product from the garment shop.
- The findings and conclusion is based on the information provided by the respondents as perception, will and experience.2

CONCLUSION

The large numbers of studies have been conducted by various research scholars and academicians nationally and across the globe, exploring the factors that may affect consumer perception towards branding men's attire. This research work is an attempt to explore the factors that may affect the perception of male consumers in Delhi towards branding. Relying on existing literature; variables were considered and offered to respondents in form of a closed ended questionnaire to mark their responses on a five point Likert scale. The collected data was analyzed with the help of statistical package for social science (SPSS17). The results revealed five important factors viz. store features, reliability and convenience, advertising effect, price and variety and brand performance and equity affecting the consumer perception in Delhi towards branding. As per the data collected and analyzed through SPSS17 it is found that mens perception towards branded clothes depends on store aesthetics and advertising and therefore, the hypothesis HO1& H02 has been accepted and the hypothesis H11 & H12 has been rejected.

LIMITATIONS OF THE STUDY

Although the objective of the study has been met, but still the current study suffers from few limitations
- Firstly, the study conducted is limited consumers of Delhi.
- Secondly, the variables chosen for the study are few in number.
- Lastly, the outcomes of the study are subject matter of general drawback of accuracy of response.

SCOPE FOR FUTURE RESEARCH WORK

The present study is based on limited number of variables which affects the consumer perception. Therefore researchers can use different variables such as loyalty and disloyalty, interior and exterior factors like external appearance, marquee, color of lighting, merchandise assortment. Further, studies can be conducted by taking into account larger areas or other states of India. Further researchers can also conduct research to examine consumers' intention to shop online with special reference to product categories and brands.

REFERENCES

1. Agarwal Riti and mehrota, ankit(2009)" understanding customer's perception and evaluation of branded vs. non branded apparels." international journal of next towards generation networks, volume-3, article no. 171, ISSN 0974-9497, issue 2/4.
2. ALPERT, m. l, Alpert, J. I, & Maltz, E. N .(2005), purchase occasion influence on the role of music in advertising, journal of business research, 58(3), 369-376.
3. Babin. B.J. & attaway, j.s (2000). Atmospheric affect as a tool for creating value and gaining share of consumer. Journal of Business Research, 49(2), 91-99, DOI:10.10.1016/S0148-2963(99)00011-9
4. Berman, B.R., & Evans, J.R, (2013_). Retail management: A strategic approach (12th Ed.). Upper Saddle River, NJ: Pearson Prentice Hall.
5. Gillani, F. (2012). Impact of peer pressure and store atmosphere on purchase intention; an empirical study on the youngsters in Pakistan. International journal of Sales and Marketing Management Research and Developmentr(IJSMMRD), 3(2), 75-86
6. Gogoi, B.J. (2013). Study of antecedents of purchase intention and its effect on brand loyalty of private level brand of apparel. International Journla of sales & marketing management research and development in marketing (pp.325-330). Chicago, IL:Amercan Marketing Associatrion
7. Goswami, promita (2007)" apparel shopping orientation of urban Indians: A study on Kolkata",Journal of marketing, volume 37, 25-33.
8. Grohmann, Bianca (2009)" gender dimension of brand personality" journal of marketing research, volume:XI, VI, pp:105-119.
9. Guerrero, L., Y. Colomer, M.D; Guardia J: Xicola and clotet (2000) " consumer attitude towards store brands".
10. Harminder sahini(2012); Indian Apparel Market : current status and future outlook"
11. Herrington, J. D.(1996).effects of music in service environments: a field study, journal of service marketing, 100, 26-41. DOI: 10.1108/08876049610114249.
12. Keller, Kelvin Lane. (2009)," strategic Brand Management"Prentice hall of India, second edition, pp-24-27
13. Lewison, D.M.(1997). Retailing (6thedition). USA: Prentice Hall International.
14. Mano, H.(1999). The influence of pre-existing negative effect on store purchase intentions. Journal of Retailing, 75(2), 149-183.
15. Richardson, P., Jain, A. K., &Dick,A.(1996). The influence of store aesthetics on evaluation of private label brands, Journal of Brand Management, 16(2),49-52.DOI:10.1080/106610429610113384.
16. Sharma, A., & Stafford, T.F. (2000).The effect of retail atmospheric on customer's perceptions of salespeople and customer persuasion: An empirical investigation, Journal of Business Research, 49(2), 183-191.DOI:10.1016/S0148-2963 (99)00004-1.
17. Sirgy, M.J., Grewal, D., & Mangleburg, T. (2000). Retail environment, self congruity, and retail patronage: an integrative model and a research agenda. Journal of Business Research, 49,127-138.

ETHICS AND VALUES IN BUSINESS ORGANISATION

SANDEEP YADAV
ASST. PROFESSOR
DEPARTMENT OF COMMERCE
DRONACHARYA GOVERNMENT COLLEGE
GURGAON

ABSTRACT

The Objective of the paper is to discuss and brief our thoughts concerning ethical concerns and values in business. The key concepts of discussed in the paper are ethics, value of morals and their application to business. Organization practicing ethical code of conduct have been a step ahead as per as society and economy is concerned. Large number of companies are undertaking ethical code of conduct and highlighting their activities for credible performance and growth.

KEYWORDS
ethics, moral, value.

1. INTRODUCTION

Ethics can be defined as the discipline dealing with moral duties and obligation, and explaining what is good or not good for others and for us. It is the study of moral decisions that are made by us in course of performance of our duties. Ethics is concerned with truth & justice, concerning a Variety of aspects like expectations of society, fair competition, public relation social responsibility and corporate behavior.

Values are defined as those things that are important or valued by someone. One of the imperatives for organizational vision is that it must be based on organizations core values. Values are the embodiments of what an organization stands for, and should be the basis for the behavior of its members. Values are what we, as a profession, judge to be right. They are more than words; they are moral ethics & professional attitudes of characters. These are not only values that should determine our character but they are ones that are central to our profession and should guide a business when it serves the nation.

2. OBJECTIVE OF THE STUDY
- To study the role of ethics in corporate environment
- To understand the link between values and ethics
- To understand the concept of leadership and organizational culture
- To discuss the code of conduct of companies and ethical issues involved in them
- To create ethical work environment
- To understand business ethics and generational differences

3. RESEARCH METHODOLOGY

Looking at the requirement of the objectives of the study the research design is of descriptive type. Available secondary data was extensively used for the study. The investigators procure the data through secondary survey. Different news articles, books and web were used for study.

4. SCOPE OF BUSINESS ETHICS

Ethics is business is simply the application of moral or ethical norms to business .The term ethics has its origin for the great word 'ethics' what means character on customer using ethical standards, a person or a group of persons or an organization regulate their behavior to distinguish believe what is right & what is wrong as perceived by others. It is not a natural scene, but creation of human mind. It is open to the influence of time, place & situation. Ethical problems and phenomena arise across all functional area of companies and at all levels within the company.

4.1 ETHICS IN COMPLIANCE
Compliance is about obeying and adhering to rules & regulation. The motivation for being compliance would be to do the right thing out of the fear of being caught rather than desire to be abiding By Law.

4.2 ETHICS IN FINANCE
The ethics issues in finance that companies and employees are confronted with include:
- Window dressing, misleading financial analysis.
- Related party transactions not at arms length.
- Bribery, kickbacks, overbilling.
- Fake reimbursements.

4.3 ETHICS IN HUMAN RESOURCES
HRM has a major role in implementing Ethics. Ethics should be a pivotal issue for HR specialists .The issue of ethics faced by HRM includes:-
- Discrimination issues- on the basis of age, gender, religion race etc.
- Sexual harassment.
- Affirmative action.
- Privacy of employees.
- Privacy of employers.

4.4 CASE OF UNETHICAL PRACTICE
A middle level executive Mr. Raman based in Delhi, opts for a 3 days training programme in Mumbai which s his home town. He also applies for a 3 day leave immediately followed by training. The leave is granted to him.

Mr. Raman reaches the training venue. On the first day register himself, takes the training kit, attends the training for two hours, befriends a dealing officer and arranges to have the presentation etc. sent to him. He does not attend the programme thereafter. Mr. Raman sends a report office training to company as he returns. His officers summon him and ask him where he was during the training. The training officers tells him that he had got in touch with the programme organizers requesting for them for a one to one meeting with Mr. Raman already present and were inform of his absence. Mr. X had to admit that he had not attended the training program. This is the case of unethical practice.

4.5 ETHICS IN MARKETING
It includes following ethical issues
- Pricing, Price fixing & price skimming.
- Manipulation of supply, exclusive dealing, tying arrangement.

- Misleading advertisement.
- Content of advertisement.

4.6 ETHICS IN PRODUCTION

This area of business ethics deals with duties of company to ensure that products and productions do not cause harm.

- It includes defective, additive (unhealthy dangerous products).
- Ethical problems arising out of new technologies for generally modified food.
- Product testing ethics.

5.   ORGANIZATION STRUCTURES AND ETHICS

Organizational culture and ethical leadership are at the core of business ethics. Each shapes and reinforces corporate value and influences employee attitudes and behaviors. In a centralized organization, decision making authority is concentrated in the hands of top level managers and little authority is delegated to lower level. In a company without a formal ethics and compliance function, the chief HR professional often serves as ethic officer and the HR department promotes ethical conduct and training.

The SHRM (society for human resource management) ethics resource centre survey report-"The ethics landscape in American business-sustaining a strong ethical work environment documents that a majority (83%) of HR professional believe that HR department is a primary source for ethic related issues. The key finding show that HR professional in general are in agreement that non management employees, supervisors and top management –

- Support them in following their organization ethics and standard
- Talk about the importance of work place ethics and doing right things in their work
- Set a good example of ethical behavior
- Are held accountable if they are found to be in violation of organization ethical standard

6.   CORPORATE CODE OF ETHICAL CONDUCT

Most companies begin the process of establishing organizational ethics program by developing code of conduct. Code of conduct is formal statements that describe what an organization expects of its employees. Such statements may take three different forms-a code of ethics, a code of conduct and a statement of values.

A code of ethics should reflect upon the upper manager's desire for compliance with the values, rules and policies that support an ethical climate. Corporate code of ethics often contains about six core values which are-

- Trust worthiness
- Respect
- Responsibility
- Fairness
- Caring
- Citizenship

6.1 DEVELOPMENT OF CORPORATE CODE

General electric and general dynamic were first companies to establish a corporate code. In most organization the top management takes the initiative for developing corporate code. The code may include the following-

- Company values
- Avoidance of conflict of interest
- Accurate and timely disclosures
- Compliance of applicable laws
- Maintaining confidentiality
- Non competition with company and fair dealing
- Standard of business conduct
- Review of code adequacy annually by the Board

The code of conduct of each company summarizes its philosophy of doing business.

6.2 GE CODE OF CONDUCT

- Be honest, fair and trust worthy
- Avoid all conflict of interest between work and personal affairs
- Strive to create a safe work place and protect the environment
- Sustain a culture where ethical conduct is recognized, valued and exemplified by all employees

6.3 JOHNSON AND JOHNSON CREDO

RESPONSIBILITY TO EMPLOYEES

We are responsible to our employees the men and women who work with us throughout the world. We must respect their dignity and recognize their merit.

RESPONSIBILITY TO COMMUNITY

We are responsible to the communities in which we lift and work and to the world community as well. We must be good citizens, support good works and charities and bear our fair share of taxes.

RESPONSIBILITY TO STOCKHOLDERS

Business must make sound profit. We must experiment with new ideas. Research must be carried on innovative programs developed and mistakes paid for.

THE SAIL CREDO

Credo of sail talks about stakeholders respect and ethical practices to be followed in the company.

- We should build lasting relationship with customer based on trust and mutual benefits.
- We create and nurture a climate that supports flexibility, learning and is proactive to change.
- We chart a challenging carrier for employees with opportunities for advancement and rewards.
- We value opportunity and responsibility to make a meaningful difference in people's live.

7.   ETHICS AND GENERATIONAL DIFFERENCES

A common area of tension among generation focuses on work ethics and conflict often stems from how it is defined. Traditionalist may criticize the two younger generations about their lack of work ethics; some older generation often equates strong work ethics to be part of organization for long period of time. A research shows that no matter ones age, people value achievement, balance and responsibility and want credible trust worthy leadership. A recent study from Deloitte found that nearly two-third of respondents aged 18 to 26 prefer to work at firm that offer opportunities for their employees to volunteer their professional skills at nonprofit organizations. Joy Gaetano, president of Gaetano company and SHRM, says "An organization that can establish clear, ethical guideline, set policies, standards and provide culture that nurtures ethical decision making and value gains, respect as an employer of choice where a young employee can focus on optimizing his/her work place talent rather than feeling compromised by work place conduct.

8.   CONCLUSION

The entire study is based on the fact that organization culture determines the tone of business ethics in work place-how it is defined, preserved, promoted, demonstrated and lived. Based on foundation of solid and clear values for ethical behavior, the right decision can be made, thus fostering trust, fairness, transparency and compliance. With organization becoming more global, more virtual leaders must understand people of different backgrounds, cultures, values, and perspectives. Ultimately the ethical work place is common link between culture values and leadership. It ensures productivity, social responsibility and sustainability.

REFERENCES

1.   Bowden, P., & Smythe, V. (2008). Theories on teaching and training in ethics. Electronic Journal of Business Ethics and Organisation Studies, 13(2), 19-26.
2.   Bowie, N. E. (2005). The Role of Ethics in Professional Education. In R. Curren (Ed.), A Companion to the Philosophy of Education. Blackwell Reference Online: Blackwell Publishing.
3.   Grosman, R. and Morehouse, W. (2000), "Ending Corporate Governance", Rathaus Reality Press (December), www.ratical..com/corporations/.
4.   http://www.buseco.monash.edu.au/mgt/research/working-papers/2004/wp21-04.pdf
5.   *John Donaldson*, *Irene Fafaliou*, (2003) Business ethics, corporate social responsibility and corporate governance: a review and summary critique. *European Research Studies* Volume VI, Issue (1-2), 2003.
6.   Yves Fassin, Annick Van Rossem (2010), Corporate Governance in the Debate on CSR and Ethics: Sensemaking of Social Issues in Management by Authorities and CEOs . *Corporate Governance An International Review*

MACROECONOMIC VARIABLES AND ITS IMPACT ON STANDAND AND POOR BOMBAY STOCK EXCHANGE SENSITIVE INDEX

DR. S.SELVAKUMAR
HEAD
DEPARTMENT OF COMMERCE
THEIVANAI AMMAL COLLEGE FOR WOMEN (AUTONOMOUS)
VILLUPURAM

R. NANDHINI
RESEARCH SCHOLAR
DEPARTMENT OF COMMERCE
THEIVANAI AMMAL COLLEGE FOR WOMEN (AUTONOMOUS)
VILLUPURAM

ABSTRACT
This paper discusses the various macroeconomic variables and its impact on Indian stock market. The select macroeconomic variables like FDI, Gold Reverse, SDRs and Foreign Currency Assets and its relationship with stock market movement and predict market behaviour in future. Main objectives of the study are to find inter relationship between macroeconomic variables and its impact. Hypothesis testing was done using on Regression between S&P BSE Sensex and macroeconomic variables. The study period was 2004-05 to 2013-2014. The study is based on the secondary data collected from RBI Bulletin. The study reveals from the analysis that macroeconomic variables are influencing the S&P BSE Sensex. This simply concludes that in long term the Indian stock market is driven by macroeconomic factors.

KEYWORDS
Foreign Direct investment, Gold Reserve, SDRs, Foreign Currency Assets, Regression and ANOVA Test.

INTRODUCTION
The stock market is one of the most important sources for companies to raise money. This allows businesses to be publicly traded, or raise additional capital for expansion through selling shares of ownership of the company in a public market. The liquidity that an exchange enables the investors to quickly and easily sell securities. This is an attractive feature of investing in stocks, compared to other less liquid investments. Some companies actively increase liquidity by trading in their own shares.

INTRODUCTION ABOUT MACRO ECONOMIC VARIABLE
The macro economy is an aggregate picture of an entire economic environment. The following are some of the factors that need to be taken care of if India has to achieve its potential: These are control inflation, liberalize financial markets, increase trade with neighbours, increase agricultural productivity, raise educational achievement, increase quality and quantity of universities , introduce a credible fiscal policy , improve infrastructure and improve governance. Macro economy study of the economy as a whole, and the variables that control the macro-economy. The study of government policy meant to control and stabilizes the economy over time, that is, to reduce fluctuations in the economy.

Macroeconomics treats the components of the economy as one unit, as one aggregate, that is looks for relationships between the various components. These variables are indicators or main signposts signalling the current trends in the economy and understand the major variables that determine the current behaviour of the macro-economy. So government must understand the forces of economic growth, why and when recession or inflation occur, and anticipate these trends, as well as what mixture of policy will be most suitable for curing whatever ills the economy.

The Indian economy slowed significantly during 2011-12, with growth decelerating to 6.5 per cent. The growth prospects for 2012-13 remain weak due to a combination of global and domestic macro-economic factors. Global growth is turning weaker than anticipated. GDP (Gross Domestic Product), the inflation rate and the unemployment are three widely cited and watched macroeconomic variables of economic activity. Individual macroeconomic variables, such as banking, the consumer price index, and changes in government regulations, each influence multiple areas of economic growth.

SIGNIFICANCE OF THE STUDY
After globalization, international capital market got integrated rapidly and this had positive effect on economic growth in terms of higher returns, portfolio diversification, market oriented reforms and the like concurrent with these effects was the rising incidence of financial crisis. Macroeconomic variables (e.g. economic output, unemployment and employment, and inflation) play a vital role in the economic performance of any country. For the past three decades, evidence of key macroeconomic variables helping predict the time series of stock returns has accumulated in direct contradiction to the conclusions drawn by the Efficient Market Theory. The majority of research concentrates on the financial markets of the developed countries, which are efficient enough and do not suffer from the inefficiency problems found in less developed countries. Considering this matter, the subject of financial markets in developing countries still needs lengthy analysis and more research attention. Hence an attempt has been made to analyse the macro economic variables and its impact on S&P BSE Sensex.

REVIEW OF LITERATURE
Sezgin Acikalin, Rafet Aktas, Seyfettin Unal (2008) investigated "Relationships between stock markets and macroeconomic variables: an empirical analysis of the Istanbul Stock Exchange", The purpose of this study is to investigate the relationships between returns in Istanbul Stock Exchange (ISE) and macroeconomic variables of Turkish economy. Employing cointegration tests and vector error correction model (VECM) on a quarterly data set, we find long-term stable relationships between ISE and four macroeconomic variables, GDP, exchange rate, interest rate, and current account balance. As a result of causality tests, we found unidirectional relationships between macro indicators and ISE index. That is, consistent with the existing literature, changes in GDP, foreign exchange rate and current account balance have an effect on ISE index. However, on the contrary to expectations, changes in the stock market index do affect interest rates
Dharmendra singh (2010) studied "Causal Relationship Between Macro-Economic Variables and Stock Market: A Case Study for India", In this research paper, attempt has been made to explore the relation especially the causal relation between stock market index i.e. BSE Sensex and three key macro economic variables of Indian economy by using correlation, unit root stationary tests and Granger causality test. The study period monthly data has been used from April,1995 to March, 2009.The statistical tools used in the researcher in this study Augmented Dickey-Fuller (ADF) Test, Granger Causality Test. Results showed

that the stock market index, the industrial production index, exchange rate, and wholesale price index contained a unit root and were integrated of order one. Therefore, it is concluded that, Indian stock market is approaching towards informational efficiency at least with respect to two macroeconomic variables, viz. exchange rate and inflation (WPI).

Pramod Kumar Naik, Puja Padhi, (2012) studied "The Impact of Macroeconomic Fundamentals on Stock Prices Revisited: Evidence from Indian Data", The study investigates the relationships between the Indian stock market index (BSE Sensex) and five macroeconomic variables, namely, industrial production index, wholesale price index, money supply, treasury bills rates and exchange rates over the period 1994 to2011. To conclude, the analysis revealed that the Indian stock market index as proxied by BSE Sensex formed significant long-run relationship with three out of five macroeconomic variables tested. The Johansen's co-integration test suggests that the stock market index has co-integrated with the macroeconomic variables. It is observed that in the long-run, the stock prices are positively related to money supply and real economic activity represented by index of industrial production.

Subrahamanya, Chaitanya (2013) studied "Impact of Select Macro Economic Variables on SENSEX: A Behavioural Study during the Pre & Post-Economic Recession Era", This paper an attempt has been made to explore the influential relationship between SENSEX of Bombay Stock Exchange (BSE) and select macro economic variables of India by using Stepwise Regression model. Quarterly data has been used from 2005 to 2011 for all the used variables to study the relationship. The statistical findings of the study reveal that there is an influential relationship on SENSEX by Industrial Production and Foreign Exchange Rate. The statistical results of the Stepwise regression between the SENSEX and the selected Macro Economic Variables revealed that there is a significant influential relationship between SENSEX, and Industrial Production & Foreign Exchange Rate fluctuation. These two factors taken together are accounted for almost 85% of the SENSEX movements during the considered time period.

OBJECTIVES OF THE STUDY
The main objectives of the study are as follows:
1. To study the impact of Macroeconomic variables on S&P BSE Sensex.
2. To Offer suggestions based on the findings of the study.

SCOPE OF THE STUDY
The scope of the study is confined to the macroeconomic variables namely FDI, Gold Reverse, SDRs and Foreign Currency Assets

HYPOTHESIS
Ho: Null Hypothesis: There is no relationship between Macroeconomic variables and S&P BSE Sensex.
H1: Alternative Hypothesis: There is a relationship between Macroeconomic variables and S&P BSE Sensex.

PERIOD OF STUDY
The yearly data of the various chosen macroeconomic variables were collected for a period of 10 years from 2004-05 to 2013-2014.

METHODOLOGY
The study is mainly based on secondary data. Secondary data were collected from RBI Bulletin, BSE Website, Journals and Industry Reports.

DATA ANALYSIS
The followings are the statistical tools were used for analysis of data using SPSS 17.0 Version.
a) Descriptive Statistics
b) Regression and
c) ANOVA

ANALYSIS OF MACROECONOMIC VARIABLES AND S&P BSE SENSEX

TABLE 1: FDI AND S&P BSE SENSEX

Year	Foreign Direct Investment	S&P BSE Sensex
2004-05	14,653	9397.93
2005-06	24,584	13786.91
2006-07	56,390	20286.99
2007-08	98,642	9647.31
2008-09	1,42,829	17464.81
2009-10	1,23,120	20509.09
2010-11	97,320	15454.92
2011-12	1,65,146	19426.71
2012-13	1,21,907	21170.68
2013-14	1,47,518	27499.42

Source: Business Mapsofindia.com

Descriptive Statistics

	Mean	Std. Deviation	N
S&P BSE Sensex	1.746448E4	5.5703853E3	10
Foreign Direct Investment	99210.90	51883.471	10

Regression
Table 1 A: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.621[a]	.385	.309	4.6315130E3

a. Predictors: (Constant), Foreign direct investment

In this Regression Analysis explore that adjusted R Square is value (0.309) that denotes 30% of S&P BSE Sensex fluctuations could be explained the variation by Foreign Direct Investment.

TABLE 1 B

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.077E8	1	1.077E8	5.019	.055[a]
	Residual	1.716E8	8	2.145E7		
	Total	2.793E8	9			

a. Predictors: (Constant), Foreign direct investment

b. Dependent Variable: S&P BSE Sensex

Ho: Null Hypothesis: There is no relationship between Foreign Direct Investment and S&P BSE Sensex.

Interpretation

It is clear from the ANOVA table F = 5.019 the P value 0.055 is not significant P>0.05, so the null hypothesis is accepted and alternative hypothesis is rejected. There is no relationship between FDI and S&P BSE Sensex.

TABLE 2: GOLD RESERVE AND S&P BSE SENSEX

Year	Gold Reserve(Rs.in Crore)	S&P BSE Sensex
2004-05	19,686	9397.93
2005-06	25,674	13786.91
2006-07	29,573	20286.99
2007-08	40,124	9647.31
2008-09	48,793	17464.81
2009-10	81,188	20509.09
2010-11	1,02,572	15454.92
2011-12	1,38,250	19426.71
2012-13	1,39,737	21170.68
2013-14	1,29,616	27499.42

Source: Reserve Bank of India & Centre for Industrial & Economic Research (CIER) Economic Survey 2013-2014. Table 6.1 (B).

Descriptive Statistics

	Mean	Std. Deviation	N
S&P BSE Sensex	1.746448E4	5.5703853E3	10
Gold Reserve(Rs.in crore)	75521.30	48796.158	10

Regression

Table 2 A

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.673[a]	.454	.385	4.3674594E3

a. Predictors: (Constant), Gold Reserve(Rs.in crore)

In this regression analysis explore that adjusted R Square is value (0.385) that denotes 38% of S&P BSE Sensex fluctuations could be explained the variation by Gold.

Table 2 B

ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.267E8	1	1.267E8	6.640	.033[a]
	Residual	1.526E8	8	1.907E7		
	Total	2.793E8	9			

a. Predictors: (Constant), Gold Reserve(Rs.in Crore)

b. Dependent Variable: S&P BSE Sensex

Ho: Null Hypothesis: There is no relationship between Gold Reserve and S&P BSE Sensex.

Interpretation

It is clear from the ANOVA table F = 6.640 the P value 0.033 is significant P<0.05, so the null hypothesis is rejected and alternative hypothesis is accepted. There is relationship between Gold Reserve and S&P BSE Sensex

TABLE 3: SDRS AND S&P BSE SENSEX

Year	SDRs (Rs.in Crore)	S&P BSE Sensex
2004-05	20	9397.93
2005-06	12	13786.91
2006-07	8	20286.99
2007-08	74	9647.31
2008-09	6	17464.81
2009-10	22,596	20509.09
2010-11	20,401	15454.92
2011-12	22,866	19426.71
2012-13	23,538	21170.68
2013-14	26,826	27499.42

Source: Reserve Bank of India & Centre for Industrial & Economic Research (CIER) Economic Survey 2013-2014.

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

http://ijrcm.org.in/

50

Descriptive Statistics

	Mean	Std. Deviation	N
S&P BSE Sensex	1.746448E4	5.5703853E3	10
SDRs (Rs.in Crore)	11634.70	12336.258	10

Regression
Table 3 A
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.693[a]	.480	.415	4.2618199E3

a. Predictors: (Constant), SDRs (Rs.in Crore)

In this regression analysis explore that adjusted R Square is value (0.415) that denotes 41% of S&P BSE Sensex fluctuations could be explained the variation by SDRs.

Table 3 B
ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.340E8	1	1.340E8	7.375	.026[a]
	Residual	1.453E8	8	1.816E7		
	Total	2.793E8	9			

a. Predictors: (Constant), SDRs (Rs.in Crore)

b. Dependent Variable: S&P BSE Sensex

Ho: Null Hypothesis: There is no relationship between CRR% and S&P BSE Sensex%.

Interpretation

It is clear from the ANOVA table F = 7.375 the P value 0.026 is significant P<0.05, so the null hypothesis is rejected and alternative hypothesis is accepted. There is relationship between Special drawing Rights and S&P BSE Sensex.

TABLE 4: FOREIGN CURRENCY ASSETS AND S&P BSE SENSEX

Year	Foreign Currency Assets (Rs.in Crore)	S&P BSE Sensex
2004-05	5,93,121	9397.93
2005-06	6,47,327	13786.91
2006-07	8,36,597	20286.99
2007-08	11,96,203	9647.31
2008-09	12,30,066	17464.81
2009-10	11,49,650	20509.09
2010-11	12,24,883	15454.92
2011-12	13,30,511	19426.71
2012-13	14,12,631	21170.68
2013-14	16,60,914	27499.42

Source: Reserve Bank of India & Centre for Industrial & Economic Research (CIER) Economic Survey 2013-2014.

Descriptive Statistics

	Mean	Std. Deviation	N
S&P BSE Sensex	1.746448E4	5.5703853E3	10
Foreign Currency Assets(Rs.in Crore)	1128190.30	338789.417	10

Regression
Table 4 A
Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.671[a]	.450	.382	4.3803457E3

a. Predictors: (Constant), Foreign Currency Assets(Rs.inCrore)

In this regression analysis explore that adjusted R Square is value (0.382) that denotes 38% of S&P BSE Sensex fluctuations could be explained the variation by Foreign Currency assets.

Table 4 B
ANOVA[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.258E8	1	1.258E8	6.554	.034[a]
	Residual	1.535E8	8	1.919E7		
	Total	2.793E8	9			

a. Predictors: (Constant), Foreign Currency Assets(Rs.in Crore)

b. Dependent Variable: S&P BSE Sensex

Ho: Null Hypothesis: There is no relationship between Foreign Currency Assets and S&P BSE Sensex.

Interpretation

It is clear from the ANOVA table F = 6.554 the P value 0.034 is significant $P<0.05$,so the null hypothesis is rejected and alternative hypothesis is accepted. There is relationship Foreign Currency assets and S&P BSE Sensex.

FINDINGS

The following are the findings of the study:

- ❖ There is no relationship between FDI and S&P BSE Sensex.
- ❖ There is relationship between Gold Reserve and S&P BSE Sensex.
- ❖ There is relationship between Special drawing Rights and S&P BSE Sensex.
- ❖ There is relationship between Foreign Currency assets and S&P BSE Sensex.

SUGGESTIONS

Investors can take benefit of the results and discusions in their investment strategies considering external environment of the country.

SCOPE FOR FURTHER RESEARCH

1. A Study on Impact of Macroeconomic Variables on Indian Money Market.
2. A Study on Impact of Macroeconomic Variables on Indian Capital Market.
3. A Study on Impact of Macroeconomic Variables on Foreign Exchange Market.
4. A Study on Impact of Macroeconomic Variables on Bullion Market.

CONCLUSION

In this paper, the study performed necessary analyses to answer the research question of whether some of the identified macroeconomic factors can influence the Indian stock market. The macroeconomic variables are represented by the Foreign Direct Investment, Gold Reserve, Foreign Currency assets, Special Drawing Rights. Based on objective of the study is to study the impact of macroeconomic variables on BSE Sensex by using the annual data 2004-2005 to 2013-2014.The study reveals from the analysis that macroeconomic variables are influencing the S&P BSE Sensex. *This simply concludes that in long term the Indian stock market is driven by macroeconomic factors.*

REFERENCES

1. Aamir Sarwar, Muhammad Hassan Aftab, Rehan Ahmed Khan, Hamza Ahmad Qureshi ((2014) "Impact of Macroeconomic Factors on The Stock index: A Case Study of Pakistan", Sci.Int.(Lahore),26(5),2595-2601,2014 ISSN 1013-5316; CODEN: SINTE 8
2. Bhanu Sireesha (2013) "Effect of Select Macro Economic Variables on Stock Returns in India", International Journal of Marketing, Financial Services & Management Research, ISSN 2277- 3622, Vol.2, No. 6, pp 197 – 209.
3. Chancharat, Valadkhani, Charloes Havie (2007) "The Influence of International Stock Markets and Macroeconomic Variables on the Thai Stock Market", University of Wollongong Research Online, Applied Economic and International Development, 7(1), 1-28.
4. Chetna Parmar (2013) "Empirical Relationship among Various Macroeconomic Variables on Indian Stock Market", International Journal of Advance Research in Computer Science and Management Studies, Volume 1, Issue 6, pp 190 -197.
5. Dharmendra Singh (2010) "Causal Relationship between Macro-Economic Variables and Stock Market: A Case Study for India", Pakistan Journal of Social Sciences (PJSS) Vol. 30, No. 2 (December 2010), pp. 263-274.
6. Farid Ullah, Abdur Rauf (2013) "Impacts of Macroeconomic Variables on Economic Growth: A Panel Data Analysis of Selected Asian Countries", GE-International Journal of Engineering Research, ISSN: 2321- 1717. Pp 23-34.
7. Guntur Anjana Raju1 and Harip Khanapuri (2009) "The Effect of Macroeconomic Factors on Indian Share Prices: A Sectoral Approach", Journal of Global Economy, Volume 5 No2, APRIL-JUNE, pp 125-136.
8. Ifuero Osad Osamwonyi, Esther Ikavbo Evbayiro-Osagie (2012) "The Relationship between Macroeconomic Variables and Stock Market Index in Nigeria", J Economics, 3(1): pp 55-63.
9. Kuwornu (2012) "Effect of Macroeconomic Variables on the Ghanaian Stock Market Returns: A Co-integration Analysis", Agris on-line Papers in Economics and Informatics, Volume IV Number 2, pp 1 – 12.
10. Manisha Luthra, Shikha Mahajan (2014) "Impact of Macro factors on BSE Bankex", International Journal of Current Research and Academic Review, Volume 2, pp 179-186.
11. Muhammad Irfan Javaid Attari, Luqman Safdar (2013) "The Relationship between Macroeconomic Volatility and the Stock Market Volatility: Empirical Evidence from Pakistan", Pakistan Journal of Commerce and Social Sciences, Vol. 7 (2), pp 309-320.
12. Naliniprava Tripathy (2011) "Causal Relationship between Macro-Economic Indicators and Stock Market in India", Asian Journal of Finance & Accounting ISSN 1946-052X 2011, Vol. 3, No. 1: E13pp 208 – 225.
13. Pramod Kumar Naik, Puja Padhi (2012) "The Impact of Macroeconomic Fundamentals on Stock Prices Revisited: Evidence from Indian Data", Eurasian Journals of Business and Economics, pp 25-44.
14. Rohit Singh Tomar, Deepika Singh Tomar (2014) "Selected Macro – Economic Variables and its Impact on Chinese and Indian Exports", IOSR Journal of Business and Management, Volume 16, Issue 3, pp 1-8.
15. Sadia Saeed (2012) "Macroeconomic Factors and Sectoral Indices: A Study of Karachi Stock Exchange (Pakistan)", European Journal of Business and Management, ISSN 2222-1905, Vol 4, No.17, pp 132 – 152.
16. Saeed Samadi, Ozra Bayani, Meysam Ghalandari (2012) "The Relationship between Macroeconomic Variables and Stock Returns in the Tehran Stock Exchange", International Journal of Academic Research in Business and Social Sciences, Vol. 2, No. 6 ISSN: 2222-6990 ,pp559 – 573.
17. Sezgin Acikalin, Rafet Aktas, Seyfettin Unal (2008) "Relationships between Stock Markets and Macroeconomic Variables: an Empirical Analysis of the Istanbul Stock Exchange", Investment Management and Financial Innovations, Volume 5, Issue 1, pp 8 -16.
18. Shafana (2012) "Macroeconomic Variables Effect on Financial sector Performance in emerging Sri Lankan Stock Market", International Journal of Science and Research (IJSR), ISSN (Online): 2319-7064. pp 227 – 231.
19. Subrahamanya, Chaitanya (2013) "Impact of Select Macro Economic Variables on SENSEX: A Behavioural Study during the Pre & Post-Economi Recession Era", International Journals of Scientific Research, Volume 2, Issue 1, pp 104-107.
20. Umar Kibria , Yasir Mehmood, Muhammad Kamran, Muhammad Usman Arshad, Rehana Perveen, Muhammad Sajid(2014) "The Impact of Macroeconomic Variables on Stock Market Returns: A Case of Pakistan", Research Journal of Management Sciences, ISSN 2319–1171 ,Vol. 3(8), pp 1-7,
21. Vighneswara Swamy (2012) "Impact of Macroeconomic and Endogenous Factors on Non Performing Bank Assets", The International Journal of Banking and Finance, volume 9, pp 27-47.
22. Wycliffe Nduga Ouma, Peter Muriu (2014) "Impact of Macroeconomic Variables on Stock Market Returns in Kenya", International Journals of Business and Commerce, volume 3, No.11, pp 1-31.

