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An Endeavour to share Knowledge
A peer reviewed refereed Journal

श्रेयान्द्रव्यमयाद्यज्ञा ज्ञानयज्ञः परन्तप।
सर्वं कर्माखिलं पार्थ ज्ञाने परिसमाप्यते।।
Shrimad Bhagwat Gita, Chapter 4 (33)

"Attaining knowledge is superior to
accumulation of all sumptous substances.
As all acts finally conclude into wisdom."

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From the Editorial Board

Dear Reader,

As 2014 falls away, let us first of all take this opportunity to wish all our readers a very happy, peaceful and prosperous 2015.

With the guidance of our fantastic and diverse editorial board, the brilliantly vibrant minds of the Reviewers and the talent of our contributing writers, we are confident that this issue will again be a wonderful forum to become skilled at new things.

A total of ten research papers are being presented here and we sincerely hope that each one of these will provide some significant stimulation to a sound section of our community of readers.

Vimarsh has added a number of institutions under its mutual exchange and subscription agreement. The response is really overwhelming. We hope that this issue justifies their commitment.

We would like to express our considerable appreciation to all authors of the articles in this issue of Vimarsh. It is their generous contributions of time and effort that has made this issue possible. Finally, a big thanks goes to Mr. Amit from I'M Advertisers and his team for their valuable assistance.

We hope that you will enjoy reading this issue as much as we enjoyed compiling it.

Please feel free to contact us at vimarsh@iftmuniversity.ac.in with any suggestions or comments.

Happy Reading…!!!

Regards

The Vimarsh Team

Workplace Spirituality/Culture & Indian Business Organisations

Megha Bhatia*
Nidhi Varshney**

ABSTRACT

In today's organizations, management paradigms have shifted towards a broader spectrum, particularly when these paradigms have the impact on organizational culture. The importance of workplace spirituality has intensified because of too much pressure in terms of personal stability, greater performance at work, adding more meaning to work and workforce reduction. Spirituality at workplace means a place where employees work for its own sake overlooking extrinsic rewards. In order to make organization and individual more productive, it is necessary to make the exact combination of ethics in work and work ethics. Spirituality at workplace is like an empty container where everyone wants to fill up to a level one desire. The paper focuses on spirituality in organization from the cultural perspective and then establishes its relationship with organizational effectiveness, productivity and performance.

Keywords: culture, ethics, spirituality, performance, motivation and productivity, India.

INTRODUCTION

Spirituality is more than a process than an end. It is the way how the things are done instead of just achieving the objectives. The overall development of individual and his creativity will naturally require some spiritual practice in order to accomplish the organizational goals and objectives. Consequently, developing an organizational culture that is founded upon workplace spirituality is of tremendous importance to leaders due to its positive implications toward organizational performance.

e.g. An organizational goal to output a product on time within a limited budget will inspire an employee to learn certain innovative skills and will force him to take greater responsibilities to achieve those objectives.

Spirituality comes from one`s inner self, benefiting self and others creating an alignment of purpose and people. It comes with the surety that is validated by heart and not mind alone and it creates motivation in individual for this work by extending the inner peace in one`s own self with a desire to help the other people to grow, learn and succeed in respecting individual as well as group dignity.

Number of studies and researches have been undertaken in order to increase employees

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productivity by the roles played through leadership, culture and motivational level of employee hence increase productivity is viewed as one of the many possible solution to this critical issue. Increasing attrition rates, absenteeism, decreasing productivity, low employee moral are some of the major indicators of degrading productivity of employee, the reasons of which way all rooted in the level of spiritual intelligence

LITERATURE REVIEW

McCormick (1994) defines spirituality as an inner experience an individual has that can be evidenced by his or her behavior. Neck and Milliman (1994: 9) define spirituality as "expressing our desires to find meaning and purpose in our lives and is a process of living out one's set of deeply held personal values. Dehler and Welsh (1994) discuss how spirituality is an individual's inner source of inspiration. "The basic feeling of being connected with one's complete self, others, and the entire universe, is how Mitroff and Denton (1999) define spirituality. Therefore, spirituality is generally viewed as some internal value, belief, attitude, or emotion. Nonetheless, individual spirituality is considered an internal substance that affects people's behavior. Consequently, the dimensions of spirituality can be measured by use of proxy measures that capture aspects of an individual's internal state.

Spirituality in the workplace is purported to benefit organizations at three levels, the societal level, organizational level, and the individual or employee level. The main function that workplace spirituality serves at the societal level is that "it increases our confidence and competence in the power of goodness" (Miller, 2001, p. 3). One example of this confidence and competence can be seen in greater levels of social responsibility by a growing number of organizations.

Lloyd (1990) found that organizations with greater workplace spirituality outperformed organizations with little or no workplace spirituality by 86 percent. Also, organizations that embraced workplace spirituality grew faster, increased efficiencies, and had higher rates of return, as compared with organizations that do not (Jurkiewicz and Giacalone, 2004). Konz and Ryan (1999) assert that top management spirituality is "enunciated" within the firm culture. This culture also affects human resources. Thus, Marques (2005) discusses the role of human resources in establishing spirituality. In addition, if spirituality can be linked to financial ramifications, such as turnover, productivity, and growth, it can only help its prevalence in today's business world. Hence, any relationship between spirituality and some aspect of business that affects the bottom line is a worthwhile endeavor.

Some individual level benefits of workplace spirituality include "increased physical and mental health of employees, advanced personal growth, and enhanced sense of self worth" (Krahnke, Giacalone, and Jurkiewicz, 2003, p. 397). Mohamed, Wisnieski, Askar, & Syed (2004: 104) propose, "the stronger the spiritual factor of personality the more tolerant the person is of work failure and less susceptible to stress. Mitroff and Denton (1999: 86), assert that workplace spirituality benefits individuals by allowing them to realize their full potentials and "develop their complete self at work. Therefore, workplace spirituality is a pervasive force that affects individuals and organizations at multiple levels.

What is Sprituality at Workplace?

McCormick (1994) defines spirituality as an inner experience an individual has that can be evidenced by his or her behavior. Gibbons (2000) discusses spirituality in the context of deeply held values. Neck and Milliman (1994, p. 9) define spirituality as "expressing our desires to find meaning and purpose in our lives and is a process of living out one's set of deeply held personal values". Dehler and Welsh (1994) explain that spirituality is an individual's inner source of inspiration. "The basic feeling of being connected with one's complete self, others, ndthe entire universe", is how Mitroff and Denton (1999) define spirituality. Therefore, spirituality is generally viewed as some "internal substance", "a value, belief, attitude, or emotion", "that affects people's behavior" (Moore & Casper, 2006, p. 109-110).

Workplace spirituality is no new phenomenon. It existed in ancient time also. Spirituality in the Workplace is a movement that began in the 1990s in which individuals seek to live their faith and spiritual values in the workplace. It is about individuals and organizations seeing work as a In fact spiritual path, as an opportunity to grow and to contribute to society in a meaningful way. It is about care, compassion and support of others; about integrity and people being true to themselves and others. Examples of vertical organizational spirituality include: meditation time at the beginning of meetings, retreat or spiritual training time set aside for employees, appropriate accommodation of employee prayer practices, and openly asking questions to test if company actions are aligned with higher meaning and purpose. Companies with a strong sense of the horizontal will generally demonstrate the following: caring behaviors among co-workers; a social responsibility orientation; strong service commitments to customers; environmental sensitivity; and a significant volume of community service activities.

Workplace spirituality includes certain practices such as humanistic and employee-friendly work environments, service orientation, creativity and innovation, personal and collective transformation, environmental sensitivity, and high performance. The key elements in integrating spirituality into the workplace are: people, service, organizational self-awareness, wisdom and the new leadership. Workplace activities such as Employee Assistance Programs, Programs that integrate work/family and Diversity programs that create inclusive cultures etc. are spiritually sourced and are gaining acceptance in many modern day organizations.

WORKPLACE SPRITUALITY - THE INDIAN SCENARIO

Businesses are acutely aware of the potential benefits that the spirited workplace can deliver. Companies like Godrej, Vardhaman group, Eeicher, Indian Oil Corporation, and Birla group have demonstrated their commitment to providing good corporate governance and making the society a better place to live in. Two companies namely - Wipro and Infosys have demonstrated to the world at large that a good corporate governance practices can put the business on high pedestal. Both the companies have consistently taken a long, hard, but ethical route to achieve greatness.

The trend report discovered that 75% of the consumers interviewed say they are more likely to gravitate towards brands associated with a good cause if price and quality being the same In India, Birlas, Godrej, and Tata's have demonstrated high level of social consciousness. Much as one may deny, the fact is business and spirituality are highly compatible and offers tremendous benefit to the corporates. Poll conducted by KRC research for spirituality in 2003 found that 6 out of 10 people say workplaces would benefit immensely if there is an abundant expression of spirit in workplaces.

Workplace spirituality is the way we tackle our mind and attain inner calmness. In India, Maharishi institute of management studies conducts such programmes for the benefit of corporate Leaders. Companies like Reckitt & Colomon, Indian Petro Chemicals, Tata Tea and Tata chemicals are the beneficiaries of such programmes. Art of living courses by shree shree Ravishankar foundation is also gaining acceptance among managers these days. Vipassana- a 10 day programme has found favor with companies like Wipro, Escotel, Dabur. Surprisingly, such programmes are open to not only the managers but also to the members of trade union. Such programmes might help bring about calmness in the mind of the union members. They become mindful of their responsibilities vis-à-vis the stakeholders.

Many a companies in India thus follows the new-age principles, which has its moorings in Indian ethos to increase the spirituality in the organization. Meditation for better stress management, Purushartta for achieving balance between professional and personal life, yoga for healthy, disease-free life are some of the oft-used new age principles that are finding its way in to the otherwise soulless, lifeless corporates .If Indian Companies can borrow new-age principles from Vedic precepts and practice it religiously, can the western world be left far behind? Apple computers in California have a separate meditation room where employees can meditate for half-an-hour every day to keep the stress at bay. Prentice-hall publishing company has "quiet room" where employees can meditate in calm, quiet, and relaxed manner to bust their stress. Xerox Company has its own spiritual retreat called "vision quest." Vision quest helps employees commune with nature. Microsoft has its own on-line spiritual service to shoo the work-related blues away.

Workplace Spirituality/ Culture & Organisational Performance

Spirituality is more of a process than an end. Organizational culture can be measured on the parameters such as employee participation or involvement, employee empowerment, team orientation, capability development, consistency, core values, agreement, coordination and integration, adaptability, creating change, customer focus, organization learning, mission, vision, strategic direction and intent, goals and objectives etc. Almost all these factors are affected by the level of workplace spirituality.

Several Studies and researches showed that leadership effectiveness has an impact on the organizational culture. A leader having high level of workplace spirituality is bound to establish team-oriented, adaptable, consistent and coordinated behavior at work. He would also have clarity of goals, mission and vision of his organization and would spread the same among his subordinates. Such an environment fosters organizational learning and also reduces grievances, role conflicts thereby reducing attrition rates. So it can be inferred that spiritual leadership acts as a catalyst in enhancing the levels of spiritual intelligence of the employees. Spiritually intelligent employees contribute in making the workplace spiritual along with their leader. This has a positive impact on their motivational levels, making them self-motivated. The reason being that such leaders are self motivated and lesser reward driven; they are able to contribute more towards better organization performance thereby increasing their productivity. This increase in productivity reinforces their motivation levels and establishes a strong organization culture. A more productive workforce motivates and inspires the new employees for achievement of better results and thus establishes a strong spiritually sound workplace with an enabling organizational culture.

A study done by Mckinsey in Australia found the productivity perking up and turnover reduced, when the company incorporated spiritual tools in programmes conducted for the employees. A growing number of companies are aware of the inherent benefits of helping the employees open up their expression of spirit, the whole being, and complete life in the workplace. Today, businesses understand what spirituality in the workplace means for employee's .As a result, the nature of workplace is undergoing a profound evolution.

Hence, Employee Productivity deals with the efficient utilization of available resources in order to generate increased outputs, reduce and enhance organizational performance. When we talk about workplace spirituality, there is an indication towards reduction of wastage of resources in conflict management, grievance handling and employee stress levels. Such practices lead to goal accomplishment of organizational mission facilitating an empowering, encouraging organizational culture. This indicates towards development of a spiritual workplace to as to enhance employee productivity levels and establishment of an enriching organizational culture.

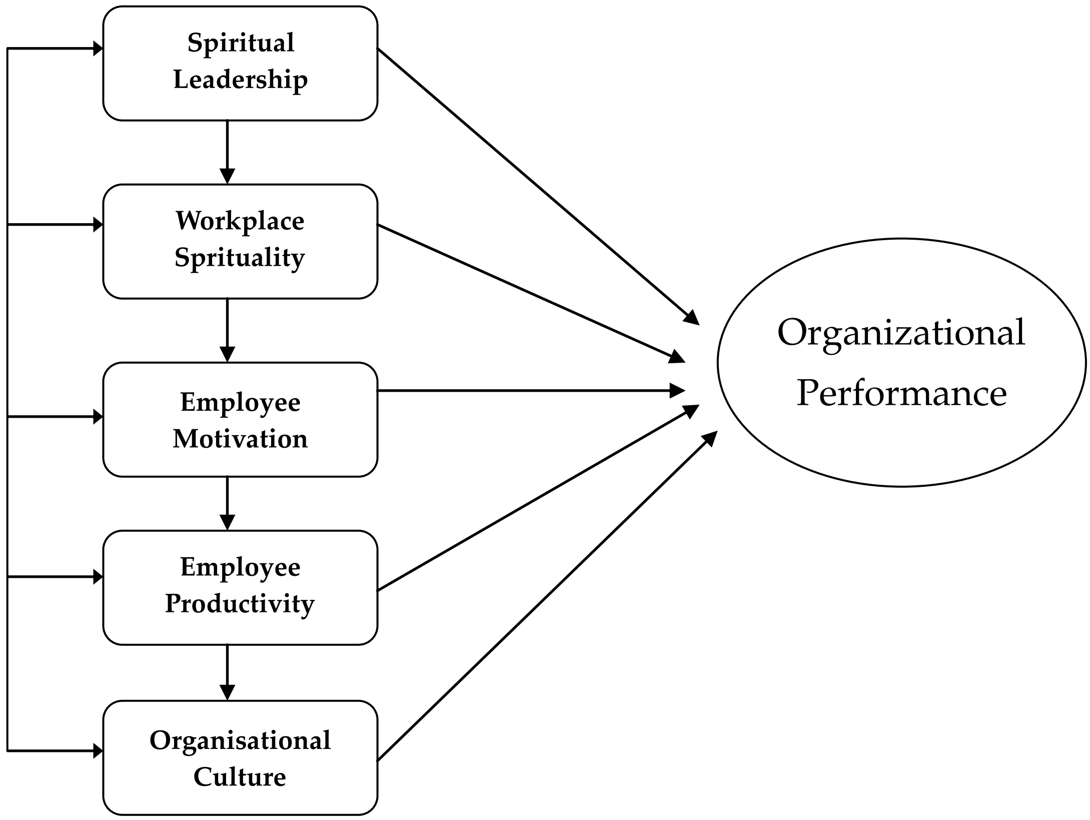

Figure 1: Model of Organizational Performance

The above figure shows the relationship between spiritual leadership, workplace spirituality, Employee motivation level, employee productivity, organization culture and organizational performance.

All this start with sound spiritual leadership so that activities that are linked with workplace spirituality are fostered and encouraged. Once the leaders are spiritual, they propagate the same down the workplace at every level. This is the main reason behind workplace spirituality. Hence, to establish a spiritual workplace, spiritual leadership is essential. A spiritually intelligent workforce is self motivated and is not entirely dependent on rewards or benefits alone for feeding their motivational needs. They start working for the sake of working and in a way, are directed towards 'nishkaam karma'. This enhances their productivity as they are self motivated and no more driven by external stimuli. A force, strong and internal keeps them going to achieve something even beyond their imagined potentials. With this, they are in a better position to resolve conflicts, co-ordinate well with each other, attain greater levels of satisfaction with their jobs and are able to relate in a better manner with the goals of the organization. All the more, a spiritually strong business leader establishes a strong organization culture with a sound value system, clear mission, vision and achievable and desirable goals contributing the most to the society keeping in mind the triple bottom line. This organization culture, set up by the leader needs to be understood, maintained, sustained, spread, and propagated by the employees. This is possible only when the employees are motivated and spiritually powerful. Productive employees are more confident, goal oriented, positive in their mental disposition and willing to spread the same in the organization. Thus, they become the main contributors towards an encouraging, healthy, growth oriented organizational culture. This motivates the leader as well to continue the methods adopted by him and gives an impetus to him, raising his self confidence.

He would now be free to experiment since the employees are open to change and are willing to innovate. An encouraging organizational culture and powerful spiritual leadership also enhances employee motivation levels and builds up their trust in the organization. The cycle continues and it is seen that rate of grievances, employee absenteeism, attrition rates diminish. The dotted arrow in the figure depicts the impact of all the factors in enhancing organizational performance. Moreover, organizational culture, employee motivation, spiritual leadership, workplace spirituality and employee productivity, all are positively related with organizational performance.

RECOMMENDATIONS AND SUGGESTIONS

The following recommendations can help leaders and employees to establish workplace spirituality and increased employee productivity leading to a flourishing organizational culture:

1. Spirituality Survey could be conducted in the organizations that would help in understanding the present levels of spiritual intelligence of the workforce and would suggest the further ways of improvement in the same direction.
2. The environment of trust in the employees is compulsory so that they find themselves comfortable to question, learn, and contribute.
3. Personality development seminars and workshops will also help employees to develop clarity of values and desired behavior and foster diversity in culture, ideas and thoughts.
4. The organization should set up policies that facilitate Spirituality is not absence of competition; it is absence of unhealthy competition. Hence, organizations should aid healthy competition giving the employees an equal opportunity to learn and grow.
5. A study commissioned by Wilson learning company found that the majority of Americans (47%) cited spirituality as their most important source of happiness, next only to health. So enhance job satisfaction levels. Personal satisfaction of the employees also sky-rockets.
6. The strategic intent and the strategic plan need to be defined integrating it with spirituality.
7. A committee can be appointed who will define that what roles could be played by the organization in order to increase spirituality in the workplace.

CONCLUSION

To conclude it can be said with out hitch that Work place spirituality in fact is the Need of the hour. Work place spirituality will work wonders for business. Employees may forge long-lasting relationship with the company if they feel their contributions are being acknowledged, their thoughts on processes are being listened to, their ethical behavior being encouraged, their personal and professional needs are met, and their soul, mind, and body awakened to the highest level. Employees look for more than just "jaw-dropping" pay packages. They want spiritual fulfillment. Workplace spirituality is a growing concern for an increasing number of organizations, employees, and job seekers. In today's business landscape a growing number of people are looking to the workplace to fulfill their spiritual needs, while organizations are finding positive work outcomes associated with a workplace that augments workers spiritual fulfillment. Spirituality is more of a process than an end. It is about how things are performed instead of just achieving goals. The development of an individual and building on creativity will naturally require spiritual practices in the process of achieving an organizational goal.

The rate at which an individual grows is mostly self-determined, Thus, workplace spirituality is important to find and utilize the deepest inner resources from which comes the capacity to care and the power to tolerate and adapt with other employees at the workplace, to develop a clear and stable sense of identity as an individual in the context of shifting workplace relationships, and make work meaningful, to identify and align personal values with a clear sense of purpose and to live those vales without compromise and demonstrate integrity.

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Financial Inclusion and Performance of Rural Co-operative Banks in India

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ABSTRACT

In India, Lending policies of the banks especially after Nationalization of Banks in 1969 focused on removal of poverty but without much success. After nationalization credit to rural and semi urban areas and branch networks have been increased. However commercial banks are essentially urban in their orientation and have to cater to needs of large and medium commercial and industrial sector also. Credit gaps still exist in rural areas. It is therefore felt that commercial banks cannot improve credit delivery into far flung rural areas beyond a point, due to their inherent limitations. .Cooperative banks were having rural experience and very good network in rural areas and are also having rural orientation. Therefore these are in a better position to facilitate Financial Inclusion in the rural areas. The growth of Rural Credit and better functioning of Rural Cooperative Banks can be achieved if the rural cooperative banks concentrate on improving personal interaction with the customers and identifying their actual credit need. At present there are several cooperative banks which are performing multipurpose functions of financial, administrative, supervisory and development in nature of expansion and development of cooperative credit system. In brief, the cooperative banks have to act as a friend, philosopher and guide to entire cooperative structure. The study is based on financial inclusion in rural India by rural cooperative banks. The study of the bank's performance along with the lending practices provided to the customers is herewith undertaken. A descriptive research methodology has been adopted.

Keywords: *Financial inclusion, Kisan Credit Card, NABARD, KYC norms, StCBS, CCBs, SCARDBs and PCARDBs*

INTRODUCTION

Financial Inclusion is important for improving the living conditions of poor farmers, artisans and rural non-farm enterprises. Financial Exclusion, in terms of lack of access to credit from formal institutions, is high for small and marginal farmers. Co-operative banks play a crucial role in meeting the credit requirements of rural India. Though in the bank dominated financial system, these institutions account for a small share in the total credit they hold a significant position in credit delivery as they cater to different geographic locations and demographic categories. The wide network of rural co-operative banks supplements the commercial banking network for deepening financial intermediation by bringing a large number of depositors/borrowers under the formal banking network.

The credit volume flowing through these institutions has increased. In three tier structure of working of credit cooperatives, District Central Co-operative Banks (DCCBs) operate in the middle/district level by providing finance to the primary credit societies, accepting deposits, fixed deposit receipts, granting loans/advances, gold/bullion, goods and documents of title of goods, bill collection, cheques, safe custody of

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valuables and agency services. The DCCB also occupies a position of cardinal importance in the co-operative credit structure. Banks need to take bold decisions and reach out to rural India with strategies and Business models which are beyond the realm of conventional thinking. They need to identify the emerging opportunities in rural India and innovate with low cost platforms, lean branch models, low cost subsidiaries, cost effective technologies, shared Infrastructure and build collaborative business models to serve Rural India. The importance of cooperative banks has soared in recent years with the emergence of financial inclusion as a key thrust of public policy in India. Financial inclusion is generally defined as the availability of banking services at an affordable cost to disadvantaged and low-income groups. The importance of this study lies in the fact that India being a socialist, democratic republic, it is imperative on the policies of the government to ensure equitable growth of all sections of the economy. Priority sectors such as cooperative banks lending in a socialistic economy, is very significant as this directly affects the economic status of the poor. It is unanimously opined that the poor need financial support at reasonable costs and that also at uninterrupted rate. Nevertheless, the economic liberalization policies have always tempted the financial institutions to look for greener pastures of business, ignoring the weaker sections of the society.

OBJECTIVE OF THE STUDY

- To study the endeavours of rural cooperative banks for financial inclusion in India.
- To explain the performance of various rural cooperative banks for development of India.

REVIEW OF LITERATURE

Balister et al. (1994) conducted a study of overdue of loans in agriculture to examine the repayment performance of defaulters in three blocks of Agra district in Uttar Pradesh. They found that well-to-do agriculture families accounted for a large share of overdue. They accounted 37 per cent of total defaulters and 57 per cent of total overdue. Total amount of overdues and its relative share also increased during the period of study. Lack of proper supervision over end use of loan was identified a major reason for mis-utilisation of credit which leads to increase in overdue.

Satyasai and Badatya (2000) conducted a study regarding restructuring Rural Credit Co-operative Institutions. They analysed performance of rural co-operative credit institutions on the basis of borrowings and lending operations, cost structure, financial viability, etc. and found that co-operative system, in general, had failed to perform its functions properly. They advised the co-operative banks to diversify their business and also to overcome internal (rising transaction cost, declining business level, mismanagement of over dues) and external (excessive bureaucratization, politicization) weaknesses.

Rajamohan and Pasupathy (2009) in their study titled, "Performance Evaluation of TAICO (Tamil Nadu Industrial Co-operative Bank Ltd.) - An Application of Structural and Growth Analysis" stated that there were several factors that determined the operating efficiency and profitability of the bank. In this context, the general performance of a bank can be analyzed more meaningfully and objectively for a given period of time through structural and growth analysis. Through structural analysis the figures reported in the profit and loss account and balance- sheet are converted into percentages for each period to ensure uniformity for the purpose of comparison with those of other periods

RESEARCH METHODOLOGY

Secondary sources of data have been used. For this study data and information has been collected with the help of Books, Magazines, Newspapers, Research Articles, Research Journals, E-Journals, Report of Reserve Bank of India, Report of National Bank for Agriculture and Rural Development (NABARD) etc.

DATA ANALYSIS

Endeavours of rural co-operative banks for financial inclusion:

1) **Opening of no-frills accounts:**
   RBI sources put the percentage of adult population in India having a bank account at 59%. In rural areas the coverage is only 39%. Having a concerted policy thrust on financial inclusion, the Reserve Bank of India issued

circulars to all scheduled commercial, regional rural and cooperative banks in 2005, directing them to open 'no-frills' or 'zero-balance' accounts with nil or minimum balances and charges so that more people could access them. They were also advised to give wide publicity to such facilities. Basic banking no-frills account is with nil or very low minimum balance as well as charges that make such accounts accessible to vast sections of the population. Banks have been advised to provide small overdrafts in such accounts.

2) **Provide agriculture credit:**
The government introduced the interest subvention scheme in 2006-07 for short-term crop loans up to ₹0.3 million, which has been continuing ever since with minor variations. Currently, it is providing interest subvention to banks, RRBs and cooperative banks with respect to short term production credit up to `0.3 million provided they make available the credit at the ground level at 7 per cent per annum. Besides, an additional interest subvention of 3 per cent per annum is also provided for farmers who repay the loans in time making the effective rate of interest for such farmers at 4 per cent. From 2013-14, the subvention is available to private sector SCBs with respect to loans given by their rural and semi-urban branches.

Table 1: Bank Group Target and Achievement for Agricultural

(Amount in ₹ billion)

AGENCY 1	TARGET 2	ACHIEVEMENT* 3
Commercial Banks	4,750	5,090
Cooperative Banks	1,250	1,199
RRBs	1,000	827
Total	7,000	7,116
**:Provisional.* *Source: NABARD/Indian Banks Association/PSBs.*		

3) **Relaxation on know-your-customer (KYC) norms:**
KYC requirements for opening bank accounts were relaxed for small accounts in August 2005, thereby simplifying procedures by stipulating that introduction by an account holder who has been subjected to the full KYC drill would suffice for opening such accounts. The banks were also permitted to take any evidence as to the identity and address of the customer to their satisfaction. It has now been further relaxed to include the letters issued by the Unique Identification Authority of India containing details of name, address and Aadhaar number.

3) **Refinance support for increasing the flow of short term credit:**
NABARD refinances short term loans extended by cooperative banks and RRBs for production, marketing and procurement activities. Under the short term refinance portfolio, during 2013-14, NABARD sanctioned credit limits aggregating ₹81,204 crore. The short term refinance sanctioned has maintained an increasing trend during the last five years. The maximum outstanding during 2013-14 was ₹80,859 crore, an increase of 22 percent over the previous year.

Table 2: Short term refinance (production credit) for the last five years

(₹ Crore)

YEAR	LIMIT SANCTIONED	MAXIMUM OUTSTANDING
2009-10	25,661	24,715 (96.31)
2010-11	34,375	34,196 (99.48)
2011-12	49,013	48,981 (99.94)
2012-13	66,418	66,095 (99.51)
2013-14	81,204	80,859 (99.58)
Figures in the parentheses refer to percentage achievement.		

Source: NABARD Annual Report 2013-14

4) **Provide facility of ATM card:**

The major institutional development achievement during the year was bringing about 3,500 branches of StCBs and CCBs on the CBS platform. This was a distant dream for most of the co-operative banks, until NABARD stepped in. Bringing them on CBS and linking them to the payments system at the ATM network has not only removed the threat to their very existence, but has given them a new direction and the armour to carve out their own new business space.

CBS is very beneficial to people in rural areas because co-operatives have a presence in remote places where other banks are often absent. The farmer will be able to receive e-payments towards subsidy, etc. under various Government schemes in his account directly. Remittance of funds from the cities to the villages and vice versa will be done easily in a bank branch in the village. This is expected to result in far reaching benefits for the agriculture sector and rural development. The banks will now be able to provide latest e-banking facilities like ATM facility, utility bill payment, mobile banking, e payments etc. to the customer in the remotest of places.

5) **Use of Technology:**

Banks especially Commercial Banks are advised to implement CBS so as to enable them to make effective use of ICT to provide door step banking services through BC Model, wherein the accounts can be operated by even illiterate customers by using biometrics thus ensuring the security of transactions and enhancing the confidence in the banking system.

6) **Regional Spread of Banking:**

In general, the household socio-economic indicators are not uniform across their profiles and in that same way, in banking also indicators are not uniform across regions in India. It is observed that the banking density is significantly higher in the Southern, Northern and Western Region as compared to North-Eastern, Central and Eastern Region. In addition, the banking density has got worse more in the North-Eastern, Central and Eastern Region, where it was already low in 2012.

Table 3: Region wise Rural Banking Density

Regional per office			
Region	**2012**	**2013**	**Change**
Northern Region	1645	1672	27
North Eastern Region	103	102	-1
Eastern Region	629	640	11
Central Region	1091	1032	-59
Western Region	3021	3092	71
Southern Region	1153	1213	60
All India	7642	7751	109

Source: Rural Planning & Credit Department, RBI.

In case of regional extend of SCBs in 2013, it was only 85 branches; it is observed that of the total number, Central were 8517 in 2013. In western region there are more centers that other regions. According to RBI (2012-2013) report, North-Eastern, Central and Eastern Region taken together, have accounted for less than a quarter. The result indicated that individually and collectively in the present situation accountability is for a lower share of SCB offices.

Table 4: Region wise spread in Banking

Region	2012	2013	Change
Northern Region	1356	1407	51
North Eastern Region	103	90	-13
Eastern Region	481	431	-50
Central Region	946	866	-80
Western Region	4058	4158	100
Southern Region	1488	1565	77
All India	8432	8517	**85**

Source: Rural Planning & Credit Department, RBI.

However, based on the RBI report (2012-13) it is emphasized that the rate of increase in the penetration of banking services in the rural and semi-urban areas has been much lower than that in the urban areas. In additional, penetration of banking services has been lower in the central, eastern, and north-eastern regions of the country compared to the more developed northern, southern, and western regions. In order to overcome this problem the branch authorisation policy was liberalised in December 2009 giving freedom to domestic scheduled commercial banks to open branches.

7) Opening of Branches in Unbanked Rural Areas of State:

To further step up the opening of branches in rural areas, banks have been mandated to open at least 25% of branches in Unbanked Rural Areas. Number of branches of State Co-Operative Banks in Southern, Northern and Western Region were higher as compared to North-Eastern, Central and Eastern Region. Moreover, the branch density has got worse, more in the North-Eastern, Central and Eastern Region. In Central, Western and Southern Region, number of branches of State Co-Operative Banks from 2011 to 2012 are same. In Eastern and Northern Region 4 and 10 branches have been increased respectively while in North Eastern Region 2 branches have been decreased.