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT   52

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

http://ijrcm.org.in/

TAX REVENUE AND ITS IMPACT ON ECONOMIC GROWTH OF INDIA: AN EMPIRICAL STUDY

MEHRAJ U DUN BATHANGI
RESEARCH SCHOLAR
DEPARTMENT OF ECONOMICS
ALIGARH MUSLIM UNIVERSITY
ALIGARH

DR. SHAUKAT HASEEN
ASST. PROFESSOR
DEPARTMENT OF ECONOMICS
ALIGARH MUSLIM UNIVERSITY
ALIGARH

ABSTRACT

Tax has always been the driving fuel of the economy ever since the history of mankind. The same holds true yet for all the developed and developing economies including India. India has got some major taxes in the form of Corporation tax, Customs Duty, Excise Duty, Income and Services tax which form the major source of its revenue. This study was conducted to find the relationship between different kinds of taxes and GDP of India for years 1994-2014 using time series data. Statistical techniques used in analysis include Regression analysis, Unit root test, co-integration test, Breusch-Pagan-Godfrey, and so other tests for reliability of the study. The study shows that there is significant positive impact of taxation on economic growth of India with Income tax being least effective. Services tax apart from other taxes was found to be one of most productive in such a shorter span of time since its imposition (in 1994).

KEYWORDS
Corporation Tax, Custom Duty, GDP, Excise Duties, Income Tax, Service Tax, India.

INTRODUCTION

A tax is a compulsory contribution to the state revenue, levied by the government on people who in turn enjoy returns from it. It is the driving fuel of the economy and keeps the economy alive and enables the government to practice numerous economic and non economic activities which lead to development. It makes possible for the government to provide public, social and merit goods and holds the increase in debt to GDP ratio in balancing budget deficit to control the rate of inflation and practice fiscal stabilization. Indian economy is one of the emerging developing economies with a good but unutilized resource base. The government has to implement strong fiscal and international trade policies to cope with widening gap between public revenue and expenditures. In this case tax GDP ratio of India is 17.7 percent which is a bit higher from the similar developing neighbour economies like Pakistan (10.2 percent), Nepal (10.9 percent), Bangladesh (8.5 percent) and Bhutan (10.7 percent). The authority to levy a tax in India is derived from the Constitution of India which allocates the power to levy various taxes between the Centre and the State. Article 246 of the Indian Constitution, distributes legislative powers including taxation, between the Parliament of India and the State Legislature. Schedule VII enumerates these subject matters with the use of three lists as: the areas on which only the parliament is competent to make laws; the areas on which only the state legislature can make laws, and the areas on which both the Parliament and the State Legislature can make laws upon concurrently. In India, taxes are imposed on individuals and legal entities in the form of income tax, corporate tax, sales tax, custom duties, excise duties, services tax etc. There are some twenty different taxes imposed in India.

Tax collection is the major tool of fiscal policy and a source of revenue collection for government in both developed and developing economies. Effective tax system is crucial and indispensable for economic growth in developing economies, where large portion of income is utilized in unproductive channels. Taxation diverts the conspicuous and wasteful expenditures into the acceleration of investment and formation of socio-economic overheads. However there is a difference of opinion among the economists on the impact of taxation on economic growth in the economy. Policies regarding tax considerably differ between poor and rich countries. In rich countries the contribution of tariffs in total tax revenues is lower than other taxes like income and consumption taxes. While in poor countries, tariffs and excise taxes play a vital role in tax revenues of the country (Gordon and Li, 2005).

Taxes are important for expenditure of government to manage, redistribute income among people and different sectors of the economy, market regulation, inflation control, and so forth. India has collection of direct taxes as a big contribution of total tax revenues at centre, while indirect taxes have low level of revenues for government as it has failed to collect taxes from every sector calling forth for the need of increasing the tax base. However, there is a good amount of indirect tax being collected at the state level. According to P. Chidambaram (June 6, 2013) only 2.89 percent of the Indians (near about 36 million people) pay income tax. Most of the evasion occurs because of corruption, bribes and false assessments by the tax collectors as Income Tax Department lists among the most corrupt departments of the country. The tax to GDP ratio in India is even somewhat low at 17.7 % in FY 2013-2014 which is 30 % for developed economies.

THEORETICAL RELATIONSHIP

Theoretically we know that the burden of tax may have worse effects on economic growth of a country through different ways. First, the tax burden may lead to fall in investment and stock of capital or it may discourage the level of investment, which lowers the efficiency of economy. Second, tax policy may depress the productivity growth of research and development (R and D) which is the only way to improve the productivity of labor and capital. Third, taxes can also lead to fall in intensive to work which lead to fall in the contribution of labor productivity by reducing their hours of work. Fourth, tax may lead to fall in marginal productivity of capital as it forces capital to leave high taxed sector which is more productive to low taxed sector which has low productivity .There are also some evidences that show a positive impact of taxes on economic growth which conclude that taxes can lead to economic growth.

LITERATURE REVIEW

There are a lot of studies done by researchers on tax and GDP relations in the world, and in India as well. Two of the early studies by Hinrisch (1966) and Musgrave (1969) examined the relationship between the ratio of tax revenue to GDP (TAX/GDP) and found it was relatively low in the developing countries. M. Govinda Rao (2000) analyzed the evolution of the tax system in India since the early 1990's. The paper describes and assesses the introduction of new forms of direct and indirect taxes, their revenue and equity implications and the successes achieved in their implementation. The author comes to the conclusion that instead of increase in tax gdp ratio there is a decline in it and further the tax system is yet to reach the levels of efficiency and productivity it was prior to reforms. Lutfunnahar (2007) identified the determinants of tax share and revenue performance for Bangladesh along with 10 other developing countries for the 15 years through a panel data analysis. The results suggested international trade, external debt and higher population growth are significant determinants of tax efforts. The study concluded low tax to GDP ratio for Bangladesh and other economies by not utilizing their tax revenue at full capacity which results in

budgetary imbalance. Taufik and Imbarine (2012) found statistical evidence suggesting that the total tax revenue to GDP ratio is higher in the high income countries compared with the low and middle countries. Increase in total tax revenue (TTR) will encourage gross saving to increase in a country caused by increase in goods and services tax (GST) or sales tax that reduces consumption. However, taxes on international trade (ITT) has negative impact to gross saving, in which increase in ITT will increase the price of imported goods and relatively expensive than domestic goods that will encourage consumption and reduce gross saving. A research by (Roshaiza et al. 2011) was about the relationship of economic growth and taxation revenue. This study included the annual data from 1970 to 2009 of Malaysia. They used the GDP as measure of economic growth. All the variables were converted in constant price using 2000 as base year. ADF and PP test used by researchers as Unit Root test for stationary in time series data. For co-integrated time series they used Vector Error Correction Model (VECM). They concluded that changes in taxes have no effect on economic growth.

NEED AND IMPORTANCE OF THE STUDY

In economy like India, the poor are suffering more from the burden of taxes as indirect taxes (sales tax) on basic necessities is rising because of inelastic demand compared to tax rate on luxury goods, which sounds regressive, where rich are paying less than poor as compare to their tax to income ratio. The tax system is designed by the elite class including the politicians and bureaucrats who are part of policy formulation to have a clear way for tax evasion and corruption. This has shifted the tax burden from rich onto the poor which results in utilization of their income on basic consumption and with very little or no saving of the masses. This leads to considerable portion of higher income people in hoardings, jewelry and demonstration effect. Optimal tax rate is necessary in both direct and indirect taxation to reduce market distortions and inefficiency along with high revenues for public expenditures. This will decrease burden on both the consumers and producers. Empirically there is lot of the controversies about the impact of taxes on economic growth among authors, that their empirical study shows some differences about the impact. Many of the authors concluded that there is positive relationship overall between taxes and economic growth, and some concluded this relationship as negative. Few study results state that there is no relationship between taxes and economic growth. The motive of this present empirical study is to seek the answer for the same question of relationship between tax and economic growth. This way the relation between the GDP growth rate and the major taxes of India is studied from the period 1994-95 to 2013-14. The study would have been extended much below to 1994 but since one of the major important taxes i.e. Service tax was imposed for the first time in 1994. So, there was no option other than to start the analysis from 1994 and further revised estimates of various taxes were taken into consideration for the period of 2014.

OBJECTIVES OF THE STUDY

1. To study the impact of taxation on the growth rate of GDP in India.
2. To study the contribution of some major taxes individually on the growth rate of GDP.

DATA AND METHODOLOGY
SAMPLE DESIGN AND DATA DESCRIPTION
MODEL SPECIFICATION
Multi Linear Regression Model (MLR) is used on time series data to estimate the model and find out the relationship between GDP and five kinds of major taxes of India. The dependant variable is GDP of India and independent variables included are Income Tax (IT), Sales Tax (ST), Custom Duties (CD), Excise Duties (ED), and Services Tax (ST). A unit root test is used for stationarity of the data and Co-integration test for long-run association. The general equation of the model is.

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Where,
Y = GDP of India
XI = Income Tax (IT)
X2 = Corporation Tax (CT)
X3 = Custom Duty (CD)
X4 = Excise Duty (ED)
X5 = Services Tax

DATA ANALYSIS AND RESULTS INTERPRETATION
REGRESSION
Dependent Variable: GDP
Method: Least Squares
Date: 05/01/15 Time: 16:31
Sample: 1994 2014
Included observations: 21

Variable	Coefficients	Std. Error	t-Statistics	Prob.
C	223682.9	407349.8	0.549118	0.5910
IT	8.44474	8.962943	2.615741	0.0195
CT	25.25627	2.469089	5.368891	0.0001
ED	17.54544	4.531809	3.650958	0.0024
CD	19.17261	10.14596	2.283926	0.0374
ST	14.78217	5.964455	3.316677	0.0047
R-squared	0.986439	Mean dependent var	4246106.	
Adjusted R-squared	0.985252	S.D. dependent var	3124480.	
S.E. of regression	215296.2	Akaike info criterion	27.63237	
Sum squared resid.	6.95E+11	Schwarz criterion	27.93081	
Log likelihood	-284.1399	Hannan-Quinn criter.	27.69714	
F-statistic	839.4470	Durbin-Watson stat	1.746960	
Prob(F-statistic)	0.000000			

Interpretation
The regression analysis shows the impact of different variables on GDP which are included in the model. Coefficients show the direction and degree of the variable with which they are affecting the dependent variable. The predictor variables IT, CT, CD, ED and ST have significant positive impact on GDP with p-values are less than 5 % significance level and significant t-statistic values showing that all the variables are individually enough significant to explain the dependant variable. And it is seen that the Corporation tax, Excise duty and Custom duties are the taxes with maximum impacting or contribution in the growth rate of the GDP. The Income tax coefficient is seen with the minimum regression coefficient means affecting least to the growth of GDP in the economy. F-statistic shows the overall significance of the model and it is 839.447 with p-value less than significance level and R-square as 0.986 which in econometric sense means that independent ITT variables are explaining 98.5% variation in the dependent variable GDP. The R-square sounds too high in the model which may be due to time series analysis and so due to Multicollinearity, but the model don't has the problem of Multicollinearity which we will soon defend with tests.

UNIT ROOT TEST FOR GDP
Null Hypothesis: D(GDP,2) has a unit root
Exogenous: Constant, Linear Trend
Lag Length: 2 (Automatic - based on SIC, maxlag=4)

t-Statistic			Prob.*
Augmented Dickey-Fuller test statistic		-5.229806	0.0038
Test critical values:	1% level	-4.667883	
	5% level	-3.733200	
	10% level	-3.310349	

*MacKinnon (1996) one-sided p-values.

Interpretation
The series of GDP is not stationary at the level, that's why we take the first difference of the series and tested it again using Augmented Dickey-Fuller test for unit root. The test statistic of (-5.229) of the test in absolute sense is greater than the critical values -4.667, -3.733 and -3.310 at 1%, 5% and 10% confidence levels respectively, and the p-value is less than 0.05, which conclude that there is no unit root or the data is stationary at 1st difference.

Unit Root Test For Income Tax (IT)
Null Hypothesis: D(IT,2) has a unit root
Exogenous: Constant
Lag Length: 1 (Automatic - based on SIC, maxlag=3)

t-Statistic			Prob.*
Augmented Dickey-Fuller test statistic		-4.803378	0.0034
Test critical values:	1% level	-3.886751	
	5% level	-3.052169	
	10% level	-2.666593	

*MacKinnon (1996) one-sided p-values.

Interpretation
The series of Income tax (IT) is not stationary at the level and neither at ist difference that's why we took the second difference of the series and tested it again using Augmented Dickey-Fuller test for unit root. The test statistic of (-4.803) of the test in absolute sense is greater than the critical values of -3.886, -3.052, -2.666 at 1%, 5% and 10% confidence levels respectively, and the p-value is less than 0.05, which conclude that there is no unit root or the data is stationary at second difference.

UNIT ROOT TEST FOR CORPORATION TAX
Null Hypothesis: D(CT,2) has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=4)

t-Statistic			Prob.*
Augmented Dickey-Fuller test statistic		-6.207333	0.0001
Test critical values:	1% level	-3.886751	
	5% level	-3.052169	
	10% level	-2.666593	

*MacKinnon (1996) one-sided p-values.

The data series of Corporation tax is not stationary at the level as well as first difference that's why we took the second difference of the series and tested it again using Augmented Dickey-Fuller test for unit root. The test statistic of (-6.207) of the test in absolute sense is greater than the critical values -3.857, -3.040 and -2.660 at 1%, 5% and 10% confidence levels respectively, and the p-value is less than 0.05, which conclude that there is no unit root or the data is stationary at second difference.

UNIT ROOT TEST FOR CUSTOM DUTY
Null Hypothesis: D(CD,2) has a unit root
Exogenous: Constant
Lag Length: 0 (Automatic - based on SIC, maxlag=4)

t-Statistic			Prob.*
Augmented Dickey-Fuller test statistic		-6.14379	0.0000
Test critical values:	1% level	-3.757386	
	5% level	-3.040391	
	10% level	-2.980551	

*MacKinnon (1996) one-sided p-values.

Interpretation
The data series of Custom Duty is not stationary at the level as well as first difference that's why we again had to take second difference of the series and test it again using Augmented Dickey-Fuller test for unit root. The test statistic of (-6.614) of the test in absolute sense is greater than the critical values -3.757, -3.040 and -2.980 at 1%, 5% and 10% confidence levels respectively, and the p-value is less than 0.05, which conclude that there is no unit root or the data is stationary at second difference.

UNIT ROOT TEST FOR EXCISE DUTY
Null Hypothesis: D(ED,) has a unit root
Exogenous: Constant, Linear Trend
Lag Length: 0 (Automatic - based on SIC, maxlag=2)

t-Statistic			Prob.*
Augmented Dickey-Fuller test statistic		-4.975702	0.0112
Test critical values:	1% level	-4.532598	
	5% level	-3.673616	
	10% level	-3.277364	

*MacKinnon (1996) one-sided p-values.

Interpretation

The data series of Excise Duty is not stationary at the level and so we had to take the first difference of the series and test it again using Augmented Dickey-Fuller test for unit root. The test statistic of (-4.975) of the test in absolute sense is greater than the critical values -40532, -3.67 and -3.27 at 1%, 5% and 10% confidence levels respectively, and the p-value is less than 0.05, which conclude that there is no unit root or the data is stationary at first difference.

UNIT ROOT TEST FOR SERVICES TAX

Null Hypothesis: D(ST,) has a unit root
Exogenous: Constant, Linear Trend
Lag Length: 2 (Automatic - based on SIC, maxlag=2)

t-Statistic			Prob.*
Augmented Dickey-Fuller test statistic		-3.877338	0.0374
Test critical values:	1% level	-4.616209	
	5% level	-3.710482	
	10% level	-3.297799	

*MacKinnon (1996) one-sided p-values.

INTERPRETATION

The data series of Service tax is not stationary at the level and so again we had to resort to the first difference of the series and test it again using Augmented Dickey-Fuller test for unit root. The test statistic of (-3.873) of the test in absolute sense is greater than the critical values -3.71, and -3.29 at 5% and 10% confidence levels respectively, and the p-value is less than 0.05, which conclude that there is no unit root or the data is stationary at first difference.

CHECKING FOR MULTICOLLINEARITY

USING MULTICOLLINEARITY MATRIX

	GDP	ED	CT	CD	IT	ST
GDP	1.000000					
ED	0.697735	1.000000				
CT	0.555134	0.189932	1.000000			
CD	0.721244	0.121008	0.712966	1.000000		
IT	0.732249	0.699487	0.687739	0.271791	1.000000	
ST	0.563215	0.616588	0.743266	0.723659	0.686479	1.000000

Interpretation

The correlation coefficients among different independent variables of the regression model can be seen as very high but still in the feasible region within the zone of acceptance. None of the coefficients in the correlation matrix falls in the rejection zone. But however high degree correlation is due to the nature of the time series data, where the variables seem to be increasing with the passage of time. Utilizing correlation matrix was much appropriate than going for auxiliary regression function as the the R-square of the original regression function was already high to be compared with the auxiliary regression function's R-square.

TESTING REGRESSION MODEL FOR THE HETEROSKEDASTICITY

Heteroskedasticity Test: Breusch-Pagan-Godfrey			
F-statistic	1.110104	Prob. F(5,15)	0.3960
Obs*R-squared	5.671923	Prob. Chi-Square(5)	0.3395
Scaled explained SS	3.656994	Prob. Chi-Square(5)	0.5998

Test Equation:
Dependent Variable: RESID^2
Method: Least Squares
Date: 05/02/15 Time: 17:56
Sample: 1994 2014
Included observations: 21

Interpretation

Checking data for the heteroskesedasticity by the method of Breusch-Pagan-Godfrey Test. Here the null (Ho) shows absence of heteroskedasticity or the presence of homocedasticity in the variance of residuals which is desirable. The test shows the probability chi-sq value of 33.95 which is greater than 5% level. And thus we accept the null as per the prescribed guideline and conclude with no heteroskesedasticity in the residuals.

JOHANSEN CO-INTEGRATION TEST

Finally looking for the co integration (long run relation) between the variables by way of Johansen Co integration test. This gives us the reliability that the relation derived by regression model between the variables and their coefficients is a long run phenomenon.

Date: 05/02/15 Time: 22:22
Sample (adjusted): 1996 2014
Included observations: 19 after adjustments
Trend assumption: Linear deterministic trend
Series: GDP IT CT CD ED ST
Lags interval (in first differences): 1 to 1
Unrestricted Cointegration Rank Test (Trace)

Hypothesized No. of CE (s)	Eigenvalue	Trace Statistic	0.05 Critical Value	Prob.**
None *	0.999979	424.2733	95.75366	0.0001
At most 1 *	0.992605	219.5959	69.81889	0.0000
At most 2 *	0.977063	126.3639	47.85613	0.0000
At most 3 *	0.809654	54.63916	29.79707	0.0000
At most 4 *	0.683039	23.11983	15.49471	0.0029
At most 5	0.065605	1.289270	3.841466	0.2562

Trace test indicates 5 cointegrating eqn(s) at the 0.05 level
* denotes rejection of the hypothesis at the 0.05 level
**MacKinnon-Haug-Michelis (1999) p-values

Interpretation

The test suggests that the p-value which is at 0.0001 less than 5% showing no co integration among any variable with trace statistic above the critical value is rejected. And further the co integration among at least 5 variables is accepted with p-value above 5% and trace statistic above critical value (3.81>1.28) is accepted. Showing that the co integration or long run relation does occur among all the variables of the regression model.

CONCLUSIONS AND RECOMMENDATIONS

This study focuses on the relationship and significance of different taxes with GDP of India. The study concluded that there is overall positive impact of taxes on GDP with high regression coefficients. However, the most minimum of these coefficients is of the income tax, which states that taxes on income is adversely affecting the productivity of the people and so to GDP. The coefficient of Corporation Tax (CT), Custom Duty (CD) and Excise Duty (ED) is very high and significant, which shows that these taxes play a dominant role in improvement of GDP growth, as they can generate greater revenues with a unit rise because of highly consumption society and lack of tax evasion which is evident from the higher coefficients of ST, CD and ED. The Services Tax imposed in 1994 has shown much progress so far and is the one of the emerging taxes in India.

The low beta coefficient of Income tax is however on the basis of excessive income tax evasion. Income tax rates in India are one of the highest which is also responsible for massive tax evasion. Further higher income tax rates decreases the incentive to work more and hence cause a deteriorating effect on GDP growth rate. Percentage of people paying income tax is also too low mainly the people working in the government sector or the organized sector and the corporates having no scope for evasion for one reason or the other, pay income tax. Apart from excessive evasion and inefficient collection it still ranks second after the Corporation Tax in terms of amount of collection. Overall citizens of the society are subject to indirect taxation with its burden being most imposed on the poor and middle class by way of its regressive character. The effect of lowering of the Corporation tax rate from 30% to 25% during the present (2015-16) budget is yet to be seen by way of its impact on the tax collection. It is to be seen whether India will lose some of its revenue with time or 'laffer' curve approach will follow, 'which states increase in tax revenue with a decrease in its rate at certain point of time'.

POLICY RECOMMENDATIONS

For an effective fiscal consolidation and a good GDP growth India needs strong and vibrant fiscal reforms. On the basis of this study following are some of the recommendations.

1. There is no need to increase tax rates in India; rather there is a need to increase the tax base, so that most of the professions should contribute to the tax revenue and growth rate of the economy. We ought to gain from buoyancy rather than from elasticity.
2. There is a need to bring the black money, tax evasion and foreign unaccounted deposits under the scanner rather than only make tall promises for vote bank politics.
3. Rates of the taxes like Income Tax, Gift Tax or tax on Capital Transactions is required to be brought down on the grounds of breeding inefficiency in the system being economically less viable, creating scope for evasion and corruption.
4. Custom duties and Excise duties should be increased on luxury goods to restrict their imports as compared to basic need goods. It will help in diverting private consumption into productive investment.
5. There is a need to hold proper scrutiny on the expenditures of the various government departments and ministries in order to check the wastage of hard earned tax money of the country to be prevented from being wasted on unproductive activities and scams.

REFERENCES

1. Bilquees, Faiz. (2004) "Elasticity and Buoyancy of the Tax system in Pakistan." The Pakistan Development Review: 73-93.
2. Gordon, R., & Li, W. (2009). "Tax structures in developing countries: Many puzzles and a possible explanation." Journal of public Economics, 93(7), 855-866.
3. Harberger Arnold, C, 1962. The incidence of the corporation income tax, J. Political economy, 70(3): 215-240.
4. Horrigan, Kevin (2010-09-26). "Take a Lesson from Pakistan. Taxes are for Suckers" Saint Louis Post-Dispatch
5. Iqbal, N., Azam, M. F., & Shinwari, S. (2015). "Empirical Analysis of Tax Revenues and Its Impact on Economic Growth of Pakistan." Journal of Economics and Sustainable Development, 6(1), 110-117.
6. Lutfunnahar, B. (2007). "A Panel Study on Tax Effort and Tax Buoyancy with Special Reference to Bangladesh." Working Paper 715: Policy Analysis Unit (PAU) Research Department Bangladesh Bank.
7. Musgrave A. R., Musgrave B. P., Public Finance in Theory and Practice. 5th Edition. TATA McGRAW-HILL
8. Rao, M. G. (2000). "Tax reform in India: achievements and challenges." Asia Pacific Development Journal, 7(2), 59-74.
9. Rao, M. G., & Rao, R. K. (2006, September). "Trends and issues in tax policy and reform in India." In India Policy Forum (pp. 55-122).
10. Rao, M. G., & Sen, T. K. (1996). "Fiscal federalism in India: theory and practice." Macmillan India.

VALIDITY OF RETAIL SERVICE QUALITY SCALE (RSQS) IN UNORGANISED RETAIL OUTLETS LOCATED IN RURAL ENVIRONMENT

N. VIJAYALAKHSMI
RESEARCH SCHOLAR, BHARATHIAR UNIVERSITY, COIMBATORE; &
ASST. PROFESSOR
SRI ADI CHUNCHANGIRI COLLEGE FOR WOMEN
CUMBUM

DR. SALEEM KHAN
ASSOCIATE PROFESSOR
HAJEE KARUTHA ROWTHER HOWDIA COLLEGE
UTHAMAPALAYAM

ABSTRACT

The India Retail Industry is the largest among all the industries, accounting for over 10 per cent of the country's GDP and around 8 per cent of the employment. Unorganized retail sector is still predominating over organized sector in India, and it constitutes 98% (twelve million) of total trade, while organized trade accounts only for 2%. These kirana shops are having their own efficient management system and with this they are efficiently fulfilling the needs of the customers. With modern management approach and efficient supply chain management organised retail creates big threats to this traditional kirana stores. It is only by improving their service quality, they can satisfy and retain their customers. It has become a significant subject because of its impact on customers' satisfaction. Hence, Service Quality has drawn attention of researchers and managers in recent decades (Zeithaml, 2000). The service quality factors have been considered by various researchers but no researcher considered the factors holistically. Good service quality means that the customers' perceptions of service preference meet or exceed their expectations of what the firm should provide. Among the models, SERVQUAL (Parasuraman et.al., 1995) is the most prominent and the most widely used. It has been widely tested for its validity (Bebacus and Brisler, 1992, Boltron and Drem, 1991: Cronin and Taylor, 1994). Kaul (2007) tested the applicability of RSQS in Indian specialty apparel store context and found RSQS not valid and suggested future research to develop a modified scale for the Indian context. Since only a limited number of studies have been attempted to measure service quality in retail stores of rural areas, there is a significant gap in the literature in this area of research. The present study addresses the gap by studying the applicability of RSQS in unorganised stores located in rural district of Theni, Tamil Nadu.

KEYWORDS
Unorganised Retail, Organised Retail, Retail Service Quality Scale (RSQS).

INTRODUCTION

The India Retail Industry is the largest among all the industries, accounting for over 10 per cent of the country's GDP and around 8 per cent of the employment. Unorganized retail sector is still predominating over organized sector in India, unorganized retail sector constituting 98% (twelve million) of total trade, while organized trade accounts only for 2%. These kirana shops are having their own efficient management system and with this they are efficiently fulfilling the needs of the customers. With modern management approach and efficient supply chain management organised retail creates a big threat to traditional kirana stores. It is only by improving their service quality; they can satisfy and retain their customers. It has become significant subject because of its impact on customers' satisfaction. Hence, Service Quality has drawn attention of researchers and managers in recent decades (Zeithaml, 2000). With the rapid developments in retail industry, the understanding of retail service quality and identifying the determinants of retail service quality has become strategic importance to retailers (Nguyen, 2006).

The service quality factors have been considered by various researchers but no researcher considered the factors holistically. It is also difficult to measure service quality objectively as they are intangible, heterogeneous and inseparable. Good service quality means that the customers' perceptions of service preference meet or exceed their expectations of what the firm should provide.

Among the models, SERVQUAL (Parasuraman et.al., 1995) is the most prominent and the most widely used. It has been widely tested for its validity (Bebacus and Brisler, 1992, Boltron and Drem, 1991: Cronin and Taylor, 1994). In spite of five dimensional factor structure, Parasuraman de.al (1993) defended the five factor structure of service quality on conceptual practical grounds. Kaul (2007) tested the applicability of RSQS in Indian specialty apparel store context and found the RSQS not valid and suggested future research to develop a modified scale for the Indian context. Since only a limited number of studies have been attempted to measure service quality in retail settings, there is a significant gap in the literature in this area of research. The studies on Retail Service Quality in unorganized retail stores located in rural areas are also very much limited. The present study addresses the gap by studying the applicability of RSQS in a rural district of Theni, Tamil Nadu.

REVIEW OF LITERATURE

Boshoff and Terblanche (1997) tried to test the reliability and validity of RSQS in South African retail setting that the instrument was a valid and reliable one. Mehta, Lalwani and Han (2000) on testing the reliability of the scale in retail environments in Singapore found the scale reliable. Siu and Cheung (2001) tested the applicability of RSQS in a department store chain in HongKong and found that reliability dimension did not factor out and felt that RSQS can be applied with some modifications. Kim and Jin (2002) tested the validity of RSQS in discount stores for US and Korean customers. They found the dimension Policy to be unreliable in both the countries and a new dimension called Personal Attention factored out. Siu and Chow (2003) by using the adapted version of Siu and Cheung (2001) examined the service quality of a Japanese Supermarket in HongKong. The original dimension of problem solving areas integrated with Personal interaction and a new factor emerged in the study, which was named as Trustworthiness.

Parasuraman et al. (1988) defined service quality as conformance of customer specifications since it is the customers who define quality and not management. The authors also defined perceived service quality as the judgment of the customers about an entity's overall excellence or superiority.

Dabholkar et al. (1996) made extensive research to develop the Retail Service Quality Scale. In the process they were able to identify five dimensions that were central to service quality in retail settings viz., Physical Aspects, Reliability, Personal Interaction, Problem Solving and Policy. Though these five dimensions were distinct they were highly correlated.

The RSQ scale proposed by Dabholkar et al. included 28 items, 17 of which came from the SERVQUAL scale developed by Parasuram, Zeithmal and Berry (1988) and the remaining 11 items from the researchers' review of literature and qualitative research. After testing the RSQ scale with the customers of a US Department store, the authors found that the scale was suitable for studying retail businesses that offered a mix of services and goods. The authors suggested that replicate studies can be conducted for other retailers offering a mix of services and goods as an extension of their research.

STATEMENT OF THE PROBLEM

The RSQ Scale proposed by Dabholkar et.al., based on the scale SERVQUAL developed by Parasuram et.al., has been widely used to measure the service quality of retail businesses. While on reviewing past studies, it was found that its validity was tested mostly in Western retail environment and limited studies were undertakne in Asian countries. Further, the research focus was mainly over organised retail secto. The studies on the test of validity of RSQS in unorganised retail sector, especially in rural areas were limited in number. To full the research gap the present is undertaken.

OBJECTIVES OF THE STUDY

1. To identify the service quality factors in unorganized retail outlets located in rural area
2. To analyze the customers' expectation and perception on various service quality factors identified in unorganized retail outlets and
3. To offer suggestions based on the findings of the study.

METHODOLOGY

The research design adopted in the study is Descriptive Research Design with analytical content. The variables considered for the study was identified from the Scale proposed by Dabholkar et.al., (1996). They considered 28 items, 17 of them came from SERVQUAL developed Parasuram et.al., (1988). Based on the pilot study, seven variables were excluded, and only 21 variables were considered for the present study.

SAMPLE SIZE

The sample size taken for the study is 130 and the respondents were selected on a random basis.

DATA COLLECTION

The required primary data have been collected with the help of a pre-structured interview schedule. Secondary data was also used from research works carried out in the past.

TOOLS FOR ANALYSIS

The tools used for analysis and interpretation of the data are

1. Percentage Analysis
2. Factor Analysis
3. One Way Anova

RESULTS AND DISCUSSION

The demographic profile of sample respondents is presented in Table 1:

TABLE 1: DEMOGRAPHIC PROFILE OF SAMPLE RESPONDENTS

Demographic variable	Item	No. of Respondents	% of Respondents
Gender	Male	53	40.77
	Female	77	59.23
Age	Below 20	33	25.38
	Between 20 and 40	41	31.54
	Above 40	56	43.08
Educational status	Illiterates	47	36.15
	Schooling	52	40.00
	College level	31	23.85
Occupation	Agriculturist	51	39.23
	Self employed	23	17.69
	Others	56	43.08
Family income	Below Rs. 15000	61	46.92
	Between Rs. 15000 and Rs. 30000	42	32.31
	Above Rs. 30000	27	20.77
Size of family	Upto 5	74	56.92
	Above 5	56	43.08
Type of Famnily	Nuclear	73	56.15
	Joint	57	43.85
Frequency of buying	Daily	66	50.77
	Weekly	41	31.54
	Monthly	23	17.69
Average amount spent per purchase	Upto Rs. 200	87	66.92
	Above Rs. 200	43	33.08
No. of years of being a customer	Less than 2 years	83	63.85
	Between 2 years and 4 years	37	28.46
	Above 4 years	10	7.69
	Total	130	100.00

Source: Primary data

TABLE 2: KMO AND BARTLETT'S TEST

Kaiser-Meyer-Olkin Measure of Sampling Adequacy		0.704
Bartlett's Test of Sphericity	Approx. Chi-Square	1845.131
	Degrees of freedom	210
	Significance	0.000

Source: Computed from Primary Data

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT   59

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

http://ijrcm.org.in/

TABLE 3: RESULTS OF FACTOR ANALYSIS

FACTORS	VARIABLES	Factor loading	h²
Personal interactions	1. Harsh comments on products received with smile	0.908	0.840
	2. Salesmen are more helpful	0.905	0.856
	3. My long absence is enquired	0.760	0.660
	4. Recalling my advance/balance from memory	0.714	0.705
	5. Always giving valuable purchase tips	0.697	0.667
	% of variance explained	17.29	
	Cronbach's Alpha	0.872	
Store Aspects	1. Located in my locality	0.905	0.840
	2. Easy visibility of product available	0.890	0.838
	3. No time lost on billing	0.845	0.735
	4. Physical facilities available	0.832	0.849
	% of variance explained	15.35	
	Cronbach's Alpha	0.896	
Merchandise	1. All variables almost available	0.863	0.899
	2. Quality can be trusted	0.861	0.856
	3. No fear of adulteration	0.854	0.824
	4. Well aware of my requirements/ stocking goods in anticipation of my demand	0.693	0.735
	% of variance explained	14.26	
	Cronbach's Alpha	0.876	
Promotion and Policy	1. Door delivery is needed	0.861	0.798
	2. Availing credit facilities, concessions etc.,	0.795	0.807
	3. Complaints attended immediately	0.778	0.779
	4. Bargaining, checking of products and purchasing through maids, children are possible	0.724	0.833
	% of variance explained	1367	
	Cronbach's Alpha	0.662	
Responsiveness	1. Products not available, delivered the next day	0.936	0.895
	2. Voluntarily inform the availability of products, new varieties, price etc.	0.932	0.921
	3. My enquiries recalled in the next visit.	0.658	0.557
	% of variance explained	12.03	
	Cronbach's Alpha	0.847	
Convenience	1. Most helpful and concerned in times of emergency	0.832	0.763
	% of variance explained	6.72	
	Cronbach's Alpha	NA	

Source: Computed from Primary Data

The Factor Analysis (Table 3) has given six factor solution. As the value of KMO (Table 2) measure of sampling adequacy is more than 0.5, it indicates that the Factor Analysis is suitable for the data. Further, the values of Cronbach's Alpha which stood as 0.872 (Factor 1), 0.896 (Factor 2), 0.876 (Factor 3), 0.762 (Factor 4) and 0.847 (Factor 5). As the Factor 6 having consisted of only one variable, it did not have Cronbach's Alpha value. The total Cumulative percentage of variance explained is 79.32. The Factors are named as – Factor 1 – Personal Interaction (explained 17.29%), Factor 2 – Store Aspects (explained 15.35 %), Factor 3 – Merchandise (explained 14.26%), Factor 4 – Promotion and Policy (explained 13.67%), Factor 5 – Responsiveness (explained 12.03%) and Factor 6 Convenience (explained 6.72%).

Six dimensions of retail service quality has emerged from the analysis. Three new factors such as 'Merchandise', 'Responsiveness' and 'Convenience' were identified by consumers of unorganised retail outlets of rural environment.

Further, the perceptions and opinion of consumers over the identified determinants of retail service quality factors was analyzed across the demographic variables of consumers by using one-way Anova. The results have indicated the service gap in the quality dimensions identified. It is shown in Table 4

TABLE 4: RESULTS OF ONE-WAY ANOVA (ACROSS DEMOGRAPHIC VARIABLES SHOWING PERCEPTIONS AND OPINION OF CONSUMERS) OVER IDENTIFIED SERVICE QUALITY FACTORS

Demographic variables	Factor 1		Factor 2		Factor 3		Factor 4		Factor 5		Factor 6	
	F Value	Sig. level	F Value	Sig. level	F Value	Sig. level	F Value	Sig. level	F Value	Sig. level	F Value	Sig. level
Gender	1.511	0.221	0.336	0.563	0.223	0.638	0.122	0.727	0.382	0.538	3.945	0.049**
Age	0.778	0.461	0.569	0.568	0.144	0.866	0.982	0.377	0.347	0.708	1.251	0.290
Educational status	2.414	0.094***	0.109	0.897	1.997	0.140	3.8945	0.024**	0.116	0.891	1.908	0.153
Occupation	4.180	0.017**	0.856	0.427	1.619	0.202	4.370	0.015**	0.032	0.969	1.120	0.330
Marital status	2.520	0.115	0.001	0.978	0.065	0.800	0.041	0.840	0.043	0.836	0.828	0.365
Family income	0.904	0.407	0.685	0.506	1.220	0.299	0.667	0.515	0.544	0.582	0.291	0.748
Family size	2.593	0.110	4.015	0.047**	0.170	0.681	2.630	0.107	1.050	0.307	0.021	0.886
Type of family	0.956	0.330	4.687	0.032**	0.069	0.793	0.584	0.448	0.000	0.988	0.193	0.661
Frequency of buying	4.913	0.009*	1.069	0.346	1.724	0182	3.467	0.034**	0.006	0.994	1.590	0.208
No.of years of purchase	2.352	0.099	0.065	0.937	0.154	0.858	0.544	0.582	0.205	0.815	4.506	0.013**

*Significant at 1 per cent level   ** Significant at 5 per cent level   *** Significant at 10 per cent level

It is found from the analysis that in respect of Factor 1 (Personal Interaction) and Factor 4 (Promotion and Policy) a significant difference existed between groups in the expectation of respondents belonging to the 'educational status' and 'frequency of buying'. In respect of Factor 2 (Store Aspect), a significant difference was noticed within the sub-groups of 'Family size'.

In respect of Factor 6 (Convenience) and Factor 2 (Store Aspect) a significant difference existed in expectations of respondents belonging to the sub-groups of 'Number of years being customers (Loyalty)' and 'Type of Family' respectively.

The expectations and satisfaction of respondents belonging to the remaining demographic variables of 'age', 'gender', 'occupation', 'family income' and 'amount spent', were more or less equal over the six factors expressing the service quality of unorganised retail stores located in rural areas.

Therefore, the RSQS developed by Dhabolkar et.al (1994) is not validated among the customers of unorganised retail stores located in rural environment. Though the present study confirmed the three service quality factors (Personal Interactions, Store Aspects and Promotional Policy) but it has identified and added three more service dimensions in the form of 'Merchandise', 'Responsiveness' and 'Convenience' Factors.

SUGGESTIONS AND CONCLUSION

Retail sector in India is facing an intense competition in the present globalised scenario. The retail outlets that aim to develop a competitive advantage, the measurement of retail service quality scale is imperative.

The present study besides modifying the famous RSQS, it indicated that the customers' expectations are higher in respect of service quality factors such as 'Personal Interaction', 'Store Aspects', 'Promotion and Policy' and 'Convenience'. This has signaled that the retailers have to improve these service quality factors. Although location might be an advantage of kirana stores, this cannot be long-lived at residential areas. At any moment the big-box retailers can foray into the areas and operate with their aggressive strategies. Recent studies in India indicated that consumers are gradually shifting their buying from unorganised outlets to organised outlets. The present study by bringing new insights into the retail service quality will thus help unorganised retailers to frame offensive marketing strategies to satisfy and retain the customers in their fold.

REFERENCES

1. Dabholkar, P.; Thorpe, D. and Rentz, J. *A Measure of Service Quality for Retail Stores: Scale Development and Validation,* Journal of the Academy of Marketing Science, 24 (Winter), 3-16, (1996).
2. Kotler, Phillip (1973), " Atmospherics as a marketing Tool", Journal of Retailing, 49 (Winter) ,pp.48- 64
3. Nguyen, Thi Mai Trang, *Service Quality, Customer Satisfaction and Loyalty: A study of supermarkets in Ho Chi Minh City*, Journal of Science and Technology Development – Social Sciences Humanitites and Management, Vol. 9 No 10, pp.57-70, (2006).
4. Parasuraman, A., Zeithaml, V.A. and Berry, L.L. (1985) „A conceptual model of service quality and its implications for future research, *Journal of Marketing*, Vol. 49, No. 4, pp. 41-50.
5. Parasuraman, A., Zeithaml, V.A., and Berry, L. L. (1988) „SERVQUAL: A multiple-item scale for measuring consumer perceptions of service quality", *Journal of Retailing*, Vol. 64, No.1, pp. 12-40.

WEBSITES

6. http://en.wikipedia.org/wiki/Demographics_of_India
7. http://indianresearchjournals.com/pdf/IJMFSMR/2013/June/7.pdf
8. http://wikieducator.org/INCOME_EFFECT
9. http://worldconferences.net/proceedings/icssr2013/
10. http://www.ijbarr.com/downloads/3105201411.pdf
11. https://www.academia.edu/4681106/Impact_of_Gender_Age_and_Income_on_Consumers_Purchasing_Responsiveness_to_Free-Product_Samples

THE LEGAL ORIGIN OF THE PRINCIPLE OF 'FREE, PRIOR, INFORMED CONSENT' AND ITS APPLICATION TO NATURAL RESOURCE PROJECT DEVELOPMENTS

THUO NJOROGE DANIEL
LECTURER
DEPARTMENT OF ECONOMICS
SCHOOL OF BUSINESS
KARATINA UNIVERSITY
KARATINA

ABSTRACT

Natural resources are key to development of many nations, based primary on the age old Smithian principle of comparative advantage. However, natural resource exploitation raises key problems to the indigenous populations in the areas of natural deposits, including, but limited to conflicts, environmental degradation, displacement, non recognition of cultural rights, destruction of cultural sites, and inequitable distribution of resources from the said exploitation. All these problems are compounded by institutional bottlenecks of government beaurocracy and corruption, as well as the legal and policy lacuna of various countries in respect to protection of such rights of the indigenous peoples. In the context of Africa, these problems are exacerbated by the current wave of exploitation led by China and India, which countries do not tie human rights and governance guidelines to their contracts of engagement with African governments. In this article, the author argues that it is only the principle of free, fair and prior informed consent that can lead to sustainable resource project development. However, there are key challenges, namely, corruption, secrecy, nepotism and lack of legal and institutional regime to enforce the principle of free prior informed consent. The author asserts that these can be addressed through effecting institutional reforms aimed at ensuring that the systems for natural resource project development are transparent and accountable; and to build technical expertise of the various government officials as regards to exploitation of natural resource development projects in indigenous territories.

KEYWORDS

Natural Resource Project Development, Indigenous Peoples Rights, Africa, Principle of Free Prior Informed Consent, Kenya, Emerging Economies, China.

BACKGROUND: NATURAL RESOURCE EXPLOITATION AND INDIGENOUS PEOPLES RIGHTS

The exploitation of resources is a natural right of any government. However, the process of such exploitation in areas occupied by indigenous peoples often leads to allegations, and sometimes evidence, of human rights abuses, destruction of cultural centres and sites, inequitable sharing of benefits, and forced relocation of the communities. All these lead to the need to find a better way for countries to exploit their natural resources while at the same time, respecting the rights of the indigenous peoples.

Development projects and operations, legal and administrative regimes have had and continue to have a devastating impact on indigenous peoples, undermining their ability to sustain themselves physically and culturally. These threats have been documented by many studies and experiences that the Principles of FPIC of IPs to development projects and plans that may affect them has emerged as the desired standard to be applied in protecting and promoting their rights in the developmental process[1]." Indeed, the World Bank"s Extractive Industries Review (EIR) concluded that recognition and implementation of the rights of affected people to prior and informed consent is a necessary condition for extractive projects to be successful in contributing to poverty alleviation and sustainable development.

The Principle of 'Free, Prior, Informed Consent' (FPIC), is a key tool in relation to development projects affecting indigenous peoples, ensuring that:

i.   Indigenous peoples are not coerced, pressured or intimidated in their choices of development;
ii.   Indigenous peoples' consent is sought and freely given prior to the start of development activities;
iii. Indigenous Peoples have full information about the scope and impacts of the proposed development activities on their lands, resources and well being;
iv.   Indigenous peoples' choices to give or withhold consent over developments affecting them is respected and upheld.

Indigenous Peoples" right to free, prior and informed consent (FPIC) has been recognized by a number of intergovernmental organizations, international bodies, conventions and international human rights law in varying degrees and increasingly in the laws of State2.

FREE, PRIOR, INFORMED CONSENT IN NATURAL RESOURCE DEVELOPMENT PROJECTS

Definition and Scope

Free, prior and informed consent (FPIC) refers to the rights of local communities, particularly indigenous peoples, to participate in decision making about issues impacting them. Examples include natural resource management, economic development, uses of traditional knowledge and genetic resources, health care and education. The role of indigenous peoples' FPIC in decisions about infrastructure or extractive industries developed on their ancestral domain is of concern within international law.[3]

The following elements, but shall not be limited to, are a set of core principles of FPIC in relation to indigenous peoples:

The principle of FPIC recognizes IPs" inherent and prior rights to their lands, territories and resources and respects their legitimate authority and requires processes that allow and support meaningful choices by indigenous peoples about their development path.

The principle of FPIC is central to IPs" exercise of their right to self-determination with respect to developments affecting them[4].

In International Sphere

The principle of FPIC within international development is most clearly stated in the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP). Article 10 states:

Indigenous peoples shall not be forcibly removed from their lands or territories. No relocation shall take place without the free, prior and informed consent of the indigenous peoples concerned and after agreement on just and fair compensation and, where possible, with the option of return.[5]

Articles 11, 19, 28 and 29 of the declaration also explicitly use the term. [6] It is also established in international conventions, notably the ILO Convention 169 on Indigenous and Tribal Peoples. Countries including Peru, Australia and the Philippines have included FPIC in national law.[7]

ILO 169/1989 refers to the principles of FPIC: Article 6, 7, 16, 16 and 22 provides that the government shall consult the peoples concerned, through appropriate procedures prior to exploration or exploitation of sub-surface resources (article 15.2); when any consideration is being given to indigenous and tribal peoples" capacity to alienate their lands or to transmit them outside their own communities (article 17); and prior to relocation, which should take place only with the FPIC of IPs (article 16).

Further, Article 15 of the CBD provides: "Respecting established legal rights of indigenous and local communities associated with the genetic resources being accessed or where traditional knowledge associated with these genetic resources is being accessed, *the prior informed consent of indigenous and local communities and the approval and involvement of the holders* of traditional knowledge, innovations and practices should be obtained, in accordance with their traditional practices, national access policies and subject to domestic laws."

Also, the Cartagena Bio-Safety Protocol (2000) to CBD applies to the transboundary movement, transit, handling and use of all living modified organism that may have adverse effects on the conservation and sustainable use of biological diversity, taking also into account risks to human health.

Interpretation of the principle of FPIC should be embedded in international human rights instruments, conventions and in UNDD on the rights of IPs, which provides a comprehensive set of indigenous peoples rights.

Finally, the Rotterdam Convention on the Prior Informed Consent procedure for certain hazardous chemicals and pesticides in international trade, 1998 (Enforced in February 2004) applies to banned or severely restricted chemicals; and severely hazardous pesticide formulations that may impact on human health and the environment. This Convention was developed on the works undertaken by the UNEP and FAO in the operation of voluntary prior informed consent procedure, as set out in the UNEP amended London guidelines for the Exchange of Information on Chemicals in International Trade and the FAO International Code of Conduct on the Distribution and Use of Pesticides.

In summary, international law provides, explicitly for protection, guarantee, and promotion of the rights of the indigenious peoples in the process of exploitation of natural resources.

In Kenya

Kenya does not have a national legislation on the free, prior and informed consent of indigenous peoples for all activities affecting their lands and territories. Under Article 63, community land shall vest in and be held by communities identified on the basis of ethnicity, culture or similar community of interest. Article 56 specifically provides for the affirmative action for minorities and marginalized groups through programmes designed to ensure that they participate and are represented in governance and other spheres of life, are provided special educational and economic opportunities, access to employment, programmes to develop their cultural values, languages and practices and also ensure that they have reasonable access to water, health services and infrastructure. Article 7 of the new constitution obliges the state to promote and protect the diversity of language of the people of Kenya. The state is also obliged to promote the development and use of indigenous languages. Article 11 recognizes culture as the foundation of the nation and obliges the state to promote all forms of cultural expression through literature, the arts, traditional celebrations, science, communication, information, mass media, publications, libraries and other cultural heritage.

RECOMMENDATIONS

Various strategies can be implemented by governments to ensure that the indigenous peoples experience the benefits of free, prior and informed consent, and consequently, enjoy development benefits. These include reforms in the legal framework, promotion of participatory development, and enforcement of the rights, as below:

Participatory Development

Participation of indigenous peoples is key to the design, decision, implementation and evaluation of any activity in providing FPIC. Through participatory development, the indigenous peoples can influence and share control over development initiatives, and over the decisions and resources that affect their lives[8]. For effective participation, the citizens must be capacitated through information in so as to make informed choices. [9] In *Development as Freedom*, Sen argued that individuals act in their best interest whenever they have the choice, that is, when they possess adequate knowledge.[10] Indeed, for truly participatory development to take place anywhere in a modern nation state, the people must have access to information. Information ensures public awareness from which people can make informed choices, such as assessment of political and economic regimes. Confucius warned long ago that, *"The people may be made to follow the course of action; but they must be made to understand it."*[11] Access to information makes people understand the course of action. Further, Professor Michael Todaro (1977) sees three objectives of development as producing more „life sustaining" necessities such as food, shelter, and health care and broadening their distribution; raising standards of living and individual self esteem; and expanding economic and social choice and reducing fear. He thus puts participation of the indigenous communities at the centre of development.[12]

Legal Enactment and Recognition

FPIC is an established feature of international human rights norms and development policies pertaining to indigenous peoples. Legislative and administrative measures, development projects planning and all activities affecting indigenous peoples" culture, history, traditional knowledge, lands, territories, natural resources, genetic resources, climate, environment, arts and artifacts, historical and sacred sites require FPIC. There is need to have internationally agreed definition or understanding of the principle or mechanism for implementation. Further, FPIC should be recognized legally in national legislation and FPIC should be legally enforceable through the courts.

Definition and Interpretation of FPIC Concepts

Definition of Terminologies such as Free, Prior, Informed and Consent is required formally. This will make FPIC to be fitted, easily, into the core principles and elements as a practical tool for providing technical guidance to policy makers and actors, whether in national or local government, the private sector, multinationals, indigenous and local communities and other organizations; and whether in regional or international level or UN agencies at interagency level – country offices in CCA, UNDAF and MDGS. Further, the interpretation of the principle of FPIC should be embedded in international human rights instruments, conventions and in draft declaration on the rights of IPs, which provides a comprehensive set of indigenous peoples" rights. Such interpretation will make the principle of FPIC an obligatory methodology for the States and project developers in activities relating to indigenous peoples.

Applying the Human Rights Based Approach

The principle of FPIC should be implemented based on human rights approach. This approach promotes, protects and defends the rights – particularly the social, economic and cultural rights – of the most vulnerable and marginalised as being integral to sustainable development[13]. The African governments should avoid their polarisation and ensure that all rights – including social, economic and cultural rights – are protected and promoted. To avoid the usual polarisation between the latter rights and political and civil rights, it is suggested that a human-rights-based approach to development be adopted. Such an approach combines social, economic and cultural rights with civil and political rights, and the building of a just, equitable social contract between State and citizen.[14]

A human-rights-based approach will also assist in linking the human rights agenda to the broader development agenda, capacitating the people to enjoy development results[15]. The current discourse on human security and human rights is very relevant to the AU agenda. A human rights approach would also require governments to develop clear plans of action with targets, objectives and measures for achieving them, and to allocate substantial resources to their achievement[16].

Further, Samuel Huntington"s modernity theory in development propounds development (of which resource exploitation is a part) to be a linear process which every country must go through, with the state as the central actor in modernizing "backward" or "underdeveloped" societies. He hence put the state at the centre of development, and deductively, the chief duty bearer.[17]

Contesting claims between States and other stakeholders including IPs should be resolved and have clear institutional arrangements (mechanism) for monitoring compliance and redress of grievances.

Empirical Studies & Environmental Impact Assessments

The governments, and other stakeholders, advocacy organisation, and civil society groups, should commission case studies to explore the possibility of developing international legal frameworks on the principles of FPIC in order to elaborate and harmonize the implementation of the UN Agencies in relation to indigenous peoples and local communities. This is both a requirement in international and national laws, as well as a prudential feature of community led development efforts.

CONCLUSION

Africa is a rising continent. New resources are being discovered, and commercial exploitation are being executed, with mixed results of related development, as well as corruption. It is important that Africa develops a novel methodology of engaging the players in the public resource management arena in indigenous areas, so that the development gravy train of Africa can trickle down, and cause real change in human development indices, and not just percentage bleeps in

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT   63

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

http://ijrcm.org.in/

Gross Domestic Products (GDPs) and other national macroeconomic indicators, while leading to human rights abuses, and lop sided development in the indigenous regions. It is only through such approach that development will lead to the expansion of capabilities; production of necessities; and the enhancement of social choice and effectively give the people the freedom and capacity to choose *how* they want to live.[18]

Further, Professor Dudley Seers[19] argues that development is about outcomes, that is, development occurs with the reduction and elimination of poverty, inequality, and unemployment within a growing economy. Effectively, there is need for the states to ensure equitable distribution of resources to the indigenous communities.

In addition, Ekins has argued for *development from below*, as the philosophy and action of *learning* from below. Development from below seeks to consult first with "those who are last" in determining the development agenda. The spinal cord of development from below is participation of the people in formulating the plans, implementing them and participating in the sharing of benefits resulting from such developmental processes. This view is very representative of the principle of participatory development.[20] To this end, participation by indigenous communities in resource extractions in their communes is non-negotiable.

Finally, there is need to differentiate state sovereignty from state resources. There is an argument that FPIC contravenes state sovereignty in general, including state sovereignty over natural resources. To quote a line from American TV Drama, Madam Secretary, on a scene where China and Japan are conflicting on natural resources, the American Secretary of State says *"we have proven that we can share natural resources without splitting natural sovereignty."*[21]

NOTES

1. Bridging the gap between human rights and development: From Normative Principles to Operational Relevance. Lecture by Mary Robinson, DC., 3 Dec. 2001. Report of Special Rapporteur on the situation of human rights and fundamental freedoms of indigenous people, Mr. Rodulfo Stavenhagen, submitted pursuant to Commission resolution 2001/57. UN Doc. E/CN.4/2002/97, para. 56 (E/CN.4/2003/90). Striking a Better Balance. The World Bank Group and Extractive Industries. The Final Report of the Extractive Industries Review, Vol. 1, December 2003, 41.
2. FPP briefing paper, "indigenous peoples' right to free, prior and informed consent and the World Bank's Extractive Industries Review."
3. Tara Ward. "The Right to Free, Prior, and Informed Consent: Indigenous Peoples' Participation Rights within International Law". Journal of International Human Rights.
4. Article 371 G.
5. United Nations Declaration on the Rights of Indigenous Peoples (Report). United Nations.
6. id
7. See "FPIC and the extractive industries". Institute for Environment and Development. 2013. available at http://pubs.iied.org/pdfs/16530IIED.pdf accessed on 2014-12-17
8. Framework for Mainstreaming Participatory Development Processes into Bank Operations, ADB. 1996
9. Pillar 2, AHHRIS Convention, Public Participation
10. Sen, Development as Freedom (Oxford: Oxford University Press, 1999).
11. See generally, Creel, Herrlee Glessner (1949). Confucius: The man and the myth. New York: John Day Company.
12. Tadaro Michael, Economics for a Developing World, Singapore, Longman Group, 2nd Edition Ed 1977.
13. Agbakwa, SC. 2006. "Reclaiming humanity: Social, economic and cultural rights as the cornerstone of African human rights". In Heyns, C & K Stefisyun K (Eds). Human rights, peace and justice in Africa: A reader. Pretoria: Pretoria University Law Press.
14. Green, D. 2008. From poverty to power: How active citizens and effective states can change the world. Oxford: Oxfam International.
15. Sen, A. 1999. Development as freedom. New York: Alfred A Knopf Inc.
16. Gutto, S. 2004. The legal nature of the right to development and enhancement of its binding status. Paper commissioned by the Research and the Right to Development Branch. Geneva: United Nations High Commissioner for Human Rights.
17. Samuel Huntington. Political Order in Changing Societies (1968)
18. Amartya Sen Development as Freedom Oxford University Press 1999
19. Dudley Seers, (1971) Development in a Devided World" Oxford Univeristy Press
20. Ramirez, R. 1997. Participatory Learning and Communication Approaches for Managing Pluralism: Implications for Sustainable Forestry, Agriculture and Rural Development, FAO.
21. Madam Secretary, Season 2.

REFERENCES

BOOKS
1. Forest Peoples Programme and Tebtebba (2003), Extracting Promises: Indigenous Peoples, Extractive Industries and the World Bank, the Philippines.
2. Gupta, Anil K. (2004), WIPO-UNEP Study on the Role of Intellectual Property Rights in the Sharing of Benefits Arising from the Use of Biological Resources and Associated Traditional Knowledge, WIPO AND UNEP.Study No. 4.

INTERNATIONAL INSTRUMENTS
3. Akwe: Kon Voluntary Guidelines for the Conduct of Cultural, Environmental and Social Assessments Regarding Developments Proposed to Take Place ojn, or which are likely to Impact on, Sacred Sites and on Lands and Waters Traditionally Occupied or used by Indigenous and Local Communities, adopted at COP 7, 2004, Montreal, SCBD.
4. Bonn Guidelines on Access to Genetic Resources and Fair and Equitable Sharing of the Benefits Arising out of their Utilization, 2002, Montreal, Secretariat of CBD2002.
5. Cartagena Protocol on Biosafety to the Convention on Biological Dirversity: Text and Annexes, Montreal, Canada, SCBD, 2000.
6. Draft International Guidelines for Activities Related to Sustainable Tourism Development in Vulnerable Terrestrial, Mriane and Coastal Ecosystems and Habitats of Major Importance for Biological Diversity and Protected Areas, including Fragile Riparian and Mountain Ecosystems at http:// www.biodiv.org
7. Draft United Nations Declaration on the Rights of Indigenous Peoples, UN Commission on Human Rights, Sub-Commission on Prevention of Discrimination and Protection of Minorities, 46th Session, UN doc. E/CN.4/Sub. 2/1994/30.
8. Guidelines for Incorporating Biodiversity-related Issues into Environmental in Assessment Legislation and / or process and in Strategic Environmental Assessment (Decision VI/7).
9. International Labour Organisation Indigenous and Tribal Peoples Convention 1989 (No. 169) 72 ILO Official Bull. 59, entered into force Sept. 5, 1991.
10. Rotterdam Convention on the Prior Informed Consent procedure for certain hazardous chemicals and pesticides in international trade, 1998 (Enforced in February 2004)
11. The Convention on Biological Diversity: Texts and Annexes, Secretariat of the CBD, Montreal, Quebec, Canada, February 2002.

INTERNATIONAL OFFICIAL RECORDS
12. Commentary on the Norms on the Responsibilities of Transnational Corporations and other Business Enterprises with Regard to Human Rights (UN Doc. E/CN.4/Sub.2/ 2003/38/Rev.2).
13. Concluding Observations of the Committee on Economic, Social and Cultural Rights: Columbia. 30/11/2001. E/C.12/Add. 1/74.
14. Decision V/16 above n 8, Annex: Programme of Work, 1. General Principles 5, at 139-42.
15. General Recommendation XXIII (51) concerning Indigenous Peoples. Adopted at the Committee's 1235th meeting, 18 August 1997. (UN Doc. CERD/C/51/Misc.13/Rev.4.
16. Inter-Agency Support Group on Indigenous Issues; report on free, prior and informed consent E/C.19/2004/11.

17. Inter-American Development Bank, Involuntary Resettlement – Operational Policy and Background Paper, October 1998.
18. Preliminary working paper on the principle of free, prior and informed consent of indigenous peoples in relation to development affecting their lands and natural resources that would serve as a framework for the drafting of a legal commentary by the Working Group on this concept submitted by Antoanella-Iulia Motoc and the Tebtebba Foundation, E/CN.4/Sub.2/AC.4/2004/4.
19. Report of the Commission on Transnational Corporations to the Working Group on Indigenous Populations (UN Doc. E/CN.4/Sub.2/1994/40.
20. Report of the Workshop on Indigenous Peoples, Private Sector, Natural Resource, Energy, Mining Companies and Human Rights, Geneva, 5-7 December 2001 (E/CN.4/Sub.2/AC.4/2002/3, 17 June 2002.
21. Report of Special Rapporteur on the situation of human rights and fundamental freedoms of indigenous people, Mr. Rodulfo Stavenhagen, submitted pursuant to Commission resolution 2001/57. UN Doc. E/CN.4/2002/97, para. 56 (E/CN.4/2003/90).
22. Striking a Better Balance. The World Bank Group and Extractive Industries. The Final Report of the Extractive Industries Review, Vol. 1, December 2003, 41.
23. The World Bank Group and Extractive Industries: The Final Report of the Extractive Review Meeting of the Executive Directors, August 3, 2004.
24. The World Bank: Legal Note on Free, Prior and Informed Consultation, Senior Vice President and General Counsel, World Bank General Counsel, IFC and Vice President and General Counsel, MUGA, August 2, 2004.

NATIONAL LEVEL

25. Framework for incorporating indigenous communities within the rules accompanying the Sabah Biodiversity Enactment 2000, Policy paper, November 2004.
26. The Indigenous Peoples" Rights Act of 1997.

BRIEFING PAPERS

27. Bridging the gap between human rights and development: From Normative Principles to Operational Relevance. Lecture by Mary Robinson, DC., 3 Dec. 2001.
28. FPP briefing paper, "indigenous peoples" right to free, prior and informed consent and the World Bank"s Extractive Industries Review."
29. Fergus Mackay at the ED briefing on FPIC, World Bank, June 2004. Fergus Mackey, A
30. Guide to Indigenous Peoples" Rights in the Inter-American Human Rights System, Octobe 2001, FPP, UK.
31. Marcus Colchester, Forest Industries, Indigenous Peoples and Human Rights, Dec. 2001, FPP, UK.
32. Tamang, Parshuram (2004), Free, Prior and Informed Consent and Indigenous Peoples, presented at International Workshop on FPIC, organised by IIFB, Bangkok, Thailand.
33. Valadez, Ana (2004), Maya - International Collaborative Biodiversity Groups Consortium, presented at International Workshop on FPIC, organised by IIFB, Bangkok, Thailand.