Table 5: State-Wise Distribution of Number of Branches of State Co-Operative Banks - 2011 and 2012

As on March 31			
Region	**2011**	**2012**	**Change**
Northern Region	**299**	**309**	10
North Eastern Region	**232**	**230**	-2
Eastern Region	**108**	**112**	4
Central Region	**69**	**69**	0
Western Region	**121**	**121**	0
Southern Region	**158**	**158**	0
All India	**987**	**999**	12

Source: National Bank for Agriculture and Rural Development.

Number of branches of District Central Co-Operative Banks in Southern, Northern and Western Region were higher as compared to North-Eastern, Central and Eastern Region. Furthermore, in the North-Eastern, Central and Eastern Region the branch density is less.

Table 6: State-Wise Distribution of Number of Branches of District Central Co-Operative Banks - 2011 and 2012

As on March 31			
Region	**2011**	**2012**	**Change**
Northern Region	**2130**	**2137**	**7**
North Eastern Region	*	*	*
Eastern Region	**996**	**1038**	**42**
Central Region	**2520**	**2624**	**104**
Western Region	**4887**	**4919**	**32**
Southern Region	**2585**	**2584**	**-1**
All India	**13118**	**13302**	**184**
* Indicates No District Central Co-operative Banks in the State. *Source:*: National Bank for Agriculture and Rural Development.			

** Indicates No District Central Co-operative Banks in the State.*
Source: National Bank for Agriculture and Rural Development.

In North Eastern Region there is no branch of District Central Co-Operative Banks from 2011 to 2012. In Northern, Eastern, Central and Western region, 7, 42, 104 and 32 branches have been increased respectively from 2011 to 2012. Branches in Central region have been increased more sharply than other regions while in southern region while in Southern region 1 branch has been reduced in 2012.

8) **Roadmap for providing banking services in unbanked villages with population more than 2000**

With Financial Inclusion, co-operative banks geared to adopt a phase wise approach to provide banking services in all unbanked villages in the country. RBI also advised these banks to come up with a road map to provide banking facilities to the unbanked villages having a population of over 2000 by March 2012. As a result, State-Level Bankers' committee identified 700 unbanked villages and allotted them various banks.

Recently Government of India introduced a scheme to directly transfer the government subsidies and social security benefits to the accounts of the beneficiaries; who in turn could draw the money from BCs (Business Correspondents) in their village itself. The BC model allows these banks to provide doorstep delivery of services, especially cash in-cash out transactions. For the effective implementation of scheme, banks are asked to provide banking facilities to areas with population of 1000-2000 in North-Eastern states and hilly states; and with population of 1600-2000 in all states/UTs by March 2013.

9) **Issue of Kisan Credit Card:**

The Kisan Credit Card (KCC) scheme introduced in August 1998 has emerged as an innovative credit delivery mechanism to meet the production credit requirements of the farmers in a timely and hassle-free manner. The scheme is under implementation in the entire country by the vast institutional credit framework involving Commercial Banks, RRBs and Cooperatives and has received wide acceptability amongst bankers and farmers. However, during the last 15 years of implementation, many impediments were encountered by policy makers, implementing banks and the farmers in the implementation of the scheme. Recommendations of various Committees appointed by GoI and studies conducted by NABARD also corroborate this fact.

The progress of Kisan Credit Card in India is good as it can be observed the annual growth rate of 22.20 per cent for number of cards issued and 33.08 in case of amount sanctioned as credit under the scheme from 1998-99 to 2012-13.

Table 7: Progress in Kisan Credit Card Issued and Amount Sanctioned from 1998-99 to 2012-13

Financial Year	Cards Issued (in Lakh)	Amount Sanctioned in Rs. Crore	% Change in Card Issued	% Change in Amount Sanctioned
1998 - 1999	7.84	2310	-	-
1999 - 2000	51.34	7548	554.85	226.75
2000 - 2001	86.52	16427	68.52	117.63
2001 - 2002	93.41	25858	7.96	57.41
2002 - 2003	82.43	26277	-11.75	1.62
2003 - 2004	92.47	21785	12.18	-17.09
2004 - 2005	96.80	34186	4.68	56.92
2005 - 2006	80.12	47601	-17.23	39.24
2006 - 2007	85.11	46729	6.23	-1.83
2007 - 2008	84.70	49987	-0.48	6.97
2008 - 2009	85.92	46669	1.44	-6.64
2009 - 2010	90.05	57678	4.81	23.59
2010 - 2011	101.69	72625	12.93	25.91
2011 - 2012	117.60	91680	15.65	26.24
2012 - 2013	129.82	126280	10.39	37.74
Growth Rate			**22.20**	**33.80**

Source: Reserve Bank of India Report 2013

The study throws light on the share of Co-operative banks for number of cards issued is decreasing continuously from 70 per cent (1999-2000) to 16 per cent (2008-2009) then started rising and finally fell down to 21 percent (2012-2013). But in case of amount sanctioned it started falling continuously from 62 per cent (2001-2002) to 9 per cent (2012-2013).

PERFORMANCE OF RURAL COOPERATIVE BANKS IN INDIA

1) Growth of cooperative banks in rural areas:

The rural Cooperative sector comprises 31 state Cooperative Banks (StCBs), 370 District Central Cooperative Banks (DCCBs) and 93,413 Primary Agricultural credit societies (PAC's). State Co-operative Banks (StCBs) and District Central Cooperative Banks (DCCBs) showed some improvements in profitability and asset quality, attributable in part to the implementation of the revival package for short-term rural cooperative sector. This is in sharp contrast to the continuous increase in losses recorded by these cooperatives in years before 2008-09.

The aggregate share capital of StCBs stood at ₹3,063 crore as on 31 March 2013 as against ₹3,508 crore as on 31 March 2012, indicating a decrease of 13 per cent. The share capital of CCBs was ₹10,084 crore as on 31 March 2013 as against ₹8,914 core as on 31 March 2012, reflecting an increase of 13 per cent. The deposits of StCBs at ₹94,508 crore as on 31 March 2013 reflected a growth of nine per cent whereas the deposits of CCBs at ₹2,08,137 crore reflected a growth of 11 per cent over 31 March 2012. The borrowings of StCBs as on 31 March 2013 was ₹50,856 crore, indicating an increase of 18 per cent over 31 March 2012. The borrowings of CCBs at ₹64,954 crore as on 31 March 2013 indicated an increase of 20 per cent over the previous year. Loans issued by StCBs and CCBs increased by 16 per cent and 34 per cent, respectively during the year 2012-13. Loans outstanding of StCBs was ₹91,894 crore and that of CCBs was ₹1,83,643 crore as on 31 March 2013, indicating an increase of 18 per cent and 17 per cent, respectively, over the previous year.

Table 8: Growth of Short term Co-operative Credit Structure

(As on 31 March) (₹ crore)						
Particulars	**StCBs**			**CCBs**		
	2012	**2013**	**Growth (%)**	**2012**	**2013**	**Growth (%)**
Number	31	32#		370	370	
Share Capital	3,508	3,063	(-) 12.69	8,914	10,084	13.1
Reserves	11,824	11,384	(-) 3.72	24,785	32,665	31.8
Deposits	86,429	94,508	9.34	1,87,770	2,08,137	10.8
Borrowings	43,424	50,856	17.59	53,924	64,954	20.5
Loans Issued	84,080	97,639	16.19	1,69,590	2,27,184	34.0
Loans Outstanding	77,644	91,894	18.35	1,57,184	1,83,643	16.8

#: Jharkhand StCB was formed in September 2012. Note: Data as on 31 March 2013 provisional.
Source: NABARD Annual report 2013-14

Long Term Co-operative Credit Structure (LTCCS) comprised 20 State Co-operative Agriculture and Rural Development Banks (SCARDBs) and 714 Primary Co-operative Agriculture and Rural Development Banks (PCARDBs). The share capital of SCARDBs stood at ₹1,829 crore and that of PCARDBs stood at ₹1,386 crore as on 31 March 2013. The borrowings by SCARDBs at ₹15,427 crore as on 31 March 2013 showed decline of 4 per cent whereas the borrowings by PCARDBs at ₹13,886 crore showed a decline of 0.3 per cent. During 2012-13, loans issued by SCARDBs and PACRDBs decreased by 16 per cent and 7 per cent respectively.

Table 9: Growth of long term Co-operative Credit Structure

(As on 31 March) (₹ crore)						
Particulars	**StCBs**			**CCBs**		
	2012	**2013**	**Growth (%)**	**2012**	**2013**	**Growth (%)**
Number	20	20	-	714	714	-
Share Capital	1,827	1,829	0.10	1383	1,386	0.22
Reserves	4,613	5,172	12.12	3407	3,492	2.49
Deposits	1,029	1,065	3.50	566	601	6.18
Borrowings	16,099	15,427	(-) 4.18	13928	13,886	(-) 0.30
Loans Issued	4,206	3,526	(-) 16.16	3707	3,434	(-) 7.36
Loans Outstanding	19,417	18,775	-3.31	12600	12,457	(-) 1.13

Note: Data as on 31 March 2013 provisional. $ Manipur SCARDB is defunct
Source: NABARD Annual report 2013-14

Working Results of Co-operative banks:

Profitability:

During 2012-13, 29 out of 32 StCBs earned profit aggregating ₹1,117.55 crore while the remaining three StCBs incurred loss aggregating ₹53.66 crore. Thus, the StCBs as a whole posted profit of ₹1,063.89 crore. As regards the CCBs, while 327 out of 370 CCBs earned profit of ₹2,322 crore, 43 CCBs incurred loss to the extent of ₹493 crore resulting in overall profit of ₹1,829 crore. Under the LTCCS, 10 SCARDBs earned an aggregate profit of ₹175.05 crore whereas nine SCARDBs incurred aggregate loss of ₹277.08 crore during 2012-13,resulting in the SCARDBs registering loss at aggregate level. Similarly, 373 PCARDBs reported aggregate profit of ₹239.60 crore whereas 327 PCARDBs incurred loss of ₹517.59 crore, registering loss at aggregate level.

Table 10: Working Results of Co-operative Banks

(₹ crore)

Agency	StCBs		CCBs		SCARDBs		PCARDBs	
Year	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13
Total (No.)	31	32	370	370	20	20	714	714
In Profit (No.)	27	29	328	327	10	10	376	373
Profit Amount	759.90	1,117.55	1,511.00	2,322.00	118.63	175.05	225.83	239.60
In Loss (No.)	4	3	42	43	9	9	324	327
Loss Amount	139.75	53.66	332.00	493.00	425.92	227.08	443.98	517.59

Note: Data for the year 2012-13 provisional.
$: Manipur SCARDB is defunct. Hence SCARDB data is in respect of 19 SCARDBs only.
13 PCARDBs in Kerala have not reported profitability figures for 2011-12 and 2012-13.
One PCARDB was in no profit / no loss.
Source: NABARD Annual report 2013-14

Accumulated losses:

The accumulated losses of the StCBs declined from ₹713.70 crore as on 31.3.2012 to ₹602.57 crore ason 31 March 2013. The accumulated losses of CCBs declined from ₹4,350.31 crore to ₹3,202.14 crore during the corresponding period. Out of 107 CCBs having accumulated losses, 11 CCBs carried accumulated losses of above 100 crore each, which is a matter of concern. The SCARDBs registered an increase of 11 per cent in accumulated losses from ₹1,725.27 crore to ₹1,922.66 crore during the said period. The accumulated losses of PCARDBs increased from ₹4,545.51 crore as on 31March 2012 to ₹4,765.81 crore as on 31 March 2013.

Table 11: Accumulated Losses

(₹ crore)

Year	StCBs	CCBs	SCARDBs	PCARDBs
2012	713.70	4,350.31	1,725.08	4,545.51
2013	602.57	3,202.14	1,722.66	4,765.81

Note: Data as on 31 March 2013 provisional.
Source: NABARD Annual report 2013-14

At the aggregate level, the percentage of Non-Performing Assets (NPAs) to loans outstanding in respect of StCBs reduced to 6.16 per cent as on 31 March 2013 as againast6.98 per cent as on 31 March 2012. Region-wise analysis showed that the NPA levels of the StCBs in the eastern, north eastern and western region were far higher than the All India level. As on 30 June 2012, the recovery of StCBs stood at 94.62 per cent.

Table 12: Region-wise Working Results of StCBs

(₹ crore)

Region	2011-12		2012-13		Total NPAs		NPA as % to loans outstanding		Recovery (%) (As on 30 June)	
	Profit	Loss	Profit	Loss	2011-12	2012-13	2011-12	2012-13	2011	2012
Central	111.04	0.00	104.11	0.00	463.27	532.53	4.10	3.76	96.31	97.00
Northern	132.66	0.00	162.18	0.00	410.47	460.41	2.31	2.14	97.30	97.51
Eastern	59.49	31.49	93.95	51.54	746.77	825.90	8.68	8.27	91.83	91.39
Western	195.23	0.00	457.53	0.60	2,350.72	2,077.78	16.17	13.87	96.66	96.76
Southern	204.02	107.77	229.71	0.00	956.16	1,237.25	4.08	4.27	97.53	93.81
North-Eastern	57.46	0.49	70.07	1.51	491.19	530.90	24.47	23.21	44.55	46.27
All-India	**759.90**	**139.75**	**1,117.55**	**53.65**	**5,418.58**	**5,664.77**	**6.98**	**6.16**	**95.62**	**94.62**

Note: Data for the year 2012-13 provisional.
Source: NABARD Annual report 2013-14

At the aggregate level, the percentage of NPAs to loan outstanding in respect of CCBs decreased from 10.25 per cent as on 31 March 2012 to 9.83 per cent as on 31 March 2013. The CCBs in northern and southern region reported NPA levels lower than that of the All India average whereas CCBs in all other regions showed NPA sat higher than All India level.

Table 13: Region-wise Working Results of CCBs

(₹ crore)

Region	2011-12					2012-13					As on 31 March				Recovery % as on 30 June	
	CCBs (No.)	Profit		Loss		CCBs (No.)	Profit		Loss		Total NPAs		NPA as % to Loans outstanding			
		No.	Amt.	No.	Amt.		No.	Amt.	No.	Amt.	2012	2013	2012	2013	2011	2012
Central	104	88	389.48	16	152.32	104	85	512.00	19	191.00	3,251.00	3,909.00	17.62	17.81	72.05	71.44
Northern	76	61	116.67	12	82.31	73	63	185.00	10	51.00	1,758.00	1,772.00	6.54	5.75	87.39	89.97
Eastern	64	56	99.30	8	69.00	64	59	159.00	5	55.00	1,464.00	1,732.00	13.63	14.02	75.91	73.19
Western	49	45	524.00	4	20.00	49	45	927.00	4	90.00	5,187.00	5,904.00	11.90	11.72	72.22	63.94
Southern	80	78	382.00	2	8.37	80	75	537.00	5	107.00	4,455.00	4,735.00	7.75	6.95	91.62	90.87
All-India	**370**	**328**	**1,511.45**	**42**	**332.00**	**370**	**327**	**2,320.00**	**43**	**494.00**	**16,115.00**	**18,052.00**	**10.25**	**9.83**	**80.78**	**79.33**

Note: Data for the year 2012-13 provisional.
Source: NABARD Annual report 2013-14

2) **Growth rate of Credit flow of cooperative banks:**
The role of cooperative bank as an instrument of inclusive growth for rural development. The position of cooperative bank in agency wise ground level cash flow and percentage of cooperative bank's share percentage in rural credit. It is clear from the above table that the amount of cooperative credit in India has increased from 2008-09 to 2009-10 and again increased 78,007 crores in the next year 2011-12.

On the other hand there is a continuous increase in credit in Regional Rural Banks and Commercial Banks. The compound growth rate of credit for cooperative banks from the year 2008-2012 is 24percent and for Regional Rural Banks and Commercial Banks is 27 and 17 respectively. The percentage change of cooperative bank credit for the year 2012-13 is 26 percent which is higher than regional rural banks (17 percent), and commercial banks (17 percent).

Table 14: Agency-wise Ground level Credit Flow

							(₹ crore)
						Growth Rate (%)	
Agency	**2008-09**	**2009-10**	**2010-11**	**2011-12**	**2012-13@**	**2008-12#**	**2012-13****
Co-op	45,966	63,497	78,007	87,963	1,11,203	24	26
RRBs	26,765	36,217	44,293	54,450	63,681	27	17
CBs	2,28,951	2,85,800	3,45,877	3,68,616	4,32,491	17	17
Total	3,01,908*	3,84,514	4,68,291	5,11,029	6,07,375	19	19

*#: Average Annual Growth Rate; *: Includes `226 crore by other agencies,*
***: Percentage change over previous year. @: provisional Source: NABARD*
Source: NABARD Annual report: 2013-14

The percentage change of credit for cooperative banks is very massive in comparison to other banks for the current years. It may be due to the stringent licensing policy and entry point norm regulation of Reserve Bank of India.

3) **Financial Performance of State Co-operative Agriculture and Rural Development Banks:**
SCARDBs reported losses in 2011-12, as was the case in 2010-11. SCARDB's loss-making position was on account of a decline in interest income coupled with increased growth in their total expenditure on account of a steep rise in provisions and contingencies and operating expenses. Its interest income percentage was 94% in 2010-11 and in 2011-12 it decreased to 93.7%. Its other income was 6.0% and in 2011-12 it was 6.3%. So income interest percentage declined in 2011-12 -0.2% and percentage of other income was 7.7%. It is observed that increase in expenditure like percentage variation on interest expended was 1.8 in 2010-11 while in 2011-12 it increased 7.7%. In the same way percentage variation on provision and contingencies was -4% in 2010-11 while in 2011-12 it increased 20% and operating expenses was 7% in 2010-11 while in 2011-12 it increased 16%. The operating profit in 2010-11 was 10.9% while in 2011-12 it decreased up to -20%. In 2010-11 to 2011-12 these banks gained no profit.

Table 15: Financial Performance of State Co-operative Agriculture and Rural Development Banks

(Amount in ₹ billion)

Item	As during		Percentage Variation	
	2010-11	2011-12	2010-11	2011-12
1	2	3	4	5
A. Income (i + ii)	21 (100)	22 (100)	4.2	4.8
i. Interest Income	20 (94.0)	20 (93.7)	13.7	-0.2
ii. Other Income	1.3 (6.0)	1.4 (6.3)	64.6	7.7
B. Expenditure (i + ii + iii)	21 (100)	24 (100)	1.1	14.3
i. Interest Expended	13 (62.8)	14 (58.3)	1.8	7.7
ii. Provisions and Contingencies	5 (21.7)	6 (24.2)	-4	20.0
iii. Operating Expenses	3 (15.5)	4 (17.2)	5.8	33.3
of which, Wage Bill	3 (74.6)	3 (71.4)	7.0	16.0
C. Profits				
i. Operating Profits	5	4	10.9	-20.0
ii. Net Profits / Loss	-0.0	-2.0	-	-

Notes: 1. Figures in parentheses are percentages to total income/expenditure.
2. Data for the year 2011-12 are provisional.
3. SCARDB in Manipur is defunct.
4. Percentage variation could be slightly different because absolute numbers have been rounded off to ₹ billion.
Source: NABARD.

Region-wise Working Results of SCARDBs:

At the aggregate level, the percentage of NPAs to loan outstanding in respect of SCARDBs increased from 33.20 per cent as on 31 March 2012 to 35.97 per cent as on 31 March 2013. While the SCARDBs in southern, eastern and northern regions reported NPA levels lower than that of the All India average, SCARDBs in central, north-eastern and western regions showed higher NPAs than the All India level. As on 30 June 2012, the recovery of SCARDBs was 32.26 per cent.

Table 16: Region-wise Working Results of SCARDBs

(₹ crore)

Region	Banks	Profit / Loss (+) / (-)		As on 31 March				Recovery (%)	
				Total NPAs		NPA as % to Loans outstanding		(as on 30 June)	
	2013	2012	2013	2012	2013	2012	2013	2011	2012
Central	3	(-) 200.88	(-) 67.03	2,732.70	2,963.99	54.70	68.98	38.77	14.89
Eastern	3	(-) 50.95	0.63	322.83	362.62	27.25	26.23	28.57	28.24
North-Eastern	3	(-) 5.57	(-) 3.69	17.36	19.61	44.51	50.58	56.73	50.72
Northern	5	52.90	22.54	1,332.84	1,396.66	21.69	22.86	58.52	60.03
Southern	4	23.72	21.02	665.30	669.90	12.60	12.49	57.98	59.47

Western	2	(-) 126.51	(-) 75.50	1,356.78	1,344.63	78.84	76.52	14.73	11.55
All-India	**20**	**(-) 307.29**	**(-) 102.03**	**6,427.81**	**6,754.41**	**33.20**	**35.97**	**40.17**	32.26

Note: Data for the year 2012-13 provisional.
Source: NABARD Annual report 2013-14

4) Region-wise Working Results of PCARDBs:
At the aggregate level, the percentage of NPAs to loan outstanding in respect of PCARDBs as on 31 March 2013was around 37 per cent which was marginally higher than that of the previous year. There were variations at the regional level. As on 30 June 2012, the recovery of PCARDBs stood at 42.68 per cent

Table 17: Region-wise Working Results of PCARDBs

(₹ crore)

Region	2011-12					2012-13					As on 31 March				Recovery	
	No.	Profit		Loss		No.	Profit		Loss		Total NPAs		NPA as % to Loans outstanding		% as on 30 June	
		No.	Amt.	No.	Amt.		No.	Amt.	No.	Amt.	2012	2013	2012	2013	2011	2012
Central	50	13	1.53	37	57.64	50	13	131	37	64.71	625.27	638.67	65.28	68.18	29.86	11.49
Eastern	70	9	5.19	61	35.20	70	9	4.36	61	17.93	338.40	248.36	34.00	24.98	55.20	54.63
North Eastern																
Northern	145	101	45.29	44	129.72	145	98	61.16	47	197.08	2,281.76	2,368.47	39.21	42.00	45.54	45.99
Southern	406	252	147.76	154	80.36	406	252	146.70	154	96.81	1,057.89	1,041.53	23.49	22.82	69.80	60.19
Western	29	1	26.06	28	141.06	29	1	26.06	28	141.06	322.60	322.66	99.86	99.86	18.82	16.89
All-India	**700@**	**376**	**225.83**	**324**	**443.98**	**700@**	**373**	**239.59**	**327**	**517.59**	**4,625.93**	**4,625.93**	**36.71**	**37.09**	**47.33**	**42.68**

Note: Data provisinal @: Out of 714 PCARDBs, 13 PCARDBs in Kerala have not reported profitability figures and one PCARDB is in No profit / No Loss. Hence their data is not reflected in the above.
Source: NABARD Annual report 2013-14

FINDING

1. Opening no-frills accounts, providing agriculture credit, KCC, Relaxation on KYC norms &Refinance support for short term credit by rural cooperative banks, make rural people financially sound to fulfil their requirements. It has become a milestone for rural people as a means to achieve financial inclusion.

2. By using Technology, ATM card facility, Regional spread of banking, opening branches in unbanked rural areas of state & providing road map make poor sections of the rural population easily accessible to use baking facilities. These facilities contributed a lot towards the empowerment of rural population by creating the awareness of thrift, mutual confidence and self-reliance.

3. During 2012-13, Profit earned as well as loss incurred by State Cooperative Banks(StCBS), central cooperative banks(CCBs), State Co-operative Agriculture and Rural Development Banks (SCARDBs) and Primary Cooperative Agriculture and Rural Development Banks (PCARDBs) in various regions in India.

CONCLUSION

Rural Cooperative Banks play an important role in meeting the growing credit needs of rural India. Cooperative banking as an institution is still pertinent and for the welfare of the common man (aam admi), banks need to perceive Financial Inclusion as a profitable business model and not as an obligation. This would be possible only if banks strive towards offering more and more credit products to customers captured as part of the Financial Inclusion Plan and lower transaction cost by leveraging technology. The key is to establish an appropriate business delivery model through the involvement of all stakeholders to make financial inclusion a reality.

Rural Cooperative banks due to their good rural network, local staff is in a better position to understand rural situation and the problems of poverty. They are serving a large number of small borrowers and depositors. The volume of credit flowing through these institutions has increased. Revitalized cooperative banks can be very effective in facilitating Financial Inclusion. However cooperatives have developed serious weaknesses which need be addressed urgently. The performance of these institutions, however (apparent in the share of total institutional credit and the indicators of their financial health), has been less than satisfactory and is deteriorating rapidly. Of late, a number of Committees have gone into the reasons for this situation and suggested remedial measures, but there has been little progress in implementing their recommendations.

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MGNREGA: A Tool for Inclusive Growth in Rural India

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ABSTRACT

India is a land of villages and her economy continues even today to be mainly rural, as 75% people live in rural areas. Still around 25 to 30% people are living below poverty line. Immediately after independence, GoI initiated a good number of programmes for the development of rural areas. Besides these, the Government also launched various employment programmes for the development and to provide livelihood to the rural people. These programmes started in the initial years as pilot projects. Mention may be made of Rural Manpower (RMP) [1960-61], Crash Scheme for Rural Employment (CRSE) [1971-72], Pilot Intensive Rural Employment Programme (PIREP) [1972], Small Farmers Development Agency (SFDA), Marginal Farmers & Agricultural Labour Scheme (MFAL) to benefit the poorest of the poor. After that these programmes were translated into a full-fledged wage-employment programme in 1977 in the form of Food for Work Programme (FWP). In the 1980's this programme was further streamlined into the National Rural Employment Programme (NREP) and Rural Landless Employment Guarantee Programme (RLEGP). Jawahar Rozgar Yojana (JRY) [1993-94], Employment Assurance Scheme (EAS), The Jawahar Rozgar Yojana (JRY) was merged with Jawahar Gram Samriddhi Yojana (JGSY) from 1999-2000 and was made a rural infrastructure programme. The programme was merged with Sampoorna Grameen Rozgar Yojana (SGRY) from 2001-02, and National Food for Work (NFFWP) [2005]. These wage employment programmes were self-targeting, and their objective was to provide and enhance livelihood security, especially for those dependent on casual manual labour. After that GoI launched National Rural Employment Guarantee Act in 2005 and the basic objective of this act was to provide livelihood security by guaranteeing 100 days of employment to rural poor, which differentiates it from the earlier programmes.

INTRODUCTION

The Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA): Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) was notified on September 5, 2005. It aims at enhancing livelihood security by providing at least one hundred days of guaranteed wage employment in a financial year to every rural household whose adult members volunteer to do unskilled manual work. The Act covered 200 districts in its first phase, on February 2, 2006, and was extended to all the rural districts of the country in phases. During the FY 2012-13 up to 31st December, the scheme has provided employment to around 4.16 crore households through about 70 lakh works with more than 141 crore person days of employment being generated at a total expenditure about of $ 25000 crore. The average wage rate per day has increased from $ 65 in 2006-07 to about$ 115 in 2011-12. It aims at enhancing the livelihood security of people in rural areas by guaranteeing 100 days of wage-employment in a financial year to a rural household whose adult members volunteer to do unskilled manual work. The Act also seeks to create durable assets to augment land and water

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resources, improve rural connectivity and strengthen the livelihood resource base of the rural poor. The Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) works are largely focused on land and water resources, which include: water harvesting and conservation, soil conservation and protection, irrigation provisioning and improvement, renovation of traditional water bodies, land development and drought proofing. These MGNREGS works have the potential to generate environmental benefits such as ground water recharge, soil, water and biodiversity conservation, sustaining food production, halting land degradation and building resilience to current climate risks such as moisture stress, delayed rainfall, droughts and floods (Tiwari et al., 2011; MoRD, 2012).

OBJECTIVES OF THE STUDY

1. To study the performance of Mahatma Gandhi National Rural Employment Guarantee Act in India.
2. To examine the employment generation through MGNREGA in J&K .

METHODOLOGY

The present paper is the analysis and is based on the secondary data, which is available from annual reports, website of MGNREGA, and ministry of rural development. The analysis has been done by using the data for the year 2006-07 to 2012-13. In the present study an attempt has been made to analyze the performance of MGNREGA in J&K state in the light of Indian context.

ANALYSIS AND DISCUSSION

Performance of MGNREGA in India:

Table 1: Allocation of Funds for Rural Development and MGNREGA Funds Allocated (Crore Rs.)

Year	Rural Development			MGNREGA		% share of MGNREGA to rural development
	No. Of Districts	Amount (Rs in crore)	% increase	Amount (Rs in crore)	% increase	
2006-07	200	31021	-	11304	-	36.44
2007-08	330	37389	20.53	12000	6.16	32.10
2008-09	619	67191	79.91	30000	150.00	44.65
2009-10	640	71431	6.31	39100	30.33	54.74
2010-11	640	89629	25.48	40100	2.56	44.74
2011-12	640	79621	-11.17	31000	-22.69	38.93
2012-13	640	90435	13.58	33000	6.45	36.49

Source: Various Budgets of Government of India

The importance of the **MGNREGA** can be judged by the fact that Mahatma Gandhi National Rural Employment Guarantee Act consumes more than one third of total allotments for rural development (Table 1). The share of MGNREGA in total allotment for rural development was 32.10 per cent in 2007-08 which jumped by 150 per cent and reached at 44.65 per cent of total allotment for rural development during the year 2008-09. Although the allotment for rural development could increase only 6.31 per cent during 2009-10, but the allotment under MGNREGA was increased by 30.33 per cent. As a result its share in the total allotment for rural development increased to 54.74 per cent. This shows the commitment of Government of India towards the MGNREGA. In view of the worldwide economic recession allotment for rural development was pruned by -11.17 per cent during the year 2011-12. As result the allotment for MGNREGA was also axed by -22.69 per cent. However, it was 38.93 per cent of total allotment for rural development.

Table 2: Employment Generated through MGNREGA

Year	Cumulated No of HH Issued job cards (in lakhs)	No of house Holds Who Have Demanded Employment(in lakhs)		No. of households Provided employment (in lakhs)
		No.	Job cards	Total No.
2006-07	378.50	211.88	55.98	210.66
2007-08	647.41	343.26	53.02	339.09
2008-09	1001.46	455.18	45.45	451.15
2009-10	1125.51	528.64	46.97	525.03
2010-11	1198.24	557.63	46.54	549.54
2011-12	1238.76	503.48	41.02	498.63
2012-13	1259.29	452.88	35.96	448.03

Source: www.mgneregа.nic.in

The above table (Table 2) shows the performance of MGNREGA in view of employment generation from 2006-07 to 2012-13. The performance of MGNREGA seems quite impressive from the table, as it is clear that at the end of 2012-13, number of job cards issued to job seekers was 1259.29 lakh. Out of these job card holders, 35.96 per cent demanded the job seeking. Also from the table it is visible that the percentage of households who have demanded employment has declined from 55.98 per cent in the year 2006-07 to 35.96 per cent in 2012-13.