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT 65

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

http://ijrcm.org.in/

THE HIPC INITIATIVE AND THE SUSTAINABILITY OF THE NATIONAL DEBT IN CAMEROON

JUMBO URIE ELEAZAR
LECTURER
FACULTY OF ECONOMICS & MANAGEMENT
UNIVERSITY OF DSCHANG
CAMEROON

TAFAKEU METIAMBENG MARIE JOSEE
STUDENT
FACULTY OF ECONOMICS & MANAGEMENT
UNIVERSITY OF DSCHANG
CAMEROON

ABSTRACT

The objective of this study is to show that the HIPC initiative alone cannot be sufficient to ensure the long term sustainability of the national debt of Cameroon through the implementation of its mechanisms of debt rescheduling and debt reduction. The application of the Debt Sustainability Assessment method (DSA method) used by the Bretton Woods institutions has permitted us to show that the national debt is unsustainable when the HIPC initiative implements the debt reduction mechanism. This is due to the fact that it just takes into consideration the foreign debt which is only a part of the national debt. On the other hand, the use of the accounting method and the unit root tests over the 1980 to 2010 period has proven and confirmed the unsustainability of the national debt of Cameroon. Our study, by recommending the integration of the internal debt in the analysis shows that the achievement of debt sustainability passes through a sustainable impulse of economic growth, good governance, a good use of the available resources and the diversification of Cameroon production and exports.

KEYWORDS
Debt, Debt sustainability, Economic growth, HIPC initiative, Reduction of debt.

JEL CLASSIFICATION
F34, F43, H60, H63.

1. INTRODUCTION

More than ever, studies concerning the national debt and its risks of unsustainability are at the centre of financial, economic and political debates. The severe crisis experienced by the whole world has led to a staggering increase of deficits and national debts in most of the countries.

After the 1970s decade characterised by a rigorous and wise economic management, the beginning of the 1980s decade has been marked by many macroeconomic imbalances (in particular the excessive increase of the foreign debt of the Third World countries, the drop in the tax revenues) which are going to affect on a permanent basis the Developing Countries (DC). These imbalances have rapidly put the Third World countries in a severe debt crisis. As a matter of fact, according to Nayla (2007), the debt of the developing countries has been multiplied by twelve between 1970 and 1980.

Cameroon, as all the developing countries has not been exempted from this crisis for in her efforts of development just after the independence in1960, she has put in place infrastructural projects (roads, industries, hospitals, research centres, etc.) to develop. The turning of these development projects into a reality has requested big financial means. But considering the insufficiency of the domestic saving, the foreign debt has become as the means of financing development. As a matter of fact, Cameroon debt has constantly increased since the beginning of the 1970s, which is considered as the period of big investments just after the independence.

For Fambom (2002), Cameroon debt has reached 7091 million US dollars in 1999 and the service of the debt has experienced a strong evolution in the 1990s. This excessive rise of Cameroon foreign debt and the service of debt have compelled the country to accept the different programmes of the Bretton Woods Institutions (BWI) including the most recent one which is the HIPC initiative considered as a global device of debt reduction of the heavily indebted and poor countries which apply the IMF and the World Bank reforms and structural adjustment programmes. This device aims at responding to the preoccupations of several countries with low income which the national debt was still not viable after the application of the traditional measures of debt alleviation and having as objective to reduce the debt of the HIPC to a sustainable level.

Economists have always been interested in the debt problem. A rich literature treats different aspects of the problem. Because of this, economists have never been unanimous about the debt of the State. Our main concern in the present study is the HIPC initiative and the sustainability of the debt of Cameroon. This leads us to the following main research question: does the HIPC initiative sufficient to ensure the long term sustainability of the national debt of Cameroon?

From this main question, we can derive two secondary questions such as:
- Does the mechanism of rescheduling of the debt implemented through the HIPC initiative contribute efficiently to the sustainability of the debt of Cameroon?
- Does the mechanism of debt alleviation implemented through the HIPC initiative contribute efficiently to the sustainability of the debt of Cameroon?

From these different questions, the main objective of the present study is to show that the HIPC initiative alone is not enough to ensure the long term sustainability of the national debt of Cameroon. In a specific way, it is a matter of showing the influence of the debt rescheduling mechanism implemented by the HIPC initiative on the sustainability of the national debt of Cameroon on the one hand, and to show the influence of the debt reduction mechanism implemented by the HIPC initiative on the sustainability of the national debt of Cameroon on the other hand. To achieve the above mentioned objectives, we formulate two null hypotheses which are:

H_{01} : the mechanism of debt rescheduling does not affect significantly the sustainability of the national debt of Cameroon;

H_{02} : the mechanism of debt reduction does not affect significantly the sustainability of the national debt of Cameroon.

These hypotheses stem from the review of the works of **Fambom** (2002) and **Madhur Gautam** (2003) who worked respectively on "Debt of Cameroon: problems and solutions" and "Reduction of the debt for the heavily indebted, EOD examination of the HIPC initiative" and from many other authors.

The interest of this study is that it presents a multi approach analysis of the sustainability of the national debt of Cameroon. This permits us to compare the assessment model of debt sustainability used by the institutions of Bretton Woods to the specific case of Cameroon, which is a country with intermediary income to the economic models of evaluation (assessment) of debt sustainability of a country. In addition, it permits us to assess the capacity of the HIPC initiative to make alone the Cameroon debt sustainable.

2.   THEORETICAL AND EMPIRICAL FRAMEWORK OF THE STUDY

This section reviews the different theoretical and empirical works relating to the management of the debt of poor countries.

2.1.   THEORETICAL FRAMEWORK

In the literature, several, theories have been developed on the debt of a country. They go from the perception of the State borrowing to the debt capacity of a country. The aim of this section is to present these different theories by reinforcing them if possible with empirical studies carried out.

Economists have never been unanimous about the State debt. It perception varies depending on schools of thoughts. Keynesian economists think that debt can be necessary and even efficient for the development of a country. For them, the debt more generally does not generate cost neither for the present generations nor for the future generations due to the new investments that it generates. But unlike Keynesians, the classical economists reject systematically the State borrowing and think that any State borrowing can only be harmful for the economic agents.

Other economists rather wonder about the capacity of external financing to develop a country (since when a country gets into debt, it is necessarily to achieve its development projects). While some think that the foreign financing is only the new expression of imperialism at the supreme stage of the development of capitalism in a state of perpetual enslavement and which, therefore can only be the impoverishment of the receiving economy, others feel that foreign financing is the expression of the spirit of solidarity of the developed countries, which generously put capital at the disposal of the developing countries which can enable them to fill at the same time their deficit in saving and in development, and therefore to push them towards development.

Whatever the school of thoughts, we have the same observation: the developing countries need financings to ensure their investments. Since their independence, we observe that the national saving is low in these countries which are therefore constrained to have recourse to foreign borrowings. Thus, the debt problem mostly for the developing countries can also be raised in terms of debt capacity. In addition, the question of the debt capacity refers to two types of concerns which are: what is the optimal level of debt? What is the maximum amount of debt that a country can have without compromising its growth and the additional creation of wealth? To provide answers to these questions, we should examine the theories of the debt cycle, of the optimal debt and of the sustainable debt capacity.

As we earlier said, the HIPC initiative is as a global device of debt reduction of the heavily indebted and poor countries which apply the IMF and the World Bank reforms and structural adjustment programmes. This mechanism has been put in place to reduce or alleviate the debt weight of the heavily indebted and poor countries in order to make their debt sustainable. Considering what has been mentioned above, it seems wise to first of all dwell on this initiative in order to understand its causes and justification.

It originated in the 1980s. As a matter of fact, following the crisis of the 1980s, the main support measures of the international financial institutions towards the countries experiencing difficulties to honour their foreign debt service have been proved to be rather inconclusive; and this was generally due to the fact that when a country was facing small economic difficulties, the solution proposed by the creditors of the Paris Club was based on a classical financial treatment which led to the rescheduling of its debt. As a matter of fact, the implementation of the structural adjustment programmes, the rescheduling of debt granted by the Paris Club (rescheduling of the service of the debt falling due) as well as the operations on the stock of debt (reduction of the debt itself) in the plan of Brandy have not given the expected results. Moreover, in addition to the weak economic growth, poverty has increased in most of these countries. It is to remedy to this situation that the Bretton Woods organisations have jointly launched the HIPC initiative which the basic principle is to give the possibility to the beneficiary countries to get out from the vicious circle of the foreign debt.

The concept of debt sustainability has been designed to face up to the debt crisis that most of the developing countries experienced. The causes of this crisis have been the subject of a vast literature. To illustrate, we can cite the works of Mc Fadden et al (1985), *Brooks et al. (1998, p. 4 to 10),* Daseking and Powell (1999, P. 5), Detragiache and Spilimbergo (2000), Fambon (2002), Reinhart, Rogoff and Savastano (2003), […].

2.2.   EMPIRICAL FRAMEWORK OF THE STUDY

The review of literature shows that very few studies relating to our subject have already been carried out. This can be justified by the fact the HIPC initiative is still new. However, this scarcity of work on this field enhances more the importance of our subject. It emerges from an exhaustive literature review that the link between the degree of debt and some macroeconomic variables has been the subject of empirical studies using the econometric tool.

The most known work is that of **Ojo** (1989) titled "Debt capacity model of sub-Saharan African". Through an econometric approach, he shows that the ratio of outstanding debt to GDP of about thirty African countries during the 1976 to 1984 period is determined by: the variation of exports (X), the ratio of imports to GDP, the population (Pop) and the GDP growth rate (Y). The statistical results enable him to conclude that the ratio of outstanding debt to GDP is negatively related to the variation of exports, to the GDP growth rate and positively related to the ratio of imports to GDP, and to the population growth (Pop).

The study of Ojo was taken up again by **Léonce Yapo** (2002). In his study on Côte d'Ivoire carried out over the 1975-1999 period, he finds the same results, except for the ratio imports to GDP which is not significant. In addition, he shows that outstanding debt of Côte d'Ivoire is positively influenced by the deterioration of the terms of trade and finds that the primary deficit is not significant.

N'Diaye (1993) has carried out a modelling of the debt of Senegal. He shows that the debt is positively explained by the stock of previous debt and negatively by the level the current balance deficit. Moreover, the appreciation of the average exchange rate CFA/ US dollar reduces the service of the debt.

Ajayi (1991) analyses the impact of external and internal factors of the debt of Nigeria. As a matter of fact, he chooses as determinants of the ratio of debt to exports the following variables: the terms of trade, the income growth rate of industrialised countries, the real interest rate, the ration of budgetary deficit to GDP and the trend. He asserts that we should expect that an increase in the budgetary deficit increases the ratio debt/exports. The results of the estimation of his model confirm this fact.

In a study carried out on the debt of Mali, Massa **Coulibaly et al.** (2001) show that statistical indicators such as the interest rate, the financing of imports, especially of the current consumption goods, and the cumulative process of the debt have a positive effect on the level of debt of Mali.

Other authors have also identified the service of the debt as being a determinant which influences positively the foreign debt through some econometric models (**Claessens** (1990), **Warner** (1992) and especially that of **Borensztein** (1990)). Borensztein has concluded from an econometric study carried out on the Philippines debt data that the outstanding debt and the ratio of service of the debt/exports have globally an inverse effect on the private capital formation and encourages the debt of the country.

The works of **Eichengreen** and **Portes** (1986) are interested in the identification of the determinants of the stock of the debt of about thirty countries at a given moment (1955) of their economy. For them, the excessive debt and the non-payment reduce the real growth rate and the credibility of the State.

Cohen (1996) empirically shows that the debt as well as the number of rescheduling has been a danger for the growth in the developing countries. However, this general result is not obtained for all the countries of the sample, especially as regards the African countries. The impact of the debt on the reduction of growth is negligible for Burkina Faso, Kenya, Mauritius, Rwanda, South Africa, Democratic Republic of Congo, Zimbabwe and Mali. In two other cases, the impact of debt on growth is even positive (Ghana and Tanzania).

Rougier (1994) also finds uneven results within the African countries. According to the econometric analyses, the ratio of the outstanding debt to the GDP exerts a depressive effect on the growth in Côte d'Ivoire, Mali and Chad over the 1970 to 1991 period. On the other hand, the effect is positive in Niger, Madagascar and in Kenya.

For **Lawin Kotchikpa Gabriel** (2007), the analysis of the determinants of the foreign debt of Benin shows according to the econometric tests that the significant determinants of foreign debt are: the service of the debt in comparison with the exports, the exchange rate, the terms of trade, trade opening, the GDP growth rate, and the effect of overborrowing (excessive debt) for the 1987 to 2006 period. Moreover, the population growth rate and the public investment rate do not have a significant effect on the debt of Benin even though they contribute to its worsening.

Guy Albert Kenkouo (2008) in his study on the national debt of the Franc Zone countries after the HIPC initiative finds that the analysis of the ratio foreign debt/exports shows that despite the efforts of the reduction of debt of the Franc Zone countries after the HIPC initiative, the poor diversification of the economies of these countries affects negatively the viability of their debt through the channel of exports relative growth and the vulnerability of their

economies. So, the narrowness of the productive bases of the Franc Zone countries and the strong polarisation of the economic activity continue to amplify the effects of the exogenous shocks, to accentuate the instability of the financial and economic performances.

Modeste Arnaud Dedehouanou (2009) shows that for the Benin republic, the estimations show that at a threshold of 0.14% of GDP, the foreign debt starts having negative impacts on the economic growth. Then, the results of his study show that the substantial reduction of the foreign debt in the HIPC initiative will have as effect three points reduction of the GDP per capita.

Rajhi Taoufik (2012) in the study of the national debt sustainability in Tunisia finds that in the reference scenario, the budgetary policy of the type « go and stop » adapted by the government is sustainable and would lead to a national debt ratio of 41% in 2017. However, if the economic situation is not favourable, the debt ratio would remain high enough (about 47%). Indeed it is below 50% and below the historical average of 49% but the risks of the situation are real and could lead to an excessive debt.

Mahamat Ali Mallah (2012) analyses the effects of the foreign debt on the economic growth in the CEMAC countries for the 1970 to 2009 period. After he has carried out the Hausman test, he uses the fixed effects model and reached the conclusion that the foreign debt of the CEMAC countries exerts negative effects on their economic growth. As for the service of debt, the results obtained are in line (corroborate) with the results obtained by **Clement, Bhattacharya** and **Nguyen** (2003).

Marius Samizafy (2013) in the study of the national debt management and the analysis of the notions of optimality, sustainability and of financial risks with the case study of the Commission of the Indian Ocean shows that, for the countries of the Commission of the Indian Ocean the criteria of efficiency optimality and of sustainability are generally not fulfilled. The national debt affects even unfavourably the financial health of the State and the economic performance of these countries.

3. ECONOMETRIC MODELS AND METHODS OF ESTIMATION

Considering the objective of the present study, we use two models: the first model is called the "Debt Sustainability Assessment" (DSA) model and the second model is derived from the State inter temporal budgetary constraint. The first model was used by the Bretton Woods institutions within the framework of the HPIC initiative. It aims at determining the capacity of a country to pay back its debt in function of the revenues that it gets from its exports and eventually from the annual budgetary resources allocated to the service of the debt. To evaluate the debt of a HIPC, three indicators (NPV debt/Exports, NPV debt/Budgetary revenues, Service of the debt/Exports) are used to set a certain number of thresholds. Beyond one of these thresholds, we would historically notice that the country has encountered difficulties of repayment.

The summary table below (Table 1) gives the foreign debt sustainability criteria set by the HIPC initiative 1 and the HIPC initiative 2.

Table1: the summary of the foreign debt sustainability criteria set by the HIPC initiative 1 and the HIPC initiative 2

The role of the DSA model is to provide appropriate tools to assess the debt sustainability of a country. If its objective is to honour the thresholds set, its fulfilment passes through a process which involved structural reforms to be carried out and stabilisation programmes to be honoured. To complete the DSA analysis, we are going to use the State inter temporal budgetary constraint (which takes into account the national debt) based on the dynamic analysis to also value (assess) this sustainability.

The study of the dynamics of the national debt is based on the State inter temporal budget constraint (model 2) which is sometimes called solvability constraint for it also gives information about the financial stability. The State, as any economic agent, is subjected to a budgetary constraint indicating that any public expenditure should be financed by tax or by borrowing (we should exclude a priori the monetary creation).

The algebraic formulation of the budgetary constraint, forgetting the possibility of monetising the public deficit is as follows:

$$B_t - B_{t-1} = G_t - T_t + r_t B_{t-1} \quad\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(1)$$

which could also be written as follows:

$$B_t = G_t - T_t + (1 + r_t) B_{t-1} \quad\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(2)$$

Where G_t stands for the public expenditures apart from the interest costs, T_t is the amount of the tax revenues ($G_t - T_t$ is called the primary deficit); B_t is the national outstanding debt, r_t stands for the apparent nominal interest rate of the national debt. This relation represents the budgetary constraint of the State. The fulfilment of this model is achieved following two techniques: the actuarial technique and the accounting technique.

3.1. THE ACCOUNTING TECHNIQUE

This technique consists in the gradual assessment, year after year and enables the simulations for the near future. Its advantage is that it transforms the following equation

$$B_t / PIB_t = D_t / PIB_t + [(1 + r_t) / (1 + n_t)] (B_{t-1} / PIB_{t-1}) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(3)$$

As follows:

$$d_t = [(n - r) / (1 + n)] b_t \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (4)$$

This equation enables us to determine the sustainable primary balance which is compared with the observed primary balance. The sustainability condition is that the observed primary balance expressed in percentage of the GDP should be every year less than or equal to the ratio of sustainable budgetary balance.

3.2. THE ACTUARIAL TECHNIQUE

This technique is inspired from the theoretical works and econometric studies. Its advantage is that it transforms the following equation

$$B_{t-1} = E [T_{t+j} / (1+r)^{j+1} - G_{t+j} / (1+r)^{j+1} + B_{n+1} / (1+r)^{n+1}] \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots(5)$$

As follows:

$$B_{t-1} = E [T_{t+j} / (1+r)^{j+1} - G_{t+j} / (1+r)^{j+1}] \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots (6)$$

3.3. THE DIFFERENT TESTS CARRIED OUT

We used the Augmented Dickey-Fuller (ADF) test to test for the stationarity of the variables national debt, public expenditures and tax revenue in level and in the first difference. The null hypothesis (H_0) of this test is that the variable has a unit root while the alternative hypothesis (H_1) is that the variable does not have a unit root. At a given or chosen significance level of 5%, if the probability of the test is less than this threshold, we reject the null hypothesis and do not reject the alternative one.

According to Ayadi (2003), the general procedure to test for the solvency of a State is as follows: we first of all carry out the tests of stationarity for the series of public finance (national debt in volume and the ratio debt/GDP) using the usual tests (the Augmented Dickey-Fuller test or the Phillips-Perron test). The decision rule is that: if the total deficit is stationary, then the total real deficit ($G_t - T_t$) is stationary and the State is therefore solvent.

4. RESULTS AND INTERPRETATIONS

4.1. RESULTS AND INTERPRETATIONS OF THE DSA MODEL

The DSA model is used to show the effect of the rescheduling mechanism on the sustainability of the Cameroon national debt. From this model, we have the following results summarised in the table below (see Table 2).

Table 2: debt sustainability ratios of Cameroon from 1980 to 1999

The figures of the table are from the Autonomous Sinking Fund (ASF) of Cameroon. It presents the situation of the debt sustainability ratios of Cameroon from 1980 to 1999. During this period, the Bretton Woods Institutions applied the traditional mechanisms on the debt of the developing countries which led to the rescheduling of their debt. In general, we observe from this table that during this period of time, the debt indicators have reached unbearable limits from 1990. In other words, these indicators are higher than the thresholds set by the HIPC initiative.

From these indicators, we can infer the following partial conclusion: we know that Cameroon has signed the rescheduling agreements of the official debt with the Paris Club for the 1989-2001 period. The data of the table shows that just after the signature of the first agreement in 1989 in Houston, the debt indicators reached unbearable limits. In other words, these indicators are higher than the thresholds set by the HIPC initiative 1. *The situation of the foreign debt in June*

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT　68

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

http://ijrcm.org.in/

1999 remains unsustainable even after the complete application of all the classical mechanisms of debt reduction. The ratio of the debt in NPV on the exports represents 205% which is above the 150% set. The ratio of the debt in NPV on the State revenues amounts to 329% which is still above the 250% required. These results could not enable us to reject the null hypothesis H_{01} which states that the mechanism of debt rescheduling does not affect significantly the sustainability of the national debt of Cameroon.

The DSA model is also used to show the effect of the debt reduction mechanism on the sustainability of the Cameroon national debt. The following results summarised in table 3 below are obtained.

Table 3: situation of the debt sustainability ratios of Cameroon from 1999 to 2019

The table above presents the results given by the International Monetary Fund (IMF) and the International Association of Development (IAD). It presents the situation of the debt sustainability ratios of Cameroon from 1999 to 2019. According to the document of the decision point in Cameroon, the attainment of the completion point has permitted to the country to benefit from the French complementary initiative called the fixed-term contract (Contract of the reduction of the debt and of Development) intended to finance sustainable development programmes being in line with sectoral policies and strategies of poverty reduction in agreement with the DSPR. According to the World Bank, after reaching the completion point in April 2006, the debt of Cameroon has been reduced from about 70%. This reduction has improved the ratios of Cameroon (see table 3 above).

The observation of the table shows that the ratios foreign debt/exports, foreign debt/budgetary revenues, and foreign debt service/exports which have stars represent the years during which the debt of Cameroon is sustainable. This could mean that the Cameroon debt sustainability depends on the portfolio of its debt. This can be verified with its foreign public debt which has become sustainable after the attainment of the completion point of the HIPC initiative. As a matter of fact, before being admitted into the HIPC initiative, Cameroon had a very important debt vis-à-vis France and the members of the Paris Club. At the completion point of the HIPC initiative, Cameroon has received the most important reduction of debt in the Franc Zone (a great share of this reduction comes from the fixed-term contract that other countries did not received).

In considering the hypothesis of growth and in assuming that all the reductions according to the terms of Naples and that the expected assistances will be honoured, the Bretton Woods Institutions show that the debt of Cameroon, following the ratios of table 3 will be sustainable in the long term. *This other partial conclusion enables us to reject the second null hypothesis (H_{02}). We could therefore say that the mechanism of debt reduction affects significantly the sustainability of the national debt of Cameroon.*

4.2.   RESULTS AND INTERPRETATIONS OF MODEL 2: THE APPROACH BY THE STATE INTER TEMPORAL BUDGETARY CONSTRAINT

The study of the sustainability of the national debt of Cameroon has been carried out according to the actuarial and accounting methods which have been presented in the previous section. The accounting technique gives us the following results.

Table 4: the sustainability of the budgetary policy of Cameroon according to the accounting technique

The implementation of the accounting method in the case of Cameroon between 1980 and 2010 has shown that except for the years 1981 and 1983, the primary budgetary deficits achieved have been greater than the critical thresholds of sustainability d_t. The accounting condition of sustainability of the budgetary policy being that: the observed primary balance expressed in percentage of the GDP should be every year less than or equal to the ratio of the sustainable budgetary balance of the last column of the table. While observing this table, after 1980, the nominal growth rate of GDP (n) has always been greater than the apparent nominal interest rate of the national debt (r) for the years 1981 to 1986, then from 1995 to 2010. This means that the sustainability of the budgetary policy can be compatible with the primary deficits on the condition not to overtake the threshold (d) presented in the last column of the table. The country has even realised primary surpluses in the course of the years 1981 and 2000.

During the 1982-2010 period, the ratio of the effective primary balance has always been greater than the sustainable threshold. This shows the non sustainability of the budgetary policy. This stage has been marked by a very important variability of the national debt ratio and of the budgetary deficit.

The actuarial technique is the one inspired from the theoretical works and econometric studies. It enables us to carry out stationarity tests on the variables. In the framework of our study, we have carried out these tests on the following variables: national debt, public expenditures and public revenues all as a percentage of the GDP. The implementation of this method enables us to see whether these variables are stationary or not so as to conclude for the sustainability or not of the Cameroon national debt. This technique has given us the following results summarised in the table below:

Table 5: results of the Augmented Dickey-Fuller test on the national debt, the public expenditure and the public revenue according to the actuarial technique

- Following the test on the variable "national debt of Cameroon", all the calculated statistics of the three models are greater than the tabulated values at 1%, 5% and 10% significance level. We cannot therefore reject the null hypothesis H_0 that is to say that the national debt is not stationary. Consequently, the national debt of Cameroon is not sustainable.
- Following the test on the variable "public expenditures of Cameroon" the calculated statistic of the model with a constant is lower than the tabulated value at 10% significance level. We therefore reject the null hypothesis H_0 and we do not reject the alternative hypothesis H_1. This means that the public expenditures are stationary. Consequently, the State expenditures can decrease and converge towards zero.
- Following the test on the variable "public revenues of Cameroon" the calculated statistic of the model with a constant is lower than the tabulated value at 1% significance level. We therefore reject the null hypothesis H_0 and we do not reject the alternative hypothesis H_1. This means that the public revenues are stationary. Consequently, the State revenues can decrease and converge towards zero.

5.   CONCLUSION AND RECOMMENDATIONS

5.1. CONCLUSION

The main objective of this research work was to show that the HIPC initiative alone is not sufficient to ensure the long term sustainability of the national debt of Cameroon. To achieve our objectives, we had recourse to the DSA model and to the State inter temporal budgetary constraint model. The analysis of the results of the two models has enabled us to reach the conclusion that the rescheduling mechanism does not have a significant influence on the sustainability of the national debt of Cameroon. This has enables us not to reject the null hypothesis (H_{01}). In other words, the mechanism of debt rescheduling does not affect significantly the sustainability of the national debt of Cameroon. Contrary to the rescheduling mechanism, our results indicate that the mechanism of debt reduction has a significant influence on the sustainability of the national debt of Cameroon. This has enabled us to reject the null hypothesis H_{02}. Consequently, the mechanism of debt reduction affects significantly the sustainability of the national debt of Cameroon. And this is according to the model 1. As to the model 2, the results of the Augmented Dickey-Fuller test have led us to conclude that the national debt of Cameroon is not sustainable. The same conclusion has been obtained from the accounting model. Finally, the HIPC initiative alone is not sufficient to ensure the long term sustainability of the Cameroon national debt.

5.2. RECOMMENDATIONS

At the end of this study, we are able to suggest some recommendations which if taken into consideration could enable the fast attainment of the objectives set by the international institutions of Bretton Woods. A dynamic and wise management of the borrowings and of the national debt is then indispensable for the achievements of the ambitious objectives of development without compromising again the viability of the debt. We therefore formulate the following recommendations:

- The financial institutions should already start thinking of putting in place a third initiative which takes into account the internal debt of the HIPC;
- The international financial community should redefine its strategy of debt by opening concessional counter for unproductive projects and other counters for the productive projects. It is obvious that a country cannot develop with the concessional debt only;
- The DSA methodology of the IMF should use hypotheses which shall no more be easily manipulated in order to reveal the sustainability and the non sustainability;
- Cameroon should diversify its productive base, its exports and should also promote growth;
- Cameroon should promote good governance and should also manage the available resources well.

The pertinence of the present work could be improved upon if the few limits of the work are suppressed. The subsequent studies could be interested in showing the influence of the debt reduction mechanism on the national debt of Cameroon when the HIPC initiative takes into consideration the internal public debt.

REFERENCES

1. **Avramovic.** et **al.** (1964) Economic growth and external debt, Baltimore, the John hopking Press ;
2. **Ayadi E**. (2002): Politique Budgétaire, Ajustement et Croissance Economique: application au Cas de la Tunisie, Thèse de Doctorat en Sciences Economiques, (CEMAFI), Université de Nice, décembre, 2 tomes, 506 p.
3. **Banque de France** (1994). Le traitement de la dette extérieure des pays en développement. Rapport Zone Franc PP. 265-267. Paris.
4. **Banque Mondiale** (1999). « Forger des stratégies pour la réduction de la pauvreté dans les pays en développement ». Septempbre. Washington, DC: World Bank.
5. **Banque Mondiale** (2000). L'Afrique peut-elle revendiquer sa place dans le XXIe siècle? Washington, DC: World Bank.
6. **Banque Mondiale, DRI and Pôle-dette** (2007), *« Séminaire régionale de formation sur le cadre de soutenbilité à long terme de la dette publique », octobre;*
7. **Banque Mondiale–FMI** (1998). 'Initiative en faveur des pays pauvres très endettés : examen et perspectives'. DC/98-15, du 22 septembre intitulé.
8. **Bekolo-EBE Bruno** (1985), le statut de l'endettement extérieur dans l'économie sous développé, Analyse critique, Paris: Présence Africaine, 1985, p.222 ;
9. **Biao, B., and S. Fambon** (2000). 'Crise de l'endettement internationale : origines et voies de sortie'. Séminaire sous régional sur la dette en Afrique centrale organisé par le COE, la CETA, la FEMEC et le Service œcuménique pour la paix, du 10 au 12 janvier. Yaoundé;
10. **Biao, B., S. Fambon, and D. G. Kengne** (1999). 'Endettement extérieur et développement humain au Cameroun, Service œcuménique pour la paix'. Economie et Conflit, avril. Yaoundé.
11. **Borensztein** (1990b), « Debt Overhang, Debt Reduction and Investment: the case of the Philippines ». IMF Working Paper WP/90/77. Fonds Monétaire International.
12. **Cohen Daniel** (1997), *« Richesse du monde, pauvretés des nations »,* Flammarion;
13. **Cohen Daniel** (2001), *« The HIPC Initiative: True and false promises »*, International Finance, pp.363-80;
14. **Daseking. C** (2002), "La dette : quand est-elle excessive ?" Finances et Développement /Décembre 2002.
15. **Detragiache Enrica, Spilimbergo Antonio** *(2000), Crises and liquidity: Evidence and interpretations, IMF, August, p.22;*
16. **Fambom. S**. Endettement du Cameroun: problèmes et solutions. United Nations University, Mai 2002, 50 p;
17. **Fambon, S.** (1992). 'Examen de l'endettement extérieur de l'Afrique Subsaharienne : Cas des pays de la zone BEAC. Yaoundé: Faculté de droit et des sciences économiques, Université de Yaoundé. Thèse de doctorat de 3ème cycle.
18. **FMI** (1998). 'Initiative en faveur des Pays Pauvres Très Endettés'. Document n° 98-15du 22 septembre 1998, établi par les services de la Banque mondiale et du Fonds monétaire international. Washington, DC.
19. **FMI** (2006), *« Cameroun-Initiative renforcée en faveur des pays très endettés-Document du point d'achèvement, et initiative d'allégement de la dette multilatérale »,* Rapport des services du FMI sur les économies nationales n°06/190, Mai;
20. **FMI and AID** (1999). 'Facilité pour la réduction de la pauvreté et la croissance Questions d'ordre opérationnel, septembre. Washington, DC.
21. **Guy Albert Kenkouo** (2008), « dans son étude sur la Soutenabilité de la dette publique des pays post PPTE de la Zone Franc » ;
22. **IDA and FMI**, 2001, The Challenge of Maintaining Long-Term External Debt Sustainability, Washington, D.C;
23. **Lawin Kotchikpa Gabriel** (2007), « l'analyse des déterminants de l'endettement extérieur du Bénin » ;
24. **Mahamat Ali Mallah (2012), «** L'effet de la dette extérieure sur la croissance économique des pays de la CEMAC » ;
25. **Marius Samizafy** (2013), « Gestion de la dette publique et analyse des notions d'optimalité, de soutenabilité et des risques financiers : cas des pays de la Commission de l'Océan Indien » ;
26. **McFadden D, Eckhaus R. et al.** *(1985)* Is there life after debt? An econometric analysis of the credit worthiness of developing countries, World Bank;
27. **Nayla A.** (2007)*, « Dette odieuse : A qui a profité la dette des pays du sud ? »,* Plate-forme dette et développement ;
28. of Economics, vol. 107, n°4, Novembre ;
29. **Ojo O.** and **Oshikoya T.** (1995), « Determinants of Long-Term Growth: Some African Results », Journal of African Economies, vol. 4, n° 2, pp. 163-191.
30. **Rajhi Taoufik** (2012), « Soutenabilité de la dette publique en Tunisie » ;
31. **Reinhart Carmen, Rogoff Kenneth, SAVASTANO** *Miguel (2003), Debt intolerance, Brooking papers on economic activity;*
32. **Touna Mama** (1985), l'endettement supportable pour un pays en développement, Thèse pour le doctorat d'Etat en Sciences Economiques, Université de Bordeaux, 11 decembre, p.59;
33. **Warner A.M.** (1996), « Did the Debt Crisis Cause the Investment Crisis? », Quaterly Journal
34. **World Bank** (1989). Dealing with the Debt Crisis. Washington, DC: World Bank.
35. **Yapo, Léonce** (2002), *« Les déterminants de la dette extérieure des PPTE : cas de la Côte d'Ivoire »,* World Institute for Development Economic Research (WIDER), Discussion paper N°2002/14.

APPENDIX

TABLES

TABLE 1: THE SUMMARY OF THE FOREIGN DEBT SUSTAINABILITY CRITERIA SET BY THE HIPC INITIATIVE 1 AND THE HIPC INITIATIVE 2

	Original HIPC initiative	Reinforced HIPC initiative
Stock of the debt (NPV)/Exports	< 200 - 250%	< 150%
Service of the debt /Exports	< 20 – 25%	< 15%
Stock of the debt (NPV)/Budgetary revenues	< 280%	<250%

Source : *Source : Bougouin and Raffinot (2002)*

TABLE 2: DEBT SUSTAINABILITY RATIOS OF CAMEROON FROM 1980 TO 1999

Year	Effective service of foreign debt:		Outstanding foreign debt :	
	Exports	Revenues	Exports	GDP
1981	9.5	11.7	71.9	14.9
1984	10.7	7.6	217.9	21.3
1987	29.2	11.9	232.6	33.0
1990	9.4	10.9	232.6	45.4
1991	10.6	11.4	275.8	44.4
1992	12.0	12.4	320.4	83.0
1993	14.7	13.8	473.5	84.9
1994	20.2	31.6	676.6	115.7
1995	20.2	30.5	535.5	137.2
1996	28.2	32.5	575.8	101.2
1997	23.6	29.8	459.4	96.2
1998	34.6	42.2	393.8	99.0
1999	27.6			

Source: Autonomous Sinking Fund of Cameroon

TABLE 3: SITUATION OF THE DEBT SUSTAINABILITY RATIOS OF CAMEROON FROM 1999 TO 2019

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11 - 2012/13	2013/14 - 2015/16	2016/17 - 2018/19
After traditional processing															
NPV of the debt/GDP	51.1	53.8	50.4	46.7	43.6	40.8	38.1	35.8	33.9	31.8	29.9	28.3	25.2	21.4	18.1
NPV of the debt/Exports	205.1	192.2	179.0	168.3	165.0	158.8	150.6	143.6*	138.2*	132.7*	128.0*	123.4*	114.1*	101.6*	89.9*
NPV of the debt /Budgetary revenues	329.5	280.6	261.1	255.5	231.5	211.6	191.9	180.6	167.1	157.0*	146.4*	138.8*	121.9*	103.6 *	87.0*
Service of the debt/Exports	...	14.0*	13.5*	12.3*	12*	11.4*	11.6*	11.1*	10.4*	10.0*	9.6*	9.2*	8.0*	7.0*	6.4*
Service of the debt/Budgetary revenues	...	23.0	21.0	19.2	17.7	16.2	15.9	14.9	13.3	12.6	11.6	11.0	9.2	7.6	6.6
Before intermediary assistance															
NPV of the debt/GDP	...	...	54.1	51.6	30.6	29.0	27.5	26.1	25.0	23.8	22.7	21.6	19.6	17.3	15.3
NPV of the debt/Exports	...	...	192.5	186.0	116.0*	113.1*	108.6*	104.8*	102.2*	99.3*	96.8*	94.2*	88.7*	82.1*	76.1*
NPV of the debt /Budgetary revenues	...	...	280.7	282.4	162.7*	150.7*	138.4*	131.8*	123.5*	117.4*	110.8*	105.9*	94.8*	83.7*	73.5*
Service of the debt/Exports	...	...	11.3*	7.9*	7.9*	8.8*	9.3*	9.2*	8.5*	8.2*	8.0*	7.9*	6.8*	5.7*	5.1*
Service of the debt/Budgetary revenues	...	...	17.6	12.3	11.7	12.6	12.7	12.4	10.9	10.2	9.7	9.4	7.8	6.3	5.3
After the completion point															
NPV of the debt/GDP	37.3	40.1	38.7	37.3	30.6	29.0	27.5	26.1	25.0	23.8	22.7	21.6	19.6	17.3	15.3
NPV of the debt/Exports	150.0	143.3 *	137.6*	134.4*	116.0*	113.1*	108.6*	104.8*	102.2*	99.3*	96.8*	94.2*	88.7*	82.1*	76.1*
NPV of the debt /Budgetary revenues	241.0*	209.2*	200.7*	204.1*	162.7*	150.7*	138.4*	131.8*	123.5*	117.4*	110.8*	105.9*	94.8*	83.7*	73.5*
Sensibility analysis															
Exports: pessimistic hypothesis															
NPV of the debt/Exports	...	192.1	175.1	160.3	152.4	141.4*	139.2*	137.9*	137.4*	124.1*	110.8*	98.7*	127.9*	111.7*	95.3*
Service of the debt/Exports	...	14.0*	13.6*	12.1*	11.7*	10.9*	14.0*	13.5*	12.4*	11.5 *	10.5*	9.6*	9.9*	8.6*	7.8*
Service of the debt/Budgetary revenues	...	23.0	21.1	18.8	17.2	15.6	15.1	14.0	12.3	11.3	10.2	9.2	8.9	7.3	6.2
Hypothesis of low concessionality															
NPV of the debt/Exports	...	192.1	175.1	160.3	152.4	141.4*	139.2*	137.9*	137.4*	124.1*	110.8*	98.7*	80.0*	58.4*	41.2*
Service of the debt/Exports	...	14.0*	13.6*	12.1*	11.7*	10.9*	14.0*	13.5*	12.4*	11.5*	10.5*	9.6*	7.6*	5.6*	4.3*
Service of the debt/Budgetary revenues	...	23.0	21.1	18.8	17.2	15.6	15.1	14.0	12.3	11.3	10.2	9.2	6.9	4.7	3.4
Aggregates (in million of $)															
NPV of the debt after traditional processing	4,691	4,675	4,63	4,7	4,777	4,873	4,959	5,07	5,206	5,311	5,432	5,567	5,877	6,443	7,057
Service of the debt after traditional processing	...	384	372	353	366	374	411	418	414	425	432	440	442	473	537
NPV of the debt after HIPC assistance	...	...	4,977	5,195	3,358	3,471	3,576	3,699	3,849	3,973	4,11	4,248	4,574	5,208	5,971
Service of the debt after HIPC assistance	...	...	312	226	242	291	328	347	340	346	360	378	375	389	431
GDP	9,186	8,688	9,191	10,059	10,969	11,952	13,024	14,15	15,371	16,698	18,139	19,704	23,363	30,186	39,214
Exports of goods and sercices	2,249	2,743	2,766	2,868	3,051	3,286	3,538	3,768	3,995	4,24	4,499	4,791	5,521	6,803	8,436
Tax revenues	1,424	1,666	1,773	1,839	2,064	2,303	2,584	2,807	3,116	3,384	3,71	0,011	4,835	6,24	8,142

Source : IMF/ IDA (2000), Cameroon, decision point document, September, 15.p.37.

TABLE 4: THE SUSTAINABILITY OF THE BUDGETARY POLICY OF CAMEROON ACCORDING TO THE ACCOUNTING TECHNIQUE

Period	National debt in % of GDP	Apparent nominal interest rate in %	Current GDP growth rate in %	Net budgetary deficit in BD	Interest of the debt in BD	Primary balance	Primary balance in %	Sustainable primary in % of GDP
(t)	(b)	(r)	(n)	(DN)	(ID)	S= DN -ID		(d)
1980	37.28	4.74	-1.97	201.62	119	82.62	1.23	-2.55
1981	33.37	5.38	17.08	115.64	137	-21.36	-0.28	3.34
1982	37.10	5.56	7.52	338.78	151	187.78	2.56	0.68
1983	37.12	5.07	6.87	236.94	139	97.94	1.33	0.62
1984	34.89	6.10	7.47	598.95	166	432.95	5.55	0.45
1985	36.08	4.63	8.06	1206.21	136	1070.21	13.13	1.15
1986	34.86	5.10	6.77	1148.21	189	959.21	9.03	0.55
1987	32.77	4.41	-2.15	1501.28	178	1323.28	10.76	-4.54
1988	33.79	4.55	-7.82	2328.55	192	2136.55	17.10	-5.29
1989	43.00	2.38	-1.82	2428.99	114	2334.99	20.96	-1.84
1990	53.71	3.14	-6.11	2678.41	188	2490.41	22.33	-5.29
1991	50.49	2.79	-3.81	4577.06	175	4402.06	35.40	-3.46
1992	57.51	1.85	-3.10	5041.28	121	4920.30	43.17	-2.94
1993	55.10	2.09	-3.20	4583.18	156	4427.18	32.72	-3.01
1994	90.30	1.86	-2.50	3828.98	155	3673.98	39.85	-4.04
1995	107.02	1.85	3.30	3459.18	173	3286.18	37.63	1.50
1996	98.04	2.46	5.00	2061.11	235	1826.11	18.76	2.37
1997	94.17	2.04	5.10	2468.08	189	2279.08	23.16	2.74
1998	102.07	1.81	5.04	2668.86	178	2490.86	25.87	3.14
1999	75.42	2.91	4.39	3698.82	230.25	3486.57	33.08	1.07
2000	68.07	3.69	4.20	3836.66	256.38	3575.28	35.49	0.34
2001	62.40	4.50	4.51	4454.36	269.44	4284.92	44.64	0.0092
2002	69. 90	3.71	4.01	5280.93	282.50	4998.43	45.94	0.20
2003	52.62	4.69	4.03	5462.81	336.38	5126.43	37.63	-0.33
2004	59.40	3.21	3.70	5420.10	300.80	5119.30	32.45	0.28
2005	54.09	2.74	3.30	5551.29	246.07	5305.22	31.98	-0.24
2006	20.97	6.41	3.22	5254.91	241.38	5013.53	27.92	-0.65
2007	16.16	2.80	3.50	6103.45	93.70	5009.75	24.22	0.11
2008	12.88	2.67	2.90	4596.70	81.51	4515.19	19.02	0.03
2009	14.07	2.03	2.00	-2676.56	63.54	-2740.1	-12.35	-0.005
2010	15.70	1.93	3.20	2961.726	68.28	2893.45	12.87	0.19

Source: calculations carried out by the authors using Excel 2007 from the data of the Ministry of Finance and the Global Development Finance.

Note: the figure in colour in the column before the last indicates the situation of sustainability.

TABLE 5: RESULTS OF THE AUGMENTED DICKEY-FULLER TEST ON THE NATIONAL DEBT, THE PUBLIC EXPENDITURE AND THE PUBLIC REVENUE ACCORDING TO THE ACTUARIAL TECHNIQUE

Variables		Stationarity	Stationarity	Stationarity
	Level of significance α	1 %	5 %	10 %
National debt		No	No	No
Public expenditure		/	/	Yes
Public revenue		Yes	/	/

Source : authors

THE IMPACT OF ADEQUATE AND AFFORDABLE HOUSING ON SUSTAINABLE DEVELOPMENT: A CASE STUDY OF RWANDA

SYLVIE NIBEZA
RESEARCH SCHOLAR
DEPARTMENT OF ECONOMICS
KIGALI INDEPENDENT UNIVERSITY
KIGALI

ABSTRACT

Adequate and Affordable houses are those that are designed, built and managed as: Healthy, durable, safe and secure; Affordable for the whole spectrum of incomes; Using ecological low-energy and affordable building materials and technology; Resilient to sustain potential natural disasters and climatic impacts; Connected to decent, safe and affordable energy, water, sanitation and recycling facilities; Using energy and water most efficiently and equipped with certain on-site renewable energy generation and water recycling capabilities; Not polluting the environment and protected from external pollutions; Well connected to jobs, shops, health- and child-care, education and other services; Properly integrated into, and enhancing, the social, cultural and economic fabric of the local neighborhood and the wider urban areas; Properly run and maintained, timely renovated and retrofitted. Sustainable development is a recognized principle for economic and social activities. Sustainable development is seen as a multidimensional process that links environmental protection with economically, socially and culturally sound development. Those links are referred to as a four-dimensional approach to sustainable development, highlighting the need for a harmonious association between environmental, economic, social and cultural dimensions. The present research, taking into account Rwanda as a case study, analyzed the real impact of Affordable Housing on Sustainable Development. Using Qualitative and Quantitative Methods, the research found that Affordable and Sustainable Housing is the sure solutions through which the tensions between economic development, social welfare and equality, urban growth, housing provision, access to clean energy, good quality residential services, and environmental conditions can be alleviated. Affordable Housing is central to sustainable development.

KEYWORDS
Affordable Housing, Housing, Millennium Development Goals (MDGs), Sustainable Development, Sustainability.

JEL CODE
(O1, O2)

INTRODUCTION

Housing is one of basic social conditions that determine the quality of life and welfare of people and places. Where homes are located, how well designed and built, and how well they are weaved into the environmental, social, cultural and economic fabric of communities are factors that, in a very real way, influence the daily lives of people, their health, security and wellbeing, and which, given the long life of dwellings as physical structures, affect both the present and future generations. Housing is also part of the relationships between society and the environment (UN, 2012).

Housing as physical structure consists of residential buildings/ shelters, their design, material qualities, their arrangement in space, and their ecological interactions with the physical environment; Housing as social structure consists of residence- based activities, their character, social qualities, and their socio-economic interactions in space with the immediate communities and wider society. Through both of these functions, housing represents a system of social and material relationships, which is simultaneously arranged at the different spatial scales (homes, surrounding neighborhoods, settlements, that regions, countries) and which, therefore, requires a corresponding hierarchy of policy interventions.

Affordable Housing targets to achieve seven goals such as: Preserve and expand the supply of good-quality housing units; Make existing housing more affordable and more readily available; Promote racial and economic diversity in residential neighborhoods; Help households build wealth; Strengthen families; Link housing with essential supportive services; Promote balanced metropolitan growth (Katz et al., 2003).

Access to adequate and affordable housing is a current and growing problem in all countries in the World in general (Schmidt & Budinich, 2006) and in Africa in particular (Center for Affordable Housing Finance in Africa, 2014). Housing problems are largely to do with affordability: housing is expensive and incomes are too low (African Union, 2014). Faced with few other options, vast numbers of households live in inadequate housing in slums and informal settlements because they cannot access better quality housing at affordable prices. Furthermore, in many cases, they pay an inordinate share of their income for such housing, and are further impoverished as a result (UN, 2011)

Urban housing demand in Africa is largely an outcome of rapid and large-scale urbanization. The migration of rural households to urban areas in search of urban opportunities has placed, and will continue to place immense pressure on affordable land and housing (Brueckner, 2014)

The task of solving the challenge of slums through increasing affordable housing supply in Africa is not insurmountable.

In Rwanda, activities in the Urban Planning and Housing Development sub-sector are aligned with the objectives and development strategies outlined in the Strategic Framework Vision 2020, Economic Development and Poverty Reduction Strategy (EDPRS), the National Urban Housing Policy, the Urbanization Policy, the Act Governing Urban Planning and Building, the Building Control Regulation, and the Policy on Decentralization.

Four different categories of housing have been identified according to household income and financing, within new housing demand: Social Housing (12.62% of new Dwelling Units (DU), housing that needs to be totally subsidized); Affordable Housing (54.11% of new DU, housing which needs some support but that could be off-loaded to end-users through a rental or rent-to-own mechanism); Mid-Range Housing (32.80% of new DU, housing for middle-income households, with potential access to mortgage financing) and Premium Housing (0.47% of new DU, housing for higher income households that already has access to bank loans and traditional mortgage financing).

The present research aims to describe the impact of Affordable Houses on Sustainable Development in Rwanda.

1. BACKGROUND OF HOUSING IN RWANDA
1.1 HISTORICAL BACKGROUND OF HOUSING IN RWANDA

Historically speaking, urban development is a very recent phenomenon which was brought in Rwanda at the beginning of the 20th century when the colonizers arrived in Rwanda. Indeed, the absence of towns is partly due to scattered individual settlement in the whole country on the one hand and a decentralized economic system before the colonial period in Rwanda, peddlers moved from one hill to another selling their goods (there was no established places for trade) on the other hand.

The colonial administration did not encourage urban development in Rwanda because it was considered as a country with very little economic interests. Although the administration centers were created fifty years later during the colonial period, jobless people were not allowed to remain there. After independence, the regimes which came to power gave priority to the development of rural areas. To support this strategy, the following decisions were taken: (i) the creation of rural centers to keep the rural populations in one place; (ii) introduction of new administrative policies where citizens had to get a pass in

order to move to town, (iii) citizens were obliged to get a residence permit and a permanent employment card, (iv) regular raids to catch and send back jobless people in their respective rural communes.

During the independence in 1962, Kigali population reached 6.000 people only. from 1962 to 1984, the population and the developed area of Kigali expanded rapidly. The population grew from 6,000 people to over 150,000, and the built area expanded over 12 square kilometres, spanning outward from the commercial city centre on Nyarugenge Hill and climbing up and down the steep countryside. In 1994, Kigali counted 800,000 to 1 million of population (Kelli Rogers, 2015). The other centers also called urban centers were province headquarters. New province distribution map has allowed rural areas to join towns. The urbanization rate has increased three times between 1962 and 1972 (from 1 to 3%), it reached 5% in 1978 and approximately 9% just before the 1994 tragedy. With more than 17%, Rwanda remains the least urbanized country in Africa, behind Burundi. The average urbanization rate in Africa is a little bit above 35%.

TABLE 1: URBAN POPULATION GROWTH IN FORMER TOWNS IN RWANDA FROM 1970 TO 2002

Former towns	Year			
	1970	1978	1991	2002
Kigali	57 400	115 990	235 664	603 049
Huye	8 400	22 189	29 255	77 217
Musanze	12 500	18 942	29 286	71 511
Rubavu	6 250	12 655	22 156	67 766
Muhanga	9 359	8 531	17 490	137 334
Gicumbi	5 980	7 102	11 947	66 268
Nyamagabe	7 020	5 637	8 506	59 070
Karongi	1 670	3 045	4 393	46 640
Rwamagana	4 850	5 912	6 535	46 198
Nyanza	4 640	11 563	9 187	60 117
Ruhango	-	-	-	50 930
Kabuga	-	-	-	51 693
Nyagatare	-	-	-	8 437
Rusizi	3 540	7 201	9 693	59 070
Ngoma	3 860	9 272	13 617	44 216
Rwanda	125 460	222 727	391 194	1 372 604
Urbanization rate	1.0	4.5	5.6	16.9

Source : R. R., MINIPLAN, SNR, 1994, R.R, MINECOFIN, SNR, 2005

Although the towns were essentially public administration headquarters, the population growth increased gradually between 1994 and 2002 (during this period the urban population doubled). Currently, the population growth reaches between 4 and 6%. This can be explained by the social and economic changes which occurred after the 1994 tragedy, the towns attract people for jobs, security and various services.

1.2 CURRENT SITUATION

1.2.1 DISTRIBUTION OF PRIVATE HOUSEHOLDS BY TYPE OF SANITATION FACILITIES AND DISTRICT OF RESIDENCE

National Institute of Statistics of Rwanda (2012) has implemented the Fourth Rwanda Population and Housing Census (RPHC). As sanitation, the census has considered toilets. The outcome from the census can be summarized in the following table:

TABLE 2: DISTRIBUTION OF PRIVATE HOUSEHOLDS BY DISTRICT AND PROVINCE

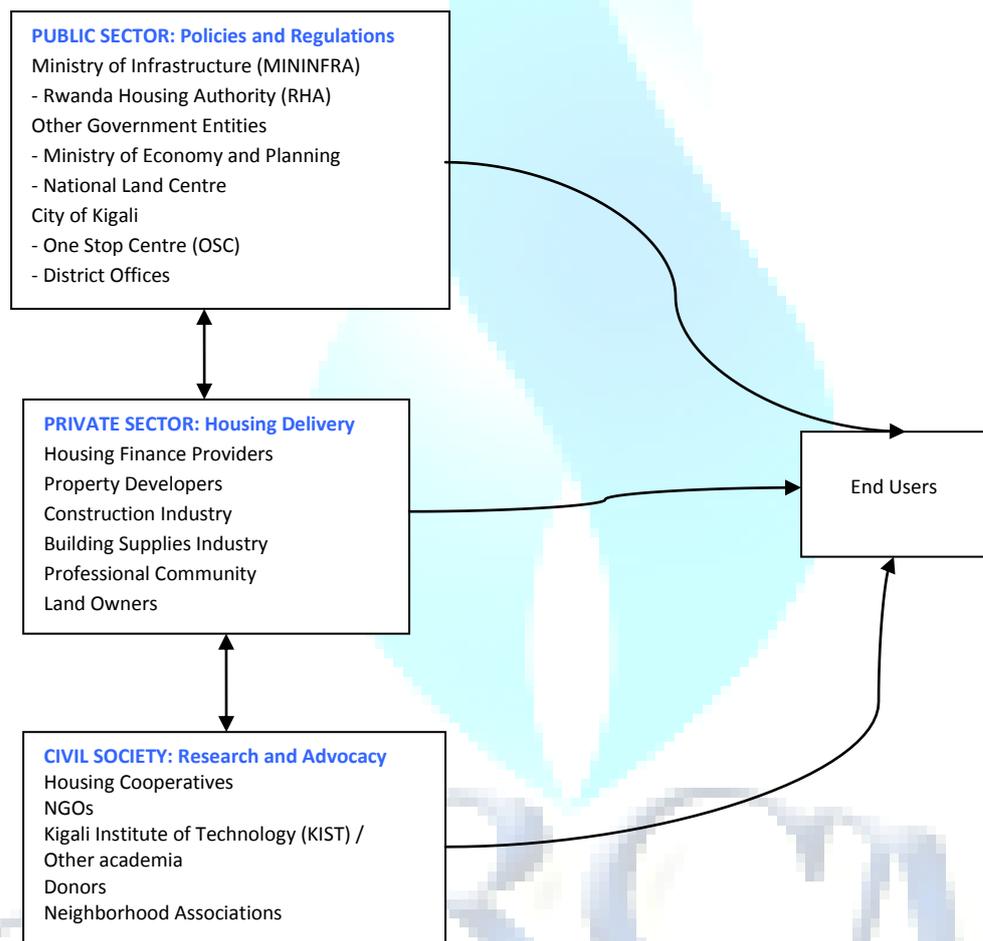| Province/ District	Total number of private households	Total (%)	Improved sanitation facility	Unimproved sanitation facility	Not Stated
Rwanda	2,424,898	100	95.6	2.6	1.7
Kigali city	**286,664**	**100**	**96**	**0.6**	**3.4**
Nyarugenge district	72,280	100	96.1	0.5	3.5
Gasabo district	137,146	100	96.3	0.8	3
Kicukiro district	77,238	100	95.4	0.5	4.1
Southern Province	**603800**	**100**	**95,8**	**3,0**	**1,3**
Huye District	77915	100	94,2	4,1	1,7
Muhanga district	75207	100	97.5	1.2	1.3
Gisagara District	77,259	100	95.3	3.6	1.1
Kamonyi district	80 468	97,3	1,7	1,0	
Nyamagabe	74.848	100	94.4	4.3	1.3
Nyaruguru District	63,613	100	94.5	4.2	1.4
Ruhango District	76,968	100	96.3	2.4	1.3
Nyanza District	77522	100	98.7	2.7	1.1
Western Province	**543,494**	**100**	**94,9**	**3,2**	**2**
Rubavu	88,849	100	92,9	4,3	2,7
Rusizi District	83180	100	96.9	1.5	1.6
Karongi District	73,326	100	95,3	2,6	2,2
Ngororero district	78 963	100	93,1	5,1	1,8
Nyabihu District	65,855	100	95.1	3.3	1.7
Nyamasheke district	82,054	100	96,7	1,3	1,9
Rutsiro District	71,267	100	93,9	4,2	1,9
North Province	**391,668**	**100**	**95.5**	**2.9**	**1.6**
Musanze district	84,756	100	92.8	5.2	1.9
Gicumbi district	86,075	100	96.1	2.3	1.6
Burera district	73,624	100	95.7	2.7	1.6
Gakenke district	79,760	100	96.5	1.6	1.8
Rulindo district	67,453	100	96.4	2.3	1.3
Eastern Province	**599272**	**100**	**96.1**	**2.6**	**1.3**
Rwamagana	74,175	100	96.8	1.9	1.2
Kayonza District	80,517	100	95.7	2.8	1.5
Ngoma district	79,647	100,0	94.8	3.9	1.3
Nyagatare District	105,365	100	96.4	2.4	1.2
Bugesera District	85,369	100	96.5	2.5	1.1
Gatsibo district	96,320	100	96.3	2.4	1.3
Kirehe District	77879	100	96.4	2.3	1.2

1.2.2   **KIGALI CITY**

According to the National Institute of Statistics of Rwanda, Kigali, the capital city of Rwanda, is the largest city, with a population of around one million. It is also the primary city, concentrating around 67% of the total urban population in the country in 2011, Kigali had a population of 1,059,000. The city has been growing very fast and its growth accelerated in the second half of the 1990's as a result of the political events in the country. Other notable towns are Muhanga (Gitarama), Huye (Butare), and Gisenyi (Rubavu), all with populations below 100,000.The urban population rose from 6% of the population in 1990, to 16.6% in 2006. By 2011, however, the proportion had dropped slightly to 19.1%. The rate of urbanization is evaluated at 4.5% per year from 2010 to 2015 ("Rwanda Demographics Profile", 2014).

2.   HOUSING SECTOR IN RWANDA

Access to adequate housing is considered as a right in Rwanda. This concept emanates from the Rwanda Development Plan (RDP) of 1994, which asserts that minimum housing must be provided to all. Responsibility for housing provision was delegated on the Ministry of Infrastructure (MININFRA), which in 2011 formed the Rwanda Housing Authority (RHA) to implement national housing, urbanization, construction and asset management policies. At the national level, policies are coordinated by MININFRA with the Ministry of Economy and Finance, which oversees economic planning, finance and development cooperation. General planning, policies and regulations for the City of Kigali are centralized by the City of Kigali Council which coordinates with the Rwanda Housing Authority (RHA) and, at the local level, with the District Offices. On the private sector side, main stakeholders are the providers of housing finance and private developers, as well as the construction industry, building materials industry and all professionals and services linked to the delivery of housing. Civil society participates in the housing development process in a limited, albeit gradually growing way, through numerous partners and stakeholders such as cooperatives (i.e. Goboka Cooperative, Zigama), technical NGOs such as Engineers Without Borders, microfinance lending institutions, academia such as the Kigali Institute of Technology, and donors such as the European Union Cooperation, the Dutch cooperation, the German Development Cooperation (DED), and USAID.

FIGURE 1: STAKEHOLDER MAPPING HOUSING SECTOR IN RWANDA

PUBLIC SECTOR: Policies and Regulations
Ministry of Infrastructure (MININFRA)
- Rwanda Housing Authority (RHA)
Other Government Entities
- Ministry of Economy and Planning
- National Land Centre
City of Kigali
- One Stop Centre (OSC)
- District Offices

PRIVATE SECTOR: Housing Delivery
Housing Finance Providers
Property Developers
Construction Industry
Building Supplies Industry
Professional Community
Land Owners

CIVIL SOCIETY: Research and Advocacy
Housing Cooperatives
NGOs
Kigali Institute of Technology (KIST) /
Other academia
Donors
Neighborhood Associations

End Users

2.1   HOUSING DEMAND

Total housing requirements in Kigali from 2012 to 2022 are projected to be 458,265 dwelling units *(DU)*. These requirements could be met by maintaining part of the existing housing stock that is in good condition or upgradeable (114,197 DU) plus building of new dwellings (344,068 DU). Thus, new housing demand is estimated to be 344,068 DU between 2012 and 2022.

78% of demand for new housing concentrates in the lowest income quintile (Q1), where households earn RWF 300,000/month and less. In Q2, where households earn between RWF 300,001 and 600,000, there are 13% of the households. Q3, which has a household income of RWF 600,001 to RWF 900,000 has 5% of the population; Q4, which has a household income of RWF 900,001 to RWF 1.500,000 has 2% of the households, and Q5, which earns above RWF 1.500,001, has 1% of the households (City of Kigali, 2012).

2.2   HOUSING SUPPLY

According to the report of City of Kigali (2012), the formal housing market, as it is currently operating, supplies around 1,000 DU per year, but the city will demand around 31,000 DU per year. Therefore, approximately 30,000 DU must be supplied through other mechanisms: increased formal market supply, some combination of formal pubic-private partnerships, or the informal market. The strategy mix for housing solutions will reflect a variety of different factors, and the combination of more than one solution may be required to address housing needs in Kigali. Rwanda share this situation with other countries (Malik & Wahid, 2014).

Supply of new housing could be accomplished in three general ways: Through the market, using banking and mortgage finance; Through special programs and incentives or other innovative means for reaching households that currently pay rent but do not qualify for mortgage finance (for example, rent-to-own), and Through policies for subsidizing housing provided by the government (Rwanda Housing Authority, n.d).

In the lowest income quintile (Q1), where households earn RWF 300,000/month and less, 12.62% corresponds to social housing, at the lowest end of the pyramid, and 54.11% of new demand corresponds to affordable housing. Both social and affordable housing require some government support, ranging from full subsidy to special programs and incentives.

The remaining 33.27% of housing demand can potentially be covered by market financing. This includes the highest level of Q1 (segment 3, 11.27% of the households), plus mid-range and premium housing demand in Q2 to Q5.

2.3 HOUSING FINANCE IN KIGALI

Mortgage financing in Rwanda is currently accessible to households with monthly income greater than RWF 900,001 (3.8% of population in Rwanda). In 2012, 96.2 % of population with monthly income of RWF 900,000 and less had no access to housing finance.

However, there has been a clear increase in the provision of mortgage finance in Rwanda since 2004. The provision of mortgage finance has been recently estimated between RWF 64.7 and RWF 84 billion. The number of banks offering mortgage finance is also greater than a few years ago. In 2012, the main providers of mortgage finance are BCR, KCBR, BK, and BRD. A few microfinance institutions such as Zigama CSS are also actively growing their mortgage loan portfolio. BNR has taken over BHR mortgage assets (valued at RWF 8 Billion) and by issuing new loans, has doubled the value of the portfolio.

The level of financial inclusion is quite high in Kigali as national statistics show that 67.5% of the population use a savings account and therefore have access to formal financial services.

2.4 RECOMMENDED HOUSING FINANCE MODALITY PER INCOME SEGMENT

High and middle income strata (Q2, Q3, Q4, Q5): Mortgage Finance

Mortgage finance is already available for the higher income group (people earning above RWF 900,001 per month). Assuming availability of housing units in the RWF 5 to 30 million ranges, all providers of mortgage finance have declared their willingness to go down market and to provide housing finance for lower income group (monthly income between RWF 200,000 and 900,000).

Lower income segments (Q1): Innovative Solutions

For monthly income segments ranging from RWF 33,100 to 200,000, mortgage finance would not be accessible through the banks: However, most people in these brackets do pay rent and therefore should be able to contribute to the cost of the DU provided to them. A rent to own solution would fit with that rental pattern. Rent to own is commonly used in many countries such as the Unites States, Canada, the Philippines or Singapore. In several countries, rent to own has been used to transfer ownership of affordable housing units to their renters.

Below the poverty line (lowest part of Q1): Housing Fund/Subsidy and Integration with Economic Development/Poverty Alleviation

The lowest income segments are below the poverty line and would not be able to pay any housing loan or even rent. A Housing Fund should be established to provide housing solutions for this group (UN, 2015). Special subsidy support for this group could include: Public Housing: DU remains property of the City and Nominal rent could be charged; Housing units delivered to low income people (South African model); Subsidy pays for plot, basic services and basic dwelling; Property is immediately transferred to household; Land plus basic services only; Materials voucher; Suppliers of building services voucher; Land provided to Housing Cooperatives; Technical assistance for design & construction.

Volume of Finance

Mortgage Finance: The total amount of housing finance needed over the 2012-2022 period for this group is projected to be RWF 996 billion (about US$1.6 billion) or an average of RWF 91 billion per year (about US$149 million per year).

Non Mortgage Finance: The total budget needed to build affordable housing over the period 2012-2022 was estimated by this study at RWF 623 billion (US$1 billion). This amount can then be divided into two categories: Affordable Housing (ie. Rent to Own scheme and other approaches) where the cost should eventually be recovered through rents and transfer of property/mortgage lending: RWF 505 billion (approximately US$ 830 million); or an average RWF 75 billion per year. Subsidized Housing for the poorest which cost would not be recovered: RWF 118 billion (approximately US$ 193 million) or an average RWF 11 billion per year.

Current State of Housing Finance in Kigali

There has been a clear increase in the provision of mortgage finance in Rwanda since 2004. The provision of mortgage finance has been recently estimated between RWF 64.7 and RWF 84 billion. The number of banks offering mortgage finance is also greater than a few years ago. In 2012, the main providers of mortgage finance are BCR (I & M Bank), KCB, BK, and BRD. A few microfinance institutions such as Zigama CSS are also actively growing their mortgage loan portfolio. BNR has taken over BNR mortgage assets (valued at RWF 8 Billion) and by issuing new loans, has doubled the value of the portfolio. Due to increased competition, loans terms and conditions are also becoming more favorable for the clients: Interest rates are falling, from a reported 19% p.a. 2 years ago to a rate of 16% or even 15% p.a. in 2012. Required down payments are also lower now than 5 years ago when a 30% client's contribution was the norm. Now most banks require 10% to 20%. There is also a new initiative, the Collateral Replacement Indemnity under which clients can buy an insurance product that substitutes the down payment. Loan repayment tenure has increased: from a reported maximum of 7 years in 2006, banks now propose loans over 15 to 20 years. Some banks are also stretching the criteria used for calculating repayment capacity and consider repayment up to 50% of household income. Banks are now starting to target lower income levels. If traditionally, mortgages have been used to finance houses or building projects that had a total value above RWF 50 million, commercial banks are now financing projects or purchase of lower values; the minimum mentioned was of Rwf 5 million.