Impact of MGNREGA on Employment:

Table 3: Performance of the MGNREGA from 2006-07 to 2012-13 in India

Year	Household provided employment (in crore)	Person days generated (in crore)	% share of women	% share of SCs/STs	No. Of average person days of employment per household	Average wage per person days	% expenditure on Wages In Total Expenditure
2006-07	2.1	90.5	40	61	43	65	66
2007-08	3.39	143.59	43	56	42	75	68
2008-09	4.41	216.32	48	54	48	84	67
2009-10	5.26	283.59	48	51	54	90	70
2010-11	5.49	257.15	48	52	47	100	68
2011-12	5.0	218.8	48	40	43	115	69
2012-13	6.46	230.5	53	38	46	131	76

Source: Economic Survey 2011-12, Govt of India, Ministry of Finance.

Above table (table 3) shows the overall performance of MGNREGA in India from 2006-07 to 2012-13. From the table it is visible that there is an increase in employment provided to households from 2.1 crore in 2006-07 to 6.46 crore in the year 2012-13. Also the table shows that person days of employment generated have increased to 283.59 crore in 2009-10 from 90.5 crore in 2006-07 where as it shows a decline from 2010-11 0nwards. Though the percentage share of women has stagnated at 48 but has shown an increase from 40 in 2006-07 to 53 in 2012-13. It is also clear from the table that the % share of SCs/STs has declined.

Table 4: State-wise Employment Generation under MGNREGA (Employment per Rural Household Employed Person Days)

S. No	States	2008-09	2009-10	2010-11	2011-12	2012-13
1	Andhra Pradesh	47.99	65.67	54.05	56.49	49
2	Arunachal Pradesh	43.34	24.91	23.13	16.37	21
3	Assam	40.01	34.29	26.16	26.23	21
4	Bihar	25.95	27.55	33.82	37.74	34
5	Gujarat	25.05	36.65	44.87	37.93	31
6	Haryana	42.42	37.74	35.79	39.28	35
7	Himachal Pradesh	46.06	57.29	49.40	52.40	40
8	Jammu and Kashmir	39.56	38.30	42.19	44.85	39
9	Karnataka	32.10	56.67	49.35	42.34	25
10	Kerala	22.22	35.54	40.85	44.62	38
11	Madhya Pradesh	56.59	55.66	49.87	42.24	32
12	Maharashtra	46.33	51.18	44.33	47.17	47
13	Punjab	26.86	28.37	27.11	26.26	24
14	Rajasthan	75.78	68.97	51.64	46.60	39
15	Sikkim	50.65	79.92	85.35	60.15	40
16	Tamil Nadu	35.97	54.67	54.05	47.51	48
17	Tripura	63.95	79.83	67.23	86.47	71
18	Uttar Pradesh	52.40	64.91	52.07	36.35	22
19	West Bengal	26.00	44.59	31.07	26.47	26
20	Chhattisgarh	54.76	51.41	44.67	44.47	34
21	Jharkhand	47.58	49.48	41.81	38.63	33
22	Uttarakhand	34.92	34.92	42.44	41.53	**33**
23	Manipur	74.94	73.15	68.14	61.06	29
24	Meghalaya	38.49	49.41	57.72	48.84	39
25	Mizoram	72.82	94.57	97.14	72.51	59
26	Nagaland	68.32	87.40	95.30	67.37	30
27	Odessa	36.08	39.63	48.71	32.91	24
28	Pondicherry	13.37	22.46	29.57	25.36	21
	Total	**47.95**	**53.99**	**46.79**	**42.40**	**36**

Source: www.mgnreg.nic.in

Detailed analysis of the above table (table 4) shows that smaller states like Tripura, Sikkim, Manipur, Nagaland and Mizoram have performed relatively well under MGNREGA. Employment generated per rural households in these states is as high as 97.14 person days in a year (Arunachal Pradesh is the only exception to this which shows a declining trend in generation of employment). Bihar a poor state improved its position in generation of employment from 25.95 person days in 2008-09 to 37.74 person days in 2011-12. However, in case of Jammu and Kashmir where employment generated per rural household employed has increased from 39.56 person days in 2008-09 to 44.85 person days in 2011-12.

Employment generation through MGNREGA in Jammu & Kashmir:

The act was extended to the state of Jammu and Kashmir on 12th May 2007, to be implemented in a phased manner from February 2, 2006 onwards. In 1st phase, it was introduced in 200 districts of the country including 3 districts of Jammu and Kashmir namely Kupwara, Poonch and Doda. It was implemented in additional 130 districts of the country in 2nd phase in 2007-08 including Anantnag and Jammu. The programme was then extended to the other remaining districts of the state from April 1, 2008 in phase 3rd. The performance of the programme from 2006-07 to 2012-13 in J&K is given in the following table:

Table 5: Performance of MGNREGA from 2006-07 to 2012-13 in J&K (in No's)

Year	Cumulative No of HH Issues Job Cards. Total include (SC+ST+others)	Cumulative No HH Demanded Employment	Cumulative No of HH Provided Employment. Total include (SC+ST+others)	Women (in Lakh)	Cumulative No of HH Completed 100 days	No of disabled Beneficiaries
2006-07	179133	121328	106290	1.44	11758	209
2007-08	278891	116914	143902	0.30	1673	274
2008-09	497175	214385	199045	4.54	7643	248
2009-10	664494	352287	357598	8.58	21360	1037
2010-11	1001681	497617	459835	15.75	60224	664
2011-12	755924	429971	671764	37.47	34672	3403
2012-13	840286	342770	719817	25.93	13125	3195

Source: www.mgnerega.nic.in

From the table (Table 5), the performance of the MGNREGA since its inception has been showing an upward trend in terms of households provided employment, household issued job cards (except in year 2011-12), and share of women in total person days generated. Though the share of women in employment is low but it is quite increasing from 1.44 lakh in 2006-07 to 37.47 lakh in 2011-12. It is also clear from the table that the target of 100 days employment stands achieved in all the years except in the years 2007-08 & 2012-13.

Table 6: Comparison of Jammu and Kashmir statistics of MGNREGA with all India

	India		Jammu & Kashmir		% of India figures
Employment to households (in crore)	25.8		0.2658251		1.03%
	No. Of days (in crore)	Proportion of population	No. Of days (in crore)	Proportion of population	
Total	1200		8.8678		
SCs	337	28%	0.75499	8.51%	0.22%
STs	280	23%	2.159	24.34%	0.77%
Women	561	47%	0.7127	8.03%	0.12%
Others	22	1.83%	5.2411	59.10%	23.82%
Works (in lakh)					
Total works taken up	146		3.34338		2.28%
Works completed	87		2.32994		2.67%

Source: www.nrega.nic.in

Table 6 shows the comparison of MGNREGA statistics in J&K with the all India statistics of MGNREGA. From the table it is shown that in J&K, participation of rural women workforce is low. Just 8.03% are women workforce in J&K as compared to 47% at all India level. This shows that there is low focus on the participation of women in MGNREGA programme in J&K. Whereas, the participation of Scheduled caste workforce is significant as it is 24.34% in J&K as compared to only 23% ST workforce at all India level. Participation of scheduled caste community in MGNREGA works is also low as only 8.51% as compared to 28% at the all India level.

CONCLUSION & RECOMMENDATIONS

In conclusion, it can be said that MGNREGA is certainly an improvement on earlier public work programmes, but bureaucratic manoeuvring and discrepancies had made the programme less successful. Delay in payment of wages, use of low paid labour by job card holders, poor maintenance of work done and increasing number of incomplete projects are some of the weakness of MGNREGA. Even than MGNREGA is a panacea to rural unemployment problem in India. However, it will be in the fittest of the things to recommend that:-

1. There should be active participation of people towards MGNREGA so that the programme becomes more successful.
2. As far as possible, Works should be incorporated according to the geographical location of the area for better results.
3. Thirdly effective steps should be initiated to create more awareness for the rural people about the programme.
4. To increase women participation, all round efforts should be made. Moreover worksite facilities should be made available.
5. It is also suggested that wage rates should be increased.

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Strategic Factor Analysis for Developing Micro and Small Enterprises (MSES)

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ABSTRACT

Micro and Small Enterprises (MSEs) have been playing crucial role in the economy in terms of output growth, employment generation and export performance. The generously proportioned significance of this sector lies in its employment generating potential in the face of economic crisis. The MSEs cover a differing set of industries, ranging from micro-enterprises using simple technology on the one hand, and modern small scale industries using sophisticated technology, on the other. There is significant diversity and heterogeneity within different segments of this sector. While globalization has put us on the map of superpower countries, MSEs have empowered the ordinary man to walk with the same pace as the big-wigs. For India to be a superpower, it must make efforts to strengthen each and every thread of its economic framework to make the flag of its success fly high.

Despite the information that MSEs are very potent for building a stable economic growth, developing MSEs is a tricky issue. Myriad problems need to be addressed. This paper discusses the factors that decide small firms' ability to grow during economic crisis. The study also discuss evidence about how business environment, social, individual entrepreneur, and firm-level variables control micro, small & medium enterprise growth. The study adopts a framework based on opportunities and capabilities and discusses how firm productivity contributes to growth. The study also bring to a close discussion on how development practitioners can link small enterprise growth to their programs' desired enlargement objectives, and offer suggestions on targeting growth-oriented "gazelles" versus survivalist firms.

Keywords: *micro and small enterprises(MSEs), growth, productivity, entrepreneur, business environment, value chains, inter-firm cooperation, horizontal and vertical linkages, supporting markets, social networks, social capital, individual entrepreneur, and firm-level characteristics.*

INTRODUCTION

In most developing countries, MSEs constitute the vast majority of firms, generating a substantial share of both overall employment and output. Given their significant economic role, one might expect MSE growth to drive overall increases in output and income levels. In many cases, however, their largest economic contribution appears to be one of maintaining rather than generating new employment and income for the poor.

At an aggregate level, MSEs demonstrate impressive growth, especially when compared with larger firms. However, many individual MSEs grow slowly or not at all-in some cases, due to a conscious decision on the part of the business owner. Overall growth rates are often fuelled by the rapid expansion

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of a narrow group of highly performing MSEs. In developing as well as in developed countries, there appears to be a small group of "gazelles"—firms that outperform their peers and drive aggregate employment and productivity growth for the small business sector.

Why do some MSEs expand rapidly, while others stagnate? What factors account for the wide variation observed in MSE growth trajectories? This paper explores a wide array of specific factors, but it is first useful to consider a broader conceptual framework of opportunities and capabilities. Clearly, opportunities for profitable business activities shape the ability of an entrepreneur to expand his or her firm. Yet, profitable business opportunities are a necessary but insufficient condition for firm growth (Mead, interview, 2004). To take advantage of business opportunities, entrepreneurs must also possess appropriate capabilities, such as skills, resources, or technology.

Figure 1 provides an overview of how opportunities and capabilities can interact to shape the trajectories of MSE growth. This typology presents four "ideal types" of MSE growth profiles- distinctions are more blurry in reality, so a particular MSE may not clearly fall into one category. Most prominently, MSEs that demonstrate high, sustained growth rates are frequently termed "gazelles." These highly performing firms typically share two fundamental characteristics-they have profitable business opportunities and appropriate capabilities to harness these opportunities. Only a minority of firms become "gazelles," which drive overall growth in the MSE sector.

Some MSEs may face potentially lucrative business opportunities, but be unable to take full advantage of them due to inadequate capabilities. Although these "ponies" may expand quickly for short durations while trying to harness these opportunities, they often lack endurance as they do not have requisite capabilities for sustained growth. For instance, some small honey producers in Brazil initially experienced strong demand for their organic honey in open marketplaces, and hoped to sustain growth by marketing to supermarkets. However, inadequate capabilities inhibited them from achieving this goal because inappropriate technology prevented them from satisfying the formal packaging requirements of supermarkets (Nichter, 2004).

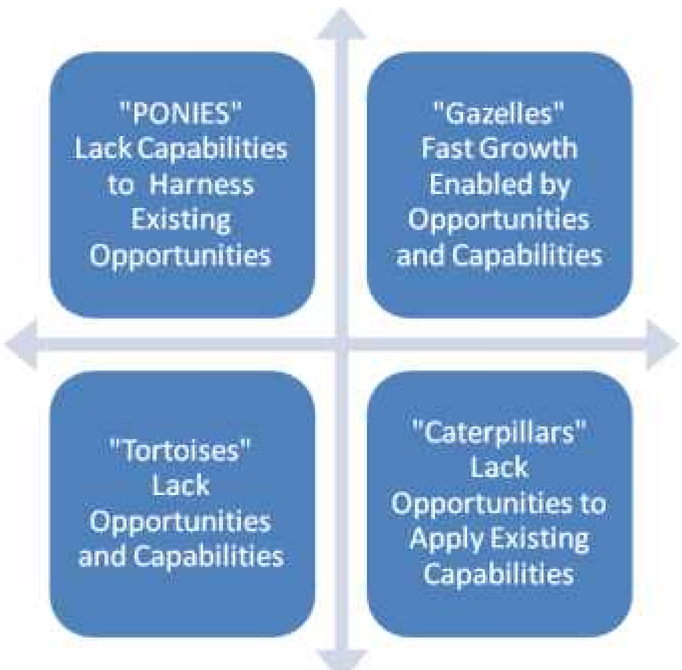

Figure 1: Typology of MSE Growth Profiles

On the other hand, MSEs may have substantial capabilities, but lack viable opportunities to capitalize on them. For example, a village tailor in India may have the ability and capacity to produce more saris, but faces weak local demand and has limited access to external markets. While such entrepreneurs' may experience lacklustre growth for long periods, new opportunities (such as broader market access) can catalyze rapid expansion. Just like a "caterpillar" awaiting its metamorphosis, these MSEs exhibit substantial latent opportunities for growth opportunities for growth. Many MSEs lack both profitable business opportunities and a host of capabilities such as skills, resources, and technology. These "tortoises" demonstrate the least proclivity towards growth, and their owners focus on firm survival. Despite their lack of growth, these MSEs play a crucial role. In development, business growth should be considered within a broader perspective that includes income diversification and survival strategies. Even "tortoises" without employment growth often provide essential sustenance for their owners and workers. In some cases, slow or nonexistent firm growth is attributable to the entrepreneurs' competing interests rather than a lack of capabilities. Women MSE owners, for example, may be especially likely to use business proceeds to purchase household necessities, to invest in parallel enterprises, or to assist their offspring in launching new firms. Such strategies are discussed later in the paper. This paper explores MSE growth by building on this conceptual framework of opportunities and capabilities. A range of factors play an important role in shaping the growth performance of a particular MSE, by influencing the opportunities available to owners and employees and their capabilities to take advantage of such opportunities. Figure 2 shows the factors grouped into four broad categories: contextual factors related to the business environment, social or relational factors, firm characteristics, and individual entrepreneur characteristics. The funnel shape of Figure 2 emphasizes that the factors range from broad (contextual) to narrow (related to the individual entrepreneur). The discussion that follows identifies key factors for which sufficient evidence exists in the literature, discussing how each affects MSE growth in developing countries.

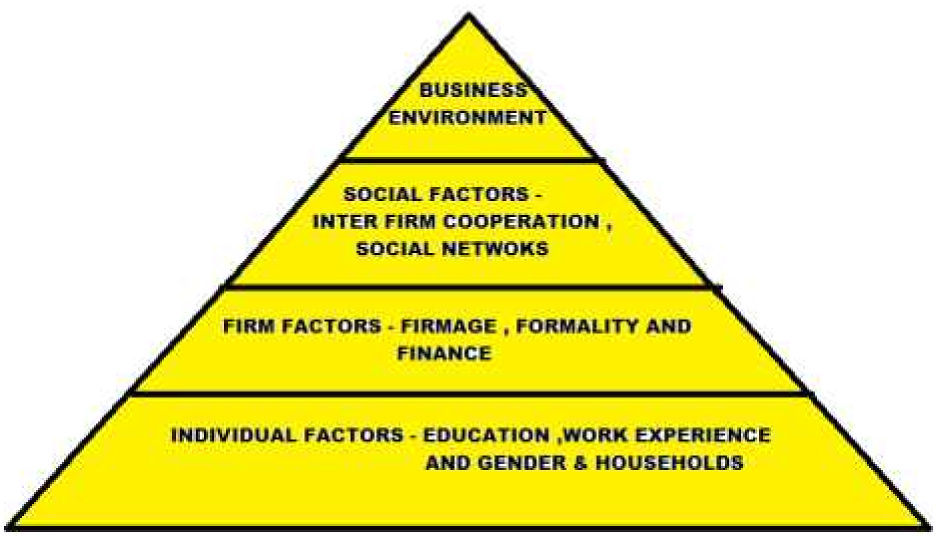

Figure 2: Key Factors affecting MSE Growth

Each of these factors has effects on MSE opportunities and capabilities. Figure 3 provides an overview of whether the effect of each key factor is direct or indirect. For example, the macroeconomic context can have substantial direct effects on MSE opportunities-in many cases, recession eliminate profitable market niches by limiting demand for elastic consumption goods. The macroeconomic context also has indirect effects on MSE capabilities. For instance, when central banks raise interest rates to curb inflation, MSEs often become more credit constrained (even from informal sources). Thus, the macroeconomic context has an indirect effect on MSE capabilities through another factor-access to finance. Similarly, education may not only directly enhance the capabilities of MSE owners, but also indirectly expand business opportunities through contacts and social networks. Both direct and indirect effects can substantially shape MSEs' growth trajectories.

Figure 3 highlights how important the characteristics of value chain linkages can be. By enhancing coordination between like firms (horizontal linkages) or between buyers and their suppliers (vertical linkages), or by enabling the transfer of technology, skills, or finance from one firm to another, value chain linkages can have direct effects on both firm opportunities and capabilities. For example, a lead firm sourcing electronics parts from small suppliers can offer critical expertise and access to technology, while providing steady demand for MSE products. Value chains with certain characteristics, such as a non-hierarchical governance structure (discussed below), can provide a context conducive to the development of strong vertical and horizontal linkages, thus enhancing MSE opportunities and capabilities.

Figure 3: Growth Factors' Effect on MSE Opportunities and Capabilities

Effect on Opportunities \ Effect on Capabilities	Indirect	Direct
Direct	Macroeconomic Context Location and Sector Social Networks Gender / Household Formality Infrastructure	**Value Chain Linkages**
Indirect	Firm Age	Education Experience Access to Finance Technology Regulations / Institutions

PRODUCTIVITY AND GROWTH

The argument that firm growth causes higher productivity is based on the assumption that economies of scale exist-meaning that firms experience a decline in average costs as output increases. The flaw in this argument becomes clear when one considers that MSEs tend not to operate in industries where economies of scale are present (Tybout, 2000), precisely because these are not industries where they are likely to be competitive.

On the other hand, economic theory supports the premise that higher productivity causes MSE growth, since productivity can be a source of competitive advantage such as low-cost production. Adopting the framework presented above and its treatment of the role of capabilities in MSE growth, the causal model would go something like this: factors such as education and experience can directly increase the capabilities of MSE owners and employees; these individuals are then more likely to adopt or create practices that heighten productivity levels, and this added productivity then contributes to growth.

In reality, both of the arguments presented above appear to hold some truth.

An endogenous, virtuous relation ensues where more productive firms get larger and, in the process, obtain access to resources and information that enables them to become even more productive.

CONTEXTUAL FACTORS

The Business Environment

Contextual factors play a major role in shaping the opportunities of MSEs in developing countries. Most obviously, the overall state of the economy directly influences the availability of profitable business opportunities. Growth opportunities within existing markets, as well as the prevalence of untapped, profitable market niches, wax and wane as the business cycle evolves.

The business environment may affect MSEs directly and indirectly in a variety of ways:

- There are important nuances in the relationship between MSE growth and the overall business cycle: the overall MSE sector expands during economic downturns due to an increase in survivalist-type activities, although individual MSEs may stagnate or contract. In addition, during severe economic crises, MSEs may be more resilient than their larger counterparts.
- Regulatory obstacles represent a disproportionate burden for smaller firms.

Value Chains

A value chain refers to the "full range of activities which are required to bring a product or service from conception, through the different phases of production, delivery to final consumers, and final disposal after use" (Kaplinsky and Morris, 2001, p. 4).

An important dimension of growth or potential growth in a value chain is strong demand from the end market, whether local, regional, or international. While an increase in the volume of goods demanded by the end market may provide opportunities for MSE growth, a related factor is the type of goods demanded. In commodity chains with standardized products, participating firms will feel pressure to compete based on low costs, whereas consumers demanding differentiated products are likely to be willing to pay higher prices, which may translate into higher margins throughout the chain.

Also important is the organization of the value chain, especially inter-firm relationships and power dynamics. Models range from buyer driven (top-down and not very conducive to MSE participation) to producer-driven (usually seen in high-tech chains where producers are relatively sophisticated) to network or non-hierarchical chains where power relationships are more balanced. These (network) chains may hold the most promise for MSE participation and growth because they allow for inter-firm cooperation.

Inter-firm Cooperation

The concept of inter-firm cooperation as a driver for MSE growth, will emphasis on three aspects: vertical linkages, horizontal linkages, and supporting markets. Individual firms form commercial relationships referred to as vertical linkages with their buyers and suppliers. In some cases, similar firms may group themselves or be organized by an outside party to work together referred to as horizontal linkages. Supporting markets are also important in value chains for services such as finance; consulting, legal, and tax advice; market information; and skills training.

- **Vertical linkages.** A number of mechanisms are used to form vertical linkages, ranging from loose and informal understandings to rigid buyer-supplier agreements known as subcontracting or outsourcing. Vertical linkages can facilitate MSE growth by expanding a firm's set of viable business opportunities and improving firm capabilities. Agreements with buyers can decrease the risks and costs associated with entering new markets by providing a guaranteed flow of orders, critical information about market requirements, and, in some cases, reducing the need for capital investments (Aw, 2001). Sometimes relationships with larger firms can help link rural industries to urban and international markets (cf Berry, Rodriguez, and Sandee, 2002). In addition to fostering growth through expanded business opportunities, vertical linkages can lead to improved firm capabilities by providing opportunities for learning and innovation-such as when corporate buyers assist with quality, maintenance, and technical issues (Berry, Rodriguez and Sandee, 2002)-or when input suppliers offer training or information related to the use of improved technologies.

- **Horizontal linkages.** Among the many legal and organizational options to institutionalize horizontal cooperation are cooperatives, associations, consortia, producer groups, and other collaborative structures. Horizontal linkages can help MSEs overcome many of the disadvantages of being small, for example by providing a way to consolidate production, improve their negotiating position with buyers or suppliers, access market information or services, or lobby for political or regulatory changes.

Geographic and sectoral agglomerations of enterprises, or clusters, are also a vehicle through which MSEs may participate in rapid growth. Clusters inevitably involve external economies: one firm's investments spill over to other firms in the cluster (Schmitz, 1999). In addition, clusters may involve consciously pursued joint action, such as sharing machinery or developing a product together. In cases where clustered firms seek to serve the same market, competition, as well as cooperation, can drive innovation critical to competitive performance.

- **Supporting markets.** Services provided through supporting markets are often directly related to improvements in capacity. For example, skills training may allow firms to offer new products, while finance may allow them to produce greater volumes. Access to market information or new technologies, on the other hand, may help firms respond to new opportunities.

Value chain relationships, including horizontal and vertical linkages, and connections to supporting markets, offer many tangible, indispensable advantages to MSEs. These advantages include increased production capacity and ways to consolidate production; increased efficiencies; mechanisms to spread both costs and risks; increased bargaining power for inputs or raw materials; and channels to obtain information about and improve techniques used for production, marketing, transportation, and technology. These relationships, then, play a critical role in facilitating MSE growth. Linkages can expand business opportunities and enhance firm capabilities at the same time. Further, inter-firm collaboration can help boost productivity, whether through upgrading opportunities within value chains, increasing collective efficiency within clusters, or raising productivity among subcontracting firms.

SOCIAL NETWORKS

Social networks means the relationships between individuals, while social capital means the pooling of intangible resources that typically occurs in groups such as those made up of family and friends, professionals or entrepreneurs with similar profiles or educational backgrounds, or even between acquaintances in the broader community.

Having an extensive social network is a valuable asset, as it can help an entrepreneur obtain access to information (e.g., leads about profitable business opportunities) and resources (e.g., credit). While social networks can enhance MSE growth in any context, they can be critical to firms' growth prospects in environments with pervasive market failures, such as inordinately low levels of information and competition. Social networks can help entrepreneurs identify business opportunities and overcome a number of obstacles related to transaction costs, contract enforcement, and regulation. In some cases, however, traditional customs associated with these networks may hinder MSE growth.

INDIVIDUAL ENTREPRENEUR CHARACTERISTICS

Individual characteristics of entrepreneurs and their households exhibit the following influences on MSE growth:

Education

More education correlates with MSE growth above a country-specific threshold. Higher education can expand an entrepreneur's opportunity set. For example, formal education may provide entrepreneurs with a greater capacity to learn about new production processes and product designs, offer specific technical knowledge conducive to firm expansion, and increase owners' flexibility. However, exploring the relationship between education and MSE growth in developing countries reveals greater complexity.

Developing-country MSE owners and workers are relatively less educated than the majority of the population. Not only do they operate in countries with relatively low overall educational attainment, but they also tend to have less-educated owners and workers than larger firms. One reason for this contrast is that the poor in developing countries often create survival-oriented MSEs due to a lack of alternative employment opportunities. Despite these potential benefits, education may also harm MSE growth in cases in which owners divert their attention to other attractive opportunities.

Work Experience

Experience-gained on the job or through prior employment-is a critical growth factor. MSE owners acquire a substantial amount of skills and knowledge while operating their firms. Such work experience proves to be highly important for developing capabilities within MSEs, as entrepreneurs with more years of work experience typically have faster-growing MSEs. Work experience thus contributes to MSE growth in two ways: directly, by expanding the capabilities of MSE owners and employees through the acquisition of skills and knowledge; and indirectly, by expanding entrepreneurs' social networks.

Gender and Household

Women own and operate the majority of MSEs in many developing countries (see Figure 5), in part because of the ease of entry and their limited access to alternate opportunities (Rubio, 1991). Yet women often face particularly difficult challenges that suppress the growth of their firms. In some cases, women choose not to grow their firms, for the reasons outlined below.

Downing and Daniels (1992) provide an insightful analysis of many of the challenges constraining women's opportunities for MSE growth. All too often, women face asymmetrical rights and obligations limiting their labour mobility and burdening them with disproportionate household responsibilities. Due to gender-specific roles and time constraints, even university-trained women may choose to weave tapestries within the household. Temporal discontinuities in women's ability to work frequently leads to a loss of economic skills, and at times even lowers career and educational aspirations. Women in some countries face greater problems with innumeracy, illiteracy, and a lack of business skills. In addition, women commonly have unequal access to markets. Studies have shown that men travel farther geographically than women to buy inputs, enabling them to enjoy lower prices and higher quality. Men also sell in multiple markets more frequently than women, allowing them additional growth opportunities. As a result of such factors, women frequently focus their MSEs on a relatively narrow range of industries.

Women-owned MSEs often play a crucial role in increasing and diversifying household incomes. The study shows how households simultaneously engage in survival and mobility strategies, with activities performed on a gendered basis. For example, women may engage in survival strategies, operating MSEs with small but regular contributions to income, which enables their husbands to pursue mobility strategies, such as focusing on higher-risk but potentially lucrative growth-oriented MSEs. Following such survival strategies, women may strive to grow laterally; instead of specializing in their MSEs by expanding their size, they may opt to diversify by creating additional firms.

Women-owned firms face multiple challenges. Although evidence shows they are as effective as male owner/managers, women often use their firms as part of household survival strategy and opt not to grow.

Firm Characteristics

Certain firm characteristics may correlate positively or negatively with MSE growth tendencies. This study tries to explore the relationship between MSE growth and three widely studied firm-level factors: firm age, formality (or informality), and access to finance.

Firm Age

The relationship between firm age and growth in the MSE sector is particularly robust. Young MSEs grow substantially more rapidly on average than their older counterparts. In reality, the effect of firm age on productivity is not so clear. On one hand, as they age, firms may benefit from learning by doing, which enables them to develop expertise in production, management, and marketing. Indeed, several recent econometric studies on small firms in the United States show that firm age benefits productivity, even when controlling for firm size (Audretsch, 2002). On the other hand, several studies in developing countries suggest that firms suffer productivity losses as they age (Burki and Terrell, 1998).

Formality (or Informality)

Informality refers to businesses that are unregistered yet derive income from the production of legal goods and services. Not only does informality in itself reduce the chances for growth, it is associated with several other characteristics that make growth difficult.

It is commonly believed that informal firms frequently face growth-inhibiting disincentives and costs. Although small informal MSEs may be able to circumvent government regulations and taxation, as they grow the risk becoming more visible, creating disincentives to expand beyond a certain size (Snodgrass and Biggs, 1996). Informal firms may therefore need to "keep their heads down," ruling out large size and rapid growth, as well as close relations with formal firms (Winter, 1995). Contracts with international or government buyers, for example, are off-limits for informal firms because they require legal documentation that these MSEs lack. And while formal MSEs in developing countries may have problems accessing financial and legal systems, informal enterprises face even greater difficulties in obtaining formal credit and assistance from law enforcement agencies and courts. For these and other reasons, informal MSEs appear to grow more slowly than do their formal counterparts.

ACCESS TO FINANCE

For various reasons ranging from a lack of collateral to bias against small firms, MSEs tend to face greater financial constraints than do larger firms. MSEs in developing countries apply for and receive formal bank loans relatively infrequently, and thus rely on other types of credit such as trade credit, overdrafts, and informal loans. Microfinance institutions also provide important sources of financing for MSEs, but their outreach is more limited than that of traders, especially in rural areas.

While MSE owners often claim that insufficient credit is their most pressing obstacle, entrepreneurs' perceptions may not always correspond to actual growth trends. Interestingly, few empirical studies have explicitly tested the positive link between access to finance and firm growth or success rates. As development finance practitioners have long preached, a loan does not create a viable business opportunity. Like many of the factors discussed in this paper, access to finance may be necessary but is not a sufficient condition for growth.

CONCLUSION

The discussion on MSE growth presented in this paper may raise more questions than it answers-as research often does. The paper provides specific insights about each of a set of factors that contribute to MSE growth in developing countries (findings by variable are summarized in the following textbox). More importantly, it conveys how firm growth results from the interaction of a number of variables, offering a framework based on opportunities and capabilities. In the causal model used by this paper, productivity is an important mediating variable-contributing to growth via enhanced firm-level capabilities.

Understanding the interaction of the many variables that feed into firm growth is complex. Even if one could perform statistical work based on large samples of firms in a number of developing countries, cross-country generalizations about the growth of MSEs would be difficult to make and even harder to believe. Examining the empirical evidence available about each variable that contributes to MSE growth, as this paper does, can at least shed light on the "whys"; the "hows", and the nuances of how each variable affects MSE growth; permitting experienced practitioners to draw some of their own conclusions as these apply to local conditions.