3. PRINCIPLES OF ADEQUATE AND AFFORDABLE HOUSING IN RWANDA

The object of the National Urban Housing Policy is based on the following principles: (a) The Rwandan Government recognizes that housing is a basic right for its citizens as stated in international declarations such as the Istanbul Declaration of June, 1996, the Millennium Development Goals (February, 2002), and the World Summit on Sustainable Development (July-August, 2002). In this context, it aims to facilitate access to decent housing and basic infrastructure facilities for its population; (b) It recognizes the need to ensure that people have access to potable water and adequate sanitation facilities; (c) The Policy recognizes that the Ministry concerned with development of urban housing, the Ministry of Infrastructure, should operate at policy formulation level. The operations and implementation of the policies should be carried out by agencies such as the Urban Development Board; (d) It is committed to supporting the controlled development and the sustainability of human settlements both in urban and rural areas, which is economically accessible and socially integrated, where the rights of all people are recognized, particularly the rights women, children, handicapped people, and people living in poverty, the vulnerable and disadvantaged groups; (e) It recognizes the need to provide affordable shelter for people of all income groups; (f) The process of urbanization must be accomplished with due regard to the needs of the citizens while contributing to their social development, and at the same time reducing any negative environmental impacts. The process integrates environmental aspects and will be based on rational management of land resources; (g) Planned settlements are the preferred and accepted form of housing development in urban areas and urban planning must be taken as a pre-condition to any form of development; (h) It recognizes the need to upgrade or formalize informal settlement while ensuring that social norms are respected and people are not unnecessarily displaced; (i) It must be recognized that ensuring access to goods, basic services and infrastructure facilities is the most important element in determining the quality of life of the population; (j) Urbanization is regarded as a driving force for economic development. However, the process of urbanization and urban development should be planned, controlled and well directed. Urbanization increases the demand for food and promotes modernization and improvement of agricultural production which contributes directly to poverty reduction in Rwanda. The spatial planning of urban areas with clear demarcation of residential, industrial commercial and public utilization areas will safeguard the environment and cultural heritage of Rwanda; 4 (k) Investment related to urban development should not be handled solely by Government, but must be supported by the private sector, NGO's, and local communities according to their respective capacities and capabilities. Urban development must consequently be well planned in a progressive and participatory manner according to the capacities of various players in the sector. However, emphasis should be placed on the role of women in the implementation of the National Urban Housing Policy; (l) Implementing the law governing the organization of districts, urban management and development comes under the prerogatives and attributes of local communities. These must nevertheless

follow and respect the directives and orientations laid down within the spirit of the National Urban Housing Policy to achieve the goals fixed at national level (MININFRA, 2008).

4. STRATEGIES FOR INCREASING AVAILABILITY OF AFFORDABLE HOMES

The Ministry of Infrastructure (2008) lists different strategies taken by the Government of Rwanda in order to increase availability of Affordable House.

Expand Development Opportunities

In many communities, the high cost of land presents a major barrier to the development of affordable homes. Municipalities often control significant amounts of land, and can play a role in identifying vacant, underutilized, or surplus land that may be appropriate for residential development and transferring ownership at low or no cost to entities that agree to create affordable housing. Planners and local economic development staff can also identify opportunities to creatively adapt existing structures (such as former school buildings) to provide housing or incorporate affordable housing into new mixed-use developments.

Other strategies: Zoning residential areas to allow for higher-density development; Lowering the cost of developing affordable homes in areas well-served by public transit by reducing residential parking requirements; streamlining the processes for redeveloping vacant and abandoned homes; establishing non-profit community land or housing trust organizations to help develop affordable housing.

Reduce Red Tape

Strategies: Reexamining local building codes that govern the rehabilitation of old buildings and eliminating requirements that do little to improve safety but significantly increase development costs; expediting permitting and review for developers of affordable homes, or establishing one-stop permit centers to speed up the process for all applicants; establishing zoning districts that allow multifamily housing of right.

Capitalize on Market Activity

While growth has slowed significantly in many areas, most communities can expect to see a rebound in the coming years and would benefit from having policies in place that capture a portion of the value generated by market-rate development to support affordable homes.

Generate Capital

Communities can generate capital for affordable homes without raiding city coffers or diverting resources from other programs.

Preserve and Recycle Resources

Efforts to preserve affordable rental homes can be assisted by having a "preservation catalog" that inventories the existing stock of subsidized housing. Rental preservation efforts can also be strengthened through the adoption of notice and right-of-first-refusal laws that allow residents to help determine the future of their building when faced with an upcoming conversion or change in ownership, as well as robust code enforcement programs to identify rental properties at risk of deterioration.

5. THE IMPACT OF ADEQUATE AND AFFORDABLE HOUSING ON SUSTAINABLE DEVELOPMENT IN RWANDA

5.1 DIRECT ECONOMIC IMPACT OF CONSTRUCTION ACTIVITY

Money trickles into a community well before noticeable construction activity. Planning professionals, attorneys, engineers, architects and designers are commissioned to develop preliminary designs. Financial models are prepared and land is acquired. Redevelopment plans are presented and local businesses strategize for their position in a growing economy.

There is an increase in construction related jobs that are available to local workers, thereby increasing wages (Center for the Study of Social Policy, 2011). There are local permit fees, impact fees, utility fees, and transfer taxes. There is increased work in landscaping, trucking and transportation, and off-site improvements such as road and sidewalk work, as well as sewer and water systems infrastructure. There are also marketing, financing, and realtor costs that bring money to local coffers.

The financial impact of construction is felt by a variety of business types including lenders, title companies, appraisers, insurance agents, relocation, moving and rental companies, cable and internet providers, cleaning and window washing services, locksmiths, appliance and furniture stores, hardware stores, gutter companies and landscapers (HR&A Advisors, Inc. 2012)

5.2 INDIRECT ECONOMIC IMPACT OF CONSTRUCTION ACTIVITY

In addition to the direct purchase of construction materials for the project, construction workers make purchases that affect the local economy. Workers generally live close to the construction site, and thus spend a substantial part of their wages in the local community for food, entertainment, and other services. Area businesses benefit from this increased patronage, from the sale of building supplies for the project, and from sales to the residents of the new units. The prosperity of the owners and employees of these businesses increases, allowing them to purchase more from other local ventures.

5.3 LONG TERM IMPACT OF HOUSING DEVELOPMENT

Despite there are challenges on Housing Development, the positive impact of Housing Development are considerable. In fact, occupied housing increases local jobs, income, and taxes. In addition, property taxes increase because of new housing activity and the increased value of surrounding property (Bruen ,Hadjri & Meding, 2013). A household moving into a new housing situation generally spends about three-fifths of its income on goods and services sold in the local economy, causing an economic ripple that permanently increases the level of economic activity for local business owners. The list of goods and services affected include groceries, home improvement, pet food, gasoline, car repairs, beauty salons, clothing, fitness centers, and school supplies and so on.

For moderate to low-income members of the community, the opportunity to purchase a home represents the family's first opportunity to begin developing personal assets. The wealth building effect of owning a home mainly comes from tax advantages. The deductible mortgage interest and the tax-free treatment on gains when a home sells offer a "forced" savings plan. Additionally, home values rise with the rate of inflation (except after real estate "bubbles"). For most households, these gains are the most significant way wealth is built (National Association of Home Builders, 2010)

5.4 SOCIAL WELFARE BENEFITS OF AFFORDABLE HOUSING

Improved quality of life and dignity of residence; Affordable access to housing; Improved health and lower incidents of illness, fatalities and material losses, better labor productivity; Better conditions for human development, employment, creativity and economic growth; Durability and low maintenance cost; Protection against natural hazards; Improved efficiency and savings on the use of energy, water and other physical resources; Better environmental protection and sanitary conditions; Contribution towards climate adaptation and mitigation; More sustainable and socially inclusive urban growth; Social cohesion and political stability (AOCDO, 2003). The evidence shows that investment in affordable housing supports multiple social objectives.   This includes improvements to individual outcomes such as employability, crime, health and   wellbeing, and community cohesion (Frontier Economics Ltd (2014).

5.5 ECONOMIC BENEFITS OF AFFORDABLE HOUSING

Affordable Housing attract infrastructure improvement

New construction in rural areas is often accompanied by infrastructure improvements like paved roads, electrification, and water/sewer lines which encourage further housing development (Bunnarith, 2004) An abundance of new housing can lower the cost of living for a community, making it attractive to new residents and industries (Cohen & Wardrip, 2011).

Affordable Housing is linked to Job Creation and Spending

Building or renovating homes requires the services of a diverse group of persons and the products of many different industries. Initial land development activities will usually involve architects, lawyers, financiers and other consultants. As the project enters the building process, construction workers and specialized personnel like plumbers and electricians are needed. The development of rural housing creates jobs for those already living in the rural community, and encourages others to enter the community to fill the new demand in the construction-related professions (Kennedy, 1996).

In addition, housing production requires an increase in transportation and trade services that can benefit a local economy. Building materials must be produced for the construction project, and people must be hired to transport those goods from their source to the building site. (Citizens' Housing and Planning Association, 1997).

Affordable Housing attract improvement of socio-economic welfare

The increased pride and responsibility that the residents feel for their dwellings often result in the consumption of goods and services to complement the new home. Beginning a life in a new home is often accompanied by the purchase of new appliances, new furnishings, and moving services. Later, other improvements may be made to the home itself including the addition of decks, new rooms, and landscaping. The new residences and the later improvements can encourage others in the community to take care of their own properties and common areas, ultimately stabilizing an area socially and reducing crime rates (National Association of Home Builders, 1997). Most communicable diseases are associated with the conditions that characterize slums, and indeed, substandard housing in developed countries. Environmental factors, including housing, are estimated to account for 25% of all preventable ill-health, with diarrheal diseases and acute respiratory infections leading the list (Sheuya, Howden-Chapman, & Patel (2007).

Positive Fiscal Impacts for State and Local Governments

The revenues of the state, local, and federal governments can increase as the result of Affordable Housing. There is an immediate increase in governmental income from building fees, taxes on workers' wages, and taxes on the sale and transport of building materials. Increased sales taxes can also be expected as workers spend their wages and the residents purchase supplies and services for their new homes. In the long run, the local government will be able to generate revenue from property taxes and mortgage and deed transfer taxes. All these taxes add up so that even a small project can generate a great deal of government revenue. The remainder of the increased government revenue may be used to encourage more housing developments or improve services like education, and thus promote further economic development (Stolberg, 1997).

Ripple Effect

The economic impact of Affordable Housing creates a ripple effect that moves beyond the building-related professions to the entire local economy. Construction workers generally live close to the construction site, and thus spend a substantial part of their wages in the local community. Area businesses benefit from this increased patronage, from the sale of building supplies for the project, and from sales to the residents of the new units. The prosperity of the owners and employees of these businesses increases, allowing them to purchase more from other local ventures, and so the ripple continues and reaches more parts of the community than those directly related to construction (Emrath, (1997) & Housing Policy Department (1997).

Reducing Foreclosure Risks and Associated Costs

Low and moderate-income households who participate in affordable homeownership programs have a much lower risk of delinquency and foreclosure than similar buyers with prime or subprime loans.

Reducing foreclosures not only helps stabilize neighborhoods, but also yields significant savings for local governments that may otherwise have to absorb costs related to property maintenance, court and legal expenses, increased police and social services for the affected neighborhoods, and, in some cases, demolition of abandoned houses.

Improving Worker and Employer Attraction and Retention

A lack of affordable housing makes it more difficult – and thus more costly – to recruit and retain employees. A lack of affordable housing can put a local economy at a competitive disadvantage.

Increasing the Buying Power of Residents

Affordable rent and mortgage payments can significantly increase the residual income that households have at their disposal after meeting necessary housing costs. Low- and moderate-income households are more likely than others to spend this money on basic household needs such as food, clothing, healthcare, and transportation.

5.6 **AFFORDABLE HOUSING AND MILLENNIUM DEVELOPMENT GOALS**

The following table consists of analysis of the impact of Affordable Housing on Millennium Development Goals.

TABLE 3: THE ROLE OF AFFORDABLE HOUSING ON MILLENNIUM DEVELOPMENT GOALS

MDGs Goals	Role of Affordable Housing
Eradicate extreme poverty and hunger	Affordable Housing generates jobs.
Achieve universal primary education	Affordable Housing facilitates studies by providing appropriate equipment. With Affordable Housing children are less likely to miss school and perform better on standardized test. Also having a house as an asset improves homeowners' borrowing capacity and so housing finance could lead to more investment in human capital.
Promote gender equality and empower women	Women access to jobs generated by Affordable Housing such as construction, commerce where houses are being built and many other services generating revenues; Also a woman living in Affordable House feels comfortable and becomes able to assume responsibilities in society.
Reduce child mortality	Good housing conditions reduce child mortality caused by inappropriate housing conditions.
Improve maternal health	Maternal health is well entertained when the woman lives in Affordable House.
Combat HIV/AIDS, malaria and other diseases	Most communicable diseases are associated with the conditions that characterize slums. Affordable Houses are equipped with materials that fight against some kind of diseases such as diarrheal, acute respiratory infections and malaria.
Ensure environmental sustainability	Residential activities in human settlements have direct ecological impacts on local areas in terms of air and water pollution, waste and damage of natural ecosystems. Affordable Housing uses appropriate materials that save environmental conditions.
Develop a global partnership for development	Affordable Housing calls foreign people and companies to invest in Housing or execute houses buildings. e.g many Chinese companies execute many construction activities in Rwanda.

6. FINDINGS

With United Nations (2012), the research found that Affordable Housing meets Four Dimensions of Sustainable Development:

Affordable Housing ensure Environmental Sustainability

This consists of the impacts of housing on the environment and climate change, as well as the impacts of the environment on housing itself. More specifically, there are of the relationships between housing and the environment: House building and operation require various environmental resources, such as building materials, water, energy and land; Residential activities in human settlements have direct ecological impacts on local areas in terms of air and water pollution, waste and damage of natural ecosystems; Homes and their residents are also themselves exposed to varied environmental hazards, which may emerge due to human activities (e.g. air and water pollution, lack of sanitation), due to natural factors (e.g. landslides, vector-born diseases such as malaria), or due to the combination of natural and human-made factors (e.g. climate change).

Thus, housing provides an important means for addressing local and global environmental concerns in relation to public health, energy, water and material efficiency and CO_2 emission, waste production and recycling, climate adaptation and environmental hazards mitigation measures.

Affordable Housing ensure Social and Cultural Sustainability

Housing is critical to meeting basic human needs in shelter, but it is also important to the social development of communities and societies.

Social sustainability in housing is about creating affordable, good-quality, inclusive and diverse (mixed-tenure and mixed-income), secure and healthy dwellings, residential areas and communities, which are well-integrated into the wider socio-spatial systems of which housing is part – urban and national. Cultural sustainability takes into consideration cultural worldviews and values, norms and traditions, as well as lifestyles and behaviors of occupants, communities and society, thus supporting the dignity of communal life.

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT 78

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

http://ijrcm.org.in/

Given the significance of housing for human needs and livelihoods, the social dimension of sustainability remains the key condition – even the focal point – against which the environmental, for cultural and economic considerations must be assessed, counterbalanced and developed. However, every effort must be taken to ensure that the social dimension is integrated with the broader conditions for sustainable housing.

Affordable Housing and Economic Sustainability

The economic dimension of housing sustainability emerges from a variety of economic functions and implications that the housing system has, such as: Housing and related infrastructure are among the most valuable and lasting human made capital assets; Housing provides the basis for human welfare, labor productivity and mobility; Housing is an important part of household expenditures and public expenditure and if unaffordable creates numerous socio-economic problems; House building, housing services and real estate markets are among the key economic and employment activities; Housing is a platform for home-based activities and entrepreneurship; Housing is part of economic flows of natural resources and energy.

Affordable housing is a productive asset that has important contributions to national welfare and economic development. Moreover, decent affordable housing and related infrastructure are among the key factors that also make local places more attractive, inclusive and competitive and hence are the key to sustainable economic development at the local level too. Indeed, places with housing deprivation have little prospect to attract skilled workers and investments, while places with expensive housing often end up being surrounded by slums and create serious social tensions and stress and sub-optimal local economies.

7. CONCLUSION

Investing in affordable housing does more than improve the quality of life for local residents – it strengthens the local economy by creating jobs and fortifying a community's tax base. Providing affordable housing also yields economic benefits to local employers by making it easier to attract and retain workers. Communities can encourage the provision of affordable housing by making use of a variety of policy tools at their disposal.

Affordable housing contributes to Sustainable Development through its capacities to: Stimulate economic growth through housing markets and homebuilding activities; Stabilize and reduce volatility of housing markets; Improve health conditions and labor productivity through better living conditions; Add to the growth of capital assets of the gross capital stock; Support regional and urban regeneration, development and growth; Contribute revenues to local, regional and national governments (eg. via taxes) and individual wealth (e.g. via housing markets); Generate employment and income through residential and building activities and their multiplier effects in other sectors; Strengthen local building industry and enterprise and promote local and traditional building materials and techniques; Provide domestic financial mobilization through housing finance institutions; Generate additional income by raising collateral for business start-ups and small firm growth as well as through home-based enterprises and renting; Housing is more than just a place to sleep; It should also be connected with economic activities as these present an important livelihood strategy for many households in developing countries.

8. RECOMMENDATIONS

✓ To the Government

The government should execute the following actions: (a). To develop programs aimed at providing urban housing for a cross-section of the population; (b). To establish minimum standards in the construction of housing with respect to construction codes and provision of adequate basic facilities such as water and sanitation, access to reliable power sources, and basic social amenities within easy reach of residential areas; (c). To provide the legal and regulatory framework to encourage private sector participation in the development of urban housing vis-à-vis the development of housing estates; (d). To facilitate the development of housing stock in order to cater for increase demand for ownership and short term occupation; (e). To establish "owner-occupier" housing under affordable mortgage schemes guaranteed by employers, both public and private; (f).To develop and establish tax incentive schemes to encourage people to obtain housing loans; (g). To facilitate the access to housing finance for low and middle income people; (h).To establish guidelines on the upgrading of informal settlements and put in place legal and regulatory measures to ensure that expropriations if required are carried out in line with internationally acceptable norms; (i).To decentralize the registration of land titles to ease the acquisition of land plots.

✓ To Investors

Investors should not hesitate to invest in Affordable Housing because it is a sure source of revenues

✓ To Citizens

Citizens are encouraged to shift from ordinary housing to Affordable Housing for sustainability purpose. They are also encouraged to take loans and invest in Affordable Housing for a better economic and socio development.

9. SUGGESTION FOR FURTHER STUDIES: THE COST OF NOT PROVIDING AFFORDABLE HOUSING

While there are endless studies outlining the positive economic impacts that housing developments have had all over the country, the negative consequences of not providing affordable are equally compelling. Without affordable housing, a negative ripple effect occurs in almost the exact opposite way as the positive ripple described earlier. Businesses can't attract the young, educated workforce they need to expand. Young, well-educated professionals are often forced to leave because of high housing costs. New businesses and new industry are deterred from moving to the area. The region never cashes in on all of the potential income that new housing makes possible including construction income, consumer spending and tax revenues.

Failure to provide for a balance of housing options close to jobs leads to traffic congestion and other problems that diminish quality of life. If the community workforce must travel from a house in a distant region, there is a substantial loss of consumer spending and local annual business income.

Investment in affordable housing is a solution for many of our community's challenges offering exponential dividends that pay off for decades. Today's economic conditions may represent the most compelling case yet for acting now.

REFERENCES

1. African Union (2014). African Union for Housing Finance. *Financing Housing in Africa, issue 32*.
2. AOCDO (2003). Economic Impact of Affordable Housing Development.
3. Brueckner, J. K. (2014). Cities in Developing Countries: Fueled by Rural-Urban Migration, Lacking in Tenure Security, and Short of Affordable Housing. Handbook of Regional and Urban Economics, Vol, 5. California.
4. Bruen, J., Hadjri K. & Meding, J. V. (2013). Design Drivers for Affordable and Sustainable Housing in Developing Countries. *Journal of Civil Engineering and Architecture, Volume 7, No. 10 (Serial No. 71),* pp. (1220-1228).
5. Bunnarith, M. (2004). Between Poverty Reduction Strategy and National Housing Policy. Discussion Paper prepared for *Executive Programme in Housing Singapore Cooperation Program Training Awards* Conducted by Department of Real Estate, National University of Singapore, Phnom Penh.
6. Center for Affordable Housing Finance in Africa (2014). Housing Finance in Africa. A review of some of Africa's housing finance markets. South Africa.
7. Center for the Study of Social Policy (2011), Affordable Housing as a Platform for Improving Family Well-Being: Federal Funding and Policy Opportunities. *Financing Community Change Brief.*
8. Citizens' Housing and Planning Association (1997). Creating Jobs and Increasing Economic Development: The Economic Benefits of the 1997 Housing Bond Bill.
9. City of Kigali. (2012). Report on Housing Market Demand, Housing Finance, and Housing Preferences for the City of Kigali, Kigali.
10. Cohen, R. & Wardrip, K. (2011). The Economic and Fiscal Benefits of Affordable Housing. *Planning Commissioners Journal, N° 83, Summer,* pp. (1-3).
11. Emrath, P. (1997). Local Impact of Home Building. Housing Economics.

12. Frontier Economics Ltd (2014). Assessing the social and economic impact of affordable housing investment. A Report prepared for G15 and The National Housing Federation, London.

13. Housing Policy Department (1997). The Local Impact of Home Building in Average City. A Brief Description of the Model. USA.

14. HR&A Advisors, Inc. (2012). Economic Impacts of Affordable Housing on New York State's Economy. Prepared for The New York State Association for Affordable Housing (NYSAFAH). New York.

15. Katz, B., Turner, M. A., Brown, K. D., Cunningham, M. & Sawyer, N. (2003). Rethinking Local Affordable Housing Strategies : Lessons From 70 Years of Policy and Practice. *The Brookings Institution & The Urban Institute*.

16. Kennedy, M. (1996). Increasing homeownership through partnership. Rural Voices.

17. Malik, S and Wahid, J. (2014). Rapid Urbanization: Problems and Challenges for Adequate Housing in Pakistan, *Journal of Sociology and Social Work, Vol. 2, No. 2*, pp. 87–110.

18. MINECOFIN (2000), Rwanda Vision 2020, Kigali.

19. MINECOFIN (2007). Economic Development and Poverty Reduction Strategy 2008 – 2012, Kigali.

20. MININFRA (2008). National Urban Housing Policy for Rwanda, Kigali.

21. National Association of Home Builders (1997). The Local Impact of Home Building in Average City: Income, Jobs, and Taxes Generated by Single Family Construction, USA.

22. National Association of Home Builders (1997). The Local Impact of Home Building in Average City: Income, Jobs, and Taxes Generated by Multifamily Construction. USA.

23. National Association of Home Builders (2010). The Economic Impact of Low Income Housing, Tax, Credit Development along Transit Corridors in Metro Denver. Income, Jobs, and Taxes Generated. Washington.

24. National Institute of Statistics of Rwanda (2012). Fourth Population and Housing Census, Rwanda, Kigali.

25. Rwanda Demographics Profile. (2014). Retrieved from http://www.indexmundi.com/rwanda/demographics_profile.html.

26. Rwanda Housing Authority. (n.d). Report on Affordable Housing Development Project in Rwanda. Kigali.

27. Schmidt, S. & Budinich, V. (2006). Housing Solutions Serving Low-Income Populations. A framework for Action. Paper presented at *The World Urban Forum III held in Vancouver*, Canada, p. 28.

28. Sheuya, S., Howden-Chapman, P., & Patel, S. (2007). The Design of Housing and Shelter Programs: The Social and Environmental Determinants of Inequalities. *Journal of Urban Health: Bulletin of the New York Academy of Medicine, Vol. 84, No. 1,* pp. i98- i108*.

29. Stolberg, S. (1997). Moving from Shanties to a Subdivision. *Los Angeles Times*. UN- Habitat (2012). Sustainable Housing for Sustainable Cities: A policy framework for developing countries, Nairobi.

30. UN (2011). Affordable Land and House in Africa, Vol 3, Nairobi.

31. UN (2015). Promoting Sustainable Human Settlement Development. Agenda 21.

IMPACT OF LAND ACQUISITION ON SOCIAL CONDITIONS OF FARMERS

JYOTI SANGWAN
RESEARCH SCHOLAR
DEPARTMENT OF ECONOMICS
M. D. UNIVERSITY
ROHTAK

ABSTRACT

Recently land acquisition becomes a burnt issue among academics, social activists, planners, politicians and common people. On the basis of primary data, this paper analyses the impact of land acquisition on the social conditions of the farmers in Rohtak district of Haryana state. The impact of land acquisition identified and included changes in occupational pattern, basic facilities of life, source of drinking water, domestic violence, alcoholism and use of cash compensation money for domestic consumption. The study is based on primary as well as secondary data. For the collection of primary data, we have adopted interview schedule and observations as major techniques. The sample size consists of 140 farmers from the Bohar village of Rohtak district. The secondary data have been collected from Haryana Urban Development Authority (HUDA) Office of Rohtak district, census of India 2011. The study revealed a significant change in social conditions of the farmers.

KEYWORDS

Land Acquisition, Social Conditions, Households.

INTRODUCTION

India is basically rural in nature. 68.82 per cent of the total population still lives in rural areas (census 2011). The main occupation in villages is agriculture with animal husbandry. In a low income labor surplus economy land is an important factor as it provides livelihood to the majority of rural and poor population. A majority of households drive their livelihood from agriculture directly and indirectly. In recent years, one social issue that has became a cause of debate among academics, social activists, planners and common people is the acquisition of land for industrial or infrastructure projects in India. Development projects are perceived as symbols of national progress. If properly executed, they have the potential to facilitate generation of employment opportunities, formation of new skills, increases in income and consumption levels and improvement of infrastructure facilities.[1]Land Acquisition means the acquisition of land for some public purpose by a government agency from individual landowners, as authorised by the law, after paying a government-fixed compensation to cover losses incurred by landowners from surrendering their land to the concerned government agency. [2] The laws of acquisition and requisition of property can be enacted by the both Central and the State government, and this subject is included in the Indian Constitution under the concurrent list of the Seventh Schedule. The basic land acquisition law in India is the Central Land Acquisition Act, 1894.The act is basically meant to acquire land for Public Purpose and for Companies. According to Ordinance XL of 1935 Land Acquisition (Public Purpose), Article 31(2) state that land can be acquired for the public purpose by the government. In public purpose we can include the town-panning, employment generation, increasing the tourism, culture promotion, building infrastructure and land used by defense forces for their operations and many other uses which directly linked up with general interest or profits. With timely amendments in Land Acquisition Act 1894, after India's independence this Act was adopted as 'The Indian Independence Order, 1948' by the government. Before adopting the act by Indian govt. in 1948 there has been made many amendments in Land Acquisition Act, 1894 by British government. and after independence also made by Indian government. This acquisition put up the many significant changes on the farmers in specially, social conditions of the farmers. These social impacts are undoubtedly wide and far-reaching. There are a large number of studies on the socio-economic impacts of acquisition of agriculture land, but related to Haryana are very few. There is a wide scope for many more studies. So, we decided to observe the social impact of acquisition of agricultural land on farmers. For this purpose, we chose Bohar village of Rohtak district of Haryana.

OBJECTIVE OF THE PAPER

The main objective the paper is to examine the impact of land acquisition on social conditions of farmers and to analyze the domestic use of compensation money by the farmers.

RESEARCH METHODOLOGY

To fulfill the objective, the study is based on the primary data as well as secondary data. The acquisition of land has been done in all districts of Haryana state but, we chose only one district i.e. Rohtak to see its impact on social conditions of the farmers. Therefore Bohar village in Rohtak district was selected for the field survey. For this study, a sample of 140 households has been selected randomly from the 290 house-holds of the Bohar Village, whose land was acquired for the HUDA (Haryana Urban Development Authority)'s residential sector-31 in year 2009. Secondary data have also been collected from the HUDA (Haryana Urban Development Authority) Office of Rohtak district. For the collection of data, we have adopted interview schedule and observations as major techniques. To analyze the data collected from field survey, simple statistical tools as tabulation and percentage method etc. are used.

RESULTS

TABLE-1: OCCUPATIONAL PATTERN (N=140)

Type of Work	No. of HH before acquisition	Percentage	No. of HH after acquisition	Percentage
Agriculture	75	53.57	20	14.29
Govt. Job	31	22.14	32	22.86
Private Job	11	7.86	19	13.57
Business	9	6.43	28	20
Unemployed	0	0	9	6.42
Agriculture & Other	14	10	32	22.86

Source: Field Survey

* **Agriculture & Other** include those people who perform agriculture with other activity like agriculture and govt. job, agriculture and private job and agriculture and business.

Occupational pattern of affected households is presented in table 1. It is seen from the table that 53.57 per cent households were involved in agriculture sector before acquisition but after acquisition percentage of agriculture sector in occupational pattern is on decrease and it make only 14.29 per cent. In the same way,

[1] S. Parasuraman, Development Projects, Displacement and Outcomes for Displaced Two Case Studies: EPW, Vol. 31, No. 24 (Jun. 15, 1996), pp. 1529-1532.
[2] http://wikipedia.org/wiki/Land_Acquisition-Act_1894

22.14 per cent households were engaged in Govt. jobs before acquisition and after acquisition this share increases to 22.86 per cent. Only 7.86 per cent households were involved in private jobs before acquisition for their livelihood but after acquisition 13.57 per cent households made their future in private sector. Business sector is most prosperous and risky field so, only 6.43 per cent households were busy in self-business, after acquisition 20 per cent households moved towards business sector. Before acquisition 10 per cent households were such as they are involved in both agriculture and some other occupation but after acquisition there are 22.86 per cent households which are included in agriculture and other occupation, the reason behind this increase is that households have very small no. of land holdings with them which make them difficult to give it on lease so they have only option left with them is to cultivate those land holdings themselves but income generated from cultivated land is not sufficient to support their families that's why they have to engage in some other occupation such as govt. job, private job and business along with agriculture.

TABLE-2: DISTRIBUTION OF HH BY BASIC FACILITIES (N=140)

Basic Facilities	No. of HH before acquisition	Percentage	No. of HH after acquisition	Percentage
Electricity	140	100	140	100
Separate Kitchen	67	47.86	73	52.14
Latrine	68	48.57	72	51.43
Both Kitchen & Latrine	62	44.28	78	55.72

Source: Field Survey

Table no. 2 represents the basic facilities in the houses of the households in the village. All the houses in the area are electrified. There are major deficiencies in basic facilities like, separate kitchen, latrine etc. before acquisition. There were only 47.86 per cent households who use the separate kitchen in their houses before acquirement while 48.57 per cent households make their separate kitchen with the help of compensation money after acquisition. Similar situation is in the latrine condition, only 48.57 per cent household's used the proper toilet facility in their houses before acquisition and 51.43 per cent afford this facility after acquisition. There are only 44.28 per cent households who used the both separate kitchen and latrine facility before acquisition while 55.72 per cent households make it easy after acquisition from compensation money.

TABLE-3 SOURCE OF DRINKING WATER OF HH (N=140)

Source	No. of HH before acquisition	Percentage	No. of HH	Percentage
Well	05	3.5	0	0
Hand Pump	40	28.57	16	11.43
Pipe Water	80	57.15	41	29.28
RO/Filter Water	15	10.78	83	59.29

Source: Field Survey

Table-3 shows the distribution of households by source of drinking water. There were only 3.5 per cent households who used the well water for drinking before acquisition, 28.57 per cent uses the hand-pump water, 57.15 per cent used the pipe-water and only 10.78 per cent households used the filter/ RO water for drinking before acquisition. There comes a major change after acquisition in source of water among the households. There is not even a single family who uses the well water for drinking purpose while hand-pump water for drinking are used by 11.43 per cent households. Only 29.28 per cent household's uses the pipe-water for drinking and 59.29 per cent family's uses the filter/RO water for drinking after acquisition.

TABLE-4 DOMESTIC VIOLENCE AND ALCOHOLISM (N=140)

Social Problem	No. of HH before acquisition	Percentage	No. of HH after acquisition	Percentage
Domestic Violence	24	17.14	63	45
Alcoholism	41	29.28	89	63.57

Source: Field Survey

If we talk about domestic violence and alcoholism among the surveyed households, then these additions are on increase in the society after acquisition. Before acquisition, only 17.14 per cent households were affected from the domestic violence and 29.28 per cent from alcoholism problem. After acquisition, this ratio becomes 45 and 63.57 per cent respectively. Land acquisition showed an adverse effect on the society and culture in terms of domestic violence and alcoholism.

TABLE-5 USE OF COMPENSATION FOR DOMESTICS CONSUMPTION (N=140)

Use of cash Compensation	No. of HH	Percentage
Built House	53	37.85
Repair House	25	17.86
Marriage	42	30
Daily consumption	20	14.29

Source: Field Survey

Table-5 shows the use of compensation money for the domestic use after acquisition of land. 37.85 per cent households use their compensation money to built new houses while 17.86 per cent households use the money for repairing their old houses. 30 per cent household's uses their compensation money for marriage of their children and relatives, at the same time 14.29 per cent households uses compensation money of acquired land for daily consumption. This table reveals that most of the amount is used for either for building of new house or for marriage purpose.

CONCLUSION

The social conditions have totally changed with land acquisition as we have both positive and negative changes. The basic facilities like separate kitchen, latrine, safe drinking water and building new houses have significantly increased after land acquisition. There is negative impact of land acquisition also, like domestic violence, alcoholism and unemployment have increased. The study reveals that most of the farmers use their compensation money on building of new house and daily consumption as well as on marriages of their children.

REFERENCES

1. Census (2011), Census of India, New Delhi.
2. http://huda.nic.in
3. http://wikipedia.org/wiki/*Land_Acquisition-Act*_1894 retrieved on 12-1-2015.
4. Parasuraman, S. (1996). *"Displacement and Outcomes for Displaced: Two Case Studies,"* Economic and Political Weekly, vol.*31, No.*24, pp.1529-1532.
5. Ray, S., and Saini, S. (2011). "*Society Development and Displacement: The Case of an Opencast Coal Mining Project in Orissa,*" Sociological Bulletin, vol. *60 No.* 1, pp. 45-64.
6. www.justiceservices.gov.mt*/ Land Acquisition (Public Purposes) Ordinance XL 1935*, retrieved on 5-5-2015.

DOES THE QUALITY OF CORPORATE GOVERNANCE AFFECT THE FINANCIAL PERFORMANCE IN INDIAN IT SECTOR? AN INSIGHT

NIDHI TYAGI
RESEARCH SCHOLAR
ALIGARH MUSLIM UNIVERSITY
ALIGARH

ABSTRACT

Nowadays, Corporate Governance has become a major issue as scandals and meltdown of famous organisations create unstableness in the economy in many countries. The strong Corporate Governance frameworks are regarded as a mechanism to encourage flexibility and innovation and it also contributes to sustainable development of companies. The evolution of the information technology function has become important in recent years and it is one of the most significant growth contributors for the Indian economy. The Information Technology (IT), and its management plays an extremely important role in the creation and maintenance of the well governed company and is one of the major drivers of the current economic environment. Considering the importance of corporate governance in IT companies, the aim of the paper is to study the impact of corporate governance on financial performance of Indian IT companies listed on NSE Sectoral Index i.e., CNX IT Index. For this purpose, the data are being taken from companies listed on the National Stock Exchange (NSE) for the financial year 2012-13. The sample of the study constitutes all the 20 companies of CNX IT Index. The Secondary data has been collected for the financial year 2012-13 in the form of Annual Reports of Companies, research papers, articles and various websites. Four corporate governance variables were selected namely: Board Size, Board Independence, CEO Duality, and Audit Committee which served as the independent variables in the study. Moreover, the firm's financial performance as measured by Return on Equity (ROE) is considered as dependent variable. The results of regression analysis reveals that overall corporate governance mechanisms has a positive impact on the financial performance of IT companies in India.

KEYWORDS

Board Size, Board Independence, CEO Duality, Audit Committee, ROE.

INTRODUCTION

In India, the question of Corporate Governance has assumed importance mainly in the wake of economic liberalization, deregulation of industry and businesses, as also the demand for a new corporate ethos and stricter compliance with the legislation. The new economic policy adopted by the Government of India since 1991 has necessitated the demand for the introduction and implementation of a proper corporate governance policy in the management of companies not only in the interest of their stakeholders but also for the development of the economy. (Das, 2008) The importance of corporate governance disclosure increased in the last decade because of various corporate scandals and collapses, such as Enron, WorldCom, Satyam, etc. which involved unethical business practices and shook the interests of investors very badly. The reason behind these was the poor governance system which alarmed the authorities to come up with strict and in depth policy frameworks so as to protect the rights of minority shareholders, creditors and other stakeholders. The strong Corporate Governance frameworks is regarded as a mechanism to encourage flexibility and innovation and it also contributes to sustainable development of companies.

Different authors have different meaning regarding the term corporate governance. The area of corporate governance has acquired heightened attention and has become an issue of global significance. The improvement of corporate governance practices is widely recognized as one of the essential elements in strengthening the foundation for the long-term economic performance of countries and corporations (Ibrahim et al, 2010). The concept of corporate governance has been defined as "dealing with the ways in which suppliers of finance to corporations assures themselves of getting a return on their investment". It deals precisely with problems of conflict of interest, design ways to prevent corporate misconduct and aligns the interests of stakeholders using incentive mechanism (Shleifer and Vishny, 1997).

The strong Corporate Governance frameworks are regarded as a mechanism to encourage flexibility and innovation and it also contributes to sustainable development of companies. The evolution of the information technology function has become important in recent years and it is one of the most significant growth contributors for the Indian economy. The Information Technology (IT), and its management plays an extremely important role in the creation and maintenance of the well governed company and is one of the major drivers of the current economic environment. Researchers and business managers consider IT a key player and enabler of many corporate objectives including healthy governance to enhance overall performance of the organization.

Considering the importance of corporate governance in IT companies, the aim of the paper is to study the impact of corporate governance on financial performance of Indian IT companies listed on NSE Sectoral Index i.e., CNX IT Index.

REVIEW OF LITERATURE

Board Size and Financial Performance

The number of directors constituting the board can influence the firm's performance positively or negatively. The relationship between board size and firm performance remains inconclusive. Empirical evidence on the relationship between board size and firm performance provided mixed results. Adekunle and Aghedo (2014) found that there is positive and significant relationship of board size on financial performance and Gull et al (2013) also found a positive significant relationship of Board Size with firm performance as measured by ROE. According to a study undertaken by Chugh et al. (2011) a larger Board Size creates more opportunities and resources for better financial performance.

Contrary to this, a negative relationship between firm performance and board size are evident from the studies undertaken by Yermack (1996), Eisenberg et al. (1998), Denis and McConnell (2003), Andres et al. (2005), and Garg (2007). Further, Ahmadu et al. (2005), Chan and Li (2008), and Mustafa (2009) found that larger boards are associated with poorer performance. Beiner et al. (2004), Bhagat and Black (2002) and Limpaphayom and Connelly (2006) found that there is no significant association between board size and firm performance.

Board Independence and Financial Performance

Board independence has been regarded as one of the important determinants of the ability of boards to protect investors' interests (Fama and Jensen, 1983). There is mixed evidence that independent directors add value and improve the performance of the firm (Garg, 2007). Choi et al. (2007) found the positive effect on the firm performance as a result of having independent directors on the company board. Similarly, Abor and Adjasi (2007) revealed that the presence of outside independent directors on boards enhanced corporate competitiveness and provided new strategic outlooks for the firms. Chan and Li (2008) suggested a favorable link between independent directors and financial performance. Krivogorsky (2006) also supported the positive association between the proportion of independent directors to board size and profitability ratios in European firms.

On the other side, Yermack (1996) and Klein (1998) finds that a high percentage of outside directors has a negative effect on firm performance. Gull et al (2013) in their study found that Non-Executive Directors have unfavourble relationship with firm performance. Hermalin and Weisbach (1991) have found that a high proportion of independent directors does not predict a better future accounting performance. Using accounting measures, Agrawal and Knoeber (1996) found a

negative relationship between board independence and firm's performance. Lack of training to function as independent directors and ignorance of the procedures, tasks, and responsibilities expected of them could be reasons for the independent directors' non-performance (Garg, 2007).

CEO Duality and Financial Performance

Similar to previous researches on the relationship between the aforementioned two sets of board characteristics and firm performance, the impact of the separation of chief executive officer (CEO) and chairperson of the board (Chairperson) on firm performance measures have yielded conflicting results, according to the literature.

Research which argues against dual roles as they impact negatively on a firm's financial performance, include Fama and Jensen (1983), Rechner and Dalton (1991), Jensen (1993), Daily and Dalton (1994), Bai et al. (2004), Ahmadu, et al. (2005), Bhagat and Bolton (2008), Coles et al. (2001), Feng, et al. (2005), Judge, et al. (2003), Kyereboah et al. (2005) and Mustafa (2009). Further, Ehikioya (2009), Gull et al (2013) and Ujunwa (2013) also found that CEO Duality has negative association with firm's performance.

In Contrast, Some studies provide evidence of a positive relationship between duality of roles and firm performance. Harjoto and Hoje (2008), Kajola (2008) and Adekunle and Aghedo (2014) found a positive and statistically significant relationship between performance and separation of board chairman and CEO.

However, studies by Chaganti et al. (1985); Rechner and Dalton (1989); Daily and Dalton (1992, 1993, 1997); Baliga et al. (1996); and Brickley et al. (1997), Carapeto et al. (2005), Schmid and Zimmermann (2008) and Wan and Ong (2005) found no significant difference in the performance of companies with or without role duality.

Size of Audit Committee and Financial Performance

The establishment of Audit committees has been mandatory in many countries including India. The Cadbury Report (1992) emphasized the importance of audit committee's structure and membership to effectively accomplish its role. The report stressed that the membership should be of minimum three members. A significant number of studies mainly took place in Western countries focusing on various dimensions of audit committees. In India, less attention has been given to this dimension of corporate governance which also influences the firm's performance.

It is argued that a larger committee has greater organizational status and authority (Kalbers and Fogarty, 1993; Braiotta, 2000) and a wider knowledge base. Pincus et al. (1989) show that firms with larger audit committees are expected to devote greater resources to monitor the process of "reporting" accounting and finance. Similarly, Anderson et al. (2004) found that large size audit committees can protect and control the process of accounting and finance with respect to small committees by introducing greater transparency with respect to shareholders and creditors which has a positive impact on the financial performance of the company.

Bouaziz (2012) in their study tried to capture the effect of the characteristics of the audit committee on financial performance as measured by Return on Assets (ROA) and Return on Equity (ROE). The results show that the size of the audit committee has a positive and significant impact on financial performance measured by ROA and ROE.

Many researches have been conducted to study the relationship of corporate governance on firm's performance in developed countries as compared to developing countries. By going through the existing review of literature, it is observed that very less research has been done on the impact of corporate governance mechanisms on financial performance of IT Companies especially in context to India. Given this lack of empirical studies, this study fills the gap and provides empirical evidence on the impact of corporate governance mechanisms on financial performance of Indian IT Companies by taking into consideration the variables related to corporate governance.

OBJECTIVES OF THE STUDY

The objective of the study is to examine the relationship between Corporate Governance and financial Performance of IT Companies in India. Specifically, the aim of the study is:

1. To examine the relationship between Board Size and firm's financial performance.
2. To ascertain the influence of composition of board members on firm's financial performance.
3. To find out whether or not the CEO Status has an effect on firm's financial performance.
4. To determine whether the Size of the Audit Committee has an influence on firm's financial performance.

HYPOTHESES

Based on the objectives of the Study and the review of existing literature, the following hypotheses have been framed for testing:

1. H_1: There is no significant impact of Board Size on Return of Equity of IT companies.
2. H_2: There is no significant impact of Board Independence on Return of Equity of IT companies.
3. H_3: There is no significant impact of CEO Duality on Return of Equity of IT companies.
4. H_4: There is no significant impact of Size of Audit Committee on Return of Equity of IT companies.

METHODOLOGY

Research Design and Sample: This study focuses on evaluating the empirical relationship between Corporate Governance and financial Performance of IT Companies listed on CNX IT Index of NSE. The data used for this study is taken from the companies listed on the National Stock Exchange (NSE) for the financial year 2012-13. The sample of the study constitutes all the 20 companies of CNX IT Index (Annexure). The Secondary data has been collected for the financial year 2012-13 in the form of Annual Reports of Companies, research papers, articles and various websites.

Model Specification: Multiple Regression analysis is used to analyze the impact of corporate governance variables on financial performance of IT companies. For this purpose, an econometric model is devised to test the relationship of firm's financial performance and the corporate governance variables. The SPSS Software is used in carrying out the necessary computations. The four Independent variables are Board size, Board Independence, CEO Duality, and Audit Committee and the firm's financial performance is measured by Return on Equity (ROE) which is a dependent variable. The measurement of the selected variables are summarized in Table 1.

TABLE 1: OPERATIONAL DEFINITION OF VARIABLES

Name of Variables	Abbreviations	Measurement
Board Size	BSIZE	Total number of directors on board
Board Independence	BIND	Ratio of independent directors to total number of directors on board.
CEO Duality	CEO	Value one (1) for CEO/Chairman duality and zero (0) if CEO and Chairman are different head.
Audit Committee	AUDCOM	Size of members on Audit Committee
Return on Equity	ROE	$\dfrac{\text{Profit After Taxes}}{\text{Total Shareholder's Equity}}$

The following econometric equation have been formulated for the analysis:

$$ROE = \beta_0 + \beta_1 BSIZE + \beta_2 BIND + \beta_3 CEO + \beta_4 AUDCOM + \varepsilon$$

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT   84

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

http://ijrcm.org.in/

ANALYSIS AND DISCUSSION

The regression analysis provides the following results:

TABLE 2: MODEL SUMMARY				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.714	.510	.380	12.89776	2.107

Source: Calculated through SPSS Software

From the above Table 2, it can be seen that when explanatory variables (independent variables), viz. Board Size, Board Independence, CEO Duality and Audit Committee were regressed on Return on Equity (ROE) an R^2 value of 0.510 is noticed. Given the value of Adjusted R^2 of 0.380 indicates that the independent variables (Board Size, Board Composition, CEO Status and Audit Committee) explain 38% of the systematic variation in the dependent variable (ROE).

TABLE 3: ANOVA[b]					
Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	2600.767	4	650.192	3.909	.023[a]
Residual	2495.284	15	166.352		
Total	5096.051	19			

a. Predictors: (Constant), AUDCOMP, BIND, BSIZE,CEO
b. Dependent Variable: ROE

Source: Calculated through SPSS

The table 3 shows that the value of F is 3.909, with a p value of .023, which is significant at 0.05. This shows that model is significant as p value is less than 0.05. This means that there is a significant relationship between the independent variables and the dependent variables as a group.

TABLE 4: COEFFICIENTS[a]					
Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.
	B	Std. Error	Beta		
1 (Constant)	-13.561	21.653		-.626	.541
BSIZE	-1.551	1.327	-.223	-1.169	.261
BIND	52.900	24.016	.425	2.203	.044
CEO	-27.314	7.853	-.684	-3.478	.003
AUDCOMP	5.200	3.448	.275	1.508	.152

a. Dependent Variable: ROE

Source: Calculated through SPSS Software

The regression coefficients of independent variables provides the magnitude and the direction of the relationships with dependent variables. The regression results reveal that only Board Independence has a positive and significant impact on ROE whereas CEO Duality has negative impact on financial performance. Thus, Hypothesis H_2 and H_3 are rejected. However, Board Size and Audit Composition do not have significant impact on ROE as P values are greater than 5%. Hence H_1 and H_4 is accepted.

CONCLUSION

The study examined the empirical relationship between Corporate Governance and financial Performance of IT Companies listed on CNX IT Index of NSE. The sample size comprises all the 20 companies of CNX IT Index and financial year 2012-13 is considered for the study. The impact of corporate governance variables namely Board Size, Board Independence, CEO Duality, and Audit Committee is studied on firm's financial performance as measured by Return on Equity (ROE). The finding that the board independence has a positive significant impact on firm's financial performance is congruous to Krivogorsky (2006) and Chan and Li (2008). Empirical findings regarding CEO Duality are similar to prior studies conducted by Ehikioya (2009), Gull et al (2013) and Ujunwa (2013), unveiling a negative significant impact on firm's performance. Board Size and Audit Composition do not have significant impact on financial performance of companies. Significantly, it can be inferred from regression results that overall corporate governance mechanisms has a positive impact on the financial performance of IT companies in India.

LIMITATIONS OF THE STUDY

The present study is subject to certain limitations such as small sample size which consists of only listed IT companies of CNX IT Index. Only four corporate governance variables is considered in the study and the financial performance is measured through only one measure i.e. ROE. Another limitation is that the time period considered is very short, only financial year 2012-13 is considered.

REFERENCES

1. Abor, J. and Adjasi, C. K. D. (2007). Corporate governance and the small and medium enterprises sector: Theory and implications. *Corporate Governance*, 7(2), 12.
2. Adekunle, S. A. and Aghedo, E. M. (2014). Corporate Governance and Financial Performance of Selected Quoted Companies in Nigeria. *European Journal of Business and Management*, 6 (6), 53-60.
3. Agrawal, A. and Knoeber, C. (1996). Firm Performance and Mechanisms to Control Agency Problems between Managers and Shareholders. *Journal of Financial and Quantitative Analysis*, 31(3), 377-397.
4. Ahmadu, S., Aminu, M., and Taker, G. (2005). Corporate governance mechanisms and firm financial performance in Nigeria. *African economic research consortium Research*, 149, 173-202.
5. Anderson, R., Mansi, S., Reeb, D. (2004). Board characteristics, accounting report integrity, and the cost of debt. *Journal of Accounting and Economics*, 37(3), 315-342.
6. Andres, P., Azofra, V. and Lopez, F. (2005). Corporate boards in OECD countries: size, composition, functioning and effectiveness. *Corporate Governance: An International Review*, 13(2), 197-210.
7. Bai, C., Liu, Q., Song, F.M. and Zhang, J. (2004). Corporate governance and market valuation in China. *Journal of Comparative Economics*, 32, 599-616.
8. Baliga, B.R., Moyer, R.C. and Rao, R.S. (1996). CEO duality and firm performance: what's the fuss? *Strategic Management Journal*, 17(1), 41-53.
9. Baxi, C.V. (2006). The Role of Independent Directors in Corporate Governance. *Asia-Pacific Business Review*, 2(2), 81-86.

10. Beiner, S., Drobetz, W., Schmid, F. and Zimmermann, H. (2004). Is board size an independent corporate governance mechanism? *Kyklos*, 57(3), 327-356.
11. Bhagat, S., and Black, B. (2002). The non-correlation between board independence and long-term firm performance. *Journal of Corporation Law*, 27(2), 231-274.
12. Bouaziz, Z. (2012). The Impact of the Presence of Audit Committees on the Financial Performance of Tunisian Companies. *International Journal of Management & Business Studies*, 2(4), 57-64.
13. Bouaziz, Z. (2013). The Impact of the Presence of Audit Committees on the Financial Performance of Tunisian Companies. *IJMBS*, 4(2), 57-64.
14. Braiotta, L. (2000). The Audit Committee Handbook. (3rd Edition). New York: John Wiley and Sons Inc.
15. Brickley, J., Coles, J. and Jarrell, G. (1997). Leadership structure: separating the CEO and the Chairman of the Board. *Journal of Corporate Finance*, 3(3), 189-220.
16. Cadbury Committee. (1992). Report of the Committee on the Financial Aspects of Corporate Governance. London: Professional Publishing Ltd.
17. Carapeto, Maria and Lasfer, Meziane and Machera, Katerina, Does Duality Destroy Value? (January 12, 2005). *Cass Business School Research Paper*. Website: SSRN: http://ssrn.com/abstract=686707
18. Chaganti, R.S., Mahajan, V. and Sharma, S. (1985). Corporate board size, composition and corporate failures in retailing industry. *Journal of Management Studies*, 22, 400-417.
19. Chaghadari, M.F. (2011). Corporate Governance and Firm Performance. *IPEDR*, 4, 484-489.
20. Chan, K.C., and Li, J. (2008). Audit Committee and Firm Value: Evidence on Outside Top Executives as Expert Independent Directors. *Corporate Governance: An International Review*, 16(1), 16-31.
21. Choi, J. J., Park, S. W. and Yoo, S. S. (2007). The value of outside directors: Evidence from corporate governance reform in Korea. *Journal of Financial and Quantitative Analysis*, 42(4), 941.
22. Chugh, L. C., Meador, J. W., and Kumar, A. S. (2011). Corporate governance and firm performance: evidence from India. *Journal of Finance & Accountancy*, 7, 1-10.
23. Coles, J.W., McWilliams, V.B. and Sen, N. (2001). An examination of the relationship of governance mechanisms to performance. *Journal of Management*, 27(1), 23-50.
24. Daily, C. and Dalton, D. (1992). The relationship between governance structure and corporate performance in entrepreneurial firms. *Journal of Business Venturing*, 7(5), 375-386.
25. Daily, C. and Dalton, D. (1993). Board of Directors leadership and structure: control and performance implications. *Entrepreneurship Theory and Practice*, 17(3), 65-81.
26. Daily, C. and Dalton, D. (1994). Corporate governance and the bankrupt firm: An empirical assessment. *Strategic Management Journal*, 15(8), 643-54.
27. Daily, C. and Dalton, D. (1997). CEO and board chairperson roles held jointly or separately: much ado about nothing. *Academy of Management Executive*, 11(3), 11-20.
28. Das, S.C. (2008). Corporate Governance Standards and Practices in Reliance Industries Limited. *The ICFAI Journal of Corporate Governance*, 7(3), 46-62.
29. Denis, D. K., and McConnell, J. J. (2003). International corporate governance. *Journal of Financial and Quantitative Analysis*, 38(1), 1-36.
30. Ehikioya, B.I. (2009). Corporate governance structure and firm performance in developing economies: evidence from Nigeria. *Corporate Governance*, 9(3), 231-243.
31. Eisenberg, T., Sundgren, S. and Wells, M.T. (1998). Larger board size and decreasing firm value in small firms. *Journal of Financial Economics*, 48, 35-54.
32. Fama, E.F. and Jensen, M.C. (1983). Separation of ownership and control. *Journal of Law and Economics*, 26 (2), 301-25.
33. Garg, A. K. (2007). Influence of board size and independence on firm performance: A study of Indian companies. *Vikalpa*, 32(3), 39-60.
34. Gull, A. A., Saeed, A. and Abid, A. (2013). Corporate governance and performance: An empirical evidence from textile sector of Pakistan. *African Journal of Business Management*, 7(22), 2112-2118.
35. Harjoto, M. A. and Hoje, J. (2008). Board leadership and firm performance. *Journal of International Business & Economics*, 8(3), 143-154.
36. Hermalin, B.E. and Weisbach, M.S. (1991). The Effects of Board Composition and Direct Incentives on Firm Performance. *Financial Management*. 20(4), 101-112.
37. Ibrahim, Q., Rehman, R. & Raoof A. (2010). Role of corporate governance in firm performance: A comparative study between chemical and pharmaceutical sector in Pakistan. *International Research Journal of Finance and Economics*, 50, 8-16.
38. Jensen, M.C. (1993). The modern industrial revolution, exit and the failure of internal control systems. *Journal of Finance*, 48(3), 831-880.
39. Kajola, S. O. (2008). Corporate governance and firm performance: The case of Nigerian listed firms. *European Journal of Economics, Finance and Administrative Sciences*, 14, 16-28.
40. Kalbers, L.P., and Fogarty, T.J. (1993). Audit committee effectiveness: An empirical investigation of the contribution of power. *Auditing: A Journal of Practice and Theory,* 12, 24–49.
41. Karpagam, V. (2013). Impact of Corporate Governance Factors on the Firm Performance of NSE Listed Companies in India. *SMART Journal of Business Management Studies*, 9 (2), 72-87.
42. Klein, A. (1998). Firm performance and board committee structure. *The Journal of Law and Economics*, 41, 275-303.
43. Krivogorsky, V. (2006). Ownership, board structure, and performance in continental Europe. *International Journal of Accounting*, 41(2), 176-197.
44. Limpaphayom, J., and Connelly, P. (2006). Board characteristics and firm performance: evidence from the life insurance industry in Thailand. *Journal of Economics*, 16(2), 101-124.
45. Mashayekhi, B. and Bazaz, M.S. (2008). Corporate Governance and Firm Performance in Iran. *Journal of Contemporary Accounting & Economics*, 4(2), 156-172.
46. Mustafa, H., Daud, Z.M. and Muhamad, S. (2009). Corporate governance practices and firms performance: the Malaysian case. *Journal of Money, Investment and Banking*, 11, 45-59.
47. Neifar, S. and Halioui, K. (2013). Determinants of Corporate Governance Disclosure: The Case of Tunisian Firms Listed on the Tunis Stock Exchange. *International Journal of Finance and Accounting*, 2(3), 174-183.
48. Pincus, K., M. Rubarsky and J. Wong. (1989). Voluntary Formation of Corporate Audit Committees among NASDAQ Firms. *Journal of Accounting and Public Policy*, 8, 239-265.
49. Rechner, P. and Dalton, D. (1991). CEO duality and organizational performance: A longitudinal analysis. *Strategic Management Journal,* 12(2), 155-60.
50. Schmid, M. M. and Zimmermann, H. (2008). Should Chairman and CEO Be Separated? Leadership Structure and Firm Performance in Switzerland, *Schmalenbach Business Review*, 60 (2), 182-204.
51. Shleifer, A. & R, Vishny. (1997). A Survey of Corporate Governance, *Journal of Finance*, 52 (2), 737-783.
52. Ujunwa, A., Salami, P.O. and Umar, A.H. (2013). CEO Duality and Firm Performance: An Integration of Institutional Perceptive with Agency Theory. *International Journal of Social, Human Science and Engineering*, 7(1), 97-103.
53. Wan, D., Ong, C. (2005). Board structure, process and performance: Evidence from public-listed companies in Singapore. *An International Review*, 13(2), 277-290.
54. Yermack, D. (1996). Higher market valuation of companies with a small board of directors. *Journal of Financial Economics*, 40, 185-211.

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT 86

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

http://ijrcm.org.in/

ANNEXURE

COMPANIES OF CNX IT INDEX

S. No.	Companies	Symbol
1	CMC Ltd.	CMC
2	Hexaware Technologies Ltd.	HEXAWARE
3	NIIT Technologies Limited	NIITTECH
4	Polaris Financial Technology Ltd.	POLARIS
5	Rolta India Ltd.	ROLTA
6	Info Edge (India) Limited	NAUKRI
7	MindTree Ltd.	MINDTREE
8	MphasiS Ltd.	MPHASIS
9	Oracle Financial Services Software Limited	OFSS
10	Tata Consultancy Services Limited	TCS
11	Tech Mahindra Limited	TECHM
12	Vakangee Limited	VAKRANGEE
13	Infosys Limited	INFY
14	HCL Technologies Limited	HCLTECH
15	Wipro Limited	WIPRO
16	Cyient Ltd.	CYIENT
17	Just Dial Limited	JUSTDIAL
18	KPIT Technologies Limited	KPIT
19	Persistent Systems Limited	PERSISTENT
20	eClerx Services Limited	ECLERX

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT   87

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

http://ijrcm.org.in/

AN EMPIRICAL ANALYSIS OF FINANCIAL SECTOR REFORM AND ITS IMPACT ON NIGERIAN ECONOMY (1980-2014)

MAGAJI ABDULLAH USMAN
STUDENT
DEPARTMENT OF ECONOMICS
SRM UNIVERSITY
KATTANKULLATHUR

ABSTRACT

Financial sector is the backbone of any economy and it plays a crucial role in the mobilization and allocation of resources. Any reform carried out in it, the effect was extended to other parts of the economy representing a transformational moment for the economy and its people. This paper examines the financial sector reforms and its effect on the Nigerian Economy. The study adopts VECM models after stationary and cointegration test using annual data set covering the period of thirty four years. The empirical results show that financial sector reform has an impact on economic development in Nigeria. There exist longrun causation running from all the explanatory variables used as proxies for financial sector reform and economic development. The rate of lending and share trade ratio was found to be statistically significant, but other variables were however found to be statistically flawed that is they were so far been unstable. It is therefore recommended that measures should be put in place to correct macroeconomic instability, as the activities in all other sectors jointly affect each other. War against corruption should also put in place to help achieve the desired policy. Political stability should be improved so as to increase the capital flow of foreign investment vis-à-vis effective operation of the financial sector.

KEYWORDS

Currency devaluation, economic development, financial sector reform.

INTRODUCTION

Financial sector is the backbone of any economy hence it involves the elimination of credit control, deregulation of interest rates, easing of entry into the financial services industry, development of capital market, increased prudential regulation and supervision, and liberalization of international capital flows. The reform of the financial sector was expected to promote financial savings, reduce the distortions in investment decisions, and induce more effective intermediation between savers and investors. The vortex of most financial reforms is around firming up capitalization. Specifically, financial reforms are primarily driven by the need to achieve the objective of consolidation, competition and convergence in the financial architecture (Deccan 2004). Financial reforms in Nigeria was dated back to 1952 when the banking Ordinance was enacted. The deregulation of banking in 1986 provided the impetus for the Structural Adjustment Programme. The 1986 reform of the financial system saw a policy shift from direct control to a market based financial system, especially as regards monetary management, risk management and asset holding capabilities of the institutions. A number of other reforms followed including the consolidation policy in banking in the year 2005 and insurance in 2007 and also the financial sector reform in 1999. More so, the bank consolidation in 2008 and the recent financial deregulation of currency devaluation and raise in interest rate policy in 2014 that calls for greatest attention. The aim of the study is to empirically investigate the impact of the recent financial sector reforms policy of currency devaluation and increase in interest on the performance of the Nigerian economy.

REVIEW OF LITERATURE

There has been a serious debate on the link between financial sector development and economic growth among different schools of thought economics. The supply side leading school is of the view that financial development may lead to growth in that a well-developed financial system performs several critical functions to enhance the efficiency of intermediation namely by reducing information asymmetry, transaction, and monitoring costs (McKinnon, 1973; King and Levine 1993; Schumpeter 1912 and Shaw, 1973) were some of proponent of this view under supply side. For example, Levine (1998) argued that financial market liquidity plays a key role in economic growth by providing assets to savers that are easily liquidated at any time while simultaneously allowing firms permanent access to capital that are raised through equity issues. McKinnon (1973) and Shaw (1973) contend that the financial sector development can be the major driver of economic growth if it can only be relieved of its own fetters. They argued that when a financial sector is repressed then it can only respond passively to the real-sector needs. However, this school of thought was sub divided into Structuralists and Repressionists. The Structuralists are of the view that the quantity and the composition of financial variables induce economic growth by directly increasing savings in the form of financial assets, thereby spawning capital formation and economic growth. The Repressionists on the other hand contend that financial liberalisation in the form of an appropriate positive real rate of return on real cash balances is a vehicle for promoting economic growth. Hence, a liberalized financial system causes an increase in saving and investment.

The demand side school of thought argued that financial development follows economic growth. As the economy expands its demand for certain financial instruments increases which in turn lead to financial market development. For example, Gurley and Shaw (1960) and Gelb (1989), argued that the causal relationship runs from growth to financial deepening, and that the demand for financial services increases with economic development. Singh (1999) also postulated that financial development does not in any way lead to long run economic growth due to macroeconomic instability, volatility and arbitrariness of pricing process; and that instead the macroeconomic activities have an upper hand in the interaction between the two variables. He pointed that as the economy expands, the demand for certain financial instruments increases, leading to the growth of these services and the end result is that the developments in macroeconomic activity influences on the financial market development.

The third school of thought contends that there is bi-directional causality between financial market development and economic growth. A country with a well-developed financial system could promote high economic expansion through technological changes, products and services innovation. This will in turn create a high demand for the financial institutions. As the financial institutions effectively respond to this demand, these changes will stimulate higher economic achievement. Both financial market development and economic growth are therefore positively interdependent and their relationship could lead to bidirectional causality (Majid, 2007). The fourth school of thought supported by Mazur and Alexander (2001) referred to as the independent hypothesis, argued that financial market development and economic growth is not causally related.

Akinlo et.al (2010) examines the long run and causal relationship between financial development and economic growth for ten countries in sub-Saharan Africa. Using the vector error correction model (VECM), the study finding shows a long run relationship between financial development and economic growth in the selected sub-Saharan African countries. It also revealed that financial development Granger causes economic growth in Central African Republic, Congo Republic, Gabon, and Nigeria while economic growth Granger causes financial development in Zambia. However, bidirectional relationship between financial development and economic growth was found in Kenya, Chad, South Africa, Sierra Leone and Swaziland.

Odenira and Ndebbio (2004), using an ordinary least square regression framework, finds that financial sector development weakly affect per capita growth of output. He attributed the result to shallow finance and the absence of well-functioning capital markets. The finding of Nnanna (2004) was more disturbing. He also used ordinary least square regression technique and concluded that financial sector development did not significantly affect per capita growth of output.