The paper helps clarify that the "firm" in itself is one of a number of social constructs, embedded in and overlapping with a larger set of other systems: the business environment, the value chain, social networks, and the household. The discussion is organized around a specific constellation of factors, which include:

- The business environment, which defines the world of opportunities and incentives available to all firms, as well as specific incentives/ disincentives or obstacles to growth;
- The nature of the value chain, including the types of relationships MSEs can have with other firms;
- Social networks, which in positive cases represent an asset that entrepreneurs can leverage for multiple purposes, and
- Individual and firm-level characteristics, which relate primarily to capabilities.

There are "contextual" variables outside the firm's control, such as economic policy or regulatory practices; value chain characteristics, social mores and customs, and so on. There are also factors internal to the firm: characteristics of the entrepreneur; age and formality of the firm, and available resources such as access to finance. These resources will enable firms to survive, succeed, grow, and upgrade.

Firm-level resources in developing-country MSEs are extremely limited. The factors that are most likely to lead to growth offer access to both opportunities and improvements in capabilities: for example, prior work experience has been shown to provide entrepreneurs with business contacts and relevant skills. Linkages between firms also emerge as a powerful way for small firms to access additional resources; for example, small producers may receive credit as well as critical technical information from input suppliers, intermediaries, or other business partners. Horizontal linkages are especially important to MSEs. Well-organized horizontal groupings enable small firms to harness the market power of a larger entity through product consolidation, while maintaining some of the advantages of smallness, such as flexibility and low overhead costs.

Factors that enhance only opportunities or only capabilities are unlikely to catalyze MSE growth. For example, providing market access to unprepared producers is not sustainable-firms will, literally, "not deliver." Moreover, working to improve firm capabilities without the "pull" factor-tangible market demand for the MSE product-is not likely to yield impressive results. Critical to understanding how MSEs grow is the observation that productivity appears to drive growth, contributing to a virtuous cycle in which growth then leads to additional productivity increases (until some optimal firm size is reached). Development interventions that aim to increase employment or firm output should consider explicitly how productivity will contribute to MSE growth.

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Critical Examination of Herding behaviour in Indian Equity Market

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ABSTRACT

The present study attempts to analyze the existence of herding behaviour in Indian stock market during the time period from 1st April 2005 to 31st March 2013. Measure of herding originally used by Christie and Huang (1995) and Chiang et al. (2000) have been applied to test the existence of herding behaviour. Variables such as closing process of securities listed in Nifty 50 index, index value has been used for the same. The results validates that Indian stock market does not exhibit herding behaviour thereby supporting the existence of rationality in investment decision making by investors.

Keywords: *Behavioural finance, CSSD, CSAD, decision making, herding, risk, return, stock market*

INTRODUCTION

Investment decisions are very much crucial for all the members engaged in the decision making process. The procedure of scrutinizing the investment options among several available is always fascinating. Every investors tries to maximize the returns while simultaneously minimising the risk elements in order to earn positive returns. Efficient market Hypothesis (EMH) state that all investors are rational and they tries to maximise their return by using the same amount of information because of which all the securities are fairly priced. This assumptions underlying in modern portfolio theory sometimes become inconsistent with individual investor behavior. The anomalies of the modern portfolio models have insisted the need of another domain integrated with human psychology. The traditional finance theory has always ignored the investors' psychology. In recent years, traditional risk-based asset pricing models such as the Capital Asset Pricing Model and the Arbitrage Pricing Theory have faced significant challenges in fully explaining the concept of rationality in investment management as researchers identified the existence of anomalies like January effect, low book value, days of the week effect, etc. So, behavioural finance has challenged the validity of EMH. Behavioral finance is the integration of classical economics and finance with

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psychology and the decision-making sciences. Behavioural finance says that investors do suffer from irrationality at a time of decision making. Various cognitive biases have been found existing in the literature affecting the investment decision making. These biases can be Heuristics, Mental Accounting, Conservatism, Disposition effect, loss averse, overconfident, representativeness, etc. Herding is also one of the behavioural biases which started affecting investment behaviour.

Herding behaviour suggests that investors always derive the share price by observing and following other investors' actions. Banerjee (1992, p. 798) defines herding as "*everyone doing what everyone else is doing, even when their private information suggests doing something quite different*." This is a general form of herding and can be applied to various situations in everyday life. In the field of behavioral finance, herd behavior is frequently used to describe correlations in trades as a result of interactions between market participants (Chiang and Zheng, 2010, p. 1911). Therefore, herding behaviour may destabilize the market by moving the securities away from its fundamental value as share prices not only reflect the investors' rational expectation on the shares, but also investors' irrationalities in the market. Behavioral finance in Asia is an important topic worth studying. Individual investors in Asia are often viewed as mere gamblers. Therefore, attempt can be made to find out the behaviour of investors in emerging markets like India. The present study is an attempt to investigate the existence of herding behaviour in India during 2005-2013.

LITERATURE REVIEW

Garg *et al.* (2013) investigated the existence of herding behaviour in Indian stock market by using the methodology of Christie and Huang (1995) and Chang *et al.* (2000). The results of the study states that herding behaviour is not present in Indian Stock market. Also, no signs of herding is available during high volume and low volume trading days.

Prosadet *al.* (2012) examined the herding effect in India by using CSSD and CSAD return dispersion model. The result states that herding behaviour does not exists in Indian markets signifying that they are efficient. However, herding is present during extreme market movement, especially in bull phase.

Bhuniaet *al.* (2012) analysed the association between Indian capital market and gross domestic investment and whether Indian Capital market is a good predictor of investment behaviour in India. The result shows that the Indian capital market is not a good forecaster of investment behaviour in India due to the relative small size of the market as investment opportunities to a large extent depends upon the size of the market.

Lao *et al.* (2011) explored the presence of herding behaviour in the Chinese and Indian stock markets by using the Cross Sectional Absolute Deviation (CSAD) approach to measure herding behaviour. The result shows that herding behaviour exists in both the Chinese and Indian stock markets depending on some market conditions. In the Chinese market, when trading volume is high and market falls, herding behaviour exists, while in India herding exists when market goes up.

Lakshmanet *al.* (2011) observed that the presence of market wide herding in Indian stock markets. They found that FII's and nifty returns do not affect herding significantly, but Mutual Funds leads to herding. They documented that herding was increasing during 2003-2005, but after 2006 herding started declining which can be because periods of market crisis can help markets to come back to equilibrium, and that herding can be more evident before market stress, rather than during it.

Chandra *et al.* (2011) examined psychological and contextual factors affect individual investor behaviour. The results found the five underlying psychological axes i.e., prudence and precautious attitude, conservatism, under confidence, informational asymmetry, and financial addiction drives the Indian individual investor behaviour.

Tripathi (2008) scrutinised the perceptions, preferences and various investment strategies in Indian stock market. The results revealed that investors uses both fundamental and technical analysis to make investment decisions in Indian stock market. Respondents also agrees to the fact that there are various company fundamentals such as size, book to market equity, price earnings ratio, leverage etc. which significantly impact stock prices and hence addition of these factors in asset pricing model can better explain cross sectional variations in equity returns in India.

Chiang *et al.* (2011) investigated investor herding behaviour for ten Pacific-Basin markets: Australia, China, Hong Kong, Indonesia, Japan, Malaysia, South Korea, Singapore, Thailand, and Taiwan. The results provided that herding is positively related to stock returns, but negatively related to market volatility.

Khoshsiratet *al.* (2011) investigated presence of herd behaviour in Tehran stock exchange at aggregate market level as well as within 9 major industries during an eight-year period from April 10, 2001 through July 11, 2009. The findings show that herding behaviour does not exists in markets as well as within industries except for two ones: Automobile and Minerals.

Kapusuzoglu (2011) observed the presence of herding behavior in Istanbul stock exchange (ISE) National 100 index. Herding behavior was present in both, rising as well as falling days. The findings supports that cross sectional volatility increases significantly with increasing index return rate in rising days as well as falling days in markets.

OBJECTIVES OF THE STUDY

The objectives of the present study are as follows:

- To investigate the existence of herding behaviour in the Indian stock market.
- To investigate the existence of herding behaviour during period of market crisis.

HYPOTHESES

The following null hypotheses have been formulated:

H_1: Herding behaviour does not exist in Indian stock market.

H_2: Herding behaviour does not exist during period of market crisis.

RESEARCH DESIGN

Data Collection

For the study, stock prices and trading volume of the firms listed in NSE Nifty 50 index over the period from April 1, 2005 to March 31, 2013 has been considered which has been collected from CMIE Prowess Database. There are 1989 daily return observations. Further, the time period has been divided into three phases to examine the herd behaviour of investors before sub-prime crisis (2005-08), sub-prime crisis period (2008-10) and post sub-prime crisis (2010-13).

Econometric Model

Christie and Huang (1995) and Chang *et al.* (2000) model has been used for analysing the herd behaviour in Indian stock market. According to Christie and Huang (1995), ''Herding will be more prevalent during period of market stress, which is defined as the occurrence of extreme returns on the market portfolio.'' A regression model is run to find out the effect of market stress on individual return dispersion.

$$CSSD_t = \sqrt{\frac{\sum_{i=1}^{N}\left(r_{i,t} - r_{p,t}\right)^2}{N-1}} \qquad \textbf{equation (1)}$$

CSSD has been used as a measure of individual return dispersion. Where, *Ri,t* is the return of stock i at time t and *Rp,t* is the cross sectional average return of N stocks of the sample at time t.

$$CSSD_t = \alpha + \beta_1 D_t^L + \beta_2 D_t^U + e_t \qquad \textbf{equation (2)}$$

In equation 2, β_1 is the coefficient of D_t^L, β_2 is the coefficient of D_t^U. The dummy variables in regression equation (2) are used as explanatory variables to differentiate the periods of market stress from normal periods, taking into consideration that market stress occurs when aggregate returns lie in upper or lower tail of return distribution. So that, D_t^L=1 if, on day t $R_{m,t}$lies in lower tail of return distribution and 0 otherwise. D_t^U=1 if, on day t $R_{m,t}$lies in upper tail of return distribution and 0 otherwise. Upper and lower tails were determined at 90%, 95% and 99% levels. Herding was proven if dummy variable coefficients were negative and statistically significant. To check the stationarity of the CSSD series Unit root tests had been conducted.

The cross-sectional Standard deviation (CSSD) approach is sensitive to outliers. To avoid the problem, chang et al. (2000) proposed an alternative methodology.

Another test is conducted to examine the existence of non-linear relationship between dispersion and market returns. According to Chang et al. [2000] the return dispersions will decrease (or increase) at decreasing rates, in case of moderate to severe herding. They proposed that this relationship should be negative and nonlinear in presence of herding. The measure of dispersion given by Cheng et al is cross sectional absolute deviation (CSAD).

$$CSAD_t = \frac{1}{N}\sum_{i=1}^{N}|R_{i,t} - R_{m,t}| \quad \textbf{equation (3)}$$

$$CSAD_t = \alpha + \gamma_1 |R_{m,t}| + \gamma_2 R^2_{m,t} + \varepsilon_t \quad \textbf{equation (4)}$$

where, in equation 3, $R_{i,t}$ is individual stock return, $R_{m,t}$ is cross-sectional average of returns, n is number of stock in the index. In equation 4, $|R_{mt}|$ represents the market return, γ_1 is the coefficient of $|R_{mt}|$, $R^2_{m,t}$ is the square of $|R_{mt}|$, γ_2 is the coefficient of $R^2_{m,t}$, γ_2 is the coefficient of herding behavior, if it comes as significantly negative; it will indicate the presence of herding behaviour.

The equations have also been employed to find out the existence of herding behaviour during divided three periods: 2005-2008, 2008-10, 2010-13.Stationarity of the data has been tested using Augmented Dickey-Fuller test with a null hypothesis of unit root is applied. Some residual test such as Jarque-Bera test, Durbin-Watson Test, and ARCH LM test also conducted to check the normality, autocorrelation, and heteroskedasticity of the error terms, respectively. The presence of the above stated problems contradict the validity of the regression model. To modify the standard error in the case of the presence of heteroskedasticity, GARCH (1,1) model is used.

EMPIRICAL ANALYSIS

Table 1 provides descriptive statistics on dailymarket return, CSSD and CSAD for Indian stock market. Average return over the entire sample period is 0.000629 with maximum of 0.14372 and minimum of -0.108951over the entire sample period. The equity market return is highly volatile in Indian stock market with standard deviation of 0.015683. The daily average values of CSSD and CSAD are 0.023179and 0.018078with maximum of 0.153418 of CSSD and 0.145929 of CSAD. The minimum CSSD and CSAD returns are 0.005732and 0.004338. Skewness and kurtosis measure provide insights about the underlying statistical distribution of stock returns. The Jarque-Bera statistic, defined over skewness and kurtosis measures, is very high for both the markets, implying that stock returns differ significantly from the normal distribution. Jarque – Bera test states that residual distribution of the market return and its dispersion are not normal. In order to check the stationarity of the various series, Augmented Dickey Fuller test is applied. The significant t statistics confirms that series are stationary at level with intercept, thereby rejects the null hypothesis, i.e. presence of unit root i.e., non-stationary series.

Table 1: Descriptive Statistics of The Daily Data (2005-2013)

	CSSD	**MARKET_RETURN**	**CSAD**
Mean	0.0231	0.00062	0.018
Median	0.0202	0.00161	0.015
Maximum	0.153	0.14372	0.145
Minimum	0.0057	-0.10895	0.0043
Std. Dev.	0.0112	0.01568	0.0096
Skewness	2.884	-0.18427	3.41
Kurtosis	19.744	10.038	27.40
Jarque-Bera	25992.99	4116.63	53230.76
Probability	0.000000	0.00000	0.000
ADF Statistics	-5.502[a]	-40.581[a]	-5.7001[a]

The study mainly focuses on finding out the existence of herding behaviour in Indian stock market by using regression analysis suggested by Christie and Huang (1995) and Chang et al. (2000). Table 2 depicts the regression results along with residual test statistics generated by Christie and Huang (1995). 1%, 5% and 10% criteria were considered to identify the extreme market movement. The 1%, 5% and 10% criteria restrict D_t^L and D_t^U to 1%, 5%, and 10% of the lower tail and 1%, 5% and 10% of the upper tail of the market return distribution. The positive and significantβ1 and β2 coefficients values based on daily data indicate that equity return dispersions tend to increase rather than decrease during market environment. This shows that Indian stock market does not exhibit herding behaviour.

Table 2: Regression Results for CSSD, Christie and Huang (1995)

$CSSD_t = \propto + \beta_1 D_t^L + \beta_2 D_t^U + e_t$			
	Daily (1%)	Daily (5%)	Daily (10%)
α	0.0222[a]	0.020521[a]	0.019407[a]
t-statistics	107.36	108.5137	92.27815
β_1	0.0468[a]	0.026294[a]	0.017936[a]
t-statistics	22.8009	31.83903	28.44314
β_2	0.0463[a]	0.026558[a]	0.019661[a]
t-statistics	23.1139	32.46494	31.24935
Adjusted R^2	0.34373	0.496679	0.446753
F statistic	521.63[a]	981.8825[a]	803.6657[a]
Residual tests ARCH test			
F value	287.8986[a]	96.86558[a]	120.3424[a]
Obs*R^2	251.7009[a]	92.45377[a]	113.5811[a]
Durbin- Watson stat	2.050757	2.028509	2.039002

a Mean significant at a level of 5%.

Chang et al. (2000) methodology is also applied to overcome the limitations of Christie and Huang (1995). The results are shown in table 3 for daily, weekly and monthly data. Positive and significant coefficient of β1 and β2 indicates absence of herding behaviour during the time period 2005-2013. The relationship between market return and equity return dispersion is positive and linear because individual securities have different reaction to the market return to reflect the different belief held by investors in the rational market. Figure 1 depicts the pattern of CSAD and market return during the period considered for study. The pattern also explains the same. Daily data addresses the problem of heteroskedasticity in the error term of the return dispersion. To deal with this, GARCH (1,1) model is applied. Model produced a significant value of GARCH factor which indicates volatility clustering in the Indian market.

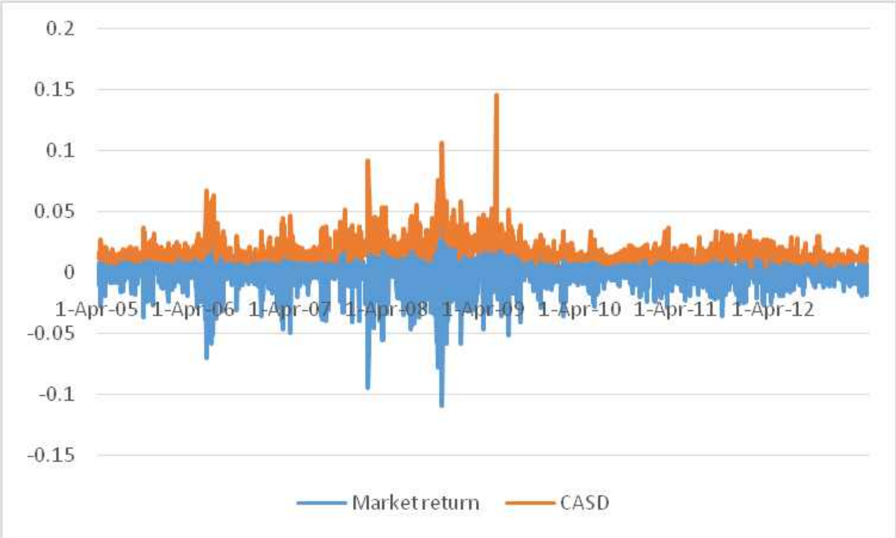

Figure 1: CSAD and Daily NIFTY return from April 2005 to April 2013

Table 3: Overall Market Regression Results (Chang et al. 2000)

$CSAD_t = \propto + \gamma_1 \lvert R_{m,t} \rvert + \gamma_2 R_{m,t}^2 + e_t$	
	Daily
α	0.015412[a]
t-statistics	118.9952
β_1	0.028908[a]
t-statistics	3.691305
β_2	10.75591[a]
t-statistics	64.65737
Conditional Variance Equation	
RESID(-1)^2	0.086184[a]
z-Statistic	14.01696
GARCH(-1)	0.919243[a]
z-Statistic	189.4338
Adjusted R^2	0.677727
F statistic	2091.343[a]

Residual tests ARCH test	
F value	71.76229[a]
Obs*R^2	69.32940[a]
Durbin- Watson stat	2.017087

a Mean significant at a level of 5%.

Table 4 provides daily regression results to investigate herding behaviour in three different time periods, i.e., April 2005-March 2008, April 2008-March 2010 and April 2010-March 2013. β_1 and β_2 coefficient is positively significant indicating absence of herding behaviour in all the time periods considered for study. Durbin Watson test statistic validates the absence of autocorrelation. The table also shows that data is free from heteroskedasticity during 2008-10 and 2010-13. GARCH (1,1) equation has been used to explained the same.

Table 4: Daily Regression results using Chang et al. (2000) model in Different time frames for the whole data

$CSAD_t = \propto + \gamma_1 \lvert R_{m,t} \rvert + \gamma_2 R_{m,t}^2 + e_t$			
	April 2005- March 2008	April 2008-March 2010	April 2010- March 2013
α	0.014812[a]	0.019904[a]	0.011515[a]
t-statistics	94.96076	58.82749	116.3645
β_1	0.062796[a]	0.013478	0.075325[a]
t-statistics	6.697764	0.906031	9.225893
β_2	13.72242[a]	8.561137[a]	24.71558[a]
t-statistics	56.44322	33.32977	48.59388
Conditional Variance quation			
RESID(-1)^2		0.110710[a]	0.043528[a]
z-statistics		5.261691	3.156110
GARCH (-1)		0.919452[a]	0.913420[a]
z-statistics		64.23209	37.41963
Adjusted R^2	0.813785	0.697941	0.768268
F statistic	1637.614[a]	562.4773[a]	1245.909[a]
Residual tests ARCH test			

F value	2.186185	97.59126[a]	5.562557[a]
Obs*R^2	2.185641	81.55101[a]	5.536295[a]
Durbin- Watson stat	2.002930	1.992576	2.000481

a Mean significant at a level of 5%.

CONCLUSION

The present study is an attempt to investigate presence of herd behaviour in Indian stock market during the time period 1st April 2005 to 31st March 2013. Return dispersion model namely, Cross Sectional Standard Deviation provided by Christie and Huang (1995) and Cross Sectional Absolute Deviation by Chiang et al. (2000) are used to find out the same. The results states that herding behaviour is not present in the Indian Stock Market. It validates the existence of rational asset pricing models in Indian stock market. Indian investors seems to be rational and better informed because of which reliance on other investors decision is not much in Indian Stock Market.

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Retail - Contributor to Indian Economic Growth and Development

Dr. Sugandha Agarwal*

ABSTRACT

Indian retailing today is at an interesting crossroads. The retail sales are at the highest point in history and new technologies are improving retail productivity. Retailing is the most active and attractive sector of last decade. While the retailing industry itself has been present since ages in our country, it is only the recent past that it has witnessed so much dynamism. ***The Indian retail sector is one of the most exciting and under penetrated markets in the world****. Owing to rapid urbanization and changing consumption patterns, India has witnessed a revolution in the last two decades. The entry of the leading corporate houses into retail created a surge into the growth of the industry. India tops in the list of emerging market for global retailer and India's retail sector is expanding and modernizing rapidly in line with India's economic growth. The future is promising; the market is growing, government policies are becoming more favorable and emerging technologies are facilitating operations. It has been one of the fastest growing sectors and contributes more than one-fourth of the GDP of many countries in the world. The sector contributes more than 20 percent employment in the world. Organized retail is a new phenomenon in India and despite the downturns, the market is growing exponentially, as economic growth brings more of India's people into the consuming classes and organized retail lures more and more existing shoppers into its open doors.*

The present paper focuses on swings in Indian retail industry and the emergence of new retail formats as well as new retail sectors within the industry. Moreover it also includes the SWOT analysis of the sector in the light of recent wave of reforms by the Government.

Keywords: *retailing, underpenetrated markets, organized retail, retail formats, SWOT analysis*

INTRODUCTION

India is one of the fastest growing retail markets in the world, especially over the last few years. The Indian retail sector has witnessed an unparalleled growth over the last decade, motivated by rapid urbanization and varying lifestyles and aspirations of the Indian retail consumer. Retail industry is one of the pillars of Indian economy and accounts for 14-15% of its GDP. The Indian retail market is estimated to be worth around US$ 500 billion currently. 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 a report by Deloitte. Fig.-1 shows the market size of Indian retail over past few years starting from 1998 to 2012.

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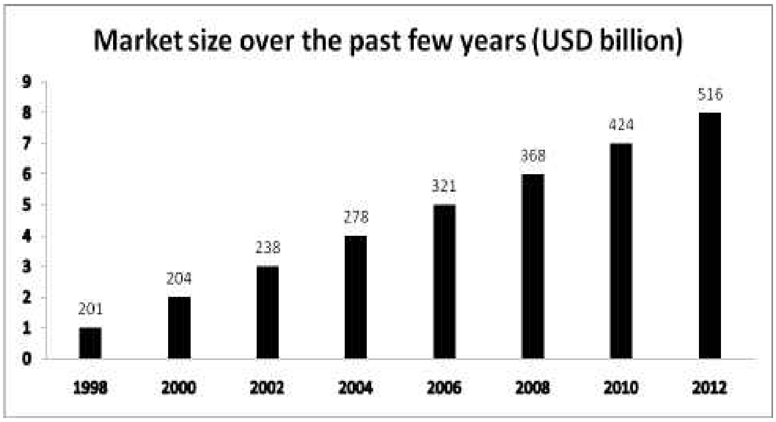

Figure 1

(Source: Deloitte, indiaretailing.com, Economist Intelligence Unit, Euro monitor, Aranca Research)

As of now, almost 90 per cent of the Indian retail sector is controlled by tiny family-run shops i.e. the unorganized segment. Thus, organized retailers have a lot of room for further penetration in this flourishing economy. India allowed overseas investment in its supermarket sector in September 2012. Since then, the retail landscape is witnessing a flurry of foreign investments.

In 2012, 'Food and Grocery' accounted for nearly 60.0 per cent of total revenues in the retail sector followed by Apparel which is 8.0 per cent. (Source: India Retail Report 2013, Images Group). In 2011, 48 per cent of total household income in India was spent on food and groceries Demand for Western outfits and readymade garments has been growing at 40-45 per cent annually; apparel penetration is expected to increase to 30-35 per cent by 2015.

Indian retail sector is undergoing a major transformation. As marketers created disintermediation in the delivery of products and services by intervening in the traditional flow of goods through distribution channels. In response, traditional companies engaged in reinter mediation and became "brick-and-click" retailers adding online services to their offerings.

India currently has a small penetration within the organized retail segment as compared to other emerging markets such as China, which has a penetration of more than 20% within organised retail according to the Global Retail Index report by the World Retail Conference.

According to A T Kearney's Global Retail Development Index (GRDI) 2013, India is the 14 th most favorable destination for international retailers (Fig 2), as against the 5th rank in 2012.

Rank of different countries as most favored international retailers

Country	2013 rank	Changes in rank compared to 2012
Brazil	1	-
Chile	2	-
Uruguay	3	+1
China	4	-1
United Arab Emirates	5	+2
Turkey	6	+7
Mongolia	7	+2
Georgia	8	-2
Kuwait	9	+3
Armenia	10	N/A
Kazakhstan	11	+8
Peru	12	-2
Malaysia	13	-2
India	14	-9
Sri Lanka	15	-

Figure 2

(Source: Euromoney, Population Data Bureau, International Monetary Fund, World Bank, World Economic Forum, Economist Intelligence Unit, Planet Retail: A.T. Kearney analyst)

The growth of retail, especially in 21st century is mind boggling and attracting the attention of retailers world over. With steady entry of top global retailers such as Wal Mart, Tesco, Carrefour and many more in last couple of years despite conservative approach of the government, the sector has become more fascinating for research study.

REVIEW OF LITERATURE

1) **The Saga of Indian Retail Avalanche**
   Authored by Dr. Seema S. Shenoy, and Dr. Sequeira, A. H. and Dr. Devaraj (2013)

Retailing has become the new buzzword and a way of life for people in India. With 15 million retail outlets, the last twenty years have definitely been a dream run for modern retailers. From one store to multiple store, one format to multiple formats, individuals to corporate, Indians to multinationals, rural to urban, banks to venture Capitalist, Industrialist to industrialists wives retailing had touched everybody's body, mind and soul. For millennia, India has been a shopper's Mecca. The ancient Greeks and Romans braved monsoon winds to reach the South Indian port. Today, India remains as tantalizing an opportunity as ever, enticing consumers and corporations alike as one of the world's hottest emerging retail and luxury-goods markets.

2) **FDI in Indian Retail Sector: A Critical Analysis**
   Authored by N.V.Shaha and M.A.Shinde (2013)

India being a signatory to World Trade Organization's General Agreement on Trade-in Services, which includes wholesale and retailing services, had to open up the retail trade sector to foreign investment. There were initial reservations towards this issue arising from fear of job losses, procurement from international market, competition and loss of entrepreneurial opportunities to locals. However, the government in a series of moves opened up the retail sector slowly to Foreign Direct Investment (.FDI.). In 1997, FDI in cash and carry (wholesale) with 100% ownership was allowed under the government approval route. Subsequently It was brought under the automatic route in 2006.Then 51% investment in a single brand retail was permitted in 2006.

3) **Organized Retail Sector: Future, Challenges and Opportunities in India**
   Authored by Dr. Pawan kumar (2013)

Retail is India's largest industry. The sector has witnessed an immense growth in the last few years. The key factors responsible for the retail boom have been the change in consumer profile and demographics, increase in the number of international brands available in the Indian market, economic implications of the government, increasing urbanization, credit availability, improvement in the infrastructure, increasing investments in technology and real estate building a world class shopping environment for the consumers. Indian retail is expected to grow 25 per cent annually. Retail in India could be worth US$ 175-200 billion by 2016. The Food Retail Industry in India dominates the shopping basket. The Mobile phone Retail Industry in India is already a US$ 16.7 billion business, growing at over 20 per cent per year.

4) **Organized retailing in India - Challenges and Opportunities**
   Authored by Dr. Shahid Akhter and Iftekhar Equbal (2012)

Retail trade has emerged as one of the largest industry contributing to employment generation, revenue generation, increased turn over and many more. As a matter of fact retailing in India is gradually edge its way towards becoming the next boom industry. The attitudinal shift of the Indian consumer and the emergence of organized retail formats have transformed the face of Retailing in India. With the sign of reemergence of economic growth in India, consumer buying in retail sector is being projected as a key opportunity area. As a consequence, Indian corporate houses are refocusing its strategic perspective in retail marketing with the idea to use resources optimally in order to create core competence and gain competitive advantage.

5) **The Opportunities and Challenges of FDI in Retail in India**
   Authored by Rajib Bhattacharyya (2012)

Rise in purchasing power, growing consumerism and brand proliferation has led to retail modernization in India. The growing Indian market has attracted a number of foreign retailers and domestic corporate to invest in this sector. FDI in the retail can expand markets by reducing transaction and transformation costs of business through adoption of advanced supply chain and benefit consumers and suppliers (farmers). Oppositions have raised concerns about employment losses, promotion of unhealthy competition among organized domestic retailers resulting in exit of small domestic retailers from the market and distortion of urban cultural development.

6) Organized retail in India - Drivers, Facilitator and SWOT analysis
Authored by Deepika Jhamb and Ravi Kiran (2011)

The Indian retail sector is witnessing tremendous growth with the changing demographics and an increase in the quality of life of urban people. Retail Sector is the most booming sector in the Indian economy. With a growing economy, improving income dynamics, rising awareness, and a youth-heavy customer base, India is well on its way to become one of the most prospective markets for the domestic and global retailers. Infrastructure, economic growth and changing demographics of consumers are the major driver of organized retail in India. The location of the retail store, management style and adequate salaries to personnel enhance the effectiveness of retail business and are important factors for retailers' success.

7) Impact of the Retail FDI Policy on Indian Consumers and the way forward
(ICRIER Policy Series, 2011)

The large consumer base has attracted many global retailers and domestic corporates to invest in modern retail in India. The government has partially allowed FDI in single-brand retail to give consumers greater access to foreign brands. At present, there is a debate in India on whether FDI should be allowed in multi-brand retail. In this context, this paper analyses the impact of the retail FDI policy on Indian consumers and make policy recommendations for the Indian government. Based on a primary survey of Indian consumers, the paper examines their shopping behavior across different product (branded and non-branded) categories, knowledge of foreign brands and attitude towards further liberalising FDI in retail. A majority of the respondents is in favour of allowing FDI in retail. The paper points out that consumer welfare should be a key determinant of the retail FDI policy. The government should allow FDI in multi-brand retail, which will enhance brand knowledge, choices available to consumers and help to promote branding in certain segments like fruits and vegetables where there are only a few brands available.

8) Indian Retail Market: Changing with the Changing Times
(Deloitte , August 2010)

Modern Retail has seen a significant growth in the past few years with large scale investments made by Indian corporate houses primarily in Food and Grocery retailing in a bid to capture the large potential of the USD 300 Billion markets. Foreign apparel brands including luxury brands have set up shop in India through Franchisee/ Joint Venture route and have expanded rapidly in the last few years. The Indian retail sector is poised to witness a sea change. The recent times have seen a significant discussion emanating towards allowing 100% FDI in multi brand retailing. This, if translated to reality, will have a game changing impact on the modern retail sector in India. To put the large-scale policy change into motion and bring it to actual implementation, it is imperative for the ruling party to obtain buy-in from the opposition, including the Left parties and the BJP. Since the retail sector is the second largest employer after agriculture in India, both these parties have a reservation against opening up of the retail sector to foreign players.

9) Impact of Organized Retailing on the Unorganized Sector
Authored by Mathew Joseph, Nirupama Soundararajan, Manisha Gupta and Sanghamitra Sahu (2008)

There has been considerable growth in organized retailing business in recent years and it is poised for much faster growth in the future. Major industrial houses have entered this area and have announced very ambitious future expansion plans. Transnational corporations are also seeking to come to India and set up retail chains in collaboration with big Indian companies. However, opinions are divided on the impact of the growth of organized retail in the country. Concerns have been raised that the growth of organized retailing may have an adverse impact on retailers in the unorganized sector. It has also been argued that growth of organized retailing will yield efficiencies in the supply chain, enabling better access to markets to producers (including farmers and small producers) and enabling higher prices, on the one hand and, lower prices to consumers, on the other. In the context of divergent views on the impact of organized retail, it is essential that an in-depth analytical study on the possible effects of organized retailing in India is conducted.

OBJECTIVE OF THE STUDY

The objective of this study is to analyze the current retail state of affairs in India and its contribution to the economic growth & development, and also to evaluate the opportunities and threats available to the industry This study also aims to analyze the recent decisions of Government of India to open retail sector for FDI in single brand and multi brand category and its likely impact on various components of Indian economy.

METHODOLOGY

The whole paper is based on descriptive arguments, statistical data, comparative study and analytical logic developed through the understandings from various research papers, reports, books, journals, newspapers and online data bases.

OUTLINE OF INDIAN RETAIL SECTOR

Retailing as a Concept

In simple terms, retailing implies a first-hand transaction with the customer. Retailing can be defined as the buying and selling of goods and services. Retailing involves a direct interface with the customer and the coordination of business activities from end to end- right from the concept or design stage of a product or offering, to its delivery and post-delivery service to the customer.

In majority of retail situations, the organization, from whom a consumer buys, is a reseller of products obtained from others, and not the product manufacturer. However, some manufacturers do operate their own retail outlets in a corporate channel arrangement.

Retailer is a Person or Agent or Agency or Company or Organization who is instrumental in reaching the Goods or Merchandise or Services to the End User or Ultimate consumers. The retailer performs a specific work of acquiring large amount of products, dividing them into small consumable sections for selling them to the individual consumers.

Traditional Retail Scene in India

India is the country having the most unorganized retail market. Traditionally the retail business is run by Mom & Pop having Shop in the front & house at the back. More than 99% retailers function in less than 500 Sq.Ft of area. All the merchandise was purchased as per the test & vim and fancies of the proprietor also the pricing was done on ad hock basis or by seeing at the face of customer. Generally the accounts of trading & home are not maintained separately.

The Manufactures were to distribute goods through C & F agents to Distributors & Wholesalers. Retailers happen to source the merchandise from Wholesalers & reach to end-users. The merchandise price used to get inflated to a great extent till it reaches from Manufacturer to End-user. Selling prices were largely not controlled by Manufacturers.

Branding was not an issue for majority of customers. More than 99% customers were price sensitive & not quality or Brand Sensitive at the same time they were Brand conscious also.

Weekly Bazaar in many small tows was held & almost all the commodities were on the scene including livestock. Bargaining was the unwritten law of market. Educational qualification level of these retailers was always low. Hence market was controlled by handful of distributors &/or Wholesalers. Virtually there was only one format of retailing & that was mass retail.

Retailer to consumer ratio was very low, for all the categories without exception. Varity in terms of quality, Styles were on regional basis, community based & truly very low range was available at any given single place. Almost all the purchases /

(buying) by mass population was need oriented & next turn may be on festivals, Marriages, Birthdays & some specific occasions.

Impulsive buying or consumption is restricted to food or vegetables etc. Having extra pair of trousers or Shirts or Casuals & Formals & leisure wear & sports wear & different pair of shoes for occasions is till date is a luxury for majority population except for those living in Metros. However electronic & electrical home appliances do hold appropriate image into the minds of consumers. Brand name does matter in these white goods categories.

STORE FORMATS IN INDIAN RETAIL SECTOR

Departmental stores - these are large stores with an extensive assortment of goods and services that has separate departments for the purpose of buying, promotion, customer service and control. Like in India, Pantaloon has 65 stores, Trent operates 59 stores, Shoppers Stop has 51 stores, and Reliance Retail has launched Trends in this format.

Hypermarkets - these are blend of economy supermarkets with discount department stores. Like in India Pantaloon Retail is the leader in this format with 160 Big Bazaar stores, Hyper CITY (4 stores), Trent, Spencer's (Spencer Hyper), Aditya Birla Retail and Reliance are other players.

Supermarkets/ Convenience stores - well located retailers that are open long hours and carries a moderate number of items. These are small with average prices and services. Aditya Birla Retail (additional 509 stores), Spencer's (Daily, 220 stores), Reliance Fresh (458 stores) and REI 6Ten (350 stores) are the major players in this format.

Specialty stores - these are such types of retailers that concentrate on selling one good or service line. In India Titan Industries is a large player, with 320 World of Titan, 130 Tanishq and 177 Titan Eye+ shops, Vijay Sales, Croma and E- Zone are into consumer electronics, Landmark, and Crossword focus on books and gifts.

Cash & Carry stores - Metro started the cash-and-carry model in India; the company operates five stores across Mumbai, Kolkata, Hyderabad and Bangalore. Bharti-Wal-Mart started its cash- and-carry outlets in 2011.

In 2010, larger format convenience stores and supermarkets accounted for about 4 per cent of the industry, and these were present only in large urban centers. Now the trend is changing, and such concepts are mushrooming in smaller cities and towns as well.

SWINGS IN INDIAN RETAIL INDUSTRY

We are living through enormous changes from the days when retailing simple meant visiting a store, shopping from a printed catalog, greeting the Avon lady in One's home, or buying a candy from a vending machine. Now a person could surf the web to research a stock, learn about a new product, search for bargains, save a trip to a store, and complaint about customer service. Retail boom which has focused only in metros has started to infiltrate towards smaller cities and towns. Today retailers prefer multichannel retailing to single channel retiling. Deloitte forecasts and expects that organized retail, which constitutes 8 per cent of the total retail market, will gain a higher share in the growing pie of the retail market in India (refer Fig: 3). Various estimates put the share of organized retail as 20 per cent by 2020.

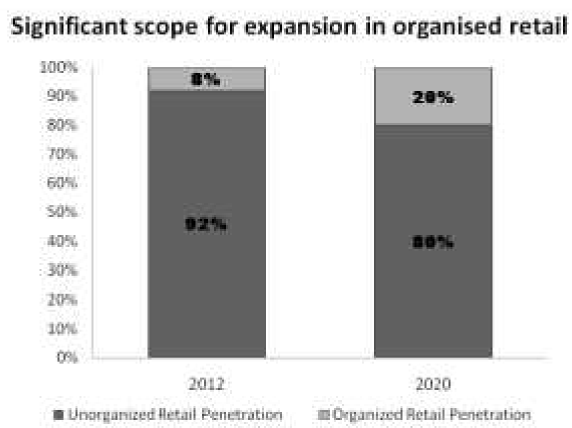

Figure 3

(Source: indiaretailing.com, Deloitte report, winning in India's Retail Sector, Aranca Research)

The retail revolution has spread to a range of product categories, from provisions and daily use items to consumer durable products and books. Some sectors that occupy a prominent position with the retail industry are:

E-commerce or E-retailing: As per the report of India in Business, ministry of external affairs, Govt. of India, investment & technology promotion (ITP) division, Indian consumers are demonstrating an increasing interest in online shopping, thanks to the surging number of online users. The growing online retail market has become a very lucrative business for international majors as well. For instance, internet giant Amazon, which was dedicated to the biggest markets until now, has commenced an India-centric website in June 2013.India has surpassed Japan to become the world's third largest Internet user after China and the United States with almost 74 million Internet users, stated global digital measurement and analytics firm com Score. In addition to that, online retail web sites have witnessed a 65 per cent rise in the traffic from the previous year, according to a survey by the Associated Chambers of Commerce and Industry of India (Assocham).

Food & Beverage retail: Backed by huge potential and changing lifestyles, the food and beverage retail market is growing at a robust 30-35 per cent per year.

Apparel and fashion: Everybody understands the impact of fashion and textiles on the environment. Almost $19.5 billion were spent on online apparel shopping in the year 2009 and increasing since then.

Fashion & Lifestyle: In India the vast middle class and its almost untapped retail industry are the key attractive forces for global retail giants wanting to enter into newer markets, which in turn will help the retail to grow faster.

Pharmaceutical Retail: Driven by therapies like anti-diabetic, vitamin, anti-infective and dermatology, it accounted for a robust 15% growth in 2011.

KEY PLAYERS IN INDIAN RETAIL MARKET

Some of the key players in the Indian retail market, with a dominant share are:

1) **Pantaloon Retail Ltd, (earlier a future group venture) an Aditya group venture:** Over 12 mn sq. ft. of retail space spread over 1,000 stores, across 71 cities in India.
2) **Shoppers Stop Ltd:** Over 1.82 mn sq. ft. of retail space spread over 35 stores, in 15 cities.
3) **Spencer's Retail, RPG Enterprises:** Retail footage of over 1.1 mn sq. ft. with approx 250 stores, across 66 cities.
4) **Lifestyle Retail, Landmark group venture:** Has approximately 15 lifestyle stores and 8 Home centres.

Other major domestic players in India are Bharti Retail, Tata Trent, Globus, Aditya Birla 'More', and Reliance retail. Some of the major foreign players who have entered the segment in India are:
Carrefour opened its first cash-and-carry store in India in New Delhi.

Germany-based **Metro Cash & Carry** opened six wholesale centers in the country.

Walmart planed to invest about US $ 2.5 billion over the next five years to add about 10 million sq ft of retail space in the country.

British retailer **Tesco Plc (TSCO)** signed an agreement with Trent Ltd. (TRENT), the retail arm of India's Tata Group, to set up cash-and-carry stores. Marks & Spencer has a JV with Reliance retail.

CONTRIBUTING FACTORS TO THE ESCALATION OF RETAIL SECTOR

Industrial growth and expansion is also ensuring that several retailers are planning to expand operations to Tier II and Tier III cities given that there are aspirational consumers earning increased incomes who would like better access to products. Macroeconomic details (Fig:4)also help in getting an insight into the various factors responsible for the growth of retail in the country. Succeeding in India's retail sector is a combination of the following factors:

Availability of quality retail real estate
The rapid expansion of India's retail industry also means there is great demand for real estate. Analysts say international hypermarket chains like Walmart, Tesco and Carrefour - apart from national chains

such as Big Bazaar and More - will absorb a large chunk of retail real estate in tier II and tier III cities.

Rising number of tier-2 and tier-3 cities to enhance supermarket space in the country. Modern retail stores projected to reach 67,100 by 2016 from 11,192 in 2006. Supermarkets to total 8,500 by 2016 from 500 in 2006 (Source: indiaretailing.com, Aranca Research).

A few years ago, there were not enough retail real estate options and many retailers were forced to rent (high-priced) space that skewed their profitability metrics. Today, the scenario is different in that there are more retail real estate options to choose from. Positive market and consumer sentiments, the entry of new foreign brands, incumbents' expansion plans and increasing hiring needs are helping drive demand for retail space in Tier I cities. When it comes to the retail sector, it is location, location, location! A fundamental aspect of retailers operations is the availability of good quality retail real estate.

Adopting Localization strategy to delight Indian consumers

Product localization has emerged as a driver of sales, customer excitement, customer interest, etc. Indian consumers, while they want access to products available overseas, also want to feel that a product has been created especially for them.

Localization can take several forms which include but are not limited to the following:

- Creating and launching products specifically for Indian consumers.
- Making changes to store layout to appeal to Indian consumers.
- Customizing production or food preparation practices for cultural sensitivities and local palettes.

Growing liberalization of the FDI policy in the past decade - Almost all large companies worldwide are looking to establish a base or stake in the Indian market.

Use of efficient supply chain as a driver of competitive advantage

Mastery of supply chain dynamics is a critical enabler for the growth of modern trade. India is a large and fragmented country and the absence of strong infrastructure and logistics systems make it challenging to reach consumers located across vast distances. With the Indian government making investments into state highways, an overall decline of logistics costs is bound to occur. Studies suggest that logistics costs are between 10 to 12% of total GDP. It involves integration of components of the value chain, using a multimodal transport network and leveraging technology.

Increase in disposable income and customer aspiration: India also has 500 million Indians under the age of 25. Young Indians are driving purchases in mobile phones, fashion, accessories, food and beverages, quick service restaurants, etc. Young Indians have access to more money than before and with this have come independence, aspirations and a demand for products. This is to be better justified with the help of following table (fig: 4).

India-Macro-Economic Details

Indicator	unit	2010	2011	2012	2013	2014
GDP, Purchasing Power parity (per capita) GDP	International dollars	3453.826	3777.925	4103.794	4434.577	4819.58
GDP, Purchasing Power parity (per capita Growth)	%	12.013	9.3838	8.6256	8.0604	8.681
Gross disposable income per household, USD (absolute)	USD	5295.26	6151.0 4	6867.1	7627.55	8447.77
Gross disposable income per household, USD (growth)	%	16.3786	16.161	11.6 413	11.0738	10.7534
Rural population as % of total Population (absolute)	%	70.2085	69.9835	69.7581	69.5317	69.3049
Urban population as % of Total population (absolute)	%	29.7915	30.0165	30.2419	30.4683	30.6951

Figure 4

Increase in expenditure for luxury items - a decade ago people are spending more on the luxury goods now than ever before. The increase in the Purchasing Power Parity (PPP) of people has resulted in the shoot up of retailing facilities in India.

Large working population - India has a high internal consumption pattern. Due to the large working population the internal consumption rate is very high. Also, owing to the diversity in cultures, religions and family values that promote larger expenditure on special occasions like festivals and marriages, keeps the machinery of retail sector well-oiled and working.

Other factors are:

- Emergence of nuclear families
- Growing trend of double-income households

FOREIGN DIRECT INVESTMENT IN RETAIL

The new FDI policy implies greater autonomy in functioning for foreign single-brand retail players who can now own 100% of their Indian stores, up from the previous cap of 51% with only the stipulation that they will have to source 30% of their goods from small and medium-sized Indian suppliers. The new policy allows a maximum 51% ownership for the multi brand retail sector subject to the following conditions:

Each Indian state government/UT would be free to take their own decisions in regard to implementation of the policy as retail trade is a state subject. Only eleven states/UTs, viz. Andhra Pradesh, Assam, Delhi, Haryana, Jammu and Kashmir, Maharashtra, Manipur, Rajasthan, Uttarakhand, Daman and Diu, and Dadra and Nagar Haveli have agreed to permit establishment of retail outlets under this policy.

Retailers can only set up in cities with a population of more than 1 million (total of 53 cities in India) provided they have the approval from the respective state governments. Currently 18 cities are eligible for multi brand retailers to enter under this new policy.
Multi-brand retailers must have at least 50 per cent of total FDI brought shall be invested in 'backend infrastructure' within three years of the first tranche of FDI.

They will have to source 30% of their goods from small and medium-sized Indian suppliers.

E-commerce is not allowed as an alternate channel as it can serve the customer beyond the physical location of the store.

Meanwhile, the Government of India has recently approved 18 FDI foreign direct investment (FDI) proposals worth US$ 173 million in the single brand retail segment during April 2010 and May 2013. Out of these, five proposals worth US$ 137.68 million were approved during the first two Fashion brand Promod, France-based crockery maker Le Creuset, accessories firm Fossil Inc and French sports giant Decathlon are some of the firms which have received approvals to open retail stores under the single-brand retail policy. (Source: Based on Inputs from the Department of Industrial Policy and Promotion)

Probable Advantages of FDI

a) **Consumers-** Modern trade allows for an explosion of choice. Consumers can access products that improve the quality of life. Modern trade will benefit consumers in availing rationalized prices.
b) **Government exchequer-** Modern trade players are tax-compliant and are large tax-payers and facilitate the generation of significant tax revenues through the building of a sophisticated supply chain. This will contribute to the exchequer through payment of indirect taxes, primarily the service tax.
c) **Farmers/producers-** Establishing an efficient supply chain that links farmers and small manufacturers directly with retailers, will maximize value for stakeholders. Together with back-end infrastructure, this will minimize wastage (especially of fresh foods and vegetables), increase farmers' realizations, encourage best practices in crop management and improve food safety and hygiene.
d) **Unorganized trade-** Kiranas (i.e., mom-and-pop stores) can exist alongside modern trade players and can explore partnership models (e.g., sourcing, franchise partners) in a rapidly changing retail environment.
e) **Increase employment-** Retail reforms are likely to be massive boost to Indian job availability. FDI in retail will generate employment since new entrants will need to hire staff. Once

individuals become absorbed in retailer operations, they can access more quotable wages and benefits. Millions of additional jobs will be created during the building of and the maintenance of retail stores, roads, cold storage centers, software industry, electronic cash registers and other retail supporting organizations.

f) **Strengthen India's position as a sourcing hub-** Global retailer have been sourcing from India for years and their retail presence in the Indian market will enhance exports from India, as they develop and leverage relationships with local suppliers. Most global retailers who have entered India have expressed their intentions to source and export a range of products from the country.

g) **Transfer of technology and competition-** Liberalization of retail sector will ensure the transfer of technology to Indian market, which will improve the quality of produce locally available. This can surely provide a boost to local economy since local suppliers are engaged and integrated into global retailers' food and grocery procurement practices.

SWOT ANALYSIS OF INDIAN RETAIL INDUSTRY

Strengths

The retail sector in India is hovering around 33-35% of GDP as compared to around 20% in USA. Moreover it is exhibiting high Growth Rate as well as high potential, since the organized portion of retail sector is only 8-10%, thereby creating lot of potential for future players. This sector is considered to be high employment generator with low labor cost. A part from this rising disposable income, increased urbanization, increased preference for shopping convenience, changing consumer habits and lifestyles and the most important is the high availability of quality retail space.

Weakness

Policy related issues are considered as one of the prominent weaknesses. Moreover limited consumer insight, lack of detailed region specific customer data, lack of skilled labor, taxation hurdles, vat and multiple taxation issues, large grey market presence, underdeveloped supply chain, Underdeveloped logistics infrastructure & absence of national cold chain networks, lack of adequate utilities, and lack of basic infrastructure like power, transport and communication are such weaknesses of Indian retail sector which require immediate attention of policy makers concerning growth and development of this industry.

Opportunities

Indian retail sector is presenting enough opportunities like substantial investment commitments by large Indian corporate, entry in food and general merchandise category, pan-India expansion to top 100 cities, repositioning by existing players initiation conceptualization expansion consolidation, large scale consolidation, movement to smaller cities and rural areas, large scale entry of international brands, FDI in single-brand retail up to 100 per cent from 51 per cent approval of FDI limit in multi-brand retail up to 51 per cent, rise in private label brands by retail players, increasing investments in retail infrastructure, and quality control and control over leakage and wastage.

Threats

Besides posing several opportunities, industry is facing various threats like political issues, social issues, Inflation, lack of differentiation among the malls that are coming, poor inventory turns and stock availability measures, current independent stores will be compelled to close, India does not need foreign retailers if we remember East India Company it entered India as trader and then took over politically, and the most important is the inability of government to build consensus.

CONCLUSION

There is need of balanced approach to retail. And Government has to play a very vital role in shaping the future course. Though tradition retail has been performing a vital function in the economy, but it has to shed off its shortcomings and inefficiencies and this is actually happening. The domestic retail market is projected to be worth US$ 1.3 trillion by 2020, stated Mr. KV Thomas, the Consumer Affairs Minister. Future prospects pose a tremendous growth opportunity for retail players- domestic as well as foreign. Thus, the organized sector is not only impacting the other sectors positively but also it has benefited its own competition i.e. unorganized sector. So, organized sector becomes the growth mantra of Retail sector. By 2015, more than 300 million shoppers are likely to patronize organized retail chains. But this will require investments in the back-end and supply chain operations entailing significant transformation in the operational formats and advancement in the logistics and support infrastructure.

The consumer behavior is also experiencing a transition due to upcoming western concepts like online shopping and direct selling. The online retail segment in India is growing at an annual rate of 35 per cent, which would take its value from Rs 2,000 crores (US$ 429.5 million) in 2011 to Rs 7,000 crores (US$ 1.5 billion) by 2015. For instance the Future Group, that operates a dedicated portal 'Futurebazaar.com' for online sales, has revealed that it is targeting at least 10 per cent of the company's total retail sales through the digital medium.

The growing middle class is an important factor contributing to the growth of retail in India. By 2030, it is estimated that 91 million households will be 'middle class', up from 21 million in the present time. Also by 2030, 570 million people are expected to live in cities; nearly twice the population of the United States today. With India's large 'young' population and high domestic consumption, the macro trends for the sector look favorable.

But Succeeding in India's retail market is not easy because there is a large heterogeneous group of consumers who have significantly varying buying power. So it is required on the part of global retailers to localize products to delight and excite Indian consumers through creating and launching products specifically for Indian consumers, customizing production or food preparation practices for cultural sensitivities and local palettes. India is a large and fragmented country and the absence of strong infrastructure and logistics systems make it challenging to reach consumers located across vast distances. More over the majority of Indian consumers are value-conscious. A major focus area for the retail sector will be improving the quality of retail spaces, both malls and high streets in tier 1, 2 and 3 cities. Simultaneously, as the retail market matures with further category segmentation, the need for retail research and analytics to provide enhanced consumer insights will also grow.

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An Insight to Indian Banking Sector: With Special Reference to Foreign Direct Investment

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ABSTRACT

The last decade has seen many positive developments in the Indian banking sector. The policy makers, which comprise the Reserve Bank of India (RBI), Ministry of Finance and related government and financial sector regulatory entities, have made several notable efforts to improve regulation in the sector. The sector now compares favorably with banking sectors in the region on metrics like growth, profitability and non-performing assets (NPAs). The contribution of foreign investors cannot go unnoticed. A few banks have established an outstanding track record of innovation, growth and value creation. However, improved regulations, innovation, growth and value creation in the sector remain limited to a small part of it. While the onus for this change lies mainly with bank management, an enabling policy and regulatory framework will also be critical to their success. This paper emphasizes the need to act both decisively and quickly to build an enabling, rather than a limiting banking sector in India.

Keywords: *Banking Sector, Indian Economy, Foreign investors, Policy and regulation, FIPB.*

INTRODUCTION

The banking system in India is significantly different than that of other Asian nations because of the country's unique geographic, social, and economic characteristics. The banking system has had to serve the goals of economic policies enunciated in successive five year development plans, particularly concerning equitable income distribution, balanced regional economic growth, and the reduction and elimination of private sector monopolies in trade and industry. Moreover, the sector has been assigned the role of providing support to other economic sectors such as agriculture, small-scale industries, exports, and banking activities in the developed commercial centers (i.e., metro, urban, and a limited number of semi-urban centers).

FDI in the banking sector is 74% and is allowed under the automatic route in India. Policy makers have made some notable changes in policy and regulation to help and strengthen the sector. These changes include strengthening prudential norms, enhancing the payments system and integrating regulations between commercial and co-operative banks. However, the cost of intermediation remains high and bank penetration is limited to only a few customer segments and geographies. This study lays impetus on the subject under the following phases; (a) FDI in India, (b) FDI in Banking Sector, (c) Challenges and opportunities in Indian Banking Sector in context to FDI.

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OBJECTIVES OF THE STUDY

Following are the objectives of the study;

1. To study the pattern of in-flow of FDI in banking sector of India.
2. To study the opportunities and challenges faced by foreign investors in context to Indian Banks.

RESEARCH METHODOLOGY

The study is based on the secondary data and that have been collected from websites of various organizations like; Reserve Bank of India, Export Import Bank of India, Directorate General of Commercial Intelligence and Statistics, Directorate General of Foreign Trade, Department of Industrial Policy and Promotion etc. The study relates to 3 years period commencing from 2011-12 to 2013-14.

FDI in India:

Foreign investments provide a great impetus for growth to Indian economy. The foreign direct investment (FDI) in India has increased by 34.7% to US$ 13.6 billion during the first half of 2013 (January-June 2013) amid bulk of inflows coming from the merger and acquisitions an UNCTAD report stated. During January-June 2012, the country had received US$ 10.1 billion of FDI.

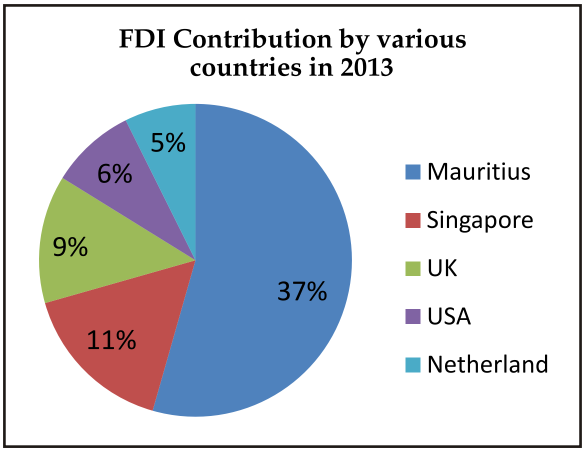
The FDI inflows for the year February 2012 was Rs 21,162 crore which was 101% more than the last year for the same period. The cumulative amount of FDI equity inflows from April 2000 to October 2010 stood at US$ 122.68 billion, (data released by the Department of Industrial Policy and Promotion). During April-October 2010, Mauritius led investors into India with US$ 4,480 million worth of FDI comprising 42 per cent of the total FDI equity inflows into the country. This FDI equity was followed by Singapore at US$ 1,282 million and the US with US$ 908 million, according to data released by DIPP.

Table 1: FDI inflows in India

FDI inflows in India		
Years	**Rs. crore**	**US $ mn**
2011-12	1,33,181	34,833
2012-13	80,427	21825
2013-14	74,972	12,603

Source: Reserve Bank of India

Chart 1: Country-wise contribution of FDI inflows in India



Source: Reserve Bank of India

Foreign Direct Investment in India increased to 1821 USD Million in November of 2013 from 1755 USD Million in October of 2013. Foreign Direct Investment in India is reported by the Reserve Bank of India. Foreign Direct Investment in India averaged 953.08 USD Million from 1995 until 2013, reaching an all time high of 5670 USD Million in February of 2008 and a record low of 58 USD Million in April of 2003.

FDI IN BANKING

Though foreign banks have a long history in India, they have remained only a small part of the banking industry. Most foreign banks focused on business banking in India, serving the domestic operations of their global clients. There are 43 foreign banks in India with a network of 334 branches, mostly in cities. Twelve of these banks are "systematically important" with assets accounting for at least 0.25% of the total assets of all commercial banks. Collectively, the foreign banks account for roughly 7% of the assets and little over 15% of capital, reserves and surplus of the industry. All foreign banks in India now operate as fully-owned branches of their parents, though the RBI has encouraged them to open domestic subsidiaries.