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT   88

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

http://ijrcm.org.in/

Similarly, Nzotta and Okereke (2009), based on two stages least analytical framework for a period starting from 1986-2007, concluded that financial deepening did not support economic growth in Nigeria.

Akinlo et.al (2010) examines the long run and causal relationship between financial development and economic growth for ten countries in sub-Saharan Africa. Using the vector error correction model (VECM), the study finding shows a long run relationship between financial development and economic growth in the selected sub-Saharan African countries. It also revealed that financial development Granger causes economic growth in Central African Republic, Congo Republic, Gabon, and Nigeria while economic growth Granger causes financial development in Zambia. However, bidirectional relationship between financial development and economic growth was found in Kenya, Chad, South Africa, Sierra Leone and Swaziland.

Odenira and Ndebbio (2004), using an ordinary least square regression framework, finds that financial sector development weakly affect per capita growth of output. He attributed the result to shallow finance and the absence of well-functioning capital markets. The finding of Nnanna (2004) was more disturbing. He also used ordinary least square regression technique and concluded that financial sector development did not significantly affect per capita growth of output.

Similarly, Nzotta and Okereke (2009), based on two stages least analytical framework for a period starting from 1986-2007, concluded that financial deepening did not support economic growth in Nigeria.

IMPORTANCE OF THE STUDY

From the above objective, it is obvious that, this study serves as an insight into the impact of financial sector reform on economic development in Nigeria. It will give us insight knowledge about the shortrun and longrun impact of financial sector reform on economic development in the country for the year under review. This study will also serve as a policy guide to the planning authorities on what measures to be taken to revamp the economy based on accurate selection of the most important macroeconomic variables suitable for the existing economic problem. This will lead to rapid economic growth in the Country and it will go long way in promoting economic development. Lastly, this valuable work will serve as a reference for further investigation and studies on the same field of research.

STATEMENT OF THE PROBLEM

A drastic falls in crude oil price in the world market has led to the current financial sector reform policy of currency devaluation and increase in interest rate by the present CBN Governor in person of Godwin Emefiele in order to revamp saving, investment and economic growth hence call for greatest attention.

The existing serious debate on the link between financial sector development and economic growth among different schools of thought economics have call for greatest attention to see which one cause the other and the other way round.

OBJECTIVES

The aim of the study is to empirically investigate the impact of financial sector reforms on the performance of the Nigerian economy. Other specific objective includes:

- To examine the relevance of the financial sector reform on economic growth in Nigeria
- To examine the effect of the previous financial reforms on the current economic growth in Nigeria
- To examine the way round of causality between financial sector reform and economic development in Nigeria.
- To ascertain the longrun and shortrun effect of the ongoing reform

HYPOTHESIS

There exist four hypotheses for a given research under study:

Hypothesis one:
H_0: Financial sector reform doesn't granger cause Economic development in Nigeria
Hypothesis two:
H_0: Financial sector reform doesn't impact economic development in Nigeria.
Hypothesis three:
H_0: Previous Financial sector reforms have not brought about changes to the Economy
Hypothesis four:
H_0: Financial sector reform has not contributed to the real sector growth in the economy.

RESEARCH DESIGN

Purposive sampling is used in this research study partly based on the perceived different literature reviewed and theoretical aspect of financial sector reform and also purposely on the need to generate data relevant to the study. The data for this study were obtained from primary and various secondary sources. Primary data were extracted from World Bank Development Indicator database and Central Bank of Nigeria Statistical bulletin. Other secondary information data was sought out from various journals, text books and archival materials (like BOI, etc). The selected variables to be used in the model are capital flow proxy as foreign direct investment (*cflow*), interest rate/ investment rate (*Inv*) , commercial banks' lending rate (*lend*) and exchange rate (*Excrt*), Gross domestic product per capita (GdpPcpt), value of shares traded (*Shtrd*) and turnover ratio (*Tuor*).

Vector Error correction model was adopted (VECM) to examine the dynamic impact of financial sector reform and its impact on Nigerian Economy.

The granger causality test using VAR based error correction framework was adapted to shows the direction of causality between current financial sector reform and economic development in Nigeria.

OLS regression test based on VECM result was also tested to show the impact of previous financial sector reform (Dummy variable) on current economic development in Nigeria.

MODEL SPECIFICATION

Model to be estimated is written as:

$$ED_t = Fsr_t + Mlqdty_t + Pfsr_t + \mathcal{E}_t \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots 1$$

where by:

$$Fsr_t = f(\text{lend}, inv, excrt, cflow) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots 2$$

$$Mlqdty_t = f(Shtrd, Tuor) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots 3$$

And the ED_t is economic development proxy as GDP per capita (GdpPcap)

   GDPCP= Economic development proxy as GNP per capita

   CFLOW= Capital flow proxy as foreign direct investment

   INV= Investment rate

   LEND = Lending rate

EXCRT = Exchange rate

   SHTRD = Share trade ratio

   TUOR = Turnover ratio

Pfsr = Previous Financial sector reform proxy as dummy variables (1= financial sector reform year and 0= non-financial sector reform year)

The VECM model equation is written as:

$\Delta \ln ED_t = \beta_0 + \beta_1 \sum_{t=1}^{i} \Delta \ln Inv_{t-1} + \beta_2 \sum_{t=1}^{i} \Delta \ln Excrt_{t-1} + \beta_3 \sum_{t=1}^{i} \Delta \ln Lend_{t-1} + \beta_4 \sum_{t=1}^{i} \Delta \ln fdi_{t-1} + \quad \beta_5 \quad \sum_{t=1}^{i} \Delta \ln shtrd_{t-1} + \quad\quad\quad \beta_6$

$\sum_{t=1}^{i} \Delta \ln tour_{t-1} + \sum_{t=1}^{i} \Delta ED_{t-1} + \lambda EC_{t-1} + \mathcal{E}_{t1}\mu \ldots\ldots\ldots\ldots\ldots (4)$

$\Delta \ln Excrt_t = \beta_0 + \beta_1 \sum_{t=1}^{i} \Delta \ln Inv_{t-1} + \beta_2 \sum_{t=1}^{i} \Delta \ln ED_{t-1} + \beta_3 \sum_{t=1}^{i} \Delta \ln Lend_{t-1} + \beta_4 \sum_{t=1}^{i} \Delta \ln cflow_{t-1} + \beta_5 \quad\quad \sum_{t=1}^{i} \Delta \ln shtrd_{t-1} + \beta_6 \sum_{t=1}^{i} \Delta \ln tour_{t-1} +$

$\lambda EC_{t-1} + \mathcal{E}_{t2} \mu \ldots\ldots\ldots\ldots\ldots\ldots\ldots (5)$

Apriori expectations are: $\beta_1, \beta_2, \beta_3, \beta_5,$ and $\beta_6 > 0$ while $\beta_4 < 0$.

Granger causality equation is built as:

Economic Development and Financial sector reform

$\Delta \ln ED_t = \sum_{t=1}^{i} \beta_j \Delta \ln Inv_{t-1} + \sum_{t=1}^{i} \gamma \Delta \ln Excrt_{t-1} + \sum_{t=1}^{i} \alpha \Delta \ln Lend_{t-1} + \sum_{t=1}^{i} \delta \Delta \ln cflow_{t-1} + \sum_{t=1}^{i} \lambda \Delta \ln shtrd_{t-1} + \sum_{t=1}^{i} w \Delta \ln tour_{t-1} + z_1 EC_{t-1} + \mathcal{E}_{t1} \ldots\ldots\ldots\ldots\ldots\ldots (6)$

Current Financial sector reform and Economic development, previous financial sector reform

$\Delta \ln Excrt_t = \sum_{t=1}^{i} \beta \Delta \ln Inv_{t-1} + \sum_{t=1}^{i} \gamma \Delta \ln Excrt_{t-1} + \sum_{t=1}^{i} \alpha \Delta \ln Lend_{t-1} + \sum_{t=1}^{i} \delta \Delta \ln cflow_{t-1} + \sum_{t=1}^{i} \delta \Delta \ln shtrd_{t-1} + \sum_{t=1}^{i} \lambda \Delta \ln tour_{t-1} + \sum_{t=1}^{i} z \Delta ED_{t-1} + z_2 EC_{t-1} + \mathcal{E}_{t2} \ldots\ldots \ldots\ldots\ldots\ldots(7)$

Previous financial sector reform and current financial sector reform

$\Delta Pfsr_t = \sum_{t=1}^{i} \beta \Delta \ln Inv_{t-1} + \sum_{t=1}^{i} \gamma \Delta \ln Excrt_{t-1} + \sum_{t=1}^{i} \alpha \Delta \ln Lend_{t-1} + \sum_{t=1}^{i} \delta \Delta \ln cflow_{t-1} + \sum_{t=1}^{i} \lambda \Delta \ln shtrd_{t-1} + \sum_{t=1}^{i} z \Delta \ln tour_{t-1} + \sum_{t=1}^{i} w \Delta ED_{t-1} + z_3 EC_{t-1} + \mathcal{E}_{t1} \ldots\ldots (8)$

RESULTS AND DISCUSSION

TABLE 1.1: ADF TEST FOR STATIONARITY

Variables	t-statsistic at Level	5%critical level	t-stats at first difference	5%cretical level	Decision
LNGDPCP	0.096858	-2.951125*	-2.954021	-4.768652	I(1)
LNINV	-0.030395	-2.960411*	-2.960411	-6.303583	I(1)
LNSHTRD	-1.614605	-2.954021*	-2.957110	-5.621148	I(1)
LNTUOR	-2.062815	-2.954021*	-2.957110	-6.789896	I(1)
LNCFLOW	-3.311226	-2.954021	-2.963992	-4.702649	I(1)
LNEXCRT	-1.842108	-2.951125*	-2.954021	-4.944295	I(1)
LNLEND	-2.405929	-2.963972*	-2.957110	-8.265227	I(1)

The result of the ADF unit root test result shows that most of the variables except the capital flow were originally non-stationary. They however became stationary after the first difference was taken. Following Harris (1995) and Gujarrati (2003), both I(1) and I(0) variables can be tested for cointegration which forms the basis of the next section.

TABLE 1.2: JOHANSEN COINTEGRATION TEST

Trend: constant
Number of obs = 32
Sample: 1980-2014
Lag = 1

Maximum Rank	parms	LL	eigenvalue	trace statistic	5% critical value
0	7	-53.058665		130.8376	124.24
1	20	-23.493658	0.84242	71.7076*	94.15
2	31	-8.8669924	0.59915	42.4543	68.52
3	40	-1.8552627	0.35482	28.4308	47.21
4	47	4.2280695	0.31628	16.2641	29.68
5	52	8.0145742	0.21074	8.6911	15.41
6	55	10.637781	0.15122	3.4447	3.76
7	56	12.360137	0.10206		

Maximum Rank	parms	LL	eigenvalue	trace statistic	5% critical value
0	7	-53.058665		59.1300	45.28
1	20	-23.493658	0.84242	29.2533*	39.37
2	31	-8.8669924	0.59915	14.0235	33.37
3	40	-1.8552627	0.35482	12.1667	27.07
4	47	4.2280695	0.31628	7.5730	20.97
5	52	8.0145742	0.21074	5.2464	14.07
6	55	10.637781	0.15122	3.4447	3.76
7	56	12.360137	0.10206		

Table 1.2 result shows that both the trace statistic and the max-eigen test indicate an existence of one cointegrating equations Thus which is an indication of the existence of a long run relationship among the variables. The true cointegrating equations are indicated and are shown in the result of the Vector Error Correction (VEC).

TABLE 1.3: VECTOR CORRECTION MODEL RESULT

	Coef.	Std. Err.	Z	p>l z l	[95% Conf. Interval]	
D_lngdpcp _Cel						
L1.	-0.2555465	0.070924	-3.60	0.000	-0.3945549	0.1165381
Lngdpcp						
LD.	-0.1594238	0.2101874	-0.74	0.448	-0.5713834	0.2525359
Lnlend						
LD.	-0.1396003	0.0980637	-1.42	0.155	-0.3318016	0.052601
Lninv						
LD.	-0.0431677	0.0254705	-1.69	0.090	-0.0930891	0.0067536
Lnexcrt						
LD.	0.0217473	0.0410003	-0.53	0.596	-0.1021063	0.0586118
Lncflow						
LD.	0.0095376	0.0172978	0.55	0.581	-0.0243654	0.0472146
Lnshtrd						
LD.	0.0073273	0.020351	0.36	0.36	-0.0325599	0.047246
Lntour						
LD.	0.0715393	0.0349564	2.05	0.041	0.003026	0.1400525
_cons	0.0450754	0.0152435	2.96	0.003	0.0751987	0.0749522

The result of the VECM indicates an existence of longrun causality running from explanatory variables (proxies as financial sector reform) and economic development in Nigeria with p-value less than 5 percent and negative coefficient sign value. Investment rate and turnover ratio in the liquidity market are statistically significance with their p-value less than 5 percent while all the remaining explanatory variables were statistically flawed. Thus investment rate equation and turnover ratio equations constitutes a true cointegrating equation.

The coefficient of the cointegration equation known as speed of adjustment of the model shows that, the system or model required 25.6 months to adjust itself to the required level hence Nigerian economy needs two years to reshape itself or achieved the desired growth rate based on the data under the period of study.

SHORTRUN EFFECT

```
. test ([D_lngdpcp]: LD.lnlend LD.lninv LD.lnexcrt LD.lncflow LD.lnshtrd LD.lntuor)

 ( 1)  [D_lngdpcp]LD.lnlend = 0
 ( 2)  [D_lngdpcp]LD.lninv = 0
 ( 3)  [D_lngdpcp]LD.lnexcrt = 0
 ( 4)  [D_lngdpcp]LD.lncflow = 0
 ( 5)  [D_lngdpcp]LD.lnshtrd = 0
 ( 6)  [D_lngdpcp]LD.lntuor = 0

        chi2(  6) =    6.03
      Prob > chi2 =   0.4199
```

The result shows that, these explanatory variables used in this study jointly together do not have shortrun influence on economic development in Nigeria for the period under study as it shown with chi2 value 6.03 and its probability value of 0.4199.

To know the impact of previous financial sector reform on the current economic development thus OLS test was done based on Overparametize VECM result hence which form our next slide. To know whether previous financial sector reform has influence on economic development in Nigeria thus the research study employ the use of parsimonious OLS estimation techniques and result is depicted in the figure below:

TABLE 1.4: SUMMARY OF OVER PARAMETERIZE ECM RESULT: MODELING DLGDPCP TO KNOW THE EFFECT OF PREVIOUS FINANCIAL SECTOR REFORM

Variables	Coefficient	Std. Error	t-Statistic	Prob.
C(1)	-0.150063	0.055364	-2.710474	0.0128
C(2)	0.042632	0.249814	0.170654	0.8661
C(3)	0.013925	0.017084	0.815061	0.4238
C(4)	-0.122731	0.104031	-1.179754	0.2507
C(5)	-0.034123	0.024451	-1.395534	0.1768
C(6)	-0.022952	0.040865	-0.561649	0.5800
C(7)	0.003257	0.018484	0.176220	0.8617
C(8)	0.031915	0.032489	0.982308	0.3366
C(9)	0.028012	0.014058	1.992601	0.0589
C(10)	-0.053526	0.037078	-1.443616	0.1629
R-squared	0.561670	Mean dependent var		0.013520
Adjusted R-squared	0.341444	S.D. dependent var		0.067646
S.E. of regression	0.058916	Akaike info criterion		-2.575094
Sum squared resid	0.076365	Schwarz criterion		-2.117051
Log likelihood	51.20150	Hannan-Quinn criter.		-2.423266
F-statistic	2.096345	Durbin-Watson stat		2.006277
Prob(F-statistic)	0.075671			

c(1) is the coefficient of cointegration with confirm the longrun effect of the all the independent variables thus it is negative and statistically significance. All the remaining coefficient variables are statistically flawed. But yet the results also shown that jointly together all explanatory variables are statistically significance with F-stat value 2.09 and its probability value of 0.07.

c(10) represents previous financial sector reform and result shows that, previous financial sector reform has no effect on the current financial sector reform in the economy with its probability values greater than five percent level. More so, the coefficient is also negative showing inverse link between the two. This may be possible due to inappropriate chosen of macroeconomic variable by the current financial sector reform policy.

TABLE 1.5: VARIANCE DECOMPOSITION RESULT

Period	S.E.	LNGDPCP	LNEXCRT	LNCFLOW	LNINV	LNLEND	LNSHTRD	LNTUOR
1	0.058793	100.0000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
2	0.102248	87.34374	0.380151	2.759240	0.168053	7.440143	0.000187	1.908486
3	0.139991	82.43235	0.622340	2.441250	0.322472	9.951225	0.131153	4.099211
4	0.173214	79.47133	0.739036	2.428547	0.322642	11.33349	0.255838	5.449122
5	0.202972	77.35429	0.863250	2.307535	0.331922	12.41055	0.371654	6.360806
6	0.229460	75.79141	0.951016	2.269720	0.336874	13.14999	0.455262	7.045731
7	0.253453	74.71753	1.015418	2.208614	0.339878	13.67208	0.526180	7.520298
8	0.275494	73.89135	1.066591	2.178021	0.340849	14.06551	0.576869	7.880807
9	0.295895	73.27781	1.104613	2.145828	0.342531	14.36055	0.618143	8.150521
10	0.315008	72.79300	1.135295	2.124804	0.343023	14.59192	0.649602	8.362354

The result explains the changes in growth domestic product per capita rate variable and shocks brought about on it by other independent variables. It shows that at first period GDP per capita accounts for 100% while all the remaining variables didn't brought any changes as shown in the parenthesis. This means that all these explanatory variables have no impact on economic development in the first period.

Looking at the sixth period, we can see so many shocks in these variables in bringing changes in the level of economic development Nigeria. For instance while lending rate by the commercial banks is dominating the shocks as it accounts for highest changes with 13.14%, turnover ratio account for 7.04%, the volume of share trade account is 0.45%, investment rate 0.33%, rate of exchange accounts for 0.95% and capital flow from foreign investment accounts for 2.27% respectively.

The result signifies that, commercial bank lending rate has strong impact on gross domestic product per capita and the investment has weak impact on GDP per capita. More so with currency devaluation the domestic investment has so weak impact on GDP per capita shocks in Nigeria for the period under study. At the tenth period, still the shock change brought by lending rate (14.59%) is highest apart from GDP per capita. followed by the turnover ratio with 8.36%, capital flow 2.12%, exchange rate 1.13%, share trade 0.64% and investment rate 0.34% respectively. In all we can see that the shocks in standard error is increasing with increase in period.

TABLE 1.6: PAIRWISE GRANGER CAUSALITY RESULT

Null Hypothesis:	Obs	F-Statistic	Prob.
LNCFLOW does not Granger Cause LNGDPCP	32	0.95413	0.3978
LNGDPCP does not Granger Cause LNCFLOW		0.10428	0.9013
LNINV does not Granger Cause LNGDPCP	32	3.72070	0.0374
LNGDPCP does not Granger Cause LNINV		1.73463	0.1956
LNLEND does not Granger Cause LNGDPCP	32	3.10966	0.0609
LNGDPCP does not Granger Cause LNLEND		2.13765	0.1375
LNEXCRT does not Granger Cause LNGDPCP	33	4.37648	0.0222
LNGDPCP does not Granger Cause LNEXCRT		0.45081	0.6417
LNTUOR does not Granger Cause LNGDPCP	32	1.35076	0.2760
LNGDPCP does not Granger Cause LNTUOR		0.21451	0.8083
LNSHTRD does not Granger Cause LNGDPCP	32	3.83762	0.0341
LNGDPCP does not Granger Cause LNSHTRD		1.55651	0.2292
PFSR does not Granger Cause LNGDPCP	33	0.40193	0.6728
LNGDPCP does not Granger Cause PFSR		3.55061	0.0422
LNINV does not Granger Cause LNCFLOW	31	0.14383	0.8667
LNCFLOW does not Granger Cause LNINV		0.16917	0.8453
LNLEND does not Granger Cause LNCFLOW	31	0.89906	0.4192
LNCFLOW does not Granger Cause LNLEND		0.77231	0.4723
LNEXCRT does not Granger Cause LNCFLOW	32	0.34354	0.7123
LNCFLOW does not Granger Cause LNEXCRT		0.10519	0.9005
LNTUOR does not Granger Cause LNCFLOW	31	2.50256	0.1014
LNCFLOW does not Granger Cause LNTUOR		2.23125	0.1276
LNSHTRD does not Granger Cause LNCFLOW	32	0.20388	0.8168
LNCFLOW does not Granger Cause LNSHTRD		0.96558	0.3935
PFSR does not Granger Cause LNCFLOW	32	0.04018	0.9607
LNCFLOW does not Granger Cause PFSR		0.06256	0.9395
LNLEND does not Granger Cause LNINV	32	0.60200	0.5549
LNINV does not Granger Cause LNLEND		2.37242	0.1124
LNEXCRT does not Granger Cause LNINV	32	1.11008	0.3441
LNINV does not Granger Cause LNEXCRT		0.89284	0.4212
LNTUOR does not Granger Cause LNINV	32	0.56501	0.5749
LNINV does not Granger Cause LNTUOR		0.33402	0.7190
LNSHTRD does not Granger Cause LNINV	31	1.25148	0.3027
LNINV does not Granger Cause LNSHTRD		0.51092	0.6058
PFSR does not Granger Cause LNINV	32	0.57932	0.5671
LNINV does not Granger Cause PFSR		0.14986	0.8615
LNEXCRT does not Granger Cause LNLEND	32	0.25060	0.7801
LNLEND does not Granger Cause LNEXCRT		1.22100	0.3107
LNTUOR does not Granger Cause LNLEND	32	0.37055	0.6938
LNLEND does not Granger Cause LNTUOR		2.66790	0.0876
LNSHTRD does not Granger Cause LNLEND	31	0.61967	0.5459
LNLEND does not Granger Cause LNSHTRD		2.25731	0.1248
PFSR does not Granger Cause LNLEND	32	0.13190	0.8770
LNLEND does not Granger Cause PFSR		0.73277	0.4899
LNTUOR does not Granger Cause LNEXCRT	32	0.74503	0.4842
LNEXCRT does not Granger Cause LNTUOR		0.43015	0.6548
LNSHTRD does not Granger Cause LNEXCRT	32	0.29375	0.7478
LNEXCRT does not Granger Cause LNSHTRD		1.97209	0.1587
PFSR does not Granger Cause LNEXCRT	33	0.01545	0.9847
LNEXCRT does not Granger Cause PFSR		0.21259	0.8098
LNSHTRD does not Granger Cause LNTUOR	31	1.06870	0.3581
LNTUOR does not Granger Cause LNSHTRD		2.98937	0.0678
PFSR does not Granger Cause LNTUOR	32	0.25698	0.7753
LNTUOR does not Granger Cause PFSR		0.01644	0.9837
PFSR does not Granger Cause LNSHTRD	32	0.19348	0.8252
LNSHTRD does not Granger Cause PFSR		0.44044	0.6483

Since variables under considerations are I(1), we use the first differenced series in the model. The result shows that GDP per capita does not granger cause any of the explanatory variables except previous financial sector reform. There is an existence of unidirectional causality between financial sector reform in the current period and the previous one. lending rate, exchange rate, the volume of share trade ratio and turnover ratio do granger cause Growth domestic product per capita which is used as a yard stick for measuring economic development in Nigeria by the research study for the period under the study as the computed F values lie below the critical value at 5 per cent level.

BLOCK EXOGENEITY WALD TESTS

TABLE 1.7A: ECONOMIC DEVELOPMENT AND FINANCIAL SECTOR REFORM

Equation	Excluded	Chi2	df	prob> chi2
lngdpcp	lninv	5.4288	2	0.066
lngdpcp	lnexcrt	0.37791	2	0.828
lngdpcp	lncflow	2.1203	2	0.346
lngdpcp	lnlend	10.399	2	0.006
lngdpcp	lntour	13.326	2	0.001
lngdpcp	lnshtrd	1.0268	2	0.598
lngdpcp	pfsr	1.2066	2	0.547
lngdpcp	All	53.006	2	0.000

TABLE 1.7B: CURRENT FINANCIAL SECTOR REFORM AND ECONOMIC DEVELOPMENT, PREVIOUS FINANCIAL SECTOR REFORM

Equation	Excluded	Chi2	df	prob> chi2
lnexcrt	lngdpcp	3.8699	2	0.144
lnexcrt	lninv	9.5677	2	0.008
lnexcrt	lncflow	0.65581	2	0.720
lnexcrt	lnlend	9.1733	2	0.010
lnexcrt	lntour	3.062	2	0.216
lnexcrt	lnshtrd	5.3277	2	0.070
lnexcrt	pfsr	2.2436	2	0.326
lnexcrt	All	21.452	2	0.091

TABLE 1.7C: PREVIOUS FINANCIAL SECTOR REFORM AND CURRENT FINANCIAL SECTOR REFORM

Equation	Excluded	Chi2	df	prob> chi2
Pfsr	lnexcrt	1.3065	2	0.520
Pfsr	lngdpcp	15.2	2	0.001
Pfsr	lninv	0.70033	2	0.705
Pfsr	lncflow	0.29642	2	0.862
Pfsr	lnlend	3.1448	2	0.208
Pfsr	lntour	0.78776	2	0.674
Pfsr	lnshtrd	1.7366	2	0.420
Pfsr	All	27.253	14	0.018

The test result indicate that all these eight explanatory variables and their lags do influences GDP per capita variable as the estimated χ^2 values are statistically significant at 5 per cent level. Thus there is a different result between Granger causality test and Block Exogeneity test results, while the former confirm the joint influence of all the explanatory variables on GDP per capita the later doesn't revealed that at all.

In the second model, we can therefore see that explanatory variables including the GDP per capita do influences exchange rate which is key variable in the current financial reform. In the third model we can see that current financial sector reform and economic development jointly together does influence the previous financial sector reform. This shows that, there two way causality between current and previous financial sector reform.

FINDINGS

The failure of the financial system has constituted a problem for the global economic as could be seen in the last global economic crisis and the European economic crisis. Our result of the findings indicated that the banking sector reforms in Nigeria have mixed performance.

The coefficient sign of exchange rate is consistence with theoretical underpinning in relation to economic development that is the more a devaluation of currency the less economic development in Nigeria. Exchange rate is statistically insignificance in this study. This signifies that, devaluation of currency to attract foreign investment is not the feasible solution for the Nigerian economy at this situation.

The result further shows that a bidirectional causality between financial sector reform and economic development in Nigeria and a unidirectional causality between previous financial sector reform and the current financial sector reform. Thus these two cases were consistent with the two theoretical underpinning of the literature study of bidirectional school of thought and demand side economics.

The result of ECM indicates an existence of longrun causality of all the explanatory variables (proxies to represent financial sector reform) on GDP per capita in Nigeria. The conclusion was done based on 5% level of significant and coefficient sign of the cointegration equation shown in table 4.6 above. The linear hypothesis Wald test result shows that, jointly together all the explanatory variables have no shortrun impact in GDP per capita in Nigeria for the period under study.

The study incorporated dummy variable in the study thus to know its effect an OLS parsimonious estimate was done. The result shows that previous financial sector reform has no any relationship with the current economic development in Nigeria thus which may be possible due to current massive corruption in the country, political instability and lack of good leadership in the country.

RECOMMENDATION

Commercial Banks lending rate should be minimal so that investors will be able to borrow and invest in the country. Also ways should be created by government that will make Naira appreciating in exchange of dollar. And finally Government should war against corruption and mismanagement together with fight against all insurgency should be implemented so as to provide conducive business enabling environment. This will increase in capital flow from foreign investment vis-à-vis economic development.

CONCLUSION

Nigeria has been involved in financial reforms on a regular basis aimed at responding to the challenges posed by some factors and developments such as systemic crisis, deregulation, globalization and technological innovations, or acted proactively both to strengthen the financial system and prevent systemic problems as in the case in the current reforms. The foregoing analysis shows that, commercial banks' lending rates and volume of turnover ratio were statistically significant while all the remaining variables are statically flawed hence which may be as a result of corruption, political instability and lack of proper implementation of policies. Therefore, measures should be taken by the government like war against corruption and fight of insurgency and so on, so as to achieved rapid economic development.

SCOPE FOR THE FUTURE STUDY

The study suffers from certain limitations as it doesn't include the real sector in its analysis. So it does naturally provide future scope to conduct elaborate study by incorporating the real sector into the model equation to have a complete analysis of Nigerian economy.

REFERENCES

1. Ayo, A.A. (2010), CBN: One Man Show. The Punch newspaper, July 9, p .64
2. Fisher, B. (1993), Success and Pitfalls with Financial Reforms In Developing Countries, Savings and Development Quarterly Review, No. 2, p. 111-113
3. Fry, M.J (1988), Money, Interest and Banking in Economic Development, The Johns Hopkins University Press, Baltimore& London.
4. Hanson, J. (2006), Financial Liberalization: The Good and the Bad: Finance and Development, March 2006 p.10
5. Ikhide, S. (1998), "Financial Sector Reforms and Monetary Policy in Nigeria". IDS Working Paper, 68, London.International Economic Review, Vol. 35, p. 535-551
6. Kaminsky, O., Schmukler, S.L. (2003), Short-Run Pain, Log-Run Gain: The Effects of Financial Liberalization, International Monetary Fund Working Paper, WP/03/34, Washington, DC: IMF Kindelberger, C. (1978), Maniacs, Panics and Crashes, Basic Books, New York
7. Minsky, H.P., (1982), Can It Happen Again?; Essays in instability and Finance, Armonk, New York
8. Ojo, J.A.T. (2010), The Nigerian Maladapted Financial System: Reforming Tasks and Development Dilemma. Lagos, Nigeria: CIBN Press ltd.
9. Olomola, A. S. (1994), Financial Liberalization and Economic Growth under the Structural Adjustment in Nigeria, Africa Journal of Economic Policy, Vol. 1, (No. 1); June 18, p.5-7 Sanusi, L.S. (2010), CBN Reforms: Assessing industrial Sector's prospects for Revamp Punch Newspaper, August 30, p. 22
10. Soludo, C. (2005), N25 Billion Naira Capitalization: The Journey So Far and its Likely Implications on the Nigerian Economy.NigeriaBusinessInfo.com.
11. Tseng, W., Corker, R. (1991), Financial Liberalization, Monetary Policy in Asian Countries, International Monetary Fund Occasional Paper, Vol. 84, July, p. 11-22
12. Villanueva, D. Mirakhor, A. (1990), Strategies for financial reforms, IMF Staff Papers, vol. 24, Washington, D.C.: IMF

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT   95

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

http://ijrcm.org.in/

REQUEST FOR FEEDBACK

Dear Readers

At the very outset, International Journal of Research in Commerce, Economics & Management (IJRCM) acknowledges & appreciates your efforts in showing interest in our present issue under your kind perusal.

I would like to request you tosupply your critical comments and suggestions about the material published in this issue as well as on the journal as a whole, on our E-mail**infoijrcm@gmail.com** for further improvements in the interest of research.

If youhave any queries please feel free to contact us on our E-mail **infoijrcm@gmail.com**.

I am sure that your feedback and deliberations would make future issues better – a result of our joint effort.

Looking forward an appropriate consideration.

With sincere regards

Thanking you profoundly

Academically yours

Sd/-
Co-ordinator

DISCLAIMER

The information and opinions presented in the Journal reflect the views of the authors and not of the Journal or its Editorial Board or the Publishers/Editors. Publication does not constitute endorsement by the journal. Neither the Journal nor its publishers/Editors/Editorial Board nor anyone else involved in creating, producing or delivering the journal or the materials contained therein, assumes any liability or responsibility for the accuracy, completeness, or usefulness of any information provided in the journal, nor shall they be liable for any direct, indirect, incidental, special, consequential or punitive damages arising out of the use of information/material contained in the journal. The journal, neither its publishers/Editors/ Editorial Board, nor any other party involved in the preparation of material contained in the journal represents or warrants that the information contained herein is in every respect accurate or complete, and they are not responsible for any errors or omissions or for the results obtained from the use of such material. Readers are encouraged to confirm the information contained herein with other sources. The responsibility of the contents and the opinions expressed in this journal are exclusively of the author (s) concerned.

ABOUT THE JOURNAL

In this age of Commerce, Economics, Computer, I.T. & Management and cut throat competition, a group of intellectuals felt the need to have some platform, where young and budding managers and academicians could express their views and discuss the problems among their peers. This journal was conceived with this noble intention in view. This journal has been introduced to give an opportunity for expressing refined and innovative ideas in this field. It is our humble endeavour to provide a springboard to the upcoming specialists and give a chance to know about the latest in the sphere of research and knowledge. We have taken a small step and we hope that with the active co-operation of like-minded scholars, we shall be able to serve the society with our humble efforts.

Our Other Journals