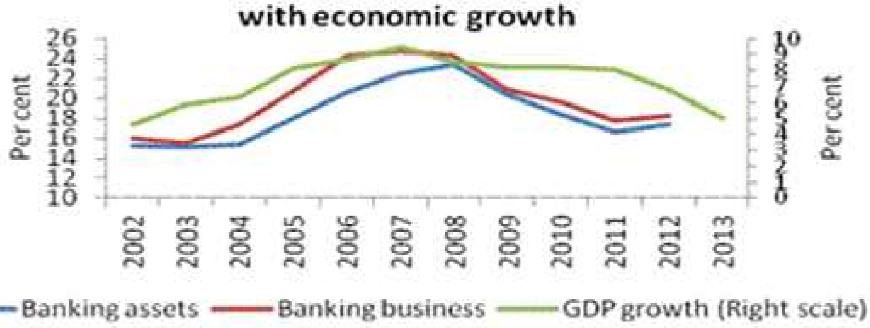
Table 2: Foreign Banks in India: Deposits/Investments/Advances

As on March 31,2013								Rs. In crore		
S. No	Name of the Bank	Deposit			Investment			Advances		
		2011	2012	2013	2011	2012	2013	2011	2012	2013
1	AB Bank Limited	55	45	121	14	16	25	72	67	62
2	Abu Dhabi Commercial Bank Limited	565	623	704	220	226	233	180	289	520
3	American Express Banking Corporation	519	501	675	239	341	391	1,078	1,474	1,710
4	Antwerp Diamond Bank N.V.	55	77	80	165	159	139	600	888	760
5	Australia & New Zealand Banking Group Limited		1,735	2,509	0	452	995	0	1,319	2,377
6	Bank International Indonesia	0	0	0	0	0	0	0	0	0
7	Bank of America NA	5,969	5,965	7,378	4,861	8,226	8,834	5,859	6,205	7,623
8	Bank of Bahrain and Kuwait B.S.C.	515	672	696	233	339	325	383	644	693
9	Bank of Ceylon	97	105	119	37	60	50	67	81	100
10	Barclays Bank PLC	6,740	5,383	5,063	12,553	11,600	13,823	8,311	8,657	8,472
11	BNP Paribas	4,646	5,900	5,580	3,807	3,387	4,564	5,451	6,184	7,737
12	Chinatrust Commercial Bank	97	147	193	32	52	120	235	285	276
13	Citibank N.A.	56,668	64,698	66,559	30,399	43,167	44,077	40,597	47,103	52,036
14	Commonwealth Bank of Australia	2	11	51	7	16	35	26	90	165
15	Credit Agricole Corporate & Investment Bank	672	913	596	3,892	4,014	3,227	3,275	1,919	2,404
16	Credit Suisse AG	0	348	419	0	1,955	2,702	0	250	455
17	DBS Bank Ltd.	7,368	12,922	15,488	10,313	14,781	18,167	7,524	12,844	13,858
18	Deutsche Bank AG	14,646	16,843	20,794	8,598	8,422	10,601	14,294	12,549	22,374
19	FirstRand Bank Ltd.	25	37	71	494	561	785	141	242	259
20	HSBC Bank Oman S.A.O.G.	166	155	149	93	77	40	2	4	5
21	Industrial & Commercial Bank of China Limited		0	177		0	104		45	337
22	JPMorgan Chase Bank	6,384	8,845	10,369	9,940	13,304	17,691	3,463	4,529	5,345
23	JSC VTB Bank		7	10	1	4	2	54	79	88
24	Krung Thai Bank Public Company Ltd.	116	143	183	32	35	47	13	9	16
25	Mashreqbank psc	60	78	119	36	40	47	41	52	55
26	MIZUHO Corporate Bank Ltd.	671	673	1,743	396	659	1,383	2,516	3,582	5,519
27	National Australia Bank Ltd.		0	0		0	12		0	164
28	Rabobank International		12	83		138	124		351	590
29	Sberbank	0	0	5	0	0	0	0	0	37
30	Shinhan Bank	792	1,037	1,440	228	281	591	619	915	1,206
31	Societe Generale	888	1,281	1,383	2,077	1,846	1,135	700	1,056	1,757

32	Sonali Bank Ltd.	28	31	40	5	5	6	9	18	18
33	Standard Chartered Bank	58,419	63,965	62,002	23,088	27,324	30,747	49,201	55,570	61,954
34	State Bank of Mauritius Ltd.	500	766	601	417	482	460	597	812	815
35	Sumitomo Mitsui Banking Corporation			2			298			0
36	The Bank of Nova Scotia	3,655	4,682	6,056	2,439	3,483	4,842	6,299	6,606	7,766
37	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	1,654	3,284	4,146	906	3,587	4,461	5,267	6,453	6,840
38	The Hongkong and Shanghai Banking Corpn.Ltd.	54,107	61,423	56,866	37,279	40,324	45,179	27,401	35,512	35,709
39	The Royal Bank of Scotland	13,947	13,040	12,749	8,902	7,721	9,124	10,551	12,535	12,534
40	UBS AG	632	602	2,558	3,797	3,565	2,167	685	631	974
41	United Overseas Bank Ltd.	0	0	6	0	0	15	0	0	36
42	Westpac Banking Corporation			0			447			0
43	Woori Bank		0	216		0	49		0	33
	Total of Foreign Banks in India	**240,660**	**276,948**	**288,000**	**165,499**	**200,651**	**228,063**	**195,511**	**229,849**	**263,680**

The existing banking structure in India has evolved over several decades. It is elaborate and has been serving the credit and banking services needs of the economy. The Indian banking sector has come a long way since independence, more so since the nationalization of 14 major banks in 1969 and 6 banks in 1980. In the post financial sector reforms (1991) phase, the performance and strength of the banking structure improved perceptibly. Over the years, the reach of banking has widened significantly to include relatively under-banked regions, particularly in rural areas. Commercial bank credit as per cent of GDP picked up steadily from 5.8 per cent in 1951 to 56.5 per cent by 2012. The population per bank branch came down from 64,000 in 1969 to 12,300 in 2012 (RBI-report 2013).

Chart 2: Banking sector expanded commensurate with economic growth



Note: Figures are three year moving averages. Banking business refers to credit plus deposits.
Source: Handbook of Statistics on Indian Economy, Statistical Tables

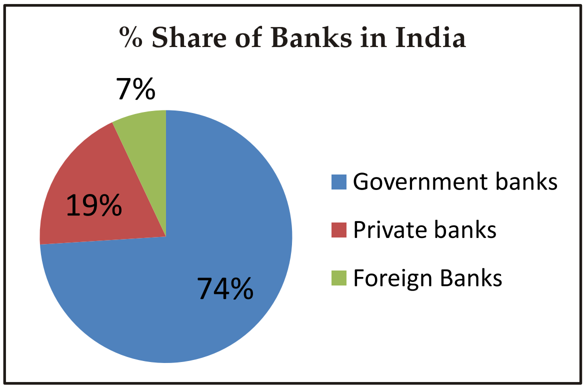


Chart 3: Share of Banking business in Indian economy in 2013-14

Source: Reserve Bank of India

OPPORTUNITIES AND CHALLENGES TO INDIAN BANKS

Opportunities:

i. **Indian consumer:** The biggest opportunity for the Indian banking system today is the Indian consumer. Demographic shifts in terms of income levels and cultural shifts in terms of lifestyle aspirations are changing the profile of the Indian consumer. This is and will a key driver of economic growth going forward.

ii. **Consolidation:** The consolidation process could lead o emergence of four or five large banks with country-wide presence and offices abroad who could act as national champions. At the same time, smaller private sector banks and foreign banks will continue to co-exist mainly as niche players.

iii. **Transform operational expertise into in-sourcing plays:** Longer term, global banks can leverage their operational capabilities into new revenue streams by in-sourcing selected capabilities to other financial institutions. India's development as a global business processing outsourcing hub has attracted major investments from global banks establishing a captive back-office presence in the country. Over time, these banks may parlay these captive businesses into revenue-generating insourcing businesses.

iv. **Leverage operational efficiency advantages- Global banks will face intense competition in India:** from entrenched, state-owned institutions, to long-established private sector banks, to innovative, more recent arrivals. New market entrants face significant disadvantages in channel reach and brand recognition. Global banks typically maintain higher standards of productivity and profitability relative to their India peers, resulting in the need for fewer employees and branches to generate similar income levels. By focusing on operational excellence, global banks will implement a strong base to achieve future scale economies.

Challenges:

In spite of the obvious advantages of FDIs, there are quite a few challenges facing larger FDIs in India, such as:

1. **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.

2. **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. Thus, fostering social equality and at the same time, a balanced economic growth.

3. **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.

4. **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. **Trade liberalization:** India must also focus on areas of poverty reduction, trade liberalization, and banking and insurance liberalization. Challenges facing larger FDI are not just restricted to the ones mentioned above, because trade relations with foreign investors will always bring in new challenges in investments.

6. **Other challenging factors:** A relatively large number of banks, some of which are sub-optimal in size and scale of operations. On the regulatory front, alignment with global developments in banking supervision is a focus area for both regulators and banks. The new international capital norms require a high level of sophistication in risk management, information systems, and technology which would pose a challenge for many participants in the Indian banking sector. The deep and often painful process of restructuring in the Indian economy and Indian industry has resulted in asset quality issues for the banking sector; while significant progress is being made in this area, a great deal of work towards resolution of these legacy issues still needs to be done.

CONCLUSION

The visage of banking is changing rapidly. Competition is going to be tough and with financial liberalisation under the WTO, banks in India will have to benchmark themselves against the best in the world. For a strong and resilient banking and financial system, therefore, banks need to go beyond peripheral issues and tackle significant issues like improvements in profitability, efficiency and technology, while achieving economies of scale through consolidation and exploring available cost-effective solutions. These are some of the issues that need to be addressed if banks are to succeed, not just survive, in the changing milieu. The new rules of competition require recognition of the importance of consumers and the necessity to address the needs through innovative products supported by new technology. The opportunities are immense - to enter new businesses and new markets, to develop new ways of working, to improve efficiency and to deliver higher levels of customer services.

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Agricultural Marketing in India: Issues, Reforms and Policies

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INTRODUCTION

Agriculture continues to be the main stay of life for majority of the Indian population. It contributes around 13.7 per cent of the GDP, 14.1 per cent to total export (2012-13) and provided employment to 55.3 per cent (2011) of the workforce in the country. Significant strides have been made in agriculture production since independence. The agriculture production of food grains increased from 51 million tons in 1950-51 i.e. before beginning of the First Five Year Plan to 255.36 million tons in 2012-13. The output of oilseeds went up to 31.01 million tons. Similarly, the production of horticultural products also increased to more than 260 million tons. The share of fruit and vegetables in total value of agricultural exports has also increased substantially over the year. Today, horticultural crops contribute about 25 per cent of total agricultural exports of the country. The subject of agriculture and agricultural marketing is dealt with both by the States as well as the Central government in the country.

India is world's third largest producer of agricultural commodities after China and USA. India ranks first in terms of number of buffalo (57.8 percent) and goat (17.0 percent), and production of jute and jute like fibers (54.7 per cent), pulses (25.9 percent), and milk (17.2 per cent). The contribution of India to the world is reported second in terms of arable land (11.3 percent), in terms of number of sheep (6.8 percent), and in terms of production of cotton (32.5 percent), rice (21.7 percent), tea (20.6 percent), sugarcane (19.0 percent), groundnut (18.2 percent), onion (17.4 percent), wheat (12.3 percent), fruits (11.6 percent), potato (11.3 percent), and vegetables (9.6 percent). This strong base in agriculture provides a large and varied raw material base for food processing. Further, India has the huge potential for India in the dairy and meat segments. This base in agriculture can not only feed India's large and growing consumption base, but also become a key supplier of food to the world. Although, India's current share of world agri and food exports is less than two per cent, there is potential for a multifold increase therein. But, the land holdings in India are very small with average size being 1.16 hectare only. Nevertheless, small and marginal farms account for over 50 percent of total fruits and vegetables and over 40 percent of total food grains marketed in the country. In terms of commodities 49 percent of rice, 40 percent of wheat, 29 percent of coarse cereals, and 27 percent of pulses are coming to the markets from small and marginal farms. Following figure provides the status of current health check of Indian Agriculture.

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Indian Agriculture - A health Check

Pre-Harvest
- Declining average holding size
- 60% of area remail under rain fed agriculture
- Inefficient last mile delivery of inputs
- Eroding water tables and declining soil health

The Key Issues

Post-Harvest
- Regulated markets
- Inefficient market Systems and linkages
- Knowledge and information gaps in grading, sorting, packing, pre-cooling etc.
- No value addition at farm gate

Needs massive infusion of Technology, Infrastructure and Market linkages

AGRICULTURAL MARKETING SYSTEM

Prices of agricultural and food commodities in India are primarily determined by domestic demand and supply factors. Micro level market infrastructure, the systems and procedures of commodities trading and players determine the market efficiency. It has been observed that there is wide spread imperfection in the agricultural produce markets. There is general opaqueness and poor price transmission mechanism. Consequently, there is a wide gap between the prices received by the farmers and the prices paid by the consumer. At times, the farmers are not able to receive a price to cover his cost of production while the consumers are paying an abnormally high price for the same commodity. Market imperfections also lower precision in price transmission. Imperfections have roots in lack of adequate/efficient infrastructure facilities including transport facilities, storage, processing, marketing, and credit facilities.

The existing systems of agricultural marketing in India are briefly described hereunder:

1. **Sale to moneylenders and traders:** A considerable part of the total produce is sold by the farmers to village traders, itinerant traders, and moneylenders. According to an estimate 85% of wheat, 75% of oil seeds in U.P., 90% of jute in West Bengal and 60% of wheat, 70% of oil seeds and 35% of cotton in Punjab are sold by the farmers in the villages themselves. Often the money lenders act as commission agents of wholesale traders.

2. **Haats and shandies:** Haats are village markets, often held once or twice a week, while shandies are also village markets held at longer intervals or on special occasions. The agents of the wholesale merchants, operating in different mandies also visit these markets. The area covered by a "haat" usually varies from 5 to 10 miles. Most of "haats" are very poorly equipped, are uncovered and lack storage, drainage, sanitation, and other facilities. It is important to state that only small and marginal farmers sell their produce in such markets. Big farmers with large surplus go to wholesale markets.

3. **Mandies or wholesale markets:** One wholesale market often serves a number of villages and is generally located in a town or city and often functions six days a week. In such mandies, business is largely carried on by wholesalers and wholesaler-cum-commission agents (packka arhatiyas). The farmers sell their produce to them through kachcha arhatiyas (commission agents) and brokers, who are generally the agents of paccka arhatiyas/ wholesalers. The wholesalers and arhatiyas of these mandies sell off the produce to the retail traders or wholesalers from distant markets.

However, paddy, cotton and oilseeds are often sold off to the mills for processing. The marketing system for sugarcane is different. The farmers sell their produce directly to the sugar mills.

4. **Co-operative marketing:** To improve the efficiency of the agricultural marketing and to save farmers from the exploitation and malpractices of middlemen, emphasis has been laid on the development of co-operative marketing societies. Such societies are formed by farmers to take advantage of collective bargaining. A marketing society collects surplus from its farmer members and sell it in the mandi collectively. This improves the bargaining power of the members and enables them to obtain a better price for the produce. In addition to the sale of produce, these societies also serve the members in a number of other ways.

Agricultural commodities in India move through different marketing chains, consisting of a large number of market functionaries. The length of channel, however, depends on size of market, nature of the commodity, and the pattern of demand at the consumer level. It is reported that about 80 percent of the marketed surplus is traded through wholesalers and retailers; little over 12 to 15 percent through cooperatives and public agencies; from 3 to 5 percent though processors; and less than 02 percent is sold by farmers directly to end consumers. During last couple of decades a number of innovative systems of agricultural marketing have been introduced in the country to improve efficiency, raise farmers' share in consumer price, cut in transaction losses, and give fillip to organized retailing. For instance to reduce the multiple layers of intermediation by providing alternative marketing channels, farmers' markets, like, 'Apni Mandi' (Punjab), 'Kisan Mandi' (Rajasthan), 'Hadaspur Vegetable Market' (Pune), 'Rythu Bazaars' (Andhra Pradesh), Uzhawar Santhai (Tamil Nadu) and 'Krushak Bazaars' (Orissa) have been established. The establishment of such farmers' markets has helped both consumers and farmers. The agribusiness revolution in the country during recent years has made major changes in the supply chains of agricultural commodities. Emerging supply chains are shown in figure given in Appendix 1.

Historical Perspective of Market Regulations

To achieve an efficient system of buying and selling of agricultural commodities, the Government had been promoting organized marketing of agricultural commodities in the country through a network of regulated markets. The intervention by the Government started way back in 1896 when the first Agricultural Market was regulated at Karanja (former Hyderabad State). In 1897, Cotton and Grain Market Law was enacted in the Berar region (Hyderabad assigned district).Further, based on the recommendations of Indian Central Cotton Committee (1917) and Royal Commission on Agriculture (1928), various Provinces and States enacted Acts for establishing Markets. Before Independence, market regulation was in force in Bombay (1927), Central Province (1932, 1935), Mysore (1939), Punjab (1941), and Patiala (1947). At the time of Independence there were only 250 regulated markets in the country (1947). After Independence most of the State Governments and Union Territories have enacted legislations (APMC Act) to provide for regulation of agricultural produce markets. As a result as many as 7114 agricultural markets (including 2483 principal markets and 4631 market sub-yards) had been regulated under APMC Acts of different States and Union Territories (Appendix 2).

Under the reforms regime the organized marketing of agricultural commodities has been promoted in the country through a network of regulated markets. Regulated markets have been established to ensure reasonable gains to farmers and consumers by creating a market environment conducive for fair play of supply and demand. Government policies in relation to agriculture marketing have since moved considerable distance, away from the restrictive regulations of the sixties and seventies of 20th century, dominated by the excessive and needless use of the Essential Commodities Act and other restrictive laws. There are overwhelming evidences that further freeing of markets provide huge direct and indirect benefits to both farmers as well as to other stakeholders.

In many ways the physical markets are restrictive, over regulated and monopolistic. All the activities relating to the sale of agricultural produce such as acquiring price information, physical handling of produce, sale and financial settlement are bundled into a single process leaving the farmer little option as to whom to sell. Direct procurement from the farmer is not permitted in most states; in most States private players are not permitted to create private mandis; cartelization by local traders often results in lower price realization for the farmer; and there is often lack of transparency in the process of price formation and dissemination.

There is a huge variation in the density of regulated markets in different parts of the country. While the all-India average area served by a regulated market is 459 sq km, the same is 103 sq. km for Punjab and 11,215 sq km in Meghalaya. The National Commission on Farmers had suggested that the services of a market should be available within a radius of 5 kms. This and the monopoly of APMCs have led to large intermediation and effectively resulted in limiting market access to farmers.

The rate of market fee levied in APMC varies generally from 0.50% to 2.00%. In many States, market fee is recovered by APMCs not only at the check-gates for transactions carried out in the notified area of APMCs but also outside the physical APMC yard thus, hampering the smooth flow of goods and services. In addition to above, in some of the States, additional developmental fee/cess/ purchase tax is levied on the commodities traded in the market. Besides, this fee/cess, the commission agents also charge their commission (payable by the buyers) on the transaction. In many States the agricultural commodities are subjected to cascading market fees when traded in subsequent markets within the State or in other States. All this suggests that a single point market fee system is necessary to facilitate the free movement of the produce inside a State, bring price stabilization and reduce price differences between the producer and consumer markets. The commission charges vary from 1% to 2.5% in food grains, and 4% to 8% in case of fruit and vegetables. These commission rates have not been reduced despite infrastructure developments in these markets. The high incidence of commission charges on agricultural / horticultural produce renders their marketing cost high, an undesirable outcome.

It is believed that APMC Acts restrict trading in notified agricultural produce through a mechanism of **multiple licensing** which makes license approval and maintenance a **tedious and expensive process**. Traders are required to obtain separate licenses for trading in different mandis within a state. Also in some cases, when all the products are traded in a particular mandi, the trader needs to get separate license for each product that he wishes to trade in. Though the license fee is nominal, for every license application the trader has to furnish a security deposit in the form of bank fixed deposit or bank guarantee (varying from Rs. 10,000 to Rs 3 lakh per mandi) to guard against any default in payment to farmers. In addition, there are **cumbersome procedures of maintaining documents and filing returns** even for small transactions.

Both the validity of a license as well as the renewal time varies from state to state. While Madhya Pradesh issues trader license for 5 years and Punjab for 3 years, most other states issue licenses with only one year validity. Though corporate have centralized licenses to operate in a few states, the licenses still need to be renewed every year. These corporate licenses also have restrictive clauses such as those relating to quantity purchased, commodities to be traded, which are not applicable to traders operating with the local mandi licenses in different mandi yards. In some states, permission from local committee is required for the movement of a commodity within the state. In addition, separate licenses are required for weighment in addition to separately payable weighment charges. Traders have to obtain license and clearances from different departments. One of the requirements for eligibility for a license is that the trader should have a place of business inside the market yard. This creates a barrier to entry for new entrants who find it difficult to get space inside the market yard even on a lease basis.

The current system of taxation suffers from **multiple taxes with a cascading effect and complicated tax laws**. Tax revenues from commission charges, market fee, octroi, entry tax, sales tax, weighing charges, labour charges for handling, loading and unloading; account for close to 12% of the total value of marketed produce in India. Tax rates vary across states and commodities and also in terms of single and multi point systems.

REFORMS IN APMC ACTS INITIATED

To bring further reforms in the sector, a model Agricultural Produce Marketing (Development and Regulation) Act was formulated at Central level in 2003 and circulated to all state governments for amending their respective Act accordingly. The rules under the Act were also developed and circulated in August 2007. Though the process of market reforms has been initiated by different state governments through amendments in the existing APMC Act on the lines of Model Act, many of the states are yet to adopt the Model Act uniformly. There is, however, widespread recognition that alternative marketing model need to be tried out in the country. These include models for direct procurement from farmers, establishment of electronic spot exchanges, and the setting up of modern, terminal markets, especially for high value farm products including fruits and vegetables. The reforms proposed under the Act include the following:

- Replacement of fragmented nature of markets by an integrated and unified market place
- Permission for direct procurement from farmers
- Promotion of grading services for maintaining and up scaling quality
- Introduction of single point reasonable market fee within the state
- Formulation and implementation of legal and institutional framework for contract farming
- Simplification and introduction of a "unified" single licensing system
- Single window clearances to replace multiple authorities for various market operations
- Simplification of market tax laws
- Encouragement of private investment in market infrastructure development
- Permitting private Mandis outside the purview of the APMC Act
- Designation of some markets as 'Special Markets' (e.g. vegetables market, flowers market, fish market, etc.)
- Permitting electronic pan-geographic spot mandis
- Promotion of commodity exchanges
- Linking spot markets closely with futures markets for price discovery
- Managing market committees more professionally
- The Essential Commodities Act should either be repealed or provisions relating to stock limits and movement restrictions removed from its purview.

In 2004 there were 7418 (2402 principal and 5016 sub market yards) regulated markets, to which the Central government provided assistance in establishing the required market infrastructure and in setting up rural warehouses. The number of regulated markets, however, came down to 7114 (2483 principal and 4631 sub market yards) as on 31st March 2014 with the Bihar State Government repealing the APMC Act.

Legalization of **contract farming (CF)** under APMC Act is one of the priorities as CF would serve the interest of both the farmer as well as the "sponsor". An institutional arrangement to record all contractual arrangements with a government body or a local body such as the Panchayat needs to be worked out. There is a strong need for an independent market regulator for issue of single registration/ license to the market functionaries to transact their business in the entire State and collect single point market fee specially for CF (including recording, registration and dispute settlement) and Direct Marketing/ Direct sourcing of produce from the farmers, setting markets in more than one market area and to ensure transparency and quality service to the farmers. This will generate confidence among the private investors about neutrality of the market regulator vis-à-vis the APMCs. This would build confidence between the contracting parties, ensure better contract enforcement by reducing the incidence of reneging on contracts, and also provide a dispute resolution mechanism. The grievance redressal mechanism should be transparent, participatory and should not involve a lengthy and costly process of litigation. The Government must, however, guard against excessive interference and should limit its role in being a facilitator and providing an enabling policy and regulatory environment. For farmers, both assured and timely supplies of inputs of the requisite quality, and assured markets are important. Hence, farmers should be provided both forward and backward linkages. There have been several recent private sector initiatives in direct procurement from farmers.

OTHER IMPORTANT REFORMS

Terminal markets are wholesale markets which ensure better price realization and timely payment of sales proceeds to the final producer, lower prices payable by the final consumer, remove impediments to smooth supply of raw materials to agro-industries and minimize post-harvest losses and wastages by allowing direct procurement from the producer. Competitive and professionally managed terminal markets offer multiple choices to farmers for sale of their produce such as electronic auctioning and direct sales to exporters, processor and retail chain networks under a single roof. These markets seek to provide state-of-the art infrastructure facilities for electronic auction; storage (including warehouse, cold storage, ripening chamber, storage shed); facility for cleaning, grading, sorting, packaging and palletisation of produce; extension support; and logistics such as transport services. The private sector can bring in the required investment and management skills for successful development of these markets.

The charges for providing the basic services of aggregation at collection centers and auction at the terminal market cannot exceed 2% of the value of the produce. Additionally the enterprise can also collect taxes, duties, fees (including market fees) from the market users. The operational guidelines for the terminal market scheme have been circulated to the state governments. The Central Government is committed to support the initiative by providing equity assistance up to 49% of project equity, returnable at par on successful operation of the project through the Venture Capital (VC) Fund of the Small Farmers Agribusiness Consortium (SFAC).

The recent rapid growth in **organized retail** has seen increased attention both by the media as well as elected representatives. Critics fear that organized retail will be to the detriment of the large multitude of small retailers. These fears appear to be largely misplaced as the retail space that would be occupied by the large corporate in the foreseeable future would remain insignificant. The benefits of organized retail in promoting employment and improving efficiencies along the entire agriculture value chain will outweigh whatever loss of income or unemployment that some of those currently engaged in retail trade may have to bear. The chief concern of those opposed to organized retail are of the view that the large scale corporate retail may grow at the rate of 30% per annum. It is argued that this tenfold increase in corporate retail will be at the cost of small scale retail, which employs nearly 10% of India's population. These concerns appear largely misplaced. The growth of organized retail is not as high as these projections. It also needs to be recognized that small retailers in India have inherent advantages. They are located next to the consumer, making it convenient for top-up purchase. They know them well, some even by name. They give credit too - which no large retailer does. Their fixed costs are low.

India is among the top two producers of milk, fruits and vegetables in the world. Yet, the **organized food retail** business in the country is among the least developed in the world. A large chunk of fresh fruits and vegetables is lost because of inadequate post-harvest handling, cold storage, processing facilities and convenient marketing channels. Huge quantities of grains too are wasted because of improper handling and storage, pest infestation and poor logistics management. This results in huge wastage (20% to 40% in perishable commodities) and poor quality of produce. The farmer is unable to realize better value as his produce varies in size, shape and quality. Smaller harvest lots do not bring economies of scale in transportation and lower net realization. The overall realization is also further reduced owing to pilferage.

With the growth of organized retailing, new supply chain structures, using global technologies and best practices and offering customized product and services, will become possible. The distribution system will have to adapt itself to fulfilling demands for increased services at the consumer's convenience and be amenable to rapid consolidation across the supply chain. Involvement of global players in retailing would lead to efficiency in supply chain that will help reduce costs and realize better prices benefiting both the supplier and the end consumer. The supply chain is made more efficient through economies of scale in procurement in the short run, a small percentage of traders and intermediaries in direct competition with new entrants may suffer a loss in income and may have to find alternative employment. Over time, a large number of existing participants may also get absorbed in the more efficient and modern value chain. In fact there is evidence that organized retail chains are increasingly using traditional structures.

A key concern in agriculture has been the inability of the banking system to meet the credit requirements of rural finance, especially the financing against commodities. Commodity finance against commodity collateral is central to farmers getting an option on the timing of sale of his produce. The recent passing of the **Warehousing (Development and Regulation) Bill 2007** by both houses of parliament should facilitate improved commodity financing and also give a fillip to attracting investment in warehousing. This along with initiatives being taken both by the Government and the private sector in setting up cold storages and in grading, standardization and quality certification would significantly contribute in modernizing agricultural marketing practices.

Under the legislation, Warehouse Receipts (WRs) are issued by warehouses on deposit of goods with them. These receipts allow for transferring the title of goods without physically moving them. The new legislation provides that WRs be treated as negotiable instruments so that they can be traded, and outlines the necessary terms and provisions. These WRs may be in physical or in electronic form. The legislation also provides for the establishment of a Warehouse Development and Regulatory Authority (WDRA) to regulate the WR system, establish accreditation agencies for warehouse registration, and handle arbitration related to WR disputes. The legislation defines the duties, rights and liabilities of Warehousemen. Since inter-state trades attract Central Sales Tax (CST), this would impede inter-state trades in WRs.

The Act contains the following provisions regarding negotiability of WRs:

a) Presumption of warranties relating to negotiable WR relating to genuineness, good title and right of person to transfer it and merchantability of goods.
b) Provision that negotiation of WR not to be impaired by fraud, mistake or duress or breach of duty by the person negotiating the WR, provided person to whom the WR is negotiated paid value and is not aware of such circumstances.

Clause a) above defines the pre-conditions for enabling negotiability while clause b) gives a limited protection only in the event of fraud, mistake or duress to a subsequent holder. **This is considered to be a much narrower protection than what is contained in the Negotiable Instruments Act for banking instruments**. For example, there is no protection against the rights of an unpaid seller as also in the case of a stolen receipt. Notwithstanding the lacunae in the legislation, this is landmark legislation and will provide a lot of fillip to both collateral commodities financing as well as the growth of private sector investments in agriculture warehousing.

The establishment of **commodity exchanges** in recent past has provided a new platform for price discovery and price risk management for the farming community. The challenge is to widen farmer participation in the exchanges and ensure that the exchanges provide a platform for genuine price discovery and hedging opportunities for the farming community. Futures markets, by themselves, however, cannot improve supply efficiency and boost agriculture credit and financing of the agriculture sector unless concomitant reforms take place along the entire value chain. The next generation of reforms should facilitate emergence of pan-Indian electronic trading platforms (Spot Exchanges) leading to an integrated market, in place of the current fragmented and asymmetric market system. Simultaneously, there should be freeing of the "futures" market by providing autonomy to the Forward Markets Commission (FMC), empowering it to regulate the 'futures' market professionally sans Government control and interference.

An **electronic spot exchange** will ensure greater transparency in price determination as electronic screen terminals across the country will display the prices and quantities of various commodities traded. Transparency of transaction would help state governments in addressing evasion of mandi taxes. The media can ensure dissemination of information on agricultural markets. It will thus provide a price discovery mechanism to farmers and ensure better price realization. It can overtime bring about the contraction of the long chain of intermediaries by generating greater awareness among farmers. Such an exchange can bring about the integration of local markets and thus permit greater market access for the farmer. Electronic exchanges will promote quality standardization as grading and assaying through recognized agencies will be one of the eligibility requirements for trading of agricultural produce on the platform. This would ensure greater access to finance from banks and other financial institutions (FIs) to the farmer through commodity financing options on account of quality standardization and provision of a ready credible exit route for disposal of pledged commodities in the event of credit default. Transaction costs are lower under the electronic auction system as compared to the current mandi system by about 10 per cent.

A central problem of agricultural markets in India has been price instability which adversely impacts economic growth, income distribution and poverty. **Futures markets** provide a platform for risk mitigation, price discovery, arbitrage and clearing and settlement. It helps sellers and buyers hedge against future price risk. It provides liquidity by bringing together the buyer and the seller of agricultural produce and enabling traders to quickly transact their business at a fair price. Finally, for speculators, hedgers, and other traders, trading in the futures markets offers an opportunity for financial leverage. Participants in the exchange are able to control large quantities of a commodity with a comparatively small amount of capital, because of the small margin, normally set at 2-5 % of the value of the commodity.

In a futures exchange, trades are made and prices are discovered on the basis of current market information and expectations of future price movements. This does not however mean that futures exchanges 'set' prices. Futures markets are barometers, not referees. They enable the market to reach the equilibrium price but they do not dictate it. Of course, that equilibrium price keeps changing continuously. Futures market prices thus have become the most widely used pricing reference in agricultural markets. Once prices are discovered, electronic exchanges enable the real-time dissemination of these prices to the public, across the country and around the globe. Forward contracts do not have these advantages.

Futures exchanges act as a magnet, attracting risk avoiders (hedgers) and risk takers (speculators) alike. Driven by potential profits, speculators provide the market place with the essential element of liquidity. With only 'forward' contracts possible, there would be no liquidity. In such a situation, hedgers' attempts to buy and sell contracts would immediately drive prices up or down in response. Having this liquidity is crucial to processors of commodities, farmers and other firms that buy or sell hundreds of futures contracts to hedge cash market positions. Although speculators usually have no commercial interest in the commodities or financial instruments underlying the futures contracts they trade in, the potential for profit motivates them to gather information regarding supply and demand and to anticipate its effect on prices. In practice, there is always a mismatch between the time when the short and long hedgers approach the market and the speculators are needed to fill in this gap.

A key advantage of futures contracts over forward contracts is that the exchange provides a guarantee system that protects futures users from contract default. The guarantee system used at futures exchanges also severs the direct relationship between buyer and seller, so that each is free to buy and sell independently of the other. The system does this by placing a third party between the buyer and seller- the clearing house. Buyers and sellers of futures contracts thus do not have any financial obligations towards each other, but, only to their clearing member firms, which in turn have obligations towards the clearing house. There are however a number of **misconceptions and concerns** about future exchanges, discussed hereunder.

Price volatility: Empirical evidence suggests that the introduction of derivatives does not destabilize the underlying market; either there is no effect or there is a decline in volatility. Further, the literature strongly suggests that the introduction of derivatives tends to improve the liquidity and informativeness of markets. Keynes and Hicks argued that if hedgers tend to hold short positions, and speculators tend to hold long positions, the futures price of an asset (F_o) will be below its expected future spot price (E_{S_T}) as speculators require compensation for the risk they are bearing, i.e. $F_o<E_{S_T}$. The situation would be reversed if hedgers hold long positions and speculators hold short positions. This has been empirically tested by several researchers and the results are mixed. Most studies point to $F_o=E_{S_T}$, while some recent studies

seem to suggest that $F_o < E_{S_T}$. In any case there does not appear to be any case for suggesting that speculators could consciously take long positions at contracts above E_{S_T} and influence spot prices to increase.

An exhaustive literature review of the impact of speculation has been that by Stewart which commences with Adam Smith's observation that speculators help prevent extreme shortages (and by implication, extreme price movements) by buying and storing grain in periods when they forecast a shortage. The overwhelming literature seems to corroborate that speculators trading based on market information with the objective of making speculative profits will lead to prices gravitating to the demand-supply equilibrium, though there can be certain situations where speculative losses can lead to instability.

To the extent that carrying costs are predictable, price smoothing through storage becomes an arbitrage activity. If agents are risk averse, this should lead to increase inter-temporal price smoothing. Futures markets may also influence spot prices if they have an effect on the behavior of producers. Since futures markets allow producers to hedge price risk, the existence of futures may affect a producer's decision of what to produce, how much to produce, and what production techniques to use. In addition, the futures price may contain information about anticipated demand that can feed back into production decisions. Studies based on empirical evidence of the impact of commodity futures also almost conclusively show that price volatility get lower with the introduction of futures.

A question that has been asked is whether the main players on the Indian exchanges are only speculators or whether there are also producers and users of the product who are also there for hedging risks. This issue has been empirically examined by NCDEX. The exchange provides special hedge limits to those who are actual users of the commodity which is higher than for non-end-users. The analysis shows that hedgers make for a considerable part of open interest on the exchange and the volumes are not driven solely by speculators and there is significant participation of end-users in certain agricultural commodities.

Futures trading and inflation: It is widely recognized that prices of several agricultural commodities have been rising at the global level in recent years, and India has been no exception. Apart from the increase in money supply which has contributed to the price rise, inflation in food articles has been primarily due to continuous shortages on the supply side and increase in demand which has led to an upward thrust to prices. Further, global shortages in agricultural commodities such as wheat and maize have also got translated into higher domestic prices with the correlation between international and domestic prices being very strong. It needs to be noted that the annual average inflation in both pulses and cereals has been generally higher than the overall inflation rate even in the period prior to the introduction of futures trading in these commodities. Futures markets only seek to link the present scenario and the future prospects in a transparent and efficient manner in the presence of a large number of participants.

Regulatory framework: Futures' trading in India is governed by an elaborate regulatory system. The Forward Contract Regulation Act (FCRA), 1952 envisages a three-tier regulation. The Exchange which organizes forward trading can prepare its own rules and byelaws and regulate trading on a day-to-day basis. The Forward Markets Commission (FMC) approves these rules and byelaws and provides regulatory oversight, though the Central Government is the ultimate regulatory authority. Only government recognized associations are allowed to organize forward trading in regulated commodities. Presently, the recognition is commodity-specific. The government has full control over the FMC, which is a subordinate office of the Department of Consumer Affairs. FMC has put in place some of the world's best regulatory systems and practices.

Some observers have noted that the benefit of futures trading to farmers has been limited due to lack of awareness. It is true, that the direct participation of farmers on the futures trading platform has been limited in India as elsewhere. A recent study undertaken by AC Nielson found that NCDEX was a common source of information for around 70% of the farmers in the narrow area sample (NAS); and over a quarter of the respondents found it to the most preferred source. In commodities such as wheat, castor, mustard etc. farmers in the NAS received a higher range of prices compared with the wide area sample (WAS). This implies that being better informed on account of price knowledge did help farmers in the areas i.e. NAS to realize higher prices. Farmers in the NAS areas tended to sell a larger part of their produce at a later date compared with WAS sample. In case of WAS, farmers did tend to sell most of their crop immediately after harvest. The study further concluded that the arathiya was the main source of information on futures prices in WAS while NCDEX and computers were the major sources of information in NAS. There were a number of benefits that farmers perceived in both the samples on reference to NCDEX prices such as cropping pattern, negotiation, overall realization being better etc. Around 80% of the NAS farmers sampled said that they benefited from NCDEX while only 12% said so in case of WAS. Benefits perceived were fair prices being offered, availability of information through computers, and checking prices of futures with mandis before selling.

Market information is an important function of the agricultural marketing system. In order to provide regular and timely information of prices of agricultural commodities prevailing in Agricultural Produce Markets in the country, the Ministry of Agriculture launched the ICT-based Central Sector Scheme of Marketing Research and Information Network (MRIN) in the year 2000. The Scheme provides electronic connectivity to important wholesale markets in the country for collection and dissemination of price and market related information. Presently, more than 3,000 markets from all over the country have been linked to a central portal (http://agmarknet.nic. in). These markets report the daily prices and arrivals for more than 300 commodities and 2000 varieties from more than 1800 markets covering nearly all the major agricultural and horticultural produce. The States' APMCs need to regularly upload data on price and arrivals on this portal. Some States e.g. Bihar and Kerala which do not have APMCs are not able to report this information for which alternative arrangements are required to be made.

CHALLENGES

Though the process of market reforms have been initiated by different State Governments by bringing amendments in the present APMC Act on the lines of Model Act circulated during 2003, but still many of the States are yet to adopt the same and even those of the reformed states are yet to adopt all provisions of Model Act uniformly. It is therefore, necessary to complete the process of market reforms early to provide the farmers an option for alternate competitive marketing channel for transaction of their agricultural produce at remunerative prices. There is a need for framing amended APMC Rules by all the States/UTs for implementation of the provisions of the Act.

Under the Essential Commodities Act, 1955 and also by administrative orders, the States have been imposing restrictions on cross border movement of specific commodities for trade purpose, thus, hindering development of interstate trade for matching demand-supply. States also notify various stocks limits commodity wise, which do encourage investment in storage facilities which is a crucial marketing infrastructure. The stock limits and movement of agricultural commodities across the country need to be freed so as to facilitate a common National Market of agricultural produce across the country.

The present agricultural marketing system in the country is marked by fragmented supply chain which is dominated by multiple market players resulting into high wastages thus, adversely affecting efficient marketing. It is necessary that direct marketing and contract farming is promoted to facilitate enhanced share of producers in consumer's rupee.

The Way forward

The development of alternative and competitive marketing channels is necessary to induce competition in the existing marketing systems and to facilitate sale of farm produce at remunerative prices. The present system of agricultural marketing needs to evolve towards establishment of unified national market for sale of agricultural produce throughout the country efficiently without any undesirable barriers.

Improvement of marketing linkages for both farm produce and inputs necessitates a strong private sector backed up by appropriate policy and legislative frameworks and effective government support services. Such services may include provision of market infrastructure, supply of market information, and agricultural extension services to advise farmers on marketing, capacity building in marketing; development of marketing linkages between farmers, agribusinesses and large retailers. Such linkages can be developed through cooperatives, contract farming or associations of stakeholders representing different interest groups like farmers, input suppliers, agricultural produce processers, etc. to join together in associations to promote their common goals. Government can work as a catalyst for the formulation of such associations to improve agricultural productivity, processing, marketing, support services, farm market linkages, training and infrastructure.

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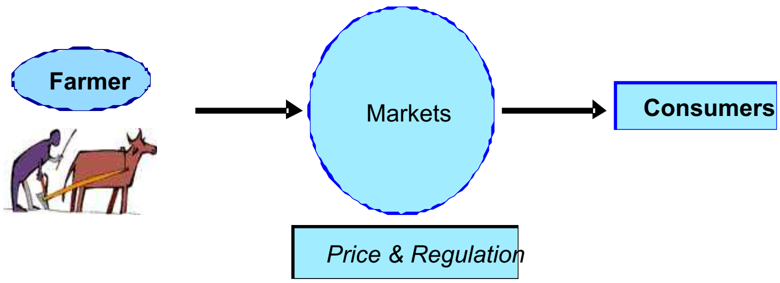
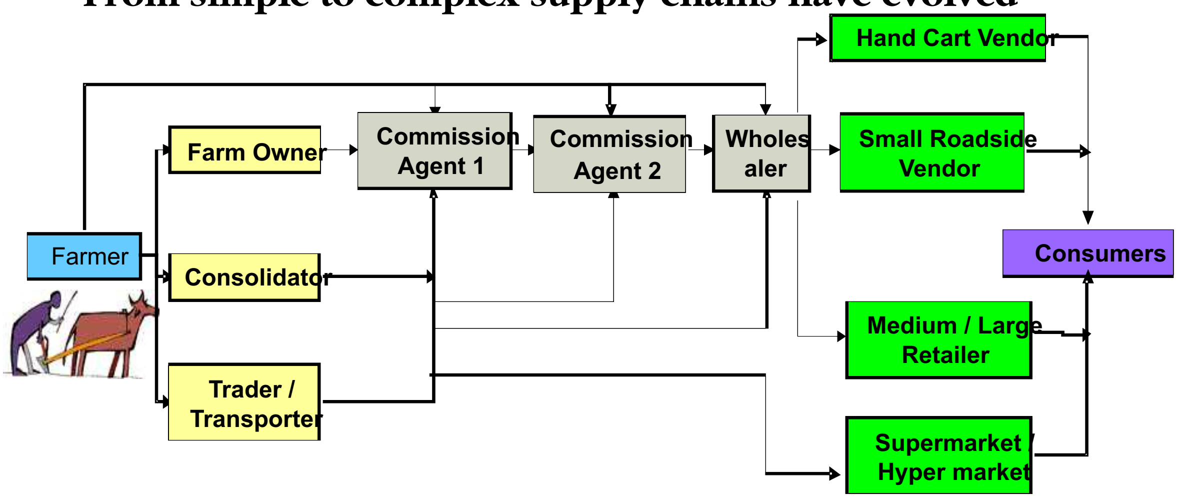
APPENDIX 1

Evolution of Supply Chains

For centuries, traditional market was the only supply chain to handle goo



From simple to complex supply chains have evolved



Source: Presentation by the World Bank in MACP Workshop

Appendix 2: Statement showing details of Regulated Markets in Different States/U Ts

Sl.	Name of the	NUMBER OF MARKETS			REGULATED MARKETS			
No.	States/U Ts	Whole	Rural	Total	Principal	Submarket		Total
		Sale	Primary			Yards		
(1)	(2)	(3)	(4)	(5)	(6)	(7)		(8)
1	Andhra Pradesh	337	568	905	337	568		905
2	Arunachal Pradesh	22	63	85	16	115		131
3	Assam	405	735	1140	20	206		226
4	Bihar	325	1469	1794	APMR ACT REPEALED			
5	Jharkhand	201	602	803	28	173		201
6	Goa	4	24	28	1	7		8
7	Gujarat	205	129	334	199	201		400
8	Haryana	281	194	475	107	174		281
9	Himachal Pradesh	42	35	77	10	44		54
10	Jammu & Kashmir	23	8	31	4	8		12
11	Karnataka	210	730	940	155	357		512
12	Kerala	348	1014	1362	APMR ACT NOT ENACTED			
13	Madhya Pradesh	0	1321	1321	251	285		536
14	Chhattisgarh	2	1132	1134	68	116		184
15	Maharashtra	881	3500	4381	305	576		881
16	Manipur	24	94	118	APMR ACT NOT ENACTED			
17	Meghalaya	35	89	124	2	0		2
18	Mizoram	10	105	115	APMR ACT NOT IMPLEMENTED			
19	Nagaland	19	174	193	18	0		18
20	Odisha	398	1150	1548	54	382		436
21	Punjab	424	1375	1799	149	275		424
22	Rajashthan	443	312	755	131	312		443
23	Sikkim	7	12	19	1	0		1
24	Tamil Nadu	300	677	977	277	6		283
25	Tripura	84	470	554	21	0		21
26	Uttar Pradesh	584	3464	4048	250	365		615
27	Uttarakhand	36	30	66	25	33		58
28	West Bengal	279	3250	3529	42	415		457
29	A & N Islands	0	28	28	NIL	NIL		NIL
30	Chandigarh	1	0	1	1	0		1
31	D & N Haveli	0	0	0	APMR ACT NOT ENACTED			
32	Daman & Diu	0	0	0	APMR ACT NOT ENACTED			
33	Delhi	30	0	30	7	8		15
34	Lakshdweep	0	0	0	APMR ACT NOT ENACTED			
35	Puducherry	4	5	9	4	5		9
	Total	5964	22759	28723	2483	4631		7114

Source: Directorate of Marketing and Inspection, Faridabad

Investors' Behaviour Towards Government Securities

Mukherjee A.K.*
Asthana Ritika**

INTRODUCTION

Savings play an important role in any economy. Investment of savings in various available options, acts as driver for the growth of the economy. Indian economy too presents a wide variety of options to its investors.

One needs to invest surplus resources and generate a desirable return to make fruitful provisions for future uncertainties. One needs to invest wisely so as to meet the cost of inflation. Inflation causes money to lose its value because it will not retain same purchasing power in the future as it does now or did in past. By investing early, one allows more time to your investments to grow by compounding growth in the future income.

Basic objective of the present study is to identify the investment behaviors and preferences of the investors. Investors' perceptions provide a way to accurately measure what and how the investors think about business operations of a company? During critical time, understanding the investor behavior on an ongoing basis is essential for survival of the companies. Executives need a third party understanding on where investors' loyalties stand? More importantly the management needs ongoing feedback from investors, partners and employees in order to continue to innovate and grow.

The present study aims at identifying, analyzing and finding out the factors which the investors consider before investment and to know the risk tolerance level of individual investor and suggest a suitable portfolio according to the dependence/ independence of the demographic factors of the investor.

INDIAN FINANCIAL INDUSTRY

Indian financial industry is considered to be one of the strongest in the world. Various Government and Non Government Agencies and Departments and RBI keep a strong vigil over the movements of capital market

The financial system in India is regulated by independent regulators. Government regulations also play important roles in regulating the functions of capital market in India.

Investments are normally classified on the basis of involved risk which is decided by various factors like past performance, its governing body, involvement of the government etc. In light of this fact, investments in Indian capital markets are classified into three categories-

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**Research Scholar, Monirba Allahabad University

VARIOUS INVESTMENT AVENUES AVAILABLE IN INDIA:

SAFE/ LOW RISK AVENUES

- Savings Account
- Bank Fixed Deposits
- Public Provident Fund
- National Savings Certificates (NSCs)
- Post Office Savings
- Government Securities

MODERATE RISK AVENUES AVENUES

- Mutual Funds
- Life Insurance
- Debentures
- Bonds

HIGH RISK AVENUES

- Equity Share Market
- Commodity Market
- FOREX Market

TRADITIONAL AVENUES

- Real Estate
- Gold/ Silver
- Chit Funds

EMERGING AVENUES

- Virtual Real Est ate
- Hedge Funds/Put Equity
- Art

INVESTMENT PSYCHOLOGY

The principal difference between considering an investment or trading approach and actually entering into the market is the commitment of money. When that occurs, objectivity falls by the wayside, emotion takes over, and losses mount.

For most of us, the task of beating the market is not difficult; it is the job of beating ourselves that proves to be overwhelming. In this sense, 'beating ourselves' means mastering our emotions and attempting to think independently, as well as not being swayed by those around us. All of us are comfortable in buying stocks when prices are high and rising and vice versa but we need to develop an attitude that encourages us to do the opposite.

People make investment decisions involving thousands of rupees on a whim or on a simple comment from a friend, associate or broker. Yet, when choosing an item for the house, where far less money is at stake, the same people may reach a decision only after great deliberations and consideration. This fact suggests that the market prices are determined more by emotions than by reasoned judgment.

All markets essentially reflect the attitude and expectations of market participants in response to the emerging financial and economic environment. People tend to be universally greedy when they think the prices will rise, whether they are buying gold, foreign currency, stocks or bonds. Conversely, their mood can easily swing to fear or panic if they are sufficiently persuaded that prices will decline. Human nature is the same in all markets the world over.

It is rightly said by Garfield Drew, the noted market commentator and technician in the 1940s that

"STOCKS DO NOT SELL FOR WHAT THEY ARE WORTH BUT FOR WHAT PEOPLE THINK THEY ARE WORTH".

GOVERNMENT SECURITIES IN INDIA

A government security is a tradable instrument issued by the Central Government or the State Governments. It acknowledges the governments' debt obligations. Such securities are short term (usually called treasury bills, with original maturities of less than one year) or long term (usually called government bonds or dated securities with original maturity of one year or more). In India, the Central Government issues both, treasury bills and bonds or dated securities, which are called the State Development Loans (SDLs). Government securities carry practically no risk of default and hence, are called risk-free gilt-edged instruments (Saving Bonds, National Saving Certificates (NSC) etc.) or special securities (Oil Bonds, Food Corporation of India Bonds, Fertilizer Bonds, Power Bonds etc.). They are, usually not fully tradable and are, therefore not eligible to be SLR securities. Government bonds are sold through official distributors and designated branches of banks and post offices.

REASONS BEHIND INVESTING IN GOVERNMENT SECURITIES

Holding of cash in excess of the day-to-day needs does not give any return to it. Investment in gold has attendant problems with regard to appraising its purity, valuation, safe custody etc.

Government securities are chosen for investment due to the following advantages:

- Besides providing a return in the form of coupons (interest), government securities offer the maximum safety as they carry the sovereign's commitment for payment of the interest and repayment of the principal.
- They can be held in book entry, i.e. dematerialized/scrip less form, thus obviating the needs for safekeeping.
- Government securities are available in a wide range of maturities from 91 days to as long as 30 years to suit the duration of a bank's liabilities.
- Government securities can be sold easily in the secondary market to meet cash requirements.
- Government securities can also be used as collateral to borrow funds in the repo market.
- The settlement system for trading in government securities, which is based on Delivery versus Payment (DvP), is a very safe, simple and efficient system of settlement. The DvP mechanism ensures transfer of securities by the seller of securities simultaneously with transfer of funds from the buyer of the securities, thereby mitigating the settlement risk.
- Government security prices are readily available due to a liquid and active secondary market and a transparent price dissemination mechanism.
- Beside banks, insurance companies and other large investors, smaller investors like Co-operative banks, Regional Rural Banks, Provident Funds are also required to hold government securities.

WHY BONDS?

Although high-rated bonds are considered one of the safer ways to invest money. Investors consider both positive and negative implications before deciding why and why not to invest.

Why yes:

- **INCOME:** Bonds are designed to provide the investor with pre-determined fixed streams of income. Bond issuers make coupon payments on a set schedule for a set amount. The redemption price and interest payments are established at issuance and do not change throughout the life of the security.
- **DIVERSIFICATION:** An equity investor faces the risk of declining equity markets. Such investors may use bonds to compensate this risk, given that performance of equity and bonds have inverse relationship.
- **PROTECTION:** Bonds which pay a fixed income can help protect investors against economic slowdown or deflation. Inflation-linked bonds can also help them to protect the purchasing power of their investments against inflation because their capital amount is tied to an inflation index defined at issuance.
- **CAPITALISATION:** Zero coupon bonds allow investors to save money for long term goals, such as retirement. Structured with a deep discount, such instruments require a small investment designed to grow over years.

Why no:

- **BANKRUPTCY:** Companies (and sometimes even local governments) can go bankrupt and default on their loans. The only risk-free bonds are government bonds.
- **EARLY REPAYMENT:** Some bonds can be repaid early. This is known as a bond being "called". If your bond is called, you will still be repaid your initial investment as well as any interest you've earned so far, but you will not receive the future interest you would have otherwise gained.
- **RISING INFLATION:** If inflation rises, the actual interest you make on your initial investment will be depreciated. If you decide to sell your bond in the market, in order to get a higher rate of return with another instrument, you are at a risk of losing some part of the principal. Inflation-indexed bonds may help you prevent this risk.
- **SELLING BEFORE MATURITY:** If you decide to sell your bond before the maturity date, there is a risk that you will receive less than you paid, depending on the current interest rates. If interest rates climb, the value of your bond may go down. On the contrary, when interest rates drop, a bond's value soars. To avoid uncertainty, many individual investors prefer to hold their bonds until maturity. It may help to determine the timing of a financial goal in order to purchase a bond that matures at the same time.

Future of Government Securities

The forecast of Forbes India for 2014 states that the interest rates are at peak and this is the suitable time to buy long-dated securities through mutual fund or directly into government securities. There is a view that there will be some fall in the interest rates and this will boost the bond prices.

CASE STUDY

To study the investors' behavior towards Government Securities, a pilot study was conducted with 100 samples chosen randomly in Allahabad city. Allahabad is a tier 2 city, mainly composed of middle class office going people. Middle class population are educated and are very much concerned about the security of their savings and reasonable returns.

Sample Composition

In this study the demographic characteristics have been defined on the basis of variables such as gender, age, occupation and income. The study consisted of 80 males and 20 females i.e. 80% males and 20% females.

Data Collection Methods

Required data were collected from primary sources using questionnaires comprising of both open ended and close ended questions.

Income-wise distribution

As shown in Exhibit1 given below, most of the respondents belong to the income group of Rs.20000-50000 (54%), 17% belonged to the group of above Rs.100000, 16% to less than 20000 and 13% to 50000-100000.

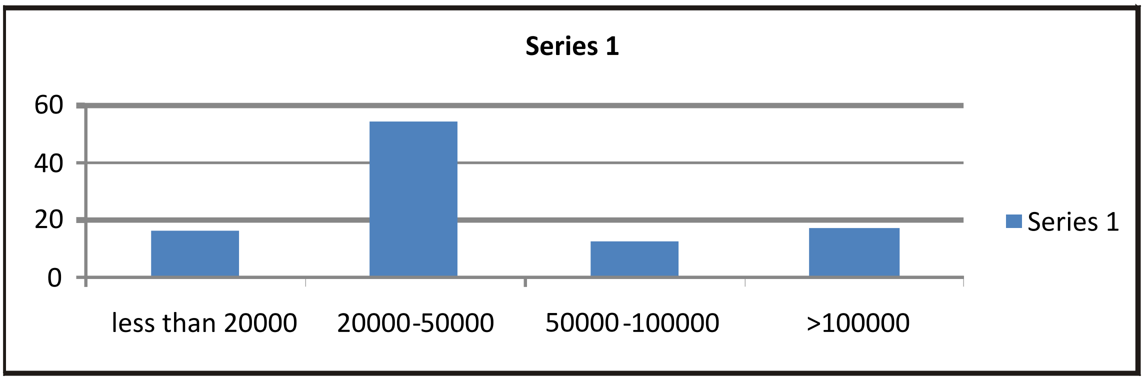

Exhibit 1: Income-wise Distribution

Occupation-wise distribution

As shown in Exhibit 2 given below, most of the respondents belong to the government sector(54%), 13% belong to business sector,11% to private sector, 9% to professional sector and 13% to others. This dominance of government sector is probably due to the presence of High Court, AG office, District Court, Allahabad University, Other Government funded and privately owned and managed educational institutions, and a large number of Central and State Government offices.

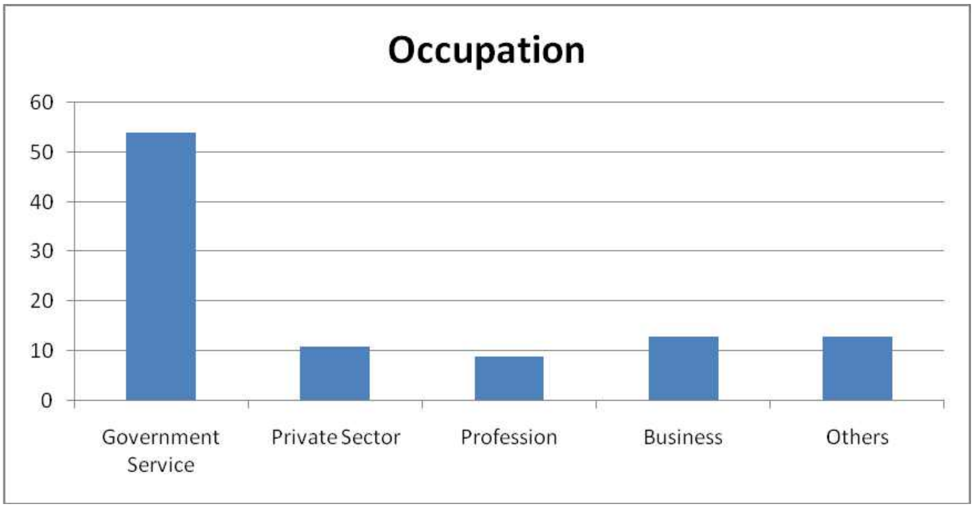

Exhibit 2: Occupation-wise distribution

Out of all the respondents, 95% of the people invest their savings while 5% do not resort to investments. The areas in which the investments are done were divided into equity, banks, gold, government securities and other instruments. The investments of the respondents were divided as shown in Exhibit 3 below-

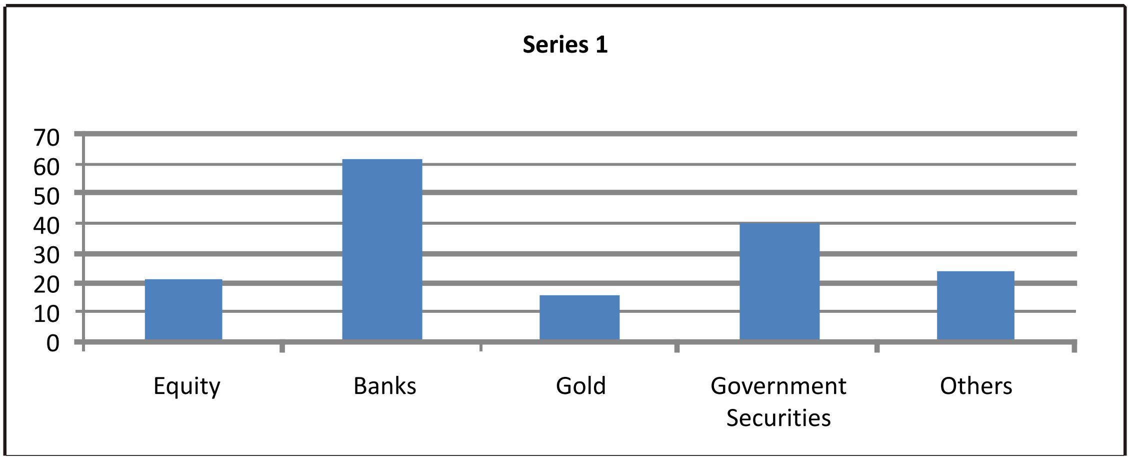

Exhibit 3: Areas of Investment

Breakup on the basis of investment

On the basis of the study, it was found that out of 100 respondents, maximum amount spent on investment was:

< 5000	17
5000-10000	23
10000-20000	21
< 20000	34

The total of the above number of respondents is 95 because 5 respondents didn't invest their savings. Out of the above investors, 75 respondents preferred investing in government securities while 20 people didn't prefer them because of low returns, lack of awareness, non availability and other personal reasons.

ANALYSIS AND INTERPRETATION OF RESULTS

Exhibit 4 below shows the amount spent on government securities by the 75 investors who prefer investing in government securities.

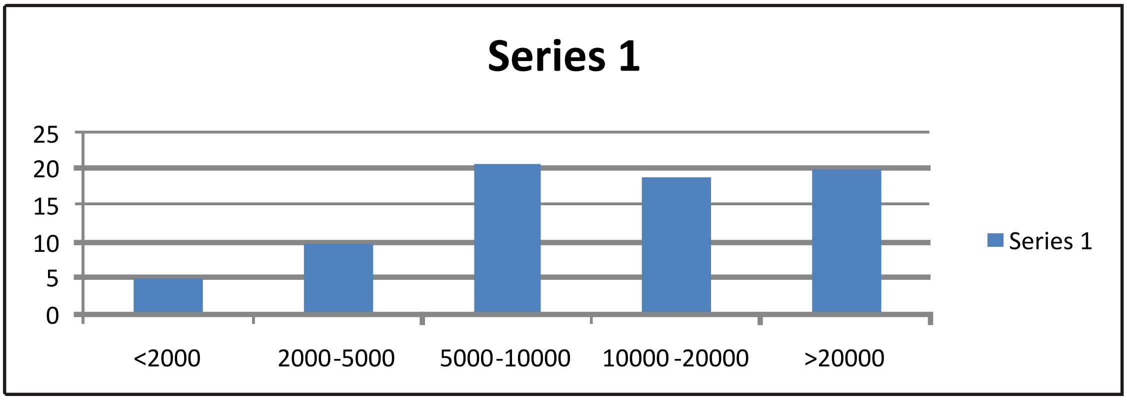

Exhibit 4: Amount spent on government securities

Above figure shows that most of the people spend in the range of Rs.5000-10000 on government securities i.e. in the middle range. This behavior might be due to the reasons that people in Allahabad are office going, middle class people who have limited incomes. They allocate this income amongst their necessities, comforts and investments.

The findings also show that 95% of the investors are satisfied with their investments in the government securities while 5% are not due to low rate of returns but have their moneys invested in them as the investments are of fixed nature which cannot be withdrawn before maturity. In addition, in spite of being dissatisfied they were still holding their government securities due to security of investments.

OBJECTIVES BEHIND INVESTING IN GOVERNMENT SECURITIES

Exhibit 5 shows the objectives behind investing in government securities. These objectives have been segregated into facing inflation, future security, children's marriage/education, securing retirement and other reasons.

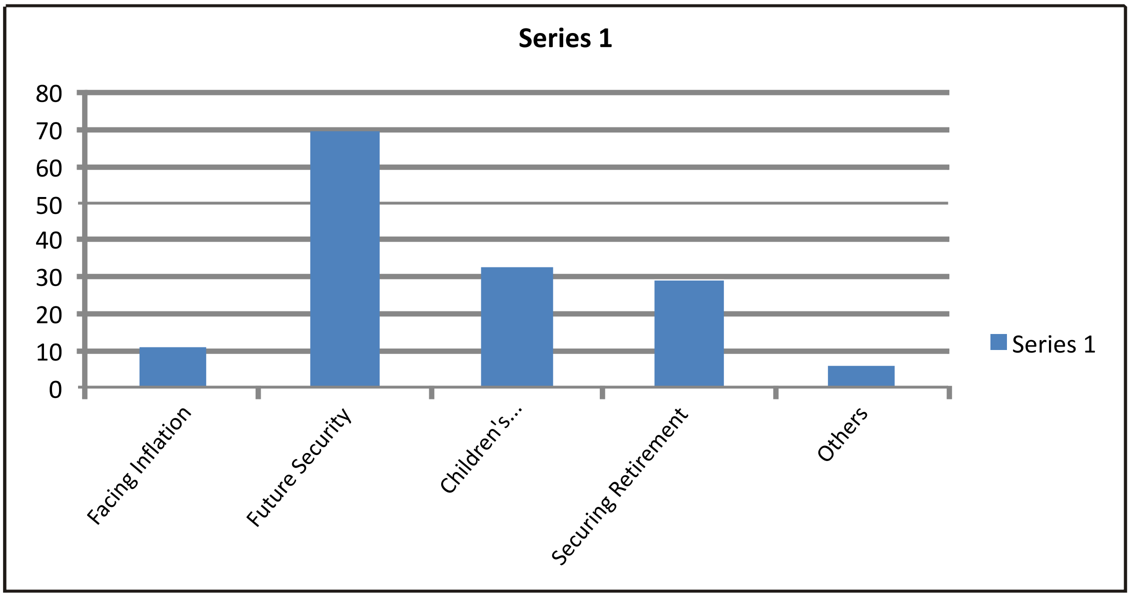

Exhibit 5: Objectives behind investing in government securities

The findings show that maximum respondents select government securities due to the reasons of future security. This shows that the government securities are considered as safe instruments by the investors due to the safe returns and government factor involved in them.

GUIDING FACTORS FOR INVESTMENT

Exhibit 6 shows the guiding factors which are considered by the investors before selecting any instrument for investment. The respondents were given a choice to select from the factors which were defined as Friends' Suggestions, Goodwill, Profitability, Maturity period, Returns, Tax benefits and other factors.

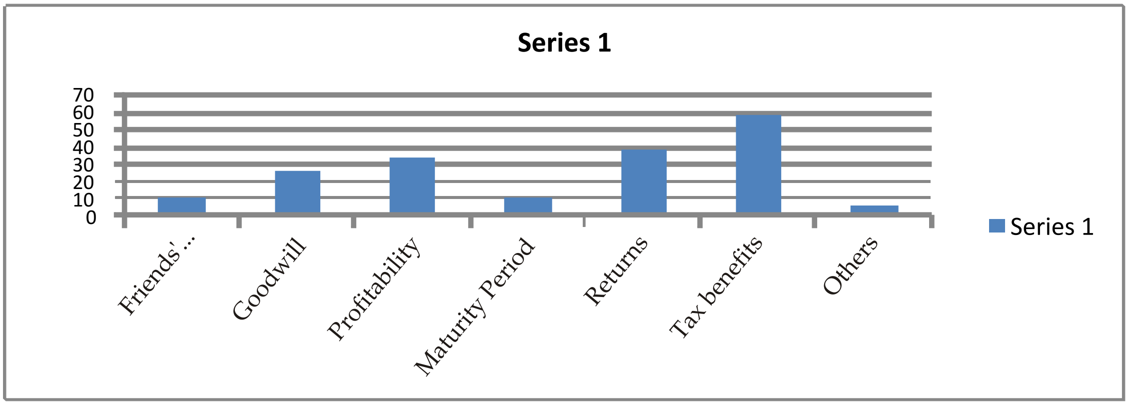

Exhibit 6: Guiding Factors for Investment

Above results clearly show that the factor which guides the investors most towards investment is the tax benefits which they can avail due to the investments. This behavior again is due to the limited income of the office going people which they try to save to the maximum by availing tax benefits which they can get through their investments.

The study also brought out that the main sources of information for the investors are brokers & financial advisors, friends & relatives, TV & Magazines, Internet and other sources. Out of all these sources, the most popular was found to be friends & relatives and to a certain extent internet was found to be popular too.

FUTURE INTENTIONS FOR INVESTMENTS

The respondents were asked whether they tend to invest in future. This question was asked to all the respondents, i.e. the present investors as well as those who do not invest at present. Out of all the respondents, 90% people said that they intend to invest in future while 10% of them did not want to invest in future due to limited income, uncertain future, family responsibilities and retirement. The respondents who wish to invest in future were further asked about the instruments which they would prefer for their future investments. The results are shown by Exhibit 7 below-

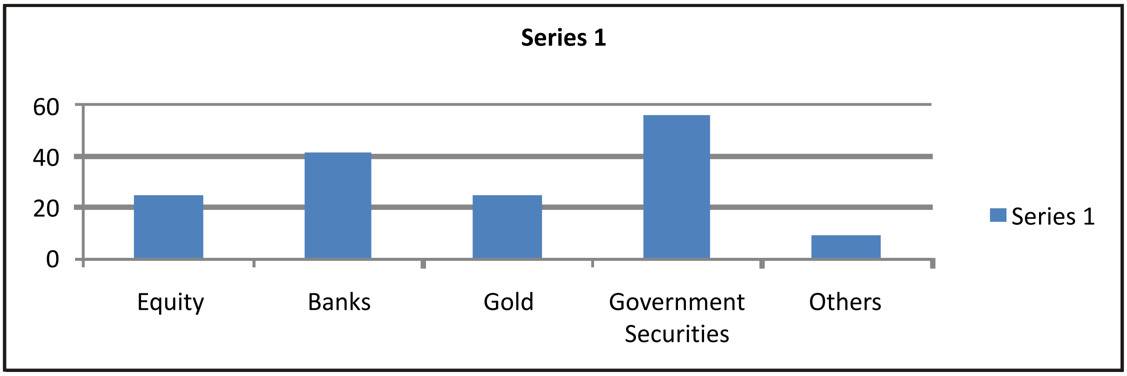

Exhibit 7: Areas for Future Investment

FINDINGS AND SUGGESTIONS

The findings of the study show that the investors have invested a considerable part of their investments in government securities and intend to place their future funds in them as well. This behavior is because of the security and trust which the investors have in these securities. Historically, the investors placed their funds and confidence in Post Offices and Government Securities. Now with the advent of new investment instruments, the investors have more available options to invest their savings still the factors of security and trust still continue to dominate the portfolio of the investors. The Government Securities are preferred because they assure the investors of smooth returns. People in Allahabad are not much oriented towards capital appreciation , instead they are more concerned about the safety of their funds. This is because this is a city of office goers with limited incomes; their priorities are different as is shown by the findings above in Exhibit 5. Their objective behind investment is not to earn high returns but the future security, children's marriage/education and securing their post retirement life. They are more concerned about their social priorities and are more guided by psychological and social reasons than economic reasons.

CONCLUSION

The above study concludes that the government securities have a good market and they enjoy the trust and confidence of the investors. The government agencies should take advantage of this behavior of the investors and design their securities in such a manner that more investors are attracted towards them. The factors which are still preventing some investors to invest their savings in government securities should be effectively addressed. Easier availability of these securities to investors, higher rate of returns and greater awareness about these instruments can prove to be a booster for the market of the government securities.

The forecast of Forbes India for 2014 states that the interest rates are at peak and this is the suitable time to buy long-dated securities through mutual fund or directly into government securities. There is a view that there will be some fall in the interest rates and this will boost the bond prices.

It is evidently seen that the Government Securities enjoy a great deal of investors' confidence. If the disadvantages are taken care of, there is a great hope for further enhancement in the horizon of the Government Securities.

Is Granting MFN Status to India Must?

Prof. Dr. Badar Alam Iqbal*

INTRODUCTION

India's trade with Pakistan has been much lower than the existing potential and opportunities. At the end of 2013, Indo-Pakistan Trade stood at only US $ 2.0 billion. This has been due to a number of impediments in terms of trade tariff and non-trade tariff. This could testify from the fact that both the countries have demand for each others goods which is being met by illegal trade. All members of World Trade Organization (WTO) are bound to grant Most Favoured Nation status to all countries of the world in regard to trade in goods. India had granted MFN status to Pakistan as back as 1996. But Pakistan did not do this because of the political compulsions being faced at home. Accordingly, despite granting MFN status, India continued to impose high tariffs regime on the goods namely-textiles and leather goods that are of interest to Pakistan. Hence, merely granting MFN status does not imply easier trade. Therefore, does Pakistan's offer matter? Yes, it does matter because it could create the needed enthusiasm, good will and keenness to build up peaceful and productive bilateral relations in terms of trade, investment and ODA. Better economic relations between India and Pakistan would not only bring economic prosperity, as is usually the objective of trade liberalization, but it would also build up greater stakes for peace and lobbies which are interested in keeping business moving. According to ICRIER, Indo-Pak trade can grow several times once trade and non-trade barriers are removed.

BENEFITS

The following could be the possible benefits to both the countries, if Pakistan grants MFN status to India:

a) Illegal trade which is estimated at US $ 3 to 4 billion through third country could become legal;
b) Pakistan light engineering sector could be expanded;
c) Indian bicycle sector could be benefit as the same could export to Pakistan;
d) Indian goods can enter in Central Asian Markets through Pakistan;
e) Traders from Haryana, Punjab, Himachal Pradesh, and North Rajasthan could be benefited substantially;
f) Purchasing power of Pakistanis could increase due to access to goods at competitive rates;
g) The freight cost could be reduced resulting into lower cost of business in Pakistan;
h) The existing competitiveness and productivity of Pakistan's industry could improve substantially;
i) Time frame and cost of procurement could also decline;
j) The business linkages between India and Pakistan could improve further and may in turn improve the existing degree of competitiveness of Pakistan's local industries;
k) Pakistani producers could get desired access to a large Indian market.

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Bilateral trade relations between India and Pakistan are appearing to move out in the right direction and spirit, if Pakistan grants MFN status. According to a SAARC report, the total trade potential between India and Pakistan could be around US $ 12 billion.

TWO COMMON FEARS

Both the Indian Government and Government of Pakistan have two common fears and these fears could be the major hindrance in normalizing bilateral trade relations in coming times. Pakistan's fear is that Indian Goods would flood Pakistan's markets and would result into the ruining domestic goods. This fear is neutralized as WTO has provisions that allow member countries to provide necessary protection to domestic goods of the importing country. This could be possible through restricting imports, may be for temporary periods, should such imports unfairly or seriously injure local manufacturers and producers. On the other side of it, Indian business community has a fear that India and Pakistan's political tensions would defeat smooth trade functioning, especially trade creation and facilitation. In this regard, the well established examples are China and Taiwan trade that has gone up from US $ 8 billion in 1991 to US $ 100 billion in 2010 and US and Vietnam agreement that took place in 2001. This agreement has resulted into the US emergence as leading investor in Vietnam. Then why such example could prove productive in case of India and Pakistan?

PREVENTIVE STEPS TAKEN BY PAKISTAN GOVERNMENT

The Government of Pakistan is taking the following steps while granting MFN to India.

1. The import of 1,958 items from India would be allowed as per the Pakistan's Import Policy for the year 2010-11.
2. In order to provide safeguard the interest of the Pakistani industry, the Government planned to implement measures aimed at normalizing trade with India in phases.
3. The items given in negative list would not be permitted for import from India at any cost.
4. The Government has engaged in extensive consultation process with local stakeholders, including the chambers and sectoral trade associations for identifying vulnerable goods for inclusion in the negative list.
5. In order to firm up the negative list on a sound economic basis, the Government of Pakistan has involved the services of country's premier research organization to examine and firm up items to be included in the negative list.
6. The time frame for phasing out negative list would be based on the stakeholders' inputs and recommendations.
7. The process of formulation of negative list has been completed in February 2012.

MYTH VS REALITY

The recent announcement made out by the Pakistan's Government for granting the Most Favoured Nation (MFN) status to India continued to draw a mixed reaction from all sections, especially industrialists, businessmen, agriculturalist and security analysts. There are two issues to look into. First, one section of the Pakistan's economy expressed views that by granting MFN status to India do Pakistanis get the needed access to a robust market of more than a billion persons, but more significantly, the free trade dynamics will unleash a future of mutual dependence, resulting into minimization of cross-border security concern. Second segment of Pakistanis especially, manufacturers, struggling cultivators and skeptical security people, who all remain equally fearful of India's regional designs in particular and its poor performance on bilateral trade in general.

Keeping in mind the diverse perception of Pakistanis, it is worthwhile to analyze the existing trends and situation and then to evaluate the possible effects and impact on the existing bilateral economic relations.

In the year 2009-10, total bilateral trade between India and Pakistan was amounted to US 1.5 billion. India's Exports to Pakistan were more than US $ 1.2 billion, constituting 81 per cent of the total bilateral trade. India's Imports from Pakistan, very meager when compared with India's exports, stood at US $ 275 million accounting for 19 per cent of the total trade of both the nations.

In the year 2010-11, the bilateral trade between India and Pakistan amounted to US $2 billion, witnessing an appreciable increase within one year, hence resulting into favourable balance of trade in India's favour. At the end of 2012-13, Indo-Pakistan trade amounted to US $ 3 billion.1 Trade analysts believe that Pakistan consumes nearly US $ 3.5 to 4 billion Indian goods through illegal trade (smuggling) that has been taking place through the third countries namely, Dubai, Singapore and Thailand.

Pro MFN segment of Pakistanis believes that Government of Pakistan could earn crucial revenue by transforming illegal trade into legal trade. Added to this, through this transformation, import burden may be reduced further through sourcing cheaper Indian goods closer to home and tapping into the huge trade potential up to US $ 42 billion that is in existence between two nations.

The other side is that India granted the MFN status to Pakistan as back as 1996. But this productive step did not work in the right earnest and spirit. This is because of the imposition of a number of non-tariff barriers by the Indian Government, resulting into further decline of Pakistan exports to India. Hence, the existing unfavourable balance of trade could not be reduced and there could be higher gravity impact on bilateral trade between India and Pakistan.

Is it a win-win situation?

Today, Pakistan's Exports to India are 850 items. On the other hand, Pakistan has already allowed 1,945 items from India under non-MFN. Recent World Bank report has opined that by granting MFN status to India, Pakistan has three options to deal with.

First, to expand the positive list of items gradually and steadily. Second alternative is, to replace a positive list with a short negative list. Third choice is to eliminate positive list completely. From Indian perspective, the underway liberalization of imports could not have come at a worst possible time for Pakistan.

After March 2012, the real testing time when Pakistan's repayments to IMF has started coming up. The current balance has become a serious issue for concern to Pakistan Government. Added to this, Foreign Direct Investment (FDI) flows into Pakistan have come down to a meager level of US $ 359 million from a record level of US $ 7 billion in 2006-07. Therefore, under the persisting trends and situation, the first option the policy makers could take up is to review and then restrict imports. Hence, granting MFN status to India could prove counter productive and may result into further postponement of MFN status to India for further coming time.

The Pharmaceutical Manufacturers Association of Pakistan (PMAP) has shown a reservation on granting the MFN status to India. The association opined that the ongoing move would importantly and strategically affect the local companies, and there are possibilities that they close down their firms. The association wants that all medicines must be on negative list. This is because in case of war, natural disasters and epidemics, the local firms could meet the demand. It is more sensible fear as local firms accounted for 90 per cent of the demand of medicines in Pakistan. The association further opined that India has very sound and solid basis in terms of non-tariff barriers to protect their local producer of medicines and Indian market is 10 times biggest than Pakistan's market. Hence, Pakistan's firm would have no chance to sustain and compete with Indian counterparts. This could be a reality if Pakistan's companies get level playing field and this could be possible only if Government of Pakistan provide support and protection to them.

Another difficult area is agriculture. If a comparative examination is made out between Indian agriculture and Pakistan's agriculture, then there is no match between the two. There are huge disparities in terms of two most strategic segments namely- subsidies provided to the farmers and unequal availability of water resources. The most noticeable issue is the support to cultivators in regard to prices of fertilizers, access to modern machinery and technology, energy resources and the earmarking of funds to agricultural sectors. Indian farmers have much better support from the Indian Government as compared to support available to farmers in Pakistan. Added to this, the existing paucity of water and an alarming rate at which the availability of inputs are shrinking has put Pakistan's farmers at disadvantageous place. Indian Government is continuously playing a political game in respect of sharing water resources. There has been lesser availability of water to Pakistan as India has diverted water flows by constructing dams on the rivers in Pakistan's share. As a result, there is lesser flow of water in Indus Basin greatly affecting the availability of water to Pakistan's farmers.

There are other important areas which may have direct bearing if MFN is granted to India. They are health, seed development, productivity and export competitiveness. Indian Government has not given any signal on these issues. There also has not been any indication for creating long-term linkages namely- technology transfer, joint resource management mechanism, cross-border investment, final networking, regional anti-trust agreements, equality among SAARC countries etc.

MAJOR CONSTRAINTS

Although Indian Government had granted the MFN Status to Pakistan as back as 1996 under the WTO regime, the political issues and mutual mistrust between the two nations have resulted into trade at low ebb, far below the existing potential and opportunities. It had also an adverse affect on intra-regional trade too. The Pakistan Government has been under enormous pressure from internal industry lobbies to desist from granting MFN status to India. The industrial and commercial bodies are of the view that as India has a comparative advantage in most sectors namely- pharmaceutical, automobiles and agriculture, granting MFN to India could hit the interests of Pakistan business community. Local industry and commerce lobbies in Pakistan fear that Indian competition may sound their "death knell". This is why the Pakistan Cabinet has failed to clear the MFN proposal. Hence, Pakistan is unlikely to meet January 2013 deadline for MFN Status to India.

Despite several indications, Pakistan's promise of granting MFN status to India before the end of the year or January 2013 hangs in uncertainty. Pakistan granting MFN status to India has been touted as a major tangible outcome of the resume negotiations, along with the new visa agreement that has been put in place.

The most noteworthy feature is that India has been walking the extra-mile to improve trade ties with Pakistan. For instance, whereas Pakistan would have to cut its sensitive list to 100 items by 2017, India would bring its list down to the same number under the South Asia Free Trade Agreement from 2013 itself. The rationale behind this move is to give Pakistan business community extra time to face competition from India. The country is going in for elections soon is another issue that factors in the complications.

OTHER STRATEGIC AND VITAL OBSTACLES

It is being observed that whereas Indo-Pakistan relations are progressing on same horizons, the two neighbors need to confront four fundamental issues which have to be solved in order to get real boost in economic relations between the two nations.

26/11 Terror Siege of 2008:

There are no serious efforts on this count. India is of the view that Pakistan should show some degree of seriousness in examining the issue and must act accordingly. On the other side of it, Pakistan Government's point of view is that the wheels of justice are slow and proof is hard to find and fix responsibility.

SIR CREEK BORDER DISPUTE

This is another area of serious disagreement between Indian and Pakistan which had been persisting as back as 1914. Indian Government had argued for keeping the 1914 demarcation that runs the border through the middle of the creek. Accordingly, a joint surveying team has finished mapping the creek and also agreed upon a solution close to Indian position. Despite this exercise, Pakistan Government on the other hand wants a 1925 demarcation be retained, that puts that country's border on what India considers its bank of the creek. The silver lining is that Pakistan Government is becoming more flexible on this horizon. What required is "political courage" to be shown by Indian and Pakistan Governments.

KASHMIR AND TERRORISM

This is the oldest issue that has not yet been solved, having far reaching consequences, implications and impact on Indo-Pakistan Economic relations. Indian Government has been continuing pushing for a Kashmir package under which the line of control is being treated as the border for both India and

Pakistan. As a result, both the countries have extended autonomy to their respective halves of Kashmir, with the eventual objective demilitarizing the state. India has been demanding from Pakistan to dismantle "terror infrastructure' existing in the half part of Kashmir controlled by Government of Pakistan.

Then Pakistan President had agreed to this demand and outlines a package. Unfortunately that had been materialized. Thereafter, no one recognized and realized the package. As a result, the successor of him even did not take into account and discuss it. These days Pakistan Government has been dealing with Afghanistan issue and needed attention has not been given to Kashmir and terrorism issues. The existing situation is critical and has been affecting the hope of normalization of relations with Pakistan in general and economic relations in particular as the common men of both sides are only interested with economic relations rather than other issues.

Siachen Glacier Border Dispute:
Here too, there has been a conflict between the two Governments. Indian Government is of the view that no withdrawal of troops is possible unless and until the Actual Ground Position Line (AGPL) is finalized and clearly demarcated. Added to this, the top military brass is averse to giving up Siachen's heights until and unless the very needed more comprehensive and cohesive Indo-Pakistan Relations are attained. On the other hand, Pakistan Government wants mutual withdrawal of troops without making any delineation of lines. Although this is more beneficial to them, there is an increasing sense and opinion among the Pakistani people that this is a pointless battlefield- a sentiment that has only grown since avalanche killed 130 Pakistani soldiers there in April 2012.

PAKISTAN'S VIEW POINT

On the flip side, there is a much degree of disappointment as India has failed to show any required degree of flexibility on the resolution of the Jammu and Kashmir issue and is taking a tougher stand on its last known position on issues of Sir Creek and Siachen. Indian Government has hardened its stand and continues to introduce new conditions or clauses creating an impression that settlement if any has to be on its terms. Accordingly, Indian Government increasing insistence on Pakistan to first take concrete steps in respect of prosecution of the terrorist involved in the Mumbai attack is just a reminiscent of Pakistan last insistence on Kashmir first. For India the terrorism issue is most important than other issues, this is why India has been asking Pakistan to take care of it as early as possible. On the other side of it, in Pakistan there is not sufficient awareness among people that how deep has been the scar of the Mumbai terrorist attack on the psyche of Indian people and persisting slow progress on prosecuting the terrorist has played out natively.

COMPULSIONS

It is also an undisputed fact that there are also some real legal and political constraints that are affecting speedy persecution of those who were directly and indirectly engaged in the attack. It is also genuinely said by many political analysts that Pakistan itself is a victim of terrorism and the nation has also failed to bring doers to justice.

The most significant thing which has come up is that the changing international and regional environment has compelled Pakistan Government to bring change in economic and political attitude towards India. Pakistan has been facing threat within the country and in order to face it more effectively and efficiently, peaceful neighbours' borders is a sine-quo-non. Hence, Pakistan has to maintain peaceful relations with India and Afghanistan.

It is also a fact that Pakistan's economy is also under heavy odds and deep distress. Therefore, trade and investment relations with neighbours could be most beneficial for both India and Pakistan. This is because of the low transport cost which is one of the contributory factors in keeping edge in comparative cost of goods and services. The biggest benefit for India is to reestablish trade and economic relations with Afghanistan and nations of Central Asia. If transit route is open up India could improve trade and investment relations with Pakistan and other surrounding nations of the region. New avenues and economic opportunities could be created and facilitated among Central Asian countries, Afghanistan and India.

One of the strategic and vital changes that has come in the attitude of Pakistan Government, perhaps the lesson that it has taken from India and China relations and China and Japan economic and commercial relations. India has dispute with China but trade and economic relations are being improved gradually and steadily. Similar trends are witnessed between China and Japan economic and commercial relations.

What is required to be done by Pakistan?

Granting MFN to India only is not a panacea. It is not a remedy for all ills prevailing between Indian and Pakistan. It is not an answer to all problems and difficulties which both the countries are facing in enhancing the bilateral economic and political relations. Its economic philosophy is good but its application is other wise. This could only be possible if economics is separated from politics. Economic decisions are compulsion and could not be decided with politics. Some of the following measures may go a long way in enhancing the existing degree of bilateral economic relations:

a) To sign Preferential Trade Agreement;
b) To follow the examples of China and Taiwan and US and Vietnam in true spirit;
c) To make existing visa regime more liberal and purposeful;
d) To improve economic infrastructure in terms of warehouses, rail, air and cargo facilities.
e) To ease out restrictions in terms of number of hours and days of a week when trade across border take place;

SPECIAL MEASURES

India has to do some concrete efforts in order to make a myth into reality. Some of the measures are as follows:

1. India must translate its commitment into progress by constituting a committee comprising of representatives of the private sector, Government officials and independent and neutral specialist.
2. India must enhance its economic cooperation with Pakistan.
3. India must also identify the practical difficulties that are affecting the process of transformation with Pakistan.
4. India must further suggest the changes required in the existing trade policy of Pakistan.
5. India must encourage FDI inflows from Pakistan;

Initiative in 2014:

After a gap of nearly one year, Indo-Pakistan trade liberalization regime will be commencing in the month of January 2014. India is hoping to get long over due accord on Most Favoured Nation (MNS) status by Government of Pakistan. This would be a part of the trade opening process which will entitle it to export goods to the country. It is believed that the upcoming trade talks in January 2014 would base on the following presumptions:

1. India to be accorded MFN Status by Pakistan;
2. Pakistan will allow all items through Attari-Wagah route;
3. Pakistan now allowing more than 6,800 items from India; and
4. Textiles, automobiles may be allowed.

Although, Government of Pakistan has already removed ban on a large number of Indian goods during the last two years, nearly 1,209 items which include, textiles, chemicals and automobiles would remain out of the export list of Pakistan to India. It is being hoped that when the process restarts, both the countries will be able to pick up the thread and may move faster on the liberalization agenda which is already in place. Apart from lifting the ban on specific items, the road map for liberalization also needs Pakistan to allow trade of all items through the Attari Wagha land route. Presently, Pakistan Government allows just a handful of items to be traded through the land route that results into exorbitant transportation costs for the remaining goods.

It is believed that once, Government of Pakistan moves on at least one of the two main areas, India has agreed to cut down tariffs substantially on all but 100 items imported from Pakistan. This will be a major concession for Pakistan as it could export items such as textiles to India at low import duties offered to other SAARC nations.

NDMA instead of MFN:

In a move that will enhance the existing degree of bilateral trade and investment relations between India and Pakistan, Pakistan has agreed upon Non-Discriminatory Market Access (NDM) on reciprocal basis. Accordingly, Governments of both the countries have agreed to keep open the Wagha-Attari boarder for 24 hours in seven days a week for trade and allow containers to move up to terminals at Amritsar and Lahore respectively. Till recently, the containers are unloaded at the check post and reloaded on the other side of the countries.

The most significant outcome of the trade talks in January 2014, to intensify and accelerate the process of trade normalization, liberalization and facilitation and also implement the greed upon steps by the end of February 2014. Government of both countries have agreed upon to enhance bilateral trade ranging between US $ 7 and 8 billion per year as against of the existing trade level of US $ 3 billion.

Both the countries reaffirmed to bring down their respective sensitive list under South Asian Free Trade Agreement (SAFTA). Under the SAFTA, India has to bring down its sensitive list to 100 tariff line. Both countries have further agreed upon in principle to extend banking licences to banks as nominated by the respective Governments and also multiple visas to businessmen of both the countries. They have also suggested that both the countries have to encourage large scale investment along with trade. State Bank of Pakistan has requested Reserve Bank of India to grant permission to establish three banks in India.

CONCLUSION

India and Pakistan are two faces of a same coin. Better economic relations between two nations could bring economic emancipation on the one hand and on the other hand could build greater degree of peace which is the basis for accelerating the existing degree of economic cooperation which is essential and beneficial for both the countries. India and Pakistan must open up their borders for trade, commerce and cultural activities. India has been sincerely engaging with Pakistan in normalizing economic relations and there have also been breakthroughs. For instance, the given assurance in respect of moving from a positive list to negative list of tradeable goods by the Government of Pakistan. In the past 18 per cent tariff lines were trade-able. Today, 18 per cent are on the negative list and 82 per cent are trade-able. Changes in the rules in FEMA and creation of both hard and soft infrastructure may go a long way in transforming the myth into reality.

The current bilateral trade between India and Pakistan is at the low ebb of US $ 3 billion. But estimates made by research think tank states that it would grow many more times, once trade and non-trade barriers are dismantled. Granting NDMA to India instead of MFN, it is believed that much enhancement in the degree of economic relations will not take place.

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Having tasted the success and feeling the appetite of ever growing demands of students and parents alike, IFTM ventured into other areas of professional education. It started offering new courses in Engineering, Pharmacy and Computer Applications to cover the entire spectrum of professional courses. Year 2002 saw the addition of another feather in IFTM's cap whereby a new Engineering institute, College of Engineering and Technology (CET) was established. It offers various undergraduate and postgraduate engineering courses in Computer Science, Electronics & Communication, Information Technology, Mechanical and Biotechnology. By the year 2010, IFTM group has established itself as a niche player by becoming a **"Centre of Excellence"** in various disciplines of professional education providing best in class education for Management, Engineering, Computer Applications and Pharmacy courses. All the technical and professional courses are approved by AICTE with Pharmacy course being also approved by PCI. National Board of Accreditation (NBA) has accredited all the eligible courses.

Year 2010 brought a new dawn for IFTM group and the great dedication, commitment, perseverance; untiring efforts of the entire IFTM team were noticed and appreciated by the government of Uttar Pradesh (U.P.). Hence IFTM was granted the University status by U.P. Government vide IFTM University Act No. 24 of 2010. IFTM University started the operations from the session 2010 as it already had the necessary and university compliant facilities and infrastructure. In an endeavour to expand the horizon of its offerings in professional education space, IFTM University has added more programmes at UG, PG and Doctorate levels in different disciplines. To bridge the gap between High School and Degree courses, IFTM University will also offer the Diploma courses. In addition to professional courses the University has a comprehensive plan to introduce other subjects in the field of Natural, Social and Medical Sciences.

Current times are challenging for Education sector with lot of churn happening and as the saying goes **"Challenging times need unprecedented measures"**, IFTM University embarks upon a journey to be the "Trusted Partner of Choice" for Parents, Students, Teachers and Industry Champions. In this attempt, University now boast to house more then 11000 students and 400 faculty members till date. Thus with the humble beginning in 1996, IFTM has traversed a long path to become IFTM University by 2010. It strives to scale new heights and aspires to forge new partnerships with National & International bodies in order to make an indelible mark on the face of Indian Education.

About The School of Business Management

School of Business Management (SBM) is one of the most reputed and sought-after Centres of education in the field of management studies in the region.

This school was established in the year 1996 as Institute of Foreign Trade & Management and had been offering the BBA, MBA & MIB programmes of Management of Rohilkhand University, Bareilly, until 2000 when MBA programme came under the affiliation of the Uttar Pradesh Technical University, Lucknow. The Institute has become one of the most reputed Centres of education in the field of management studies and has been producing gold and silver medalists, as well as top ten merit holders on a regular basis since inception. In 2010, it has been reorganized as School of Business Management and is offering UG, PG and PhD in management and commerce, however, Masters of Business Administration has been a flagship course of the school, since its inception.

The School has been a constant contributor in the field of management through its research and development outputs. Doctoral research facilities are available in the various areas of management studies such as Business Economics, Security Analysis and Portfolio Management, Statistical Techniques, Human Resource Development, Supply Chain Management, Tourism Marketing, Advertising & Publicity Management and other functional area of management.

With a well connected network of alumni and reputed recruiters, the school has proven its role in disseminating relevant knowledge to the students and satisfy long list of recruiters. Parle Biscuits Pvt. Ltd., IDBI Bank, Reliance Money Ltd., DBS Bank, Yes Bank, Kudos Ltd., SMC Ltd., Designco Pvt. Ltd. and Micro Turners are just few to name among satisfied recruiters. The decision of prospective candidates to join the school for their career building thus, will be right and rewarding.

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